# Report of the Auditor-General

Auditor-General's Department

**Report 8 of 2022**

**Annual report**
for the year ended 30 June 2022
Part C: Agency audit reports

Government of South Australia

[P.P.4G

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## Report 8 of 2022

Annual report
for the year ended 30 June 2022
Part C: Agency audit reports

Tabled in the House of Assembly and ordered to be published, 18 October 2022

First Session, Fifty-Fifth Parliament

By authority: C. McArdle, Government Printer, South Australia

2022

Cover art by:

**Elizabeth Close** | Aboriginal Visual Artist | Pitjantjatjara, Yankunytjatjara
elizabethclosearts.com

*"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

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# Contents

# Agency audit reports

## Introduction

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

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

## Agencies not included in this Report

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

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

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

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

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

# Independent Auditor's Report

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

For the agencies that I am required to audit, I issue an Independent Auditor's Report on the financial report in line with professional requirements and standards.

Audits are performed in line with the *Public Finance and Audit Act 1987* (PFAA) and Australian Auditing Standards. The PFAA establishes the independence of the Auditor-General. In conducting the audit, I ensure that the relevant ethical requirements of APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* have been met.

I must also ensure that the audit evidence I obtain is sufficient and appropriate to provide a basis for the issued opinion.

My audit objectives are to obtain reasonable assurance about whether a financial report as a whole is free from material misstatement and to issue an auditor's report that includes my opinion.

Reasonable assurance is a high level of assurance but is not a guarantee that an audit will always detect a material misstatement. Misstatements can arise from fraud or error and are considered material if, individually or collectively, they could reasonably be expected to influence the economic decisions of users of the financial report. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal controls.

I exercise professional judgement and maintain professional scepticism throughout the audit in line with Australian Auditing Standards. I also:

- identify and assess the risks of material misstatements in a financial report, design and perform audit procedures in response to those risks, and obtain sufficient and appropriate audit evidence as a basis for my opinion
- obtain an understanding of an agency's internal controls to design audit procedures but not for the purpose of expressing an opinion on the effectiveness of those controls
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and disclosures made by chief executives
- conclude on chief executives' use of the going concern basis of accounting and whether a material uncertainty exists for events or conditions that may cause significant doubt about the agency's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention to the related financial report disclosures in my auditor's report or modify the opinion. My conclusion is based on the audit evidence obtained up to the date of the auditor's report. However, future events or conditions may cause an agency to cease as a going concern
- evaluate if the overall presentation, structure and content of the financial report gives a fair presentation of the underlying transactions and events.

## Modified Independent Auditor's Reports

The opinion I give is usually unmodified, but if circumstances warrant it I will give a modified opinion. In extreme cases it may not be possible for me to express an opinion.

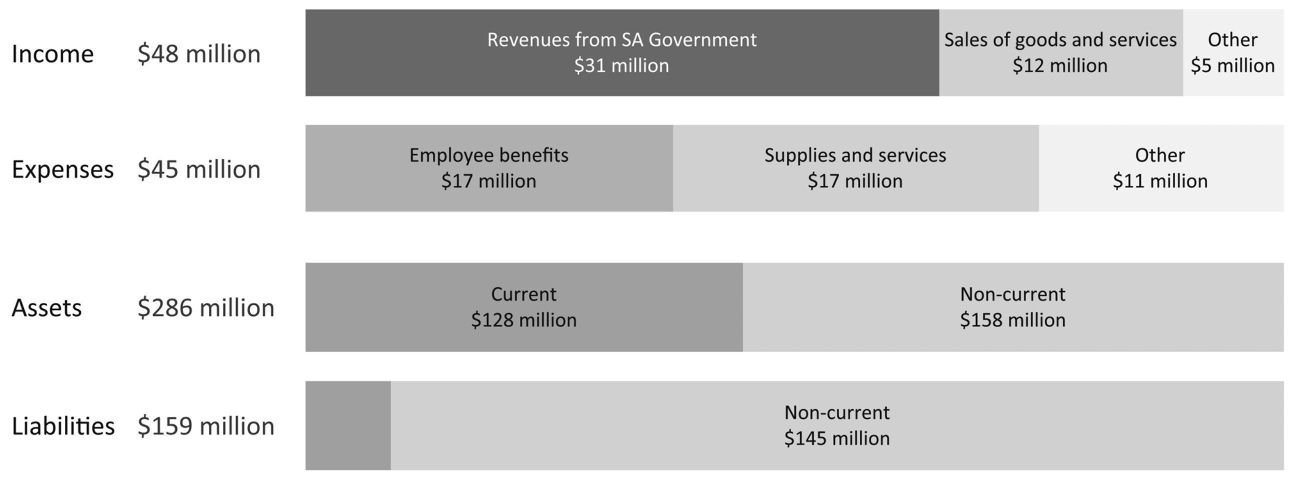
When a modified opinion is given, the Independent Auditor's Report explains the reasons for the modification. This is also explained in the commentary on those agencies in this Report.

No modified opinions were expressed on the 2021-22 financial reports of the agencies included in this Report.

Without modifying my opinion on the financial reports of the Lifetime Support Authority and the Return to Work Corporation of South Australia, I drew attention to the inherent uncertainty in certain liabilities reported for those entities at 30 June 2022.

# Adelaide Festival Centre Trust (AFCT)

## Financial statistics




**118**
FTEs

**280,181**
Ticketed attendances

## Significant events and transactions

- The redeveloped Adelaide Festival Centre Plaza opened to the public in March 2022. The redevelopment closed the Adelaide Festival Theatre from August 2021 to February 2022, impacting the AFCT's ability to generate revenue. The Department of Treasury and Finance (DTF) provided supplementary funding of $7.7 million to replace lost revenue relating to the closure.
- COVID-19 continued to impact the AFCT's operations. The AFCT received $2.8 million for a business disruption insurance claim with the South Australian Government Financing Authority (SAFA) and has submitted additional claims that were not settled at 30 June 2022.
- The AFCT ceased its BASS ticketing operation, replacing it with a contract with Ticketek.
- The AFCT sold its set building workshop, recognising a gain on sale of $71,000.
- In June 2022 the AFCT received an equity contribution of $102 million to fund the transfer of the Adelaide Festival Centre asset to the AFCT from the Department of the Premier and Cabinet (DPC). The asset transfer is expected to occur in 2022-23. The AFCT held this asset prior to 30 June 2008.

| | |
|---|---|
| **Financial report opinion** | **Unmodified** |
| **Audit findings** | Financial delegation processes need to improve. |

# Functional responsibility

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

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

# Scope of the audit

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

Specific areas of audit attention in 2021-22 included:

- sales and ticketing revenue
- salaries and wages
- supplies and services
- fixed assets.

# Audit findings

## Communicating our audit findings

We communicated our audit findings in management letter to the Chief Executive Officer.

The main finding and the AFCT's response are discussed below.

### Financial delegation processes require improvement

We noted the need for the AFCT to improve its compliance with its financial delegations policy and procedures, including ensuring new revenue raising contracts are approved in line with its delegations. The AFCT responded that it would take action to address the matters we identified.

# Interpretation and analysis of the financial report

## Highlights of the financial report*

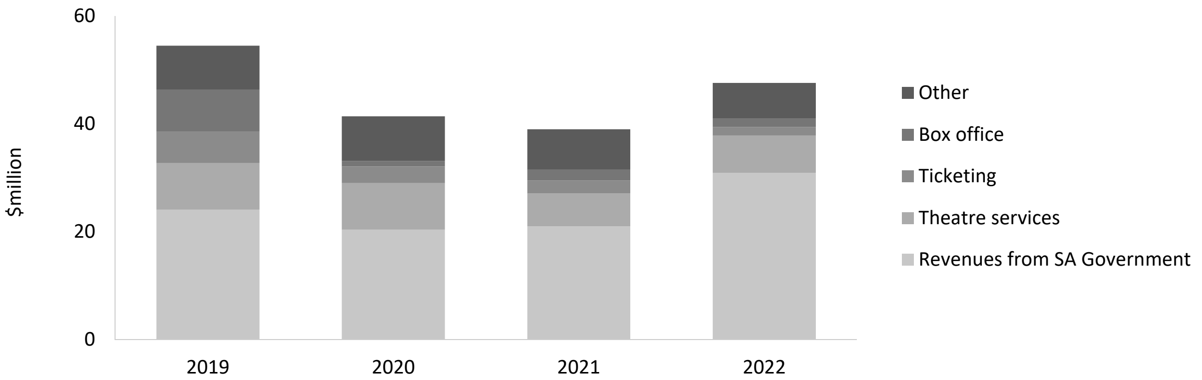
| | 2022 $million | 2021 $million |
|---|---|---|
| **Income** | | |
| Sales of goods and services | 12 | 12 |
| Revenues from SA Government | 31 | 21 |
| Other income and interest | 5 | 6 |
| **Total income** | 48 | 39 |
| | | |
| **Expenses** | | |
| Employee benefits expenses | 17 | 15 |
| Supplies and services | 17 | 13 |
| Other expenses | 11 | 11 |
| **Total expenses** | 45 | 39 |
| **Net result** | 3 | - |
| | | |
| Net cash provided by (used in) operating activities | 13 | 17 |
| Net cash provided by (used in) investing activities | (2) | (2) |
| Net cash provided by (used in) financing activities | 96 | (6) |
| | | |
| **Assets** | | |
| Current assets | 128 | 21 |
| Non-current assets | 158 | 163 |
| **Total assets** | 286 | 184 |
| | | |
| **Liabilities** | | |
| Current liabilities | 14 | 14 |
| Non-current liabilities | 145 | 148 |
| **Total liabilities** | 159 | 162 |
| **Total equity** | 127 | 22 |

* Table may not add due to rounding.

## Statement of Comprehensive Income

### Income

The AFCT's income for the four years to 2022 is presented in the following chart.



## Revenues from SA Government

The AFCT relies on SA Government funding to support its operations, which accounts for 65% (53%) of its total income.

SA Government grants, subsidies and transfers totalled $31 million in 2022, an increase of $9.8 million (47%) from 2021. The increase largely reflects:

- supplementary funding of $7.7 million to replace lost revenue relating to the closure of the Adelaide Festival Theatre to allow for the redevelopment of Adelaide Festival Centre Plaza
- an additional $3 million for events and activations in the Festival Plaza public realm.

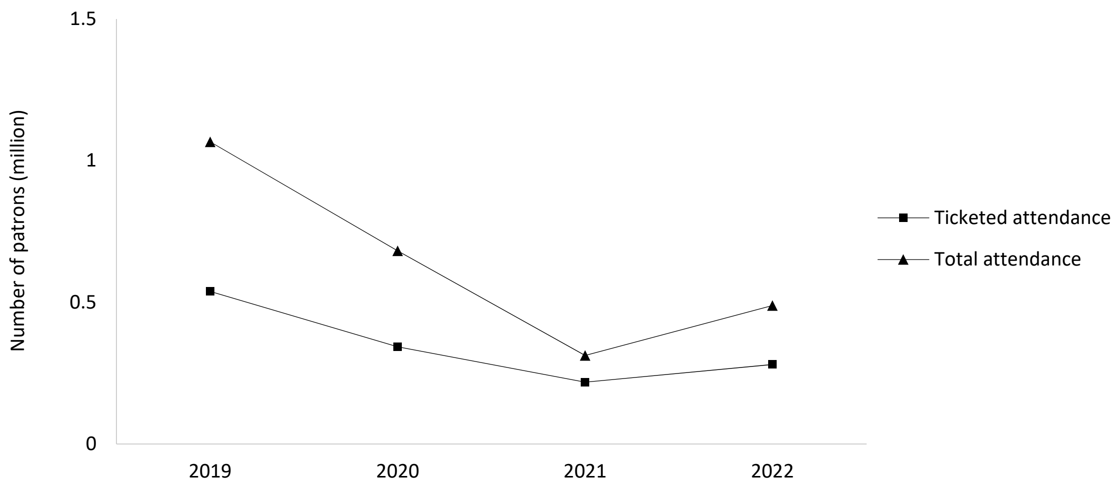
The AFCT also received a $102 million equity contribution from DTF in June 2022 to fund the transfer of the Festival Centre complex asset to the AFCT from DPC. The asset transfer is expected to occur in 2022-23.

## Sales of goods and services

In 2022 the AFCT's sales of goods and services decreased by $171,000 (1.4%) to $11.9 million.

The AFCT's sales were again impacted by COVID-19 restrictions and show and ticket cancellations. Note 1.3 of its financial report explains the key impacts.

The following chart shows that attendances increased from 2021 but remain considerably lower than pre-COVID-19 levels.



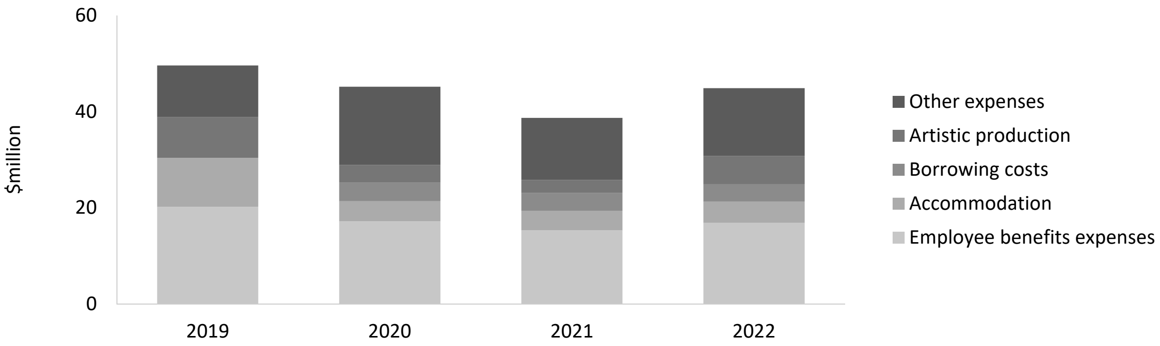

Attendances were also impacted by the closure of the Adelaide Festival Theatre from August 2021 to February 2022 to allow for the redevelopment of Adelaide Festival Centre Plaza.

## Other income

Other income decreased by $1.4 million to $4.9 million, partly due to a $2 million decrease in insurance recoveries to $2.8 million. These relate to the AFCT's business disruption insurance claims with SAFA for the net impact of COVID-19 and cover the period up to 30 June 2021. The AFCT has disclosed a contingent asset for its 2021-22 COVID-19 business disruption insurance claims which, as at 30 June 2022, were not decided.

## Expenses

The AFCT's expenses for the four years to 2022 are shown in the following chart.




In 2022 the AFCT's expenses increased by $5.8 million to $44.8 million, mainly due to:

- increased employee benefits expenses of $1.6 million (10.5%). They included $1 million ($0) in targeted voluntary separation packages paid to 14 employees who were previously employed in the AFCT's BASS ticketing operations and set building workshops, both of which ceased in 2021-22
- an increase in artistic production costs of $3.2 million. This included costs for the Adelaide Festival Plaza public realm activation events.

# Statement of Financial Position

## Current assets

The AFCT's current assets of $127.6 million ($21.2 million) include cash of $126 million ($19.2 million). Cash at 30 June 2022 includes the $102 million equity contribution received from DTF in June 2022.

Cash also includes $527,000 ($5.8 million) in proceeds from ticket sales through BASS held in trust until it is distributed to promoters. The decrease reflects the cessation of the AFCT's BASS ticketing operations in 2022, with the balance held in trust for events scheduled after 30 June 2022.

## Non-current assets

The AFCT's non-current assets of $158.4 million ($163.3 million) largely comprise:

- Her Majesty's Theatre land and buildings of $66.1 million ($65.2 million)
- right-of-use assets of $77.4 million ($81.8 million), being mainly the Adelaide Festival Centre complex
- works of art of $9.6 million ($9.6 million).

In December 2021 the previous SA Government approved the transfer of the Adelaide Festival Centre complex assets from DPC to the AFCT. The asset transfer is expected to occur in 2022-23, at which point the AFCT will be required to derecognise its existing lease arrangements for the complex. At 30 June 2022 the AFCT recognised a right-of-use asset of $76.5 million and lease liability of $3.4 million for its use of the Adelaide Festival Centre. The value of the complex assets will be recognised in the AFCT's Statement of Financial Position after the transfer is complete. The AFCT received a $102 million equity contribution in June 2022 from DTF to fund the asset transfer. The transfer will reverse a similar transaction on 30 June 2008, when the AFCT assets were transferred from the AFCT to the Minister for Arts.

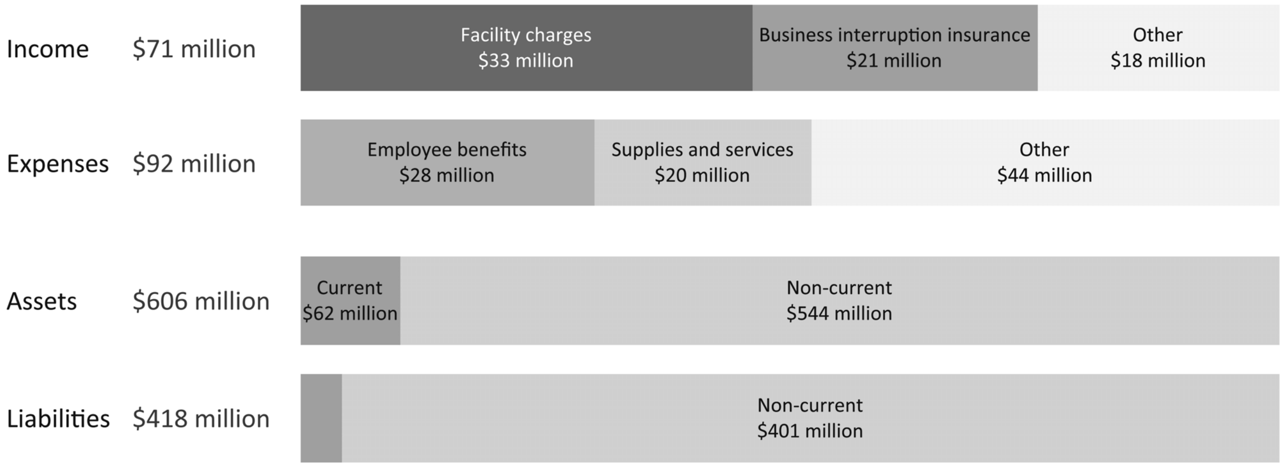
## Liabilities

The AFCT's liabilities decreased by $3.2 million to $158.9 million, due mainly to:

- a decrease in financial liabilities of $2.3 million reflecting the impact of principal repayments in 2022
- a decrease in payables of $3.3 million impacted by a reduction of $3.8 million in amounts payable to promoters under the ceased BASS ticketing operations
- an increase in other liabilities of $2.5 million, largely reflecting income in advance which increased by $1.9 million after returning to more normal levels following the lifting of COVID-19 restrictions.

# Adelaide Venue Management Corporation (AVMC)

## Financial statistics

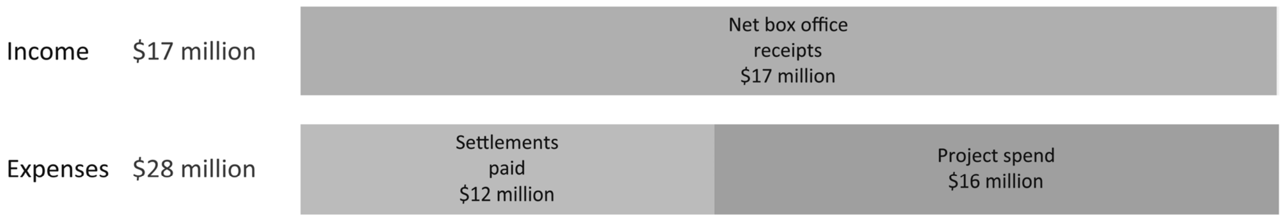



**364** FTEs

**568** Total events and functions

**521,094** Total patrons

Administered items




### Significant events and transactions

— The COVID-19 pandemic continues to have a significant financial and operational impact on the AVMC.

— Expenditure on the Coopers Stadium Upgrade project for 2022 was $16.3 million, bringing the total project expenditure to date to $17.3 million. The project is expected to be completed in December 2022.

— The AVMC received and accrued business interruption insurance proceeds of $20.7 million. From 1 July 2022 the policy terms were amended, limiting the cover offered.

— Land revaluation resulted in a $7.8 million gain.

### Financial report opinion

**Unmodified**

| | |
|---|---|
| **Controls opinion findings** | No audit findings. |
| **Other audit findings** | — Conflict of interest declarations not completed by all procurement participants.<br>— Contracts approved before procurement recommendations were approved. |

# Functional responsibility

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

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

# Scope of the audit

### Audit of the financial report

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

Specific areas of audit attention in 2021-22 included:

- revenue from events, functions, restaurants, bars and carparks
- expenditure on supplies and services
- salaries and wages
- inventory
- general ledger.

### Controls opinion

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

# Audit findings

### Communicating our audit findings

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

### Other audit findings

#### Conflict of interest declarations not completed by all procurement participants

Conflict of interest declarations not completed by all participants in the procurement process
We found that experts engaged as part of procurement processes for elements of the Coopers Stadium upgrade did not complete written conflict of interest declarations. We were advised by the AVMC that these experts were present during evaluation panel discussions and provided verbal advice to the panel.

We recommended that the AVMC update the policy to include a requirement that all participants in the procurement process complete conflict of interest declarations.

The AVMC responded that the experts referenced did not form part of the evaluation panel and were not responsible for selecting the successful tenderer, and therefore it did not obtain conflict of interest declarations from them. Notwithstanding, the AVMC advised us that it has updated its procurement policy to require that all participants will declare and execute a conflict of interest declaration form before a procurement evaluation process.

## Interpretation and analysis of the financial report

### Highlights of the financial report*

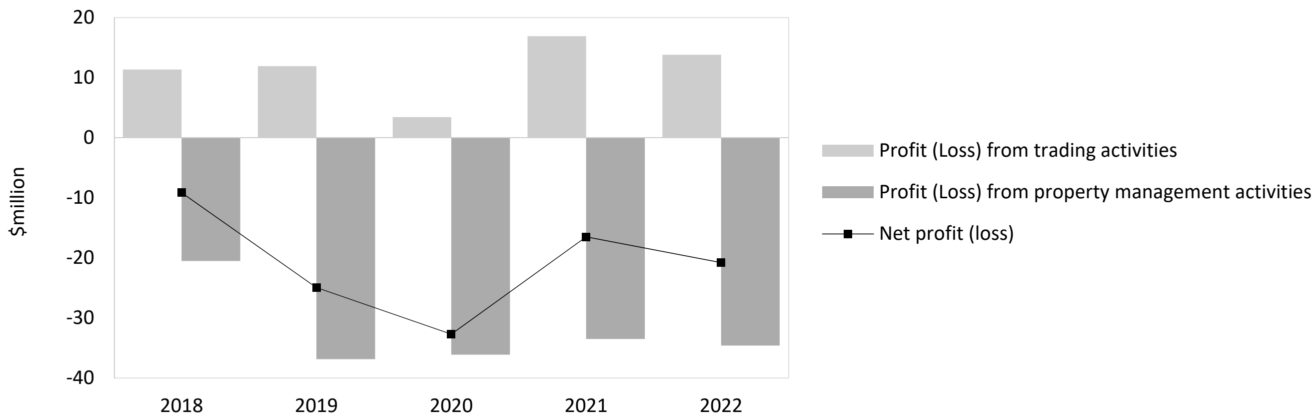
| | 2022 $million | 2021 $million |
|---|---|---|
| **Trading activities** | | |
| Expenses | 41 | 33 |
| Income | 54 | 50 |
| **Profit (Loss) from trading activities** | 14 | 17 |
| | | |
| **Property management activities** | | |
| Expenses | 51 | 58 |
| Income | 17 | 24 |
| **Profit (Loss) from property management activities** | (35) | (34) |
| **Net profit (loss)** | (21) | (17) |
| | | |
| Net cash provided by (used in) operating activities | 14 | 14 |
| Net cash provided by (used in) investing activities | (4) | (1) |
| Net cash provided by (used in) financing activities | (2) | (2) |
| | | |
| **Assets** | | |
| Current assets | 62 | 53 |
| Non-current assets | 545 | 564 |
| **Total assets** | 606 | 617 |
| | | |
| **Liabilities** | | |
| Current liabilities | 17 | 14 |
| Non-current liabilities | 401 | 401 |
| **Total liabilities** | 418 | 414 |
| **Total equity** | 188 | 203 |

* Table may not add due to rounding.

## Statement of Comprehensive Income

The AVMC recorded a net loss of $20.8 million ($16.5 million).

The following chart shows the profits (losses) from trading and property management activities, and the AVMC's net profits (losses) for the five years to 2022.




The chart highlights the impact of COVID-19 in 2020, with the AVMC recognising a net loss of $32.7 million driven largely by the minimal profit from trading activities in that year. While profits from trading activities recovered markedly in 2021 and 2022, the net result for both years includes proceeds from business interruption insurance claims. These claims were $20.7 million in 2022, following proceeds of $26.4 million in 2021.

While event revenue (facility charges) increased by 44% to $33 million in 2022, without the business interruption insurance proceeds the AVMC would have accumulated losses of $16.4 million from its trading activities over the past two years.

Since the inception of COVID-19, the AVMC has applied its Downturn Plan to minimise its financial loss. This plan has seen the AVMC ceasing non-essential expenditure, staff drawing down on leave entitlements and most casual employees not being utilised when there is no event activity within the venues.

The chart also demonstrates that, even before the impacts of COVID-19, profits from trading activities are not sufficient to cover losses from property management activities.

Property management activities include costs to maintain AVMC venues and depreciation on AVMC non-financial assets. Although property management activities also include borrowing costs, the AVMC receives grant funding from the Department of Treasury and Finance to cover these costs.

### Profit from trading activities

The AVMC's income from trading activities totalled $54.5 million, an increase of $4.7 million from 2021.

Income from trading activities included $20.7 million in COVID-19 related business interruption insurance claims ($26.4 million in 2021). Other income from trading activities mainly comprised catering revenue of $15.2 million, an increase of $4.5 million from 2021, and venue hire revenue of $5.3 million, an increase of $2.9 million from 2021.

Expenses from trading activities amounted to $40.7 million, an increase of $7.9 million from 2021. They mainly comprised employee benefits expenses of $25 million, an increase of $4.9 million, and supplies and services expenses of $11.2 million, an increase of $3.7 million.

### Loss on property management activities

Expenses from property management activities were $51.5 million and mainly comprised depreciation ($28.5 million) and borrowing costs ($11.1 million).

The AVMC received $16.3 million in funding from the SA Government, which fully compensated borrowing costs and contributed to property management activities associated with the Adelaide Convention Centre site maintenance of the common areas and the Riverbank Precinct.

## Statement of Financial Position

The main item in the AVMC's Statement of Financial Position is property, plant and equipment, representing 90% of total assets. The carrying value of property, plant and equipment is $545 million, which includes land and buildings of $517 million, right-of-use land valued at $11.3 million and plant and equipment of $11.5 million. The AVMC's main assets are the Adelaide Convention Centre and the Adelaide Entertainment Centre buildings.

Liabilities as at 30 June 2022 totalled $418.4 million ($414.5 million) and comprised mainly financial liabilities of $393.9 million, contract liabilities of $12.2 million and payables of $4.4 million. Contract liabilities increased by $3.1 million in 2022, reflecting increased invoicing for future events. The AVMC has fully drawn down its approved borrowing limit from the SA Government.

## Statement of Cash Flows

Cash and cash equivalents were $52.9 million ($45.4 million) as at 30 June 2022. This increase was driven by increased net receipts from trading activities following the easing of COVID-19 restrictions, partially offset by payments for investment activities.

Cash used in financing activities was $1.6 million and comprised dividends paid to the SA Government. Dividends are paid in line with the AVMC's Performance Statement.

## Administered items

### Event funds

The AVMC administers, but does not control, gross box office receipts from its ticketing agency. These receipts are held in a separate event funds bank account. Settlement occurs after each event through the payment of funds held to promoters, the AVMC and other service providers. Total administered revenues for the year were $17.2 million ($7.4 million), and administered expenses were $12 million ($3.2 million). The balance of funds held in trust as at 30 June 2022 was $11.8 million ($6.5 million). These increases reflect increased event activity as a result of the easing of COVID-19 restrictions.

### Coopers Stadium Upgrade project funds

Through a memorandum of administrative arrangement (MoAA), in 2021 the Office for Recreation, Sport and Racing transferred funding of $45 million to the AVMC for the Coopers (Hindmarsh) Stadium Upgrade. Under the terms of the MoAA the AVMC is responsible for all aspects of project management and delivery of the proposed upgrade. As at 30 June 2022 the AVMC had expended $17 million of the funding, leaving a balance of $28 million.

## Further commentary on operations

### Impact of COVID-19

While the continued impact of COVID-19 is uncertain, the AVMC anticipates that the number of events and attendees will continue to be below normal levels due to:

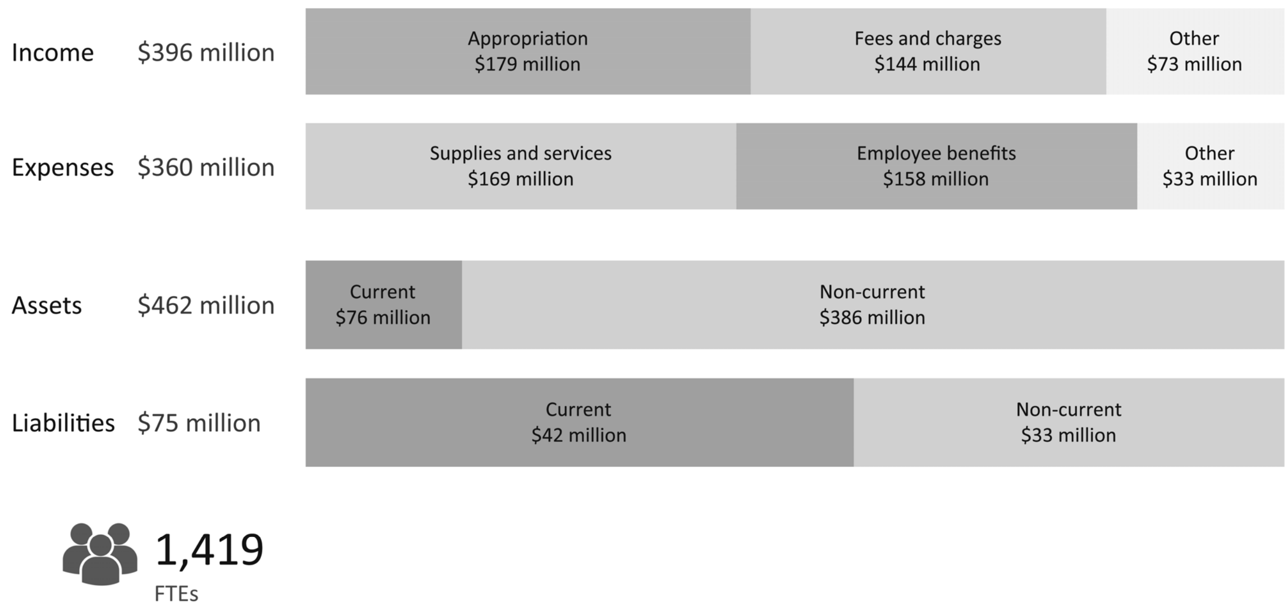
- key event personnel/attendees contracting COVID-19 and being unable to attend scheduled events
- event cancellation/postponement due to the risk of potentially contracting COVID-19 and being required to comply with isolation requirements
- events with international attendees being dependent on the resumption of international flights at regular and reliable schedules
- significant lead times on some event types resulting in a delay in the AVMC returning to normal operational levels.

The AVMC is insured for business interruption through its captive insurer, the South Australian Government Financing Authority. From 1 July 2022 the terms of cover under the policy were amended, limiting the cover offered.

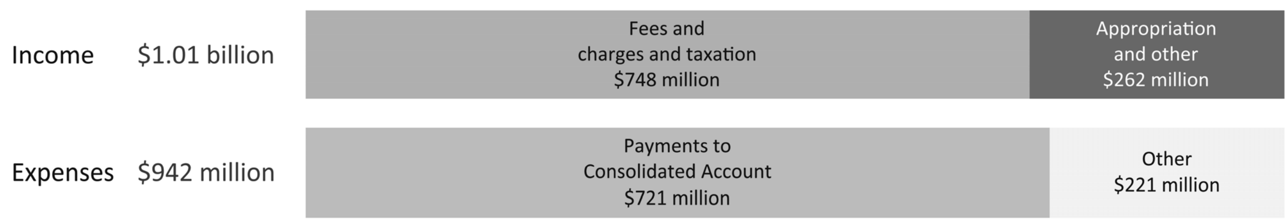
Note 10.6 of the AVMC's financial report explains the key expected impacts from COVID-19.

# Attorney-General's Department (AGD)

## Financial statistics




Administered items

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## Significant events and transactions

- The Fines Enforcement and Recovery Unit (FERU) transferred to the Department of Treasury and Finance (DTF) from 1 July 2021.
- There was a $52 million gain on the revaluation of intangible assets relating to the South Australian Integrated Land Information System (SAILIS).
- AGD made $721 million in payments to the Consolidated Account from taxation revenue, fees and charges and fines and related fees.
- Planning and Land Use Services, the Office of the Valuer-General and the Office of the Registrar-General transferred from AGD to the Department for Trade and Investment (DTI) effective 1 July 2022.

| | |
|---|---|
| | — The Office of Local Government transferred from AGD to the Department of Infrastructure and Transport (DIT) effective 1 July 2022.<br>— The Aboriginal Affairs and Reconciliation Division transferred from the Department of the Premier and Cabinet (DPC) to AGD effective 1 July 2022.<br>— Industrial Relations, the South Australian Employment Tribunal and SafeWork SA transferred from DTF to AGD effective 1 July 2022. |
| **Financial report opinion** | **Unmodified** |
| **Controls opinion findings** | No significant findings. |
| **Other audit findings** | — Outstanding unclaimed residential tenancy bonds.<br>— Regulatory fees not updated to consider the correct fee waiver.<br>— Purchase recommendations for procurements not signed by all participants and some conflict of interest forms not completed.<br>— IT general control weaknesses in the Bond Management System.<br>— IT general control weaknesses in the South Australian Computer Aided Dispatch System. |

## Functional responsibility

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

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

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

# Scope of the audit

## Audit of the financial report

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

Specific areas of audit attention in 2021-22 included:

- general ledger
- cash
- expenditure
- payroll
- South Australian Government Radio Network (SAGRN) assets
- LawMaster legal services revenue
- fines revenue, including receipt of Victims of Crime levies
- Crown Solicitor's Trust Account receipts and payments
- grant and receipt payments
- IT general controls – Bond Management System (BMS)
- IT general controls – South Australian Computer Aided Dispatch System (SACAD)
- IT general controls – Development Application Processing system
- corporate governance.

We considered internal audit activities when planning and conducting the audit.

## Controls opinion

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

# Audit findings

## Communicating our audit findings

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

### Controls opinion findings

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

### Other audit findings

#### Procurement

The State Procurement Board was abolished from 1 July 2021 and replaced by the Procurement Services SA (PSSA) branch of DTF. PSSA issued a suite of policies, approved by the Treasurer, that support Treasurer's Instruction 18 *Procurement* (TI 18). Public authorities, including AGD, must comply with both TI 18 and the supporting policies.

We reviewed procurement at AGD as part of an across-government review we conducted at a number of SA Government agencies.

### *Compliance with the procurement framework*

#### — *Conflict of interest forms not completed*

Under AGD's procurement framework, all participants in the evaluation process must complete a conflict of interest declaration and confidentiality agreement before receiving responses and starting the evaluation.

We reviewed a sample of procurements and found that conflict of interest forms were not completed by any participants in the evaluation process for an aligned entity of AGD.

AGD responded that it will remind aligned entities of their obligation to ensure conflict of interest forms are completed by all evaluation team members prior to reviewing responses.

#### *Purchase recommendations not signed off*

Under AGD's procurement framework, all participants must sign off on the purchase recommendation.

We found two procurements where the purchase recommendation was not signed by all members of the evaluation committee. Signing it evidences that all members are aware of the purchase recommendation and the information in the document.

AGD responded that it will update its simple purchase recommendation template to require all members of the evaluation team to sign off before the implementation of the recommendation.

## Consumer and Business Services (CBS)

In 2021-22 licence and regulatory fees collected by CBS through the LOGIC revenue collection system totalled $36 million, while gaming and taxation revenue totalled $356 million. Fees collected for issuing birth, death and marriage certificates totalled $6.4 million.

### *Regulatory fees not updated to consider the correct fee waiver*

Our audit of LOGIC revenue identified one revenue stream (property) where incorrect fees were being waived. This related to fees under the *Land Agents Act 1994* for auctioneer variations.

CBS responded that it has updated its fee waiver policy to ensure that correct amounts are waived.

## Residential Tenancies Fund (RTF)

As at 30 June 2022 bonds lodged with the RTF totalled $248 million.

### *Unclaimed bonds*

The *Residential Tenancies Act 1995* requires the Commissioner to repay bonds lodged with CBS. If a bond refund is undisputed and applied for in a form approved by the Commissioner, it is paid to either the landlord or the tenant.

Bond refunds are classified as 'unclaimed' when the tenant/landlord requests a bonds refund, and the refund payment is unsuccessful (ie incorrect bank details are provided by the recipient).

We note that as at 30 June 2022 unclaimed bonds totalled $14.2 million, an increase of 14% from $12.5 million as at 30 June 2021.

CBS advised us that the unclaimed bonds project has been finalised and implemented, which has resulted in the refunding of approximately 4,600 unclaimed bonds valued at $6.3 million.  CBS has also implemented auto-messaging and will continue to actively pursue tenants and landlords who have an unclaimed bond amount.

## IT general controls review

### *Bonds Management System*

BMS contains the transactions for all residential bonds, guarantees and park bonds.

In 2021-22, we reviewed the IT general controls operating in BMS. This included password management, user access management, privileged user access, audit logging, change management, patch management, and backup and disaster recovery management.

We identified some areas where controls could be further improved, including:

- weaknesses in patch management
- inappropriate privileged user access
- weaknesses in the change management process
- weaknesses in the disaster recovery process
- weaknesses in audit logging.

These weaknesses increase the opportunity for inappropriate access and unauthorised changes to the BMS application and its data.

AGD responded positively to our findings and agreed to take appropriate remedial action.

### *South Australian Computer Aided Dispatch System*

SACAD is an operational system used by Triple Zero operators/call takers and dispatchers to prioritise and record calls and send appropriate personnel to emergencies as required. While it is used by South Australia Police, SA Ambulance Service and the South Australian Metropolitan Fire Service, SACAD is managed by AGD.

In 2021-22, we reviewed the IT general controls operating in SACAD.  This included password management, user access management, privileged user access, audit logging, change management, patch management, and backup and disaster recovery management.

We identified some areas where controls could be further improved, including:

- weaknesses in patch management
- inappropriate privileged user access
- weaknesses in user offboarding processes
- lack of user access reviews
- weaknesses in audit logging.

These weaknesses increase the opportunity for inappropriate access and unauthorised changes to the SACAD application and its data.

AGD responded that it accepted our findings, but that as a critical infrastructure system, the primary focus for SACAD is system availability, integrity and performance. AGD advised us that the overall security posture of the SACAD environment comprises a number of controls in addition to standard IT general controls, and that the combination of these controls significantly reduces the likelihood of being able to exploit any vulnerabilities in the SACAD environment.

## Interpretation and analysis of the financial report

### Highlights of the financial report – controlled items

| | 2022<br>$million | 2021<br>$million |
|---|---|---|
| **Income** | | |
| Appropriation | 179 | 193 |
| Revenue from fees and charges | 144 | 113 |
| Intangible revaluation gain | 31 | - |
| Recoveries | 17 | 14 |
| Other | 25 | 22 |
| **Total income** | 396 | 342 |
| | | |
| **Expenses** | | |
| Employee benefits expenses | 158 | 152 |
| Supplies and services | 169 | 139 |
| Loss on revaluation of intangibles | - | 31 |
| Other | 33 | 36 |
| **Total expenses** | 360 | 358 |
| **Net result** | 36 | (16) |
| **Total comprehensive result** | 58 | (11) |
| | | |
| Net cash provided by (used in) operating activities | 8 | 27 |
| | | |
| **Assets** | | |
| Current assets | 76 | 71 |
| Non-current assets | 386 | 346 |
| **Total assets** | 462 | 417 |
| | | |
| **Liabilities** | | |
| Current liabilities | 42 | 49 |
| Non-current liabilities | 33 | 39 |
| **Total liabilities** | 75 | 88 |
| **Total equity** | 387 | 329 |

### Statement of Comprehensive Income

#### Income

AGD collected $144 million ($113.5 million) in fees and charges and received $179 million ($192.7 million) in appropriation in 2021-22. This represents 82% (90%) of its total income. Fees and charges collected in 2021-22 mainly comprise $42.9 million of licence and regulatory fees, $24 million of legal services fees, $37 million of land services fees and $12.3 million of network services fees.

The increase in total income of $54.3 million is mainly due to:

- fees and charges, up $30.9 million, mainly reflecting the full year of transactions relating to the 1 October 2020 machinery of government transfer of Planning and Land Use Services (PLUS), the Office of the Valuer-General and the Officer of the Registrar-General. Land services fees were up $21.8 million and PLUS fees were up $6.3 million
- Commonwealth-sourced grants and funding, up $4.7 million, mainly due to increases in legal assistance funding for:
  - Family Law Pilot program – $3.6 million
  - vulnerable women – $1.8 million
  - supporting people with mental health conditions to access the Justice system – $788,000
  - workplace sexual harassment – $788,000
- recoveries, up $2.5 million, mainly due for the Office of the Director of Public Prosecutions and the recovery of outposted Crown Solicitor's Office lawyers
- the gain on revaluation of intangibles, up by $30.8 million for the change in value of the SAILIS data service concession asset as at 30 June 2022.

These increases were offset by decreases in appropriations, down $14.1 million, primarily due to machinery of government changes that transferred the FERU from AGD to DTF from 1 July 2021.

## Expenses

In 2021-22 total expenses increased by $2 million to $360 million. AGD expenses mainly relate to supplies and services, $169 million (47%), and employee benefits, $158 million (44%).

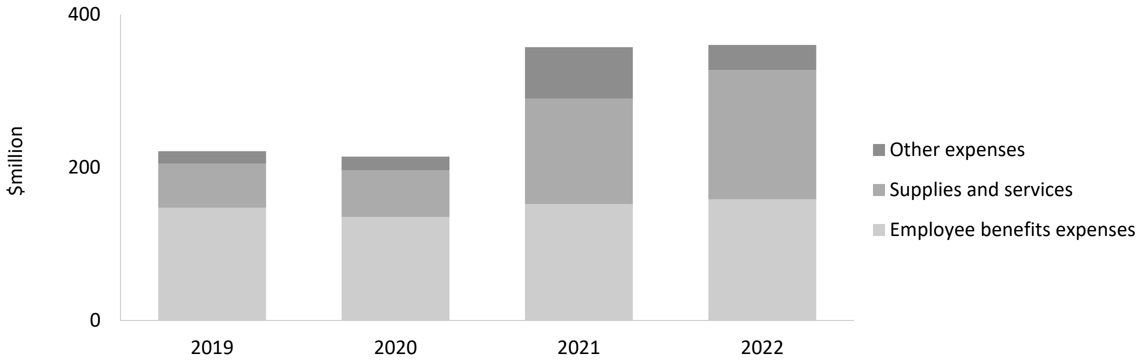
The increase in total expenses of $2 million is mainly due to:

- supplies and services, up by $29.7 million due to an increase in payments to Land Services SA (LSSA) by the Office of the Registrar-General, in recognition of additional revenue generated from increased activity in the property market
- employee benefits expenses, up by $5.6 million due to salaries and wages, up by $3 million, and SA Public Sector Workforce Rejuvenation Scheme payments of $1.1 million
- depreciation and amortisation, up by $2.3 million due to recognising a full year of depreciation for the ePlanning system.

These increases were offset by decreases in:

- the loss on revaluation of intangibles, down by $30.8 million for the change in value of the SAILIS data service concession asset as at 30 June 2022
- grants and subsidies, down by $4.6 million due to once-off legal assistance funding provided in the previous year in response to the COVID-19 pandemic.

The following chart shows the AGD's main expense items for the four years to 2022.




Employee benefits expenses totalled $157.4 million in 2021-22, representing 44% of total expenditure. They increased by $5.6 million, with the main movements due to:

- salaries and wages, up $2.9 million, and employment on-costs, up $1.5 million, mainly from the full-year effect of the transfer of additional employees to AGD and enterprise bargaining increases
- targeted voluntary separation package payments, up $1.2 million mainly due to 25 employees accepting payments under the SA Public Sector Workforce Rejuvenation Scheme.

Supplies and services expense totalled $168.7 million ($139 million). The main components, representing 81% (79%) of total supplies and services, were:

- contract payments to LSSA for land administration services of $96.5 million ($69.4 million)
- accommodation charges of $22.1 million ($21.3 million)
- ICT expenses of $18.3 million ($18.9 million).

## Statement of Financial Position

### Assets

Total assets increased by $44.3 million to $461.9 million. The increase was mainly due to:

- cash, up $3.8 million. See commentary under 'Statement of Cash Flows' below for further explanation of the increase in cash
- intangible assets, up $46.4 million mainly due to a revaluation increment to the SAILIS data service concession asset of $52.1 million. The SAILIS data service concession asset is measured at current replacement cost. The increment was due to changes in the inputs to the revaluation model, mainly relating to changes in the overhead rate per record and volume of records used to calculate the value. The fair value valuation was performed by KPMG. Note 5.2 of AGD's financial report provides further information. This was offset by amortisation of $7 million comprised of $1.5 million for software service concession assets and $5.5 million for computer software
- property, plant and equipment, down $6.8 million mainly due to depreciation on leasehold improvements of $4.8 million and plant and equipment of $1.4 million.

### Liabilities

Liabilities decreased by $13.4 million to $74.9 million. This was mainly due to:

- payables, down $2.7 million as accrued expenses decreased by $4.7 million, and employment on-costs, down by $1.1 million due to the transfer of employees from the FERU to DTF

- employee benefits liability, down by $9.4 million primarily due to accrued salaries and wages being down by $3.9 million and a decrease to the long service liability of $5.7 million, due to the increase in the Commonwealth bond yield rate used to calculate the liability from 1.25% to 3.5%.

### Statement of Cash Flows

Cash held at 30 June 2022 was $46.4 million, an increase of $3.8 million over the previous year. The increase was due to:

- net cash provided by operating activities of $8.7 million, a decrease of $18.1 million from last year. The main components of this movement were:
  - an increase in cash generated from operations of $17.6 million mainly due to fees and charges, up $20 million, receipts from Commonwealth-sourced grants, up $5.1 million, and GST recovered from the ATO, up $7.3 million. These were offset by decreases in appropriations of $14.1 million and recoveries of $706,000
  - an increase in cash used in operations of $35.7 million mainly due to employee benefits payments, up $15 million, and payments for supplies and services, up $23.2 million, offset by payments of grants and subsidies, down $2.8 million
- $4.4 million used in investing activities, down $4 million due to reduced purchases of intangible assets and property, plant and equipment.

### Highlights of the financial statements – administered items

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

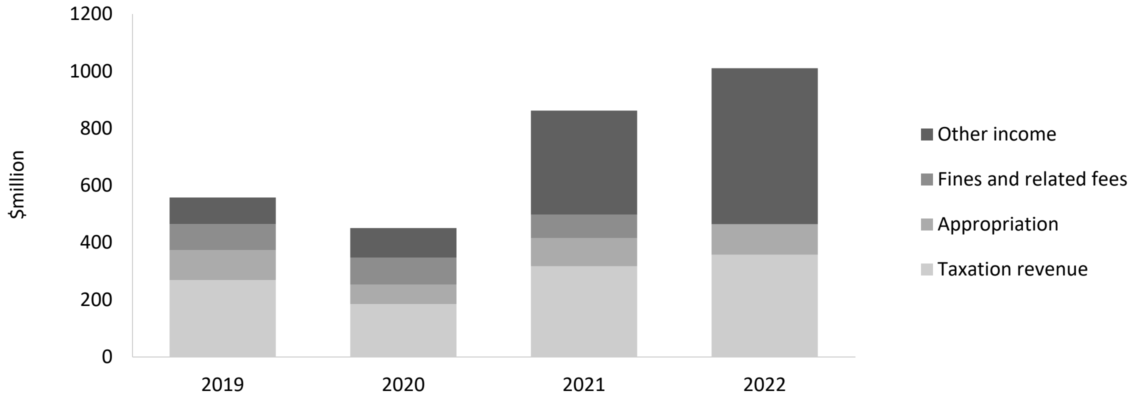
| | 2022 $million | 2021 $million |
|---|---|---|
| **Income** | | |
| Taxation revenue | 357 | 320 |
| Fees and charges | 392 | 229 |
| Fines and related fees | - | 99 |
| Appropriation | 107 | 81 |
| Recoveries and other income | 56 | 40 |
| SA Government Radio Network | 36 | 35 |
| Victims of Crime levies | 37 | 31 |
| Other | 25 | 30 |
| **Total income** | 1,010 | 865 |
| | | |
| **Expenses** | | |
| Payments to Consolidated Account | 721 | 583 |
| Grants and subsidies | 78 | 51 |
| Victims of Crime payments | 17 | 18 |
| Intra-government transfers | 18 | 19 |
| SA Government Radio Network | 21 | 22 |
| Other | 87 | 92 |
| **Total expenses** | 942 | 785 |
| **Net result** | 68 | 80 |
| **Total comprehensive result** | 68 | 80 |
| | | |
| Net cash provided by (used in) operating activities | 80 | 51 |

| | 2022<br>$million | 2021<br>$million |
|---|---|---|
| **Assets** | | |
| Current assets | 482 | 476 |
| Non-current assets | 99 | 112 |
| **Total assets** | 581 | 588 |
| | | |
| **Liabilities** | | |
| Current liabilities | 138 | 134 |
| Non-current liabilities | 1,408 | 1,457 |
| **Total liabilities** | 1,546 | 1,591 |
| **Total equity** | (965) | (1,003) |

## Statement of Administered Comprehensive Income

### Income

The following chart analyses the main sources of AGD's administered income for the four years to 2022.




Taxation revenue ($356.5 million) and fees and charges ($391.5 million) represent 74% of total administered income, with appropriation ($107 million), recoveries and other income ($82.2 million), SAGRN fees ($35.5 million) and Victims of Crime levies ($37 million) accounting for a further 26% of the total.

Total administered income increased by $145.5 million to $1.01 billion ($864.4 million). The main components of this increase were:

- fees and charges, up $162 million primarily due to the regulatory fees collected by LSSA on behalf of the State. Fees and charges are collected as prescribed by the *Real Property Act 1886*
- taxation revenue, up $36.3 million as gaming machine taxation revenue collected increased due to the lifting of COVID-19 trading restrictions. The tax is collected on behalf of the SA Government under the *Gaming Machines Act 1992.*

The increase was offset by a decrease in fines and related fees of $98.6 million due to the FERU transferring to DTF on 1 July 2021.

### Expenses

Total administered expenses increased by $156.5 million to $942 million. Payments to the Consolidated Account of $721 million (mainly for gaming machine taxation and land services fees) and grants and subsidies of $78 million, principally paid to the Legal Services Commission, are AGD's largest administered expenses and represent 85% of total expenditure.

The increase in total expenses is mainly due to:

- payments to the Consolidated Account of $363 million were collected by the Office of the Registrar-General
- grants and subsidies payments, up $27 million mainly due to increased funding to the Legal Services Commission provided in 2021-22 for 2022-23.

## Statement of Administered Financial Position

### Assets

Total assets decreased by $7 million to $581.2 million. This was mainly a result of increases in cash and cash equivalents of $55.9 million, offset by decreases in receivables of $50.1 million for the Office of Registrar-General and gaming machine taxation.

Property, plant and equipment decreased by $12.8 million primarily due to additions of $9.7 million for the SAGRN, offset by depreciation of $23 million.

### Liabilities

Total liabilities decreased by $44 million to $1.55 billion. This is primarily due to the unearned revenue component of the land services commercialisation of $34 million and a decrease in lease liabilities of $14 million for the State Rescue Helicopter Service.

## Statement of Administered Cash Flows

Cash and cash equivalents increased by $55.9 million to $435.3 million.

In 2021-22 net cash provided by operating activities was $79.9 million, an increase of $28.7 million from the previous year. This reflects an increase in cash generated from operations of $204.1 million and an increase in cash used in operations of $175.4 million, compared with the previous year.

The major components of these changes to cash flows were increases in:

- taxation receipts, $33.9 million
- fees and charges, $224.4 million
- appropriations, $26.2 million
- Victims of Crime levies, $13.7 million
- Commonwealth-sourced grants and funding, $1.6 million
- payments to Consolidated Account, $168.3 million
- grant and subsidies payments, $27 million.

They were offset by decreases in:

- fines and related fees, $98.6 million
- other receipts, $2.1 million

- other payments, $20.3 million.

The net cash used in investing activities was $10.2 million compared to $1.2 million last year, due to higher purchases of property, plant and equipment.

Cash used by financial activities was $13.8 million compared to cash provided in financing activities of $15.9 million in 2020-21. The decrease is due to no cash being transferred as part of administrative restructures compared to the previous year.

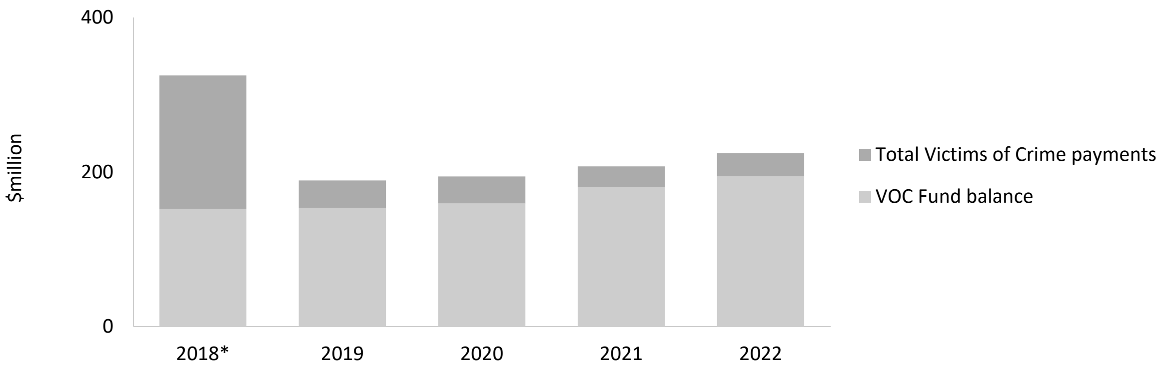
# Further commentary on operations

## Victims of Crime Fund (VOC Fund)

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

The balance of the VOC Fund as at 30 June 2022 was $194.3 million ($180.2 million).

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




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

The maximum compensation that can be awarded under the VOC Act is $112,000, in addition to costs and disbursements. A claim can succeed without a known offender.

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

### Recoveries from offenders

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

- The amounts recovered directly from offenders during the year totalled $442,000 ($493,000).

- Outstanding amounts subject to a judgement that are being actively managed increased by $1 million to $11.1 million.

A further $4.6 million ($3.8 million) was recovered from offenders under the *Criminal Assets Confiscation Act 2005.*

A levy is imposed by the VOC Act on all people convicted of offences and on expiation notices. Total Victims of Crime income for 2021-22 was $50.3 million ($51.5 million) and included Victims of Crime levies of $37.4 million ($30.5 million) and revenues from the SA Government of $9.5 million ($9.3 million).

### Payments from Victims of Crime Fund

Victims of Crime expenses for 2021-22 totalled $26.2 million ($26.7 million) and included:

- victims compensation and legal payments of $16.9 million ($17.7 million)
- grants of $5.4 million ($5.2 million)
- legal and other costs incurred in the administration of the VOC Fund of $3.9 million ($3.8 million).

In 2021-22 there was an increase in the VOC Fund balance of $14.1 million.

## Taxation

Taxation revenue for 2021-22 totalled $356.5 million ($320.2 million). This mainly comprises gaming machine tax totalling $356.4 million ($320.1 million).

### Gaming machine administration

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

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

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

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

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

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

The following table summarises gaming machine activity for the four years to 2022.

| | 2019 Number | 2020 Number | 2021 Number | 2022 Number |
|---|---|---|---|---|
| Machines installed as at 30 June | 12,130 | 11,638 | 11,698 | 11,618 |

| | 2019 $million | 2020 $million | 2021 $million | 2022 $million |
|---|---|---|---|---|
| Turnover | 7,651 | 5,753 | 8,683 | 9,437 |
| Amount won | 6,969 | 5,241 | 7,914 | 8,606 |
| Net gambling revenue | 682 | 511 | 770 | 831 |
| Tax | 269 | 185 | 320 | 356 |

### Independent Gaming Corporation Limited (IGC)

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

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

The 2021-22 audit of the IGC is complete and an unmodified Independent Auditor's Report was issued for its 2021-22 financial report.

## Residential Tenancies Fund (RTF)

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

Income derived from investing the RTF is applied to the costs of administering and enforcing the RT Act, educating landlords and tenants about their statutory and contractual rights and obligations, and certain functions of the South Australian Civil and Administrative Tribunal.

Security bonds received by the Commissioner in 2021-22 increased by $8.1 million to $114.7 million ($106.6 million). Security bonds refunded for 2021-22 increased by $900,000 to $95.8 million ($94.9 million).

The value of bonds held as at 30 June 2022 was $248 million ($230 million) and the value of unclaimed bonds was $14.2 million ($12.5 million).

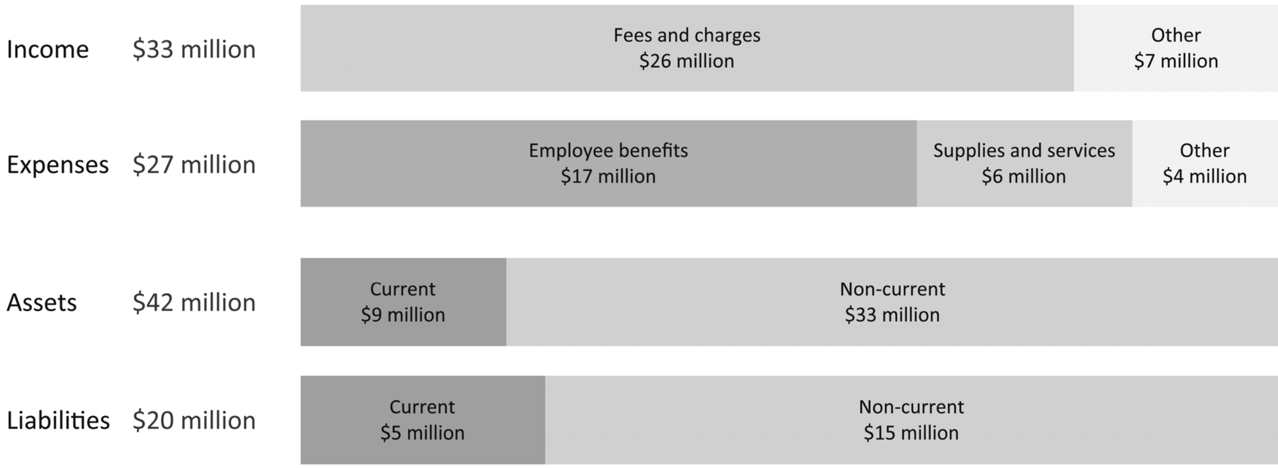
Investment funds totalling $287.1 million are held by the Public Trustee in common funds. They are exposed to movements in the value of the underlying common fund assets. Investments increased by $10.5 million in 2021-22, mainly due to $9 million in additional funds being deposited, $1.5 million due to investment income earnings and a net gain on the revaluation of investments.

## Machinery of government change

As a result of an administrative arrangement outlined in The South Australian Government Gazette on 10 June 2021, the Ministerial responsibilities for the FERU were transferred to DTF effective 1 July 2021.  Net assets transferred to DTF were $870,000.

# Public Trustee

## Financial statistics




**178** FTEs

**$1.78 billion** Trust funds under management

**7,416** Trusts under administration

### Significant events and transactions

- Legislative changes were approved to increase the management fee to 1.2% on Growth Common Funds.
- The new customer relations management system funded from the Digital Restart Fund is expected to be completed in September 2022.
- The integration of the Public Trustee's ICT services with the Attorney-General's Department has been deferred.
- $5.8 million of community service obligations (non-commercial activities) were provided to the South Australian community.

### Financial report opinion

**Unmodified**

### Audit findings

No significant issues.

## Functional responsibility

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

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

## Scope of the audit

### Audit of the financial report

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

The 2021-22 audit covered the Public Trustee's corporate, trust and Common Fund operations. Specific areas of audit attention included:

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

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

### Controls opinion

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

## Audit findings

### Communicating our audit findings

We communicated a small number of low risk audit findings in a management letter to the Public Trustee and received a satisfactory response.

# Interpretation and analysis of the financial report

## Highlights of the corporate financial report

| | 2022 $million | 2021 $million |
|---|---|---|
| **Income** | | |
| Fees and charges | 26 | 23 |
| Community service obligation | 6 | 6 |
| Other revenues | 1 | 3 |
| **Total income** | 33 | 32 |
| | | |
| **Expenses** | | |
| Employee benefits | 17 | 17 |
| Supplies and services | 6 | 6 |
| Other expenses | 4 | 2 |
| **Total expenses** | 27 | 25 |
| | | |
| **Net result before income tax equivalents** | 6 | 7 |
| Income tax equivalent | 2 | 2 |
| **Net result after income tax equivalents and total comprehensive result** | 4 | 5 |
| Net cash provided by (used in) operating activities | 7 | 4 |
| | | |
| **Assets** | | |
| Current assets | 9 | 11 |
| Non-current assets | 33 | 34 |
| **Total assets** | 42 | 45 |
| | | |
| **Liabilities** | | |
| Current liabilities | 5 | 6 |
| Non-current liabilities | 15 | 17 |
| **Total liabilities** | 20 | 23 |
| **Total equity** | 22 | 22 |

## Statement of Comprehensive Income

### Income

The Public Trustee's main source of income is fees and charges, which principally comprises commissions from managing estates and management fees for investing in Common Funds. In 2021-22 fees and charges income increased by $3 million to $26 million.

The increase in fees and charges was due to the following movements:

- Common Fund management fees increased by $1 million to $11 million as the maximum management fee increased from 1% to 1.2% (charged monthly) on the Growth Common Funds in line with the *Public Trustee Act 1995*, based on the level of funds invested. The average funds under management decreased to $1.09 billion from $1.12 billion.

- Commissions and professional fees and charges were $2 million higher in 2022, as the collection of commissions is directly affected by the type and number of estates being administered and the nature of assets held. The number of personal estates increased by 1.5% and the number of deceased estates and trusts decreased by 5%. The increase in commissions and fees and charges is primarily due to:
  - commission revenue increasing by $1.8 million due to Common Fund and Australian superannuation distributions to customers in July 2021
  - professional fees increasing by $166,000 due to the growth in regulatory and taxation revenue.
- Community service obligation funding increased by $284,000 to $5.8 million due to growth in customer numbers in 2022. Community service obligation funding is received by the Public Trustee to compensate it for providing non-commercial services to the South Australian community on behalf of the SA Government.

These increases were offset by decreases in:

- unrealised gains on financial assets of $4.4 million
- investment income of $1 million.

These decreases reflect the market volatility experienced this year.

## Expenses

Employee benefits account for 62% of total expenses and increased slightly by $248,000 to $17.1 million in 2021-22. The slight increase is due to:

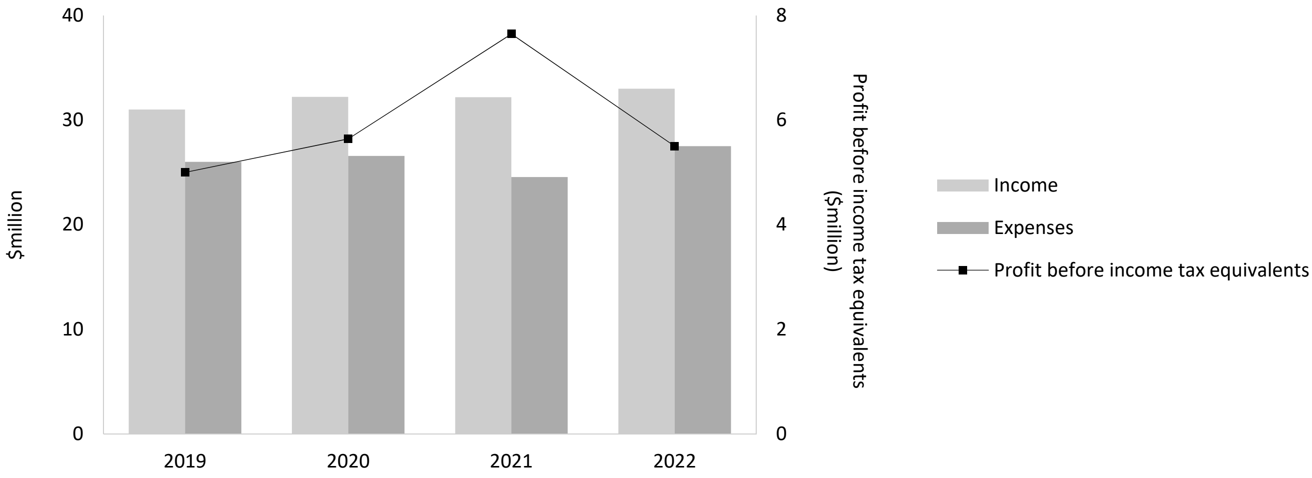
- SA Public Sector Workforce Rejuvenation Scheme packages totalling $646,000 being provided to 14 employees
- long service leave decreasing due to the bond yield rates used to calculate the long service leave liability increasing from 1.25% to 3.5%. This had the impact of decreasing the long service leave expense by $437,000.

Supplies and services remained steady at $5.8 million. An increase in the cost of service contractors, up $373,000, was primarily due to additional temporary resources being used in 2022 to cover short-term vacancies and to help manage the Public Trustee's response to the COVID-19 pandemic. It was offset by decreases in:

- ICT costs of $145,000 mainly due to security enhancements completed in the previous year
- consultants of $194,000 as there were no consultancies in 2021-22 compared to two last year to develop a business case to replace the Public Trustee's customer accounting systems with the new customer relations management system.

## Net result

The following chart shows income, expenses and profit before income tax equivalents for the four years to 2022.




Profit before income tax equivalents of $5.5 million ($7.7 million) decreased mainly due to:

- unrealised losses on financial assets of $2.7 million in 2021-22 compared to unrealised gains of $1.7 million in 2020-21
- investment income decreasing by $1 million from lower distributions due to market volatility.

These decreases were offset by the increases in fees and charges of $3 million and community service obligations of $284,000.

## Statement of Financial Position

### Assets

Financial assets of $18 million represent 42% of total assets. Financial assets decreased by $2.7 million due to unrealised losses in Australian fixed interest and international equities investments in 2022, reflecting the volatility of markets.

Property, plant and equipment decreased by $1 million mainly due to depreciation of right-of-use assets of $1 million.

Receivables decreased by $1 million primarily due to lower accrued distributions from corporate investments.

### Liabilities

Financial liabilities of $13 million represent 64% of total liabilities and employee benefits of $4.4 million represent 22% of total liabilities.

The financial liabilities are the lease liability for accommodation and motor vehicle leases, recognised under AASB 16 *Leases*.

The decrease in employee benefits liability of $1.2 million is mainly due to:

- accrued salaries and wages, down $438,000 due to the last pay for the year falling on 30 June

- long service leave liability, down $848,000 due partly to the increase in the bond yield rate used to calculate the liability from 1.25% to 3.5%.

### Statement of Cash Flows

Cash and cash equivalents decreased by $400,000 to $8 million in 2022. The main factors contributing to this decrease were:

- net cash used in financing activities decreasing by $3.3 million to $4.5 million, mainly as a result of a capital contribution from the SA Government of $2.8 million for the new customer relationship management system
- net cash used by investing activities increasing by $2.7 million, mainly due to the expenditure on the customer relationship management system
- net cash provided by operating activities increasing by $2.9 million to $6.8 million, mainly due to increases in fees and charges of $4.1 million and increases in community service obligations of $300,000. These increases were offset by increases of $1.2 million in employee benefits payments.

## Interpretation and analysis of Statement of Trusts being Administered

The value of trust funds administered by the Public Trustee as at 30 June 2022 was $1.78 billion ($1.81 billion).

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

| | 2021 Number | 2022 Number | 2021 $000 | 2022 $000 |
|---|---|---|---|---|
| Deceased estates | 994 | 960 | 174,706 | 184,064 |
| Trusts | 1,188 | 1,134 | 145,440 | 147,631 |
| Administration matters | 293 | 255 | 45,106 | 39,608 |
| Court award orders | 756 | 727 | 478,124 | 452,150 |
| Protected estates | 3,963 | 4,091 | 438,668 | 432,236 |
| Workers compensation awards | 5 | 5 | 86 | 13 |
| Power of attorney | 260 | 240 | 70,058 | 66,861 |
| Investors | 73 | 4 | 457,112 | 457,028 |
| | 7,532 | 7,416 | 1,809,300 | 1,779,591 |

Of the total funds being administered, 62% (64%) were invested in the Common Funds, with the remaining 38% (36%) represented by other estate assets.

The two largest categories of other estate assets are real estate assets of $406 million ($360 million) and superannuation of $189 million ($192 million).

# Further commentary on operations

## Common Fund financial reports

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

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

## Analysis of Common Fund key figures

The Common Funds' assets in 2021-22 totalled $1.103 billion, decreasing by $54 million from $1.157 billion in 2020-21.

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

The following table summarises the annual net operating result and value of assets held for each Common Fund at 30 June 2022 and 30 June 2021.

| | Net operating result | | Total assets | |
|---|---|---|---|---|
| | 2021 | 2022 | 2021 | 2022 |
| Common Fund | $000 | $000 | $000 | $000 |
| Cash | 1,004 | (3,094) | *479,299 | *482,274 |
| Short-term Fixed Interest | 91 | (1,286) | 69,930 | 65,204 |
| Long-term Fixed Interest | 4 | (2,639) | 108,387 | 93,474 |
| Overseas Fixed Interest | 603 | (5,132) | 62,544 | 70,012 |
| Australian Shares | 47,709 | (24,508) | 211,199 | 178,964 |
| Overseas Shares | 35,803 | (21,481) | 166,887 | 137,453 |
| Property | 14,368 | 4,592 | 125,251 | 147,469 |

* Includes $46 million ($35 million) deposited by other Common Funds.

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

In 2021-22 an additional $15.9 million was invested by the Residential Tenancies Fund ($9 million), Retail Shop Leases Fund ($3.6 million), Second-hand Vehicles Compensation Fund ($300,000) and Agents Indemnity Fund ($3 million). These funds were invested across the Common Funds at a percentage allocation in line with the defined SIS.

The table below details the performance of each SIS and its performance against the Public Trustee's established benchmarks as at 30 June 2022. These figures were provided by the Public Trustee and are unaudited.

| Standard investment strategy | | 1 year % | 3 years % | 5 years % | 7 years % | 10 years % |
|---|---|---|---|---|---|---|
| Cash | Performance | 0.09 | 0.42 | 0.99 | 1.28 | 1.87 |
| | Benchmark | -0.90 | -0.67 | -0.05 | 0.26 | 0.73 |
| Capital stable | Performance | -4.33 | 0.51 | 1.78 | 2.38 | 3.71 |
| | Benchmark | -5.33 | 0.12 | 1.91 | 2.30 | 3.44 |
| Balanced | Performance | -5.62 | 1.35 | 3.05 | 3.79 | 5.76 |
| | Benchmark | -5.66 | 1.12 | 3.54 | 3.87 | 5.64 |
| Growth | Performance | -6.67 | 2.16 | 4.03 | 4.79 | 7.27 |
| | Benchmark | -5.94 | 2.44 | 4.81 | 4.98 | 7.24 |
| Equities | Performance | -12.74 | 2.77 | 5.20 | 6.07 | 9.45 |
| | Benchmark | -9.54 | 3.82 | 6.54 | 6.57 | 9.68 |

The Public Trustee's investment returns ranged from 0.09% for Cash to -12.74% for Equities, net of fees. The decreases in investment returns for the Capital Stable, Balanced, Growth and Equities SIS reflect the difficult and volatile financial markets throughout 2021-22. All SIS products performed consistently with the benchmark, reflecting the challenging environment in 2021-22.

## Net operating result

All Common Funds except Property recorded losses in 2021-22. The table below shows the net operating results for each fund for the past two years, together with the rate of return achieved by the fund.

| | Net operating result | | Return* | |
|---|---|---|---|---|
| | 2021 | 2022 | 2021 | 2022 |
| Common Fund | $000 | $000 | % | % |
| Cash | 1,004 | (3,094) | 1.17 | 0.20 |
| Short-term Fixed Interest | 91 | (1,286) | 1.24 | (0.89) |
| Long-term Fixed Interest | 4 | (2,639) | 1.07 | (1.85) |
| Overseas Fixed Interest | 603 | (5,132) | 2.15 | (5.89) |
| Australian Shares | 47,709 | (24,508) | 29.84 | (10.94) |
| Overseas Shares | 35,803 | (21,481) | 27.59 | (12.54) |
| Property | 14,368 | 4,592 | 14.08 | 4.87 |

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

Movements in Common Funds have been volatile for the past few years, initially as a result of the impact of COVID-19 on global markets and then the subsequent strong recovery. More recently the market has been impacted by the Russian–Ukrainian war, global inflation and rising interest rates.

In early 2022, global events impacted commodity prices and supply chains and global energy prices rose sharply, creating considerable volatility in financial markets.

The key impacts in 2021-22 were:

- lower investment returns coupled with corresponding lower portfolio growth, seen particularly in domestic and overseas equity funds
- lower returns on cash investments due to the continued low interest rate environment, although an improvement in cash returns was experienced in the last quarter of 2021-22.

All investments for the Common Funds are valued at market value, being market price at the reporting date.

The net operating results for the Cash, Short-term Fixed Interest and Long-term Fixed Interest Common Funds were impacted by:

- a decrease in interest revenue due to lower interest rates paid on investments in 2021-22. This is consistent with the official cash rate by the Reserve Bank in 2021-22 remaining at 0.10% for most of the year and increasing to 0.35% in May and 0.85% in June
- a net loss on financial assets of $1.4 million and $4.1 million for the Short-term Fixed Interest and Long-term Fixed Interest Common Funds, respectively. This is consistent with the reduced investment returns available in the current market.

These decreases were offset by:

- discounted management fees for the Cash Common Fund to avoid negative returns to customers due to lower interest rates prevailing during that period
- trust distributions of $1.4 million in the Long-term Fixed Interest Common Fund. In 2021-22 the Public Trustee continued diversifying this Common Fund's investments to include a number of external managers to enhance long-term returns.

The net operating result of the Overseas Fixed Interest Common Fund was impacted by decreases in trust distributions of $2.7 million and a net loss on financial assets of $5.5 million attributable to the reduction in the portfolio value in 2022.

The net operating result of the Australian Shares Common Fund was a loss of $24.5 million due to the net loss on financial assets of $38.7 million in 2021-22 compared to a $37.4 million net gain on financial assets in 2020-21, reflecting the reduction in the portfolio value.

The net operating result of the Overseas Shares Common Fund was a loss of $21.5 million, impacted by:

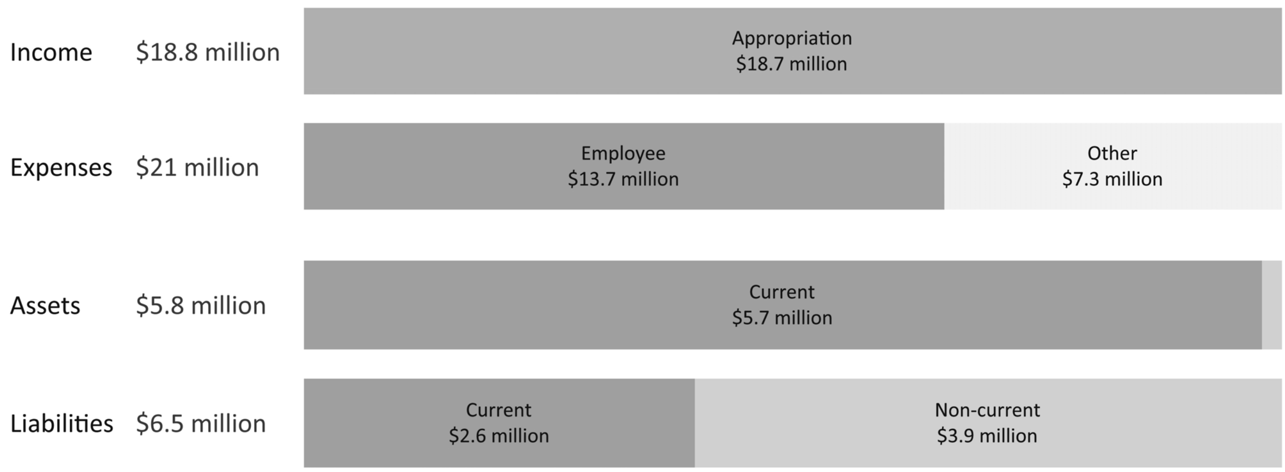
- a decrease in trust distributions of $10.6 million
- the net loss on financial assets of $24.4 million in 2021-22 compared to a $21.9 million net gain on financial assets in 2020-21.

The net operating result of the Property Common Fund decreased by $9.8 million to:

- a decrease in trust distributions of $900,000
- the net gain on financial assets being $2.6 million in 2021-22 compared to a $10.9 million net gain on financial assets in 2020-21.

# Auditor-General's Department

### Financial statistics




125 FTEs

9 Reports

159 Audits

| | |
|---|---|
| **Significant events and transactions** | The Department returned $3 million in surplus cash to the Consolidated Account. |
| **Financial report opinion** | **Unmodified** |

## Functional responsibility

The Auditor-General's Department operates to help the Auditor-General discharge their statutory audit mandate.

## Audit findings and comments

Under section 35(1) of the *Public Finance and Audit Act 1987*, on the Treasurer's recommendation the Governor appointed BDO Audit (SA) Pty Ltd the Department's auditor.

BDO Audit (SA) Pty Ltd advised in their audit completion letter that there were no matters to bring to the Department's attention.

# Interpretation and analysis of the financial report

## Highlights of the financial report

| | 2022 $million | 2021 $million |
|---|---|---|
| **Income** | | |
| Appropriation and contingency provision grants | 18.7 | 18.4 |
| Other | 0.1 | 0.1 |
| **Total income** | 18.8 | 18.5 |
| | | |
| **Expenses** | | |
| Employee expenses | 13.7 | 13.8 |
| Supplies and services | 4.0 | 3.7 |
| Return of cash to the Consolidated Account | 3.0 | - |
| Other expenses | 0.3 | 0.3 |
| **Total expenses** | 21.0 | 17.8 |
| **Net result** | (2.2) | 0.7 |
| | | |
| Net cash provided by (used in) operating activities | (2.5) | 1.0 |
| | | |
| **Assets** | | |
| Current assets | 5.7 | 8.2 |
| Non-current assets | 0.1 | 0.4 |
| **Total assets** | 5.8 | 8.6 |
| | | |
| **Liabilities** | | |
| Current liabilities | 2.6 | 2.9 |
| Non-current liabilities | 3.9 | 4.2 |
| **Total liabilities** | 6.5 | 7.1 |
| **Total equity** | 0.7 | 1.5 |

## Statement of Comprehensive Income

The Department relies on SA Government appropriations as its major revenue source to fund its operations. It charges fees for audits, which is permitted by section 39 of the *Public Finance and Audit Act 1987*. The fees raised are not retained or controlled by the Department. They are paid into the SA Government's Consolidated Account as they are received. Audit fees raised in 2021-22 totalled $16.4 million.

### Expenses

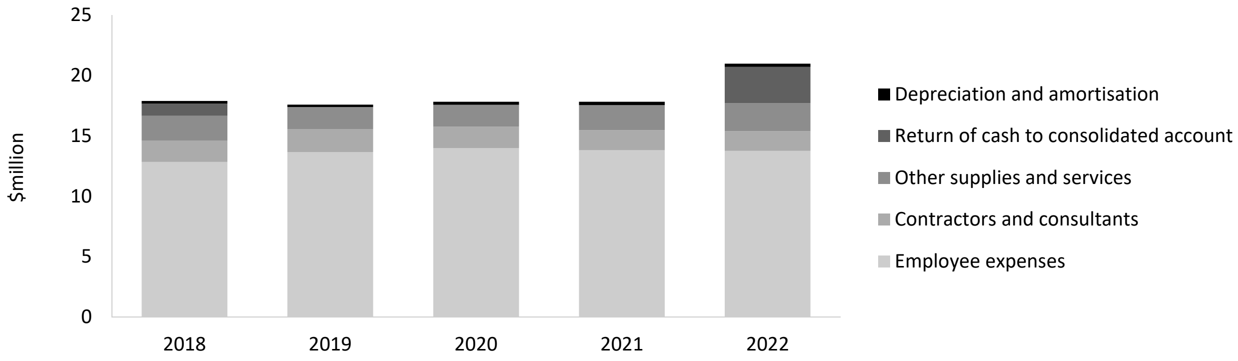
Total expenses for 2021-22, excluding cash returned to the Consolidated Account, amounted to $18 million, slightly up from the previous year. This result included a significant adjustment to employee expenses that reduced total expenses for the year.

#### Rising interest rates reduce reported employee expenses

Employee expenses reduced compared to 2020-21 because of decreases in long service liabilities of $523,000 and employee expenses of $523,000 due to rising interest rates.

The interest rate (discount rate) used to estimate the long service leave liability (the long-term Commonwealth Government bond rate) increased from 1.25% to 3.5% at 30 June 2022. The leave liability estimate is performed by the Department of Treasury and Finance and advised to agencies in July annually. Movements in the expense from discount rate changes directly affect reported financial results and are not controllable by agencies (see note 3 of the Department's financial report).

The following chart shows the Department's main expense items for the five years to 2022.

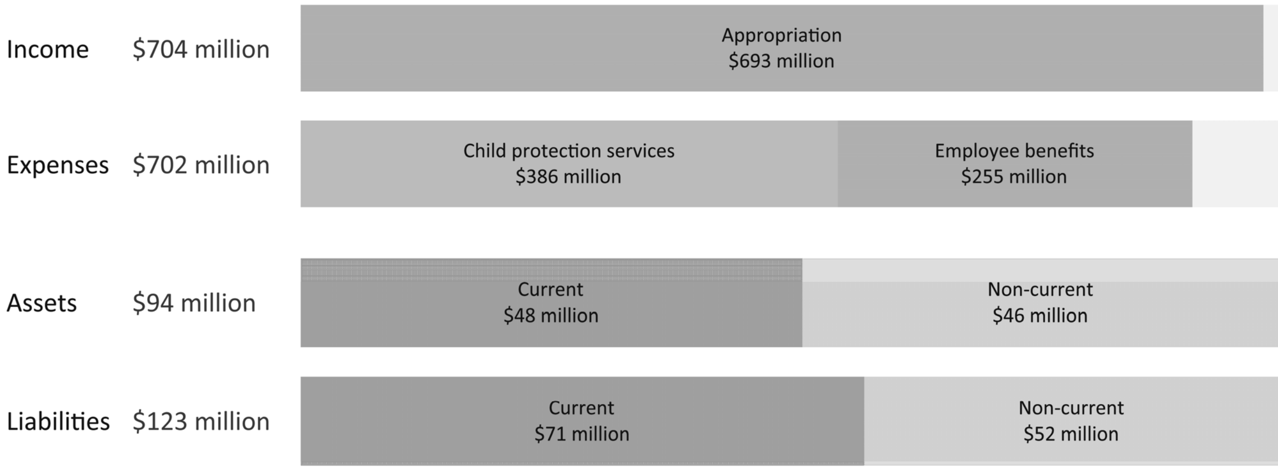



There was $3.2 million increase in total expenses in 2021-22. This was mainly due to the $3 million of surplus cash paid into the Consolidated Account. The Department manages and monitors its cash balances to identify any cash that is surplus to meeting approved cash expenditure requirements. Having reviewed its approved cash expenditure requirements and operating account cash balance, the Auditor-General sought and obtained the Under Treasurer's approval to return cash totalling $3 million to the Consolidated Account.

The COVID-19 pandemic has affected the Department's ability to perform some work in the time frames we would have otherwise expected and in some cases has led to deferring work we had commenced, particularly in the health sector. The return of cash does not indicate a reduced need for funding to achieve the Auditor-General's statutory responsibilities. Rather, as reported in Part A of this Annual Report, the Auditor-General requires and has requested additional resources on an ongoing basis to meet his statutory and professional audit obligations.

# Department for Child Protection (DCP)

## Financial statistics




**2,293**
FTEs

**4,740**
Children and young people in care

**Significant events and transactions**

- The SA Government's funding to DCP through appropriation increased by $91 million (15%).
- Total expenses exceeded the original budget by $55 million.
- A new roster system was implemented.
- DCP continued to respond to the impact of the COVID-19 pandemic, including establishing a specialised residential unit to care for children and young people with COVID-19.

**Financial report opinion**

**Unmodified**

**Audit findings**

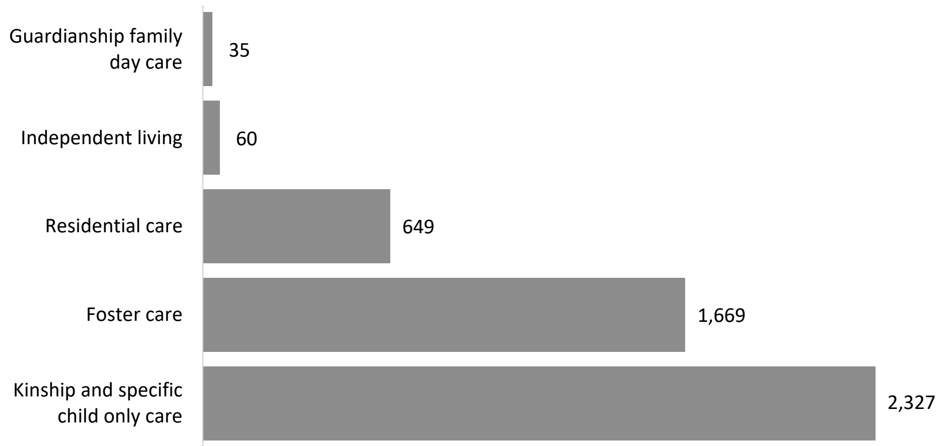
- Opportunities exist to improve procurement processes.
- Delays establishing contract management plans.
- Case management system user access not regularly reviewed.
- Improvements in payroll-related controls are required.

# Functional responsibility

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

DCP's objective is to care for and protect children and young people who have been abused and/or are assessed as at risk of harm within their families, or whose families do not have the capacity to protect them.

The chart below shows the number of children and young people (0 to 17 years old) in out of home care by care type as at 30 June 2022.




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

The Commonwealth Productivity Commission's *Report on Government Services 2022* reported that on average South Australia's out-of-home care cost $305 per night placement, equating to approximately $111,000 per child per year in 2021. At the time of this Report cost data was not available for 2022.

# Scope of the audit

### Audit of the financial report

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

Specific areas of audit attention in 2021-22 included:

- expenditure, including child protection services
- payroll
- property, plant and equipment
- general ledger
- contract management
- procurement
- employee performance management
- carer reviews.

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

# Audit findings

## Communicating our audit findings

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

### Audit findings

#### Opportunities to improve procurement processes

In 2021-22 we reviewed DCP's implementation of the new South Australian Government Procurement Framework. The Framework consists of Treasurer's Instructions 18 *Procurement* (TI 18) and supporting policies approved by the Treasurer and administered by Procurement Services SA (PSSA).

We looked at elements of the following procurements that resulted in contracts established during the year:

- a contract with a non-government organisation by a direct negotiation to provide general residential care services for several years with a value of $8.3 million (GST inclusive)
- a contract with a non-government organisation to provide the Next Steps Pilot Program, a new service in South Australia to support young people moving from living in residential care into adult life and independence. The pilot program is for several years with a value of $3 million (GST inclusive)
- the urgent procurement of emergency disability residential care for five young people. The contract term in DCP's purchase recommendation was six weeks with a value of $304,000 (GST inclusive).

##### *Improvements needed to planning for emergency procurements*

DCP did not prepare an approved acquisition plan for its emergency disability residential care procurement as required by TI 18.

DCP's purchase recommendation for the procurement clearly described the extreme urgency of the procurement as the reason for not preparing an acquisition plan.

While we acknowledged the urgency of the procurement, it is important that DCP can meet its legislative responsibilities under TI 18 should similar circumstances arise in the future. We recommended DCP liaise with PSSA on the circumstances in which an emergency procurement policy can be approved by the Treasurer, such as when responding to the emergency circumstances that arise under the *Children and Young People (Safety) Act 2017*.

DCP accepted the finding, noting that COVID-19 had placed unprecedented demands on it for caring for children and young people. It also responded that it was in the process of finalising a procedure for emergency procurements as part of its continuous improvement plan with PSSA.

##### *No evaluation criteria and methodology*

PSSA's Procurement Planning Policy requires acquisition plans to include evaluation criteria and methodology. For complex and strategic procurements, it requires an evaluation plan.

We found that DCP's procurement acquisition plan for its general residential care services did not include the required evaluation criteria or methodology. As this was a single source procurement, evaluation criteria and methodology are not used to select between potential providers. However, documented evaluation criteria and methodology approved through the acquisition plan are important because they document how the procurement team plans to evaluate the suitability of the provider and how it can meet the objectives of the procurement, including any minimum or essential criteria.

DCP responded that it would ensure the evaluation criteria and methodology are included in all acquisition plans, regardless of the sourcing strategy.

### *Conflict of interest declarations not completed*

Staff involved in procurement processes are required by PSSA's Sourcing Policy to complete conflict of interest declarations prior to starting any evaluation. We found the procurement team responsible for evaluating and endorsing one of the procurements we tested did not prepare individual conflict of interest declarations.

Conflict of interest declarations provide accountability from members of the procurement team. Where they are not executed as expected, or where management plans are not approved, it can impact the integrity of the procurement process.

DCP responded that it will ensure evaluation team members comply with the conflict of interest requirements.

### *No complexity assessment performed*

PSSA's Procurement Governance Policy requires public authorities to perform complexity assessments before starting a procurement process to classify the procurement as either transactional, routine, complex or strategic. Complex or strategic procurements require the agency to undertake a more detailed procurement processes.

DCP did not adequately document its complexity assessments for two of the three procurements we reviewed.

DCP responded that complexity assessments did occur in the acquisition planning stage, but accepted that it needed to improve the documentation of the assessment.

### *Insurance requirements not included in contract*

The purchase recommendation for the Next Steps Pilot Program procurement required the supplier to obtain professional indemnity insurance of not less than $1 million. We noted the signed agreement with the supplier did not include this requirement.

DCP responded that it had since reviewed the expected professional indemnity insurance coverage for the program and determined that none was required, indicating that it would not need to vary the contract. DCP committed to reminding its procurement team to ensure the accuracy of contractual requirements in the purchase recommendation.

## Delay establishing contract management plans for residential care contracts

PSSA's Contract Management Policy and DCP's Contract Management Framework require DCP to develop and approve contract management plans no later than the date the contract begins.

We found instances where DCP did not develop residential care contract management plans until after the contracts began. These delays can potentially impact the consistency and systematic nature of contract management processes.

DCP responded that it had appointed a contract administration manager in August 2022 to focus on compliance-related matters, including the oversight of contract management plans.

### Case management system (C3MS) user access not regularly reviewed

We noted that DCP did not regularly review user security access to C3MS, which contains confidential child and family information. We recommended that DCP regularly review user security access to ensure that only authorised staff have access to C3MS and that they have the correct security roles.

DCP responded that it relies on a number of mitigating controls to reduce the risk of C3MS security breaches. Notably, these include a system control that restricts network access after a period of inactivity. It indicated that it reviewed user access assigned to its finance and corporate services directorate in July 2022, which confirmed that appropriate privileged security roles were in place. DCP also responded that it would undertake a complete review of user access in the second quarter of 2022-23 and quarterly thereafter.

### Improvements in payroll-related controls are required

#### *Insufficient review of payroll information*

Many DCP employees are paid standard hours without direct reference to actual time records. In this environment it is important to ensure regular management review of individual employee payment and leave records.

We found that DCP's managers did not always review and approve bona fide certificates and monthly leave reports within DCP's policy time frames. The effective and timely review of these reports helps ensure staff payment are accurate and valid.

DCP responded that bona fide certificates and monthly leave reports are monitored regularly. It indicated that reminders are escalated to executives to reiterate the importance of reviewing and approving the reports within DCP's policy time frames.

#### *No regular review of roster system user access*

In October 2021 DCP implemented a new employee roster system.

Our audit considered DCP's management of user access privileges and found that it had not established regular review processes to ensure the ongoing validity and appropriateness of user access. Without this regular review DCP may fail to identify staff with unauthorised access or access levels that do not align with their job responsibilities.

DCP responded that although reviews occur fortnightly, it now has a formal process to evidence the review. It also responded that it would document these requirements in existing guidelines.

### *Delayed and missing employee performance reviews*

Our review of DCP's management of employee performance reviews found that:

- 35% of employee performance development plans (PDPs) were overdue
- 137 of 522 new employees did not have a PDP within three months of commencing employment
- improvements were needed in the monitoring and reporting of performance improvement plans.

DCP responded that:

- it had launched a new performance management system on 30 June 2022 and envisaged that this would help improve the completion rate of PDPs in 2023
- the executive team was reminded of the importance of performance discussions and ensuring staff are aware of their performance expectations.

## Interpretation and analysis of the financial report

### Highlights of the financial report*

| | 2022 $million | 2021 $million |
|---|---|---|
| **Income** | | |
| Appropriation | 693 | 601 |
| Other | 11 | 13 |
| **Total income** | 704 | 614 |
| | | |
| **Expenses** | | |
| Employee benefits expenses | 255 | 239 |
| Child protection services | 386 | 324 |
| Supplies and services | 56 | 54 |
| Other | 5 | 12 |
| **Total expenses** | 702 | 629 |
| **Net result** | 2 | (15) |
| Changes in revaluation surplus | 2 | 1 |
| **Total comprehensive result** | 3 | (14) |
| | | |
| Net cash provided by (used in) operating activities | 17 | (4) |
| | | |
| **Assets** | | |
| Current assets | 48 | 38 |
| Non-current assets | 46 | 45 |
| **Total assets** | 94 | 82 |
| | | |
| **Liabilities** | | |
| Current liabilities | 71 | 62 |
| Non-current liabilities | 52 | 54 |
| **Total liabilities** | 123 | 117 |
| **Total equity** | (30) | (34) |

* Table may not add due to rounding.

## Statement of Comprehensive Income

### Income

#### Revenues from the SA Government

DCP is predominantly funded by appropriation, which accounts for 98% of total income.

Appropriation from the SA Government was $693 million in 2022, an increase of $91 million (15%) from 2021. It comprised:

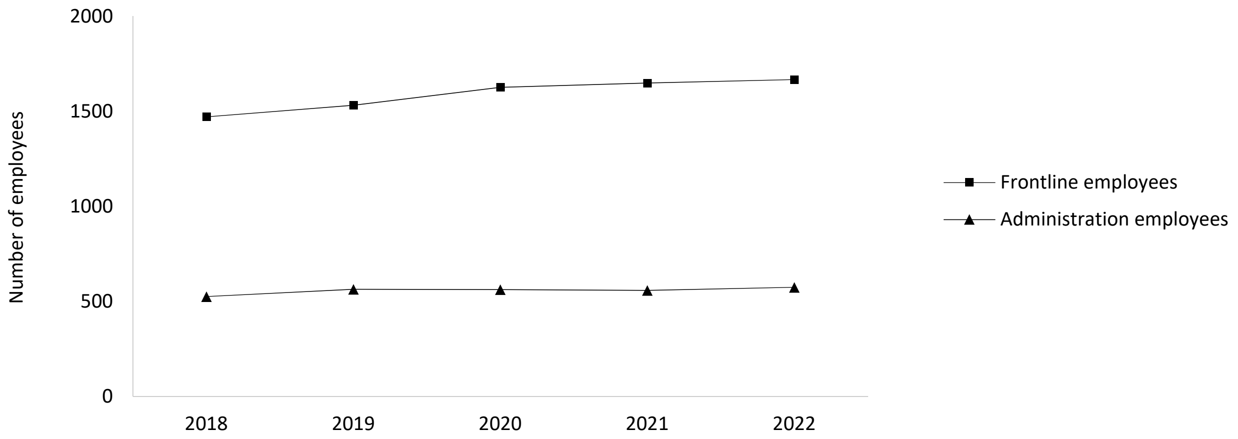
- $647 million original appropriation under the *Appropriation Act 2021*
- $27.5 million additional funding provided in the 2021-22 Mid-Year Budget Review:
  - $21 million additional resources to meet the costs of children and young people requiring a child protection response
  - $2.6 million to meet increased carer payments for general foster and kinship carers
  - $2.4 million for corporate accommodation fitouts to meet increased staffing levels
  - $1.5 million for additional residential care accommodation
- $21 million additional resources provided for 2021-22 in the 2022-23 State Budget
- reduced by $3 million through other approved budget adjustments.

### Expenses

#### Employee benefits expenses

Employee benefits increased by $16 million (6.6%) to $255 million and accounted for 36% of total expenses in 2022. As at 30 June 2022 there were 2,293 FTEs, an increase of 48 FTEs (2.1%) since 2021.

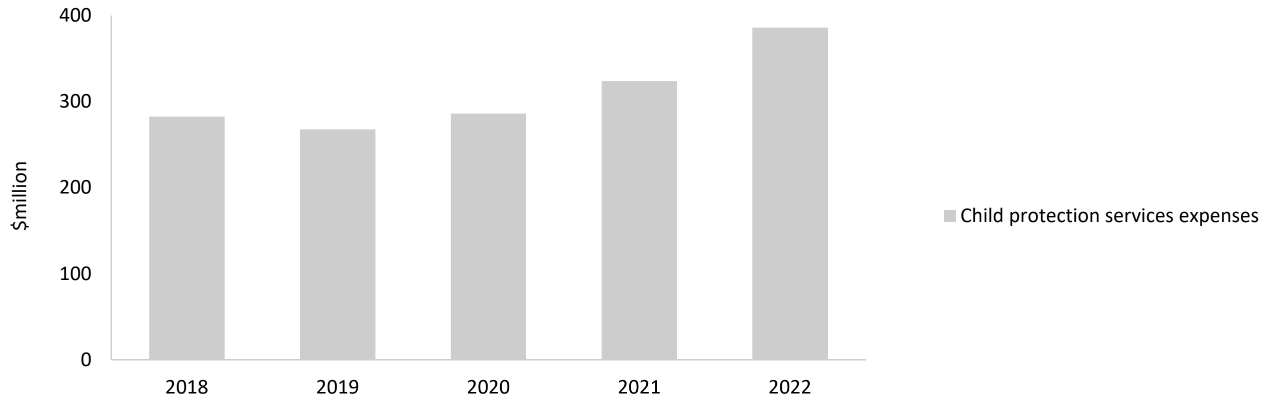
The following chart shows the number of FTEs as at 30 June by category over the last five years, using information provided by DCP. Frontline employees have risen by 13% and administration employees by 9% over the last five years.



## Child protection services

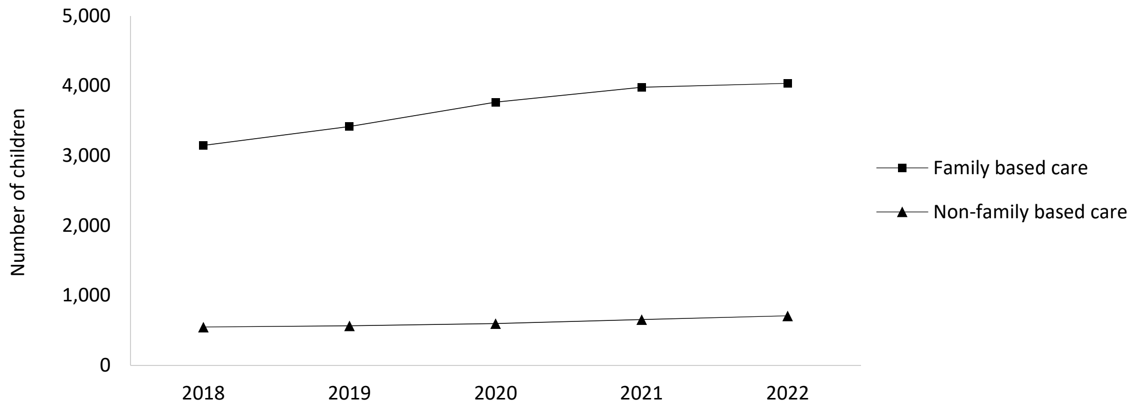
Child protection services are payments to carers and non-government organisations and other expenses for the provision of out-of-home care for children and young people. It does not include DCP's internal costs, such as employee benefits and accommodation expenses.

Child protection services expenses increased by $62 million (19%) to $386 million. The chart below shows a 37% increase in these expenses over the past five years.




Since 30 June 2017 the number of children and young people in out-of-home care as at 30 June has similarly increased by 36% to 4,740 children.

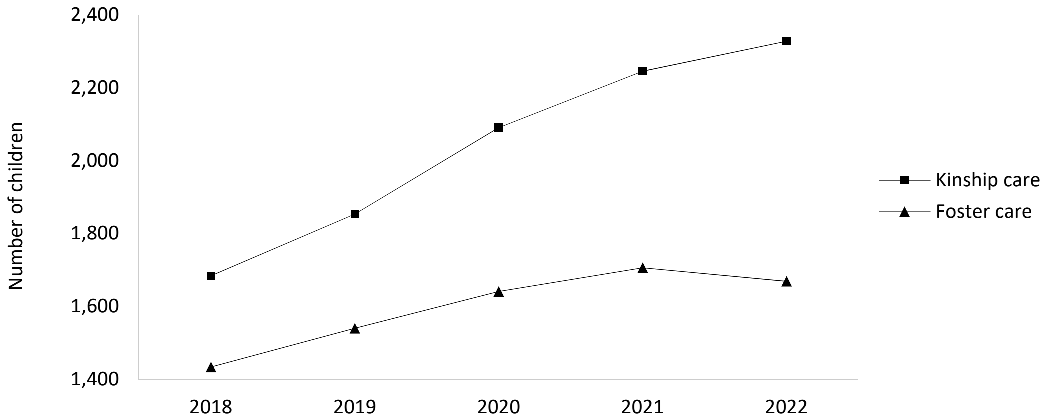
The two main types of out-of-home care are family based (foster, kinship and guardianship family day care) and non-family based (residential care and independent living). The graph below shows the number of children by type of care for the past five years.




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

DCP's 2019–2022 strategic plan prioritises the provision of family based care where possible. Family based care at 30 June 2022 increased by 1% or 39 children since 30 June 2021, whereas non-family based care increased by 8% or 55 children over the same period. Non-family based care is a significantly more expensive type of care.

The below chart shows a drop in the number of children and young people in foster care, while kinship care numbers continue to grow.




### Comparison of actual expenses to original budget

In 2022 total expenses exceeded the original budget by $55 million (8%). Note 1.5 of DCP's financial report provides budgetary reporting information, including explanations of major variations between the SA Government's original State Budget and the actuals reported in its financial statements.

## Statement of Financial Position

### Assets

Current assets increased by $10 million to $48 million as at 30 June 2022.  Cash of $40 million ($31 million) makes up 83% of current assets.

Property, plant and equipment of $45 million ($44 million) mainly consists of residential accommodation, $15 million ($14 million), and land, $21 million ($20 million).

### Liabilities

Liabilities principally comprise:

- employee benefits liabilities and related on-costs of $62.5 million ($67.7 million). The decrease related mainly to the impact of changed actuarial assumptions used to estimate the long service leave liability
- the provision for workers compensation, which increased by $4.1 million (16.8%) to $28.2 million. Workers compensation was estimated by an independent actuary as at 30 June 2022
- trade payables and accrued expenses of $27.6 million ($19.8 million).  Most payables relate to care-related services provided but not paid at 30 June.

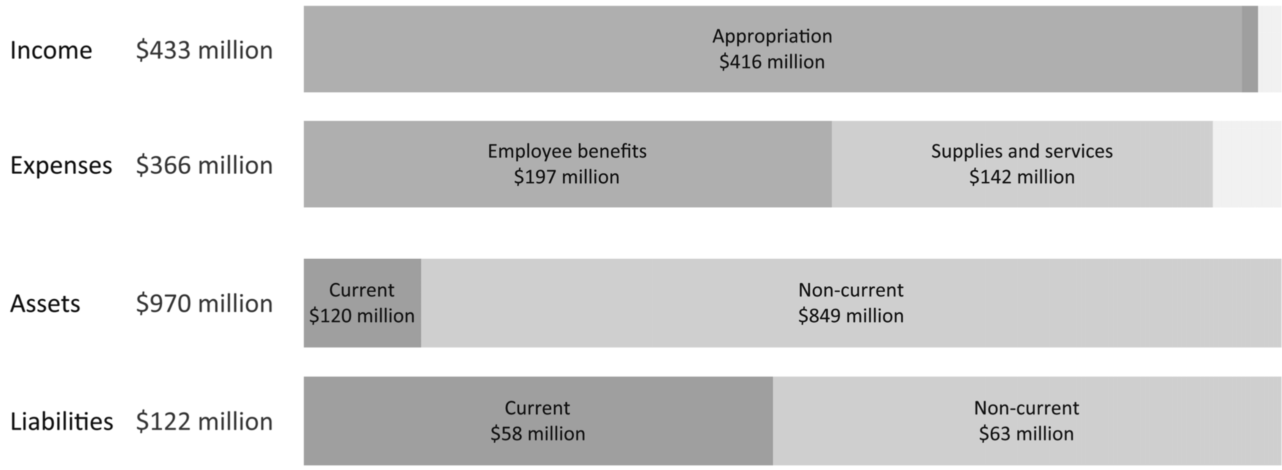
### Equity

DCP had a negative net asset and total equity position at 30 June 2022 of $30 million. Similarly, current liabilities of $71 million exceeded current assets of $48 million as at the same date. DCP is funded to meet expected cash flows for its current program delivery.  Note 10.2 of its financial report provides information about liquidity risk.

In 2021-22 DCP received a capital contribution from the SA Government of $910,000.

# Department for Correctional Services (DCS)

## Financial statistics




**1,926** Total employees

**3,049** Average prisoner numbers

**$683m** Land and buildings

| | |
|---|---|
| **Significant events and transactions** | Work continues on the 270 additional beds at the Yatala Labour Prison. To 30 June 2022 total project expenditure was $128 million, with approximately $31 million of the budget remaining before completion. |
| **Financial report opinion** | **Unmodified** |
| **Controls opinion findings** | Asset management strategy and plan remain in draft. |
| **Other audit findings** | — Improvements required to comply with a revised procurement framework.<br>— Monitoring of access to the Basware payment system could be strengthened. |

## Functional responsibility

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

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

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

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

## Scope of the audit

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

Specific areas of audit attention in 2021-22 included:

- asset management
- procurement
- contract management
- general ledger
- fixed assets
- accounts payable
- revenue.

### Controls opinion

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

## Audit findings

### Communicating our audit findings

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

#### Controls opinion findings

##### Asset management strategy and plan remain in draft

In prior years we have reported opportunities for DCS to improve its asset management control practices. Importantly, we had noted that DCS had not developed and documented:

- the principles that it intends to apply for asset management to achieve its organisational objectives (asset management policy)
- its asset management objectives, practices and action plans for asset management improvement (asset management strategy)
- its approach to implementing its asset management strategies (asset management plan).

Our follow-up of these and other matters in 2022 noted that DCS had developed:

- and approved an asset management policy in January 2022

- a draft combined asset management strategy and asset management plan
- an action plan to manage the required actions from the strategic asset management plan
- a planning output document to define clear time frames
- a site-based environmental assessment handbook
- an environmental assessment tool
- a strategic process map.

While acknowledging these significant improvements, we noted that the asset management strategy and plan remain in draft.

DCS subsequently advised us that it approved the asset management strategy and plan in July 2022.

## Other audit findings

### Improvements required to comply with a new procurement framework

We examined DCS's compliance with the new South Australian Government Procurement Framework and Treasurer's Instruction 18 *Procurement*, which commenced on 1 July 2021. The review considered the policies and procedures public authorities must meet when undertaking procurement and contract management activities.

We selected two procurements for the review:

- provision of an electronic document management system
- provision of a secure exchange and integration platform.

#### *Conflict of interest declarations completed after contract was signed*

Conflict of interest declarations for the evaluation team for one of the procurements we reviewed were not completed until after the contract was signed with the chosen supplier.

The Procurement Services SA (PSSA) Sourcing Policy requires that all participants in a procurement evaluation process complete a conflict of interest declaration before starting the evaluation. The delay in completing conflict of interest declarations risked compromising the procurement outcome if conflicts were subsequently identified.

DCS advised us that it has updated its documented procedures to include a requirement for procurement leaders to complete a checklist that identifies the need for early completion of conflict of interest declarations.

#### *Delay of post-sourcing review for procurements*

We found that a post-sourcing review was not completed within 60 days for either procurement we tested.

The PSSA Sourcing Policy requires that a post-sourcing review be completed within 60 days of purchase recommendation approval for complex and strategic procurements. DCS classified both of the procurements we reviewed as complex and strategic.

The purpose of a post-sourcing review is to:

- consider the extent to which the intended procurement outcome was met
- identify and record the procurement strategies that helped achieve this outcome
- identify and record what improvements could be made to the procurement process to achieve a better outcome in the future.

DCS advised us that it has updated its documented procedures to include a requirement for procurement leaders to complete a checklist that identifies the need for a post-sourcing review within 60 days of the purchase recommendation being approved.

### Monitoring of access to Basware could be strengthened

#### *Basware review did not detect terminated employees*

The DCS procurement team is required to perform a quarterly review to determine the appropriateness of user access to the Basware payment system and ensure user access is amended as necessary.

In May 2022 we identified 16 terminated employees on the January 2022 Basware user access report whose access had not been deactivated.

DCS responded that it has amended its processes to ensure access to Basware is effectively monitored.

#### *Basware special delegations instances review was not performed*

Each month Shared Services SA provides DCS with Basware reports that detail the transactions approved by special delegates. The purpose of these delegations is to allow users, in authorised circumstances, to approve transactions that exceed their normal financial delegation. The DCS procurement team is required to perform a monthly review of transactions approved by users with special delegations. This ensures transactions are authorised by the correct delegate for the purpose specified in the delegations. DCS has not performed this review since June 2021.

In March 2022 a $42,000 invoice for cleaning services was approved by a manager outside of their special delegation authority.

DCS advised that it has taken action to ensure the monthly review of transactions approved by users with special delegation is performed.

## Interpretation and analysis of the financial report

### Highlights of the financial report*

| | 2022<br>$million | 2021<br>$million |
|---|---|---|
| **Income** | | |
| Appropriation | 416 | 467 |
| Sale of goods | 7 | 7 |
| Other income | 10 | 10 |
| **Total income** | 433 | 484 |

| | 2022 $million | 2021 $million |
|---|---|---|
| **Expenses** | | |
| Employee benefit expenses | 197 | 193 |
| Supplies and services | 142 | 133 |
| Other expenses | 27 | 30 |
| **Total expenses** | 366 | 356 |
| **Net result** | 67 | 128 |
| **Total comprehensive result** | 67 | 128 |
| Net cash provided by (used in) operating activities | 78 | 155 |
| Net cash provided by (used in) investing activities | (115) | (26) |
| Net cash provided by (used in) financing activities | (1) | (2) |
| **Assets** | | |
| Current assets | 121 | 160 |
| Non-current assets | 849 | 773 |
| **Total assets** | 970 | 933 |
| **Liabilities** | | |
| Current liabilities | 59 | 80 |
| Non-current liabilities | 64 | 71 |
| **Total liabilities** | 122 | 152 |
| **Total equity** | 848 | 781 |

* Table may not add due to rounding.

## Statement of Comprehensive Income

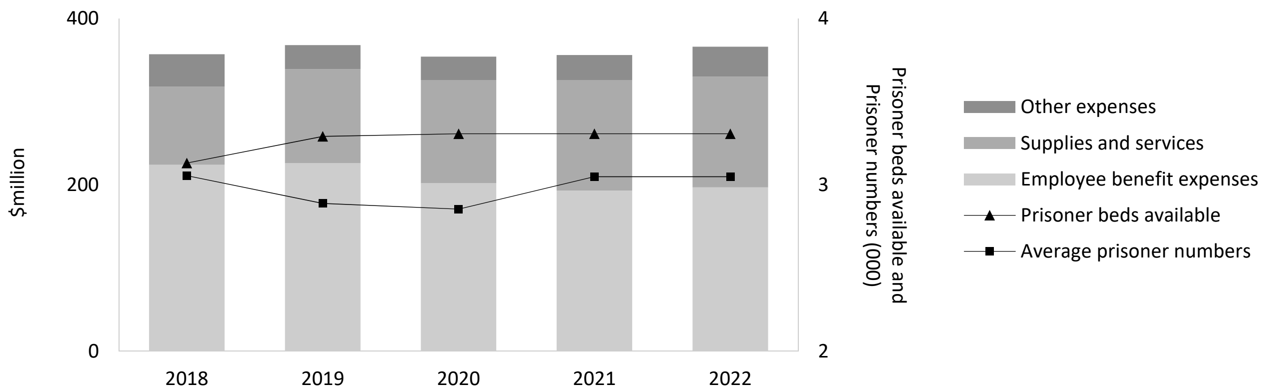
### Income

Total income decreased by $51.4 million to $432.7 million.

DCS relies on SA Government appropriations as its major revenue source to fund its operations and investing activities. Appropriations decreased by $50.5 million, largely reflecting the carryover of $45.7 million in capital expenditure from 2021.

### Expenses

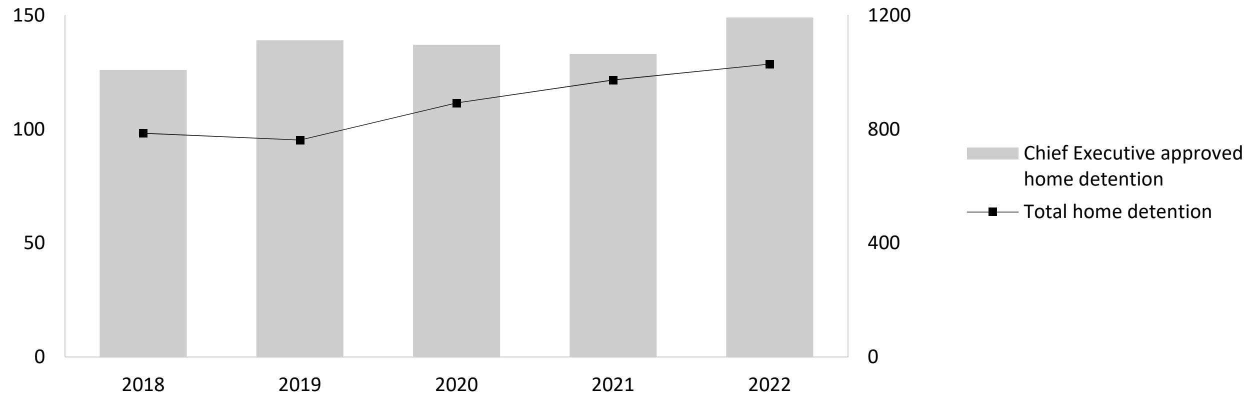
DCS's main expense items and average prisoner numbers for the five years to 2022 are shown in the chart below.



Total expenses have increased by $9 million (3%) since 2018. The shift of expenditure from employee benefit expenses to supplies and services in 2019 was driven by the outsourcing of the Adelaide Remand Centre management and operations in August 2019.

Average prisoner numbers remained steady at 3,049 in 2022, largely consistent with the average number of prisoners in 2018. At 30 June 2022 there were 887 prisoners held in contractor operated prisons (Mount Gambier Prison and the Adelaide Remand Centre).

In 2016, changes to the *Correctional Services Act 1982* and *Criminal Law (Sentencing) Act 1988* allowed the Courts to apply home detention orders. Prior to this only the DCS Chief Executive could release prisoners for home detention under certain conditions. Total home detention numbers increased by 56 to 1,028 in 2022, mainly as a result of increases in Court ordered home detentions.




## Employee benefit expenses

Employee benefit expenses increased by $4.6 million due mainly to:

- an increase in salaries and wages costs of $6.6 million, driven by an increase in employee numbers of 87 and the impact of a revised Enterprise Agreement from December 2021. The increased employee numbers reflect the recruitment of additional trainee correctional officers to address staff attrition, and the Closing the Gap funding initiative recruiting additional staff for DCS's Rehabilitation Programs Branch and Aboriginal Services
- an increase in employee on-costs of $1.6 million (superannuation and payroll tax), consistent with the increase in salaries and wages
- superannuation expenses increasing by $1.2 million, reflecting the impact of the increase in the superannuation guarantee rate from 9.5% to 10% in 2022
- a $4 million decrease in workers compensation expenses, reflecting a decrease in the provision (see 'Provision for workers compensation' below)
- a $1.3 million decrease in targeted voluntary separation package expenses.

## Supplies and services expenses

Supplies and services expenses increased by $8.9 million to $141.8 million following:

- an increase in fees charged of $4.6 million, driven largely by:
  - a $1.6 million increase in fees associated with the iSAFE program

— $933,000 paid to Kokatha Aboriginal Corporation for Lemongrass Place (the Community Transition and Learning Centre pilot program)

— $966,000 paid for a full business case for a new rehabilitation prison

— $700,000 for COVID-19 testing at privately run prisons

- accommodation expenses increasing by $2 million, reflecting:

  — a $1.4 million increase in breakdown maintenance

  — accommodation management fees increasing by $363,000. Costs were associated with facilities management charges, while no facilities management expenses were incurred in 2021

  — a $185,000 increase in office and accommodation costs, with additional office accommodation required for iSAFE and Yatala Labour Prison commissioning teams

- a $1.2 million increase in contract expenditure, due mainly to annual price escalations on the following contracts:

  — $400,000 increase for the Mt Gambier Prison contract

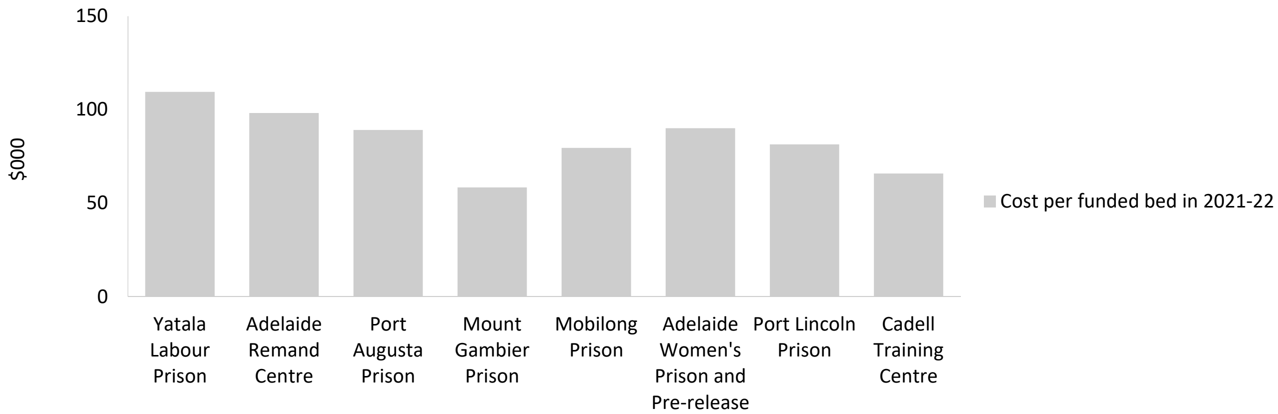
  — $243,000 increase for management of the Adelaide Remand Centre

  — $422,000 increase to the Prisoner Movement and In-court Management contract, Home Detention Integrated Support Services and Bail Support Program

  — $200,000 increase for Home Detention Electronic Monitoring, which was also impacted by the leasing of an additional 170 electronic monitoring units.

### Annual cost per funded bed per facility

The following chart shows the per prisoner cost of managing each facility in 2021-22. Figures include all direct and indirect operating costs. Indirect costs are allocated to prisons based on either a percentage of total salaries, a percentage of total beds or a percentage of total direct costs. Data was supplied by DCS and is unaudited.




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

- the built environment of the prison. Ageing infrastructure at sites like Yatala Labour Prison can impact costs. For example, the design of prisoner accommodation, visitor centres and admissions areas can impact staffing levels, which then impact cost. Cell-based accommodation as opposed to residential-type accommodation also influences the cost per prisoner

- work practices and staffing levels, which vary at each site and have evolved over time. For example, there are variations at prison sites in the number of correctional officers required to escort prisoners within the facility and the number of correctional staff required to monitor prisoners
- the role and function of the prison, which can vary based on factors including out-of-cell hours, the level of industry activity at each site, the level of prisoner employment, whether it is an open campus (eg Mobilong) and the security level of prisoners.

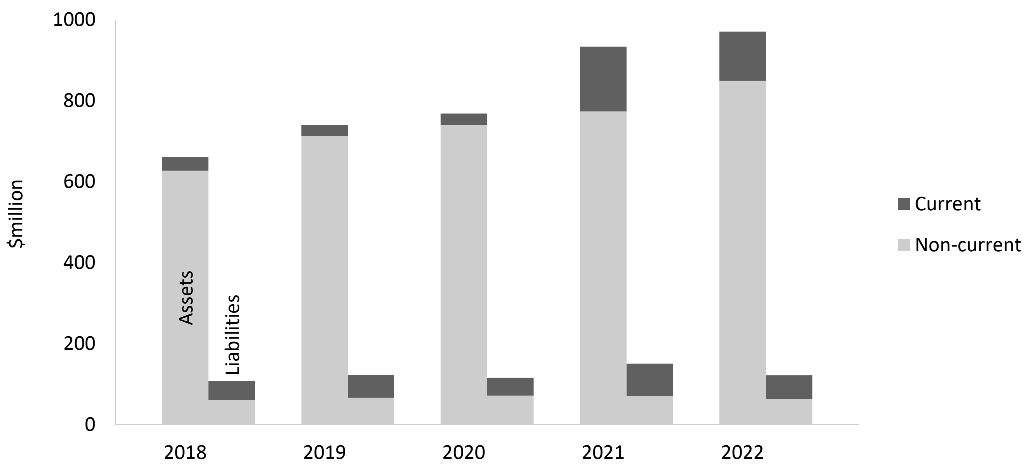
It is also important to note that South Australian prisons have varied security requirements rated as high, medium and low security. This influences the cost of managing each facility, with higher security requirements generally increasing the cost of running a prison.

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

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

## Statement of Financial Position

Assets and liabilities for the five years to 2022 are shown in the following chart.




Current assets of $120.7 million exceed current liabilities, with cash and cash equivalents representing 93% of current assets.

### Assets

Total assets increased by $37 million to $970.1 million, mainly associated with an $88.9 million increase in capital works in progress (largely for the Yatala Labour Prison upgrade), offset by a reduction in cash and cash equivalents of $38.6 million and depreciation charges on property, plant and equipment of $21.4 million.

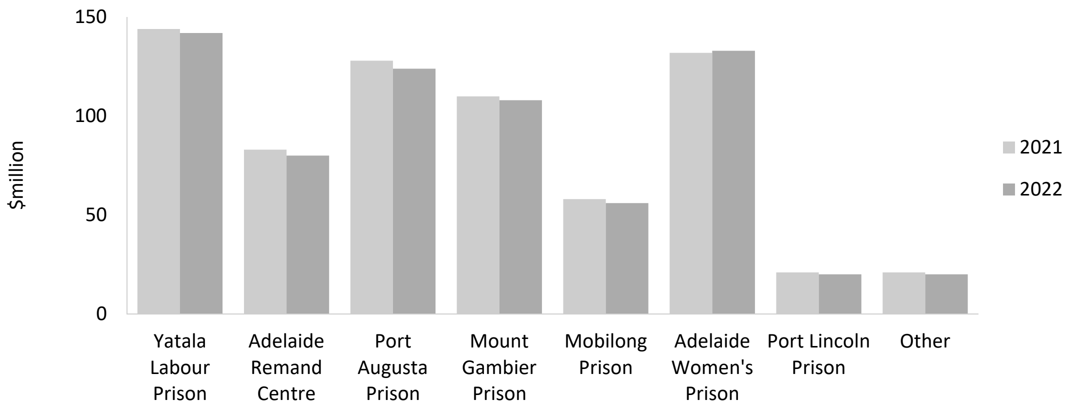
### Cash and cash equivalents

Cash and cash equivalents decreased by $38.6 million to $112.3 million, due primarily to expenditure for capital projects at the Yatala Labour Prison and Adelaide Women's Prison.

### Property, plant and equipment

The main item of DCS's Statement of Financial Position is property, plant and equipment, representing 72% of total assets.

Land and buildings represent 98% of total property, plant and equipment and were valued at $683.8 million as at 30 June 2022. The following chart shows asset values for DCS's land and buildings for the last two years.




Property, plant and equipment decreased by $12.6 million due mainly to depreciation charges of $21.4 million, offset by transfers from capital works in progress of $7.6 million. These transfers included costs associated with the accommodation project at the Adelaide Women's Prison of $1.8 million, completion of Port Adelaide Community Corrections Centre office fitout of $830,000 and recognition of the Office for Correctional Services Review Intel Management System of $1.5 million.

### Capital works in progress

At 30 June 2022 capital works in progress totalled $147.8 million, an increase of $88.8 million from the prior year. The main items comprising the capital works in progress balance include:

- $128 million for 270 additional beds at the Yatala Labour Prison
- $11.9 million for 40 additional beds at the Adelaide Women's Prison (stage 2)
- $1.6 million for the Adelaide Women's Prison analogue to digital security upgrade
- $3.2 million for an audio-visual link upgrade.

### Liabilities

Total liabilities decreased by $29.7 million to $122.1 million. This decrease is largely attributable to:

- a $21.5 million decrease in creditors owed for capital works incurred mainly for the Yatala Labour Prison expansion
- total employee benefits liabilities decreasing by $7.7 million to $46.7 million, due primarily to:
  - a $4.5 million decrease in accrued salaries and wages, reflecting the timing of fortnightly payroll transactions

- — a $3.7 million decrease in the total long service leave liability, driven by the increase in the rate used by the actuary to discount expected future payments into present value

- total provisions decreasing by $2.2 million to $29.7 million.

### Provision for workers compensation

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

The workers compensation provision is based on an actuarial assessment of the outstanding liability as at 30 June 2022 provided by a consulting actuary engaged through the Office of the Commissioner for Public Sector Employment. DCS's workers compensation liability decreased by $1.6 million to $25.1 million.

### Additional compensation provision

As at 30 June 2022 the additional compensation provision was estimated at $4.6 million, down from $5.1 million the previous year. This reflects reductions in the number of known applications and projected claims and an increase in the discount rate.

This provision, introduced for the first time in 2018, provides continuing benefits to workers who have suffered eligible work-related injuries and whose entitlements have ceased under the *Return to Work Act 2014*. Eligible injuries are non-serious injuries suffered in circumstances that involve, or appear to involve, the commission of a criminal offence, or that arose from a dangerous situation.

The additional compensation provision as at 30 June 2022 was estimated by an actuary engaged by the Office of the Commissioner for Public Sector Employment on behalf of all affected agencies across the public sector. The liability comprises an estimate for known claims and an estimate of incurred but not reported applications.

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

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

## Statement of Cash Flows

The following table summarises DCS's net cash flows for the five years to 2022.

| | 2018 $million | 2019 $million | 2020 $million | 2021 $million | 2022 $million |
|---|---|---|---|---|---|
| **Net cash flows** | | | | | |
| Operating | 24 | 41 | 42 | 155 | 78 |
| Investing | (67) | (49) | (36) | (26) | (115) |
| Financing | 20 | - | (2) | (2) | (1) |
| Change in cash | (23) | (8) | 4 | 127 | (39) |
| Cash at 30 June | 28 | 20 | 24 | 151 | 112 |

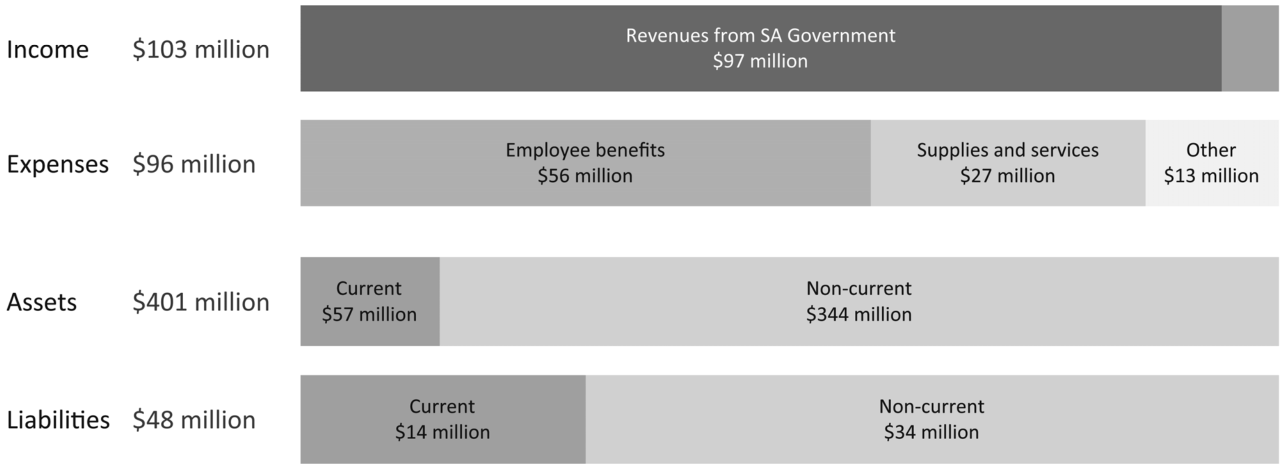
Note: Table may not add due to rounding.

In 2022 cash decreased by $38.6 million, driven by DCS's significant investment activities. Cash held at 30 June 2021 included $45.7 million received in advance for planned investing activities, mainly for the Yatala Labour Prison.

Since 2019, capital expenditure has been funded through operating cash flows. In 2018 capital expenditure was funded in part through capital contributions from the SA Government, which are reflected in financing activities. The classification of cash inflows for capital purposes is dependent on a determination of the Treasurer before or at the time the cash is transferred.

# Courts Administration Authority (CAA)

## Financial statistics




643
Total FTEs

88
Administered FTEs

Administered items


| | |
|---|---|
| **Significant events and transactions** | — The Electronic Court Management System (ECMS) criminal stage went live in late-August 2022.<br>— The CAA continued to respond to the operational and financial impact of the COVID-19 pandemic. This included managing costs and ensuring that courts remained operational and in compliance with government health directives. |
| **Financial report opinion** | **Unmodified** |
| **Controls opinion findings** | No significant findings. |

**Other audit findings**

- No ICT disaster recovery plan was developed.
- Existing critical application access guidelines needed improvement.
- There were weaknesses in the ECMS user access review.
- The Sheriff's Office did not have a current business continuity plan.
- Control findings and challenges to the ECMS Project.

## Functional responsibility

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

The function of the CAA, which is independent of the control of Executive Government, is to provide courts with the administrative facilities and services needed for the proper administration of justice.

## Scope of the audit

### Audit of the financial report

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

Specific areas of audit attention in 2021-22 included:

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

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

### Controls opinion

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

# Audit findings

## Communicating our audit findings

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

### IT general controls

#### No ICT disaster recovery plan developed

Last year we found that key disaster recovery documents, including a disaster recovery plan, were in draft and unreflective of the present CAA information technology environment. The CAA responded that, as part of reviewing its disaster recovery documentation, a disaster recovery plan would be developed by December 2021.

However, no disaster recovery plan was developed in 2021-22.

Not having a disaster recovery plan can adversely impact an entity's ability to reduce damage or disruption and quickly recover from disaster events.

The CAA responded that it will look to finalise a disaster recovery plan in 2022-23.

#### Existing critical application access guidelines needed improvement

In 2021-22, the CAA developed an ICT Environment and Critical Application Access Guideline as a framework for managing access to CAA's ICT environment, including privileged user access to critical applications.

However, we noted key areas where this document needed improvement. These included better clarity of user access reviewer responsibility, removing non-critical applications and applying a risk-based approach to inform user access review frequency.

The CAA responded that it will review and improve the guideline in 2022-23.

#### There were weaknesses in the ECMS user access review

The CAA's ICT Environment and Critical Application Access Guideline requires its ICT section to send managers a quarterly compliance certificate detailing ECMS user access information, including privileged access. Managers must review the compliance certificate and attest whether their staff's user access remains appropriate, advising ICT of any required access changes.

However, we found that no certificates were provided to managers in 2021-22.

While the ICT section conducted some high-level ECMS access reviews in 2021-22, we found that they used incomplete user listings and contained instances where user profiles requiring deactivation were not removed.

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

The CAA responded that procedural amendments are expected to ensure that this issue does not reoccur.

## Business continuity planning

### The Sheriff's Office did not have a current business continuity plan

The CAA requires all divisions to establish a business continuity plan that is reviewed and updated quarterly, and fully tested over a five-year period. We found that the Sheriff's Office did not have a current and approved plan. Its existing 2018 plan is now unreflective of the current operating environment and disruption-risk profile of the Sheriff's Office.

The CAA responded that it intends to finalise the Sheriff's Office's business continuity plan early in 2022-23.

## ECMS Project review outcomes

The 2015-16 State Budget allocated funding to develop the ECMS to support administrative case management, provide online functions and address the CAA's critical records management and information exchange requirements.

### About our review

In December 2021 we completed a review to understand the ECMS Project's:

- current implementation status
- current budget and expenditure position
- expected benefit realisations
- present challenges impacting project finalisation.

### Project budget and actual expenditure outcomes as at 30 June 2022

The 2015-16 State Budget originally provided the CAA with $23.226 million over five years to develop and implement the ECMS. The CAA advised us that it has since allocated a further $5.072 million from its operational budget to the ECMS Project, bringing the revised project budget to $28.298 million.

The CAA advised us that as at 30 June 2022 total ECMS Project expenditure was $27.333 million. It also advised that there will be further costs incurred in 2022-23 associated with project finalisation, configuration and post-implementation support.

The CAA received another $591,000 in the 2019-20 State Budget to develop JudgeView, which provides a separate event viewer for judicial officers to access and review digital case files. JudgeView was not included in the original ECMS Project scope.

### Other review outcomes

The CAA has implemented the Probate and Civil stage of the ECMS Project. The final Criminal stage was planned to go live in early 2022 but functionality delays were experienced, with deployment occurring in late-August 2022.

Despite the benefits expected from the ECMS, we noted several challenges in finalising the project. We also identified controls that needed to improve, including:

- some financial processing issues that were still occurring
- no formalised scope and delivery time frame for dependent agency interface works
- no formal benefits realisation plan
- the data migration plan for the Criminal stage was not finalised
- gaps in addressing internal audit issues
- review of State Records compliance not yet finalised
- total project expenditure is not reported to the ECMS Project Board
- no formal escrow agreement and source code deposit with an escrow agent
- no disaster recovery plan and detailed procedures to recover ECMS in the event of a disaster or system failure.

The CAA will need to diligently manage the remaining ECMS Project activities and key dependencies, including other agency inputs and vendor deliverables, to ensure they are completed within expected time frames.

The CAA responded positively to our findings and recommendations with details of proposed remedial actions.

# Interpretation and analysis of the financial report

## Highlights of the financial report – controlled items

| | 2022<br>$million | 2021<br>$million |
|---|---|---|
| **Income** | | |
| Revenues from SA Government | 97 | 109 |
| Fees and charges | 3 | 3 |
| Other revenues | 3 | 2 |
| **Total income** | 103 | 114 |
| | | |
| **Expenses** | | |
| Employee benefits expenses | 56 | 60 |
| Supplies and services | 27 | 31 |
| Other expenses | 13 | 11 |
| **Total expenses** | 96 | 102 |
| **Net result** | 7 | 12 |
| | | |
| Net cash provided by (used in) operating activities | 13 | 27 |
| | | |
| **Assets** | | |
| Current assets | 57 | 49 |
| Non-current assets | 344 | 349 |
| **Total assets** | 401 | 398 |
| | | |
| **Liabilities** | | |
| Current liabilities | 14 | 15 |
| Non-current liabilities | 34 | 37 |
| **Total liabilities** | 48 | 52 |
| **Total equity** | 353 | 346 |

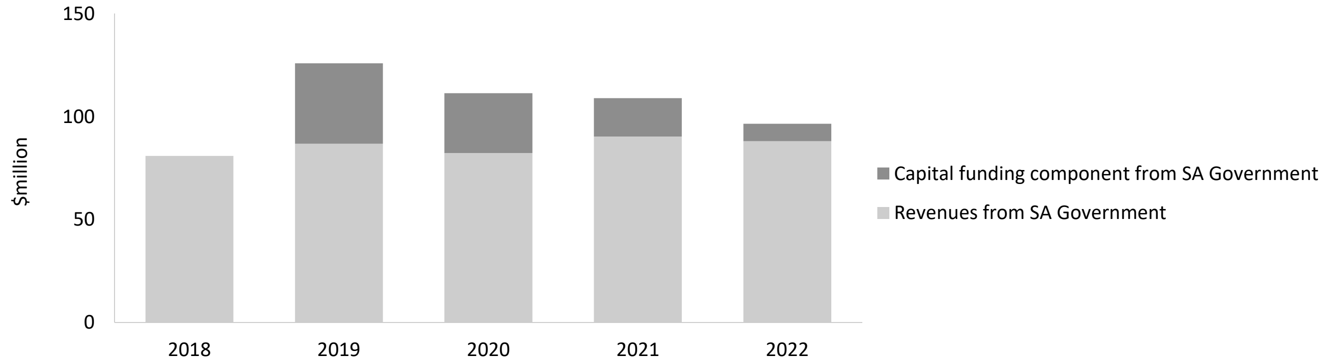
## Statement of Comprehensive Income

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

### Income

Revenues from the SA Government are the major source of funding for the CAA, accounting for 94% (96%) of total income.

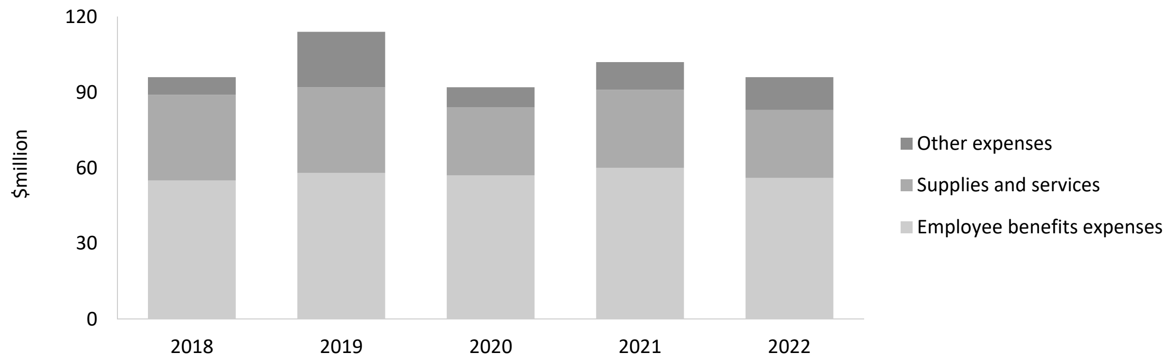
The following chart shows the amount of revenue received from the SA Government for the five years to 2022.




Revenue received from the SA Government decreased by $12.5 million (12%) to $96.6 million in 2021-22. This decline mainly reflects the CAA's decreased funding requirements after completing the Audio Visual Link Infrastructure refresh project and other one-off initiatives, as well as the impact of operational efficiency dividends.

### Expenses

The following chart shows the main expense items for the five years to 2022.




The chart shows that both supplies and services and employee benefits expenditure decreased in 2021-22.

Employee benefits expenses are the CAA's major expense category, accounting for 59% (59%) of total expenditure. In 2021-22 employee benefits expenses decreased by $3.5 million. The main drivers of the decrease were:

- the impact of the actuarial revaluation of the long service leave liability, with the discount rate applied increasing from 1.25% to 3.5%. This increase contributed to a $1.8 million downwards actuarial revaluation of the long service leave liability, and therefore a reduction in the expense
- the CAA workers compensation expenditure increasing by $3.6 million last year in recognition of a potential significant claim for a seriously injured worker. No such material provision increases occurred in 2021-22.

Supplies and services account for 29% (30%) of total expenses. While this percentage of total expenditure remained steady, actual expenses decreased by $3.3 million to $27 million. This decline is mainly due to a $3 million decrease in computing and communications equipment. In 2020-21 significant purchases of non-capitalised audio visual equipment occurred for the now complete Audio Visual Link Infrastructure refresh project.

### Statement of Financial Position

Non-current assets mainly comprise land and buildings totalling $294 million ($302 million), which account for 85% (86%) of non-current assets.

Current assets mainly comprise cash and cash equivalents totalling $53 million ($45 million), which account for 92% (91%) of current assets.

Cash comprises deposits with the Treasurer, including $16.3 million ($9.5 million) held in the Accrual Appropriation Excess Funds Account. The balance of these funds is not available for general use and can only be used with the Treasurer's approval.

The increase in cash mainly reflects a reduction in the expenditure of capital items and infrastructure upgrades in 2021-22. For example, in 2020-21 the CAA undertook the Sir Samuel Way Building façade works, Audio Visual Link Infrastructure refresh project and Court of Appeal accommodation upgrades.

## Interpretation and analysis of the financial report for administered activities

### Highlights of the financial report – administered items

| | 2022<br>$million | 2021<br>$million |
|---|---:|---:|
| **Income** | | |
| Revenues from SA Government | 45 | 45 |
| Court and transcript fees and other | 23 | 20 |
| **Total income** | 68 | 65 |
| | | |
| **Expenses** | | |
| Judicial benefits expenses | 44 | 44 |
| Payments to the Consolidated Account | 22 | 20 |
| Other expenses | 2 | 1 |
| **Total expenses** | 68 | 65 |
| **Net and total comprehensive result** | - | - |
| | | |
| Net operating cash provided by (used in) administered activities | 33 | (32) |

| | 2022 $million | 2021 $million |
|---|---|---|
| **Assets** | | |
| Current assets | 95 | 65 |
| **Total assets** | 95 | 65 |
| | | |
| **Liabilities** | | |
| Current liabilities | 94 | 61 |
| Non-current liabilities | 9 | 12 |
| **Total liabilities** | 103 | 73 |
| **Total equity** | (8) | (8) |

### Statement of Administered Comprehensive Income

#### Income

##### Court and transcript fees

Court and transcript fees are raised and collected by the CAA and then paid to the Consolidated Account. $22.1 million was raised, collected and transferred to the Consolidated Account in 2021-22, being a $2.4 million (12%) increase from last year. The increased activity is mainly due to the diminishing impact of COVID-19, with fewer litigants delaying or not proceeding with civil matters.

##### Revenues from SA Government

In 2021-22 revenues of $45 million ($45 million) were received from the SA Government to fund the CAA's Judiciary benefits expenses.

#### Expenses

Payments to the Consolidated Account of $22.1 million mainly comprise court and transcript fees as described above.

Judicial benefits expenses were $44.3 million, which was a modest increase of $460,000 (1%) from last year.

### Statement of Financial Position

The CAA receives money into trust accounts on behalf of parties involved in court matters and also makes payments to parties as determined by the Courts. In 2021-22 total administered assets and liabilities both increased by $30.6 million as a result of a significant rise in money held for land acquisition transactions by the Commissioner of Highways such as, the Torrens to Darlington north-south corridor upgrade.

## Further commentary on operations

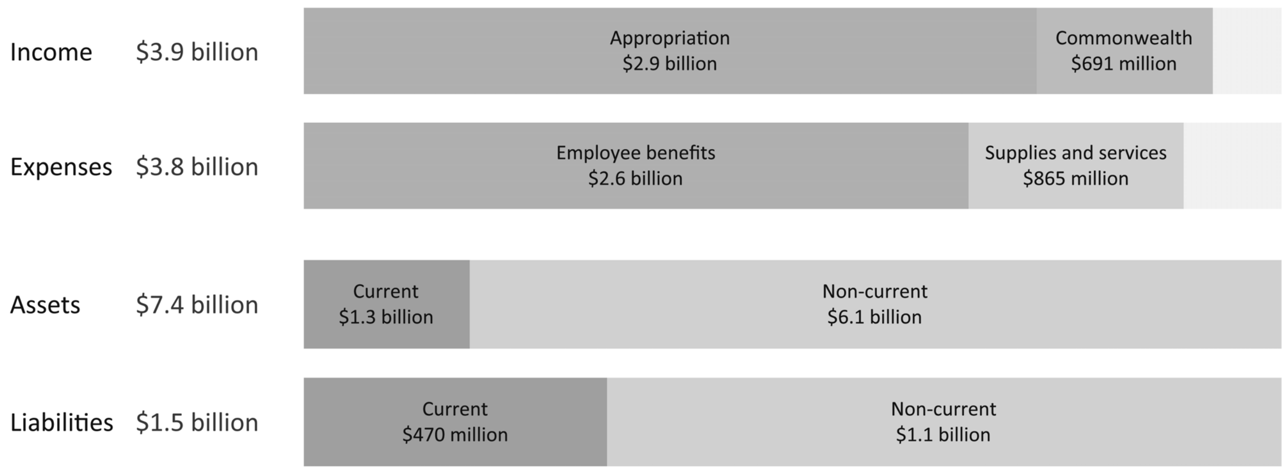
### Total cost of services for the administration of justice through the courts system

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

For 2021-22 total expenses, excluding payments to the Consolidated Account, were $141 million ($147 million) and total income, excluding revenues from the SA Government, was $29 million ($25 million), with the SA Government providing $142 million ($154 million) towards the cost of the courts system.

# Department for Education (Education)

## Financial statistics

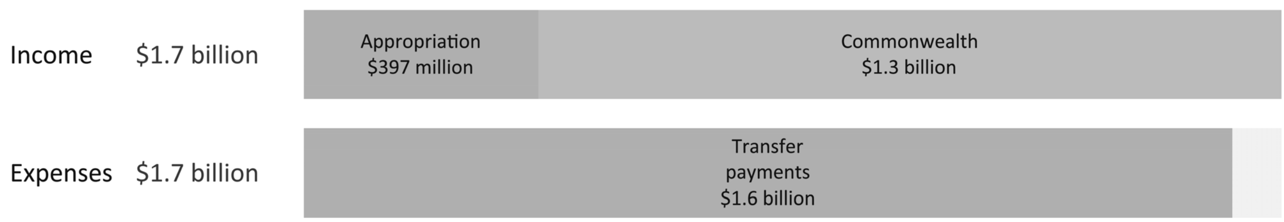



**24,952**
FTEs

**893**
Number of public school and preschool sites

**172,968**
Number of FTE students in public schools in term 1, 2022

Administered items




## Significant events and transactions

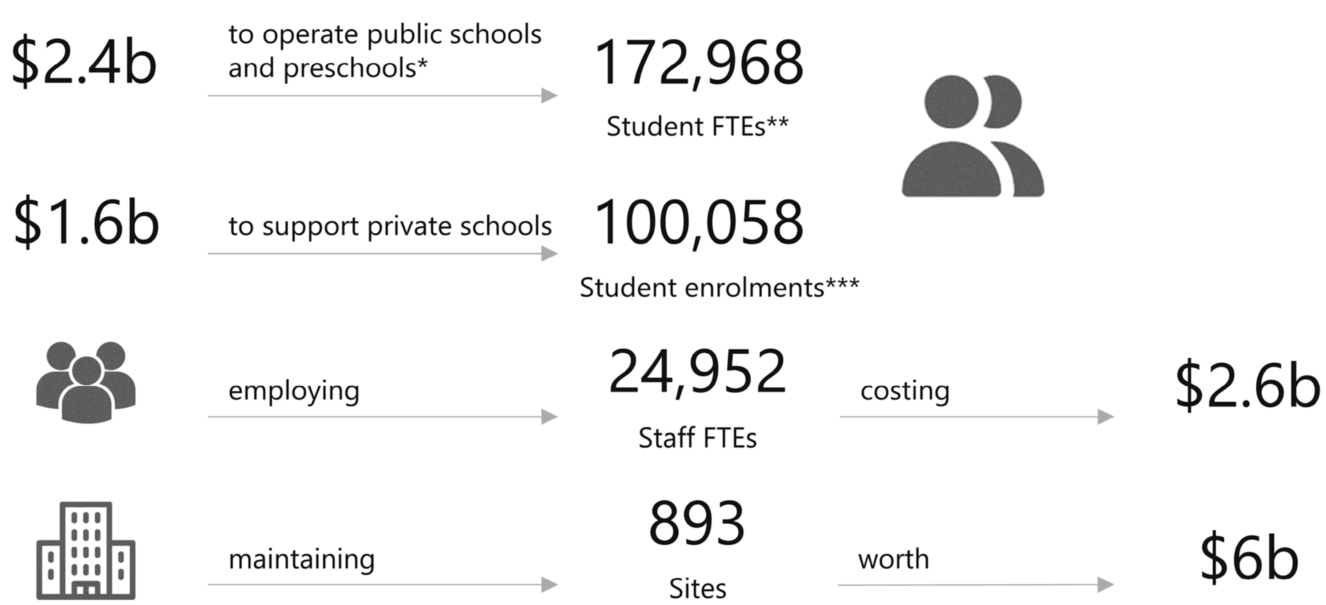
- Year 7 transitioned to high school from term 1, 2022.
- Education continued its significant capital investment program, including construction works of $364 million.
- $1 billion of building and improvements were completed and transferred out of capital works in progress, including two new schools, Aldinga Payinthi College and Riverbanks College (B-12), which were completed through a public private partnership (PPP).
- Education continued to roll out its new Education Management System (EMS).
- Education again responded to the COVID-19 pandemic, which impacted workloads at schools and preschools.
- Education received an equity contribution of $264 million from the SA Government.

| | |
|---|---|
| **Financial report opinion** | **Unmodified** |
| **Controls opinion findings** | — Procurement and contract management processes need to improve.<br>— Asset management practices need strengthening.<br>— Controls over facilities management arrangements need to improve.<br>— Key employee-related controls could be further developed. |
| **Other audit findings** | No significant findings. |

## Functional responsibility

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

### Education's main functions




* Comprises an allocation of costs incurred by Education on behalf of schools.

** Student FTEs as at February 2022 not including preschool student FTEs.

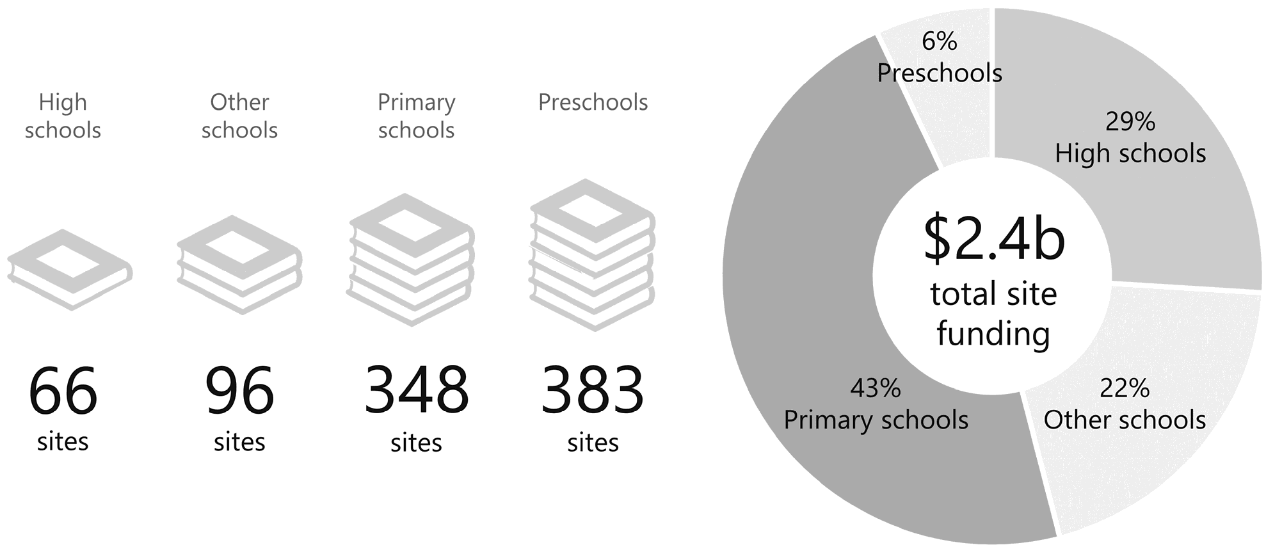
*** Student enrolments as at 6 August 2021 reported by the Australian Bureau of Statistics. 2022 numbers are not available.

### Education funding arrangements

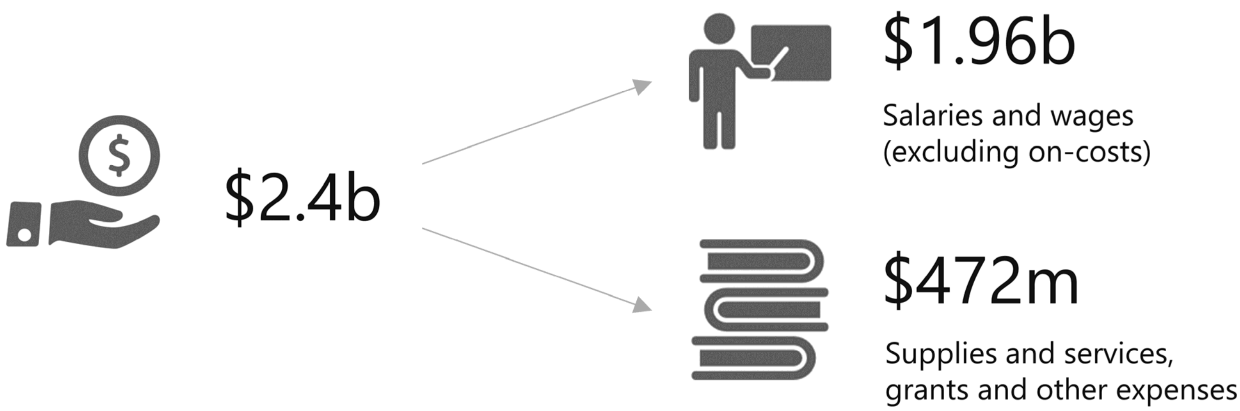
The National School Reform agreement between the Commonwealth and the States sets out the funding model for both public and private education. The State has also entered a bilateral agreement with the Commonwealth that sets out the State's specific actions to improve student outcomes and minimum state funding contribution requirements as a condition of receiving Commonwealth school funding.

### Government operational funding public schools and preschools

How are the public schools and preschools split?




Where is the public school and preschool funding spent?



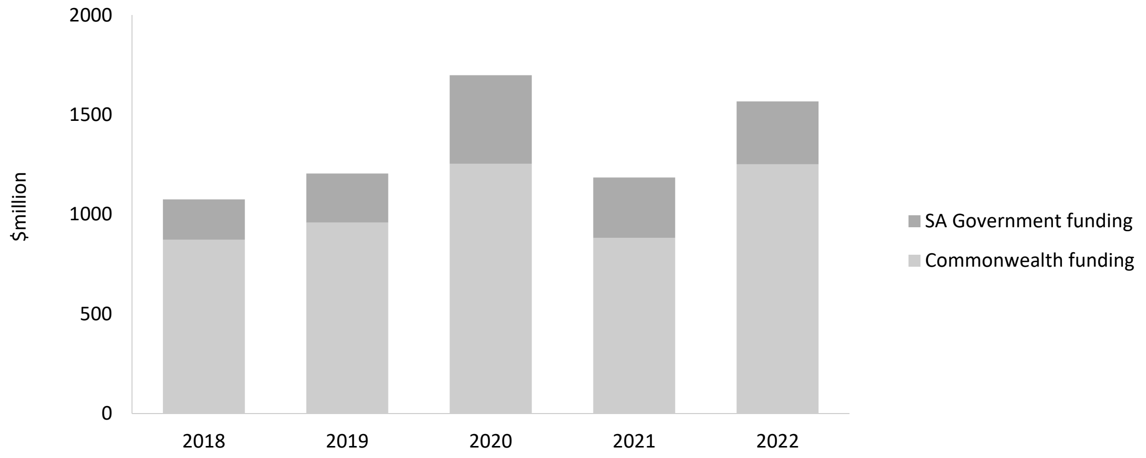

Salaries and wages make up 81% of public schools and preschools spending.

Operational payments to and on behalf of public schools and preschools are funded by SA Government appropriation and $691 million of Commonwealth Government grants.

## Funding to support private schools

Education administers the State and Commonwealth Governments' funding to non-government schools. The transfers (payments) are based on an enrolment census in term 3 and the needs of the school and its students. The funding entitlement of each non-government school is determined by the Commonwealth.

The following chart shows the composition of private school funding as reported in Education's administered financial report.

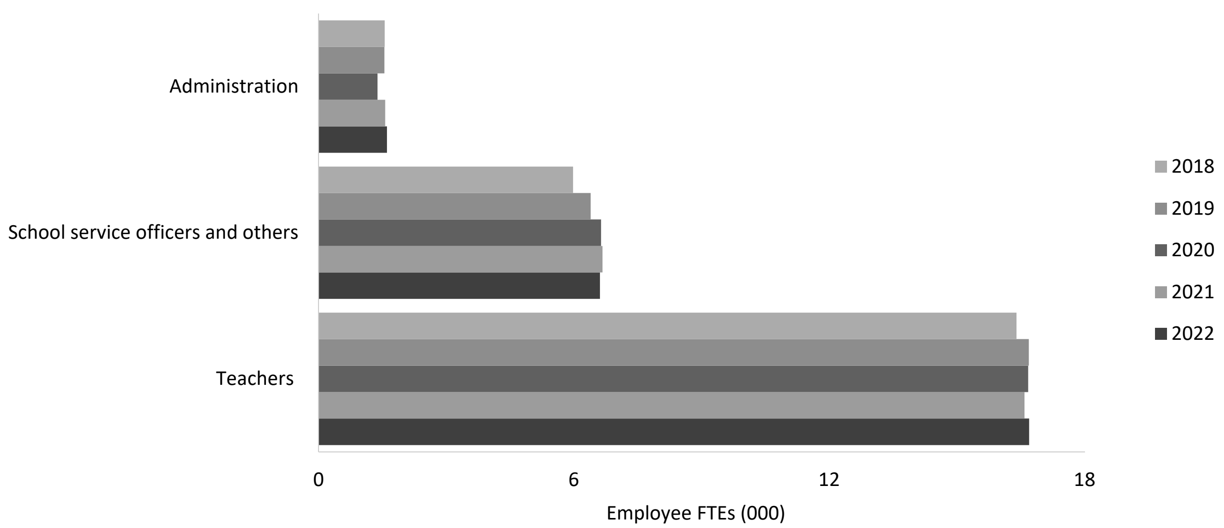



The higher funding in 2020 compared to 2021 reflects that funding relating to July 2020 was brought forward and paid in 2019-20 to help schools manage the impact of COVID-19 in 2020.

Funding to non-government schools has increased by 46% since 2018 at an average of 11.5% per annum.

In 2022 private schools were funded by $315 million ($303 million) in SA Government appropriations and $1.25 billion ($882 million) in Commonwealth Government grants.

## Employees




In 2022 employee expenses were $2.6 billion and FTEs increased by 122 to 24,952.

### Assets

Education owns $6 billion of property assets comprising $1.8 billion of land, $3.9 billion of buildings and improvements and $178 million of right-of-use building assets.

In 2022 Education continued its significant capital investment program, including construction works of $364 million. During the year $1 billion of buildings and improvements were completed and transferred out of capital works in progress.

## Scope of the audit

### Audit of the financial report

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

Specific areas of attention in 2021-22 included:

- expenditure
- payroll
- procurement and contract management
- property, plant and equipment
- asset management
- grants
- general ledger
- governance.

We reviewed internal audit activities to assess the risks of material misstatement in the financial report and to design and perform our audit procedures. We made use of the work performed by internal audit on government school audits, which were performed by contractors appointed, managed and monitored by internal audit.

### Controls opinion

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

- supplies and services (including procurement and contract management)
- minor works and maintenance expenditure
- employee benefit expenses and liabilities
- buildings and improvements
- bank accounts.

## Audit findings

### Communicating our audit findings

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

## Controls opinion findings

### Procurement and contract management processes require improvement

In 2022 we reviewed Education's implementation of the new South Australian Government Procurement Framework. It consists of Treasurer's Instructions 18 *Procurement* (TI 18) and supporting policies approved by the Treasurer and administered by Procurement Services SA (PSSA).

Under this new governance framework for procurement and contract management, public authorities are required to:

- prepare agency procurement frameworks in line with the PSSA's Procurement Governance Policy
- review their procurement framework for ongoing suitability at least annually
- establish systems, processes and procedures to maximise compliance with the PSSA's Procurement Governance Policy, Procurement Planning Policy, Sourcing Policy and Contract Management Policy.

We reviewed Education's compliance with the requirements of TI 18 and the supporting policies approved by the Treasurer, and looked at elements of the following procurements:

- the online feedback platform, which resulted in a period contract with a base contract term of three years with an extension option of another three years, with a total estimated value of $9.4 million
- Microsoft devices for two new schools, resulting in a one-off purchase of devices with a total estimated value of $2.5 million
- waste disposal services.

We also looked at elements of Education's management of the following contracts:

- the Transport Services for Students with Disabilities panel arrangement, consisting of 28 individual contracts with providers
- the Outside School Hours Care (OSHC) panel arrangement, consisting of 15 individual contracts with providers
- the provision of cleaning services.

#### *Education's analysis of spend for its procurement strategy needs to improve*

Education's procurement modernisation and continuous improvement plans describe its intent to improve its approach to procurement. The plans include using spend analysis to identify strategic procurement opportunities and for forward procurement planning.

We noted that Education's spend analysis was not routine or comprehensive, and was not used to identify forecast procurements. We recommended Education formalise its processes for identifying future procurements through documented procedures or frameworks. We also considered it could further develop its spend analysis to identify opportunities for strategic procurement.

Education responded that it was developing documented procedures and frameworks to identify forecast procurements. It indicated it had established spend analytics through its procurement modernisation plan and it intends to integrate spend data with its forward procurement planning from 2023.

### *Complexity assessment criteria for procurement not followed*

PSSA's Procurement Governance Policy requires public authorities perform a complexity assessment before commencing a procurement process. Procurements assessed as complex or strategic require the agency to undertake more detailed procurement processes.

We noted that Education's classification of its Microsoft device procurement as routine was inconsistent with its policy. Consequently, Education did not undertake or document some of the processes required by PSSA as:

- there was no negotiation plan or documentation of meetings with suppliers
- the market approach was not suitable for a complex procurement
- there were gaps in risk management planning documentation.

We recommended Education ensure complexity assessments are performed in line with its policies and procurements.

Education responded that it commenced ongoing communication with and education of its staff, including ensuring they are completing complexity assessments in line with policies and procedures.

### *No acquisition plan as required by TI 18*

We noted that Education did not prepare an acquisition plan for its online feedback platform procurement as required by TI 18 and its procurement procedure. With an acquisition plan Education can demonstrate adequately planning for its procurements, including estimating costs, analysing the market, establishing a sourcing strategy, setting evaluation criteria and assessing procurement risks.

Education responded that staff are actively monitoring procurement activity in the areas of concern and working to ensure that TI 18 requirements are followed.

### *Direct dealings with a supplier before the procurement approach was approved*

Education employees approached the market for its online feedback platform procurement before the procurement approach was approved by the Chief Executive. TI 18 requires that a person must not approach the market or cause an approach to the market for any procurement above $55,000 unless an acquisition plan is approved.

Education's register to record instances of non-compliance reported a further 12 instances where its staff had approached suppliers before acquisition plans were approved. Approaching the market before the procurement plan is approved can compromise the procurement process, posing both value-for-money and reputational risks, including impacting Education's ability to demonstrate the probity, accountability and transparency of the procurement process.

Education responded that this was an ongoing issue with its devolved procurement model and that it would provide communications and training to targeted divisions.

### *No evaluation plan*

Education did not prepare an evaluation plan for the procurement of its online feedback platform as required by PSSA's Procurement Planning Policy.

Documented evaluation criteria and methodology approved through the evaluation plan are important because they describe how the procurement team plans to evaluate the suitability of the provider and how it can meet the objectives of the procurement, including minimum or mandatory criteria.

Education responded that it had established processes to ensure evaluation plans are created for all complex and strategic procurements.

### *Conflict of interest declarations not completed*

Staff involved in procurement processes are required by PSSA's Sourcing Policy to complete conflict of interest declarations prior to commencing evaluation. We found the procurement team responsible for evaluating and endorsing the procurements we reviewed did not prepare individual conflict of interest declarations at the planning stage.

Formal declarations of interest provide accountability from members of the procurement team. Where they are not executed as expected, or where management plans are not approved, it can impact the integrity of the procurement process.

Education responded that management would reinforce with its procurement team the importance of ensuring that conflict of interest forms are signed by all participating members.

### *Risk management plan not completed*

A risk management plan was not prepared for the online feedback platform procurement as required by the PSSA's Procurement Planning Policy.

Education responded that it had previously identified that preparing robust risk management plans was a concern across the organisation. It indicated that its procurement team will work with its audit and risk team to help develop the education and training required to improve practices.

### *Insurance requirements were not included in one contract*

The purchase recommendation for the online feedback platform procurement required minimum levels of liability insurance. We noted the signed agreement with the supplier did not meet these minimum liability insurance levels.

Education responded that it was reviewing insurance coverage for the contract and where necessary it will establish a contract variation.

### *Use of purchase orders was not suitable*

Education's use of purchase orders for acquiring its Microsoft devices did not comply with the requirements of PSSA's Sourcing Policy. The policy states that purchase orders are only suitable for transactional procurements and not for routine or complex procurements.

Education responded that at the time of the procurement a customer agreement template was being drafted by the Crown Solicitor's Office, indicating that the customer agreement had since been finalised and executed with the suppliers.

### *Missing negotiation plans*

A negotiation plan was not prepared for the online feedback platform procurement as required by the PSSA's Negotiation Guideline. We also noted that negotiation meetings and discussions were not documented. Where a negotiation plan is not documented, the principles, objectives, responsibilities and rules of negotiation may not be clear to the procurement or negotiation team.

Education responded that it would explore the potential for a checklist to be developed to cover these requirements, which would be available on its intranet and circulated by the Chief Procurement Officer. It also indicated that it would develop a communication strategy to promote awareness of the requirements.

### *Delay establishing contract management plans*

PSSA's Contract Management Policy and Education's contract management procedure require an approved contract management plan no later than the date the contract begins.

We found that Education had not established a contract management plan for the online feedback platform contract that commenced on 31 January 2022. We also noted that Education had not held formal contract management meetings with the supplier.

Education responded that it had since developed a contract management plan for the online feedback platform contract and had reminded staff of the importance of completing contract management plans before contracts begin.

### *No formal contractual arrangements for waste disposals*

Last year we raised concerns with Education that its waste disposal arrangements were not contracted. While Education undertook a procurement process in 2022, it was not finalised at the time of our review. Until a contract is in place, all regular waste disposals continue to be delivered under legacy arrangements without contracts. Education spent $4.6 million on waste disposal in 2022.

Any period without a formal instrument of agreement potentially impacts Education's ability to manage service delivery obligations and conditions, including price.

In September 2022 Education responded that its waste management procurement was at an evaluation stage and close to finalisation. It also advised its intention to employ a dedicated and experienced resource to manage the contract.

### *Contract management: Transport Services for Students with Disabilities*

#### — *Variation to extend contract was based on insufficient time*

In 2022 Education varied the Transport Services for Students with Disabilities panel contract to provide a one-year extension to the original term of the contract until 31 December 2022. The reason provided in the variation approval was that insufficient time prevented a new procurement process being performed by 31 December 2021.

PSSA's contract extension guidelines provide that it is not considered good practice to establish a new contract, extend a contract or put an interim contract in place primarily because the public authority did not commence the procurement process early enough.

Education responded that the delay was due to their allocation of resources to support the State's COVID-19 response. It indicated that it had started a procurement process for a new panel to commence from the start of term 1 in January 2023.

— *Performance management not adequately described*

Education's contract management plan did not adequately describe how and when performance management should occur. Contract management plans that do not provide sufficient detail on how and when the contract manager should assess performance can result in inconsistent or inadequate performance review, which can hinder Education's ability to ensure suppliers fulfil their contractual obligations.

Education responded that it would include the requirement for phone surveys in its contract management plan for the new panel in 2023.

— *Annual contractor review report not prepared since the 2019 school year*

We noted that Education had not prepared an annual contract review report for its Transport Services for Students with Disabilities contracts as required by its contract management plan. The report had not been prepared since the 2019 school year. We were advised that as of mid-July 2022 Education had worked to finalise its review of 2021 contractor performance.

Education responded that it had since completed an annual contract review report as required by the contract management plan.

— *Contractually required performance meetings with suppliers were not held*

We noted that contract management meetings only occurred on an ad hoc basis to address concerns about specific transport needs. The contract manager did not meet providers regularly to discuss the performance and delivery of the services as required by the contract.

Education responded that it had since established regular meetings in line with the contract and that the requirement would be included in the contract management plan for the new panel in 2023.

— *Complaint escalation process is unclear*

Improvements are needed to ensure the contract management plan better defines when complaints received should be escalated to the contract manager for action. Without a clearly defined complaint escalation process, there is an increased risk that complaints are mishandled, potentially impacting the safety and quality of transport services to students with disabilities.

Education responded that it was reviewing its processes for managing complaints, which would be included in the contract management plan for the new panel in 2023.

### *Contract management: OSHC panel arrangement*

OSHC services at public schools are delivered as either in-house services operated by school governing councils or external (third-party) services provided under a panel contract. Education uses a contract management plan for its OSHC third-party providers panel.

We reviewed Education's contract management processes and found the following areas where controls could be improved.

#### — *Contract management meetings not held*

We noted the contract management meetings with all OSHC suppliers were not held twice yearly as required by the contract management plan.

Education responded that its Industry Advisory Group had met twice yearly to discuss sector-specific matters. It indicated that it would update its contract management plan to require an annual program to meet individual third-party providers each year and hold additional meetings as necessary.

#### — *Performance management not adequately described*

The contract management plan did not clearly describe the contract manager's responsibility to monitor that onsite performance management of OSHC providers occurred as required by the contract. We also found that there was no systematic process to ensure all sites' annual performance reviews were considered in Education's overall OSHC contract management review.

Education responded that it would implement a program to monitor the outcomes of OSHC advisory committee meetings and annual reviews at sites, including data collection and communication processes.

#### — *OSHC annual contract review reports not prepared since the 2019 school year*

We noted that the OSHC annual contract review reports required by the contract management plan were last prepared for the 2019 school year. This report documents Education's annual assessment of contract management practices, overall supplier performance and individual supplier ratings. It is important for demonstrating Education's engagement with, and assessment of, OSHC supplier performance.

Education responded that it has finalised and submitted its 2020 calendar year contract review report to its Chief Procurement Officer and was collating the 2021 calendar year reporting data for approval by management.

### *Contract management: Provision of cleaning services*

We noted that the majority (65%) of the contractually required contract management meetings for the provision of cleaning services had not occurred.

Education responded with its intended action to ensure meetings occur, including training its staff, monitoring compliance and reviewing its central record keeping.

## Asset management practices need strengthening

Education owns $3.9 billion of buildings and improvements, across 893 sites. Sound strategies, plans and information are important to ensure these assets are properly managed and maintained, and that future capital works are based on need and sound reasoning.

We have previously reported that Education had not finalised and implemented important elements of its asset management governance arrangements.

We followed up Education's progress in 2022 and noted the following.

### *Strategic asset management framework remains in draft*

While Education had developed a strategic asset management framework, it remains in draft. This is an important overarching framework designed to guide Education's infrastructure strategy, infrastructure plan and its Capital Intentions Statement project submissions to Infrastructure SA.

Education responded that it had completed its framework documents and expected them to be approved by September 2022.

### *Education's 20-year infrastructure plan remains in draft*

We have previously reported concerns that Education's infrastructure planning documents did not capture and document how it intended to address school capacity needs through capital upgrades or new infrastructure. We found that its 20-year infrastructure plan remains in draft.

Education responded that its draft plan was presented to its senior executive group in July 2022 and was expected to be completed by the end of September 2022.

### *Gaps in asset information*

Consistent with concerns we reported in previous years, we noted that:

- Education's infrastructure strategy did not include performance measures or service levels expected to be met by its assets
- Education did not have an asset information strategy or asset information standards and guidelines
- Education did not maintain information on the condition of individual school buildings and facilities.

Education responded that, together with its new facility management service provider, it will develop an asset information strategy supported by a suite of documents to reflect its needs and requirements.

### *Review of planning standards*

In prior years we have recommended that Education establish a policy, procedure or guideline detailing the steps to be followed for developing the scope of works for new schools or major upgrades projects. Our follow-up in 2022 found these planning standards were last updated in 2007.

Education responded that it had appointed an education consultant, whose review of the planning standards is targeted for completion by the end of 2022.

## Controls over facilities management arrangements need to improve

We reviewed Education's management of its asset repairs and maintenance, including its management of arrangements under the new Across Government Facilities Management Arrangements (AGFMA).

The AGFMA is a Cabinet mandated framework for the provision of facilities services to SA Government funded agencies across the public sector, including Education. It is mainly for:

- planned services (preventative maintenance, replacement, refurbishment and minor works) delivered through annual service delivery plans
- unplanned services (breakdown maintenance, replacement and refurbishment).

A new facilities management service provider (FMSP) operated under the AGFMA from 1 December 2021. Our review focused on controls established by Education to ensure it managed the FMSP's performance against its service delivery plans and that Education met its responsibilities and obligations under the AGFMA.

### *No planned performance processes*

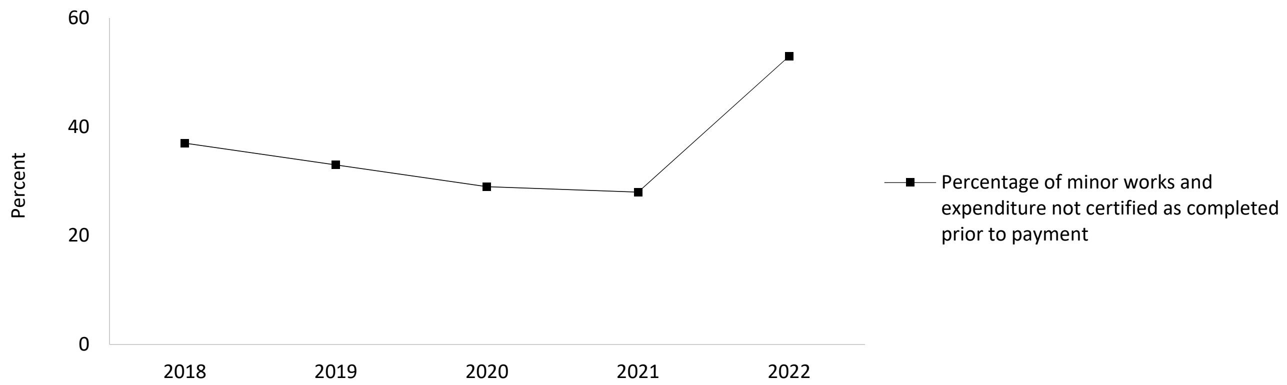
While some informal arrangements existed, Education did not have a performance management plan for its AGFMA arrangements. The absence of a documented performance management plan may prevent Education from identifying and resolving problems with its facilities management and maintenance which may impact the longevity, usability and safe use of its assets, including those at school sites.

Education noted that the Department for Infrastructure and Transport (DIT) is the contract administrator under the AGFMA. It responded that it continues to work with the FMSP and would establish an agency-based performance management plan in line with its memorandum of administrative arrangement with DIT by 31 August 2023.

### *Approval of jobs for payments*

We found that Education did not ensure all minor works, maintenance and repair jobs performed under the AGFMA were completed by the FMSP before paying for them. We have reported similar concerns for many years.

Our review of a sample of invoices found that 53% of jobs were paid without an authorised officer at the site confirming the job was completed as expected. It is important that Education ensures that jobs are only paid after an authorised officer at the site has confirmed the job was complete. The following chart shows that payments for jobs not certified increased under the new AGFMA arrangements.



Education noted that it had implemented strategies over previous years to reduce the number of jobs not certified prior to payment. Education acknowledged the increase in 2022, noting that it is transitioning to the new arrangements and system, which requires sites to action confirmations more diligently within shorter time frames. It indicated that it would work with the FMSP to implement system reporting to allow timely monitoring and follow-up.

#### *Management of system access*

We reviewed Education's management of its employee's access to the FMSP's system, Panorama, and noted that it did not:

- check that only employees with delegated authority had access to Panorama to create breakdown or reactive maintenance work orders. Education responded that it would investigate the potential for further control measures
- formally consider the risks associated with access controls within Panorama and did not have a policy or framework governing access. Education responded that it would develop and publish guidance on all aspects of the facilities management arrangements.

### Opportunity to further develop key employee-related controls

Employee benefits expenses were $2.6 billion in 2021-22 for 24,952 FTEs, representing 68% of total expenses. We reviewed Education's controls to ensure payments were only made to valid employees and for time worked. We considered its workforce planning, staff appointments and employee performance management. We also reviewed payments it made to employees under the SA Public Sector Workforce Rejuvenation Scheme.

#### *Workforce planning being developed*

Education's workforce strategy aims to develop formal workforce plans across its entire workforce. Given the size and different needs of its workforce, its strategy splits this planning into four chapters.

We noted that Education had workforce plans for two chapters, being the Aboriginal Workforce Plan 2021–2031 (April 2021) and Educational Leaders and Teachers Workforce Plan 2022–2032, (June 2022). It had not established workforce plans for its classroom and student support and corporate and administrative support employee cohorts.

Education provided us with an update on its workforce planning processes, noting that it continued to be managed at a local level with support from its People and Culture Division.  Education advised us that its workforce strategy remains on track, and that its:

- classroom and student support workforce plan was in the design phase
- corporate and administrative support plan was expected to commence early in 2023.

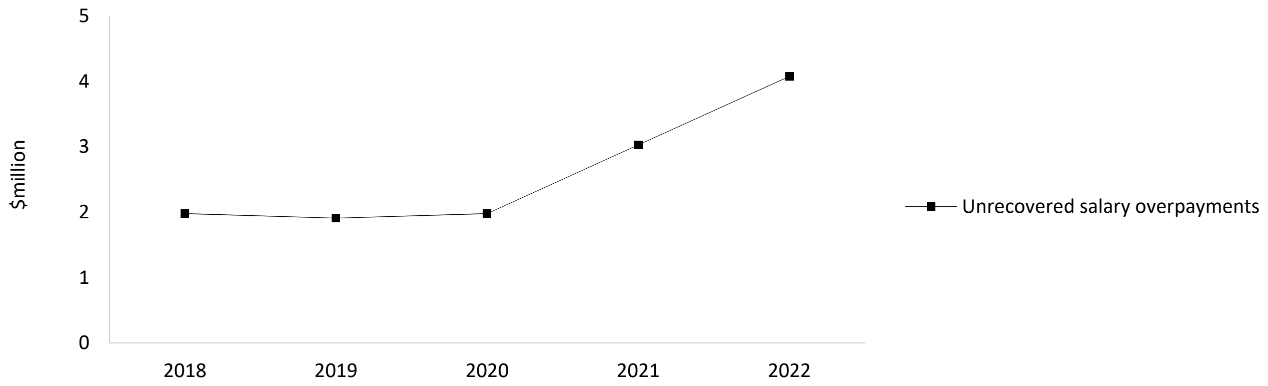
#### *39% of employee performance development plans were overdue*

In recent years we have reported that many of Education's employee performance development plans were not reviewed as required by the Commissioner for Public Sector Employment's performance management and development guideline and Education's performance and development policy. Our 2022 review found that 39% of Education's employee performance development plans were overdue.

Education responded that COVID-19 had significantly impacted the workforce, leading to staff shortages and absenteeism across the first three terms of 2022. It indicated that to reduce pressure on sites, all non-teaching activities were delayed and placed on hold, anticipating that reminder emails would likely be reactivated in term 4, 2022. Education indicated that it was developing a performance development framework for teachers in 2022 for implementation in the 2023 school year.

### *Increase in unrecovered salary overpayments*

The following chart shows a significant increase in the total value of unrecovered salary overpayments over the last two years.




Of the $4.1 million in unrecovered salary overpayments as at 30 June 2022, Education has impaired $1 million as unlikely to be collected (see note 10.2 of its financial report). We recommended that Education implement changes to address the root causes leading to overpayments.

Education provided us with a status update on its analysis of the causes and its intended actions. It also indicated that it had negotiated with Shared Services SA for employees to be contacted within 15 days to negotiate debt repayments.

### *Increase in excessive annual leave balances*

We noted that leave owing to staff with annual leave balances greater than 300 hours increased by 87% over the last two years. Employees with excessive leave balances contribute to higher leave liabilities and employee expenses. In addition to these financial risks, excessive leave balances may impact Education's capacity to maintain the wellbeing of its staff and deliver outcomes efficiently and effectively.

Education provided us with an update on its processes to identify, report and manage employees with excessive leave balances.

### *Insufficient review of payroll leave information*

Many Education employees are paid standard hours without direct reference to actual time records. In this environment it is important to ensure regular management review of individual employee leave records.

We found that Education's managers did not always review monthly leave reports within its policy time frames. The effective and timely review of these reports helps ensure staff payments are accurate and valid.

Education responded that due to the impact of COVID-19, all non-essential communication with schools and preschools was put on hold, including communications reminding managers of their obligations to review payroll information. It expected this communication would resume late in term 3 or early in term 4, 2022.

## Interpretation and analysis of the financial report

### Highlights of the financial report (Consolidated)*

| | 2022 $million | 2021 $million |
|---|---|---|
| **Income** | | |
| Appropriation | 2,917 | 3,001 |
| Commonwealth sourced funding | 691 | 655 |
| Other | 261 | 275 |
| **Total income** | 3,869 | 3,931 |
| **Expenses** | | |
| Employee benefits | 2,629 | 2,651 |
| Supplies and services | 865 | 786 |
| Other | 356 | 363 |
| **Total expenses** | 3,850 | 3,800 |
| **Net result** | 19 | 131 |
| **Other comprehensive income** | | |
| Changes in revaluation surplus | 175 | 243 |
| **Total comprehensive result** | 194 | 374 |
| Net cash provided by (used in) operating activities | 142 | 306 |
| Net cash provided by (used in) investing activities | (382) | (489) |
| Net cash provided by (used in) financing activities | 253 | 285 |
| **Assets** | | |
| Current assets | 1,255 | 1,254 |
| Non-current assets | 6,116 | 5,663 |
| **Total assets** | 7,371 | 6,918 |
| **Liabilities** | | |
| Current liabilities | 470 | 478 |
| Non-current liabilities | 1,078 | 1,074 |
| **Total liabilities** | 1,548 | 1,552 |
| **Total equity** | 5,823 | 5,366 |

* Table may not add due to rounding.

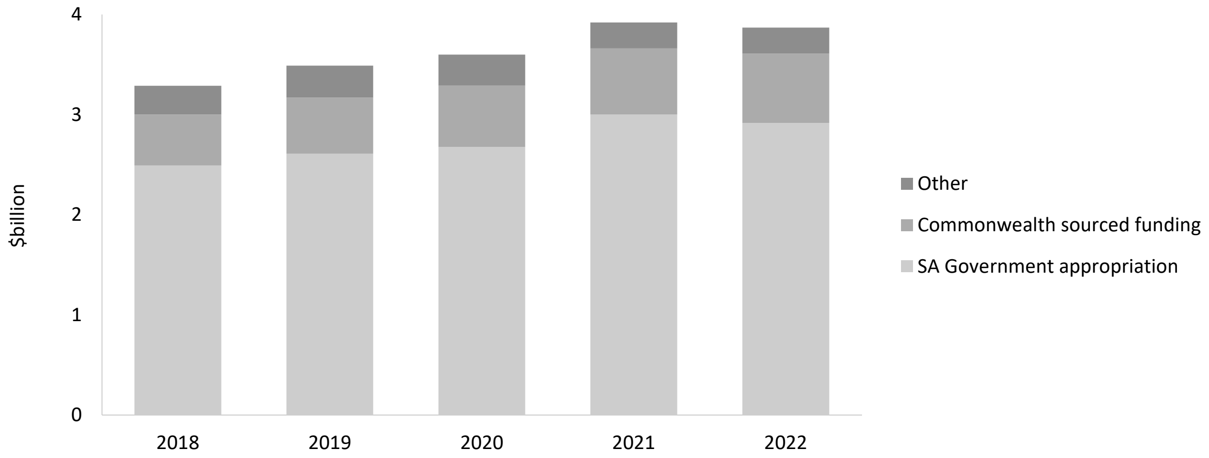
### Statement of Comprehensive Income

#### Changes in consolidation methodology

The consolidated financial statements report on the financial activities of the Department for Education consolidated with the financial activities of controlled public schools, including primary and high schools. In 2022 Education revised its methodology for consolidating its schools based on improved financial information. In line with AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors,* this change in accounting policy was applied in 2022 and retrospectively applied to the 2021 comparative figures.

## Income

In 2022 total income decreased by $62 million (1.6%) to $3.9 billion. The main income items for Education for the five years to 2022 are shown in the following chart.




### Revenues from the SA Government

Education is predominantly funded by appropriation, which accounts for 75% of total income.

Appropriation from the SA Government was $2.9 billion in 2022, a decrease of $84 million (2.8%) from 2021. This in part reflects a decrease in appropriations for Education's significant investment program, which was higher in 2021.

Education also received $264 million ($293 million) from the SA Government as an equity contribution provided under the *Appropriation Act 2021*. The funding relates to an increase in accrual appropriation excess funds.

### Commonwealth sourced grants and funding

Commonwealth sourced grants and funding increased by $36 million (5.6%) to $691 million and principally comprised:

- National Schools Reform Agreement funding, which increased by $40 million to $648 million. This is a joint agreement between the Commonwealth, States and Territories to lift student outcomes across Australian schools
- Preschool Reform Agreement funding, which increased by $4 million to $32 million.

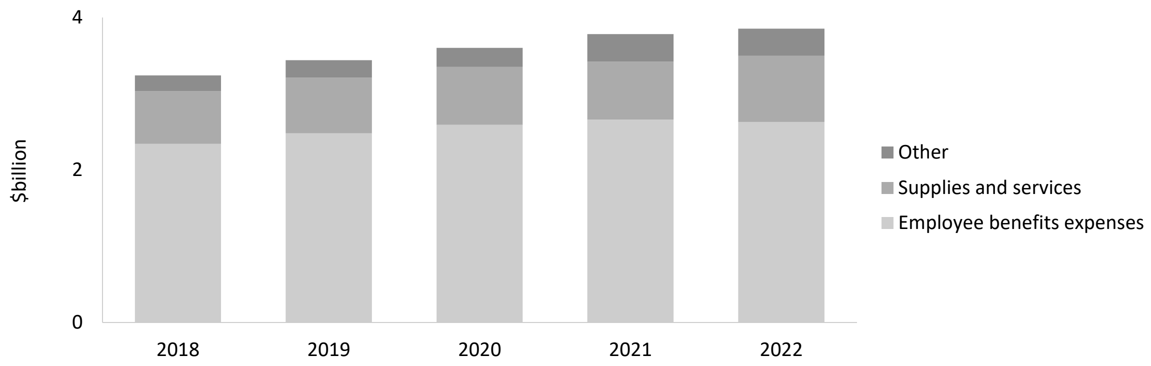
The increases mainly reflect indexation under the funding agreements.

### Sale of goods and services

The sale of goods and services decreased by $5 million to $140 million. The largest component is student-related fees and charges of $100 million, which decreased by $4 million in 2022. Student fees and services were impacted by the SA Government's initiative to provide a $100 discount on each child's public school materials and services charge in 2022 and 2023, which had an estimated downward impact of $12.5 million in 2022.

## Expenses

The main expense items for Education for the five years to 2022 are shown in the following chart.




Total expenses increased by $50 million (1%) to $3.8 billion in 2022.

### Employee benefits expenses

Employee benefits expenses decreased by $22 million to $2.6 billion and make up 68% of total expenses. The decrease was due largely to:

- a $62 million decrease in long service leave expense, partly reflecting the impact of an increase in the discount rate used by the actuary to discount expected future long service leave payments. The increase in the discount rate from 1% to 3.5% resulted in an $85.5 million decrease in the employee benefits expense (see note 3.4 of Education's financial report)
- a $9 million decrease in workers compensation expense, largely reflecting the relative movement in the provision for workers compensation for 2022 and 2021. The provision is estimated by a consulting actuary engaged through the Office of the Commissioner for Public Sector Employment
- an increase of $34 million (1.4%) in salaries and wages (including annual leave and superannuation), mainly due to enterprise bargaining salary rate increases. FTEs also increased by 122 (0.4%)
- a $22 million increase in targeted voluntary separation packages, which for 2022 included payments to 212 employees who accepted an offer under the SA Public Sector Workforce Rejuvenation Scheme.

### Supplies and services

Supplies and services increased by $78 million to $865 million, driven by:

- a $34 million increase in minor works, maintenance and equipment expense to $233 million. The increase mainly related to minor works, furniture and equipment associated with the investment program and Education's transition of Year 7 to high school
- a $10 million increase in ICT expenses to $72 million. The increase mainly related to increased software costs, including licencing
- an $11 million increase in contractor and other outsourced services to $61 million.

## Statement of Financial Position

### Current assets

Cash and cash equivalents balances of $1.2 billion make up 94% of total current assets of $1.3 billion.

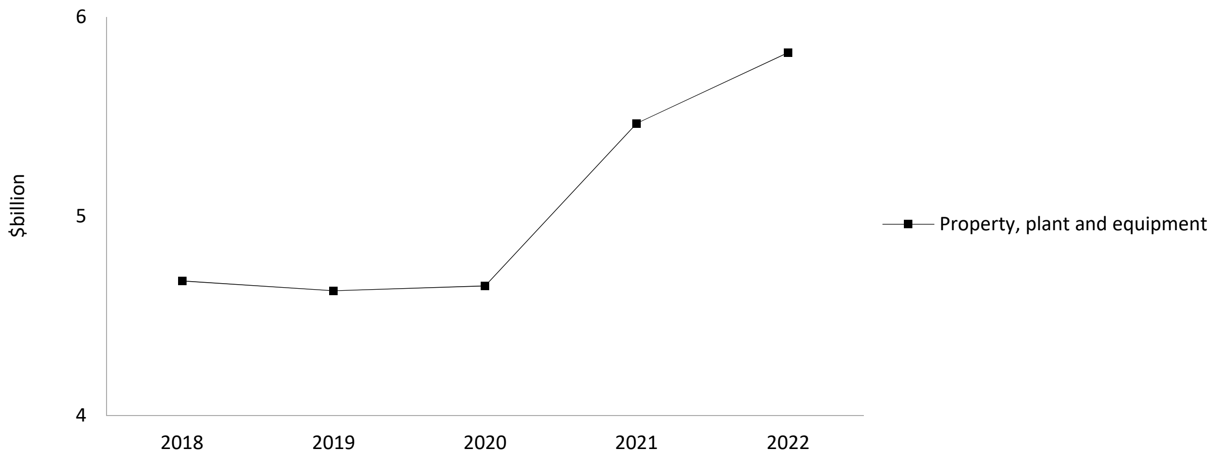
### Non-current assets

#### Property, plant and equipment increased by $355 million to $5.8 billion

Contributing to the increase of $355 million in the value of property, plant and equipment was:

- a $175 million increase in the value of land and buildings due to revaluations
- $364 million of capital works in progress
- $45 million transferred to intangible assets
- partially offset by depreciation of $145 million.

The following chart shows that Education's property, plant and equipment has grown significantly in the last two years due to the Sustainable Enrolment Growth and new schools capital works programs.




In 2021-22 Education completed $1 billion of capital projects that were then transferred to buildings and improvements. Note 5.1 of Education's financial report reconciles the significant elements impacting property, plant and equipment balances in 2022.

The rate of major capital works will decrease over the next few years, with the most significant upcoming projects being the new Morialta Secondary College and additional accommodation for the Adelaide Botanic High School.

#### Public private partnership

In December 2019, the State entered into a project deed for the design, construction and maintenance of two birth-to-year 12 schools under a PPP agreement. The two new schools, Aldinga Payinthi College and Riverbanks College B-12, were completed and capitalised in 2021-22.

As at 30 June 2022 the PPP is recognised as building and improvement assets of $210 million, to be depreciated over the life of the asset, and an associated financial liability of $224 million to be amortised over the term of the agreement.

The PPP contract also includes a right for use of equipment arrangement which, as at 30 June 2022, is recognised as an intangible asset of $101 million and an equipment service right liability of $102 million.

### Liabilities

Education's total liabilities were $1.5 billion at 30 June 2022 and mainly comprise:

- $787 million ($877 million) in employee benefits and related on-cost liabilities, making up 51% (57%) of total liabilities
- $393 million ($389 million) in financial liabilities costs relating to obligations under leases, mainly for facilities provided under PPP agreements, comprising 25% (25%) of total liabilities
- $118 million ($115 million) in the provision for workers compensation, which accounts for 8% (7%) of total liabilities
- $137 million ($32 million) in other liabilities. Other liabilities include a $119 million ($19 million) equipment service rights liability for the provision, maintenance and replacement of equipment under Education's PPP arrangements. The increase reflects new PPP arrangements in 2022.

## Administered items

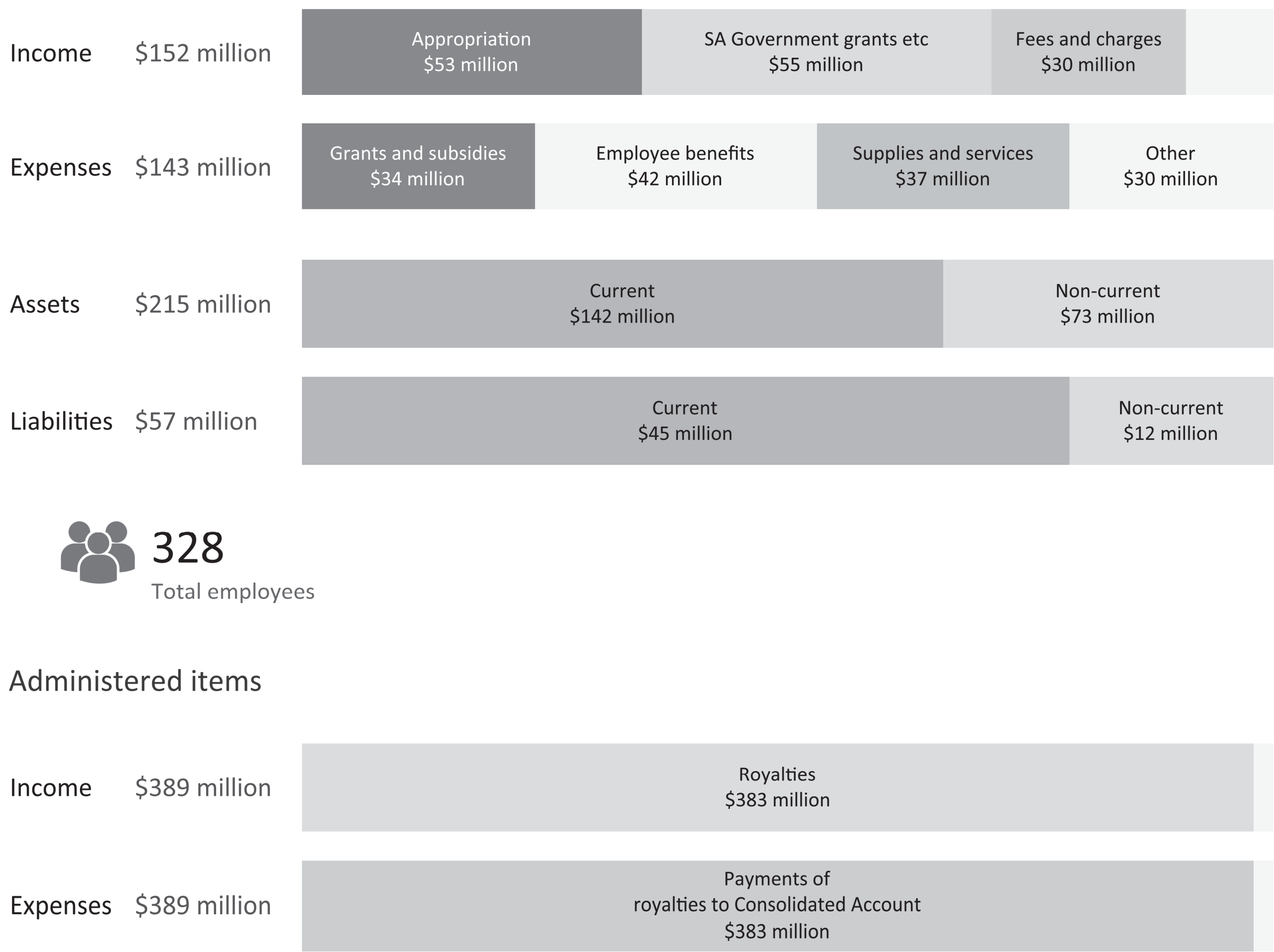
Education administers certain funds on behalf of the Minister for Education, Training and Skills. Funds are received from the Commonwealth and SA Governments and used mainly to pay:

- $1.6 billion ($1.2 billion) in transfers and grants to private schools
- $16 million ($17 million) in Commonwealth child care subsidies for family day care
- $17 million ($22 million) for an operating grant to the SACE Board of South Australia
- $15 million ($15 million) for student travel concessions on transport services to DIT.

The increase in transfers and grants to private schools for 2022 reflects that some funding for 2021 was paid to private schools in the 2020 financial year to help them manage the impact of the early stages of the COVID-19 pandemic.

# Department for Energy and Mining (DEM)

## Financial statistics




| | |
|---|---|
| **Significant events and transactions** | — DEM paid $25 million, which was recovered from TransGrid and ElectraNet, to the Consolidated Account. These amounts related to early setup costs associated with the electricity interconnector with New South Wales.<br>— DEM paid $10 million in subsidies under the Home Battery Scheme to help with the installation costs of home battery systems.<br>— DEM collected administered royalty revenue of $383 million and paid it to the Consolidated Account. |
| **Financial report opinion** | **Unmodified** |
| **Controls opinion findings** | DEM used its departmental special deposit account for transactions associated with the Office of Hydrogen Power South Australia. The approved purpose of the special deposit account restricts its use to only DEM's activities. |

| | |
|---|---|
| **Other audit findings** | No significant findings. |

# Functional responsibility

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

DEM's main functions include responsibility for the aim to deliver affordable, reliable and secure energy supplies and regulation of the mining and energy sectors.

# Scope of the audit

## Audit of the financial report

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

Specific areas of attention in 2021-22 included:

- expenditure, including grants and accounts payable
- employee benefits and payroll processing
- revenue from fees and charges
- administered royalty revenue
- property, plant and equipment
- cash management, including bank reconciliations
- general ledger
- DEM's implementation of the SA Public Sector Workforce Rejuvenation Scheme
- DEM's implementation of the new SA Government procurement framework and contract management requirements.

We reviewed the work of DEM's internal auditors in planning and conducting our audit.

## Controls opinion

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

# Audit findings

## Communicating our audit findings

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

## Controls opinion findings

### Special deposit account used for an unauthorised purpose

Special deposit accounts are established for a purpose approved by the Treasurer under the *Public Finance and Audit Act 1987*. Treasurer's Instruction 6 *Statutory Accounts and Banking* requires all agencies to ensure that special deposit accounts are only operated in line with their approved purpose, and any terms and conditions determined by the Treasurer.

DEM's operating account's purpose is to record all of its activities including operating and investing expenditures, revenue from various activities, injections of funds provided from the Consolidated Account and borrowings. This includes the recording of transactions that are consequent to machinery of government changes affecting DEM.

DEM's special deposit account has been used for expenditure of the Office of Hydrogen Power South Australia (OHPSA), which was established on 19 May 2022. This reflects that a separate deposit account was not established with OHPSA. Given the OHPSA is a separate entity from DEM, its activities should not be recorded in DEM's special deposit account, as that is outside the approved purpose of the account.

DEM responded that while it agreed with our finding, the use of its special deposit account in this instance was unavoidable given the timing of the proclamation of the OHPSA and the need to implement SA Government priorities. DEM advised us that a new special deposit account will be established for the OHPSA and that it will consider whether amendments to its own special deposit account's purpose should be discussed with the Department of Treasury and Finance.

# Interpretation and analysis of the financial report

### Highlights of the financial report

| | 2022 $million | 2021 $million |
|---|---|---|
| **Income** | | |
| Appropriation | 53 | 107 |
| SA Government grants, subsidies and transfers | 55 | 80 |
| Fees and charges | 30 | 24 |
| Recoveries | 3 | 64 |
| Other income | 11 | 14 |
| **Total income** | 152 | 289 |
| | | |
| **Expenses** | | |
| Grants and subsidies | 34 | 84 |
| Supplies and services | 37 | 43 |
| Employee benefits | 42 | 39 |
| Cash alignment transfers to Consolidated Account | 25 | - |
| Other expenses | 5 | 9 |
| **Total expenses** | 143 | 175 |
| **Net result** | 9 | 114 |
| | | |
| Net cash provided by (used in) operating activities | 56 | 83 |

| | 2022 $million | 2021 $million |
|---|---|---|
| **Assets** | | |
| Current assets | 142 | 137 |
| Non-current assets | 73 | 70 |
| **Total assets** | 215 | 207 |
| | | |
| **Liabilities** | | |
| Current liabilities | 45 | 43 |
| Non-current liabilities | 12 | 14 |
| **Total liabilities** | 57 | 57 |
| **Total equity** | 158 | 150 |

## Statement of Comprehensive Income

### Income

In 2021-22 DEM was predominantly funded by SA Government grants, subsidies and transfers and appropriations, receiving $55 million ($80 million) and $53 million ($107 million), respectively, which made up 71% (65%) of total income.

Appropriations decreased by $54 million (50%) in 2021-22, mainly due to the finalisation of early-stage setup costs associated with the electricity interconnector between South Australia and New South Wales in 2020-21. DEM received $37 million in appropriation to fund these project costs in 2020-21, with none required in 2021-22.

Revenue from SA Government grants, subsidies and transfers decreased by $25 million (31%) in 2021-22. This was mainly a result of reduced funding for the Home Battery Scheme received from the Green Industry Fund of $21 million in 2021-22, compared to $53 million in 2020-21. This $32 million reduction in funding was partially offset by an additional $7 million in funding for Jobs and Economic Growth Fund projects, including the Accelerated Discovery Initiative which is discussed under 'Jobs and Economic Growth Fund' below.

Recoveries income decreased substantially, with $3 million received in 2021-22 compared to $64 million in 2020-21. The decrease is due to:

- $52.7 million related to the reimbursement of early works costs incurred on the New South Wales interconnector, Project EnergyConnect, in 2020-21
- $9.4 million related to recoveries in 2020-21 of operating costs from the State Owned Generators Leasing Company Pty Ltd (SOGLC) for the continued operation of the state-owned emergency generators.

DEM also received $30 million ($24 million) in fees and charges revenue, making up 20% of total income. The main source of fees and charges income, accounting for $29 million ($23 million), is fees associated with mining and petroleum licences. The increase in 2021-22 is mainly associated with increased industry activity.

### Expenses

The main expense items for DEM in 2021-22 were employee benefits expenses of $42 million (29%) paid to 328 FTEs, supplies and services of $37 million (26%) and grants and subsidies of $34 million (24%).

In addition, DEM made cash alignment payments to the Consolidated Account of $25 million (17%), transferring amounts received in 2020-21 to reimburse DEM's costs for funding the early setup of the New South Wales interconnector.

## Employee benefits

Employee benefits expenses increased by $2.8 million to $42 million in 2021-22.

This increase was mainly due to $615,000 being paid to employees under the SA Public Sector Workforce Rejuvenation Scheme (including leave paid) and $300,000 in one-off payments of $1,000 to employees under the new public sector enterprise agreement. Other contributing factors were enterprise agreement increases and a slightly higher number of FTEs compared to 2020-21.

## Grants and subsidies

DEM manages a number of grant processes and other schemes designed to meet its objective of delivering affordable, reliable and secure energy supplies. The expenses for these schemes are mainly reported under grants and subsidies, with some amounts recorded in supplies and services.

### *Project EnergyConnect*

In 2018-19 an electricity interconnector between South Australia and New South Wales was proposed, with an estimated total cost of $2.28 billion.

The SA Government approved funding to TransGrid for early works up to a maximum of $60 million. DEM paid a total of $41 million between 2019-20 and 2020-21, which was then repaid to DEM following approval for the project to proceed.

Similarly, the SA Government also approved funding to ElectraNet up to a maximum of $12 million in 2020-21, which was repaid to DEM in June 2021.

### *Home Battery Scheme*

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

An additional $18 million in funding was approved by the SA Government in October 2020.

The subsidy was implemented in steps and since the introduction of the Home Battery Scheme:

- there were 1,302 installations with associated expenditure of $7 million in 2018-19
- following the transition to the step two subsidy there was a significant increase in subsidy applications, with 6,585 installations and expenditure of $38 million in 2019-20
- in 2020-21 there was a slight decrease in activity, with 6,108 installations and expenditure of $25 million

- in 2021-22 there was a continued decrease in activity, reflecting reducing subsidy amounts, with 4,721 installations and expenditure of $10 million.

In 2021-22, the SA Government announced that the Home Battery Scheme would be phased out. All subsidies have since been allocated and applications have closed. As at 30 June 2022, there were 3,213 installations committed and pending installation.

### *Renewable Technology Fund*

The Renewable Technology Fund provides grants to private sector entities to support the integration of renewable and demand management technologies in South Australia.

Grant expenditure incurred in 2021-22 was $1.3 million ($2.6 million), consisting of grants to recipients to support renewable resources in the energy market.

There are commitments for future projects totalling $45 million, including $23 million for a grid-connected battery facility and $12 million for the Hornsdale Power Reserve Expansion.

### *Virtual power plant*

The SA Government is working with Tesla through the Renewable Technology Fund to develop a network of up to 50,000 home solar photovoltaic and battery systems across South Australia, working together to form a virtual power plant.

The aims of the virtual power plant are to:

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

The virtual power plant commenced with two trial phases involving 1,100 South Australian Housing Trust properties receiving a home energy system comprising a solar photovoltaic system, battery and smart meter.

Phase 1 involved the installation of 100 home energy systems in South Australian Housing Trust properties. The Renewable Technology Fund provided $2 million of funding in 2017-18 to complete Phase 1. In Phase 2 another 1,000 home energy systems were installed.

DEM provided a loan in 2018-19 to support the virtual power plant, with an initial drawdown of $11 million. It provided a further $9 million in 2019-20 for a total of $20 million towards the project. The balance of the loan at 30 June 2022 is $17.7 million.

In 2020-21 the virtual power plant entered Phase 3A, which involved the installation of a further 3,000 units to bring the total to 4,100 homes. During the year, DEM executed an amendment to the loan contract that means it is now considered to be a concessional loan, resulting in a $2.2 million concessional lending discount that will be amortised over the life of the loan. The loan is recorded as a receivable for DEM, with the concessional lending discount included in other expenses.

### *Grid Scale Storage Fund*

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

Grant applications closed in February 2019 and two grant deeds have been executed:

- the Hornsdale Power Reserve Expansion, with a commitment for $15 million to be paid over five years. Grant payments commenced in 2020-21 and a total of $3.2 million has been paid to date
- the Virtual Power Plant Expansion, with a commitment for $10 million to be paid over five years. Grant payments commenced in 2020-21 and a total of $3.4 million has been paid to date.

As part of the 2022-23 State Budget, the SA Government announced that the Grid Scale Storage Fund would be discontinued from 2025-26. DEM will continue to fund the existing commitments outlined above.

### *Jobs and Economic Growth Fund*

The Jobs and Economic Growth Fund mainly consists of the Accelerated Discovery Initiative, which commenced in June 2019. This initiative aims to boost South Australia's resources industry by supporting exploration activities for the potential discovery of new mineral and groundwater resources. A total of $10 million over three years is available for approved co-funded exploration activities.

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

Successful applicants for round two were announced in May 2021. Due to the high level of interest in round one, funding for round two increased and a total of $4.5 million was awarded to 22 companies.

Successful applicants for round three were announced in June 2022, with $3.26 million in co-funding allocated to 17 project proposals. Total grant payments in 2021-22 were $3.8 million ($317,000).

## Supplies and services

Supplies and services decreased by $6 million or 14% in 2021-22 to $37 million.

Emergency generation and storage expenses, which make up $5 million (14%) of supplies and services expenses, decreased by $8 million in 2021-22. These payments were for the following activities.

### *Emergency generators and the Hornsdale Power Reserve*

DEM previously owned and operated nine generator assets (generators) as emergency generation capacity for the State. The generators transferred to the Treasurer and, subsequently, to the SOGLC on 30 June 2020.

Following the transfer, DEM continued to incur costs associated with the generators that were then reimbursed by the SOGLC. In 2021-22 DEM incurred site rehabilitation costs for the emergency generators amounting to $1.2 million.

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

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

The Hornsdale Power Reserve was expanded by 50% from 100MW to 150MW in March 2020. In 2021-22 DEM incurred running costs associated with the Reserve of $4 million.

## Statement of Financial Position

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

| | 2022 $million | 2021 $million |
|---|---|---|
| **Assets** | | |
| Cash | 133 | 84 |
| Property, plant and equipment | 55 | 52 |
| Receivables | 21 | 65 |
| **Liabilities** | | |
| Payables | 8 | 14 |
| Employee benefits | 13 | 14 |
| Security deposits | 28 | 19 |

Cash represents 62% (41%) of total assets and increased by $49 million to $133 million as at 30 June 2022. The increase in cash reflects recoveries from Project EnergyConnect and delays in spending on a range of grant and subsidy programs due to revised timelines, partially offset by purchases of property, plant and equipment of $8 million.

Property, plant and equipment, which represents 26% (25%) of total assets, increased by $3 million to $55 million as at 30 June 2022. The main increase related to acquisitions of $5 million, with $4 million recognised in capital works in progress associated with the Renewable Integration Central Power House Project for generator sets and smart meters in remote areas of the State. These additions were offset by depreciation expenses of $2 million.

Total receivables decreased by $44 million to $21 million as at 30 June 2022. The decrease mainly relates to recovery amounts for Project EnergyConnect of $41 million that were included at 30 June 2021 and have since been received. $16 million of receivables as at 30 June 2022 relates to the concessional loan associated with the virtual power plant.

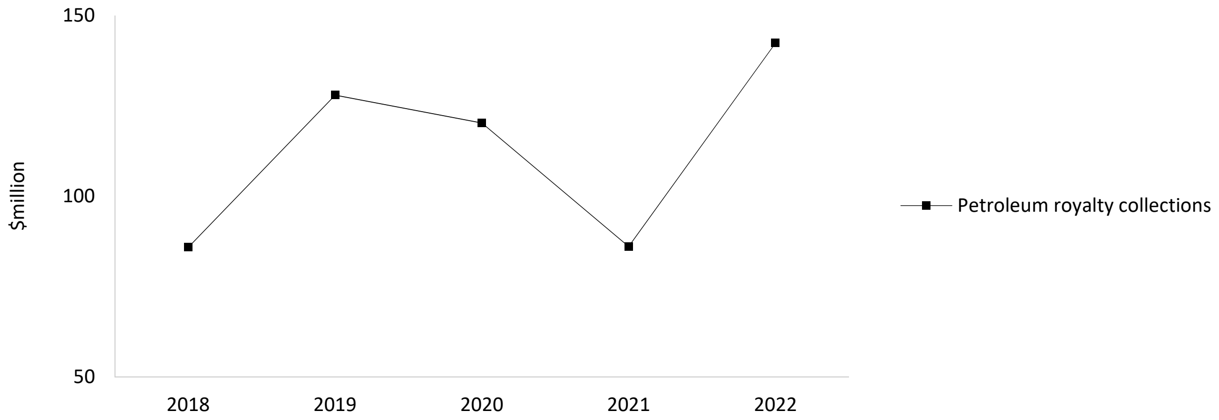
Payables mainly relate to creditors and accrued expenses of $6.7 million ($7.6 million), with $2.2 million ($1.7 million) of this amount for accrued grants payable where conditions have been met but amounts had not yet been paid.

Security deposits of $28 million ($19 million) are received by DEM to ensure that mining operators rehabilitate mine sites at the end of their operation. Further securities are held by bank guarantees and are reported under contingent assets, amounting to around $282 million in 2021-22.

## Administered items

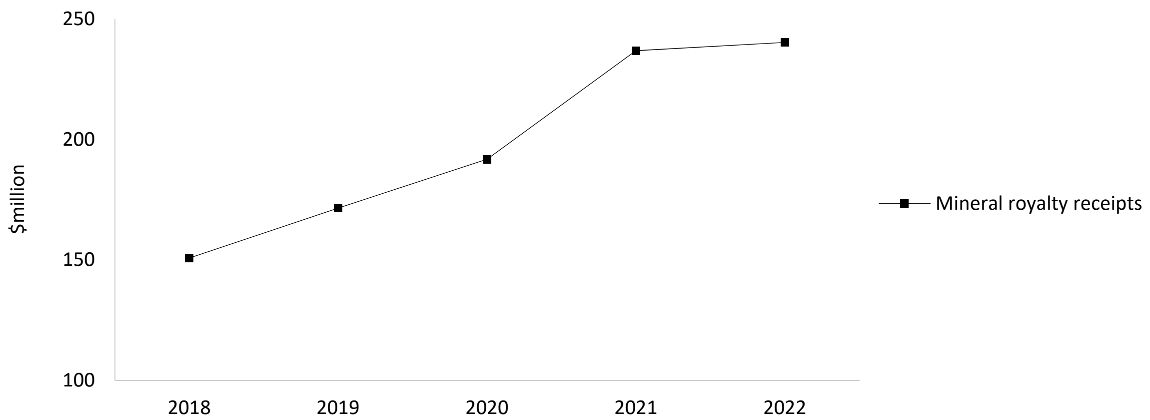
DEM is responsible for administering the collection of royalties levied on mineral and petroleum production on behalf of the SA Government. In 2021-22 it administered the collection of $383 million ($323 million) in royalties, which was paid to the Consolidated Account.

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




The chart above shows that petroleum royalty collections increased from 2017-18 to 2018-19 due to increases in petroleum production and pricing. In 2019-20 and 2020-21 the decrease in petroleum royalties was due to a fall in worldwide oil prices and the effects of the COVID-19 pandemic.

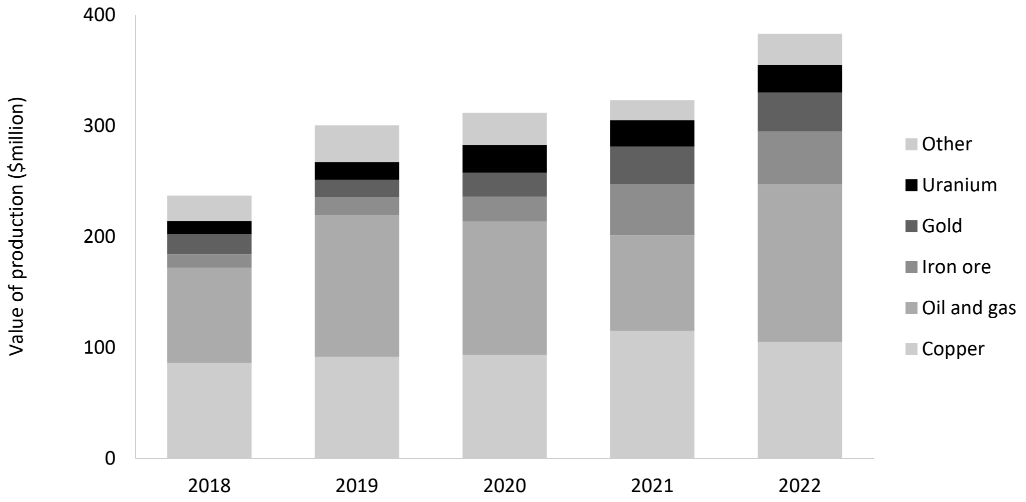
In 2021-22, however, petroleum royalties rose significantly due to the increase in worldwide oil prices.



Mineral royalty receipts have increased over the last five years, with increases in 2018-19 and 2019-20 due to an improvement in commodity prices, particularly for copper and gold in 2018-19 and gold, iron ore and uranium in 2019-20. There was also increased production in both years at Prominent Hill and Olympic Dam. The price for iron ore and copper has risen steadily in both 2020-21 and 2021-22. However, the 2021-22 result reflects a decrease in copper production at Olympic Dam

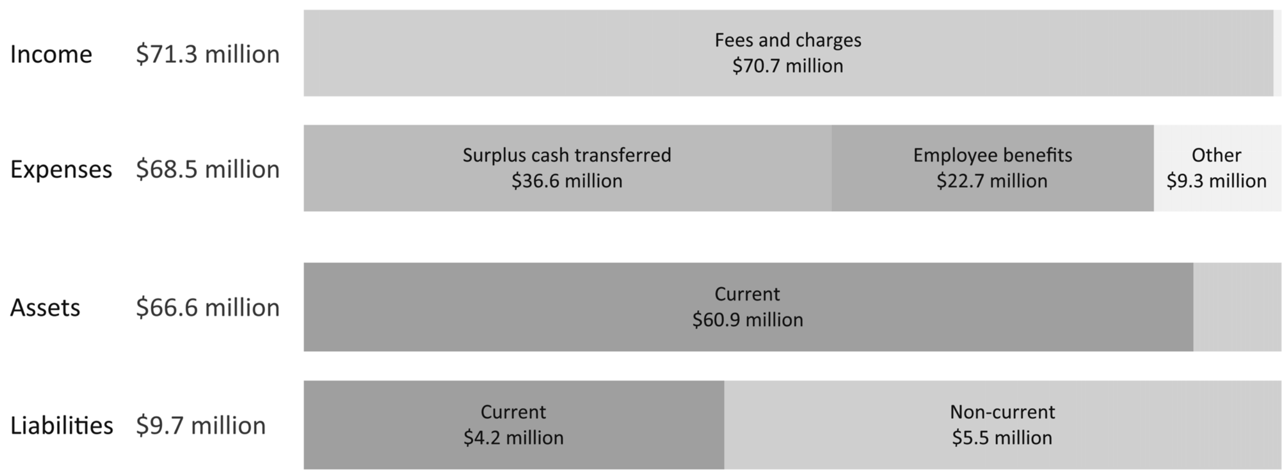
The chart below shows royalty revenue from various commodities over the past five years.

For 2021-22 oil and gas made up 37% of the total royalties, and copper provided a further 27%.



# Environment Protection Authority (EPA)

## Financial statistics




185
Total employees

**Significant events and transactions**

— The EPA collected $99.2 million in waste levies. $49.5 million was transferred to the Green Industry Fund (Green Industries SA). The balance of collected levies made up 70% of the EPA's income.

— Surplus cash of $36.6 million was returned to the SA Government under the cash alignment policy, with the EPA having returned $97.1 million over the past four years.

**Financial report opinion** **Unmodified**

## Functional responsibility

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

The EPA financial reporting entity comprises:

- a statutory authority with an appointed board established by the *Environment Protection Act 199*3 (EP Act)

- an administrative unit, also named the EPA, established under the *Public Sector Act 2009*
- the Environment Protection Fund established under the EP Act.

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

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

## Scope of the audit

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

Specific areas of attention in 2021-22 included:

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

## Audit findings

### Communicating our audit findings

We did not identify any audit findings that needed to be communicated to the EPA.

## Interpretation and analysis of the financial report

### Highlights of the financial report*

| | 2022<br>$million | 2021<br>$million |
|---|---|---|
| **Income** | | |
| Fees and charges | 71 | 69 |
| Appropriation | - | - |
| Other revenues | 1 | 2 |
| **Total income** | 71 | 71 |

| | 2022 $million | 2021 $million |
|---|---|---|
| **Expenses** | | |
| Employee benefits expenses | 23 | 22 |
| Surplus cash transferred to the Consolidated Account | 37 | 23 |
| Supplies and services | 8 | 7 |
| Other expenses | 1 | 2 |
| **Total expenses** | 69 | 55 |
| **Net result** | 3 | 16 |
| Net cash provided by (used in) operating activities | 3 | 18 |
| **Assets** | | |
| Current assets | 61 | 60 |
| Non-current assets | 6 | 5 |
| **Total assets** | 67 | 65 |
| **Liabilities** | | |
| Current liabilities | 4 | 4 |
| Non-current liabilities | 5 | 6 |
| **Total liabilities** | 10 | 11 |
| **Total equity** | 57 | 54 |

* Table may not add due to rounding.

## Statement of Comprehensive Income

### Income

Total income increased marginally to $71.3 million, with solid waste levies comprising 70% of this amount.

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

### Expenses

Total expenses increased by $13.8 million to $68.5 million, with $36.6 million in surplus cash paid to the Consolidated Account under the SA Government's cash alignment policy.

#### $97.1 million of surplus cash returned to the Consolidated Account over four years

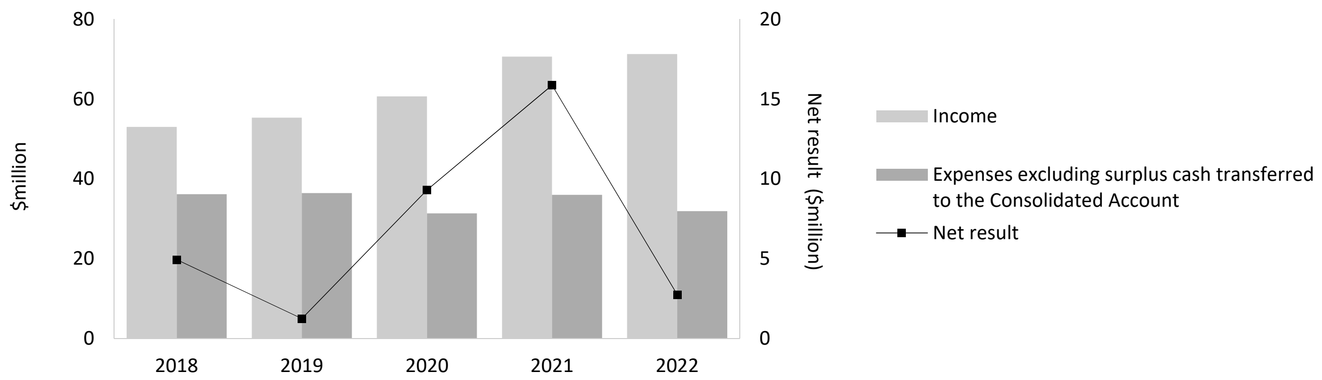
The EPA has achieved operating surpluses and generated surplus cash from operations for a number of years. It has returned $97.1 million to the Consolidated Account over the past four years under the cash alignment policy, as shown in the following table.

| | 2019 $million | 2020 $million | 2021 $million | 2022 $million |
|---|---|---|---|---|
| Surplus cash transferred to the Consolidated Account | 17.7 | 20.0 | 22.8 | 36.6 |

## Net result

The chart below shows the net result for the five years to 2022.

Over this period the EPA funded its operations entirely by raising fees and charges and did not require any appropriation funding from the Consolidated Account, except in 2019 when it received $2 million from the Treasurer's Contingency Fund as reimbursement for 24 targeted voluntary separation packages.




Since 2018 the EPA's annual income has significantly exceeded its underlying expenses, excluding surplus cash transferred to the Consolidated Account.

For the last two years the return of surplus cash was the EPA's largest expense item. The chart indicates that without significant changes to its income and expenses, the EPA will either accumulate cash or continue to be able to make significant returns of cash to the Consolidated Account.

# Statement of Financial Position

## Current assets – cash and cash equivalents

Cash and cash equivalents of $51.3 million ($49.9 million) represent 77% (77%) of total assets. These balances include the Environment Protection Fund deposit account of $14.7 million ($11.8 million).

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

## Current assets – receivables

Receivables remained consistent at $9.7 million ($9.8 million).

## Non-current assets

Property, plant and equipment make up 5% (4%) of total assets and largely comprise furniture and fittings, and plant and equipment.

Intangible assets make up 4% (4%) of total assets. The licencing administration management program (LAMP), environment licensing forms (ELF) and general environment information (GENI) systems are the dominant items.

### Administered items

The EPA's administered activities comprise solid waste levies collected and transferred to the Green Industry Fund.

The EPA receives solid waste levies from waste depots under section 113 of the EP Act. There was a small increase in solid waste levy rates of 2%, after increases of 2% from July 2021, 27% from January 2020, 15% from July 2018, 14% from July 2017, 9% from July 2016 and 23% from September 2016. Since August 2016 the solid waste levy rate in the metropolitan area has increased by 256%.

From 1 July 2021 the solid waste levy in the metropolitan area was $146 per tonne.

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

The EPA transferred $49 million ($48 million) to the Green Industry Fund during the year.

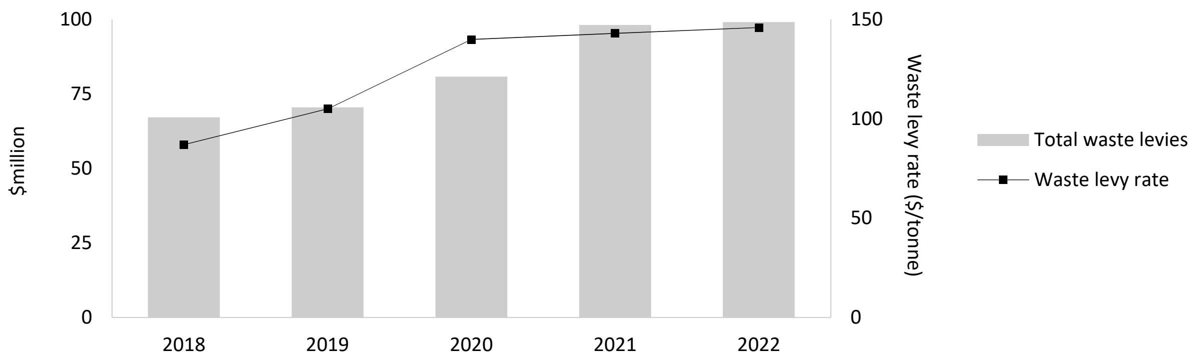
## Further commentary on operations

### Waste levies

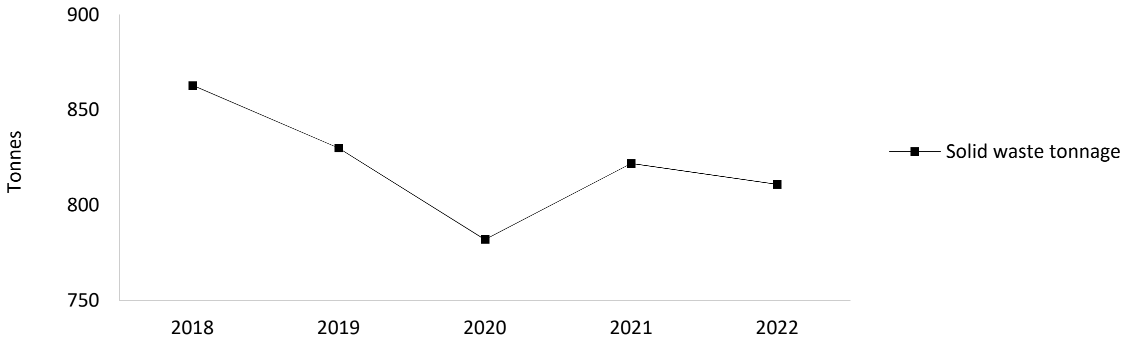
Waste levies collected by the EPA (controlled and administered) totalled $99.2 million ($98.2 million) (see notes 2.1 and 8.4 of the EPA's financial report).

There has been an increasing trend in solid waste levy rates and total waste levies received over the past five years.

The following chart shows the waste levies collected from 2018 to 2022.

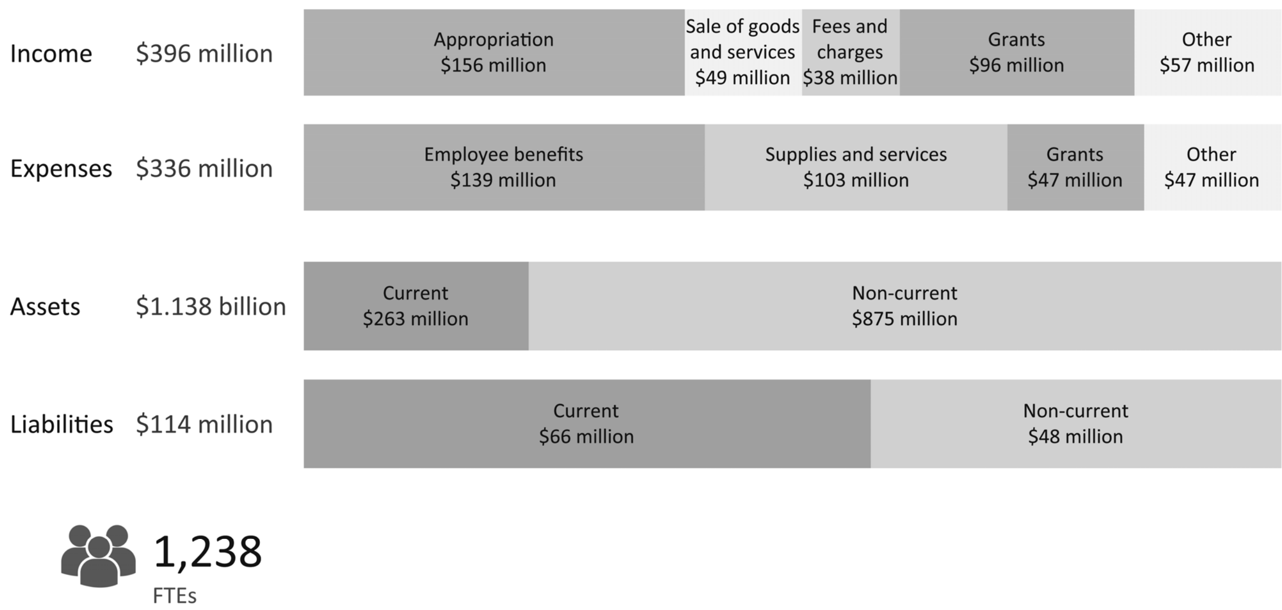


The chart below shows a decrease in solid waste tonnage reported by waste depots in 2022, following an increase in 2021. Solid waste tonnage reported by waste depots for 2021-22 was 810 tonnes (822 tonnes). The EPA advised us that the increase in 2021 reflected the increase in infrastructure and development activity being experienced due to the COVID-19 economic response. This data was provided to us by the EPA and is unaudited.

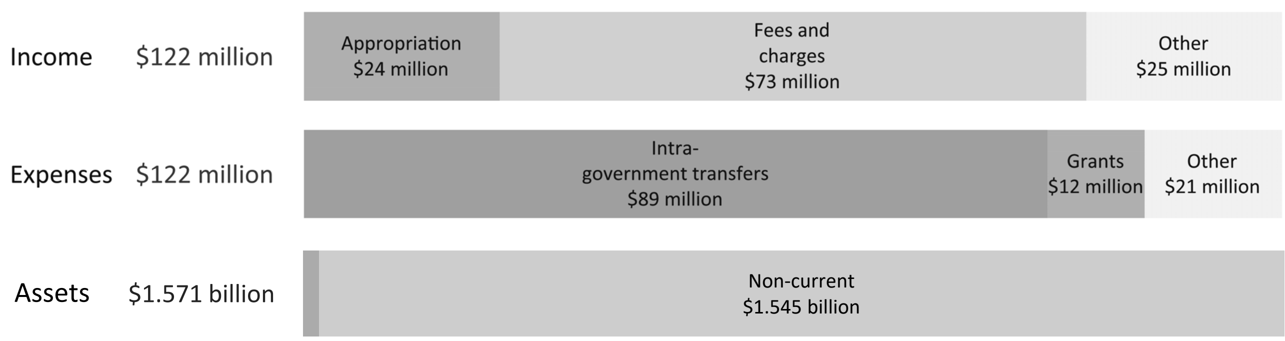


# Department for Environment and Water (DEW)

## Financial statistics




Administered items




## Significant events and transactions

- Capital expenditure totalled $51 million, largely relating to the Kangaroo Island Asset Reinstatement, Parks 2025, Minor Capital Works and Equipment and Wild South Coast Way projects.
- DEW received $28.6 million in insurance recoveries for its final claim from the South Australian Government Financing Authority (SAFA) for assets damaged in the 2020 Kangaroo Island bushfires, with $38.6 million received overall for this claim.
- DEW received $28 million from the Green Industry Fund for climate change initiatives. Most was spent on replenishing metropolitan beaches that needed sand from land-based quarries. Approximately 200,000 cubic metres of sand was delivered to West Beach between August 2021 and May 2022.

| | |
|---|---|
| | — The Murray-Darling Basin Authority (MDBA) joint operation revalued its infrastructure assets upwards, resulting in a $112 million revaluation increment recognised in DEW's administered financial statements. |
| **Financial report opinion** | **Unmodified** |
| **Controls opinion findings** | Problems with DEW's bank reconciliation process remain unresolved. |
| **Other audit findings** | We continue to raise matters relating to employee leave reconciliations. |

## Functional responsibility

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

DEW manages a complex portfolio of natural and built assets.

DEW, in partnership with others, is the custodian of South Australia's native vegetation and coasts, the River Murray and its precious ecosystems, our built heritage and botanic gardens, national parks (including visitors' experiences), and a deep repository of biodiversity, geospatial and climate data.

In partnership with other agencies, landscape boards, Green Adelaide and the community, DEW works to preserve and enhance the health and resilience of South Australia's landscapes (outside of the parks network). DEW's policy (and operational) mandate encompasses animal welfare, biodiversity and conservation, abundant and threatened native species, climate change adaptation and mitigation, water security and management, flood risk, fire management on land for which the Minister is responsible, administration of the Murray-Darling Basin Agreement and the implementation of the Basin Plan.

## Scope of the audit

### Audit of the financial report

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

Specific areas of audit attention in 2021-22 included:

- fees and charges revenue
- sale of goods and services revenue
- water license and levy revenue
- grant revenue
- accounts payable
- grants and subsides expenditure

- payroll
- cash
- fixed assets
- general ledger.

### Controls opinion

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

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

## Audit findings

### Communicating our audit findings

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

#### Controls opinion findings

##### Problems with DEW's bank reconciliation processes remain unresolved

The DEW bank account is used by 16 separate entities and 19 funds (bureau entities) established to support specific Commonwealth and SA Government programs.

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

For a number of years we have commented on the need for DEW to improve its control over the bank reconciliation process. Our review of its February 2022 reconciliation identified over 174,000 uncleared reconciling items, with a net variance of $425,000 between the bank account and the general ledger. The reconciling items comprise:

- 7,848 transactions recorded in the bank statement but not recorded in DEW's general ledger
- 166,530 transactions recorded in DEW's general ledger but not matched to the bank statement.

Some unresolved reconciling items dated back to 2016-17.

To ensure that the cash balances of DEW's bureau entities are not materially misstated, unmatched bank transactions are reviewed and categorised monthly according to the entity they relate to. The review performed for February 2022 identified that 73% of the reconciling items belong to DEW.

DEW advised us that the banking system issues causing these reconciling issues to reappear was resolved in March 2022. Historic reconciling items were cleared in the lead up to the preparation of DEW's financial reports for 2021-22. Another work group is focused on improving the data quality for ledger feeder systems.

Until all data quality issues are resolved, DEW continues to manually clear reconciling items from the bank reconciliation. As at 30 June 2022, uncleared reconciling items were reduced to less than 8,000 with a net variance of $155,000 between the bank account and the general ledger.

### Other audit findings

#### We continue to raise matters related to reviewing employee leave reports

Employee benefits expenses were $139 million in 2021-22 and the liability for leave entitlements at 30 June 2022 was $38.5 million.

##### *Leave reconciliations between TimeWise and CHRIS were not performed*

DEW uses the TimeWise system to monitor employee attendance and approve leave taken.

Each month DEW branches are required to reconcile leave transactions recorded in TimeWise to CHRIS payroll system leave records, ensuring that all leave taken is completely and accurately recorded in CHRIS.

Our review of DEW's central leave reconciliation register as at May 2022 identified that no leave reconciliations had been performed.

Delays in performing leave reconciliations increase the risk that leave taken by DEW employees is not recorded in the CHRIS payroll system, resulting in an overstatement of leave liabilities.

DEW responded that from August 2021 its human resources team encountered technical difficulties in generating the reports necessary to perform the leave reconciliations. The team engaged with DEW's ICT group to develop a solution and the issue was resolved in May 2022.

The human resources team is working to resolve the backlog of leave reconciliations resulting from this technical issue by September 2022.

In early-September 2022 DEW advised us that it had started reviewing outstanding leave reconciliations and had identified 909 hours of annual leave not recorded in the CHRIS payroll system.

## Interpretation and analysis of the financial report

### Highlights of the financial report*

| | 2022<br>$million | 2021<br>$million |
|---|---:|---:|
| **Income** | | |
| Appropriation | 156 | 144 |
| Sales of goods and services | 49 | 49 |
| Commonwealth grants and funding | 41 | 28 |
| SA Government grants, subsidies and transfers | 55 | 28 |
| Fees and charges | 38 | 36 |
| Resources received free of charge | 6 | 6 |
| Other income | 51 | 21 |
| **Total income** | 396 | 312 |

| | 2022 $million | 2021 $million |
|---|---|---|
| **Expenses** | | |
| Employee benefits expenses | 139 | 134 |
| Supplies and services | 103 | 88 |
| Grants and subsidies | 47 | 32 |
| Depreciation and amortisation expense | 35 | 31 |
| Assets transferred for consideration | 8 | 1 |
| Other expenses | 3 | 1 |
| **Total expenses** | 336 | 287 |
| **Net result** | 60 | 25 |
| | | |
| **Other comprehensive income** | 6 | (1) |
| **Total comprehensive income** | 66 | 24 |
| | | |
| Net cash provided by (used in) operating activities | 70 | 55 |
| Net cash provided by (used in) investing activities | (50) | (27) |
| | | |
| **Assets** | | |
| Current assets | 263 | 220 |
| Non-current assets | 876 | 848 |
| **Total assets** | 1,138 | 1,068 |
| | | |
| **Liabilities** | | |
| Current liabilities | 66 | 63 |
| Non-current liabilities | 48 | 52 |
| **Total liabilities** | 114 | 114 |
| **Total equity** | 1,025 | 953 |

* Table may not add due to rounding.

## Statement of Comprehensive Income

### Income

Total income increased by $83.8 million. The major items causing this change were:

- a $30.5 million increase in other income, largely attributable to an increase in insurance recoveries of $21.1 million for the final settlement from SAFA for the 2020 Kangaroo Island bushfires. This brings the total settlement amount to $38.6 million
- a $26.6 million increase in SA Government grants, subsidies and transfers. This is due mainly to an increase in transfers from the Green Industry Fund of $19 million for a climate change initiatives and a $7 million increase in community emergency services funding. Funding received from the Green Industry Fund was used largely for sand replenishment activities along metropolitan beaches
- Commonwealth-sourced grants and funding increased by $26.6 million, largely attributable to a $5.7 million grant for COVID-19 relief and recovery in World and National Heritage places, and a $5 million increase in grants for the Flows for the Future project
- an $11.8 million increase in appropriation from the Consolidated Account.

### Expenses

Total expenses increased by $48.8 million. The major items causing this change were:

- a $15.8 million increase in supplies and services, due mainly to a $16 million increase in sand replenishment activities along metropolitan beaches
- a $15.4 million increase in grants and subsidies, largely attributable to a $4.5 million increase in contributions to the MDBA and a $6 million increase in Heritage Grants
- a $6.2 million increase in assets transferred for $0 consideration. This relates to land that was declared Crown land under the *Crown Land Management Act 2009* and transferred to the administered financial statements
- an increase of $5.9 million in employee benefits expenses, due mainly to enterprise bargaining agreement increases, targeted voluntary separation packages paid, rejuvenation packages paid and an increase in the workers compensation provision
- a $4 million increase in depreciation, due largely to significant asset additions over recent years.

## Statement of Financial Position

DEW's assets comprise two main items: property, plant and equipment and cash.

### Non-current assets – property, plant and equipment

Property, plant and equipment is $869 million and represents 76% of total assets.

DEW's property, plant and equipment holdings are diverse. Land valued at $376 million comprises national, conservation and recreation parks, and wilderness protection areas and reserves. Related park infrastructure is valued at $28 million, while roads, tracks and trails total $28 million. DEW controls a range of other infrastructure assets valued at $206 million, which includes groundwater monitoring wells, regulators and embankments, sand pumping infrastructure, surface water monitoring assets and waste disposal stations. DEW is also responsible for the Patawalonga seawater circulation system, valued at $38 million.

Property, plant and equipment increased by $28.3 million due mainly to asset additions of $50.7 million, the initial recognition of assets (mainly roads, tracks and trails) identified during a stocktake of $8.5 million, the transfer of land for national parks of $5.6 million and valuation increments of $5.7 million, all partially offset by assets transferred for $0 consideration of $7.7 million and depreciation of $34.6 million.

Asset additions primarily relate to capital works associated with the Kangaroo Island fire recovery, Parks 2025 and the Wild South Coast Way project.

Notes 5.1 and 5.2 of DEW's financial report provide an analysis of the composition of and movements in this item.

### Current assets – cash

Cash of $221.3 million ($203.7 million) represents 84% (93%) of total current assets, and 19% (19%) of total assets. DEW's cash at 30 June 2022 comprised operating deposit accounts of $83 million ($85.4 million) and an Accrual Appropriation Excess Funds Account of $138.1 million ($118 million). Access to the latter account is subject to the Treasurer's/Under Treasurer's approval.

### Current assets – receivables

Receivables of $39.6 million ($14.5 million) represent 15% (7%) of total current assets. DEW's receivables at 30 June 2022 mainly comprised a $28.6 million receivable from SAFA for the final insurance settlement for the 2020 bushfires.

### Liabilities

Total liabilities decreased marginally to $114 million, but reflected the following movements:

- a $6.6 million decrease in employee benefits liability, largely attributable to the decrease in the long service leave liability. That decrease was driven by the increase in the discount rate used to measure the liability from 1.25% to 3.5%
- a $2.4 million decrease in other liabilities, due mainly to the annual reduction in DEW's accommodation incentive
- an increase of $3.6 million in payables, reflecting the timing of payments
- a $2.8 million increase in the provision for workers compensation following an actuarial valuation.

## Administered items

DEW's administered activities include:

- Crown lands
- Minister's other payments
- the Natural Resources Management Fund
- the Landscape Administration Fund
- the Landscape Priorities Fund
- the Water for Fodder program
- the South Australian Drought Resilience Fund
- the State's joint interest in the MDBA.

### Crown lands

DEW administers Crown land on behalf of the Minister. All transactions associated with Crown land are recorded in the administered financial statements.

### Minister's other payments

DEW received $18.9 million ($18.5 million) in appropriation revenue from the SA Government, which is then distributed to other agencies through grants and subsidies approved by the Minister. DEW administers the receipt and distribution of this money.

### Landscape Administration Fund

The Landscape Administration Fund was established under the *Landscape South Australia Act 2019* (Landscape Act) to receive and disburse fees, land levies, water levies and other money authorised by the Landscape Act.

In 2021-22, $73 million ($69.7 million) in fees and levies were raised on behalf of Landscape Boards. DEW also received $4.6 million ($8.1 million) in appropriation revenues from government for transfer to the Landscape Boards.

Payments to Landscape Boards from the Landscape Administration Fund during the year were $73.9 million ($76.6 million). The Landscape Act requires the Minister to distribute funds collected to the Landscape Boards based on receipts.

## Landscape Priorities Fund

The Landscape Priorities Fund was established under the Landscape Act and receives annual revenue from the Green Adelaide Board. The contribution from the Green Adelaide Board is determined under the Landscape Act and is a gazetted percentage of the total land and water levies received by the Green Adelaide Board in a financial year.

Under the Landscape Act, the Minister may apply any part of the Landscape Priorities Fund:

- in addressing any priority for managing, improving or enhancing the State's landscape or natural resources, whether the priority is of sub-regional, regional, cross regional or statewide significance
- in making any other payment required or authorised by or under the Landscape Act or any other law.

In 2021-22, $4.4 million ($4.3 million) was paid into the Landscape Priorities Fund by the Green Adelaide Board, while $2.4 million ($3.1 million) was granted from the Fund to regional Landscape Boards following an application process approved by the Minister.

## Water for Fodder program

The Water for Fodder program formed part of the Commonwealth Government's drought response package to improve the resilience of farmers and rural communities and support drought-affected farmers. An intergovernmental agreement between the Commonwealth and SA Governments provided for the production of up to 100 gigalitres of water from the Adelaide Desalination Plant in two rounds, and the transfer of water allocations from entitlements held by the State to eligible irrigators in the Southern Murray-Darling Basin.

Commonwealth revenue of $1.2 million ($2 million) received under the agreement for Round 1 was disbursed by the Minister in relation to milestone outputs under the agreement.

Following a review of Round 1 and consultation with South Australia, the Commonwealth announced that there will not be a second round of the Water for Fodder program. Improved seasonal conditions across the Murray-Darling Basin reduced the need for Round 2 as an emergency drought response.

## South Australian Drought Resilience Fund

The South Australian Drought Resilience Fund was established under the Commonwealth's Water for Fodder program. The Fund received revenue from Southern Murray-Darling Basin irrigators in exchange for the transfer of South Australian water allocations in line with the Water for Fodder program. The Fund will be applied by the Minister towards programs and measures to build the resilience of the River Murray water users and environment to withstand drought and longer term climate change, or to improve the adequacy, security and quality of the State's water supply from the River Murray. As Round 2 of the Water for Fodder program did not go ahead, no funds were received at 30 June 2022.

## Murray-Darling Basin Authority

The MDBA is established under the *Water Act 2007* (Cth). It assumed all functions of the former Murray-Darling Basin Commission in December 2008.

DEW has recognised the State's joint interest in the MDBA infrastructure assets and water rights as an interest in a joint operation in its administered financial statements. The State's interest in the arrangement is 26.67%.

The recognition of MDBA infrastructure assets and water rights is in line with the following agreements signed by the Commonwealth, NSW, Vic, SA, ACT and the MDBA in June 2009:

- asset agreement for River Murray Operations assets
- agreement on addressing water over-allocation and achieving environmental objectives in the Murray-Darling Basin – control and management of Living Murray assets.

The State's interest in the arrangement was valued at $1.007 billion ($901 million).

The State's shared management of the Murray-Darling Basin is a continuation of arrangements first established many years ago. Funding arrangements for the now defunct Murray-Darling Basin Commission were established as far back as 1992.

The MDBA undertakes activities that support the sustainable and integrated management of the water resources in the Basin, as outlined in the Murray-Darling Basin Agreement.

The relevant assets are held by two separate reporting entities (joint operations) – the River Murray Operations for all physical assets and the Living Murray Initiative for intangibles and water licences. The participating jurisdictions each hold a proportional interest in the net assets of each joint operation.

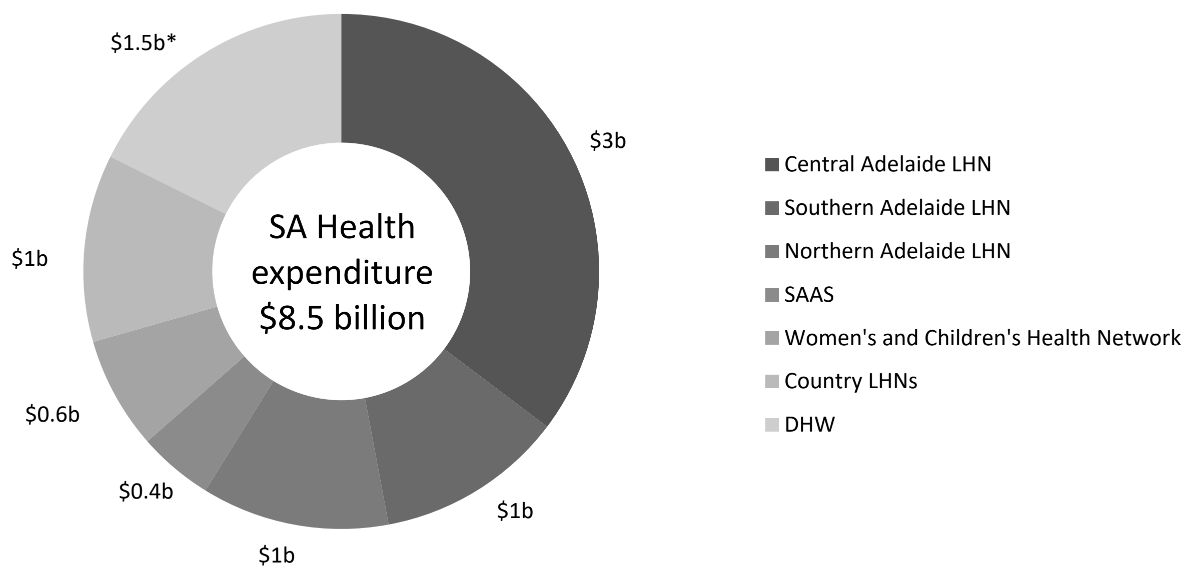
While the infrastructure assets used to support the MDBA's activities are jointly owned and controlled by the asset controlling governments, responsibility for the ongoing operation and maintenance of the assets is with the MDBA.

Under the River Murray Operations and Living Murray Initiative asset agreements, each asset controlling government is obliged to provide funding to the MDBA for the management of the assets. In 2021-22 DEW paid $24.2 million to the MDBA.

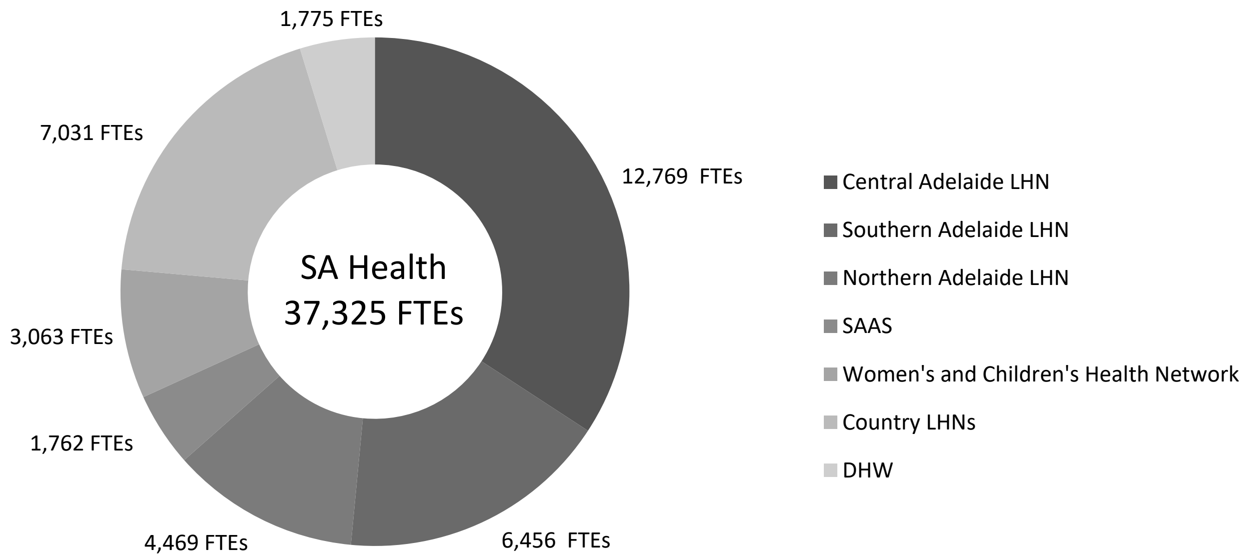
# Health sector overview

Collectively the Department for Health and Wellbeing (DHW), the local health networks (LHNs) and the SA Ambulance Service Inc (SAAS) are known as SA Health or the Health sector. Wellbeing SA and the Commission for Excellence and Innovation in Health are attached offices to DHW and are not included as part of SA Health.

The charts below show the breakdown by SA Health entity of the total expenditure and FTEs for SA Health.




* DHW expenditure excludes grants and the cost of goods sold to SA Health entities.




## Structure of this section

This Health sector overview discusses the following matters:

- overview of governance arrangements
- impact of the COVID-19 pandemic
- financial sustainability and budget
- Independent Commissioner Against Corruption (ICAC) 2019 report
- SA Health staffing and patient activity data – unaudited.

# Overview of governance arrangements

## Governance and accountability

The *Health Care Act 2008* (HC Act) provides for the governance, management and administration of the South Australian public health system. It sets out the role, functions and powers of the Minister, the Chief Executive (CE) of DHW, the Chief Executive Officer (CEO) of SAAS and the LHNs governing boards and their CEOs. SAAS is a body corporate and has no governing board.

The governance and responsibility for delivering public health services is devolved to the LHN governing boards and the CEO of SAAS. They have full responsibility for providing health services in line with the HC Act and have performance agreements with the CE of DHW.

The *Health Care (Governance) Amendment Act 2021* amended the HC Act from 23 August 2021. It makes amendments to the functions of the CE of DHW to reflect DHW's role as system leader, formalises provisions for service agreements, clarifies workforce responsibilities and makes minor amendments to reflect the governance and accountability arrangements.

## Role of governing boards

LHN governing boards are responsible for the overall governance and oversight of local health service delivery by the LHN. Each governing board's role includes the following financial accountability functions:

- ensure effective, efficient and economical operations
- manage its budget and ensure its performance targets are met
- provide strategic oversight of and monitor the financial and operational performance against the performance measures in the service agreement with the CE of DHW.

Each LHN CEO is accountable to, and subject to the direction of, the governing board for managing the operations and affairs of the LHN.

Each year service agreements between LHNs and the CE of DHW set out the relationship, performance expectations and funding arrangements. Service agreements are public documents available on the SA Health website.

## Role of the Department for Health and Wellbeing

DHW has the role of 'system leader' and focuses on setting strategic direction and statewide policy. It monitors and drives the performance of the public health system through high-level system direction and performance management. DHW supports the Minister for Health and Wellbeing and the CE of DHW in exercising their statutory duties and responsibilities.

A number of functions remain under the control of the CE of DHW, including being the employing authority under the HC Act for all SA Health staff (excluding SA Pathology).

### The Minister for Health and Wellbeing

The Minister for Health and Wellbeing is responsible for setting reform agendas and priorities. SA Health entities must comply with directions from the Minister for Health and Wellbeing and the CE of DHW.

### Frameworks supporting the governance and accountability changes

To support devolving governance and responsibility for delivering public health services to the LHN governing boards and CEO of SAAS, significant changes to SA Health's governance and accountability frameworks have been made in recent years.

The main elements of the governance reforms supporting the role of DHW as system leader, and the LHNs and SAAS as providing local leadership and service delivery, include:

- a Charter of Responsibility
- the SA Health Performance Framework
- the Corporate Governance Framework
- the Commissioning Principles and Priorities
- the Commissioning Framework
- a charter for LHN governing boards
- the service agreements
- the performance information dashboards.

### Independent review of the *Health Care Act 2008*

In the second half of 2021, Ms Fran Thorn performed an independent review required by the HC Act.

The review focused on the amendments made to the HC Act in 2019 and 2021 to decentralise decision-making by establishing LHN governing boards and revising DHW's role to system leader.

Ms Thorn delivered a report on her findings to the Minister for Health and Wellbeing on 28 December 2021. The report made seven recommendations.

Two recommendations related to the SA Government needing to continue to support the devolved model and reviewing the model every five to 10 years, or when warranted.

The other five recommendations related to DHW needing to:

- lead a collaborative process to design the long-term end state of the devolved model
- lead a collaborative process to define a road map and plan to ensure the end state is delivered
- complete the implementation of the devolved model by:
  - ensuring all delegations are contemporary, clear and understood by all stakeholders
  - finalising the clinical services plan, capital plan, three-year commissioning intentions and operational plan
  - fully implementing the annual cycle and timelines for budgeting, commissioning, service level agreements and performance management
  - ensuring LHN CEOs have a single point of interface at the Deputy Chief Executive level in DHW

  - enhancing the systems and centralised functions provided to the LHNs
- renew focus on three key areas:
  - completing its own transformation to system leader
  - pursuing operational improvement
  - pursuing opportunities to enhance governing board roles
- continue to evolve the SA Health Performance Framework, particularly indicators and measures.

The SA Government accepted all of the recommendations.

### Attached offices

Proclamations on 6 January 2020 under the *Public Sector Act 2009* established Wellbeing SA (WBSA) and the Commission on Excellence and Innovation in Health (CEIH) as attached offices to DHW.

#### Wellbeing SA

WBSA has a long-term vision to create a balanced health and wellbeing system that supports improved physical, mental and social wellbeing for all South Australians.

WBSA had expenditure of $95 million ($63 million) and 142 FTEs (111 FTEs) in 2021-22.

On 26 March 2022 SALHN transferred the Metropolitan Referral Unit to WBSA, which included the transfer of 32 employees.

#### Commission on Excellence and Innovation in Health

The CEIH provides leadership and advice within SA Government on clinical excellence and innovation with a focus on maximising health outcomes for patients, improving care and safety, monitoring performance, championing evidence-based practice and clinical innovation, and supporting collaboration.

CEIH had, unaudited at the time of this Report, expenditure of $9.9 million ($5 million) and 39 FTEs (24 FTEs) in 2021-22.

## Impact of COVID-19

### SA Health's role

On 15 March 2020, the CE of DHW declared a public health emergency under the *South Australian Public Health Act 2011*.

On 22 March 2020, the Governor declared a major emergency under the *Emergency Management* Act 2004. This major emergency declaration was extended numerous times, was in effect throughout 2020-21 and ended on 24 May 2022. SA Health is the control agency for human disease under the State Emergency Management Plan.

On 24 May 2022 amendments were enacted under the *South Australian Public Health Act 2011* to allow the COVID-19 response to continue without it being declared a major emergency.

## Response to COVID-19

SA Health's response to COVID-19 was led by DHW and included:

- the COVID-19 pandemic vaccination program
- quarantine and isolation arrangements at home and group quarantine
- COVID-19 management including compliance, contact tracing, surveillance and testing, border restrictions and exemptions
- acute system readiness, including at LHNs and private hospitals
- providing enablers including personal protective equipment, rapid antigen tests (RATs), information technology and pharmacy
- planning for vulnerable groups.

On 23 November 2021 border restrictions were lifted and SA Health's focus shifted from suppressing COVID-19 to living with it. This impacted the SA Health system because, as the number of COVID-19 positive cases rose, so did the number of hospitalisations and the number of SA Health staff unable to work due to being infected with COVID-19.

SA Health has double vaccinated 93.9% of the eligible South Australian population above 12 years of age and triple vaccinated 73.1% of the eligible South Australian population. The figure below shows some of the impacts of COVID-19 between 2021 and 2022.

**South Australian COVID-19 statistics as at 30 June 2022***

| 2021 | 2022 |
|---|---|
| **142** Total cases | **575,988** Total cases |
| **4** Total deaths | **527** Total deaths |
| **233,382** Total vaccine doses administered by SA Health | **1,646,951** Total vaccine doses administered by SA Health |
| **1,405,732** Total PCR tests conducted | **3,553,645** Total PCR tests conducted |

* Data has been sourced from SA Health and is unaudited.

As part of the COVID-19 response, SA Health also provided free RATs to close contacts within South Australia free of charge.

**Rapid antigen tests provided to the public as at 30 June 2022***

**1,427,208**
Total RATs provided to the public free of charge

* Data has been sourced from SA Health and is unaudited. It does not include RATs provided free of charge to concession card holders and pensioners.

## Commonwealth funding to support COVID-19 pandemic response

In March 2020, the States and Territories entered into the National Partnership on COVID-19 Response agreement with the Commonwealth Government. The objective was to provide financial assistance for the additional costs incurred by health services in responding to COVID-19.

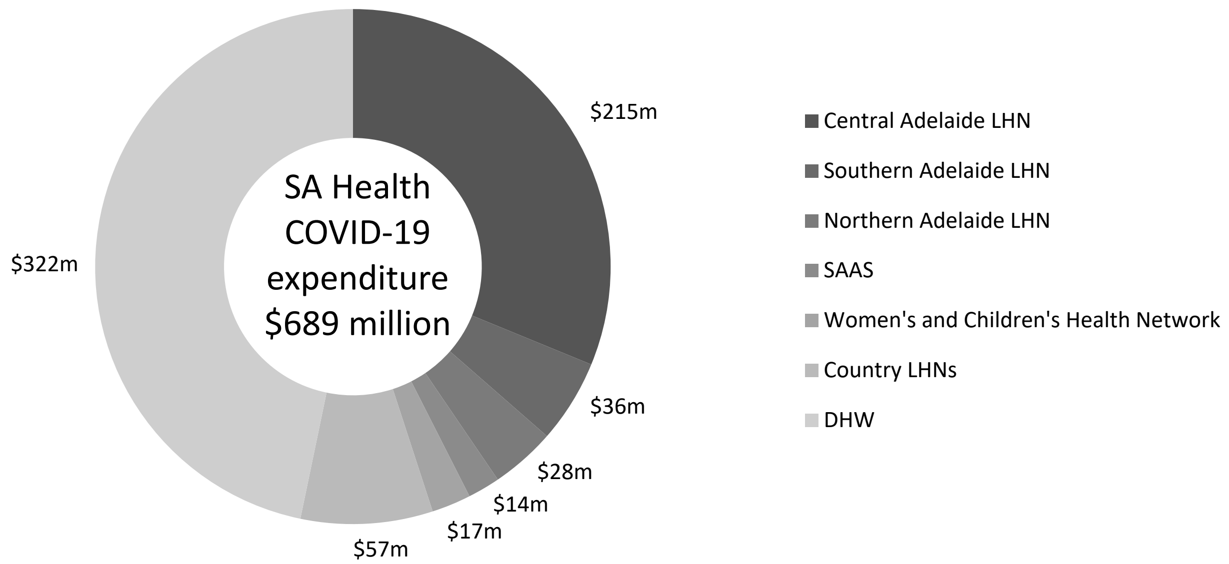
In 2021-22, DHW received a total of $255.8 million ($63.2 million) from the Commonwealth Government for hospital services, public health and private hospital viability, comprising:

- $34.7 million ($20 million) in hospital services funding – a 50% contribution of the national efficient price for costs incurred for the testing and treatment of COVID-19 patients and suspected cases
- $222.3 million ($103.6 million) in public health funding – a 50% contribution of costs incurred for COVID-19 activities undertaken by the public health system and a 100% contribution of costs incurred for COVID-19 activities undertaken in the residential aged care sector. This includes vaccinations and RATs
- offset by $1.2 million ($60.4 million) in unused Private Hospital Financial Viability grants received in the prior years, reducing the Commonwealth payments for the current year.

The funding is received for activity in the prior year, so the amount received in 2021-22 related to COVID-19 activity in 2020-21. National Partnership on COVID-19 Response revenue is disclosed in note 4 of DHW's financial report.

## Cost incurred by SA Health in responding to COVID-19

The material costs directly associated with COVID-19 totalled $689 million ($335 million) for SA Health, as reported in note 1.7 of DHW's financial report. The chart below shows where this expenditure occurred across SA Health.




Most of SA Health's COVID-19 costs were for:

- $230 million ($97 million) of additional employee benefits expenses

- $453 million ($217 million) of additional supplies and services, which included:
  - $103 million ($38 million) for the supply of drugs, medical supplies and testing
  - $54 million ($16 million) in contractors and agency staff
  - $72 million ($60 million) for hotel quarantine accommodation
  - $45 million ($40 million) in security
  - $28 million ($6 million) in housekeeping
  - $23 million ($5 million) in contractors.

In addition, SA Health's inventory increased by $5 million as at 30 June 2022 compared to the previous year, mainly due to the increase in stocks held of personal protective equipment and RATs.

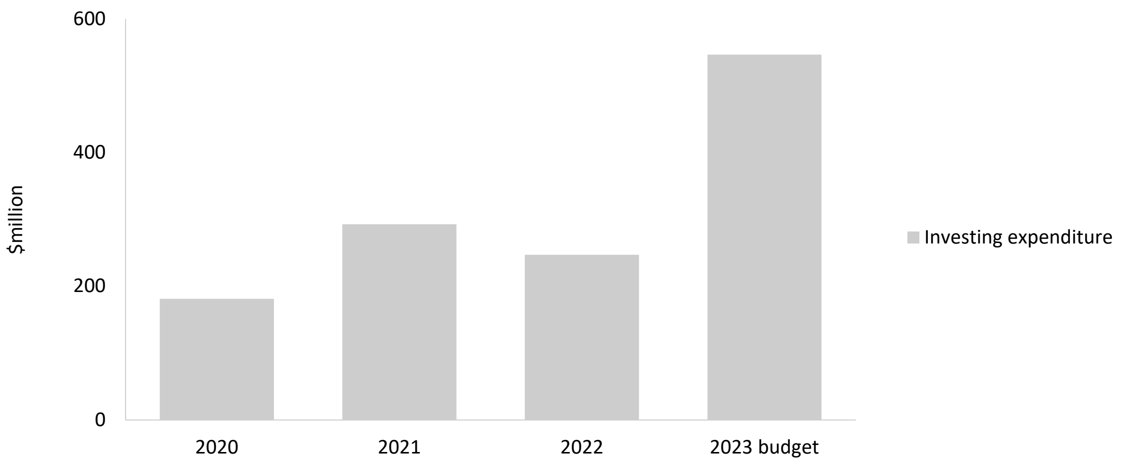
COVID-19 vaccines (including associated medical supplies) and some RATs are not included in inventory as they were received free of charge from the Commonwealth.

## Financial sustainability and budget

### State Budget

The 2022-23 State Budget confirmed the SA Government's commitment for SA Health to achieve the national efficient price for public hospital services and also included additional funding for capital works and salaries and wages to improve services.

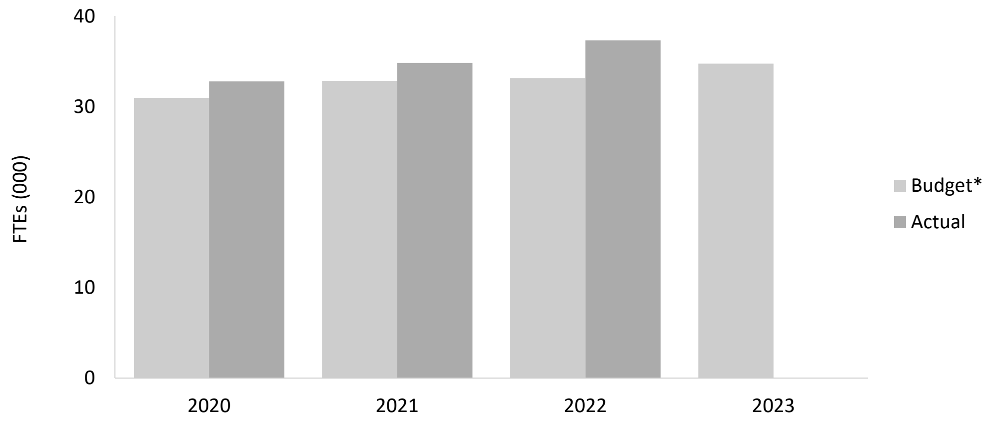
Capital works in SA Health will grow over the next few years due to the increase in new capital projects outlined in the 2022-23 State Budget.




Budgeted increases in salaries and wages for increased FTEs will not occur until after the new capital works are completed, therefore there is no significant increase in 2022-23 budgeted FTE numbers.

Although, as can be seen in the chart below, the number of actual FTEs has well exceeded the original FTEs budgeted for the last three years, this is mainly due to the original budget not accounting for the additional FTEs required for the COVID-19 response.

In 2022 the number of FTEs over the original FTE budget was about 4,000 FTEs. Unaudited data provided by SA Health identified that 1,367 FTEs were dedicated COVID-19 FTEs.




* Budget data was sourced from the State Budget papers and is unaudited.

## Performance management

SA Health's Performance Framework sets out how DHW monitors, assesses and responds to the performance of public sector health services in South Australia. It provides for increasingly intensive levels of monitoring and, where necessary, intervention to ensure issues relating to poor performance are addressed.

DHW has also established a Health Performance Community of Practice, a forum for DHW and health services managers to share information and collaborate. The forum is intended to provide DHW with a better understanding of the underlying factors contributing to performance issues, or barriers, and how the system can work collectively to improve performance.

Service agreements, intended to be binding, between the LHNs/SAAS and the Chief Executive of DHW set out a mutual understanding of the expectations and performance deliverables for each financial year.

## Summary of 2021-22 net result and budget management

Total expenses in 2021-22 were $8.5 billion, an increase of $1.2 billion (16%) over 2020-21. Total COVID-19 expenses were $689 million, an increase of $354 million (106%).

Combined, the unfavourable net result for SA Health was $352 million. DHW contributed to the majority of the unfavourable result in 2022 with its net result of -$303 million, mainly due to the impact of the return of $431 million in cash to the Department of Treasury and Finance under the cash alignment policy. The Central Adelaide Local Health Network Incorporated contributed -$33 million to the combined unfavourable result.

Since 2007, we have reported on expenditure pressures and budget supplementation in the Health sector. In recent years, our reports have focused on continued expenditure growth, failure to achieve the savings targets set out in State Budgets and ongoing risks associated with the financial sustainability.

DHW monitors the budget performance of individual LHNs and SAAS throughout the year. Each year DHW has changed elements of its commissioning and funding models. COVID-19 has also significantly affected activities across the sector. As a result, it is not possible to compare budget results from year to year. It is important to note that budget data is not subject to audit.

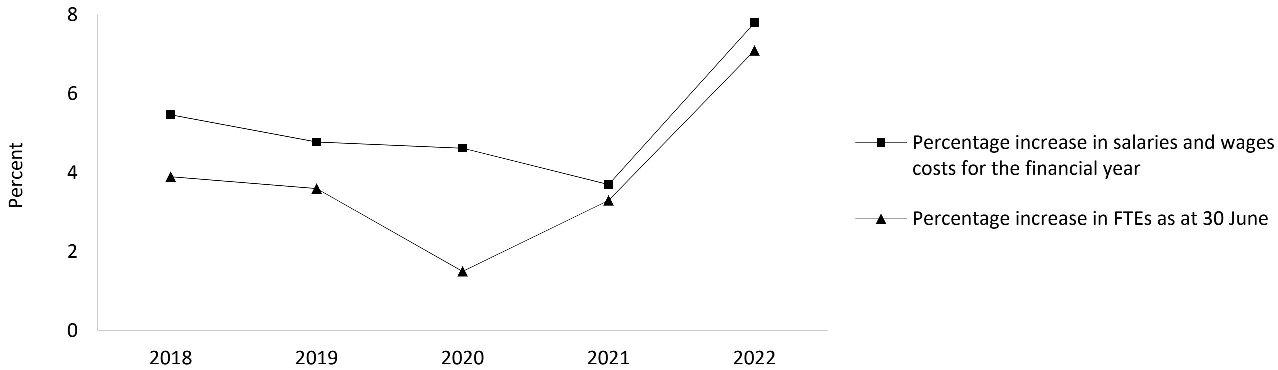
We looked at whether the SA Health budget set in the 2021-22 budget papers was achieved and what factors influenced budget outcomes for the year.

Total actual expenses exceeded the original 2021-22 State budget for SA Health by $1.2 billion. We found that all consolidated entities of SA Health reported an unfavourable position when comparing budget to actual expenditure, mainly due to COVID-19 activity.

Note 35 of DHW's financial report provides some budgetary reporting information, including explanations of major variances between SA Health's original budget approved by Parliament and the actuals in its financial report.

Salaries and wages and supplies and services were the two categories that contributed most to the unfavourable budget to actual results.

The following chart shows the percentage increase in salaries and wages costs compared to the percentage increase in FTEs for SA Health over the last five years. The figures exclude leave and workers compensation expense as they involve a degree of estimation.




In 2021 and 2022 the percentage increases in salaries and wages costs and FTEs were similar, therefore the increase in salaries and wage costs was mainly due to the increase in FTEs.

## Independent Commissioner Against Corruption (ICAC) 2019 report

In November 2019, ICAC tabled the *Troubling Ambiguity: Governance in SA Health Report*. It highlighted concerns about governance arrangements in SA Health that contribute to the risk of corruption, misconduct and maladministration.

In response the Premier established an inter-agency taskforce, which included senior public service employees, to independently review the adequacy of SA Health's response.

SA Health provided an initial response in January 2020 titled 'Initial Government response to the ICAC report on SA Health Governance Troubling Ambiguity'. DHW prepared a Program Implementation Plan to target and address the issues raised by ICAC, arranged into work streams for Industrial Reform, Cultural Reform and Policy and Practice Reform. SA Health reported the successful delivery of these three work streams at the beginning of 2021-22 and they were closed by the taskforce.

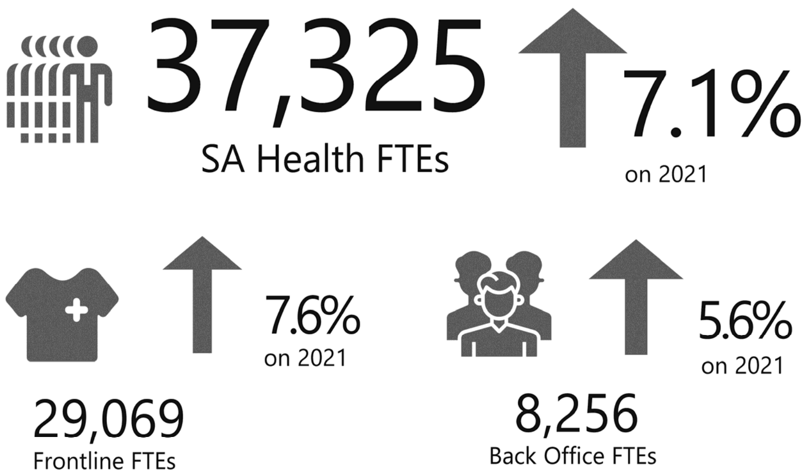
We followed up DHW's progress in 2022 and found that most of the actions proposed by SA Health were complete. The following remain in progress:

- There are several areas in the industrial work stream that have not been completed. It was expected to be difficult to progress recommendations in this area due to industrial disputes. DHW's advised us that it hoped for a resolution of the current dispute in the near future.
- The updated conflict of interest policy has not been released. DHW's expected the final policy to be released by 30 September 2022.
- Training on ethics, code of conduct, fraud and corruption and records management is available, but is not mandatory and there is no framework for monitoring training attendance. DHW indicated that it was reviewing what training was mandatory for SA Health employees, but noted that the LHNs were responsible for ensuring attendance at mandatory training is monitored.
- The Integrated Compliance Management Framework has been established, but rollout will not be complete until 2023-24 and the time frames for the rollout of the IT systems to support the framework are not clear. DHW advised us that all IT systems to support the framework would be in place by 30 June 2023.
- The cultural reform reference group, which were tasked with creating and implementing a cultural dashboard, has not met for most of 2021-22. As a result the dashboard has not been finalised and there has been no assessment of the effectiveness of the cultural strategies implemented. DHW indicated that the cultural reform reference group intended to re-form by 31 August 2022 and to finalise organisational indicators and a dashboard by 31 December 2022.

## Health sector staffing and patient activity data – unaudited

### SA Health staffing statistics

The following staffing activity data was provided by the Office of the Commissioner for Public Sector Employment and is unaudited.




This data shows that SA Health's frontline FTEs have grown faster than its back office FTEs in the past year. The following table shows FTE levels as at 30 June in the LHNs for the past three years.

**Local health networks FTE mix (unaudited)**

| | 2020 Number | 2021 Number | 2022 Number |
|---|---|---|---|
| Staff categories: | | | |
| Nurses | 13,780 | 14,177 | 15,402 |
| Medical staff | 3,509 | 3,618 | 3,809 |
| Allied health, technical and operational | 4,822 | 5,007 | 5,422 |
| Health ancillary | 2,529 | 2,546 | 2,636 |
| Administrative and professional | 5,865 | 6,162 | 6,519 |
| Total staff | 30,505 | 31,510 | 33,788 |
| Increase (Decrease) | 447 | 1,005 | 2,278 |
| Percentage increase (decrease) | 1.5% | 3.3% | 7.2% |

This table shows that the rise in the number of FTEs in LHNs has been across all areas of staffing, with health ancillary staff showing the least growth. The LHNs identified 904 dedicated COVID-19 FTEs as at 30 June 2022, but this does not account for employees who are performing some COVID-19 activities within their current roles.

The following table shows DHW's FTE levels as at 30 June for the past three years.

**Department for Health and Wellbeing FTEs (unaudited)**

| | 2020 Number | 2021 Number | 2022 Number |
|---|---|---|---|
| Medical officers, nurses and other | 199 | 375 | 434 |
| Administrative and professional | 1,124 | 1,282 | 1,341 |
| Total staff | 1,323 | 1,657 | 1,775 |

DHW had a 7% increase in FTEs in 2022 and an increase of 452 FTEs since 2020. Most of the increase in 2021 and 2022 was in frontline FTEs for the COVID-19 response. DHW identified 421 dedicated COVID-19 FTEs as at 30 June 2022.

The following table shows SAAS's FTE levels as at 30 June for the past three years.

**SA Ambulance Service FTEs (unaudited)**

| | 2020 Number | 2021 Number | 2022 Number |
|---|---|---|---|
| Administrative | 375 | 371 | 396 |
| Emergency services | 1,180 | 1,204 | 1,272 |
| Medical officers, nurses and other | 89 | 94 | 94 |
| Total staff | 1,644 | 1,669 | 1,762 |

There was a 5.6% increase in FTEs between 2021 and 2022, which is below the percentage increases in the other SA Health entities but greater than the increases in prior years. The main growth has been in emergency services staff. SAAS identified 43 dedicated COVID-19 FTEs as at 30 June 2022.

## Overall analysis of payments to SA Health employees

Our analysis of remuneration to SA Health employees for 2022 is shown below. The chart shows remuneration to individuals (not FTEs) and includes all employment costs.

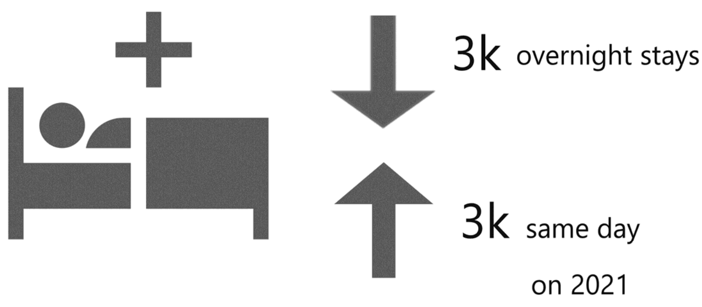

The chart indicates that there are more than 2,400 individual employees (4% of all employees) receiving more than $200,000 a year. These 2,400 individual employees were paid $868 million. There is a detailed breakdown of these employees in the section of this Report titled 'SA Health' under the heading 'Employee benefit expenses'.

## Hospital activity statistics

Hospital activity information was provided by DHW and is unaudited. The tables below show the trends over three years for inpatient activity (unweighted), length of hospital stay, and emergency and outpatient activity (unweighted).

DHW advised us that its processes to collate activity data for 2021-22 were not complete at the time of this Report and the figures presented are not final. Accordingly, the figures below are subject to change.

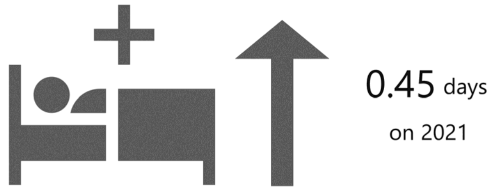
**Inpatient activity (unaudited)**




| | 2020 Number | 2021 Number | 2022 Number |
|---|---|---|---|
| Metropolitan hospitals: | | | |
| Overnight stay | 177,806 | 179,817 | 178,651 |
| Same day | 158,945 | 172,875 | 176,277 |
| Total | 336,751 | 352,692 | 354,928 |
| | | | |
| Country hospitals: | | | |
| Overnight stay | 47,064 | 47,143 | 44,856 |
| Same day | 62,955 | 66,415 | 66,452 |
| Total | 110,019 | 113,558 | 111,308 |

This is an increase in patient numbers of 0.6% for metropolitan hospitals and a decrease of 2% for country hospitals. In 2022 the decrease in the number of overnight stays reflects COVID-19 protocols, where SA Health was trying to keep hospitals free for COVID-19 patients and strategies were implemented to reduce overnight stays to improve work flow and reduce ramping.

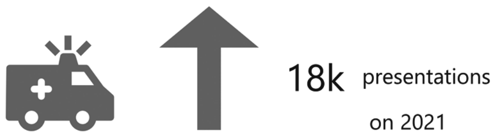
**Average length of overnight hospital stay (unaudited)**




| | 2020<br>Days | 2021<br>Days | 2022<br>Days |
|---|---|---|---|
| Metropolitan hospitals | 5.9 | 6.0 | 6.4 |
| Country hospitals | 4.6 | 4.5 | 5.0 |

The average length of an overnight hospital stay has increased in both metropolitan and country hospitals. The average length of an overnight hospital stay is one of the universal indicators for the efficiency of a hospital. The table shows that, on average, patients admitted to hospital are staying there longer than they did two years ago, mainly due to an increase in the number of critical patients who require longer stays in hospital.

**Emergency department attendances**




Outpatient occasions of service

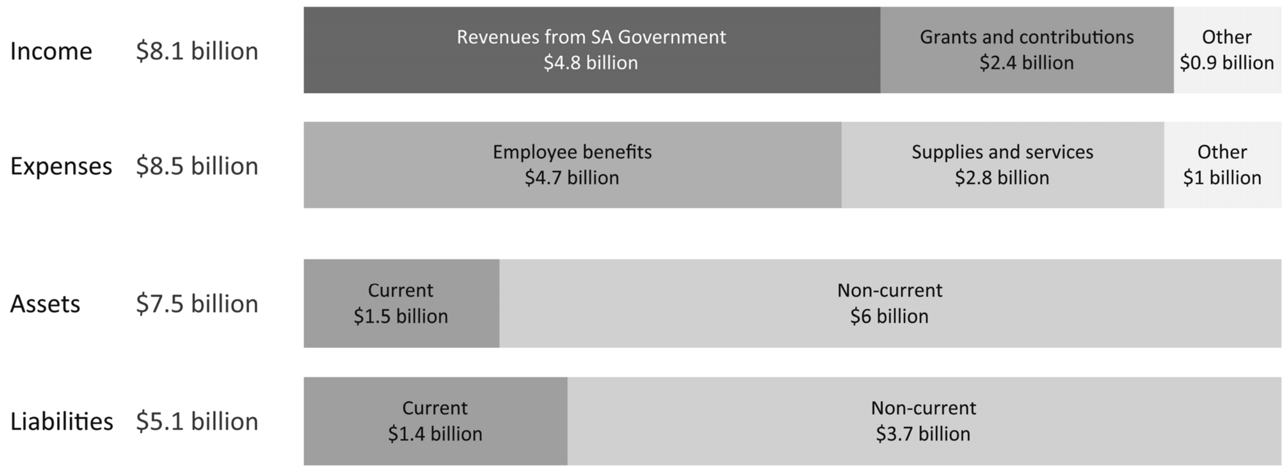

| | 2020<br>Number | 2021<br>Number | 2022<br>Number |
|---|---|---|---|
| Metropolitan hospitals: | | | |
| Emergency department attendances | 407,816 | 435,976 | 411,912 |
| Outpatient occasions of service | 1,280,945 | 1,485,135 | 2,607,195 |
| Country hospitals: | | | |
| Emergency department attendances | 193,011 | 209,895 | 216,030 |
| Outpatient occasions of service | 208,747 | 418,448 | 842,185 |

There was a decrease in metropolitan emergency department attendances of 5.5% due to emergency department avoidance strategies. This was offset by an increase in country emergency department attendances of 2.9%.

Outpatient occasions of service have nearly doubled from 2021 due to COVID-19 activity.

# SA Health

## Financial statistics




**37,325**
Total employees - SA Health

**466,236**
Total inpatient activity

**$6 billion**
Total property, plant and equipment

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### Significant events and transactions

- Consolidated expenditure exceeded the original budget in the State Budget papers by $1.2 billion.
- Responding to COVID-19 continued to have a significant impact. SA Health's specifically identified costs associated with COVID-19 were $689 million for additional public health activities.

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### Financial report opinion

**Unmodified**

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### Controls opinion findings

- Employees are working without the prescribed working with children and aged care checks (CALHN, SALHN and NALHN).
- No consolidated workforce plan (SALHN and NALHN).
- Staff performance reviews are not always being completed (CALHN, SALHN and NALHN).
- No strategic asset management plan and supporting asset management plans (CALHN and SALHN).
- No signed memorandum of administrative arrangements for revised Across Government Facilities Management Arrangements (CALHN, SALHN and NALHN).
- Procurement and contract management processes need improvement (DHW, SALHN, NALHN, BHFLHN, EFNLHN, FUNLHN and YNLHN).

| | |
|---|---|
| | — Payment system financial delegations not reconciled to approved delegations (all SA Health). |
| **Other audit findings** | — The unsupported patient administration system (CHIRON) is considered an extreme risk (all country LHNs).<br>— Payroll processes over timesheets, bona fides and leave recording need improvement (DHW, CALHN, SALHN, NALHN and SAAS).<br>— Professional development leave and reimbursement processes need improvement (all SA Health).<br>— Follow-up of long outstanding debts was ineffective (CALHN, NALHN and all country LHNs).<br>— Completed work in progress not capitalised and donated assets not recorded (all SA Health).<br>— Invoices paid without purchase orders (CALHN, NALHN, SAAS, BHFLHN, EFNLHN, FUNLHN, LCLHN and RMCLHN).<br>— Inadequate segregation of duties within systems (SALHN and all country LHNs).<br>— General practitioners and specialists working without contracts (all country LHNs).<br>— Some IT general controls could be improved for key corporate systems (all SA Health). |

## Functional responsibility

The consolidated entity is known as SA Health or the Health sector and it comprises:

- Department for Health and Wellbeing (DHW)
- Barossa Hills Fleurieu Local Health Network Incorporated (BHFLHN)
- Central Adelaide Local Health Network Incorporated (CALHN)
- Eyre and Far North Local Health Network Incorporated (EFNLHN)
- Flinders and Upper North Local Health Network Incorporated (FUNLHN)
- Limestone Coast Local Health Network Incorporated (LCLHN)
- Northern Adelaide Local Health Network Incorporated (NALHN)
- Riverland Mallee Coorong Local Health Network Incorporated (RMCLHN)
- SA Ambulance Service Inc (SAAS)
- Southern Adelaide Local Health Network Incorporated (SALHN)
- Women's and Children's Health Network Incorporated (WCHN)
- Yorke and Northern Local Health Network Incorporated (YNLHN).

In line with AASB 10 *Consolidated Financial Statements*, consolidated financial statements were prepared comprising DHW (parent), the local health networks (LHNs) and SAAS.

# Scope of the audit and audit findings

Refer to the individual SA Health agencies in this Report for details of our audit scope and findings.

# Interpretation and analysis of the financial report

## Highlights of the financial report – SA Health (consolidated)

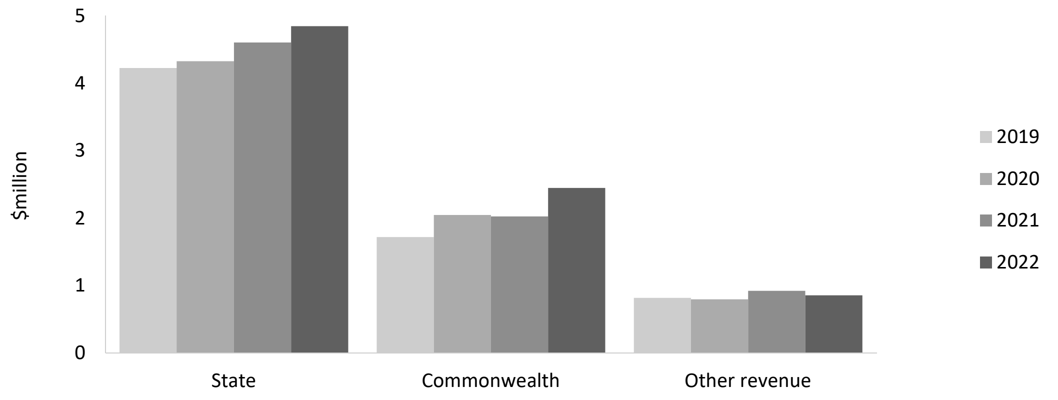
| | 2022<br>$million | 2021<br>$million |
|---|---|---|
| **Income** | | |
| Revenues from SA Government | 4,845 | 4,554 |
| Fees and charges and other revenue | 854 | 882 |
| Grants and contributions | 2,448 | 2,115 |
| **Total income** | 8,147 | 7,551 |
| | | |
| **Expenses** | | |
| Employee benefit expenses | 4,677 | 4,394 |
| Supplies, services and other expenses | 3,262 | 2,412 |
| Borrowing costs | 130 | 121 |
| Depreciation and amortisation | 311 | 308 |
| Grants and subsidies | 119 | 116 |
| **Total expenses** | 8,499 | 7,351 |
| **Net result** | (352) | 200 |
| | | |
| **Total other comprehensive income** | 27 | 40 |
| **Total comprehensive result** | (325) | 240 |
| | | |
| Net cash provided by (used in) operating activities | (17) | 440 |
| Net cash provided by (used in) investing activities | (239) | (247) |
| | | |
| **Assets** | | |
| Current assets | 1,510 | 1,883 |
| Non-current assets | 5,994 | 6,018 |
| **Total assets** | 7,504 | 7,901 |
| | | |
| **Liabilities** | | |
| Current liabilities | 1,417 | 1,326 |
| Non-current liabilities | 3,657 | 3,822 |
| **Total liabilities** | 5,074 | 5,148 |
| **Total equity** | 2,430 | 2,753 |

## Statement of Comprehensive Income – consolidated entity

### Income

The following chart analyses the main sources of income for SA Health for the four years to 2022.

This shows the main source of income is the SA Government, which has increased by 15% over four years. Commonwealth funding is the next biggest income source, and increased by 16% in 2022 due to the reimbursement of COVID-19 costs.




## Expenses

Total expenses increased by $1.2 billion to $8.5 billion (16%) and principally comprised employee benefit expenses of $4.7 billion and supplies and services expenses of $2.8 billion.

### Employee benefit expenses

Employee benefits is the most significant SA Health expense and increased by $283 million (6%) to $4.7 billion.  The main reason for the increase was an increase in FTEs of 2,489 (7%), which was mainly due to COVID-19 related activities.

SA Health paid targeted voluntary separation packages to 150 employees in 2021-22 (93 in 2020-21) at a cost of $12 million ($13 million).  118 of the 150 packages this year were made under the SA Public Sector Workforce Rejuvenation Scheme.

The following table summarises the remuneration of employees for 2021-22, included in note 8.3 of DHW's financial report. Total remuneration for these SA Health employees was $1.2 billion ($1 billion).

| | Executive Number | Medical Number | Non-medical Number | Nursing Number | Operational Number | Total Number |
|---|---|---|---|---|---|---|
| $157,000 – $257,000 | 90 | 1,519 | 153 | 440 | 269 | 2,471 |
| $257,001 – $357,000 | 30 | 533 | 2 | 6 | 5 | 576 |
| $357,001 – $457,000 | 6 | 391 | - | - | - | 397 |
| $457,001 – $557,000 | 3 | 330 | - | - | - | 333 |
| $557,001 – $657,000 | 2 | 179 | - | - | - | 181 |
| $657,001 – $757,000 | - | 67 | - | - | - | 67 |
| $757,001 – $857,000 | - | 23 | - | - | - | 23 |
| $857,001 – $957,000 | - | 5 | - | - | - | 5 |
| $957,001 – $1,057,000 | - | 1 | - | - | - | 1 |
| $1,057,001 – $1,157,000 | 1 | - | - | - | - | 1 |
| $1,257,001 – $1,357,000 | - | 1 | - | - | - | 1 |
| $1,477,001 – $1,497,000 | - | 1 | - | - | - | 1 |
| Total | 132 | 3,050 | 155 | 446 | 274 | 4,057 |

### Supplies and services expenses

Supplies and services expenses increased by $423 million to $2.8 billion. Significant contributors to the increase were:

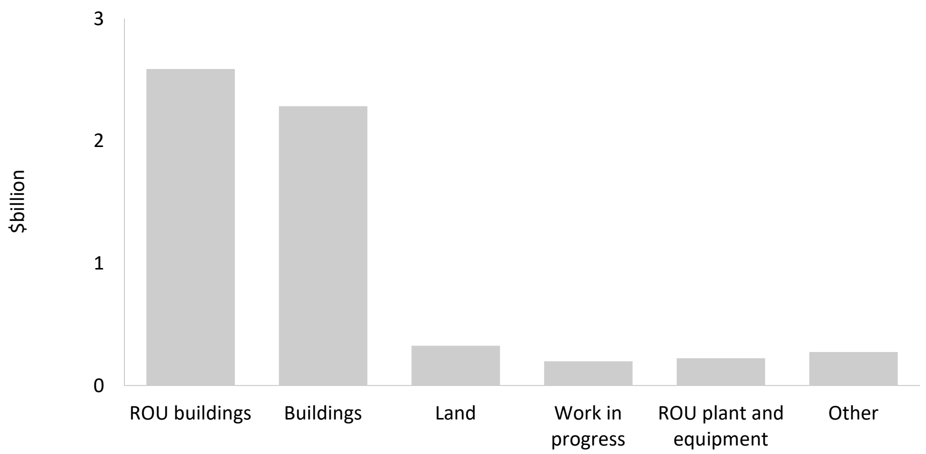
- an $85 million increase in medical, surgical and laboratory supplies due to additional testing and supplies for increased COVID-19 in the community
- a $61 million increase in contractor and agency staff due to increased staff on sick leave and being unable to fill vacant positions
- a $59 million increase in fees for service due to the new fee for service agreement with general practitioners, which commenced on 1 February 2022
- a $33 million increase in the cost of goods sold, mainly due to purchases of personal protective equipment and rapid antigen tests
- a $28 million increase in other supplies and services due to expenses related to the setup of vaccination centres and other COVID-19 related activity
- a $27 million increase in contracts of services due to indexation of contracts and increased contracts in relation to COVID-19
- a $25 million increase in housekeeping for additional cleaning due to COVID-19
- a $17 million increase in contractors due to increased staff on sick leave and being unable to fill vacant positions
- a $17 million increase in repairs and maintenance due to upgrades at numerous sites
- a $16 million increase in computing due to the increased cost of system licences and leases.

## Statement of Financial Position – consolidated entity

As at 30 June 2022, SA Health had a net asset position of $2.4 billion.

### Assets

SA Health's assets are dominated by non-current property, plant and equipment assets, representing 78% of total assets. The chart below shows the main categories, with right-of-use (ROU) and owned buildings being the predominant categories.



The carrying value of property, plant and equipment decreased by $36 million.  Key movements during the year were:

- $292 million of depreciation and amortisation expenses
- offset by additions of $252 million, including $223 million in capital works in progress.

## Liabilities

### Employee benefits liabilities

Employment liabilities make up $1.6 billion of SA Health's total liabilities at 30 June 2022, comprising:

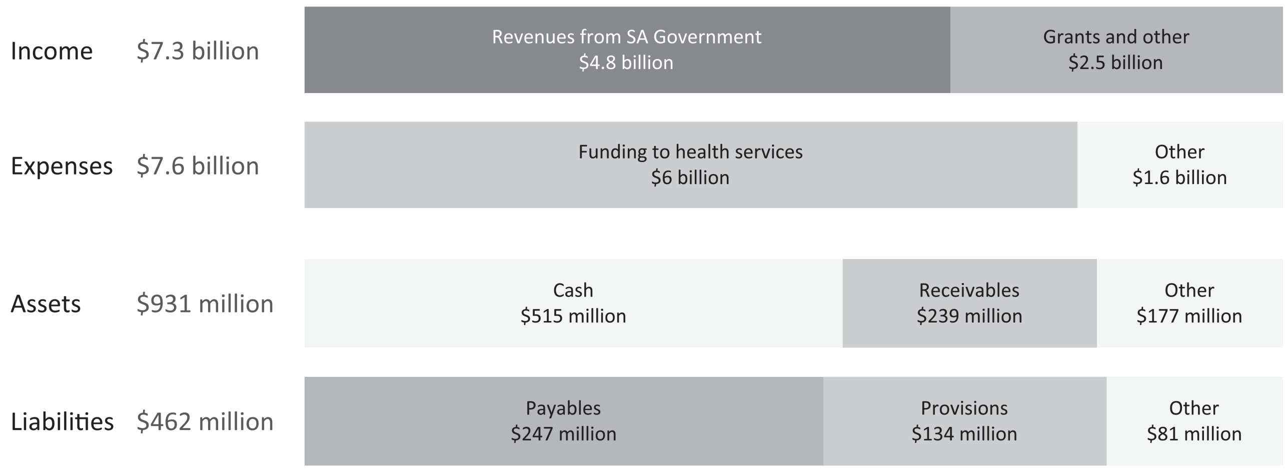
- $1.3 billion ($1.5 billion) of employee benefits liabilities
- $100 million ($98 million) of related on-costs (included in payables)
- $177 million ($150 million) for the provision for workers compensation.  The workers compensation provision was estimated by an independent actuary as at 30 June 2022.  The increase in the liability reflects the impact of a recent court case that provided for increased payments to some workers.  Changes to the legislative arrangements for workers compensation, which came into effect from July 2022, will be reflected in the 2022-23 valuation and will likely see a decrease in this liability.

### Financial liabilities

Financial liabilities make up $2.8 billion of SA Health's total liabilities and comprise of lease liabilities related to right-of-use assets.

# Department for Health and Wellbeing (DHW)

## Financial statistics




1,775
Total employees - DHW

## Significant events and transactions

- DHW continued to respond to the COVID-19 pandemic, including delivering vaccines, testing, quarantine and other health activities. Its COVID-19 related costs were $322 million ($199 million) for additional public health activities.
- The *Health Care Act 2008* was amended from August 2021 to clarify workforce responsibilities, governance and accountability arrangements between DHW and the local health networks (LHNs).

## Financial report opinion

**Unmodified**

## Controls opinion findings

- Procurement processes could be improved.
- Some contract management processes could be improved.
- Payment system financial delegations not reconciled to delegations.
- Payments approved by employees who did not have an approved delegation.

**Other audit findings**

- Inventory management process weaknesses.
- Completed works in progress not capitalised and donated assets not recorded.
- Professional development leave and reimbursement processes need improvement.
- Payroll processes over timesheets, bona fides and leave recording can be improved.
- No reconciliation between the catalogue management and ordering systems.
- No review of price changes in the catalogue management system.
- Some IT general controls could be improved for key corporate systems.

## Functional responsibility

DHW is an administrative unit established under the *Public Sector Act 2009*. It is a funder or purchaser of health services, policy setter, strategic planner and provider of services.

DHW's role is as 'system leader' of SA Health and it focuses on setting strategic direction and statewide policy, high-level system direction and performance management of the public health system.

The Chief Executive of DHW is charged with the management, administration and provision of health services to facilitate the efficient and economic operation of the public health system.

On 8 June 2021 the South Australian Parliament passed the *Health Care (Governance) Amendment Act 2021*, which amended the *Health Care Act 2008* from 23 August 2021. The Amendment Act makes changes to the functions of the Chief Executive of DHW to reflect DHW's role as system leader, formalises provisions for service agreements, clarifies workforce responsibilities and makes minor amendments to reflect the governance and accountability arrangements.

## Scope of the audit

### Audit of the financial report

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

Specific areas of audit attention in 2021-22 included:

- payroll
- expenditure
- inventory
- assets

- grant revenue
- cash
- general ledger.

Some financial services are provided to DHW by Shared Services SA (SSSA). We considered the work of DHW's internal auditors in designing and performing audit procedures.

### Controls opinion

We reviewed controls over procurement and contract management, approval of payments, buildings and improvements, grant revenue and bank accounts as part of our overall controls opinion, which is discussed in Part B of this Report.

## Audit findings

### Communicating our audit findings

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

### Controls opinion findings

#### Procurement processes could be improved

In 2021-22 we reviewed four procurements that resulted in contracts being signed during the year:

- agency nursing midwifery patient care assistant panel – contract value of $228 million over five years
- airway management and oxygen consumables – contract value of $56.8 million over seven years
- agreement for the provision of general medical consumables – contract value of $127.4 million over six years
- intensive home-based support services – contract value of $7.8 million over one year.

Our audit included reviewing procurement documentation against the mandated requirements of the former State Procurement Board (SPB) and SA Health procurement policies. From 1 July 2021 the SPB was abolished and replaced by Procurement Services SA (PSSA). Our review took into account the required SPB processes at the time, and our recommendations took into account the requirements in place now.

We also assessed DHW's progress in implementing the new Treasurer's Instruction 18 *Procurement* (TI 18) and the general PSSA requirements for procurement.

We found that the following areas needed improvement.

##### *New contracts signed without a procurement process*

We noted that the last procurement process for intensive home-based support services was performed in 2017-18, with the original contract being from May 2018 to April 2019, including an extension option.

New procurement processes were not undertaken before signing the next two new agreements with the same provider. The new contracts extended the original contract five years past its original expiry.

DHW advised us that it has taken a number of steps to respond to this finding. It has:

- conducted an internal review to ensure compliance for all contracts in this area
- developed a forward procurement plan
- mandated that all staff undertake training through PSSA
- appointed a procurement specialist for 12 months to build capability within the team
- restructured to ensure appropriate skill levels in staff managing contracts.

#### *Significant delays in signing contracts*

For the panel arrangements, we reviewed a sample of contracts to ensure they were signed before purchases were made.

We found 11 contracts that were signed more than 11 months after the contract commencement date and DHW had spent $25.7 million with suppliers on these contracts before the contracts were signed.

DHW responded that a dedicated resource would be employed to ensure contract executions occurred before the commencement of the contract.

#### *Purchase recommendations not consistent with the evaluation plan*

The evaluation plan for one contract indicated that the purchase recommendation would be submitted to the steering committee for approval. However the purchase recommendation was not approved by the steering committee and the purchase recommendation did not detail the deviation from the evaluation plan.

DHW advised us that this was an oversight and the reference to a steering committee should have been to the project sponsor. DHW will remind staff to ensure clarity in using terminology to avoid misinterpretation and ambiguity.

#### *Post-sourcing review not completed*

A post-sourcing review is a useful formal assessment of the procurement process undertaken and can identify any potential improvements for future procurements.

We found that DHW did not perform a post-sourcing review for one of the contracts we reviewed.

DHW advised us that the post-sourcing review will now be completed for this contract.

### Some contract management processes could be improved

In 2021-22 our review focused on DHW's management of the patient services panel contract, which is a panel of private sector service providers used to provide patient services to public patients so they can receive timely care. The contract started in August 2019 and has an estimated value over the extended term of $680 million.

We also assessed DHW's progress in implementing the new TI 18 and PSSA requirements for contract management.

We found that the following areas needed improvement.

#### *No contract management plans*

A contract management plan is an internal document that details the key strategies, activities and tasks required to effectively manage a contract. It provides a systematic and accountable method to ensure both parties fulfil their contractual obligations.

We found that DHW had not developed a contract management plan even though the contract had been in place for two and a half years.

We have previously raised concerns about DHW's delays in establishing contract management plans.

DHW advised us that the contract management plan was in draft and would be completed by 30 June 2022.

#### *Key performance indicators (KPIs) not consistently monitored*

We found there was no documented and consistent process to ensure all KPI information is obtained and recorded. KPI information was also not consistently monitored and reviewed to ensure suppliers are meeting the required standards.

DHW responded that it will conduct a review and implement a process for recording, monitoring and reporting on KPIs centrally.

### Approval of payments

SA Health relies on established system-based controls to help ensure only those employees with delegated authority can incur expenditure, enter into agreements and make payments. We reviewed these controls and identified the following areas needing improvement.

#### *Payment system authorisation limits are not matched to delegations*

There are constant changes to financial delegations and employee positions as staff move or roles change. Incorrect financial authorisation limits in payment systems can allow payments to be made outside of delegated authority. Payments made without adequate authorisation increase the potential for invalid or inappropriate transactions.

In prior years we have reported concerns that financial authorisation limits in the Basware and Oracle payment systems did not always align with the financial delegations approved by the Chief Executive.

In 2021 DHW advised us that it would commence a twice-yearly reconciliation of payment systems to authorisation limits, in October and January. It also advised us that it would review the validity of all payments made by the positions we identified as having exceeded their delegated authority.

In 2022, we found that a review was performed at the end of September, but no January review was performed. We again found instances where employees approved payments outside of their approved delegation.

DHW responded that it would implement a semi-automated process to highlight delegations that do not match and ensure the discrepancies are actioned and systems updated. DHW also agreed to review the validity of the payments we identified as being approved by employees outside of their delegation.

## Other audit findings

### Inventory management process weaknesses

#### *No scheduled stocktakes at the new distribution centre*

SA Health's new distribution centre opened in November 2021 and as at 30 June 2022 the total balance of stock held there was $20 million.

We found there had been no scheduled stocktakes performed at the new distribution centre for the 2021-22 financial year.

Not having scheduled stocktakes increases the risk that inventory balances in the financial statements are incorrect and that issues in inventory management controls and processes will not be identified.

DHW responded that it would commence scheduled stocktakes on 1 July 2022.

#### *Ability to amend the frequency of stock counts is not restricted*

In 2021 we found all of the inventory control team had access to alter the frequency of scheduled stock counts. DHW responded that it would review system access controls and ensure only the Assistant Director, Supply Chain or a delegate could modify the schedule.

In 2022 we found that this had not been done. DHW agreed with this finding and advised us that it would implement its response from 2021.

#### *No reconciliation between the storage retrieval and inventory systems*

We found that there was no reconciliation between the inventory management system and the automatic storage retrieval system used at the new distribution centre to ensure all inventory items are completely and accurately recorded.

DHW responded that it would implement a regular reconciliation between the systems.

### Completed works in progress not capitalised and donated assets not recorded

SA Health project managers are responsible for advising SSSA when assets recorded in work in progress (WIP) have been completed. This is done by sending a completion form to SSSA. SSSA will then move the asset from WIP to the relevant asset category and start depreciating the asset.

During our 2020-21 financial statement audit we recommended that $57 million be moved from WIP to the appropriate asset category and $18.6 million in donated assets be added to the asset register. The assets impacted were spread across all SA Health entities. While this was corrected in the general ledger, it was not reflected in the asset register, as SSSA had not received the completion forms from the project managers.

In 2021-22 we followed up and found that $45 million had not been moved from WIP to the correct asset category and $16.7 million in donated assets had not been added to the asset register. We noted that a further $15.3 million in WIP assets also appeared to have been completed.

This indicates there is an issue with the process of moving WIP to the asset register promptly after completion. As it relates to assets across all SA Health entities, we considered it warranted DHW reviewing the processes for managing WIP assets to ensure they are updated to the asset register promptly.

DHW did not agree with our recommendation, advising us that it considers this an SSSA and LHN issue and that its current processes are adequate.

While we agree it is ultimately an SSSA and LHN issue at a local level, we note that DHW's role as system leader includes providing administrative support and ensuring statewide policies, procedures and processes are adequate.

Our review highlights that current processes are not working in relation to the management of WIP assets.

We note that financial statement balances were adjusted for a number of projects as part of the 2021-22 financial statement process.

### Professional development leave and reimbursement processes need improvement

We have previously raised concerns about the recording and management of medical officers' professional development leave and reimbursement claims. These are recorded in the SA Health Professional Development Reimbursement System (SAHPDRS). In 2020-21 we reported that:

- the SAHPDRS user access register was not reviewed quarterly. DHW advised us that it would review access lists each quarter to ensure permissions are up to date
- SAHPDRS was not integrated with the Chris21 payroll system and therefore when professional development leave is claimed in SAHPDRS it is not automatically recorded in Chris21, and vice versa. We found that leave records in SAHPDRS were not reconciled to Chris21. DHW advised us that it would recommend that all SA Health entities reconcile these systems quarterly
- there were inconsistencies between DHW professional development leave records in SAHPDRS and Chris21. DHW advised us that it would check the validity of leave claimed by DHW staff.

In 2021-22 we followed up these findings and found that:

- the review of the SAHPDRS user access register had only been performed in September 2021
- leave records in SAHPDRS were only reconciled to Chris21 for one quarter for DHW and one LHN in May 2022
- the inconsistencies for DHW between SAHPDRS and Chris21 noted in 2020-21 had not been investigated or corrected and we noted more inconsistencies in 2021-22.

DHW's response indicated that it would address these findings by implementing its responses from 2020-21.

## Payroll

### *Timesheets for auto pay employees not approved, dated or available*

Automatically paid (autopay) employees are paid based on their contracted hours in the payroll system. They are not required to submit a timesheet to be paid, but are required to have an approved timesheet to ensure flexitime and leave are recorded and managed appropriately.

We reviewed a sample of autopay employee timesheets and found that 48% of them were either unavailable, not approved, approved after our request or not dated.

DHW responded that it will review the SA Health Workforce Operational Advice and reinforce with managers the need for compliance.

### *Bona fide and leave taken reports not reviewed promptly*

A significant number of DHW employees are paid automatically without reference to a timesheet. Therefore it is important to ensure management regularly reviews bona fide and leave taken reports to ensure employees are being paid accurately and all leave has been recorded.

We reviewed records on the number of bona fide and leave taken reports being reviewed and approved and found that 41% of bona fide and 43% of leave taken reports were not being reviewed promptly.

DHW responded that it would undertake regular reviews of compliance and education and provide reporting to Executive Directors and Directors to help increase compliance.

## Catalogue Management System (CMS)

CMS is used by SA Health to request items to be ordered where there are contracts or agreements that establish a set price for them. CMS details the products, prices and specifications. Order requests flow from CMS to Oracle, which is the system used by SA Health to manage and approve purchase orders.

### *No reconciliation between the CMS and Oracle price lists*

CMS prices do not automatically update Oracle and have to be manually updated, increasing the risk of error. DHW requires CMS and Oracle to be reconciled fortnightly to ensure prices are aligned.

We found there was a period of seven months between July 2021 and February 2022 where the reconciliation between CMS and Oracle was not performed.

DHW responded that this was due to staff shortages and the reconciliation has now been reinstated.

### *No review of price changes in CMS*

We identified several catalogue items that had significant price increases that appeared to be incorrectly entered into CMS. CMS is currently unable to generate a price change summary report, therefore DHW is not reviewing any of the pricing changes made to CMS.

DHW responded that it would develop a monthly review of pricing changes.

### IT general controls reviews

In 2021-22, we conducted reviews of IT general controls for key DHW systems. The systems reviewed were:

- Oracle Corporate System (OCS), which is used for accounts payable, accounts receivable, general ledger and fixed assets
- Oracle Business Intelligence Enterprise Edition (Sharp), which is a data warehouse and report management system
- Sunrise Electronic Medical Records (EMR), which is an electronic health record system for patient medical records being implemented throughout SA Health.

We identified some areas where controls could be improved. The main findings were in the areas of privileged user access, user access management, audit logging, patch management and disaster recovery management.

We also identified that change management could be strengthened for EMR and the monitoring of segregation of duties across OCS in procurement and supply chain management needed to improve.

These findings increase the risk of potential malicious activity through unauthorised access or inappropriate changes to data.

DHW responded positively to our findings and recommendations and expects to complete all remedial actions for EMR by November 2022 and OCS and Sharp by June 2023.

## Interpretation and analysis of the financial report

### Highlights of the financial report – Department for Health and Wellbeing (parent)

| | 2022<br>$million | 2021<br>$million |
|---|---:|---:|
| **Income** | | |
| Revenues from SA Government | 4,845 | 4,554 |
| Fees and charges and other revenue | 480 | 490 |
| Grants and contributions | 2,004 | 1,684 |
| **Total income** | 7,329 | 6,728 |
| | | |
| **Expenses** | | |
| Staff benefit expenses | 241 | 195 |
| Supplies, services and other expenses | 1,405 | 798 |
| Grants and subsidies | 5,986 | 5,628 |
| **Total expenses** | 7,632 | 6,621 |
| **Net result** | (303) | 107 |
| | | |
| Net cash provided by (used in) operating activities | (269) | 21 |

| | 2022 $million | 2021 $million |
|---|---|---|
| **Assets** | | |
| Current assets | 841 | 1,147 |
| Non-current assets | 90 | 94 |
| **Total assets** | 931 | 1,241 |
| | | |
| **Liabilities** | | |
| Current liabilities | 275 | 269 |
| Non-current liabilities | 187 | 200 |
| **Total liabilities** | 462 | 469 |
| **Total equity** | 469 | 772 |

## Statement of Comprehensive Income – Department for Health and Wellbeing (parent)

### Revenues

#### Revenues from the SA Government

Revenues from the SA Government increased by $291 million (6%) to $4.8 billion. The main balance is appropriation, which increased due to COVID-19 related expenditure.

Revenues from the SA Government also included:

- $59 million ($26 million) in Commonwealth grants received through the Department of Treasury and Finance
- $4 million ($0) in contingency funding
- $3 million ($8 million) in funding for targeted voluntary separation packages.

#### Grants and contributions

Income from grants and contributions totalled $2 billion ($1.7 billion) and principally comprised:

- $1.6 billion ($1.48 billion) of Commonwealth National Health Reform Agreement funding
- $256 million ($63 million) in funding under the National Partnership on COVID-19 Response
- $25 million ($26 million) of Commonwealth Transition Care Program funding
- $50 million ($41 million) of Department of Veterans' Affairs funding.

The section of this Report titled 'Health sector overview' discusses Commonwealth funding to support the COVID-19 response further.

#### Fees and charges revenue

Fees and charges decreased by $18 million to $276 million and the decrease principally comprised:

- a $30 million decrease for interstate patients due to treating less interstate patients in South Australian public hospitals
- a $21 million decrease for quarantine hotel user charges. As returning travellers were only required to quarantine in South Australian medi-hotels until 23 November 2021, no fees were charged after this date

- offset by a $31 million increase in the sale of medical supplies, which mainly relates to inventory sold to health services. The increase reflects the impact of COVID-19 in the community, including the increased use of personal protective equipment and rapid antigen tests. These sales are largely eliminated on consolidation, with the remainder being the sale of COVID-19 supplies to other entities.

## Expenses

### Staff benefit expenses

Staff benefit expenses increased by $46 million (24%) to $241 million.

One contributor to the increase was an increase in FTEs of 118 (7%) to 1,775 as at 30 June 2022. This included increases of 52 FTEs for nurses and 65 FTEs for administrative services staff. This reflects an increase in employees dedicated to SA Health's COVID-19 response.

The other contributor to the increase was the movement of staff to higher-level positions. The number of employees whose remuneration received/receivable exceeded base executive level ($157,000) totalled 129 (92), comprising 55 (45) executive, 37 (28) administration, 15 (eight) medical and 22 (11) nursing employees. Total remuneration for these employees was $30 million ($21 million).

DHW paid targeted voluntary separation packages to 44 (27) employees in 2021-22 at a cost of $3 million ($3.7 million). In 2021-22 all 44 payments were made under the SA Public Sector Workforce Rejuvenation Scheme.

### Supplies and services expenses

Supplies and services expenses increased by $180 million (24%) to $925 million. The significant increases in supplies and services were:

- a $76 million increase in the cost of goods sold to incorporated health services. The increase reflects growth in the use of personal protective equipment and other medical supplies provided to LHNs, the SA Ambulance Service Inc (SAAS) and other organisations
- a $29 million increase in contractor and agency staff costs due to more staff being on sick leave and DHW being unable to fill vacant positions
- a $20 million increase in medical, surgical and laboratory supplies due to the supply of rapid antigen tests to the South Australian public free of charge and for DHW's internal use
- a $17 million increase in other supplies and services due to expenses related to the setup of vaccination centres and other COVID-19 related activity
- a $14 million increase in computing costs due to the increased cost of system licences and leases
- an $11 million increase in hotel quarantine accommodation costs due to contracts in place with hotels and additional isolation hubs being set up in remote communities
- a $7 million increase in contracts of services due to more staff being on sick leave and indexation on contracts.

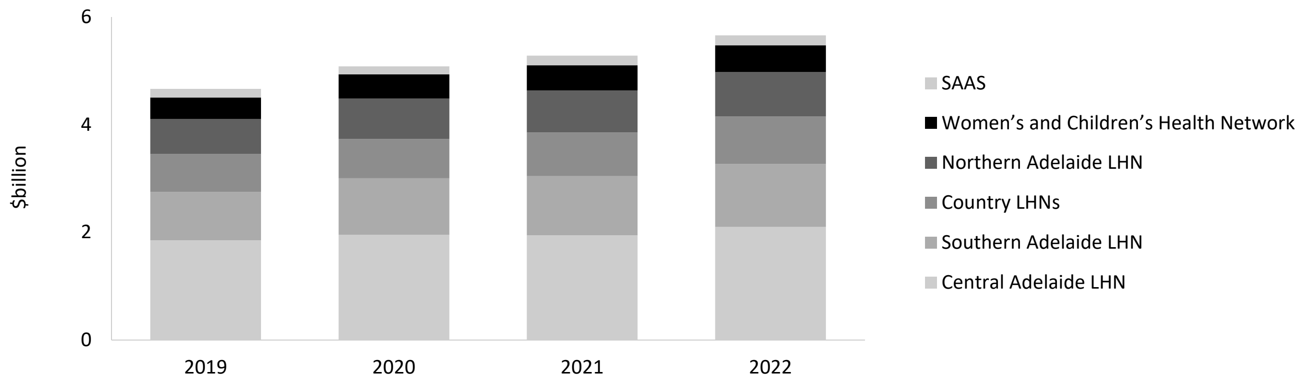
## Grants and subsidies

Grants and subsidies expense increased by $357 million to $6 billion. It consists mainly of operating and capital grants to LHNs and SAAS.

### Operating funding to health services – increased $900 million over four years

Operating funding to health services increased by $368 million (7%) to $5.6 billion. It is provided to health services to meet their cost of services. The increase was due to additional costs in relation to COVID-19 and the new fee-for-service agreement with country LHN general practitioners.

The following chart shows operating funding provided to health services over the last four years.

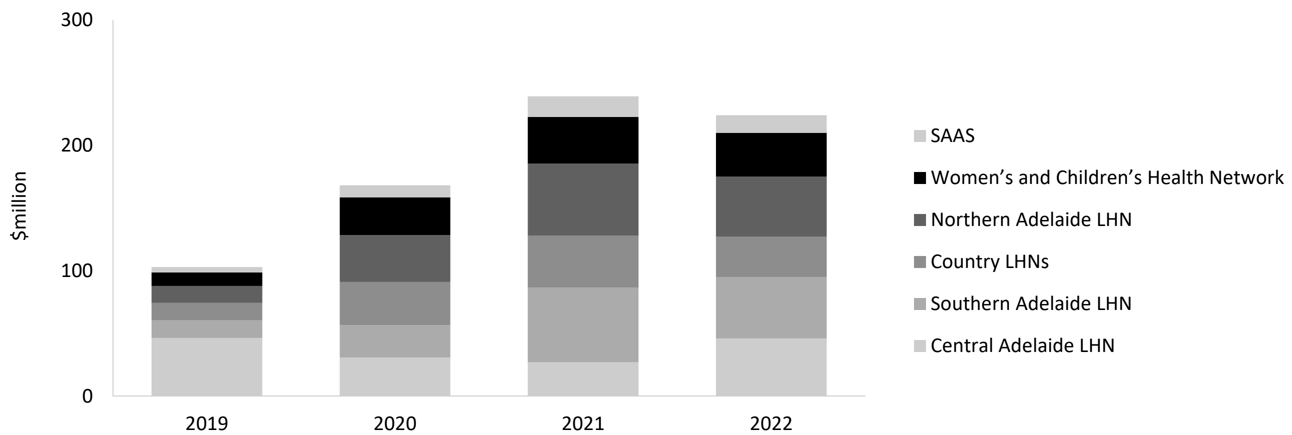



Operating funding increased by $900 million ( 21%) over the four years, from $4.7 billion in 2019 to $5.6 billion in 2022, reflecting rising costs – including those related to responding to COVID-19.

### Capital funding to incorporated health services

Total capital funding decreased by $13 million to $226 million.

The following chart shows capital funding to health services for the four years to 2022. The decrease in 2021-22 was due to delays in a number of projects or changes in scope, and it is expected that expenditure will increase in 2022-23 when capital projects as a result of election commitments commence.



## Statement of Financial Position – Department for Health and Wellbeing (parent)

### Assets

Current assets decreased by $306 million to $841 million as at 30 June 2022 and essentially comprise:

- $515 million ($791 million) of cash and cash equivalents
- $239 million ($271 million) of receivables, which includes:
  - $168 million ($203 million) in interstate patient transfer debtors owed by other jurisdictions for patients treated in South Australian public hospitals
  - $24 million ($23 million) in general debtors, including $12 million for outstanding quarantine medi-hotel fees
- $87 million ($84 million) of inventories. The increase relates mainly to stockpiled personal protective equipment relating to the COVID-19 response and preparedness. Inventory contains $50 million of personal protective equipment and $14.7 million of rapid antigen tests.

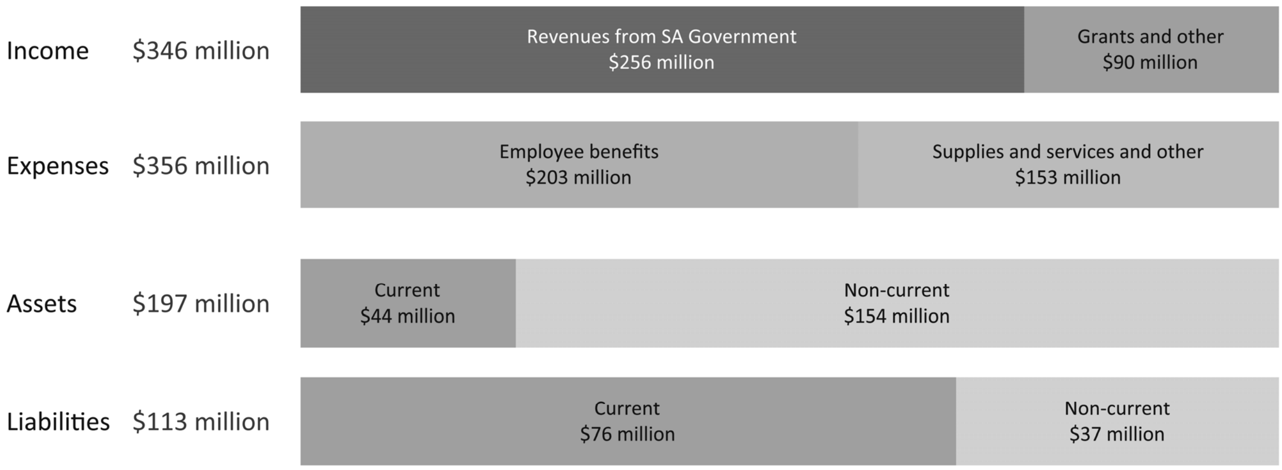
### Liabilities

DHW's total liabilities decreased by $6 million to $463 million at 30 June 2022. The significant components are:

- $111 million ($144 million) of interstate patient transfers, with the decrease of $33 million due to fewer South Australians being cared for by other states
- $132 million ($141 million) in the provision for insurance. The decrease of $9 million was due to the actuarial reassessment of potential outcomes. DHW pays premiums to the South Australian Government Financing Authority on behalf of the public health system and retains responsibility for claims up to a set amount. Insurance cover includes professional indemnity (including medical malpractice) and general public liability cover
- $32 million ($26 million) of health services workers compensation due to SA Health entities, an increase of $6 million due to the impact of the decision of the Full Court of the Supreme Court of South Australia in the *Return to Work Corporation of South Australia vs Summerfield* case. This liability increase reflects the actuarial assessment at 30 June 2022. Changes to the arrangements as a result of legislative change, which took effect from July 2022, will be reflected in the 2022-23 calculation and are expected to decrease the overall liability
- offset by $95 million ($65 million) in creditors and accrued expenses, with the increase of $30 million mainly due to an increase in creditors related to goods received but not paid for.

# Barossa Hills Fleurieu Local Health Network Incorporated (BHFLHN)

## Financial statistics




1,947
FTEs

13
Hospitals and health service sites

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**Significant events and transactions**

- Responding to COVID-19 continued to have a significant impact, with associated costs of $24.8 million for additional public health activities.
- The redevelopment of the Strathalbyn aged care facility was completed.

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**Financial report opinion**

**Unmodified**

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**Audit findings**

- Invoices paid without purchase orders.
- Financial authorities in the payment system not in line with approved delegations.
- Ineffective debt management for patient and sundry debtors.
- Inadequate segregation of duties for revenue, receipting and medical records.
- Unsupported patient administration system is considered an extreme risk (all regional LHNs).

- Ineffective debt management for domiciliary care debtors (all regional LHNs).
- Contracts not established for a large supplier (BHFLHN, EFNLHN, FUNLHN and YNLHN).
- General practitioners and specialists working without contracts (all regional LHNs).

## Functional responsibility

BHFLHN was established under the *Health Care Act 2008* (HC Act) on 1 July 2019. Its powers and functions are to provide health services in the Barossa, Hills and Fleurieu region of South Australia. This region encompasses Angaston, Eudunda, Gawler, Gumeracha, Kangaroo Island, Kapunda, Mount Barker, Mount Pleasant, Strathalbyn, Tanunda and Victor Harbor.

### Rural Support Service (RSS)

The RSS was established on 1 July 2019, when the regional local health networks (LHNs) and their governing boards became operational. The RSS is hosted within BHFLHN and sits within its governance and financial statements, however it is accountable to all six regional LHNs through administrative governance arrangements.

The RSS provides a range of specialist clinical and corporate functions to the six regional LHNs including business services, governance and risk assurance, workforce development and clinical services development and support. The regional LHNs reimburse the RSS for the costs of this service.

### Governance

LHN governing boards are responsible for the overall governance and oversight for local health service delivery by the LHN, including governance of performance and budget achievement, clinical governance, safety and quality, risk management and the achievement of the board functions and responsibilities.

Each LHN chief executive officer (CEO) is accountable to, and subject to the direction of, the governing board for managing the operations and affairs of the LHN.

The Department for Health and Wellbeing’s (DHW’s) role is the ‘system leader’ and it focuses on setting strategic direction and statewide policy, high-level system direction and performance management of the public health system.

The Minister for Health and Wellbeing remains responsible for setting reform agendas and priorities.

A service agreement between BHFLHN and the Chief Executive of DHW outlines DHW and BHFLHN responsibilities, performance expectations and funding arrangements. The intent of the service agreement is to be binding on all parties.

# Scope of the audit

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

Financial services for BHFLHN are provided through a mix of:

- finance services located within BHFLHN, including through its RSS
- central services provided by DHW
- services provided by Shared Services SA (SSSA).

Our audit included the review of systems and audit work at DHW's central services, BHFLHN, RSS and SSSA. A chartered accounting firm assisted the Auditor-General with the audit of BHFLHN.

Specific areas of audit attention in 2021-22 included:

- payroll
- accounts payable, including procurement and contract management
- revenue, including debt management
- property, plant and equipment
- cash
- general ledger.

# Audit findings

## Communicating our audit findings

We communicated our audit findings to the CEO of BHFLHN. The main findings and BHFLHN's responses are discussed below.

### Audit findings

#### Accounts payable

##### *Invoices paid without purchase orders*

SA Health's requisition, purchase order and invoice management policy mandates the use of requisitions and purchase orders, unless the item purchased is listed in the approved purchase order exemption list or the purchase is below $2,200.

We found some improvement in BHFLHN's use of purchase orders this year, but there were still payments made without purchase orders for which the exemptions did not apply. Where this occurs there is an increased risk that payments may be made for goods or services not received or not at the agreed price.

BHFLHN advised us that it would continue to review invoices without purchase orders and provide targeted training to staff. The implementation of a newer version of the Basware payment processing system is also expected to provide system controls to reduce non-compliance.

### *Financial authorities in the payment system not in line with approved delegations*

We compared the authority limits assigned to individuals in Basware to BHFLHN's approved financial delegations and found variances between them. Where this occurs, there is an increased risk of a breach of Treasurer's Instruction 8 *Financial Authorisations*.

BHFLHN advised us that it had corrected the variances we identified and would continue to conduct quarterly reviews of users to ensure incorrect delegations are actioned immediately.

## Revenue

### *Ineffective follow-up of longstanding patient debtors*

We reviewed the effectiveness of debtor follow-up activities performed by revenue officers located at South Coast Hospital. We found instances where the follow-up and recovery of longstanding debtors was ineffective or not performed. We reported similar concerns last year. Although the percentage of long outstanding debt has improved from 80% in 2021 to 55% in 2022, more work is needed.

BHFLHN responded that it would continue to review outstanding debtors and provide training to ensure debts are followed up monthly. It will also explore opportunities to centralise this function.

### *Ineffective follow-up of longstanding sundry debtors*

The follow-up and management of sundry debt is performed by SSSA. We reviewed a sample of long outstanding debts as at 31 March 2022 and found instances where there had been insufficient debt follow-up.

BHFLHN responded that most of the debt related to one debtor who had made payments that were not allocated to their account. A new process has been set up for this debtor and BHFLHN will work closely with SSSA to ensure these unallocated receipts are promptly allocated.

### *Patient billing system access restrictions insufficient*

Our review of patient billing in the CHIRON patient billing system found opportunities to improve the segregation of duties by restricting user access for revenue and receipting officers.

These matters were also raised with BHFLHN last year and, prior to that, with the former Country Health SA Local Health Network Incorporated.

BHFLHN advised us that it would review current user access and access requirements and liaise with CHIRON to ensure changes are actioned promptly.

### *Revenue officers have access to change admission and discharge dates and charge type data*

We found that admission and discharge dates and charge types could be modified by revenue officers, increasing the risk of inappropriate adjustments to invoiced fees.

BHFLHN advised us that it would investigate its ability to restrict access and/or introduce additional processes, such as reviewing system audit reports to ensure approval was received for changes to these details.

## Rural Support Service

The RSS is operated by BHFLHN and provides some administrative and accounting support to all regional LHNs. The observations below relate to controls or activities performed by RSS staff. These findings may impact a number of, or all, regional LHNs.

### *Unsupported patient administration system – CHIRON*

CHIRON is used widely across all the regional LHNs as their main patient administration system. It also has financial modules, for example to invoice private patients and to manage fee for service for rural medical officers. A new system has replaced CHIRON at two hospital sites.

In August 2016, SA Health entered into a settlement with Working Systems Software Pty Ltd for a licence to continue to use CHIRON. This licence has been extended several times and does not include vendor support.

In 2020-21 all six regional LHNs identified their dependency on the unsupported CHIRON patient administration system as an extreme risk and had escalated this risk to Digital Health SA and DHW, requesting them to take responsibility for treating it.

In March 2021 Digital Health SA responded that it agreed with the regional LHNs' risk assessment and would continue to prepare a business case for replacing CHIRON.

In 2021-22 we noted only limited progress with this issue.

Using software products past their end of life and unsupported increases the risk of security vulnerabilities, software incompatibilities and reliability issues.

BHFLHN advised us that Digital Health SA had established a regional Reform and Digital Foundations Program Board and work had commenced on a business case to replace CHIRON, with a view to seeking Ministerial and SA Government approval in late-2022.

### *Domiciliary care debt management needs improvements*

The RSS performs the follow-up and management of domiciliary care debt for all regional LHNs. As at 28 February 2022 we found substantial debt greater than 180 days in all regional LHNs.

BHFLHN responded that it put significant effort into reducing long outstanding debt prior to 30 June 2022 and had significantly lowered it. BHFLHN will investigate ways of improving the process.

### *Contracts not established with a large medical imaging supplier*

Regional LHNs have medical imaging, reporting and consultation services arrangements with two suppliers. We found that contracts were not signed with one of the suppliers, despite the arrangements having commenced in July 2019 for a value up to $30.4 million over five years. This supplier is providing services to BHFLHN, EFNLHN, FUNLHN and YNLHN.

Any period without a formal instrument of agreement potentially impacts the LHNs' ability to manage contract obligations and conditions, including price. This was particularly concerning given the clinical nature of the services provided under the arrangements.

BHFLHN advised us that the contracts for BHFLHN and YNLHN had now been signed by the LHNs and were with the supplier for signing, with completion expected by the end of August 2022. The EFNLHN and FUNLHN contracts were being finalised, with completion expected by the end of September 2022.

### *Payments to medical practitioners – fee for service*

#### — *Contracts with general practitioners needed updating to reflect overarching agreements*

An agreement with the Australian Medical Association (AMA) and the Rural Doctors Association of South Australia (RDA) requires general practitioners (GPs) and GP registrars who provide public inpatient medical services to enter into a fee-for-service contract.

In 2020-21 we found that the regional LHNs had signed contract extensions with GPs that expired on 31 May 2021, with no other extensions signed. This means that all GPs have been operating without current contracts since June 2021.

In 2021-22 the regional LHNs agreed to a new agreement with the AMA and RDA. The new agreement commenced on 1 February 2022 and will expire on 31 January 2024. As at 19 June 2022, only 40 of the 135 contracts under the new agreement were signed by both parties and only eight contracts were with the GP for signing.

BHFLHN advised us that, as of 1 August 2022, 122 contracts were now signed by both parties and the remainder were with the GPs for review. BHFLHN will continue to work with the regional LHNs to finalise the remaining contracts.

#### — *Specialists working in regional hospitals without contractual agreements*

Specialists provide public medical services at all regional hospitals and charge LHNs on a fee-for-service basis.

Consistent with the concerns we have raised since 2018, we found that specialists were operating in all regional LHNs without contracts. We also noted that there was:

- no overarching agreement with the AMA and RDA defining terms and conditions for contracts with specialists
- no policies or procedures to provide guidance on entering into contracts with specialists
- no contract register for specialists with information needed for effective contract management.

BHFLHN advised us that the Crown Solicitor's Office had developed a specialist agreement template and BHFLHN will work with DHW to establish a consistent process for engaging specialists across the regional LHNs.

# Interpretation and analysis of the financial report

The consolidated accounts of BHFLHN include the incorporated Health Advisory Councils (HACs) within the region and unincorporated regional HACs. These HACs were established under the HC Act to undertake an advocacy role on behalf of the community, to provide advice about health services, health issues, goals, priorities, plans and other strategic initiatives.

We are only showing the consolidated amounts below, as the difference between the consolidated and parent amounts is immaterial.

## Highlights of the financial report – consolidated

| | 2022 $million | 2021 $million |
|---|---|---|
| **Income** | | |
| Revenues from SA Government | 256 | 236 |
| Fees and charges | 19 | 18 |
| Grants and contributions | 35 | 33 |
| Other income | 36 | 32 |
| **Total income** | 346 | 319 |
| **Expenses** | | |
| Staff benefit expenses | 203 | 177 |
| Supplies and services and other expenses | 144 | 111 |
| Depreciation and amortisation | 9 | 9 |
| **Total expenses** | 356 | 297 |
| **Net result** | (10) | 22 |
| **Assets** | | |
| Current assets | 44 | 46 |
| Non-current assets | 153 | 159 |
| **Total assets** | 197 | 205 |
| **Liabilities** | | |
| Current liabilities | 76 | 57 |
| Non-current liabilities | 37 | 37 |
| **Total liabilities** | 113 | 94 |
| **Net assets** | 84 | 111 |

## Statement of Comprehensive Income

### Revenues

#### Revenues from SA Government

BHFLHN is funded by DHW and in 2021-22 DHW funding was 74% of its total income.

DHW funding comprised operating funding of $237 million ($219 million) and capital funding of $19 million ($17 million). The increase in operating funding reflects the increased COVID-19 expenses and increased cost of the new GP fee-for-service arrangements. The capital funding related mainly to the Strathalbyn residential aged care redevelopment.

### Fees and charges

Fees and charges increased by $1 million and the significant components are:

- $6 million in residential and aged care charges
- $4 million in fees for health services
- $4 million in patient and client fees.

### Grants and contributions

Grants and contributions increased by $2 million and the significant components are $12 million of Commonwealth aged care subsidies and $20 million of Commonwealth grants.

### Other income

Other income increased by $4 million due to an increase in health recoveries of $5 million, which is mainly due to increased RSS costs recovered from other regional LHNs.

## Expenses

### Staff benefit expenses

Staff benefit expenses represent 57% of BHFLHN's total expenses and increased by $26 million (15%). The increase was due to the increase in FTEs of 280 (17%) to 1,947 as at 30 June 2022. This relates to additional staff for COVID-19, staffing the Mount Barker emergency department instead of outsourcing its operation and additional beds at the new Strathalbyn aged care facility.

The number of employees whose remuneration received/receivable exceeded the base executive level of $157,000 totalled 69 (60), comprising 48 (40) medical, 14 (13) nursing, four (three) executive and three (four) non-medical employees. Total remuneration for these employees was $21 million ($18 million).

### Supplies and services expenses

Supplies and services expenses increased by $31 million, mainly due to increases of:

- $7 million in medical, surgical and laboratory supplies due to additional testing and supplies for increased COVID-19 in the community
- $6 million in contractor and agency staff due to increased staff on sick leave and being unable to fill vacant positions
- $4 million in fee-for-service payments to GPs due to the new agreement that commenced on 1 February 2022
- $3 million in administration related to funds being returned to regional LHNs for the RSS due to a change in accounting treatment
- $3 million in training and development due to aged care training being provided to all regional LHNs
- $2 million in computing due to the increased cost of system licences and new software purchases.

## Statement of Financial Position

### Assets

Current assets decreased by $2 million and essentially comprise cash and cash equivalents of $17 million ($18 million), receivables of $4 million ($4 million) and other financial assets of $22 million ($23 million) that primarily relate to the investment of aged care refundable deposits.

### Property, plant and equipment

As at 30 June 2022, property, plant and equipment represented 77% of BHFLHN's total assets and the most significant components are $132 million ($134 million) of land and buildings and $14 million ($17 million) of capital works in progress.

### Liabilities

Current liabilities of $76 million exceeded current assets of $44 million at 30 June 2022.

Cash and cash equivalents of $17 million were sufficient to meet current payables of $16 million. BHFLHN is funded to meet expected cash flows for its current program delivery. Note 1.4 of its financial report discusses continuity of operations.

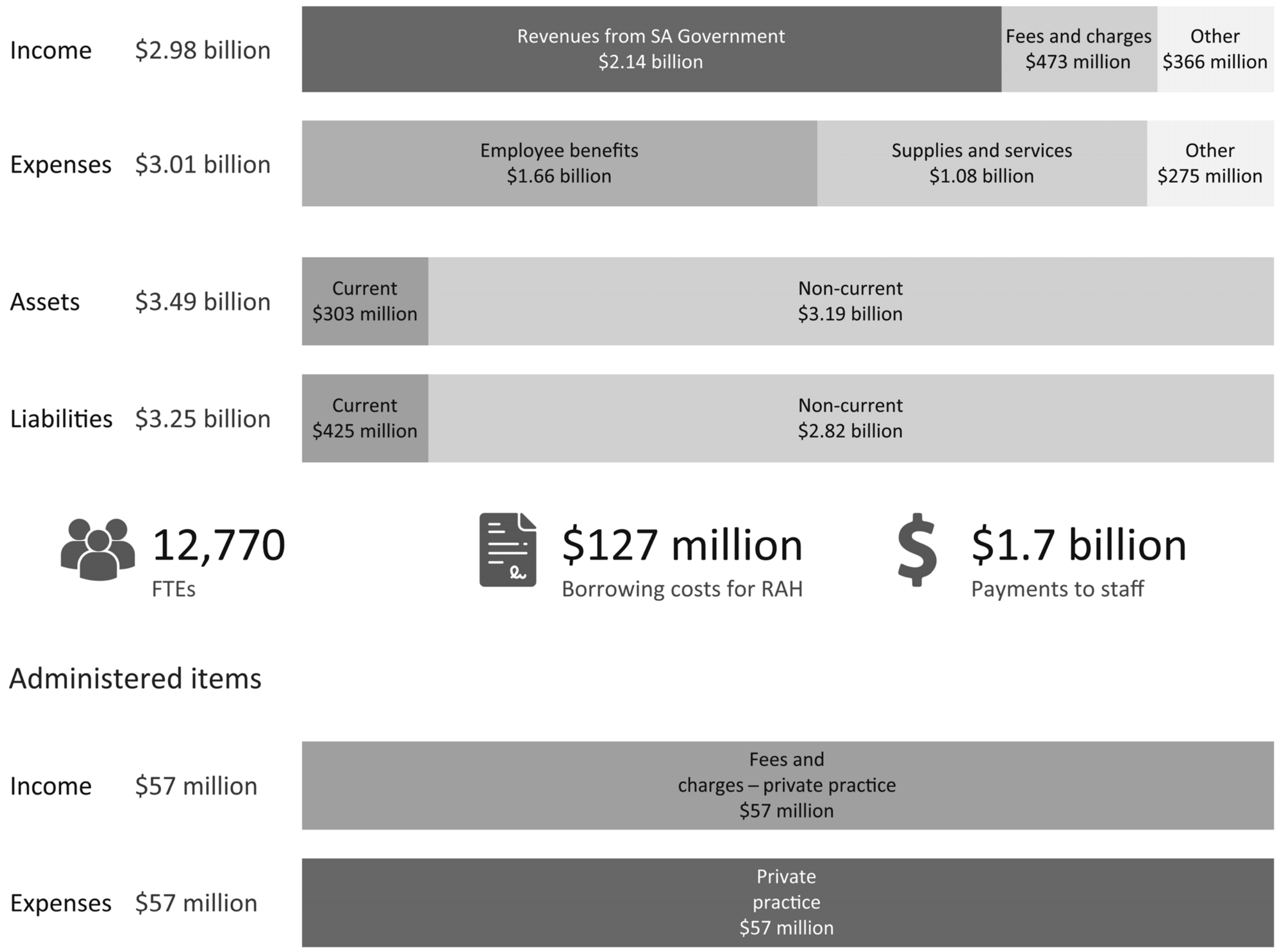
### Staff-related liabilities

Staff-related liabilities make up 61% of BHFLHN's total liabilities at 30 June 2022, comprising $59 million ($57 million) of staff benefits liabilities, $4 million ($4 million) in related on-costs and $6 million ($4 million) of provisions for workers compensation.

Note 22 of BHFLHN's financial report provides further information on the independent actuarial assessments of provisions for workers compensation.

# Central Adelaide Local Health Network Incorporated (CALHN)

## Financial statistics




## Significant events and transactions

- Quarterly service payments of $260 million for the Royal Adelaide Hospital (RAH) were paid in line with the project agreement.
- The RAH continued as the lead hospital in South Australia's response to the COVID-19 pandemic.
- The Independent Commissioner Against Corruption (ICAC) commenced an evaluation of specific aspects of CALHN's practices, policies and procedures related to the receipt, management, investigation and outcomes of complaints about CALHN and its staff.
- CALHN received increased operational funding of $153 million.
- Supplies and services expenses increased by $129.6 million.

| | |
|---|---|
| **Financial report opinion** | **Unmodified** |
| **Controls opinion findings** | — Inconsistencies and weaknesses in the approach to monitoring employee screening checks.<br>— The rate of completed performance reviews could be improved, as it does not meet the benchmark of 80%.<br>— Some medical officers started their employment without a letter of offer.<br>— No job plans for some senior medical practitioners and consultants. Those that were provided did not meet the requirements of the Enterprise Agreement.<br>— Ineffective processes to ensure all medical officers' timesheets were approved and submitted promptly.<br>— The memorandum of administrative arrangements for the Across Government Facilities Management Arrangements (AGFMA) was unsigned.<br>— The financial delegations in the Panorama system, the system provided by the maintenance contractor, did not align with CALHN's general financial delegations. |
| **Other audit findings** | No significant findings. |

# Functional responsibility

CALHN was established under the *Health Care Act 2008* (HC Act) on 1 July 2019.

CALHN's powers and functions are to establish, provide, maintain and enhance hospital, medical and allied health services in its local area.

## Governance

The HC Act provides for the governance, management and administration of the South Australian public health system. It sets out the role, functions and powers of the Minister, the Chief Executive of the Department for Health and Wellbeing (DHW), the local health networks (LHNs), their governing boards and their chief executive officers (CEOs).

LHN governing boards are responsible for the overall governance and oversight for the local health service delivery by the LHN, including governance of performance and budget achievement, clinical governance, safety and quality, risk management and the achievement of the board functions and responsibilities.

Each LHN CEO is accountable to, and subject to the direction of, the governing board for managing the operations and affairs of the LHN.

DHW has a role as the 'system leader' and focuses on setting strategic direction and statewide policy, as well as the performance of the public health system through high-level system direction and performance management.

The Minister for Health and Wellbeing remains responsible for setting reform agendas and priorities. The governing board must comply with any direction of the Minister for Health and Wellbeing or the Chief Executive of DHW.

A service agreement between CALHN and the Chief Executive of DHW outlines the requirements of the formal relationship between DHW and CALHN, and sets out performance expectations and funding arrangements. The intent of the service agreement is to be binding on all parties. The 2021-22 CALHN service agreement was executed in December 2021. The Statewide Clinical Support Services (SCSS) service agreement was executed by SCSS in December 2021 and by DHW in February 2022.

On 8 June 2021 the South Australian Parliament passed the *Health Care (Governance) Amendment Act 2021*, which amended the HC Act from 23 August 2021. The Amendment Act supports the SA Government's decentralisation of the public health system. Among other matters, it makes further amendments to the function of the Chief Executive of DHW to reflect DHW's role as system leader, formalises provisions for service agreements, clarifies workforce responsibilities and makes minor amendments to reflect the governance and accountability arrangements.

### Impact of COVID-19 on CALHN

COVID-19 continues to have an impact on CALHN's operations. This includes the increased costs associated with:

- COVID-19 capacity and preparation
- the readiness of COVID-19 testing clinics
- establishing and operating vaccine clinics
- increased demand for personal protective equipment
- increased staff costs (including agency) to ensure necessary compliance measures are followed.

## The Royal Adelaide Hospital

### Legal action in progress

On 1 August 2017, the builder of the RAH (Hansen Yuncken Pty Ltd and CPB Contractors Pty Ltd (formerly Leighton Contractors Pty Ltd)) filed legal proceedings against Celsus, independent certifier Donald Cant Watts Corke Pty Ltd and the State of South Australia for alleged breaches of contract and other matters in relation to the construction of the new RAH. At the time of this Report the proceedings were stayed.

# Scope of the audit

## Audit of the financial report

The audit program covered major financial systems to obtain sufficient evidence to form an opinion on the financial report. Financial services for CALHN are provided through a combination of:

- central services provided by Shared Services SA through an integrated finance service model
- finance services located within CALHN
- central services provided by DHW.

We completed audit work at Shared Services SA's central services, CALHN and DHW.

Audit findings across health services fall into the following categories:

- common findings reflecting central services and/or systems
- matters for individual health services
- DHW matters.

Specific areas of audit attention in 2021-22 included:

- property, plant and equipment
- payroll and workforce management
- cash and online banking
- general ledger and financial accounting
- patient billing and debtor management
- goods and services expenditure and accounts payable
- borrowings
- SA Pharmacy revenue, expenditure and inventory management
- SA Pathology revenue
- governance
- accounts receivable and debtor management.

We considered the work of CALHN's internal auditors in planning and conducting the audit.

## Controls opinion

We reviewed controls over bank accounts, employee expenses, goods and services expenditure, borrowings, buildings and improvements and the AGFMA as part of our overall controls opinion, which is discussed in Part B of this Report.

# Audit findings

## Communicating our audit findings

We communicated our audit findings in management letters to CALHN's CEO. The main findings and CALHN's responses are discussed below.

## Controls opinion findings

### Payroll planning, monitoring and approval processes could be improved

CALHN employs more than 12,700 FTEs and its payroll-related costs are significant, with $1.7 billion in staff benefits expenses paid and $513 million in staff benefits liabilities and associated on-costs as at 30 June 2022. Given the significance of these costs, we review key payroll controls each year.

#### *Inconsistencies and weaknesses in the approach to monitoring employee screening checks*

As part of our review of controls associated with managing staff, we again chose to look at CALHN's management of employment clearances.

Different positions within an LHN can require different types of employment clearances. Working with vulnerable people, children and the aged requires specific clearances for some staff, while others may require more general clearances. SA Health's screening policy directive requires employees to have appropriate criminal and history screening before employment and to maintain them. These requirements apply to employees who are in prescribed positions under the *Child Safety (Prohibited Persons) Act 2016,* as well as those in approved provider positions under the *Aged Care Act 1997.*

In 2020-21, we found that it was not clear which CALHN employees were required to comply with the legislative requirements of the various Acts that apply.

In March 2022, CALHN developed a fact sheet outlining the certificates required by employees. Our review of a criminal history check report as at 30 June 2022 noted that:

- many screening checks were due for renewal
- many employees listed did not have any dates recorded for the various screening checks they needed. We identified most of these employees as medical officers, who are deemed to be in prescribed positions
- CALHN is still updating its records to indicate if the position is a prescribed position.

CALHN responded that it has started work to assess each position in its payroll system against the screening requirements in the SA Health directive, and record the screenings required in the payroll system position record. Following these initial assessments, reports will be distributed to business units to validate the required screening. On completion, CALHN will develop reporting to support regular monitoring and review to ensure that checks are and remain current.

#### *CALHN's records indicate that it is below the KPI set for current staff performance reviews*

In 2021-22, we continued to review how current the employee performance reviews were at a number of agencies, including CALHN.

We noted a decline from our findings in 2020-21, as CALHN's records in 2022 indicated that only 47% of its staff had a current performance review compared to 52% in 2020-21. DHW has established a key performance indicator in CALHN's service agreement that 80% of performance reviews should be current.

CALHN responded that its performance review rates are reported and monitored through its monthly performance meetings with Programs and the provision of detailed monthly employee level reports. CALHN will issue periodic communications to staff and managers reminding them of the importance of performance reviews and requirement for formal reviews to be performed twice annually and recorded in the payroll system.

### *Key payroll information for CALHN staff was not always reviewed*

Key payroll reports for CALHN's staff differ depending on the type of employee. The effective review of these reports helps to ensure payments to staff are accurate and valid.

For staff who are automatically paid each fortnight, key payroll information is captured on bona fide and leave return reports.

Consistent with prior years, in 2021-22 we found:

- gaps or inconsistencies in the review of payroll and leave information across all employee types
- ineffective monitoring of bona fide and leave certificates.

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

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

Where employee payroll information is not reviewed, there is an increased risk of inaccurate payments to staff, potentially resulting in financial loss for CALHN.

CALHN responded that bona fide and leave return completion rates form part of its key performance indicators, and are reported and monitored.

### *No processes to ensure all medical officers' timesheets are approved and submitted promptly*

In prior years, our review of processes for medical officers' timesheets identified that there was no process to ensure that all of these timesheets were submitted and approved promptly.

This is particularly important where medical officers are paid significant allowances based on their timesheets in addition to their base pay, which is paid automatically.

Our testing of medical officers' timesheets in 2021-22 again identified several instances where medical officers had submitted multiple timesheets at once.

In 2020-21 CALHN advised us that it was working with Shared Services SA and SA Health to source an online rostering tool for medical officers to provide better recording and reporting of time worked. A tool like this would also help reduce the late submission of timesheets and include the ability to scan for fatigue and compliance with enterprise agreements.

Our follow-up in 2021-22 revealed that rolling out the online rostering tool was expected to help ensure that timesheets are approved and submitted promptly by introducing electronic timesheets. At the time, CALHN was rolling the tool out across its business units, but it was not fully implemented.

CALHN advised us that it will trial electronic timesheets with its emergency medicine consultants in October 2022. At the completion of the trial it is expected that electronic timesheets will be systematically introduced to all units using online rostering.

### *Medical practitioners commenced employment without a letter of offer*

A letter of offer acts as a formal offer of a position and is signed by the successful applicant as evidence of their acceptance of the position. This should occur before the applicant starts any work in the position.

Of the six medical practitioners we sampled, who all commenced their employment in 2021-22, three were given letters of offer only after their start date.

We were told that delays in providing the paperwork for a new starter or providing incomplete or incorrect paperwork results in the human resources team being unable to generate the letter of offer prior to the employee's start date.

Not providing a letter of offer before commencement may:

- result in applicants having queries about the terms and conditions of their employment
- impact the onboarding process or delay offering the position to the next candidate should the individual decline the offer.

CALHN advised that it will issue communications to managers reminding them of the importance of, and the requirements for, timely submission of new starter paperwork to ensure offer and acceptance of employment occurs prior to commencement.

### *No job plans for senior medical practitioners and consultants*

Job planning is an annual process for senior medical practitioners and consultants and defines the agreed duties, responsibilities and objectives of a position for the coming year. It also provides clarity about the expectations, commitments and support required to achieve the required outcomes, and ensures that resources are aligned with service priorities and plans.

In 2021-22, we were either unable to obtain copies of these job plans or the details in the job plans we were provided did not meet the requirements of the *SA Health Salaried Medical Officer Enterprise Agreement 2022.*

We note that at the time of our audit, SA Health had released an updated job planning policy directive for stakeholder consultation, and that once the consultation process is complete the final directive will be released.

CALHN advised us that it will:

- work with Medical Leads to ensure that a job plan is completed for their senior medical practitioners and specialists and that it is less than three-years old
- incorporate a declaration of completion of a job plan into the Scope of Practice document, including a link to SA Health's directive. This will oblige senior medical practitioners and specialists to have this discussion every three years at a minimum as a part of the credentialing review cycle.

CALHN will also investigate options to record the existence of a job plan in the employee's payroll record, enabling reporting and monitoring.

#### *Non-compliance with SA Health's immunisation policy and completeness of the immunisation compliance database*

SA Health's immunisation policy requires designated health care workers to receive a Diphtheria-Tetanus-Pertussis (dTpa) booster every 10 years.

Our analysis of CALHN's dTpa records identified 1,021 current employees who were overdue for a booster.

CALHN advised us that it would:

- provide targeted catch-up dTpa immunisations to outstanding designated staff across CALHN and SCSS in the next three months
- build a report that will monitor at three-monthly intervals the staff who are due for a dTpa booster
- implement an escalation process for staff who remain non-compliant.

### Asset management and across-government financial arrangements (AGFMA)

CALHN has property, plant and equipment worth $3.2 billion. Its main asset, apart from the RAH, is The Queen Elizabeth Hospital (TQEH). As part of our controls opinion work in 2021-22, we followed up CALHN's control processes for managing the maintenance of these assets, including considering the AGFMA. This did not include detailed work on maintenance at the RAH, as this is covered by separate public private partnership (PPP) arrangements.

#### *CALHN and SCSS have not yet developed a strategic asset management plan and supporting asset management plans*

Since 2018-19 we have consistently found that CALHN did not have a strategic asset management plan and supporting asset management plans.

Our follow-up in 2021-22 identified that:

- CALHN's strategic asset management plan was in draft and awaiting approval from its Board
- SCSS's strategic asset management plan and supporting asset management plans were still to be finalised.

Until these documents are in place there remains a risk that CALHN and SCSS may not be fully informed of their asset management risks and may not be able to effectively plan for maintenance costs and refurbishment of assets. This may impact their ability to deliver services effectively.

CALHN responded that it would table its completed strategic asset management plan at the Board Audit and Risk Committee meeting in November 2022.

SCSS responded that its strategic asset management plan is in progress and that it is aiming to finalise it within the next six months.

### *Memorandum of administrative arrangements (MoAA) not signed*

The MoAA for the AGFMA between CALHN and the Department for Infrastructure and Transport (DIT) describes the roles and responsibilities of parties involved in the delivery of the AGFMA.

The MoAA was provided to CALHN for review prior to the commencement of the new arrangements on 1 December 2021. We were advised that CALHN did not accept the new terms in the MoAA and therefore had not signed the agreement. As of 30 June 2022 the MoAA was still unsigned.

CALHN responded that it would work closely with DIT to ascertain the roles and responsibilities for implementing the new AGFMA and, on reaching an agreement on the terms and conditions of the MoAA, will sign it by 31 December 2022.

CALHN also advised us that there are still outstanding matters/issues that it is waiting for Ventia (the new facilities management provider) to propose solutions for. Of importance is the provision of the annual Asset Services Delivery Plan which outlines all assets and infrastructure maintenance schedules, costs to maintain them and replacement life cycles.

### *Maintenance system financial delegation limits are not aligned with CALHN's and SCSS's delegations*

Our review of Ventia's maintenance system identified instances where:

- financial limits assigned to several employees did not align with CALHN's and SCSS's financial delegations
- several delegates in the system did not have the delegation to approve expenditure CALHN's and SCSS's financial delegations
- several delegates had multiple user group profiles in the system
- delegates within certain profile groups have a delegation of $9,999,999. This is inconsistent with the maximum delegation limit for CALHN of $1.5 million.

Our review of job claims in the maintenance system did not identify any instances where an employee approved claims above their delegation.

We note that CALHN had sent Ventia its delegation limits to update the system prior to contract commencement. However, CALHN did not receive a report from Ventia to check that the delegations had been correctly updated in the system.

CALHN responded that it has followed up with Ventia whether the delegations have been updated to the maintenance system.

## Other

### ICAC review – Evaluation of targeted specific aspects of CALHN

ICAC has commenced an evaluation of specific aspects of CALHN's practices, policies and procedures related to the receipt, management, investigation and outcomes of complaints about CALHN and its staff.

The review commenced on 29 April 2022 and will conclude in 2022-23.

# Interpretation and analysis of the financial report

## Highlights of the financial report

| | 2022 | | 2021 | |
|---|---|---|---|---|
| | Consolidated $million | Parent $million | Consolidated $million | Parent $million |
| **Income** | | | | |
| Revenues from SA Government | 2,143 | 2,143 | 1,970 | 1,970 |
| Fees and charges | 473 | 453 | 449 | 438 |
| Grants and contribution | 256 | 256 | 253 | 253 |
| Resources received free of charge | 15 | 15 | 15 | 15 |
| Other revenue/income | 95 | 95 | 85 | 85 |
| **Total income** | 2,982 | 2,962 | 2,772 | 2,761 |
| | | | | |
| **Expenses** | | | | |
| Staff benefits expenses | 1,659 | 1,648 | 1,566 | 1,557 |
| Supplies and services | 1,081 | 1,075 | 951 | 950 |
| Borrowing costs | 127 | 127 | 118 | 118 |
| Depreciation and amortisation | 137 | 136 | 137 | 137 |
| Grants and subsidies | 1 | 1 | 1 | 1 |
| Impairment loss on receivables | 1 | 1 | - | - |
| Other expenses | 9 | 8 | 11 | 11 |
| **Total expenses** | 3,015 | 2,996 | 2,784 | 2,774 |
| **Net result and total comprehensive result** | (33) | (34) | (12) | (13) |
| | | | | |
| **Assets** | | | | |
| Current assets | 303 | 289 | 329 | 316 |
| Non-current assets | 3,185 | 3,179 | 3,263 | 3,258 |
| **Total assets** | 3,488 | 3,468 | 3,592 | 3,574 |
| | | | | |
| **Liabilities** | | | | |
| Current liabilities | 425 | 423 | 408 | 405 |
| Non-current | 2,825 | 2,825 | 2,913 | 2,914 |
| **Total liabilities** | 3,250 | 3,248 | 3,321 | 3,319 |
| **Net assets** | 238 | 220 | 271 | 255 |

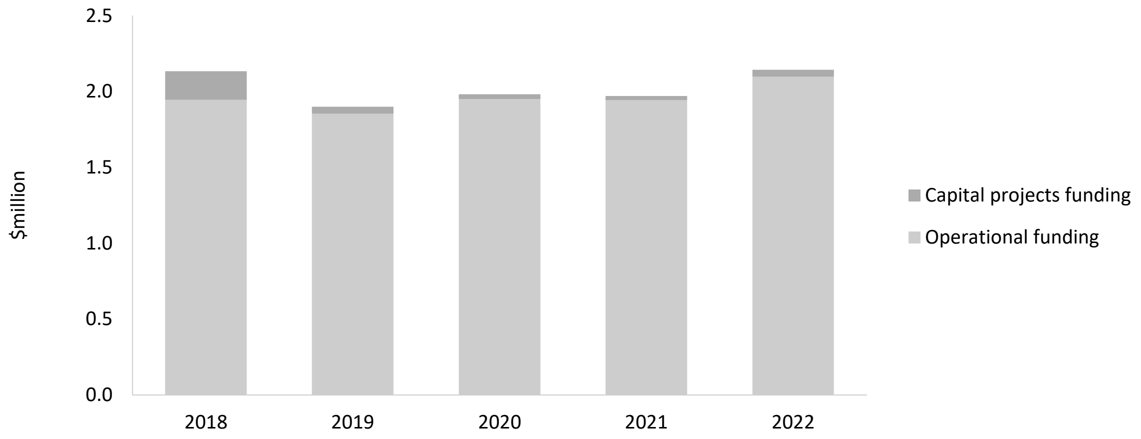
## Statement of Comprehensive Income

### Income

CALHN is mainly funded through recurrent and capital funding from DHW. In 2021-22, CALHN received recurrent funding of $2.097 billion and capital funding of $46 million, mainly for works at TQEH.

The increase in recurrent funding in 2021-22 is primarily due to additional funding provided for the COVID-19 response and the underlying indexations and timing of payroll payments this year compared to last year.

The chart below shows revenues from the SA Government over the last five years.




The chart shows that the overall level of funding to CALHN increased between 2017-18 and 2021-22. The higher value in 2017-18 reflects the timing of the transition to the new Royal Adelaide Hospital.

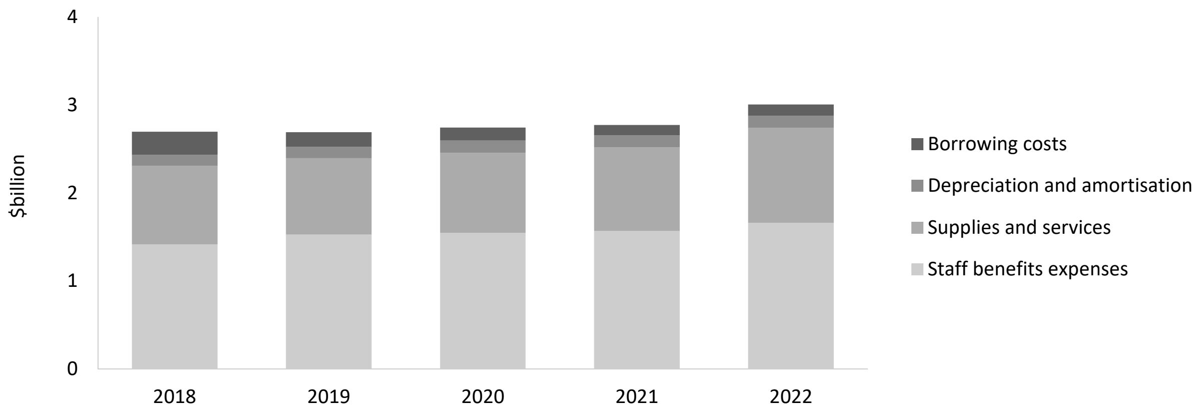
2021-22 reflects a large increase in operational funding, as additional funding was provided to CALHN to cover the cost of responding to COVID-19.

Fees and charges increased by $24 million to $473 million, mainly due to patient and client fees, up $21.4 million, as pathology fees were up by $16.3 million and imaging fees were up by $1.9 million. This reflects the increased recharging of central services, such as imaging and pathology, under the revised arrangements implemented in 2020-21. In addition, revenue from contracts with customers at AusHealth increased by $9.1 million.

## Expenses

In 2021-22 the consolidated entity’s total expenses increased by $230.9 million to $3.015 billion.

The chart below shows the composition of expenses for the last five years.




The chart shows an overall increase in expenditure between 2017-18 and 2021-22. Borrowing costs increased in 2017-18 with the opening of the new Royal Adelaide Hospital and then declined through to 2020-21 as interest rates associated with these arrangements reduced. Borrowing costs in 2021-22 were up by $8.9 million due to an increase in finance changes on the PPP arrangements, reflecting changes to interest rates and associated payments.

## Staff benefits expenses

Staff benefits expenses, $1.7 billion, represent more than 55% of CALHN's total expenses and increased by $93.7 million in 2021-22.

The increase in staff benefits expenses is due to:

- salaries and wages, up $85.9 million, reflecting an increase in FTEs, including additional temporary staff to assist with COVID-19, and wage rises associated with enterprise agreements, including those for nursing staff and visiting medical officers
- annual leave, up $12 million due to an increase in FTE numbers and staff taking leave
- staff on-costs and superannuation, up $14.1 million, which aligns with the increase in salaries and wages. The superannuation rate applied to the long service leave provision increased from 10.1% to 10.6% in 2021-22
- workers compensation expenses, up $5.5 million, reflecting the outcomes of the annual actuarial reassessment of this liability
- offset by a $26.8 million decrease in long service leave expenses, mainly due to the impact of changed actuarial assumptions used to estimate the associated liability. The Commonwealth bond yield rate used to calculate the liability increased to 3.75% from 1.5%, resulting in a decrease in the liability.

The following table shows the breakdown of total staff numbers between medical, nursing and non-medical staff, based on FTEs, since 2017-18. The table shows an overall growth in FTE numbers over the five years, including in 2021-22.

| | 2017-18 FTEs | 2018-19 FTEs | 2019-20 FTEs | 2020-21 FTEs | 2021-22 FTEs |
|---|---|---|---|---|---|
| Medical officers | 1,364 | 1,418 | 1,473 | 1,480 | 1,525 |
| Nurses | 4,347 | 4,672 | 4,544 | 4,582 | 4,994 |
| Non-medical | 5,388 | 5,507 | 5,560 | 5,829 | 6,251 |
| Total FTEs | 11,099 | 11,597 | 11,577 | 11,891 | 12,770 |

The increase in 2021-22 reflects the employment of additional staff to respond to the increase in COVID-19 numbers once the State borders opened on 23 November 2021.

The number of employees whose remuneration received/receivable exceeded the base executive level ($157,000) totalled 1,445 (1,332), comprising 1,212 (1,138) medical, 84 (59) non-medical, 118 (102) nursing and 31 (33) executive employees. Total remuneration for these employees was $436 million ($393 million).

## Supplies and services expenses

Supplies and services expenses increased by $129.6 million (13.6%) to $1.081 billion, with the significant components being:

- fee for service, up $28.9 million mainly due to an $8.6 million increase in elective surgery, a $4 million increase for the child dental health scheme, $4.3 million related to COVID-19, $3 million of additional mental health beds at the Adelaide Clinic and $4.1 million of outsourced cardiac thoracic activity

- medical, surgical and laboratory supplies, up $21.1 million mainly due to increases in medical and laboratory supplies of $14.4 million, chemical reagents of $4 million, test kits of $3.5 million and specimen containers of $1.9 million. Additional costs incurred were due to increased testing for COVID-19
- security, up $13.9 million mainly due to $8 million for SCSS and $1.6 million for CALHN of COVID-19 related costs, as well as general security costs increases for CALHN
- contractors – agency staff, up $17.8 million mainly due to the replacement of staff, in particular nursing staff, who were absent or furloughed due to COVID-19 or to staff medical hotels
- contractors expense, up $7.6 million mainly due to COVID-19 costs for SCSS of approximately $14 million mainly for traffic control at COVID-19 testing sites, offset by the cessation of CALHN's Korda Mentha contract of $4.5 million
- repairs and maintenance, up $6.3 million mainly due to $3.2 million in RAH modification costs, breakdown maintenance being up by $1.2 million and breakdown and preventative maintenance of biomedical equipment being up by $1.9 million
- contract for services, up $6.2 million mainly due to the costs of outsourced hospital beds
- housekeeping, up $6.1 million mainly due to COVID-19 related housekeeping costs of $5.3 million
- offset by PPP operating expenses, down $16.9 million and related to the operations of the RAH (security, cleaning, maintenance and food supplies) as a result of decreased activity charges from the provider, Spotless.

## Statement of Financial Position

### Asset

#### Cash and cash equivalents

Cash and cash equivalents decreased by $30.9 million (see 'Statement of Cash Flows' below).

#### Property, plant and equipment

Property, plant and equipment represents 90% of CALHN's total assets, with a carrying value that remained steady at $3.2 billion.

Significant movements in property, plant and equipment in 2021-22 were asset additions of $55.5 million, including $34.5 million of works associated mainly with the TQEH redevelopment, an additional $10.9 million of works for plant and equipment and an additional $8 million in medical/surgical/dental/biomedical equipment.

### Liabilities

Current liabilities increased by $17 million to $424.9 million during the year and exceeded current assets of $302.8 million at 30 June 2022. CALHN works with DHW to ensure sufficient funding is provided to CALHN to meet expected cash flows for its administration and program delivery. Cash and cash equivalents of $166.4 million are sufficient to meet current payables of $121.3 million.

Staff benefits are the largest element of current liabilities, totalling $221.8 million at 30 June 2022, and include leave entitlements expected to be taken within 12 months.

Total liabilities reduced by $72.1 million to $3.25 billion, mainly as a result of payments associated with the RAH lease reducing the outstanding liability.

Staff liabilities and associated on-costs make up $561.8 million of CALHN's total liabilities at 30 June 2022, comprising:

- staff benefits liabilities and related on-costs – $512.6 million ($563 million)
- provision for workers compensation – $49.2 million ($35 million).

The decrease in staff liabilities is the result of changes in the actuarial assumptions relating to the long service leave liability valuation. An increase in the yield on government bonds, which is the rate used to discount future long service leave cash flows, results in a decrease in the reported long service leave liability of $52.9 million. The yield rate on Commonwealth bonds increased to 3.75% from 1.5%.

The $13.8 million increase in the provision for workers compensation reflects the additional compensation provision based on an actuarial assessment of the outstanding liability as at 30 June 2022. The increase is mainly due to the increase in the provision for seriously injured workers claims, mostly as a result of the impact of the Summerfield decision on the calculation of these claims.

Payables increased by $27.6 million to $98.9 million mainly due to an increase in accrued supplies and services of $14.3 million and an $11.9 million increase in controlled creditors.

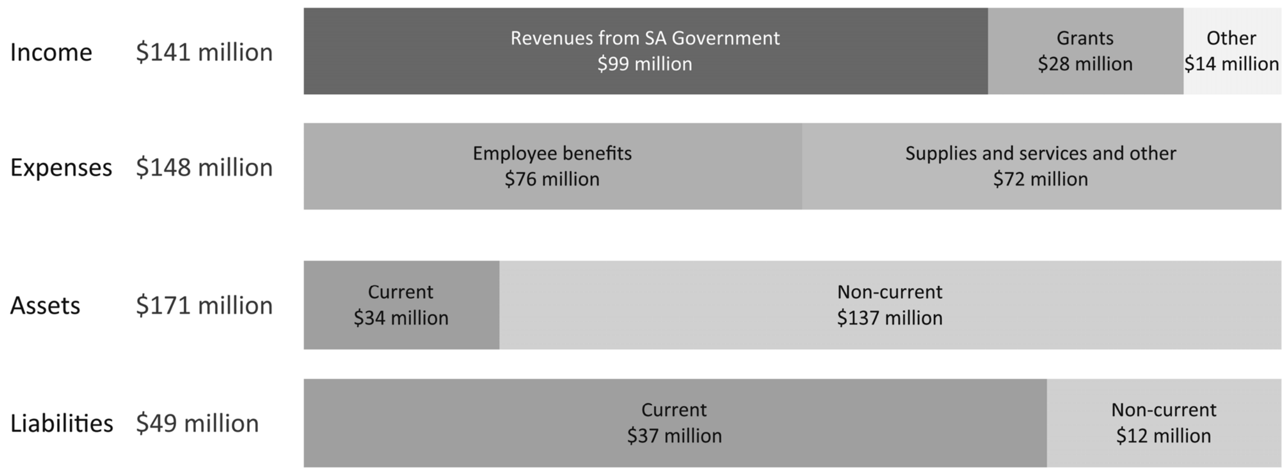
## Statement of Cash Flows

Cash and cash equivalents decreased by $30.9 million to $166.4 million in 2022. The main factors contributing to the decrease were:

- net cash provided by operating activities decreasing by $49.8 million as a result of:
  - cash generated from operations, up $184.8 million mainly due to cash inflows from receipts from the SA Government, up $153 million, fees and charges, up $17.3 million, and grants and contributions, up $5.9 million
  - cash used in operation, up $234.6 million mainly due to staff benefits payments, up $137.3 million, payments for supplies and services, up $94.5 million, and interest paid, up $10.6 million. These increases were offset by a decrease in other payments of $7.8 million
- net cash used in investing activities increasing by $4.9 million, largely due to purchases of property, plant and equipment
- net cash used in financing activities increasing by $2.8 million due to an increase in the repayment of lease liabilities.

# Eyre and Far North Local Health Network Incorporated (EFNLHN)

### Financial statistics




808
FTEs

14
Hospitals and health service sites

| | |
|---|---|
| **Significant events and transactions** | Responding to COVID-19 continued to have a significant impact, with associated costs of $8 million for additional public health activities. |
| **Financial report opinion** | **Unmodified** |
| **Audit findings** | — Invoices paid without purchase orders.<br>— Contracts executed without the appropriate authority.<br>— Significant contracts without contract management plans.<br>— Ineffective debt management for patient debtors.<br>— Inadequate segregation of duties for medical records. |

## Functional responsibility

EFNLHN was established under the *Health Care Act 2008* (HC Act) on 1 July 2019. EFNLHN's powers and functions are to provide health services in the Eyre and Far North region of South Australia. This region encompasses Ceduna, Cleve, Cooper Pedy, Cowell, Cummins, Elliston, Kimba, Port Lincoln, Oodnadatta, Streaky Bay, Tumby Bay and Wudinna.

### Governance

Local health network (LHN) governing boards are responsible for the overall governance and oversight for local health service delivery by the LHN, including governance of performance and budget achievement, clinical governance, safety and quality, risk management and the achievement of the board functions and responsibilities.

Each LHN chief executive officer (CEO) is accountable to, and subject to the direction of, the governing board for managing the operations and affairs of the LHN.

The Department for Health and Wellbeing's (DHW's) role is the 'system leader' and it focuses on setting strategic direction and statewide policy, high-level system direction and performance management of the public health system.

The Minister for Health and Wellbeing remains responsible for setting reform agendas and priorities.

A service agreement between EFNLHN and the Chief Executive of DHW outlines DHW and EFNLHN responsibilities, performance expectations and funding arrangements. The intent of the service agreement is to be binding on all parties.

## Scope of the audit

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

Financial services for EFNLHN are provided through a mix of:

- finance services located within EFNLHN
- administrative and financial services from the Rural Support Service (RSS) within the Barossa Hills Fleurieu Local Health Network Incorporated (BHFLHN)
- central services provided by DHW
- services provided by Shared Services SA (SSSA).

Our audit included the review of systems and audit work at DHW's central services, EFNLHN, RSS and SSSA. A chartered accounting firm assisted the Auditor-General with the audit of EFNLHN.

Specific areas of audit attention in 2021-22 included:

- payroll
- accounts payable, including procurement and contract management
- revenue, including debt management
- property, plant and equipment
- cash
- general ledger.

# Audit findings

## Communicating our audit findings

We communicated our audit findings to the CEO of EFNLHN. The main findings and EFNLHN's responses are discussed below.

### Audit findings

#### Accounts payable

##### *Invoices paid without purchase orders*

SA Health's requisition, purchase order and invoice management policy mandates the use of requisitions and purchase orders, unless the item purchased is listed in the approved purchase order exemption list or the purchase is below $2,200.

We found payments without purchase orders for which the exemptions did not apply. Where this occurs there is an increased risk that payments may be made for goods or services not received or not at the agreed price.

EFNLHN advised us that it would seek alternative arrangements for its largest suppliers, which account for most of the invoices without purchase orders.

#### Procurement and contract management

##### *Contracts executed without appropriate authority*

We tested a sample of contracts and identified two that were executed without the proper approval.

EFNLHN responded that it would obtain the proper approval for the contracts identified.

##### *Significant contracts with no contract management plan*

We identified a significant contract valued at $7.8 million for which EFNLHN had not established a contract management plan.

EFNLHN responded that it would establish a contract management plan for the contract we identified.

#### Revenue

##### *Ineffective follow-up of longstanding patient debtors*

We reviewed the effectiveness of debtor follow-up activities performed by revenue officers located at the Port Lincoln Hospital. We found instances where the follow-up and recovery of longstanding debtors was ineffective or not performed. We reported similar concerns last year. Although the percentage of long outstanding debt improved from 80% in 2021 to 75% in 2022, more work is needed.

EFNLHN responded that it wrote off a substantial amount of this debt before 30 June 2022 and would continue to improve debt follow-up, including the processing of write-offs.

### *Revenue officers had access to change charge type data*

We found that charge types could be modified by revenue officers in the CHIRON patient billing system, increasing the risk of inappropriate adjustments to invoiced fees.

EFNLHN advised us that it would work with DHW's ICT team to restrict this access and, if not possible, a detective control would be implemented.

In addition to the findings reported here, we made several findings about control activities performed by the RSS that impact EFNLHN. They are reported in the section of this Report titled 'Barossa Hills Fleurieu Local Health Network Incorporated', as BHFLHN is responsible for the RSS.

## Interpretation and analysis of the financial report

The consolidated accounts of EFNLHN include the incorporated Health Advisory Councils (HACs) within the region. These HACs were established under the HC Act to undertake an advocacy role on behalf of the community, to provide advice about health services, health issues, goals, priorities, plans and other strategic initiatives.

We are only showing the consolidated amounts below, as the difference between the consolidated and parent amounts is immaterial.

### Highlights of the financial report – consolidated

| | 2022<br>$million | 2021<br>$million |
|---|---:|---:|
| **Income** | | |
| Revenues from SA Government | 99 | 87 |
| Fees and charges and other income | 14 | 12 |
| Grants and contributions | 28 | 27 |
| **Total income** | 141 | 126 |
| | | |
| **Expenses** | | |
| Staff benefit expenses | 76 | 73 |
| Supplies and services and other expenses | 65 | 51 |
| Depreciation and amortisation | 7 | 7 |
| **Total expenses** | 148 | 131 |
| **Net result** | (7) | (5) |
| | | |
| **Assets** | | |
| Current assets | 34 | 31 |
| Non-current assets | 137 | 142 |
| **Total assets** | 171 | 173 |
| | | |
| **Liabilities** | | |
| Current liabilities | 37 | 31 |
| Non-current liabilities | 12 | 12 |
| **Total liabilities** | 49 | 43 |
| **Net assets** | 122 | 130 |

## Statement of Comprehensive Income

### Revenues

#### Revenues from SA Government

EFNLHN is principally funded by DHW and in 2021-22 DHW funding was 70% of its total income. This funding comprised operational funding of $96 million ($84 million) and capital funding of $2 million ($2 million). The increase in operational funding reflects the increased operating expenses for COVID-19 and increased cost of the new general practitioners fee-for-service arrangements.

#### Fees and charges

Fees and charges remained stable and the significant components were:

- $4 million of residential and aged care charges, mainly long-stay nursing home fees
- $3 million of patient and client fees
- $3 million of other fees and charges.

#### Grants and contributions

Grants and contributions increased by $1 million and the most significant component was $22 million of Commonwealth grants and donations.

### Expenses

#### Staff benefit expenses

Staff benefit expenses represents 51% of total expenses and increased by $3 million (4%). The increase is due to an increase in FTEs, mainly for additional COVID-19 activities. FTEs increased by 46 (6%) to 808 as at 30 June 2022.

The number of employees whose remuneration received/receivable exceeded base executive level ($157,000) totalled 14 (13), comprising one (one) medical, 10 (11) nursing, one (one) executive and two (0) non-medical employees. Total remuneration for these employees was $3 million ($3 million).

#### Supplies and services expenses

Supplies and services increased by $13 million, which was mainly due to:

- $5 million in fee-for-service payments to general practitioners due to the new agreement that commenced on 1 February 2022 and a change in staffing arrangements
- $3 million in contractor and agency staff due to increased staff on sick leave, additional staff for COVID-19 and being unable to fill vacant positions
- $2 million in internal SA Health service level agreement payments due to a change in the costing allocations for the RSS
- $1 million in medical, surgical and laboratory supplies due to additional testing and supplies for increased COVID-19 in the community.

## Statement of Financial Position

### Assets

Current assets increased by $3 million and essentially comprise cash and cash equivalents of $10 million ($10 million), receivables of $4 million ($3 million) and other financial assets of $18 million ($17 million), which primarily relate to the investment of aged care refundable deposits.

### Property, plant and equipment

As at 30 June 2022, property, plant and equipment represents 80% of total assets and the most significant component was $133 million ($135 million) of land and buildings.

### Liabilities

#### Staff-related liabilities

Staff-related liabilities make up 47% of total liabilities and comprised $20 million ($20 million) of staff benefits liabilities, $1 million ($1 million) of related on-costs and $2 million ($1 million) of provisions for workers compensation.

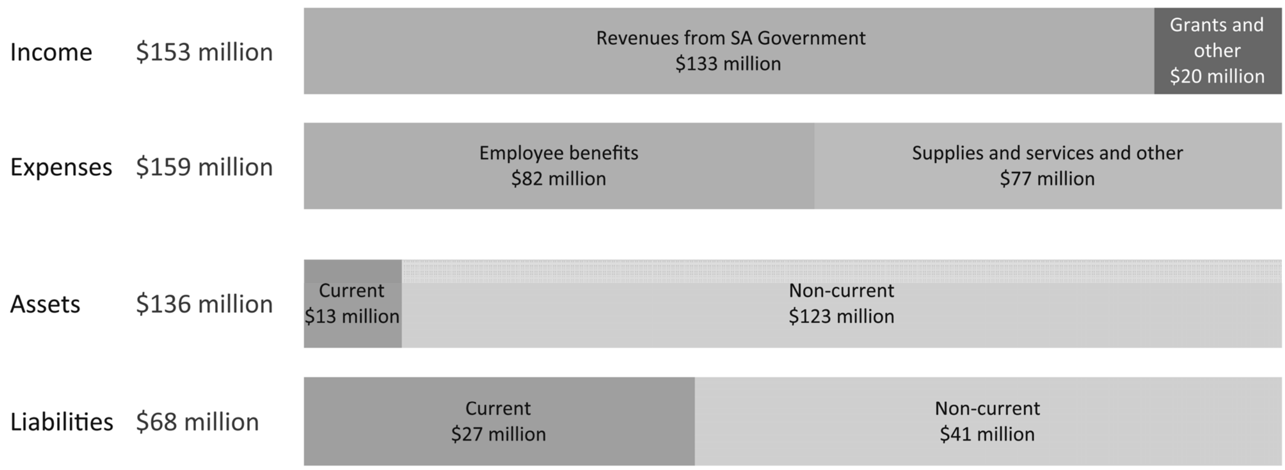
Note 22 of EFNLHN's financial report provides further information on the independent actuarial assessments of provisions for workers compensation.

#### Other liabilities

Other current liabilities make up 39% of total liabilities and mainly comprise residential aged care bonds. Residential aged care bonds increased by $2 million in 2021-22 to $16 million ($14 million) due to an increase in new residents. They are refundable accommodation contributions or deposits made by residents when they enter aged care facilities.

# Flinders and Upper North Local Health Network Incorporated (FUNLHN)

### Financial statistics




806
FTEs

7
Hospitals and health service sites

| | |
|---|---|
| **Significant events and transactions** | Responding to COVID-19 continued to have a significant impact, with associated costs of $6 million for additional public health activities. |
| **Financial report opinion** | **Unmodified** |
| **Audit findings** | — Invoices paid without purchase orders.<br>— Ineffective debt management for patient and sundry debts.<br>— Inadequate segregation of duties for medical records. |

## Functional responsibility

FUNLHN was established under the *Health Care Act 2008* (HC Act) on 1 July 2019. Its powers and functions are to provide health services in the Flinders and Upper North region of South Australia. This region encompasses Andamooka, Hawker, Leigh Creek, Port Augusta, Quorn, Roxby Downs, Marree and Whyalla.

### Governance

Local health network (LHN) governing boards are responsible for the overall governance and oversight for local health service delivery by the LHN, including governance of performance and budget achievement, clinical governance, safety and quality, risk management and the achievement of the board functions and responsibilities.

Each LHN chief executive officer (CEO) is accountable to, and subject to the direction of, the governing board for managing the operations and affairs of the LHN.

The Department for Health and Wellbeing's (DHW's) role is the 'system leader' and it focuses on setting strategic direction and statewide policy, high-level system direction and performance management of the public health system.

The Minister for Health and Wellbeing remains responsible for setting reform agendas and priorities.

A service agreement between FUNLHN and the Chief Executive of DHW outlines DHW and FUNLHN responsibilities, performance expectations and funding arrangements. The intent of the service agreement is to be binding on all parties.

## Scope of the audit

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

Financial services for FUNLHN are provided through a mix of:

- finance services located within FUNLHN
- administrative and financial services from the Rural Support Service (RSS) within the Barossa Hills Fleurieu Local Health Network Incorporated (BHFLHN)
- central services provided by DHW
- services provided by Shared Services SA (SSSA).

Our audit included the review of systems and audit work at DHW's central services, FUNLHN, RSS and SSSA. A chartered accounting firm assisted the Auditor-General with the audit of FUNLHN.

Specific areas of audit attention in 2021-22 included:

- payroll
- expenditure, including procurement and contract management
- revenue, including debt management
- property, plant and equipment
- cash
- general ledger.

# Audit findings

## Communicating our audit findings

We communicated our audit findings to the CEO of FUNLHN. The main findings and FUNLHN's responses are discussed below.

### Audit findings

#### Accounts payable

##### *Invoices paid without purchase orders*

SA Health's requisition, purchase order and invoice management policy mandates the use of requisitions and purchase orders, unless the item purchased is listed in the approved purchase order exemption list or the purchase is below $2,200.

We found payments without purchase orders for which the exemptions did not apply. Where this occurs there is an increased risk that payments may be made for goods or services not received or not at the agreed price.

FUNLHN advised us that it would remind its staff of the requirement to raise purchase orders. It also advised us that it would review payments made without purchase orders to provide targeted education to staff to ensure compliance with SA Health policy.

#### Revenue

##### *Ineffective follow-up of longstanding patient and sundry debtors*

We reviewed the effectiveness of debtor follow-up activities performed by revenue officers at Whyalla Hospital for patient debtors and SSSA for sundry debtors.

We found instances where the follow-up and recovery of longstanding debtors was ineffective or not performed.

FUNLHN advised us that it would continue to educate the staff responsible for follow-up of patient debts and implement a monthly review to identify areas of concern. For sundry debtors, FUNLHN will request regular meetings with SSSA to monitor progress.

##### *Revenue officers had access to change charge type data – CHIRON patient billing system*

We found that charge types could be modified by revenue officers, increasing the risk of inappropriate adjustments to invoiced fees.

FUNLHN advised us that it will investigate whether it can implement access restrictions to prevent this in CHIRON.

### *Revenue officers had access to change discharge date data – Sunrise patient electronic medical record system*

We found that discharge dates could be modified by revenue officers in Sunrise (used at the Port Augusta Hospital). This increases the risk of inappropriate adjustments to invoiced fees.

We recommended that FUNLHN restrict access to this data or introduce additional review processes to identify and assess any changes made.

FUNLHN advised us that it would liaise with the Sunrise system administrator and the patient billing workgroup to determine if this access can be restricted. It also advised us that it will review a new report that shows all changes to patient billing.

In addition to the findings reported here, we made several findings about control activities performed by the RSS that impact FUNLHN. They are reported in the section of this Report titled 'Barossa Hills Fleurieu Local Health Network Incorporated', as BHFLHN is responsible for the RSS.

## Interpretation and analysis of the financial report

The consolidated accounts of FUNLHN include the incorporated Health Advisory Councils (HACs) within the region. These HACs were established under the HC Act to undertake an advocacy role on behalf of the community, to provide advice about health services, health issues, goals, priorities, plans and other strategic initiatives.

We are only showing the consolidated amounts below, as the difference between the consolidated and parent amounts is immaterial.

### Highlights of the financial report – consolidated

| | 2022 $million | 2021 $million |
|---|---|---|
| **Income** | | |
| Revenues from SA Government | 133 | 126 |
| Fees and charges and other income | 11 | 9 |
| Grants and contributions | 9 | 9 |
| **Total income** | 153 | 144 |
| | | |
| **Expenses** | | |
| Staff benefit expenses | 82 | 76 |
| Supplies and services and other expenses | 68 | 60 |
| Depreciation and amortisation | 9 | 9 |
| **Total expenses** | 159 | 145 |
| **Net result** | (6) | (1) |
| | | |
| **Assets** | | |
| Current assets | 13 | 13 |
| Non-current assets | 123 | 121 |
| **Total assets** | 136 | 134 |

| | 2022 $million | 2021 $million |
|---|---|---|
| **Liabilities** | | |
| Current liabilities | 27 | 24 |
| Non-current liabilities | 41 | 44 |
| **Total liabilities** | 68 | 68 |
| **Net assets** | 68 | 66 |

## Statement of Comprehensive Income

### Revenues

#### Revenues from SA Government

FUNLHN is principally funded by DHW and in 2021-22, DHW funding was 87% of its total income. This comprised operational funding of $132 million ($124 million) and capital funding of $1 million ($2 million). The increase in operational funding reflects the increased operating expenses for COVID-19 and increased cost of the new general practitioners fee-for-service arrangements.

#### Fees and charges

Fees and charges totalled $6 million and the significant components are:

- $3 million of patient and client fees
- $1 million of fees for health services
- $1 million of residential and aged care charges, mainly long-stay nursing home fees.

#### Grants and contributions

Grants and contributions were stable and totalled $9 million. The most significant component was $8 million of Commonwealth grants.

### Expenses

#### Staff benefit expenses

Staff benefit expenses represent 52% of FUNLHN's total expenses and increased by $6 million (8%). The increase is due to the increase in FTEs, mainly for additional for COVID-19 activities. FTEs increased by 51 (7%) to 806 as at 30 June 2022.

The number of employees whose remuneration received/receivable exceeded base executive level ($157,000) totalled 27 (20), comprising 11 (12) medical, 15 (seven) nursing and one (one) executive. Total remuneration for these employees was $7 million ($6 million).

#### Supplies and services expenses

Supplies and services increased by $8 million, which was mainly due to increases of:

- $4 million in fee-for-service payments to general practitioners due to the new agreement that commenced on 1 February 2022

- $2 million in security expenses due to increased security being needed at the Port Augusta hospital for challenging behaviour
- $1 million in medical, surgical and laboratory supplies due to additional testing and supplies for increased COVID-19 in the community.

## Statement of Financial Position

### Assets

Current assets remained stable and essentially comprise cash and cash equivalents of $7 million ($9 million), receivables of $2 million ($1 million) and other financial assets of $2 million ($2 million), which primarily relate to the investment of aged care refundable deposits, and inventories of $1 million ($1 million).

#### Property, plant and equipment

As at 30 June 2022, property, plant and equipment of $123 million represented 90% of FUNLHN's total assets. The most significant components are $30 million ($31 million) of right-of-use leased assets and $87 million ($85 million) of land and buildings.

### Liabilities

Current liabilities of $27 million exceeded current assets of $13 million at balance date.

Cash and cash equivalents of $7 million were sufficient to meet creditors and accrued expenses of $7 million.  FUNLHN is funded to meet expected cash flows for its current program.  Note 1.4 of its financial report discusses continuity of operations.

#### Staff-related liabilities

Staff-related liabilities make up 38% of FUNLHN's total liabilities at 30 June 2022, comprising $23 million ($24 million) of staff benefits liabilities, $2 million ($2 million) of related on-costs and $1 million ($2 million) of provisions for workers compensation.

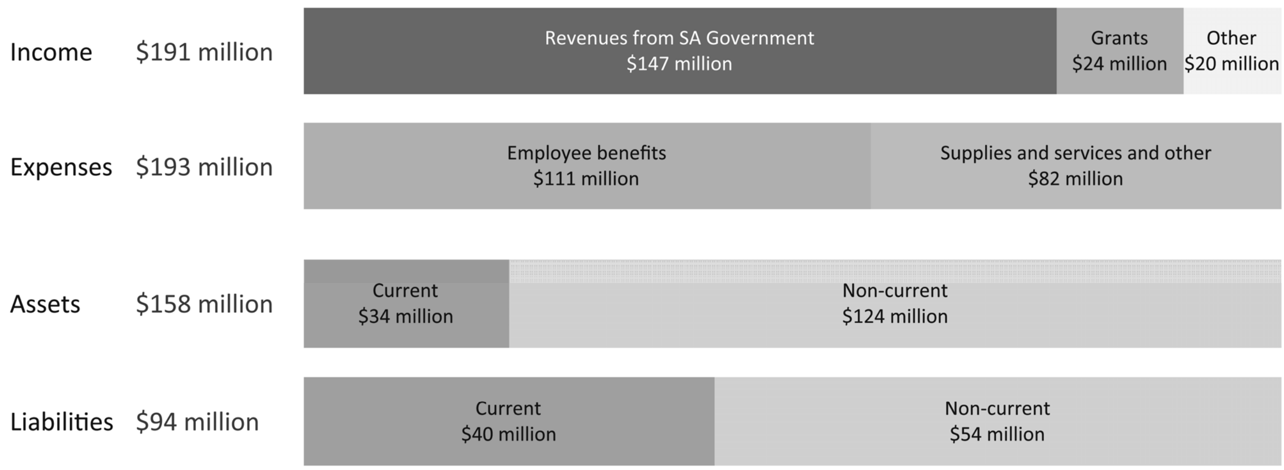
Note 22 of FUNLHN's financial report provides further information on the independent actuarial assessments of provisions for workers compensation.

#### Financial liabilities

Financial liabilities make up $31 million (46%) of FUNLHN's total liabilities at 30 June 2022 and are related to right-of-use leased assets of $30 million.

# Limestone Coast Local Health Network Incorporated (LCLHN)

## Financial statistics




**1,073**
FTEs

**15**
Hospitals and health service sites

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### Significant events and transactions

- Responding to COVID-19 continued to have a significant impact, with associated costs of $7 million for additional public health activities.
- The Naracoorte surgical upgrade was completed.
- Moreton Bay House (Naracoorte aged care facility) was sanctioned by the Commonwealth Aged Care Quality and Safety Commission in May 2022 due to the immediate and severe risk to the safety, health and wellbeing of its residents. It was not allowed to accept new residents for three months after this date.

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### Financial report opinion

**Unmodified**

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### Audit findings

- Invoices paid without purchase orders.
- Procurement and contract management processes need improvement.
- Ineffective debt management for patient and sundry debtors.

- Inadequate segregation of duties for revenue, receipting and medical records.
- Delays in receiving payment for long-stay nursing home patients.

## Functional responsibility

LCLHN was established under the *Health Care Act 2008* (HC Act) on 1 July 2019. Its powers and functions are to provide health services in the Limestone Coast region of South Australia. This region encompasses Bordertown, Keith, Kingston, Lucindale, Millicent, Mount Gambier, Naracoorte and Penola.

### Governance

Local health network (LHN) governing boards are responsible for the overall governance and oversight for local health service delivery by the LHN, including governance of performance and budget achievement, clinical governance, safety and quality, risk management and the achievement of the board functions and responsibilities.

Each LHN chief executive officer (CEO) is accountable to, and subject to the direction of, the governing board for managing the operations and affairs of the LHN.

The Department for Health and Wellbeing's (DHW's) role is the 'system leader' and it focuses on setting strategic direction and statewide policy, high-level system direction and performance management of the public health system.

The Minister for Health and Wellbeing remains responsible for setting reform agendas and priorities.

A service agreement between LCLHN and the Chief Executive of DHW outlines DHW and LCLHN responsibilities, performance expectations and funding arrangements. The intent of the service agreement is to be binding on all parties.

## Scope of the audit

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

Financial services for LCLHN are provided through a mix of:

- finance services located within LCLHN
- administrative and financial services from the Rural Support Service (RSS) within the Barossa Hills and Fleurieu LHN
- central services provided by DHW
- services provided by Shared Services SA (SSSA).

Our audit included the review of systems and audit work at DHW's central services, LCLHN, RSS and SSSA. A chartered accounting firm assisted the Auditor-General with the audit of LCLHN.

Specific areas of audit attention in 2021-22 included:

- payroll
- accounts payable, including procurement and contract management
- revenue, including debt management
- property, plant and equipment
- cash
- general ledger.

# Audit findings

## Communicating our audit findings

We communicated our audit findings to the CEO of LCLHN. The main findings and LCLHN's responses are discussed below.

### Audit findings

#### Accounts payable

##### *Invoices paid without purchase orders*

SA Health's requisition, purchase order and invoice management policy mandates the use of requisitions and purchase orders, unless the item purchased is listed in the approved purchase order exemption list or the purchase is below $2,200.

We found that there were payments made without purchase orders for which the exemptions did not apply. Where this occurs, there is an increased risk that payments may be made for goods or services not received or not at the agreed price.

LCLHN advised us that it would appoint a procurement and contracts manager to help review its procurement practices to streamline processes and ensure compliance with the policy.

#### Procurement and contract management

##### *Procurement undertaken without the Chief Executive of DHW's approval*

Procurements undertaken using direct negotiation with a value above $500,000 require the Chief Executive of DHW to approve the acquisition plan and contract.

We found that a contract valued at $4.36 million for two years was directly negotiated and did not have the Chief Executive of DHW's approval for the acquisition plan and contract.

LCLHN responded that it received approval from the Chief Executive of DHW and would ensure compliance with the procurement and contract management policy.

### *Contract management plan not established*

We found that there was no contract management plan for four separate contracts between LCLHN and a large medical imaging supplier. These contracts were signed on 1 July 2019 and have a combined value of up to $24.8 million.

We reported this in 2020-21 and LCLHN responded that it would establish a contract management plan.

The absence of an approved and implemented contract management plan may impact the consistency and systematic application of contract management processes.

LCLHN responded that it would appoint a procurement and contract manager to help ensure that there are approved contract management plans for significant contracts.

## Revenue

### *Ineffective follow-up of longstanding patient debtors and sundry debtors*

We reviewed the effectiveness of patient debtor follow-up activities performed by revenue officers located at the Mount Gambier and Districts Hospital. We found instances where the follow-up and recovery of longstanding debtors was ineffective or not performed. Effective debt recovery through prompt follow-up of amounts owed increases the likelihood of collection and reduces the level of billing queries.

In 2020-21 LCLHN increased its review of patient debtors over 120 days, but we found this had little impact on amounts outstanding and actions to follow up debts were not documented.

The follow-up and management of sundry debt is performed by SSSA. We reviewed LCLHN's aged trial balance and tested a sample of long outstanding debts as at 31 March 2022 and found instances where there was insufficient debt follow-up.

LCLHN advised us that it would implement the recommendations of an internal audit to manage debtors at regional LHNs, engage with the Fines Enforcement Recovery Unit and implement improved reporting and performance measures.

### *Patient billing system access restrictions insufficient*

We reviewed patient billing in the CHIRON patient billing systems and found opportunities to improve segregation of duties by restricting user access for receipting officers. This matter has been raised for many years.

LCLHN advised us that it would ensure that it regularly reviews user access.

### *Revenue officers had access to change admission and discharge dates and charge type data*

We found that admission and discharge dates and charge types could be modified by revenue officers in CHIRON and the Sunrise electronic medical record (EMR) used at Mount Gambier and Districts Hospital. This increases the risk of inappropriate adjustments to invoiced fees.

We recommended that LCLHN restrict access to this data or introduce additional review processes to identify and assess any changes made to invoiced fees.

LCLHN advised us that it would ensure it regularly reviews user access and liaise with Digital Health SA in relation to Sunrise EMR.

### *No independent review of repricing report*

Sunrise EMR produces a repricing report that details changes to admission dates and charge types performed by revenue officers. These changes impact the amount charged to the patient.

The report does not include changes to the discharge dates. The report was not independently reviewed at the Mount Gambier and Districts Hospital, which increases the risk of inappropriate changes in Sunrise EMR going undetected.

LCLHN advised us that it would liaise with Digital Health SA to ensure that this is implemented.

### *Delays in receiving payment for long-stay nursing home patients*

In 2020-21 we reported concerns in relation to long-stay nursing home debts not being collected promptly. We followed this issue up in 2021-22 and found debts outstanding for more than 360 days of $30,172.

LCLHN responded that the debt management responsibilities for Naracoorte Hospital have been recently moved from the RSS to the LCLHN and it is following up the outstanding amounts.

We also identified several findings for control activities performed by the RSS which impact LCLHN. These findings are provided under 'Barossa Hills and Fleurieu Local Health Network Incorporated' in this Report.

## Interpretation and analysis of the financial report

The consolidated accounts of LCLHN include the incorporated Health Advisory Councils (HACs) within the region. These HACs were established under the HC Act to undertake an advocacy role on behalf of the community, to provide advice about health services, health issues, goals, priorities, plans and other strategic initiatives.

We are only showing the consolidated amounts below as the difference between the consolidated and parent amounts is immaterial.

### Highlights of the financial report – consolidated

| | 2022<br>$million | 2021<br>$million |
|---|---:|---:|
| **Income** | | |
| Revenues from SA Government | 147 | 137 |
| Fees and charges and other income | 20 | 21 |
| Grants and contributions | 24 | 23 |
| **Total income** | 191 | 181 |

| | 2022 $million | 2021 $million |
|---|---|---|
| **Expenses** | | |
| Staff benefit expenses | 111 | 103 |
| Supplies and services and other expenses | 75 | 67 |
| Depreciation and amortisation | 7 | 6 |
| **Total expenses** | 193 | 176 |
| **Net result** | (2) | 5 |
| | | |
| **Assets** | | |
| Current assets | 34 | 34 |
| Non-current assets | 124 | 128 |
| **Total assets** | 158 | 162 |
| | | |
| **Liabilities** | | |
| Current liabilities | 40 | 39 |
| Non-current liabilities | 54 | 57 |
| **Total liabilities** | 94 | 96 |
| **Net assets** | 64 | 66 |

## Statement of Comprehensive Income

### Revenues

#### Revenues from SA Government

LCLHN is funded by DHW and in 2021-22 DHW funding was 77% of its total income. DHW funding comprised operating funding of $144 million ($133 million) and capital funding of $3 million ($4 million). The increase in operating funding reflects the increased COVID-19 expenses and increased cost of the new general practitioners fee-for-service arrangements.

#### Fees and charges

Fees and charges decreased by $2 million and the significant components are:

- $8 million ($7 million) in patient and client fees
- $4 million ($4 million) in residential and aged care charges, mainly long-stay nursing home fees
- $2 million ($5 million) in fees for health services, with the decrease due to the closure of the Mount Gambier private hospital.

#### Grants and contributions

Grants and contributions increased by $1 million to $24 million and includes $8 million ($8 million) of Commonwealth aged care subsidies and $15 million ($14 million) of Commonwealth grants.

### Expenses

#### Staff benefit expenses

Staff benefit expenses represent 58% of LCLHN’s total expenses and increased by $8 million (8%) in 2021-22. This was due to the increase in FTEs of 77 (8%) to 1,073 as at 30 June 2022, mainly for additional staff for COVID-19.

The number of employees whose remuneration received/receivable exceeded the base executive level of $157,000 totalled 43 (40), comprising 28 (24) medical, 13 (15) nursing and one (one) executive and one (zero) non-medical employees. Total remuneration for these employees was $13 million ($11 million).

### Supplies and services expenses

Supplies and services increased by $9 million, mainly due to increases of:

- $3 million in medical, surgical and laboratory supplies due to additional testing and supplies for increased COVID-19 in the community
- $2 million in fee-for-service payments to general practitioners due to the new agreement that commenced on 1 February 2022
- $1 million in contractor and agency staff due to increased staff on sick leave and being unable to fill vacant positions
- $1 million in security related to COVID-19 and increased challenging behaviour
- $1 million in other supplies and services for additional equipment hire for COVID-19.

## Statement of Financial Position

### Assets

Current assets remained stable and essentially comprise cash and cash equivalents of $10 million ($10 million), receivables of $4 million ($4 million) and other financial assets of $19 million ($19 million) that primarily relate to the investment of aged care refundable deposits.

### Property, plant and equipment

As at 30 June 2022, property, plant and equipment represented 78% of LCLHN's total assets and includes the following significant components:

- $58 million of land and buildings
- $43 million of right-of-use lease assets
- $17 million of accommodation and leasehold improvements.

### Liabilities

Current liabilities of $40 million exceeded current assets of $34 million at 30 June 2022.

Cash and cash equivalents of $10 million were sufficient to meet current payables of $6 million. LCLHN is funded to meet expected cash flows for its current program delivery. Note 1.4 of its financial report discusses continuity of operations.

### Staff-related liabilities

Staff-related liabilities remained stable and make up 36% of LCLHN's total liabilities at 30 June 2022, comprising $29 million ($30 million) of staff benefits liabilities, $2 million ($2 million) in related on-costs and $3 million ($2 million) of provisions for workers compensation.

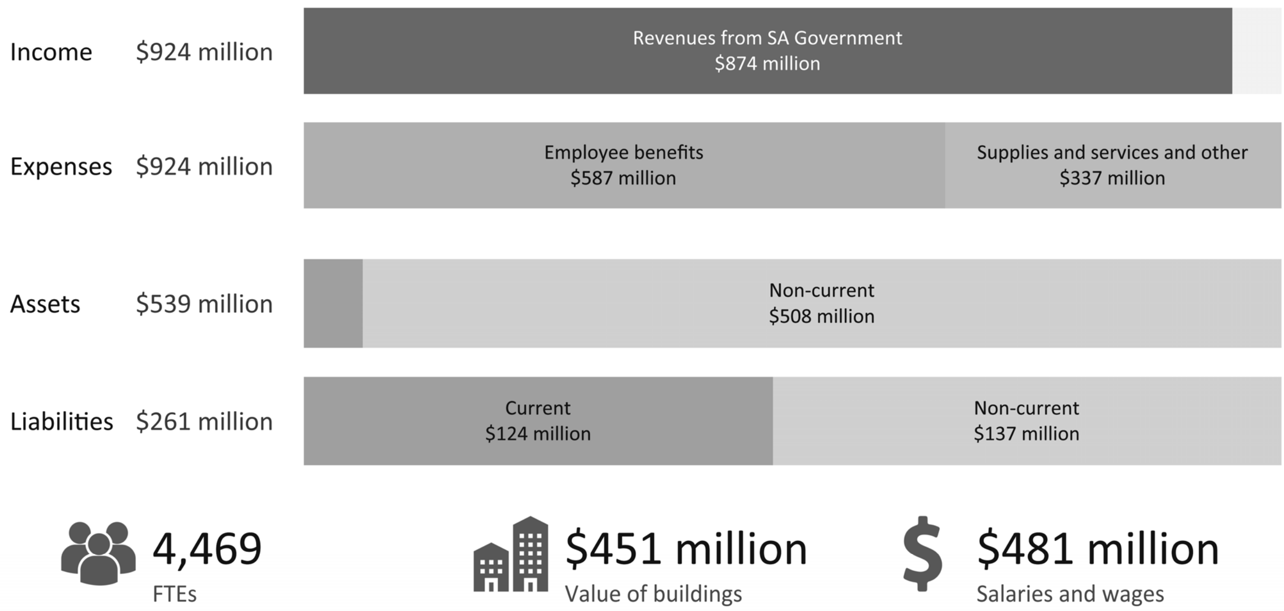
Note 24 of LCLHN's financial report provides further information on the independent actuarial assessments of provisions for workers compensation.

## Financial liabilities

Lease liabilities make up 43% of LCLHN's total liabilities and relate to right-of-use assets at 30 June 2022.

# Northern Adelaide Local Health Network Incorporated (NALHN)

## Financial statistics




| | |
|---|---|
| **Significant events and transactions** | — Investment in capital projects continued in 2021-22, with $23.4 million spent on the expansion of the emergency department at the Lyell McEwin Hospital (LMH) and $15.7 million spent on upgrades at the Modbury Hospital. During the year, construction of the new short-stay general medical unit and palliative care unit were completed at Modbury Hospital.<br>— NALHN continued to provide a frontline response to COVID-19 in northern Adelaide, including operating a COVID-19 testing clinic at the LMH and operating a vaccination clinic at the Playford Civic Centre.<br>— In the 2022-23 State Budget, the SA Government announced $145 million over four years to provide an additional 48 sub-acute beds at the LMH and an additional 48 sub-acute beds at the Modbury Hospital. |
| **Financial report opinion** | **Unmodified** |

| | |
|---|---|
| **Controls opinion findings** | — Processes for required employment screening checks need to improve, with some staff working without checks in place.<br>— Payroll planning, monitoring and approval processes could be improved.<br>— The memorandum of administrative arrangement (MoAA) formalising the Across Government Facilities Management Arrangements (AGFMA) was not signed.<br>— Some expenditure was processed without a purchase order. |
| **Other audit findings** | — Follow-up of outstanding debt still requires improvement.<br>— Controls for managing professional development leave are yet to be fully implemented into the new system. |

# Functional responsibility

NALHN was established under the *Health Care Act 2008* (HC Act) and its powers and functions are to establish, provide, maintain and enhance hospital, medical and allied health services in its local area.

## Governance

The HC Act provides for the governance, management and administration of the South Australian public health system. It sets out the role, functions and powers of the Minister, the Chief Executive of the Department for Health and Wellbeing (DHW), the local health networks (LHNs), their governing boards and their chief executive officers (CEOs).

LHN governing boards are responsible for the overall governance and oversight for local health service delivery by the LHN, including governance of performance and budget achievement, clinical governance, safety and quality, risk management and the achievement of board functions and responsibilities.

Each LHN CEO is accountable to, and subject to the direction of, the governing board for managing the operations and affairs of the LHN.

DHW has a role as the ‘system leader’ and focuses on setting strategic direction and statewide policy, as well as the performance of the public health system through high-level system direction and performance management.

The Minister for Health and Wellbeing remains responsible for setting reform agendas and priorities. The governing board must comply with any direction of the Minister for Health and Wellbeing or the Chief Executive of DHW.

A service agreement between NALHN and the Chief Executive of DHW outlines the requirements of the formal relationship between DHW and NALHN, and sets out performance expectations and funding arrangements. The intent of the service agreement is to be binding on all parties. The 2021-22 NALHN service agreement was executed in December 2021.

On 8 June 2021 the South Australian Parliament passed the *Health Care (Governance) Amendment Act 2021*, which amended the HC Act from 23 August 2021. It supports the SA Government's decentralisation of the public health system. Among other matters, the Amendment Act makes further amendments to the function of the Chief Executive of DHW to reflect DHW's role as system leader, formalises provisions for service agreements, clarifies workforce responsibilities and makes minor amendments to reflect the governance and accountability arrangements.

### Ongoing response to the COVID-19 pandemic

NALHN has continued to provide a frontline response to COVID-19 in its local area. This has included:

- operating a COVID-19 testing clinic at the LMH
- operating a vaccination clinic at the Playford Civic Centre
- ensuring its inventory of personal protective equipment and other equipment, and its staffing levels, are sufficient to meet increased demand.

Note 1.7 of NALHN's financial report states that specific costs attributable to COVID-19 in 2021-22 totalled $28 million ($13.2 million).

## Scope of the audit

### Audit of the financial report

The audit program covered major financial systems to obtain sufficient evidence to form an opinion on the financial report. Financial services for NALHN are provided through a mix of:

- central services provided by Shared Services SA (SSSA) through an integrated finance service model
- finance services located within NALHN
- central services provided by DHW.

NALHN continues to operate some DHW legacy systems, so our audit included the review of new and legacy systems. We completed audit work at SSSA's central services, NALHN and DHW.

Audit findings across health services fall into the following categories:

- common findings reflecting central services and/or systems
- matters for individual health services
- DHW matters.

Specific areas of audit attention in 2021-22 included:

- governance
- payroll and workforce management

- goods and services expenditure and accounts payable
- property, plant and equipment
- the AGFMA
- patient and client billing revenue and debtor management
- medical officer professional development arrangements
- rights of private practice
- cash and online banking
- general ledger and financial accounting.

We considered the work of NALHN's internal auditors in planning and conducting the audit.

### Controls opinion

We reviewed controls over payroll, the AGFMA and goods and services expenditure as part of our overall controls opinion, which is discussed in Part B of this Report.

## Audit findings

### Communicating our audit findings

We communicated our audit findings in management letters to the CEO of NALHN. The main findings and NALHN's responses are discussed below.

#### Controls opinion findings

##### Payroll

NALHN employed 4,469 FTEs as at 30 June 2022 and its payroll-related costs are significant, with $587 million in staff benefits expenses paid and $174 million in staff benefits liabilities and associated on-costs. Because of the significance of these costs, we review key payroll controls each year.

A large number of the payroll issues we identified in 2021-22 have also been raised by us in prior years.

*Processes for required employment screening checks need to improve, with some staff working without checks in place*

In 2021-22 we again considered the way NALHN manages employment screening checks for its staff, as part of our overall review of controls associated with staff expenses.

— *Staff working in prescribed working with children positions without current clearances*

South Australian child protection legislation and SA Health policy require a current working with children check (WWCC) for all SA Health employees working in prescribed positions.

From a sample of 10 employees working in prescribed positions, we found that:

- no WWCC could be provided to us for four employees, although one of them was no longer employed by NALHN
- the WWCCs provided to us for two employees were out of date.

Of the four staff members who had a current WWCC, three appeared to have worked without a valid WWCC as there was a gap between the expiry date recorded in the Chris21 payroll system and the date of the staff member's new clearance.

Working without a current WWCC is a breach of South Australian child protection legislation and SA Health policy. There is also an increased risk of harm to children if staff are working in prescribed positions without a current WWCC.

NALHN responded that it has developed a procedure outlining the requirements for employment screening checks. NALHN is looking to centralise the monitoring of compliance with this procedure to its human resources team, which will help to ensure that staff do not work in a prescribed position without a current WWCC.

### — *Staff working in aged care positions without current clearances*

SA Health policy requires that employees working in certain aged care roles have a current aged care check (ACC).

From a sample of 10 employees working in positions requiring an ACC, we found that:

- an ACC could not be provided for five employees, although another type of current screening check was in place for four of these employees
- no ACC or other screening checks could be provided for two employees.

NALHN responded that its intended actions to address the WWCC matter identified above will help to address this issue.

### — *NALHN's records of employment screening checks are out of date and not reliable*

NALHN's main record of employment screening information is the Chris21 payroll system. Our review in 2021-22 found that some of this information was either out of date or had no supporting documentation.

Each month a criminal history check report is sent to every division. Divisions are responsible for reviewing these reports for completeness and accuracy and providing evidence of any new screening checks obtained. We found that there were varying approaches used by divisions to monitor data for screening checks and to review the monthly criminal history check reports. The absence of a procedure on this likely contributes to these inconsistent practices.

Where data about employment clearances is not accurate, there is an increased risk of non-compliance with legislation. If the required screening checks are not in place, patient safety may also be at risk.

NALHN responded that its intended actions to address the WWCC and ACC matters identified above will help to address this issue.

### *Payroll planning, monitoring and approval processes could be improved*

#### — *Improvements required to staff performance review compliance rates*

Our review of NALHN's staff performance review records as at April 2022 found that only 58% of its staff had a current performance review. Of the 2,345 reviews that were not current, 25% were more than a year overdue, including 5% that were more than two years overdue. SA Health's benchmark is that 80% of performance reviews should be current.

Without actively managed performance reviews in place, staff may not be aware of the expected performance standards for their position, if they are achieving them and how their performance could improve. It may also impact NALHN's ability to achieve its strategic objectives.

NALHN responded that it will continue to reinforce the requirements for performance reviews to all staff and work with divisions to improve current performance review levels. A new form is being implemented to streamline the process and improve compliance.

#### — *NALHN does not have a consolidated workforce plan*

For several years we have raised that NALHN does not have a consolidated workforce plan. In 2021-22 we were advised that the plan is still a work in progress, although it is a priority of the human resources team.

Without a consolidated workforce plan, NALHN may not be developing the workforce it needs to meet its strategic objectives.

NALHN advised us that it will continue to develop a workforce plan aligned to its Strategic Plan 2020–2025 and is currently in the process of recruiting a workforce planner to lead this process.

#### — *Key payroll information not always reviewed for NALHN staff*

Key payroll reports for NALHN's staff differ depending on the type of employee. The effective review of these reports helps ensure staff payments are accurate and valid.

For staff who are automatically paid each fortnight, key payroll information is captured on bona fide reports and leave return certificates.

For nursing and midwifery staff, key payroll information is contained in the ProAct rostering system, as this interfaces with the Chris21 payroll system used to pay these staff.

There are also other NALHN staff, around 13%, who are paid based on manually submitted timesheets, with many of them paid significant allowances in addition to their automatically paid base pay.

In 2021-22 we found that:

- while there has been significant improvement, the review of bona fide reports and leave return certificates is not uniformly performed across all divisions. 81% of bona fide reports and 77% of leave return certificates were reviewed and approved as at March 2022
- unlike automatically paid staff who are reported on bona fide certificates, there is no regular review to ensure payments made to staff who submit manual timesheets are correct once payment has been processed into the payroll system
- some manual timesheets of medical officers were not authorised by an appropriate delegate
- as at February 2022, around 10% of nursing and midwifery ProAct timesheets were not approved prior to payment.

In response NALHN advised us that it:

- will continue to reinforce to staff the requirement to review bona fide reports and leave return certificates
- will continue to work to implement an electronic timesheet for medical officers to improve rostering practices and to facilitate payment review processes
- will remind managers of their obligations for authorising timesheets for medical officers
- has implemented a fortnightly timesheet signoff report, which is provided to all managers with staff on ProAct. This report provides year-to-date data on unauthorised timesheets. NALHN will also remind managers of their obligations for authorising timesheets for staff on ProAct. Although a ProAct timesheet authorisation procedure is currently in place, it is due for review with a completion date of December 2022.

### — *Inconsistent medical rostering practices across divisions*

Consistent with our findings over the last few years, rostering practices for medical officers continue to vary across divisions. As there is no rostering system for medical officers, and no central training for staff preparing rosters, varying local practices have developed. The inconsistencies in rostering approaches increase the risk of different interpretations of complex enterprise agreements across divisions.

We understand that the SA Health electronic timesheet project, which aims to transition medical officers who currently submit manual timesheets onto ProAct, should help to set consistent rules and practices for rostering and approving timesheets for medical officers. This project was due to be finalised by September 2021, but was postponed and remains incomplete as at 30 June 2022. The use of a rostering system would introduce system controls over rostering and timesheet approvals, areas which are more difficult to manage in an environment that consists of local spreadsheets and manual processes.

NALHN responded that it will continue to work to implement an electronic timesheet for medical officers to improve rostering practices and facilitate payment review processes.

### — *ProAct user access reviews not occurring*

In prior years we identified that a quarterly ProAct user access review was performed to ensure users with access and authorisation levels in the system were appropriate.

We were advised in 2021-22 that the ProAct user access review is no longer being performed due to changes in the reports available following an upgrade to the system. NALHN advised us that a solution is available to improve reporting, but that it will not be implemented by the vendor until the next ProAct update.

NALHN responded that a ProAct update will occur in October 2022, which will enable user access reviews to recommence.

### — *Ineffective management of excessive annual leave*

NALHN policy requires staff with an annual leave balance in excess of two years entitlement (300 hours) to establish a leave reduction plan, approved by a divisional director, outlining how their leave balance will be reduced.

As at December 2021, NALHN had more than 500 staff with annual leave balances greater than 300 hours.

We sampled 10 employees with leave balances in excess of 400 hours. Formal evidence of a leave reduction plan in line with policy could not be provided for any of them.

We are not aware of any formal DHW or NALHN directives advising staff not to take annual leave in 2021-22 due to COVID-19, although we acknowledge that this would have contributed to increased annual leave balances during the year.

NALHN responded that it will reinforce the obligation of managers to develop annual leave reduction plans for employees with excessive annual leave. NALHN is also looking to include excess leave as an item in the monthly performance meetings for each division and, as part of this, to get confirmation of leave reduction plans in place.

## Across Government Facilities Management Arrangements

NALHN has property, plant and equipment totalling $506 million. As part of our 2021-22 controls opinion work, we considered NALHN's processes to manage the maintenance of these assets, including the implementation of the AGFMA.

The AGFMA is a Cabinet-approved framework for the provision of facilities services to agencies across the SA Government. Services include breakdown maintenance, preventative maintenance, replacement and refurbishment, handyperson services and small construction.

In July 2021 the Department for Infrastructure and Transport (DIT) entered into a contract with Ventia Australia Pty Ltd (Ventia) for the delivery of the AGFMA from 1 December 2021. We understand that a number of issues from the transition of the AGFMA to Ventia are currently being resolved between Ventia, DIT and agencies.

Our review of the AGFMA in 2021-22 focused on the controls exercised by NALHN.

#### *The MoAA formalising the AGFMA was not signed*

We noted that a draft MoAA between NALHN and DIT was developed, with the aim of formalising the roles and responsibilities of the parties involved in delivering the AGFMA.

The draft MoAA was provided to NALHN by DIT prior to the arrangements with Ventia coming into effect. We understand that NALHN did not want to sign the draft MoAA due to what it considers are significant gaps in the responsibilities of the parties, in particular what is required from Ventia.

Our review identified that the MoAA remained unsigned as at 30 June 2022.

NALHN responded that it has been working with Ventia to review the roles and responsibilities of each party and is close to resolving this matter and signing the MoAA.

### Goods and services expenditure

NALHN spent $303 million on supplies and services in 2021-22. As part of our 2021-22 controls opinion work we considered NALHN's controls to ensure the effective procurement, contracting and purchasing of goods and services.

#### *Some expenditure was processed without a purchase order*

SA Health policy requires that a purchase order is used for all purchases unless the item is listed in the approved purchase order exemption list, or where it is below a certain value.

We analysed supplies and services expenditure processed between 1 July 2021 and 30 November 2021 and identified around $1 million of expenditure that should have been supported by a purchase order, but was not.

Where purchase orders are not used when required, there is an increased risk of unnecessary or unauthorised expenditure occurring due to the lack of prior approval.

NALHN responded that an upgrade to its purchase order system has had a positive impact on the use of purchase orders. NALHN is also working with SSSA to analyse data on invoices with no purchase order, including identifying when a standing purchase order should be raised for certain expenditure items.

## Other audit findings

### Patient and client fee revenue

NALHN received $23.8 million in patient and client fees in 2021-22. Patient fees include compensable revenue amounts recovered through compulsory third party arrangements for motor vehicle accidents, or through the Return to Work Corporation of South Australia for workplace-related injuries, revenue from non-Medicare eligible patients and patients electing to be admitted as private patients. NALHN was also responsible for managing over $8.4 million in patient and client fee debts as at 30 June 2022.

### *Follow-up of outstanding debt still requires improvement*

Our January 2022 analysis of outstanding debts managed by NALHN found that the proportion of debt outstanding for more than 60 days, across the different categories of debt, ranged from 34% to 89%. Although we noted improvement in the long outstanding debt at Modbury Hospital and in certain debt classes at the LMH, overall the long outstanding debt position of the LMH deteriorated from 59% of total debt in February 2021 to 62% of total debt in January 2022. This indicates that NALHN needs to improve the effectiveness of its debtor management practices.

We also found weaknesses in NALHN's debt follow-up practices, including inconsistent processes and a lack of evidence confirming follow-up action for certain debt types.

NALHN agreed with our findings and acknowledged that its management of debt has been an issue for several years. Some of the ways NALHN is improving its debtor management practices include:

- transferring long-outstanding non-Medicare debt to the Fines Enforcement and Recovery Unit of the Department of Treasury and Finance
- obtaining up-front payments from non-Medicare patients, which avoids the need to raise a debt in the first place
- recruiting two additional temporary staff to focus on clearing legacy revenue system debt prior to decommissioning these systems in 2023
- automating further debt recovery functions.

NALHN also advised us that the pending restructure of its revenue services team, and the implementation of a new electronic medical records and patient administration system in early 2022-23, will enable it to refocus some resources from invoicing to earlier debt intervention.

## Medical officer professional development arrangements

Under the SA Health Salaried Medical Officers Agreement 2022, which came into effect in February 2022, medical officers are entitled to 10 days of leave per annum on full pay for professional development purposes. This can be accumulated to 20 days of leave in any one period of two years. Medical officers can also access up to $22,000 per annum for professional development expenses, which can be accumulated up to $44,000 in any one period of two years.

### *Controls for managing professional development leave are yet to be fully implemented into the new system*

In prior years we have raised issues about how NALHN manages the professional development leave and expense reimbursements of medical officers. We were advised by NALHN that many of the issues we raised would be addressed through the implementation of the SA Health Professional Development Reimbursement (SAHPDR) project. This project was completed in November 2020, with the Oracle iExpenses system implemented for claims processing and SHARP used for reporting.

Our follow-up in 2021-22 identified that while the SAHPDR project has now been implemented, the new systems are not working as expected for managing professional development leave balances and these leave balances continue to be managed locally by each division. As a result, the issues we have reported in prior years have not been resolved.

NALHN responded that the central DHW professional development team has prepared a paper outlining options to correct the current issues in managing professional development leave balances. NALHN has decided to implement a system change, which will allow data on professional development leave taken to flow from the Chris21 payroll system to Oracle iExpenses. A formal request has been made to make the required system changes.

## Interpretation and analysis of the financial report

### Highlights of the financial report

| | 2022 $million | 2021 $million |
|---|---|---|
| **Income** | | |
| Revenues from SA Government | 874 | 839 |
| Fees and charges | 35 | 33 |
| Grants and contributions | 3 | 4 |
| Other income | 12 | 13 |
| **Total income** | 924 | 889 |
| | | |
| **Expenses** | | |
| Staff benefits expenses | 587 | 557 |
| Supplies and services | 303 | 264 |
| Depreciation and amortisation | 31 | 33 |
| Other expenses | 3 | 7 |
| **Total expenses** | 924 | 861 |
| **Net result and total comprehensive result** | - | 28 |
| | | |
| **Assets** | | |
| Current assets | 31 | 43 |
| Non-current assets | 508 | 488 |
| **Total assets** | 539 | 531 |
| | | |
| **Liabilities** | | |
| Current liabilities | 124 | 109 |
| Non-current liabilities | 137 | 144 |
| **Total liabilities** | 261 | 253 |
| **Net assets** | 278 | 278 |

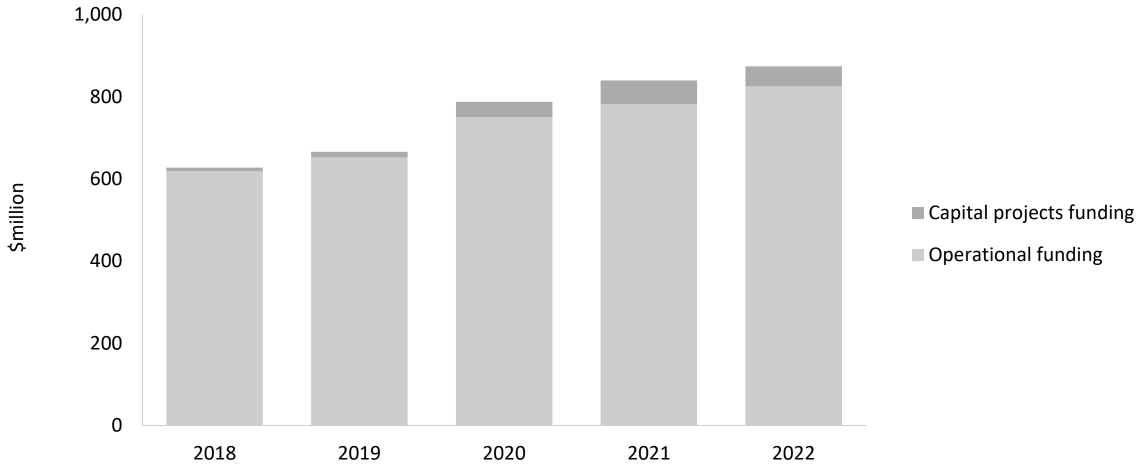
### Statement of Comprehensive Income

#### Income

##### Revenues from SA Government

NALHN is mainly funded through recurrent and capital funding from DHW. In 2021-22, NALHN received recurrent funding of $825 million and capital funding of $49 million. The capital funding mainly relates to continued works at the Modbury Hospital for upgrades and additional services, and the expansion of the LMH emergency department.

The chart below shows revenues from SA Government over the last five years.

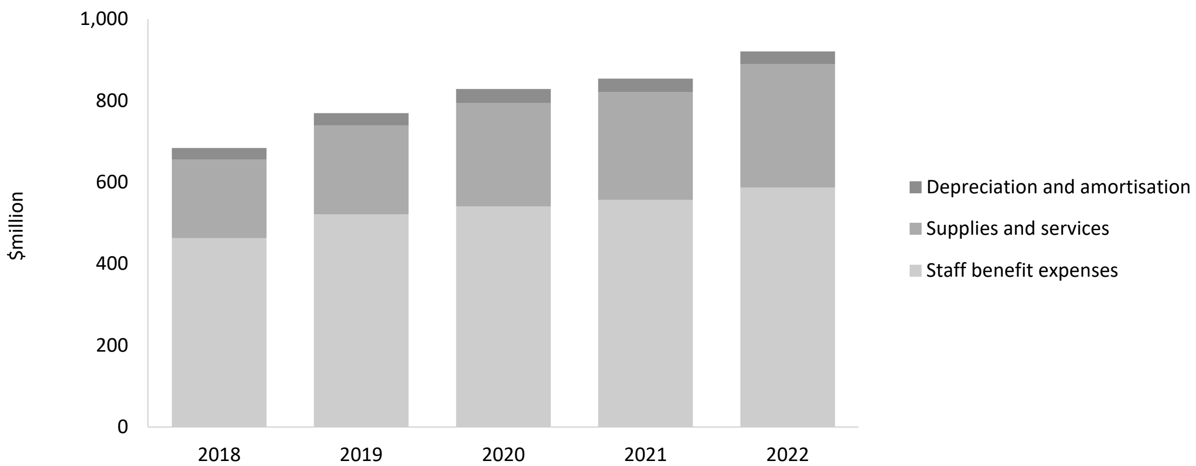



The chart shows the overall increase in funding over the last five years, with the last three years including more significant amounts for capital projects.

## Expenses

In 2021-22 total expenses increased by $63 million (7%) to $924 million.

The chart below shows the composition of expenses for the last five years.




The chart shows that all major categories of expense have increased over the last five years.

### Staff benefits expenses

Staff benefits expenses of $587 million represent 64% (65%) of NALHN's total expenses, and increased by $30 million from 2020-21. This movement is attributable to the following components:

- a $29.6 million rise in salaries and wages, which mainly reflects increased staff numbers due to COVID-19

- a $4.6 million increase in annual leave expenses, largely due to staff being asked to cancel leave due to COVID-19 pressures on the workforce
- a $5.2 million increase in superannuation expenses, due to the overall rise in salaries and wages and an increase in the superannuation guarantee rate from 9.5% to 10%
- a $3.4 million increase in workers compensation expenses
- a $10.7 million decrease in long service leave expense.

The long service leave and workers compensation expense amounts are impacted by the actuarial assessment of the associated long service leave liability and workers compensation provision as at 30 June 2022.

The following table shows the breakdown of total staff numbers between medical, nursing and non-medical staff, based on FTEs, since 2017-18. The table shows an overall growth in FTE numbers over the five years, including in 2021-22.

| | 2017-18 FTEs | 2018-19 FTEs | 2019-20 FTEs | 2020-21 FTEs | 2021-22 FTEs |
|---|---|---|---|---|---|
| Medical officers | 563 | 633 | 670 | 687 | 749 |
| Nurses | 1,994 | 2,144 | 2,199 | 2,264 | 2,442 |
| Non-medical | 1,051 | 1,164 | 1,227 | 1,246 | 1,278 |
| Total FTEs | 3,608 | 3,941 | 4,096 | 4,197 | 4,469 |

The number of staff whose remuneration received/receivable exceeded base executive level ($157,000) totalled 512 (496), comprising 436 (429) medical officers, 62 (56) nursing staff, nine (seven) executives and five (four) non-medical staff. Total remuneration of these staff was $153 million ($143.6 million).

### Supplies and services expenses

Supplies and services expenditure increased by $39 million (15%) in 2021-22 to $303 million. Significant changes in supplies and services were:

- medical, surgical and laboratory supplies, which increased by $8 million to $100.1 million. The increase was mainly attributable to costs for COVID-19 supplies, such as personal protective equipment, and increased pathology charges for COVID-19 testing
- repairs and maintenance cost increases of $6.4 million, resulting from an overall increase in preventative and breakdown maintenance costs
- minor equipment cost increases of $6 million which included the fit-out of additional workstations to accommodate an increase in staff numbers, plus increases in other minor medical equipment and fixtures and fittings
- agency staff costs, which increased by $5.6 million due to the increased use of agency staff to cover staff with COVID-19 or those required to isolate, and also to cover staff working in the vaccination clinic
- fee-for-service cost increases of $3.3 million, which relate to more elective surgery being outsourced to private hospitals due to additional ward space being needed for COVID-19 patients.

## Statement of Financial Position

### Property, plant and equipment

Property, plant and equipment assets represent 94% of total assets.

The carrying value of property, plant and equipment increased by $20 million to $506 million. Additions to land and building capital works in progress totalled $40.4 million in 2021-22. Of this, $23.4 million related to the expansion of the emergency department at the LMH and $15.7 million related to upgrades at the Modbury Hospital.

This increase was offset by $31.5 million in depreciation and amortisation expenses.

### Liabilities

Current liabilities increased by $15 million to $124 million during the year and exceeded current assets of $31 million as at 30 June 2022. Cash and cash equivalents of $15 million are insufficient to meet current payables of $35 million.

NALHN is funded to meet expected cash flows for its current program delivery. Note 1.4 of its financial report discusses its continuity of operations.

Staff liabilities make up $185 million (71%) of NALHN's total liabilities at 30 June 2022, and comprise:

- staff benefits liabilities and related on-costs of $174 million ($186 million)
- workers compensation provisions of $11 million ($7 million).

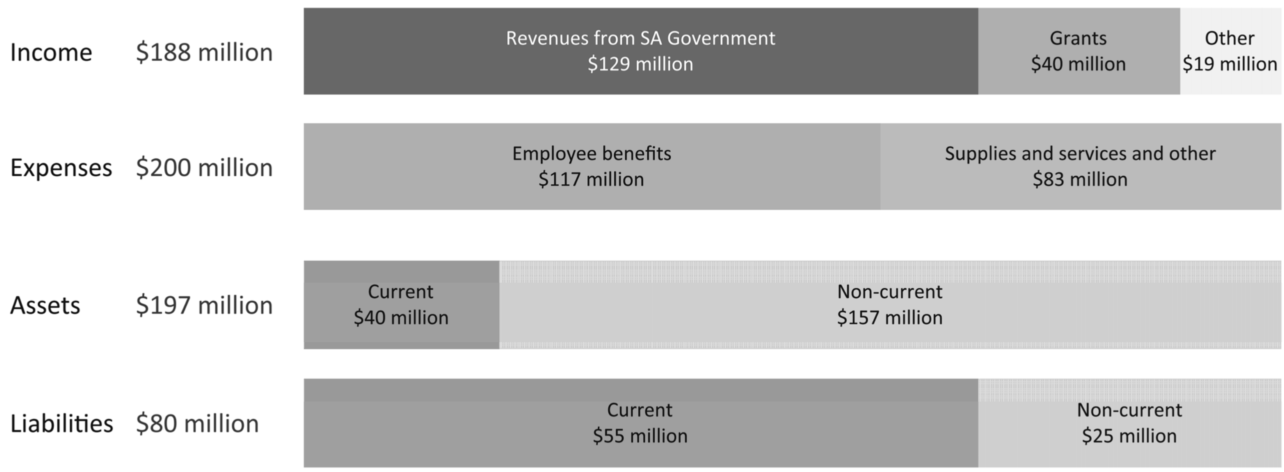
Staff benefits liabilities and related on-costs reduced by $12 million to $174 million. This was mainly due to a $13.6 million decrease in the long service leave liability and a $4.3 million decrease in accrued salaries and wages, offset by a $6.3 million increase in the annual leave liability. The decrease in the long service leave liability is largely attributable to an increase in the yield on long-term Commonwealth Government bonds from 1.5% to 3.75%, which is used as the discount rate when measuring the long service leave liability.

The provision for workers compensation increased by $4 million to $11 million. Workers compensation provisions are based on an independent actuarial assessment. The increase was largely attributable to legislative changes that impacted the South Australian workers compensation arrangements for seriously injured workers. This included the impact of a court case for an individual worker that resulted in a significant additional element to the overall liability. The actuarial model applied in determining the provision takes into account current and historical claims data.

As outlined in note 19.1 of NALHN's financial report, which provides information on the actuarial assessment, there is a high level of uncertainty about the ultimate value of claims.

# Riverland Mallee Coorong Local Health Network Incorporated (RMCLHN)

### Financial statistics




**1,167**
FTEs

**14**
Hospitals and health service sites

| | |
|---|---|
| **Significant events and transactions** | Responding to COVID-19 continued to have a significant impact, with associated costs of $6 million for additional public health activities. |
| **Financial report opinion** | **Unmodified** |
| **Audit findings** | — Invoices paid without purchase orders.<br>— Ineffective debt management for sundry debtors.<br>— Inadequate segregation of duties for revenue, receipting and medical records.<br>— Instances of unauthorised payroll allowances. |

## Functional responsibility

RMCLHN was established under the *Health Care Act 2008* (HC Act) on 1 July 2019. Its powers and functions are to provide health services in the Riverland Mallee Coorong region of South Australia.

This region encompasses Barmera, Berri, Coonalpyn, Karoonda, Lameroo, Loxton, Mannum, Meningie, Murray Bridge, Pinnaroo, Renmark, Tailem Bend, Tintinara and Waikerie.

### Governance

Local Health Network (LHN) governing boards are responsible for the overall governance and oversight for local health service delivery by the LHN, including governance of performance and budget achievement, clinical governance, safety and quality, risk management and the achievement of the board functions and responsibilities.

Each LHN chief executive officer (CEO) is accountable to, and subject to the direction of, the governing board for managing the operations and affairs of the LHN.

The Department for Health and Wellbeing's (DHW's) role is the 'system leader' and it focuses on setting strategic direction and statewide policy, high-level system direction and performance management of the public health system.

The Minister for Health and Wellbeing remains responsible for setting reform agendas and priorities.

A service agreement between RMCLHN and the Chief Executive (CE) of DHW outlines DHW and RMCLHN responsibilities, performance expectations and funding arrangements. The intent of the service agreement is to be binding on all parties.

## Scope of the audit

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

Financial services for RMCLHN are provided through a mix of:

- finance services located within RMCLHN
- administrative and financial services from the Rural Support Service (RSS) within the Barossa Hills Fleurieu Local Health Network Incorporated (BHFLHN)
- central services provided by DHW
- services provided by Shared Services SA (SSSA).

Our audit included the review of systems and audit work at DHW's central services, RMCLHN, RSS and SSSA. A chartered accounting firm assisted the Auditor-General with the audit of RMCLHN.

Specific areas of audit attention in 2021-22 included:

- payroll
- expenditure, including procurement and contract management
- revenue, including debt management
- property, plant and equipment
- cash
- general ledger.

# Audit findings

## Communicating our audit findings

We communicated our audit findings to the CEO of RMCLHN. The main findings and RMCLHN's responses are discussed below.

### Audit findings

#### Accounts payable

##### *Invoices paid without purchase orders*

SA Health's requisition, purchase order and invoice management policy mandates the use of requisitions and purchase orders, unless the item purchased is listed in the approved purchase order exemption list or the purchase is below $2,200.

We found payments without purchase orders for which the exemptions did not apply. Where this occurs there is an increased risk that payments may be made for goods or services not received or not at the agreed price.

RMCLHN advised us that it would communicate with its staff about the need for purchase orders to be used.

#### Revenue

##### *Ineffective follow-up of longstanding sundry debtors*

We reviewed the effectiveness of sundry debtor follow-up activities performed by SSSA. We found instances where the follow-up and recovery of longstanding debtors was ineffective or not performed.

Effective debt recovery through prompt follow-up of amounts owed increases the likelihood of collection and reduces the level of billing queries.

RMCLHN's response acknowledged this issue, noting the strategies it has put in place to date that have reduced debts, and advising us that it will continue to work on reducing this debt.

##### *Inadequate segregation of duties for revenue, receipting and medical records*

We reviewed patient billing in the CHIRON patient billing system and found opportunities to improve the segregation of duties for revenue and receipting officers by restricting user access.

We also found that admission and discharge dates and charge types could be modified by revenue officers in CHIRON.

We have raised these matters with RMCLHN in prior years. They increase the risk of inappropriate adjustments to invoiced fees being made.

RMCLHN advised us that it would review user access and restrict it where applicable.

### *Instances of unauthorised payroll allowances*

We noted that several consultants were paid a retention and attraction allowance that was above the 30% rate in the SA Health Salaried Medical Officers Enterprise Agreement 2022. They were paid a 45% rate, based on RMCLHN's understanding that this rate was being paid by other regional LHNs.

Our reviews indicated that no other regional LHNs were paying a 45% retention and allowance rate.

The RMCLHN's human resources delegations state that the payment of an allowance above the current award provisions requires the CE of DHW's approval, which RMCLHN did not seek.

RMCLHN responded that it will seek approval from the CE of DHW for these payments.

In addition to the findings reported here, we made several findings about control activities performed by the RSS that impact RMCLHN. They are reported in the section of this Report titled 'Barossa Hills Fleurieu Local Health Network Incorporated', as BHFLHN is responsible for the RSS.

## Interpretation and analysis of the financial report

The consolidated accounts of RMCLHN include incorporated Health Advisory Councils (HACs) within the region. These HACs were established under the HC Act to undertake an advocacy role on behalf of the community, to provide advice about health services, health issues, goals, priorities, plans and other strategic initiatives.

We are only showing the consolidated amounts below, as the difference between the consolidated and parent amounts is immaterial.

### Highlights of the financial report – consolidated

| | 2022 $million | 2021 $million |
|---|---|---|
| **Income** | | |
| Revenues from SA Government | 129 | 127 |
| Fees and charges and other income | 19 | 18 |
| Grants and contributions | 40 | 39 |
| **Total income** | 188 | 184 |
| | | |
| **Expenses** | | |
| Staff benefit expenses | 117 | 110 |
| Supplies and services and other expenses | 73 | 65 |
| Depreciation and amortisation | 10 | 8 |
| **Total expenses** | 200 | 183 |
| **Net result** | (12) | 2 |
| | | |
| **Assets** | | |
| Current assets | 40 | 41 |
| Non-current assets | 157 | 164 |
| **Total assets** | 197 | 205 |

| | 2022 $million | 2021 $million |
|---|---|---|
| **Liabilities** | | |
| Current liabilities | 55 | 52 |
| Non-current liabilities | 25 | 24 |
| **Total liabilities** | 80 | 76 |
| **Net assets** | 117 | 129 |

## Statement of Comprehensive Income

### Revenues

#### Revenues from SA Government

RMCLHN is principally funded by DHW and in 2021-22 DHW funding was 69% of its total income.  DHW funding comprised operational funding of $126 million ($118 million) and capital funding of $3 million ($9 million). The increase in operating funding reflects the increased COVID-19 expenses and increased cost of the new general practitioners fee-for-service arrangements.

#### Fees and charges

Fees and charges have remained stable and included the following significant components:

- $8 million of residential and aged care charges, mainly long-stay nursing home fees
- $4 million of patient and client fees.

#### Grants and contributions

Grants and contributions remained stable and the significant components were $14 million of Commonwealth aged care subsidies and $26 million of Commonwealth grants.

### Expenses

#### Staff benefit expenses

Staff benefit expenses represent 59% of RMCLHN's total expenses and increased by $7 million (6%). The increase was due to an increase in FTEs, mainly for additional for COVID-19 activities.  RMCLHN employed 1,167 FTEs as at 30 June 2022, an increase of 53 (5%).

The number of employees whose remuneration received/receivable exceeded base executive level ($157,000) totalled 36 (20), comprising 20 (eight) medical, 14 (11) nursing, one (one) executive and one (zero) non-medical. Total remuneration for these employees was $10 million ($5 million).

#### Supplies and services expenses

Supplies and services expenses increased by $8 million, mainly due to increases of:

- $2 million in contractor and agency staff due to increased staff on sick leave and being unable to fill vacant positions
- $1 million in medical, surgical and laboratory supplies due to additional testing and supplies for increased COVID-19 in the community

- $1 million in repairs and maintenance
- $1 million in housekeeping for additional cleaning due to COVID-19
- $1 million in internal SA Health service level agreement payments due to a change in the costing allocations for the RSS.

## Statement of Financial Position

### Assets

Current assets decreased by $1 million. They comprise cash and cash equivalents of $13 million ($13 million), receivables of $4 million ($4 million) and other financial assets of $22 million ($24 million), which primarily relate to the investment of aged care refundable deposits and inventories of $1 million ($1 million).

#### Property, plant and equipment

As at 30 June 2022, property, plant and equipment represented 79% of RMCLHN's total assets and the most significant component was $149 million ($155 million) of land and buildings.

### Liabilities

Current liabilities of $55 million exceeded current assets of $40 million at balance date.

Cash and cash equivalents of $13 million were sufficient to meet current payables of $9 million. RMCLHN is funded to meet expected cash flows for its current program delivery. Note 1.5 of its financial report discusses continuity of operations.

#### Staff-related liabilities

Staff-related liabilities make up 53% of RMCLHN's total liabilities at 30 June 2022, comprising $30 million ($32 million) of staff benefits liabilities, $2 million ($2 million) in related on-costs and $10 million ($6 million) of provisions for workers compensation.

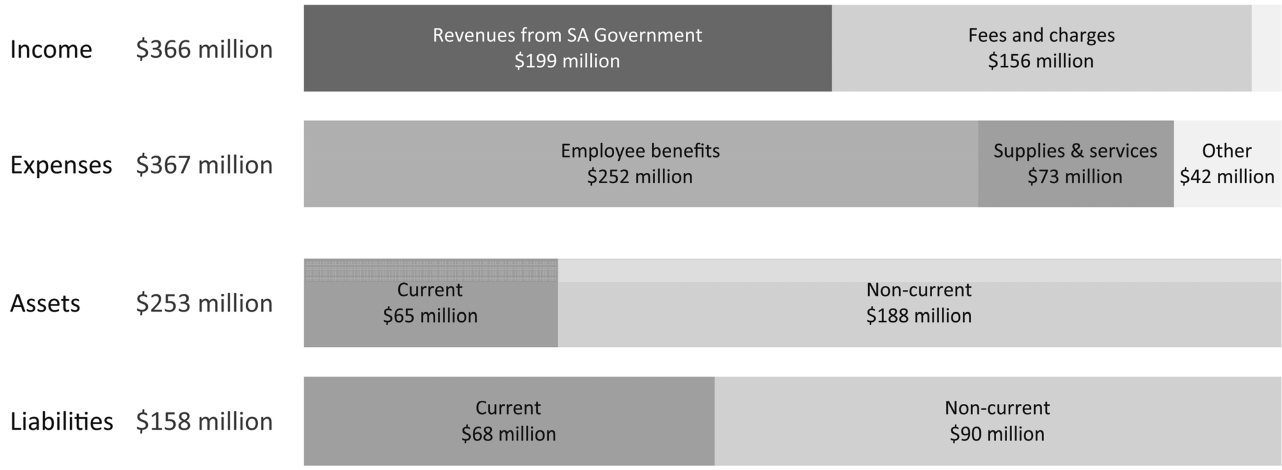
Note 22 of RMCLHN's financial report provides further information on the independent actuarial assessments of provisions for workers compensation.

#### Other liabilities

Other current liabilities make up 35% of total liabilities and mainly comprise of residential aged care bonds. Residential aged care bonds decreased by $1 million in 2021-22 to $25 million ($26 million). They are refundable accommodation contributions or deposits made by residents when they enter aged care facilities.

# SA Ambulance Service Inc (SAAS)

## Financial statistics




**1,762**
FTEs

**788***
Triple Zero calls – daily average

**883***
Incidents responded to – daily average

* Data provided by SAAS and unaudited.

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| | |
|---|---|
| **Significant events and transactions** | — In August 2022 the South Australian Employment Tribunal approved the *SA Ambulance Service Enterprise Agreement 2022*. Under this agreement, SAAS employees will receive a salary increase of 2.5% per annum, which will apply from the first full pay period after 31 December 2018. The financial impact of this back pay cannot be reliably measured at this stage.<br>— In the 2022-23 State Budget, the SA Government committed to funding 350 more paramedics and ambulance officers, $120 million for a new Emergency Operations Centre, $67 million for four new ambulance stations and improvements to 14 existing ambulance stations, and $9 million for 36 additional fully equipped ambulance vehicles, over the next four years. |
| **Financial report opinion** | **Unmodified** |

**Audit findings**

- Work is still required to correct historical errors in staff leave balances.
- Improvements needed to manual timesheet processes.
- Delays in generating patient transport invoices.
- Password complexity rules are not enforced in the invoicing system.
- Inappropriate segregation of duties in the ambulance transport and ambulance cover team.
- Weaknesses identified in the South Australian Computer Aided Dispatch System controls.

# Functional responsibility

SAAS is a body corporate constituted under the *Health Care Act 2008* (HC Act) and is the principal provider of ambulance services in South Australia. It delivers:

- out-of-hospital emergency care and transport
- non-emergency patient care and transport
- emergency and major event management
- medical retrieval services.

### Governance

Under the HC Act the Chief Executive, Department for Health and Wellbeing (DHW) is responsible for the administration of SAAS. This includes appointing SAAS's Chief Executive Officer. The Chief Executive, DHW cannot give a direction about a person's clinical treatment.

SAAS enters into a service agreement with the Chief Executive, DHW that sets out expectations and deliverables for the financial year, with the intent that it binds both parties.

The 2021-22 SAAS service agreement was executed in December 2021.

### Ongoing response to the COVID-19 pandemic

COVID-19 continued to impact SAAS's operations in 2021-22, with SAAS experiencing increased costs associated with preparing for COVID-19, increased demand for personal protective equipment and increased agency staffing costs to ensure necessary compliance measures were in place.

Note 1.7 of SAAS's financial report states that specific costs attributable to COVID-19 in 2021-22 totalled $13.8 million ($4.1 million).

# Scope of the audit

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

Financial services for SAAS are provided through a mix of:

- central services provided by DHW
- finance services located within SAAS
- services provided by Shared Services SA (SSSA).

Our audit included the review of new and legacy systems and completing audit work at DHW's central services, SAAS and SSSA.

Audit findings across health services fall into the following categories:

- common findings reflecting central services and/or systems
- matters for individual health services
- SSSA matters.

A chartered accounting firm assisted the Auditor-General with the SAAS audit.

Specific areas of audit attention in 2021-22 included:

- cash
- payroll
- supplies and services and accounts payable
- procurement and contract management
- revenue and accounts receivable
- fixed assets
- general ledger.

We considered the work of SAAS's internal auditors in designing and performing our audit procedures.

# Audit findings

## Communicating our audit findings

We communicated our audit findings in a management letter to the Chief Executive Officer of SAAS.

The main findings and SAAS's responses are discussed below.

### Payroll

#### Work is still required to correct historical errors in staff leave records

In 2019-20, SAAS advised us that an internal review had identified errors in its staff leave balances, resulting in an overstatement of staff leave benefits and associated staff on-costs of $6 million. SAAS identified these errors by reconciling operational staff records from its rostering system against staff leave records in Chris21. Adjustments processed mainly related to staff leave taken but not deducted from Chris21 leave balances.

The review considered records dating back to 2013 and resulted in a reduction in staff leave liabilities processed as at 30 June 2019. This adjustment was made to SAAS's general ledger and financial report, but not to individual leave entitlement balances in Chris21. Further adjustments of $3.9 million were also identified in 2020-21.

Our follow-up in 2021-22 identified that phase two of the project to review employee leave balances was completed and the prior year's discrepancy between the rostering system and Chris21 was identified and adjusted for the financial report. However, staff leave records in Chris21 are yet to be corrected.

We understand that SAAS has developed new leave forms that establish controls around how to apply for and record leave. New guidelines for applying for and approving leave were also developed for managers and employees.

SAAS responded that phase two of this project is complete and it has started rechecking this phase, with completion expected by December 2022.

### Improvements required to manual timesheet processes

Since 2017 we have raised concerns about weaknesses in SAAS's process for reviewing manual timesheets, including the completeness of manual timesheets submitted. SAAS previously advised us of its intention to interface its rostering system with Chris21 to eliminate some of these weaknesses.

Our follow-up in 2021-22 identified that SAAS's project to interface the rostering system with the Chris21 payroll system is progressing but was not completed. A number of payroll controls were implemented by SAAS, including:

- electronic timesheets and leave forms were rolled out across the entity
- a dedicated section on leave and attendance management was added to the intranet, including guidelines for employees and managers to follow when completing and approving timesheets
- a timesheet submission register was developed and implemented for managers to track all submitted manual timesheets.

SAAS responded that the project to interface the rostering system with the Chris21 payroll system is progressing, however it has only been funded up until December 2022. SAAS is developing a business case to source funding to allow the project to continue.

## Revenue

### Delays in generating patient transport invoices

At the time of our 2021-22 audit, there was a backlog of more than 60 days in generating patient transport invoices. As at 30 June 2022 SAAS had around $15.7 million in invoices to be raised for services provided earlier in the year (see note 14 of its financial report). Delays in raising invoices increase the risk of debt recovery not being successful.

SAAS responded that it has made improvements in this area, with the backlog of unprocessed patient transport invoices decreasing from 90 days as at 30 June 2021, down to 60 days as at 30 June 2022. SAAS has committed significant resources to this, including establishing a day and evening shift for processing invoices and engaging agency staff to help clear the backlog of unprocessed patient invoices.

## Information technology

### Password complexity rules not enforced in invoicing system

We found that the recommended rules for password complexity in SAAS's invoicing system are not enforced. Currently users determine the level of password complexity. Non-complex passwords may result in inappropriate access or data breaches.

SAAS advised us that it has a current project underway to migrate the invoicing function from the current system to DHW's Oracle corporate system.

SAAS also advised us that the invoicing system is a business application stored on an SA Health computer system and is protected by user access specifications. This ensures that user access to the SA Health network and computer system is restricted to authorised users. For this reason, SAAS is willing to accept the minimal risk associated with this finding while the project to move invoicing into DHW's Oracle corporate system is undertaken.

### Inappropriate segregation of duties in the ambulance transport and ambulance cover team

We noted that managers in the ambulance transport and ambulance cover team have access to process and approve transactions in SAAS's invoicing system. As a result, a member of this team is able to process and approve the same transaction. This may result in the inappropriate processing of transactions in the system.

SAAS advised us that a request was made to the system administrator to generate a creator and approver report for management review. SAAS also noted that this issue will be resolved once the project to move invoicing into DHW's Oracle corporate system is completed.

### Weaknesses identified in South Australian Computer Aided Dispatch System controls

The South Australian Computer Aided Dispatch (SACAD) system is an operational system used by Triple Zero operators and dispatchers to prioritise and record calls and send appropriate personnel to emergencies as required.

The SACAD system is used by SAAS, South Australia Police and the South Australian Metropolitan Fire Service and is supported by the Attorney-General's Department's central SACAD system support team.

In 2021-22 we reviewed the information technology general controls operating across the whole SACAD system and the controls maintained locally by SAAS, South Australia Police and the South Australian Metropolitan Fire Service. Coverage included password management, user access management, privileged user access, audit logging, change management, patch management, backup and disaster recovery management.

We found some areas where controls could be improved across SAAS, including controls around patch management, privileged user access, user access offboarding, user access management and audit logging. These control weaknesses may increase the opportunity for inappropriate access and unauthorised changes to the SACAD application and its data going undetected.

At the time of this Report, SAAS was still in the process of responding to our audit findings.

# Interpretation and analysis of the financial report

## Highlights of the financial report

| | 2022 $million | 2021 $million |
|---|---|---|
| **Income** | | |
| Revenues from SA Government | 199 | 194 |
| Fees and charges | 156 | 158 |
| Other income | 11 | 12 |
| **Total income** | 366 | 364 |
| | | |
| **Expenses** | | |
| Staff benefit expenses | 252 | 254 |
| Supplies and services | 73 | 64 |
| Depreciation and amortisation | 14 | 13 |
| Other expenses | 28 | 28 |
| **Total expenses** | 367 | 359 |
| **Net result** | (1) | 5 |
| | | |
| Other comprehensive income | 27 | 46 |
| **Total comprehensive result for the year** | 26 | 51 |
| | | |
| **Assets** | | |
| Current assets | 65 | 66 |
| Non-current assets | 188 | 157 |
| **Total assets** | 253 | 223 |
| | | |
| **Liabilities** | | |
| Current liabilities | 68 | 59 |
| Non-current liabilities | 90 | 95 |
| **Total liabilities** | 158 | 154 |
| **Net assets** | 95 | 69 |

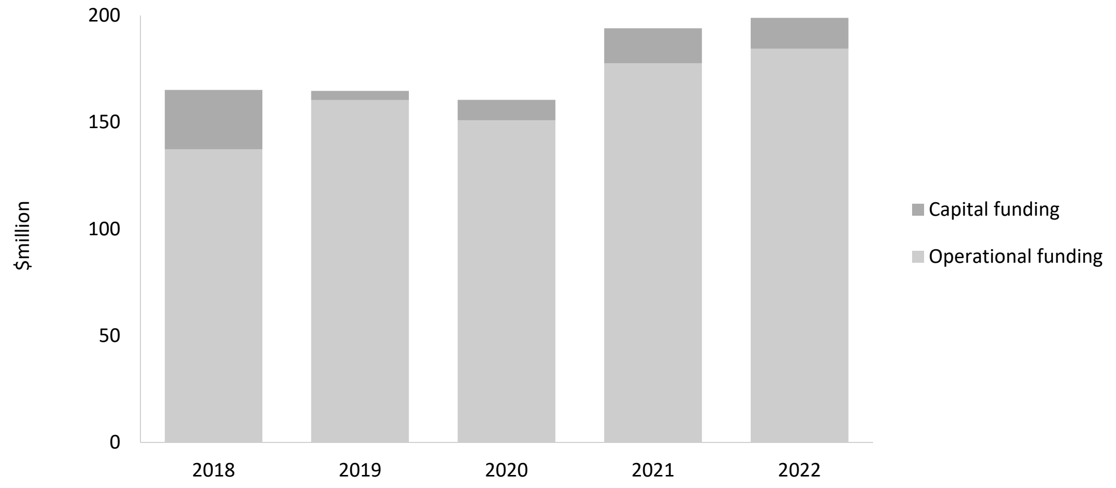
## Statement of Comprehensive Income

### Revenues

#### Revenues from SA Government

SAAS is dependent on revenue from the SA Government, which comprises 54% of its total revenue. In 2021-22 total revenues from the SA Government increased by $5 million to $199 million and comprised recurrent funding of $184 million ($178 million) and capital funding of $15 million ($16 million).

The chart below shows SA Government funding over the last five years, separated between capital and operational funding. While there have been changes in the composition of SA Government funding over this period, there has been an overall rise in total funding between 2018 and 2022.



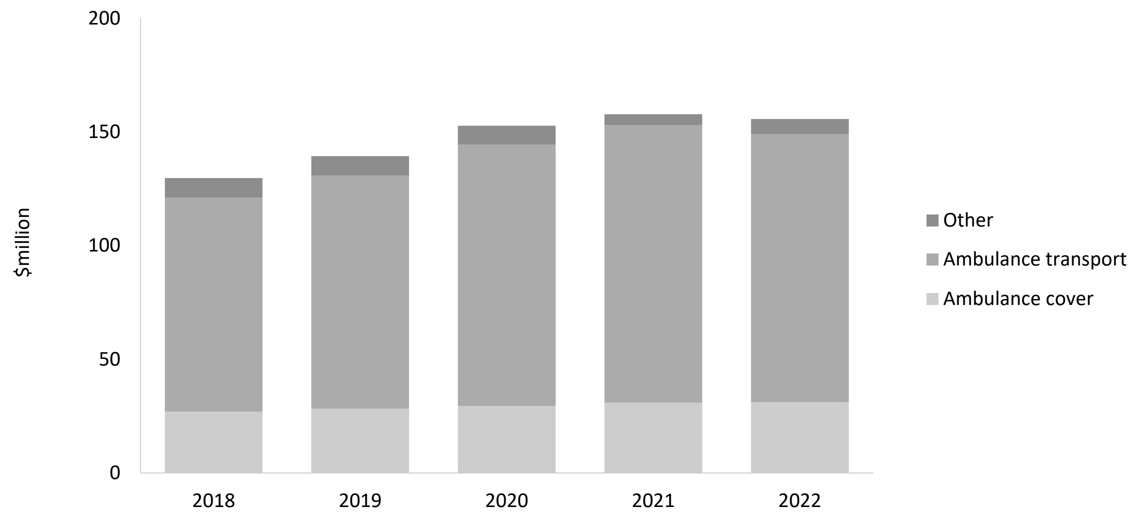

## Revenues from fees and charges

Revenues from fees and charges decreased by $2 million to $156 million. Significant components were:

- ambulance cover – $31 million ($31 million)
- ambulance transport – $118 million ($122 million).

Ambulance cover revenue is from member subscriptions to the SAAS ambulance cover scheme. The scheme covers members against the cost of ambulance transport. Ambulance transport revenue is earned from patient transport services to the general public, $87 million, and SA Government customers, $31 million. In order to manage the ongoing ramping crisis at South Australian hospitals, the SA Government has been implementing ways for patients to access more appropriate clinical care other than ambulance transport to an emergency department. This has provided an overall better result for patients and the South Australian health care system. However it has reduced ambulance transport revenue for SAAS despite a 1.9% increase in ambulance transport fees in 2021-22.

The following chart shows the movement in fees and charges revenue over the past five years. Fees and charges revenue has increased each year, apart from in 2022, reflecting overall growth in activity levels and rates.



## Expenses

In 2021-22 total expenses increased by $8 million to $367 million.

### Staff benefit expenses

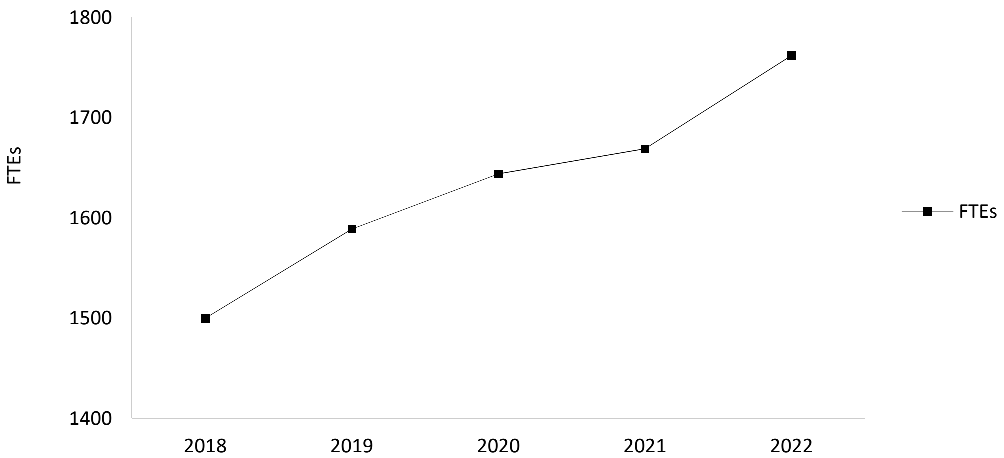
Staff benefit expenses of $252 million represented 69% of SAAS's total expenses and decreased from $254 million in 2020-21. Although salaries and wages rose by $11 million (6%) to $188 million, this was offset by a $5 million decrease in long service leave expenses and a $9 million decrease in workers compensation expenses. These amounts were impacted by the actuarial assessment of the long service liability and workers compensation provision as at 30 June 2022.

The number of staff whose remuneration received/receivable exceeded the base executive level of $157,000 totalled 330 (336) comprising 275 (281) operational, 29 (29) medical, 21 (20) nursing, five (five) executive and zero (one) administration staff.

Total remuneration for staff across these categories was $65 million ($64 million).

Total FTEs employed by SAAS have increased over the five years to 30 June 2022. There were 1,500 FTEs at 30 June 2018 compared to 1,762 at 30 June 2022, based on Office of the Commissioner for Public Sector Employment data. This number is likely to continue to increase in the coming years with the SA Government committing in the 2022-23 State Budget to increase the number of paramedics and ambulance officers by 350 over the next four years.

The chart below shows the overall growth in FTE numbers over five years.




In August 2022 the South Australian Employment Tribunal approved the *SA Ambulance Service Enterprise Agreement 2022*. Under this agreement, SAAS employees will receive a salary increase of 2.5% per annum, which will apply from the first full pay period after 31 December 2018. The financial impact of this back pay cannot be reliably measured as at 30 June 2022.

### Supplies and services expenses

Supplies and services expenses increased by $9 million to $73 million and included the following movements:

- patient transport – $1.9 million increase

- other supplies and services – $1.7 million increase
- minor equipment – $1.5 million increase
- contractors – $1.4 million increase
- medical, surgical and laboratory supplies – $1.2 million increase
- computing – $1.2 million increase.

The above movements are largely attributable to:

- purchasing a number of new ambulance vehicles in 2021-22 and increased expenses to fitout these vehicles
- an increased demand for services, including responses to the COVID-19 pandemic, that resulted in increased contractor expenses and costs of supplies for these additional staff.

## Statement of Financial Position

### Property, plant and equipment

Property, plant and equipment represents 60% of SAAS's total assets. The carrying value of property, plant and equipment increased by $4 million to $152 million in 2021-22. This was primarily due to:

- $19 million in additions, mainly related to building works in progress, ambulance vehicles and medical equipment
- offset by depreciation and amortisation of $15 million.

### Other assets

Cash and cash equivalents increased by $4 million to $21 million in 2021-22. The main driver for the increase was the timing of funding from DHW and cash drawdowns for operating expenses.

Receivables make up 26% of total assets and rose by $33 million to $67 million (95%). This significant increase was due to:

- a $24.5 million increase in the defined benefit scheme receivable as a result of an actuarial review. More detail on this movement is provided in note 20.3 of SAAS's financial report
- a $17 million increase in debtors, offset by a $10.2 million increase in SAAS's impairment loss on receivables, resulting in a net increase of $6.8 million. This largely relates to improvements in processing patient transport invoices, discussed under 'Audit findings' above.

Contract assets of $16 million relate to work completed but not yet invoiced. Contract assets decreased by $14.5 million, with this decrease largely attributable to improvements in processing patient transport invoices. The allowance for impairment loss on contract assets decreased by $3.2 million to $3.8 million.

### Liabilities

Staff liabilities comprise $128 million (81%) of SAAS's total liabilities at 30 June 2022, comprising:

- staff benefits liabilities and related on-costs – $86 million ($91 million)
- provisions for workers compensation – $42 million ($36 million).

Staff benefits liabilities decreased by $5 million to $86 million, due mainly to a $7.6 million decrease in the long service leave liability, offset by a $2.8 million increase in the annual leave liability. The decrease in the long service leave liability is largely attributable to an increase in the yield on long-term Commonwealth Government bonds, from 1.5% to 3.75%, which is used as the discount rate when measuring the long service leave liability.

The provision for workers compensation increased by $6 million to $42 million. Workers compensation provisions are based on an independent actuarial assessment. The increase was largely attributable to legislative changes that impacted the South Australian workers compensation arrangements for seriously injured workers. This included the impact of a court case for an individual worker that resulted in a significant additional element to the overall liability. The actuarial model applied in determining the provision takes into account current and historical claims data.

As explained in note 21.1 of SAAS's financial report, which provides information on the actuarial assessment, there is a high level of uncertainty about the ultimate value of claims.

Current liabilities, $68.2 million, exceeded current assets, $65.1 million, at 30 June 2022. SAAS is funded to meet expected cash flows for its current program delivery. Note 1.5 of its financial report provides information about its continuity of operations.

## 2022-23 State Budget and SAAS

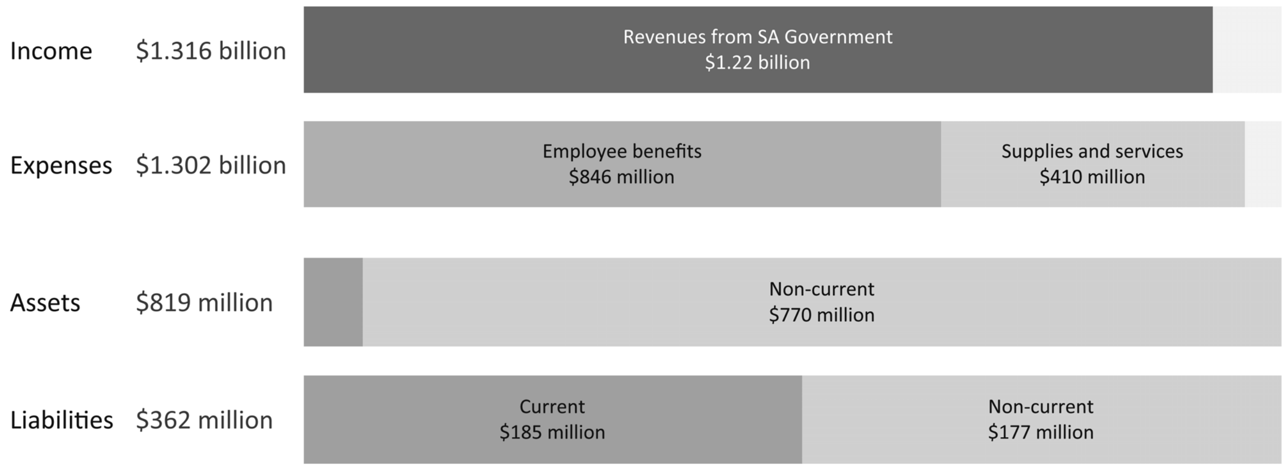
In the 2022-23 State Budget, the SA Government committed to funding the following over the next four years:

- 350 more paramedics and ambulance officers
- $120 million for a new Emergency Operations Centre
- $67 million for four new ambulance stations and improvements to 14 existing ambulance stations
- $9 million for 36 additional fully equipped ambulance vehicles.

SAAS is currently working closely with the SA Government on delivering this.

# Southern Adelaide Local Health Network Incorporated (SALHN)

## Financial statistics




**6,456**
FTEs

**$846 million**
Payments to staff

**$660 million**
Buildings

### Significant events and transactions

- SALHN continued to provide a frontline response to COVID-19, including maintaining vaccination services at Flinders Medical Centre (FMC) and Noarlunga Hospital, and running COVID-19 vaccination mobile clinics across various locations in the southern community.
- Work continued to support the expansion and upgrade of facilities at FMC and to open new facilities at the Repat Health Precinct (RHP).

### Financial report opinion

**Unmodified**

### Controls opinion findings

- Payroll planning, monitoring and approval processes could improve.
- Asset management processes under the Across Government Facilities Management Arrangements (AGFMA) could improve.
- Some contract management processes could improve.

### Other audit findings

No private practice audits conducted.

# Functional responsibility

SALHN was established under the *Health Care Act 2008* (HC Act) and its powers and functions are to establish, provide, maintain and enhance hospital, medical and allied health services in its local area.

## Governance

The HC Act provides for the governance, management and administration of the South Australian public health system. It sets out the role, functions and powers of the Minister, the Chief Executive of the Department for Health and Wellbeing (DHW), the local health networks (LHNs), their governing boards and their chief executive officers (CEOs).

LHN governing boards are responsible for the overall governance and oversight for local health service delivery by the LHN, including governance of performance and budget achievement, clinical governance, safety and quality, risk management and the achievement of the board functions and responsibilities.

Each LHN CEO is accountable to, and subject to the direction of, the governing board for managing the operations and affairs of the LHN.

DHW has a role as the 'system leader' and focuses on setting strategic direction and statewide policy, as well as the performance of the public health system through high-level system direction and performance management.

The Minister for Health and Wellbeing remains responsible for setting reform agendas and priorities. The governing board must comply with any direction of the Minister for Health and Wellbeing or the Chief Executive of DHW.

A service agreement between SALHN and the Chief Executive of DHW outlines the requirements of the formal relationship between DHW and SALHN, and sets out performance expectations and funding arrangements. The intent of the service agreement is to be binding on all parties. The 2021-22 SALHN service agreement was executed in November 2021.

On 8 June 2021 the South Australian Parliament passed the *Health Care (Governance) Amendment Act 2021*, which amended the HC Act from 23 August 2021. The Amendment Act supports the SA Government's decentralisation of the public health system. Among other matters, it makes further amendments to the function of the Chief Executive of DHW to reflect DHW's role as system leader, formalises provisions for service agreements, clarifies workforce responsibilities and makes minor amendments to reflect the governance and accountability arrangements.

## Impact of the COVID-19 pandemic

SALHN has continued to provide a frontline response to COVID-19 in its local area. This has included:

- maintaining COVID-19 vaccination clinics at FMC and Noarlunga Hospital
- running COVID-19 vaccination mobile clinics across various locations in the southern community
- maintaining COVID-19 testing services at FMC and a dedicated COVID-19 healthcare facility at the RHP
- continuing to plan for potential workforce requirements and ensuring workforce capability to deal with pandemic scenarios.

# Scope of the audit

## Audit of the financial report

The audit program covered major financial systems to obtain sufficient evidence to form an opinion on the financial report. Financial services for SALHN are provided through a mix of:

- central services provided by Shared Services SA (SSSA) through an integrated finance service model
- finance services located within SALHN
- central services provided by DHW.

SALHN commenced the activation of the Sunrise patient electronic medical record system (Sunrise EMR) at FMC in March 2021. It replaces FMC's legacy system and will allow better integration with other SALHN services that already use it. Consequently, our audit included the review of new and legacy systems. We completed audit work at SSSA's central services, SALHN and DHW.

Audit findings across health services fall into the following categories:

- common findings reflecting central services and systems
- matters for individual health services
- DHW matters
- governance.

Specific areas of audit attention in 2021-22 included:

- governance
- accounts payable and goods and services expenditure
- payroll and workforce management
- patient billing and debtor management
- medical officer professional development
- cash and online banking
- general ledger and financial accounting
- property, plant and equipment.

We considered the work of SALHN's internal auditors in planning and conducting the audit.

## Controls opinion

We reviewed controls over bank accounts, employee expenses, goods and services expenditure, buildings and improvements and the AGFMA as part of our overall controls opinion, which is discussed in Part B of this Report.

# Audit findings

## Communicating our audit findings

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

## Controls opinion findings

### Payroll planning, monitoring and approval processes could be improved

SALHN employs around 6,456 (6,100) FTEs and its payroll-related costs are significant, with $846 million in staff benefit expenses paid and $319 million in staff benefit liabilities at 30 June 2022. Given the significance of these costs, we review key payroll controls each year.

#### *SALHN does not have documented policies and procedures for identifying and reviewing prescribed employee positions and identifying the types of employment checks required*

Different positions within an LHN can require different types of employment clearances. Working with children clearances (WWCC) are required for some staff, while others may require more general clearances. SA Health policy requires a current WWCC for all SA Health employees working in prescribed positions, as defined in child protection legislation.

Last year we reported that SALHN had completed a review of positions and the types of checks required for them and had commenced compliance reviews to ensure staff had the required checks.

In 2021-22, we found that SALHN had started to monitor the expiry of employment checks through monthly reporting. SALHN had also developed a work instruction on criminal history checks, outlining the types of employment checks and who performs them.

However, we noted that SALHN did not have formally documented procedures in place to ensure the types of checks required were identified and monitored on an ongoing basis.

SALHN advised us that it was satisfied that the established documented instructions and processes would ensure all new appointments have the appropriate employment checks in place before commencing employment and that its monthly workforce reports were sufficient for ongoing monitoring.

SALHN acknowledged that there have been some delays in progressing employment checks for prescribed positions for existing employees, which was largely brought about by the workforce impact arising from COVID-19 and reliance on other agencies to progress related checks.

#### *High probability that staff have worked in positions SALHN has identified as prescribed without a working with children clearance*

SA Health's criminal history screening policy requires a current Department of Human Services WWCC for all SA Health employees before they start in a prescribed position. This reflects the requirements of the *Child Safety (Prohibited Persons) Act 2016*.

In 2021-22 SALHN completed its identification of staff working in prescribed positions requiring WWCCs. It subsequently started a compliance review for these staff, looking at whether they had current WWCCs.

As at May 2022, SALHN had 5,508 staff working in prescribed positions requiring a WWCC. Of these, it identified 1,315 staff (24%) who either had an expired WWCC or no record of a WWCC at all.

Our analysis of the staff without a current WWCC found that they included staff working in the emergency department and in areas where children are treated. As a result, there is a high probability that some of those staff provided care to children when they did not have a check in place.

SALHN advised us that as of August 2022, 85% of staff in prescribed positions had a current WWCC, and that it had processes in place to address the remaining 15%. SALHN further advised us that it was satisfied with its systems to address non-compliance with appropriate follow-up.

### *Employees working in aged care roles without a current aged care check*

Under the *Aged Care Act 1997,* screening checks must be obtained for employees working in Commonwealth Government subsidised aged care roles.

SALHN's Aged Care Assessment Team (ACAT) is part of a Commonwealth-funded program and the staff are in Commonwealth subsidised aged care roles. This means ACAT staff should have a valid aged care check to comply with legislative requirements.

At the time of our audit, we noted that nine of the 21 ACAT staff did not have a valid aged care check.

SALHN advised us that as of August 2022, all staff involved in aged care roles have an aged care check and that it had established processes to maintain ongoing compliance.

### *SALHN did not have a consolidated workforce plan*

We have, for a number of years, considered workforce planning across a number of agencies with significant workforce numbers. Since then, SALHN has addressed aspects of its workforce planning including:

- identifying the development of a workforce strategic plan as a strategic priority
- consulting with divisions to provide scope for workforce operational and strategic planning initiatives
- implementing a talent identification and management framework, and identifying critical leadership positions and potential successors
- implementing the Nursing Sustainability project ,which will be incorporated into its workforce plan.

In 2021-22, SALHN advised us that it was expecting to finalise a draft consolidated workforce plan by December 2022, with the intent to distribute it to staff for consultation.

### *Around 23% of SALHN staff did not have a current performance review in May 2022*

In 2021-22, we continued to review how current the employee performance reviews were at a number of agencies, including SALHN.

Our review of SALHN's data in May 2022 indicated that 2,121 staff (23%) out of a total of 8,868 did not have a current performance review. Of these, 848 (40%) were expired for more than a year.

SALHN advised us that it had initially made a decision to put performance reviews on hold to release resources to focus on its COVID-19 response. This was done to not place any unnecessary strain on a workforce already under significant pressure as result of staff shortages and increased activity from COVID-19 infections and furloughing requirements.

Since February 2022, SALHN has placed an emphasis on performance review uptake and compliance. It will continue to emphasise the importance of these reviews, with a compliance target of 80%.

### *No central monitoring process to ensure regular review of payroll information occurs*

Key payroll reports for SALHN's staff differ depending on the type of employee. The effective review of these reports helps ensure payments to staff are accurate and valid.

In 2021-22, we found that SALHN had not implemented a central monitoring process or provided clarification to divisional managers on the expected time frames for reviewing staff establishment reports.

SALHN advised us that it would develop a process for divisions to review monthly staff establishment reports.

### *Inconsistent medical rostering practices*

We have previously reported that SALHN had inconsistent medical rostering practices between divisions. Last year it issued guidelines for rostering trainee medical officers to address deficiencies in the standardisation of rostering practices.

In 2021-22, we found that SALHN had not done any further work on its rostering practices for other types of medical officers, as it was waiting for the outcomes of SA Health's draft Time and Attendance Policy Directive and Medical Officer Timesheet/Attendance Guideline.

SALHN advised us that it would continue work to standardise its rostering approaches, building on its recent experience with trainee medical officers.

### *On-call allowances were not always reviewed*

On-call allowances paid to staff are subject to review at least twice a year to ensure that the criteria for paying the allowances are satisfied. SALHN has a work instruction that requires the review of these allowances in April and October each year.

At the time of finalising our 2021-22 audit, we had not been provided with any evidence of the biannual review having been performed.

SALHN advised that it would continue exploring opportunities to streamline the review of on-call allowances.

### *Leave management*

In prior years, we noted that SALHN had staff with negative leave balances and staff with excessive annual leave balances. In response, SALHN implemented enhanced reviews and management practices.

In 2021-22, due to increased workload, SALHN had not conducted any reviews of negative leave balances. Our review of SALHN's leave report as at May 2022 found:

- 172 employees with negative leave balances
- 449 employees with annual leave liability balances of more than 400 hours.

SALHN stated that its COVID-19 response, maintaining service delivery through the pandemic and, more recently, demand challenges had placed significant pressure on the provision of a sustainable workforce to meet service demand. SALHN advised us that it will take action as it deems necessary, acknowledging these demand pressures.

### *Non-compliance with the healthcare workers' COVID-19 vaccination directive*

The Emergency Management (Healthcare Setting Workers Vaccination No 1) (COVID-19) Direction 2021, was declared under the *Emergency Management Act 2004* in October 2021. Section 4 of the directive stated:

> *(1) A person must not engage in work or perform duties in a healthcare setting from 1 November 2021 unless—*
>
> > *(a) the person has received at least one dose of a Therapeutic Goods Administration (TGA) approved COVID-19 vaccine; and*
> >
> > *(b) the person has received, or has evidence of a booking to receive, a second dose of a TGA approved COVID-19 vaccine within one month of the first dose.*

It was updated in March 2022 to reflect the requirement for a third dose (booster) of a TGA approved COVID-19 vaccine. These directions are still in force under the *South Australian Public Health Act 2011*.

Our analysis of SALHN's COVID-19 vaccination compliance database as at June 2022 identified several current employees who had worked between 1 November 2021 to 1 May 2022 while not being fully vaccinated. We found:

- 11 staff with only one dose of the COVID-19 vaccination
- 306 staff with only two doses of the COVID-19 vaccination
- 547 staff with no evidence of any doses.

SALHN advised us that it had taken action to rectify the situation from July 2022.

### Asset management processes could improve

SALHN has property, plant and equipment worth $761 million. As part of our controls opinion work in 2021-22, we considered the control processes in place to manage the maintenance of these assets, including considering the AGFMA.

Consistent with our prior year findings, in 2021-22 we continued to find that:

- SALHN did not have a strategic asset management plan and supporting asset management plans. We found that work on the strategic asset management plan was a work-in-progress and that asset management plans had not been finalised, as they needed to be reassessed for operation in a COVID-19 environment
- financial delegations in the system used to order maintenance work were not consistent with SALHN's financial delegations.

In 2021-21, we also found that SALHN had not signed the memorandum of administrative arrangements (MoAA) for the AGFMA between SALHN and the Department for Infrastructure and Transport (DIT). This may lead to an unclear understanding of roles and responsibilities for implementing the new AGFMA arrangements, which could result in disputes.

SALHN responded that it would continue to:

- collaborate with DHW on the strategic asset management plan to ensure a consistent approach
- work with DHW in negotiating a MoAA with DIT, including appropriate key performance indicators
- work with the facilities management provider to ensure the delegations in its maintenance system align with SALHN's financial delegations.

#### Some contract management processes could be improved

SALHN paid over $410 million for supplies and services in 2021-22. We identified issues in contract management and purchasing from our work on goods and services expenditure for the controls opinion.

We found that:

- contracts were not established for some regular services, as was the case in prior years. This year we identified two instances where significant expenditure of about $4 million and $3 million between 1 July 2021 and 30 June 2022 was not supported by contracts with the suppliers
- not all of SALHN's high-value and high-risk contracts had a contract management plan. These plans are required for strategic contracts under SALHN's procurement framework. We found that contract management plans had not been developed for five strategic contracts.

SALHN responded that:

- it conducts quarterly reviews of non-contract spend to identify contract establishment opportunities. It is either finalising interim contract arrangements or is in negotiation with tenderers
- it will continue to complete outstanding contract management plans in 2021-22, including those we identified in our audit.

### Other audit findings

#### No private practice audits conducted

The various memorandums of arrangements (MoAs) for private practice allow medical officers to undertake rights of private practice (RoPP) outside of SALHN if they have written approval from the Chief Executive of DHW. The terms of the RoPP MoAs require medical officers to transfer all offsite generated fees collected to SALHN, which then manages the RoPP fees and distributes them in line with the MoA.

We understand that SALHN undertakes the following processes to monitor offsite RoPP agreements:

- monitoring monthly receipts of RoPP doctors listed on the offsite register

- monitoring responses received for the annual statutory declarations and RoPP offsite questionnaires by 31 July each year.

However, at the time of our audit we noted that SALHN had not conducted any independent audits. Without conducting independent audits as allowed by the MoAs, the risk that not all offsite fees are completely and accurately transferred to SALHN remains.

SALHN responded that an ongoing review of RoPP was expected to be completed by August 2022.

# Interpretation and analysis of the financial report

## Highlights of the financial report

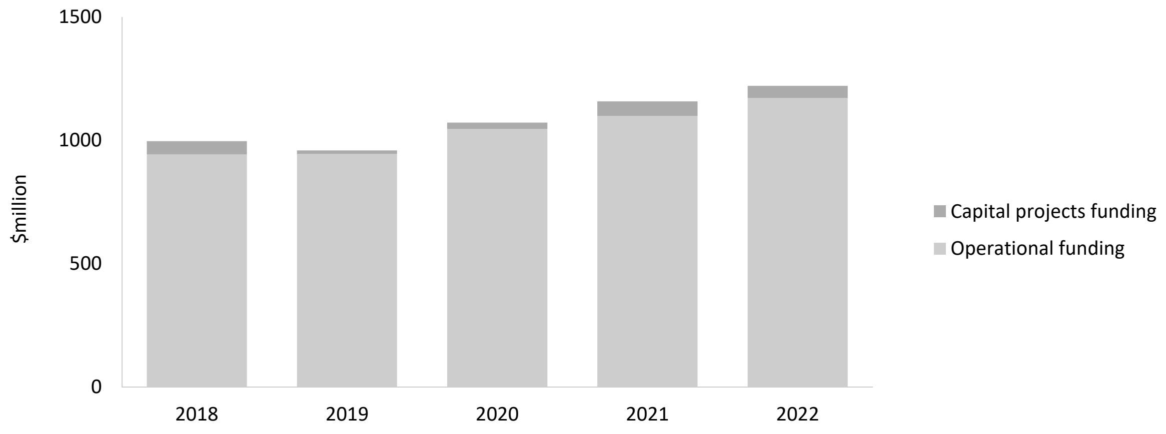
| | 2022 $million | 2021 $million |
|---|---|---|
| **Income** | | |
| Revenues from SA Government | 1,220 | 1,158 |
| Revenue from fees and charges | 57 | 62 |
| Grants and contributions | 5 | 5 |
| Other income | 34 | 32 |
| **Total income** | 1,316 | 1,257 |
| **Expenses** | | |
| Staff benefit expenses | 846 | 813 |
| Supplies and services | 410 | 372 |
| Depreciation and amortisation | 43 | 44 |
| Other expenses | 3 | 2 |
| **Total expenses** | 1,302 | 1,231 |
| **Net result and total comprehensive result** | 14 | 26 |
| **Assets** | | |
| Current assets | 49 | 65 |
| Non-current assets | 770 | 762 |
| **Total assets** | 819 | 827 |
| **Liabilities** | | |
| Current liabilities | 185 | 179 |
| Non-current liabilities | 177 | 206 |
| **Total liabilities** | 362 | 385 |
| **Total equity** | 457 | 442 |

## Statement of Comprehensive Income

### Income

#### Revenues from SA Government

SALHN is mainly funded through recurrent and capital funding from DHW. In 2021-22, overall revenues increased by $62 million (5%) to $1.22 billion due to increased operational funding of $72 million, offset by decreased capital funding of $10 million. The chart below shows revenues from the SA Government over the last five years.




The $72 million (7%) increase in recurrent funding to $1.171 billion in 2021-22 reflects additional funding for the costs associated with increased service provision at FMC and the RHP. There were also additional costs associated with SALHN's COVID-19 responses, including the operation of vaccination clinics.

### Revenues from fees and charges

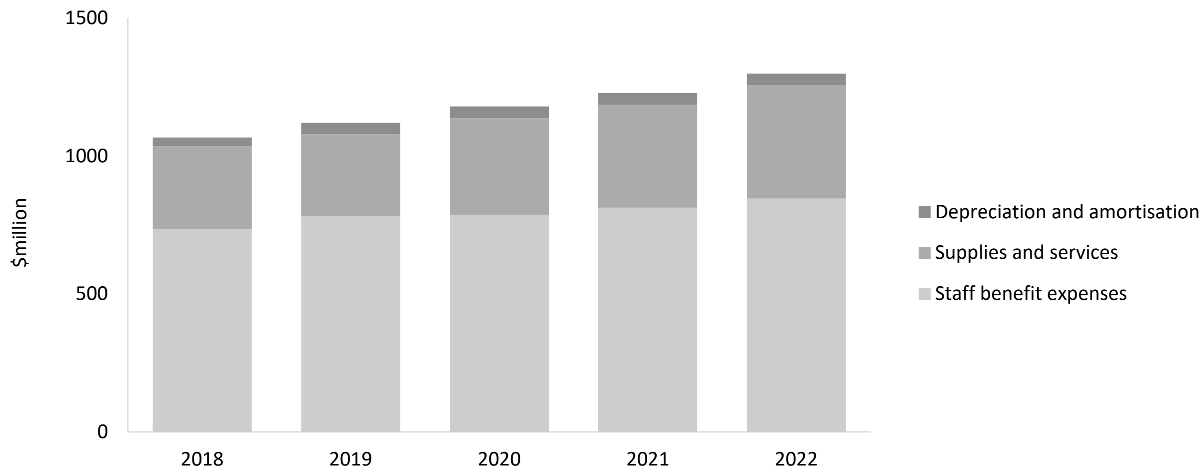
In 2021-22 revenues from fees and charges decreased by $5 million (8%) to $57 million, mainly due to:

- a $6 million (14%) decrease in patient and client fees received, mainly as a result of decreased compulsory third party claims for motor vehicle accident related treatments
- offset by a $1 million (13%) increase in fees for health services.

## Expenses

In 2021-22 total expenses increased by $71 million (6%) to $1.302 billion.

The chart below shows the composition of expenses for the last five years.



## Staff benefit expenses

Staff benefit expenses of $846 million represent 65% of SALHN's total expenses. These costs increased by $33 million in 2021-22 mainly due to:

- a $39 million increase in salaries and wages expense to $698 million, a $6 million increase in staff superannuation on-costs to $75 million and a $5 million increase in annual leave costs, mainly from an increase in FTEs of 353 in 2021-22 and annual salary and allowance increases associated with enterprise agreements for medical officers
- offset by:
  - a $13 million decrease in long service leave expenses. In 2021-22, the increase in the discount rate used in the actuarial calculation of long service leave liabilities from 1.5% to 3.75% resulted in a decrease in the reported long service leave liability and a reduction in the associated expense
  - a $5 million decrease in workers compensation expenses.

The following table shows the breakdown of total staff numbers between medical, nursing and non-medical staff, based on FTEs, since 2017-18. The table shows an overall growth in FTE numbers over the five years, including in 2021-22.

| | 2017-18 FTEs | 2018-19 FTEs | 2019-20 FTEs | 2020-21 FTEs | 2021-22 FTEs |
|---|---|---|---|---|---|
| Medical officers | 863 | 891 | 923 | 963 | 981 |
| Nurses | 2,959 | 2,918 | 2,989 | 3,084 | 3,335 |
| Non-medical | 1,907 | 1,901 | 2,003 | 2,056 | 2,140 |
| Total FTEs | 5,729 | 5,710 | 5,915 | 6,103 | 6,456 |

The number of staff whose remuneration received or receivable exceeded the base executive level ($157,000) totalled 787 (731), comprising 709 (661) medical officers, 63 (57) nursing staff, eight (10) executives and seven (three) non-medical staff. Total remuneration for these staff was $228 million ($208 million).

## Supplies and services expenses

Supplies and services expenses of $410 million represent 31% of SALHN's total expenses. They increased by $38 million (10%) in 2021-22, mainly due to:

- computing, which increased by $2 million (16%) to $12 million
- contracts of services, which increased by $10 million (131%) to $17 million
- contractors – agency staff, which increased by $3 million (22%) to $19 million
- fee for service, which increased by $6 million (15%) to $48 million
- food supplies, which increased by $2 million (13%) to $13 million
- medical, surgery and laboratory supplies, which increased by $5 million (3%) to $142 million. This increase mainly reflects the impact of changes to charging for central services, such as pathology tests, with the full cost now charged to LHNs (and funded through revenues from the SA Government)
- security expenses, which increased by $4 million (38%) to $13 million.

### Statement of Financial Position

#### Property, plant and equipment

Property, plant and equipment represents 93% of SALHN's total assets. Its carrying value increased by $8 million (1%) to $761 million in 2021-22, due mainly to:

- additions of $49 million for capital works in progress, mainly at the RHP
- additions of $2 million for new medical and surgical equipment
- offset by depreciation charges of $43 million.

#### Liabilities

Current liabilities increased by $6 million (3%) to $185 million during the year and exceeded current assets by $136 million at balance date. Cash and cash equivalents of $17 million were insufficient to meet current payables of $47 million at 30 June 2022. SALHN works with DHW to ensure sufficient funding is provided to meet the expected cash flows for its administration and program delivery.

Total liabilities decreased by $23 million to $362 million.

Staff liabilities make up $319 million (88%) of SALHN's total liabilities at 30 June 2022, comprising:

- staff benefits liabilities and related on-costs of $278 million ($305 million)
- workers compensation provisions of $41 million ($45 million).

The movement in staff liabilities is mainly due to:

- a $6 million (7%) increase in annual leave liabilities
- offset by a $24 million (15%) decrease in long service leave liabilities.

## Further commentary on operations

### SALHN infrastructure changes

As at 30 June 2022, SALHN recorded completed capital works of approximately $52 million.

#### Repat Health Precinct capital works

Work at the RHP continued in 2021-22, with building works associated with previously announced initiatives being undertaken. As at 30 June 2022, SALHN recorded completed capital works of approximately $47 million at the RHP, mainly comprising:

- $20 million for phase 2 work
- $14 million for the RPH Brain and Spinal Cord centre
- $9 million for the gymnasium
- $2 million for the refurbishment of wards for transit care
- $2 million for general upgrades.

SALHN also recorded capital works in progress of $39 million at the RHP, including:

- $36 million for phase 2 work
- $3 million for various site infrastructure works.

## Flinders Medical Centre capital works

As at 30 June 2022, SALHN recorded completed capital works of $3 million at FMC, mainly comprising:

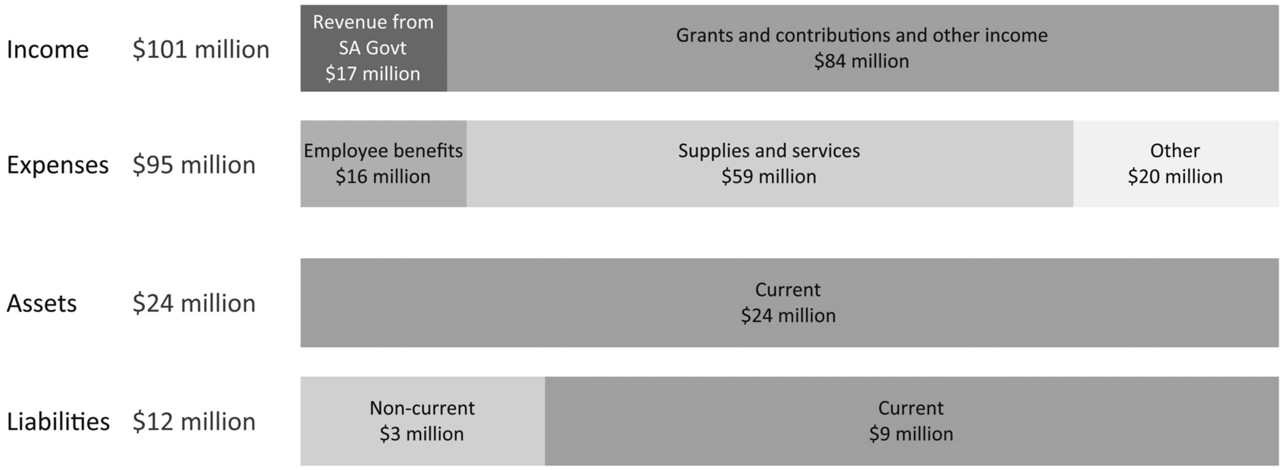
- $560,000 for upgrades to medical imaging
- $651,000 for upgrades to operating theatre suites
- $2 million for general upgrades and improvements.

SALHN also recorded capital works in progress of $10 million at FMC, including:

- $6 million for the emergency expansion
- $4 million for various medical equipment.

# Wellbeing SA (WBSA)

### Financial statistics




142
FTEs

| | |
|---|---|
| **Significant events and transactions** | The metropolitan referral unit was transferred from Southern Adelaide Local Health Network Incorporated to WBSA in March 2022. It provides a contact point for non-hospital care options. |
| **Financial report opinion** | **Unmodified** |
| **Audit findings** | Regular reviews of financial delegations to the financial systems were not performed. |

## Functional responsibility

WBSA was established on 6 January 2020 as an attached office to the Department for Health and Wellbeing (DHW) by proclamation under the *Public Sector Act 2009* (PS Act).

WBSA has a long-term vision to create a balanced health and wellbeing system that supports improved physical, mental and social wellbeing for all South Australians. WBSA's strategic plan states it will employ the following approaches to its work:

- Lead – provide system leadership in prevention, the collection and use of data and evidence to inform practice and out-of-hospital strategies and services.

- Commission – fund approaches and services for prevention, health promotion, early intervention and hospital avoidance.
- Partner – work collaboratively with community and stakeholders to impact health and wellbeing and coordination of care.
- Deliver – support the implementation of evidence-based approaches for health promotion and integrated community-based health care.
- Prioritise – focus on priority settings and priority population groups who experience poorer health outcomes and are at higher risk of preventable hospital admissions.

The Minister for Health and Wellbeing is responsible for WBSA.

## Scope of the audit

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

Financial services for WBSA are provided through a mix of:

- finance services located within WBSA
- services provided by DHW
- services provided by Shared Services SA.

Specific areas of audit attention in 2021-22 included:

- payroll
- expenditure
- grants and subsidies
- cash
- general ledger.

## Audit findings

### Communicating our audit findings

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

#### Audit findings

##### Regular reviews of financial delegations to the financial systems were not performed

DHW sends a list of the financial delegations in SA Health's governance and delegation system to WBSA annually.  WBSA is required to review this list and confirm its accuracy and DHW is responsible for updating any changes in the financial systems.

We found that no review had occurred in 2021-22, which increases the risk of invalid or inappropriate payments. We also identified one payment approved in the procurement and contract management system that was approved outside of the delegations.

WBSA advised us that it would implement the following measures:

- manage a local financial and procurement delegation register and check this against the governance and delegation system on a monthly basis
- record position and appointment changes in the local financial and procurement delegations register
- provide details of its current financial delegations to procurement and contract management system administrators on a quarterly basis
- require individuals to report any financial and procurement delegation discrepancies to system administrators.

# Interpretation and analysis of the financial report

## Highlights of the financial report

| | 2022 $million | 2021 $million |
|---|---|---|
| **Income** | | |
| Revenues from SA Government | 17 | 20 |
| Grants and contributions and other | 84 | 51 |
| **Total income** | 101 | 71 |
| | | |
| **Expenses** | | |
| Payments to SA Government | 11 | - |
| Employee benefits expenses | 16 | 13 |
| Supplies and services and other | 59 | 42 |
| Grants and subsidies | 9 | 8 |
| **Total expenses** | 95 | 63 |
| **Net result** | 6 | 8 |
| | | |
| **Assets** | | |
| Current assets | 24 | 19 |
| **Total assets** | 24 | 19 |
| | | |
| **Liabilities** | | |
| Current liabilities | 8 | 8 |
| Non-current liabilities | 4 | 3 |
| **Total liabilities** | 12 | 11 |
| **Total equity** | 12 | 8 |

## Statement of Comprehensive Income

### Revenue

#### Revenues from SA Government

Revenues from the SA Government mainly related to appropriation from the Consolidation Account under the *Appropriation Act 2021*. Appropriation revenue was $16.8 million ($20.4 million) in 2021-22 and was offset by a $10.7 million payment to return surplus cash under the cash alignment policy.

The decrease in funding was primarily due to the end of the Statewide Wellbeing Strategy.

#### Grants and contributions

WBSA received grant funding from DHW for specific projects in 2021-22. This funding increased by $31.7 million to $80.3 million and principally comprised:

- $28.4 million ($13.3 million) for the My Home Hospital program. The increase was due to the program operating for a full year and an increase in the number of participants
- $28.3 million ($27.4 million) for SA Community Care program
- $14.7 million for demand management for the COVID-19 response.

### Expenses

#### Employee benefits expenses

Employee benefits expenses of $16 million represent 17% of WBSA's total expenses. It increased by $3 million due to FTEs increasing by 31 to 142 (111) as at 30 June 2022.

The number of employees whose remuneration received/receivable exceeded base executive level ($157,000) totalled seven (five). Total remuneration for these employees was $1.7 million ($1.3 million).

#### Supplies and services expenses

Supplies and services increased by $16 million to $59 million and principally comprised an increase to contract of health services, including:

- the SA Community Care Program of $31.9 million ($29.9 million) for a range of hospital avoidance and early supported discharge services
- the My Home Hospital program of $9.4 million ($2 million) for delivering hospital services in patients' homes, due to a full year of operation in 2021-22
- the National Disability Insurance Scheme's (NDIS's) COVID-19 response of $3.4 million ($0) in 2021-22 to support hospital discharge and avoidance for NDIS patients to free up capacity for COVID-19-related admissions.

## Statement of Financial Position

### Assets

Current assets increased by $5 million to $24 million as at 30 June 2022 and essentially comprise cash and cash equivalents of $23 million ($18 million) and receivables of $1 million ($1 million).

### Liabilities

#### Employee related liabilities

Employee related liabilities of $5.6 million ($4.8 million) make up 48% of WBSA's total liabilities at 30 June 2022 and mainly relate to employee benefits liabilities and related on-costs.

# Further commentary on operations

## Response to the COVID-19 pandemic

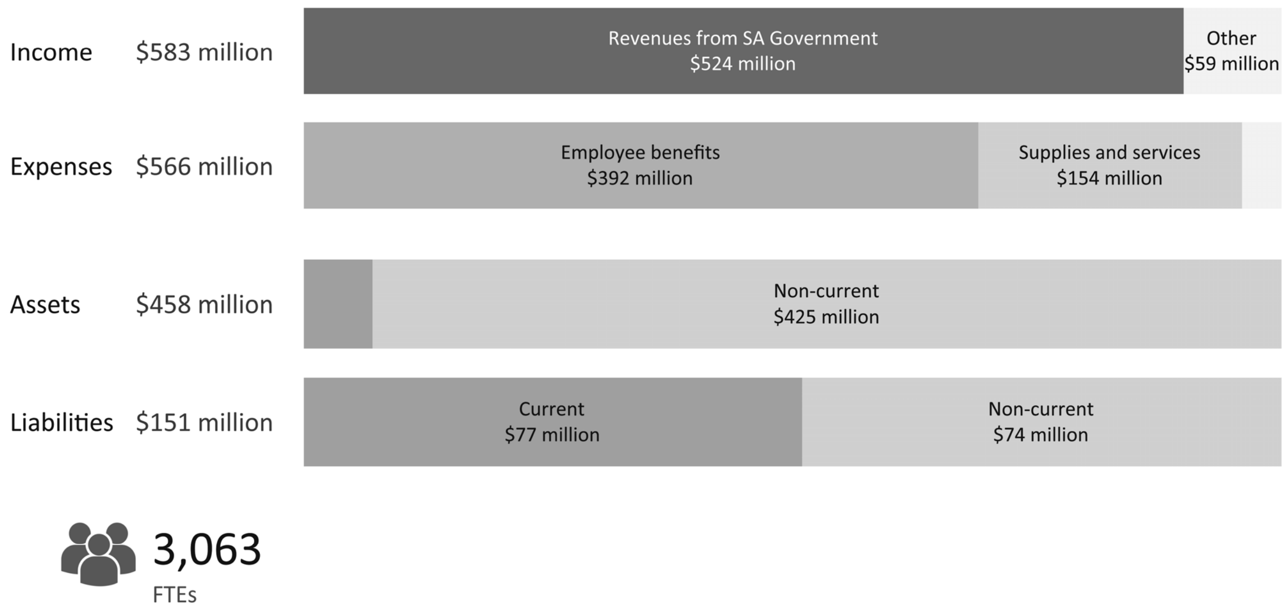
Responding to COVID-19 had a significant impact across SA Health in 2021-22, including at WBSA. Some of the more significant initiatives implemented by WBSA were:

- leading a vaccination hesitancy project to support increased vaccination rates across community groups
- enhancing out-of-hospital care programs and conducting domiciliary COVID-19 testing
- leading demand management programs to reduce the demand on the hospital system.

WBSA incurred net costs associated with COVID-19 of $7.6 million.

# Women's and Children's Health Network Incorporated (WCHN)

## Financial statistics




| | |
|---|---|
| **Significant events and transactions** | — The SA Government has committed in excess of $2 billion to building a new Women's and Children's Hospital. This includes $100 million over two years from 2025-26 for 50 additional beds, which was announced as part of the 2022-23 State Budget in June 2022. The planning and design phase of the project continued in 2021-22, with Lendlease appointed as the project's managing contractor in February 2022.<br>— Capital works continue at the current Women's and Children's Hospital to sustain it while the new hospital is completed. Works completed in 2021-22 include the paediatric emergency department, neonatal nursery and operating theatre redevelopments.<br>— Stage 1 of the electronic medical records and patient administration system (SUNRISE) was implemented in October 2021. |
| **Financial report opinion** | **Unmodified** |

**Audit findings**

- Annual leave management plans not in place.
- Inconsistent rostering practices for medical officers.
- Improvements required to bona fide report review processes.
- Timesheets in the rostering system not always approved prior to staff being paid.
- Improvements required to workforce planning processes.
- Inappropriate segregation of duties in the SUNRISE system.

# Functional responsibility

WCHN is an incorporated hospital established under the *Health Care Act 2008* (HC Act).

WCHN's functions include the provision of health services to women and children, with its principal unit being the Women's and Children's Hospital.

## Governance

The HC Act provides for the governance, management and administration of the South Australian public health system. It sets out the role, functions and powers of the Minister for Health and Wellbeing (Minister), the Chief Executive of the Department for Health and Wellbeing (DHW), the local health networks (LHNs), their governing boards and their chief executive officers (CEOs).

LHN governing boards are responsible for the overall governance and oversight for local health service delivery by the LHN, including governance of performance and budget achievement, clinical governance, safety and quality, risk management and the achievement of the board functions and responsibilities.

Each LHN CEO is accountable to, and subject to the direction of, the governing board for managing the operations and affairs of the LHN.

DHW has a role as the 'system leader' and focuses on setting strategic direction and statewide policy, as well as performance of the public health system through high-level system direction and performance management.

The Minister remains responsible for setting reform agendas and priorities. The governing board must comply with any direction of the Minister or the Chief Executive of DHW.

A service agreement between WCHN and the Chief Executive of DHW outlines the requirements of the formal relationship between DHW and WCHN, and sets out performance expectations and funding arrangements. The intent of the service agreement is to be binding on all parties. The 2021-22 WCHN service agreement was executed in March 2022.

On 8 June 2021 the South Australian Parliament passed the *Health Care (Governance) Amendment Act 2021*, which amended the HC Act from 23 August 2021. The Amendment Act supports the SA Government's decentralisation of the public health system. Among other matters, it makes further amendments to the function of the Chief Executive of DHW to reflect DHW's role as system leader, formalises provisions for service agreements, clarifies workforce responsibilities and makes minor amendments to reflect the governance and accountability arrangements.

### Ongoing response to the COVID-19 pandemic

COVID-19 continues to impact WCHN's operations, including the increased costs associated with COVID-19 capacity and preparation, the readiness of COVID-19 testing clinics, establishing vaccine clinics, increased demand for personal protective equipment and increased staffing costs to ensure necessary compliance measures are followed.

Note 1.8 of WCHN's financial report states that specific costs attributable to COVID-19 in 2021-22 totalled $18.6 million ($10.4 million), including $1.1 million ($1.1 million) in lost revenue from SA Health's initiative to waive car parking fees for frontline staff.

## Scope of the audit

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

Financial services for WCHN are provided through a mix of:

- central services provided by DHW
- finance services located within WCHN
- services provided by Shared Services SA (SSSA).

Consequently, our audit included the review of new and legacy systems and completing audit work at DHW's central services, WCHN and SSSA.

Audit findings across health services fall into the following categories:

- common findings reflecting central services and/or systems
- matters for individual health services
- SSSA matters.

A chartered accounting firm assisted the Auditor-General with the audit of WCHN.

Specific areas of audit attention in 2021-22 included:

- cash
- payroll
- expenditure
- accounts payable
- procurement and contract management
- revenue
- accounts receivable
- fixed assets
- general ledger.

We considered internal audit activities in designing and performing our audit procedures.

# Audit findings

## Communicating our audit findings

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

### Payroll

WCHN employed 3,063 FTEs as at 30 June 2022 and its payroll-related costs are significant, with $392 million in staff benefits expenses paid and $125 million in staff benefits liabilities and associated on-costs. As a result, payroll is a focus of our audit each year.

#### Annual leave management plans not in place

We found that as at March 2022, 1% of WCHN's staff had an annual leave balance of more than three years' entitlement and 7% had an annual leave balance of more than two years' entitlement. Under WCHN policy, an annual leave management plan should be in place for any annual leave balance in excess of two years' entitlement.

We sampled five staff with balances in excess of three years' entitlement, and the WCHN could not provide us with an annual leave management plan for any of them. In addition to the associated financial risks, excessive leave balances may also impact WCHN's:

- exposure to fraud
- capacity to maintain the wellbeing of its staff
- ability to deliver its services efficiently and effectively.

WCHN responded that excessive leave was difficult to manage in 2021-22 because of COVID-19 activity and staff being requested to cancel leave. It will develop additional strategies to manage excessive leave and enhance its governance arrangements, including consistent leave management systems across WCHN, which focus on future leave planning and protected time for leave to be taken to minimise the accrual of excessive leave.

#### Inconsistent rostering practices for medical officers

We have previously reported that WCHN had inconsistent practices across its divisions for managing the rosters of medical officers, including manual processing involving spreadsheets. In 2021-22 we found that these inconsistent practices remained. We found that:

- roster templates were not uniform across divisions
- in some cases rosters were maintained in spreadsheets requiring significant manual data entry
- no system controls were in place to ensure compliance with the employment agreement (for example, break times between shifts) or operational rules
- there was no WCHN framework or other guidance on establishing, approving and monitoring rosters.

WCHN's internal auditors also identified similar issues in an internal audit performed in 2021.

Inconsistent rostering practices impact WCHN's ability to manage award conditions and service capacity, resulting in the potentially inefficient use of services.

WCHN responded that it is working with DHW to trial the use of its rostering system for trainee medical officers. WCHN is also exploring the use of alternative software to be used by all medical officers.

### Improvements required to bona fide report review processes

Since 2018 we have reported that WCHN managers and team leaders did not always review bona fide reports after each pay period to ensure the completeness and accuracy of staff payments. In 2021-22 we found that this was still an issue. As at March 2022, 4,573 (3,587) reports were outstanding, with 1,549 (1,399) outstanding for up to 12 months and 3,024 (2,188) outstanding for more than 12 months.

We understand that a significant number of these outstanding reports relate to previous financial years, however the growing number of reports outstanding for more than 12 months indicates an ongoing trend of non-compliance. We also noted that the five staff with the highest number of outstanding reports are all current WCHN staff.

Failure to ensure payroll information is valid and accurate may result in fraudulent or incorrect payments being made and going undetected.

WCHN responded that it has issued a fact sheet to its staff outlining the importance of the timely review of bona fide reports. The fact sheet includes an escalation process for outstanding reports and a process to resolve historical reports.

### Timesheets in the rostering system not always approved prior to staff being paid

Timesheets for nurses and other ancillary staff are created in the ProAct rostering system. Managers are required to electronically authorise timesheets before they are forwarded to SSSA for payment processing.

Consistent with prior years, the interface between ProAct and the Chris21 payroll system does not prevent unauthorised timesheets from being uploaded and paid. Our review of ProAct timesheets processed between July 2021 and April 2022 found that 7% were unauthorised – an improvement from 10% last year and 13% in 2019-20.

WCHN responded that timesheet approval processes will be introduced following the implementation of ProAct or an alternative rostering system for medical officers, to prevent disengagement with affected staff.

### Improvements required to workforce planning processes

WCHN has developed workforce strategies for its Aboriginal workforce and its nursing and midwifery workforce, but does not have a specific workforce strategy for its medical officers or any other areas. We note that WCHN has identified that a key enabler of its 2026 strategy is an 'engaged and capable workforce'.

Without a medical officer workforce plan, WCHN's ability to effectively manage this employee group may be impaired, impacting its overall ability to meet strategic and operational objectives. Additional temporary resources may also be needed, resulting in additional costs to WCHN.

WCHN responded that it is seeking approval to establish a workforce planning position to develop a consolidated workforce plan by 30 June 2023.

### Revenue

Stage 1 of the SUNRISE system was implemented at the WCHN in October 2021. SUNRISE is used for managing patient records and billing patient and client fees. In 2021-22 WCHN recognised $14 million in patient and client fees.

#### Inappropriate segregation of duties in the SUNRISE system

Compensable debts, outpatients, emergency patients and private patients are invoiced based on data entered into SUNRISE by staff responsible for the registration and clinical modules. The registration module stores key data that determines the type and value of the charge, and the clinical module records information on the patient's length of stay in hospital.

We noted that revenue officers have access to the registration and clinical modules and can input and edit the key data identified above.

Although revenue managers review a repricing report that outlines any changes made to SUNRISE by revenue officers that impact amounts charged to patients, ideally a system control would be in place to restrict revenue officers from inputting and editing key data in the registration and clinical modules.

WCHN responded that staff access to the registration and clinical modules of SUNRISE is standardised across all LHNs and is required for daily tasks including:

- updating patient health insurance details and patient elections
- correcting funding sources
- flagging payment arrangements and debts that have been referred
- creating lists of discharged patients to prepare claims for submission to health insurance funds
- raising invoices for offsite billing where the service did not occur at the hospital.

WCHN confirmed that to mitigate the risk of revenue staff inappropriately inputting and editing key data impacting on amounts invoiced, the manager of its billing operations reviews the repricing report monthly for any changes impacting prices.

## Interpretation and analysis of the financial report

### Highlights of the financial report

| | 2022 $million | 2021 $million |
|---|---|---|
| **Income** | | |
| Revenues from SA Government | 524 | 503 |
| Fees and charges | 29 | 27 |
| Grants and contributions | 10 | 9 |
| Other income | 20 | 18 |
| **Total income** | 583 | 557 |

| | 2022 $million | 2021 $million |
|---|---|---|
| **Expenses** | | |
| Staff benefits expenses | 392 | 370 |
| Supplies and services | 154 | 143 |
| Depreciation and amortisation | 19 | 20 |
| Other expenses | 1 | 1 |
| **Total expenses** | 566 | 534 |
| **Net result** | 17 | 23 |
| | | |
| **Assets** | | |
| Current assets | 33 | 42 |
| Non-current assets | 425 | 405 |
| **Total assets** | 458 | 447 |
| | | |
| **Liabilities** | | |
| Current liabilities | 77 | 71 |
| Non-current liabilities | 74 | 85 |
| **Total liabilities** | 151 | 156 |
| **Net assets** | 307 | 291 |

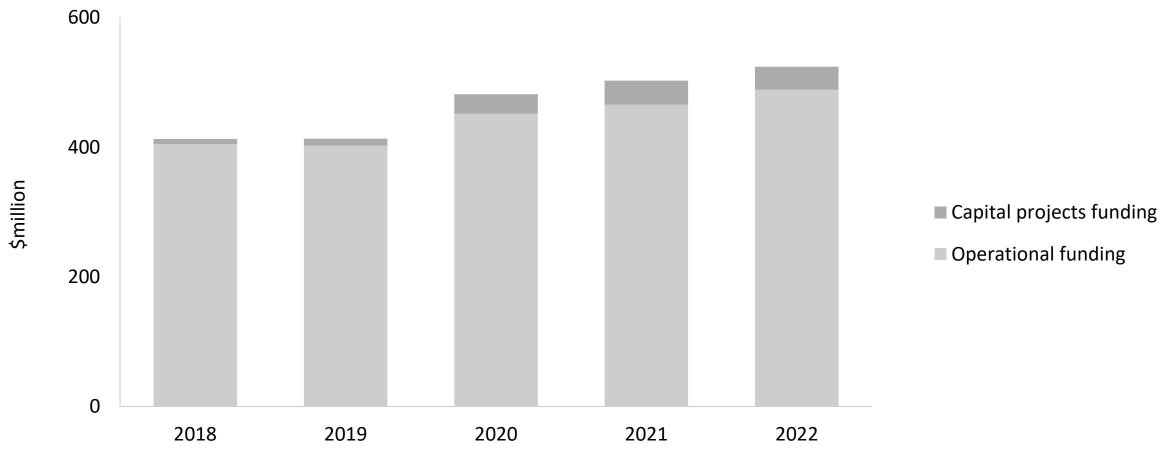
## Statement of Comprehensive Income

### Revenues

#### Revenues from SA Government

WCHN is principally funded by DHW. In 2021-22, DHW funding of $524 million ($503 million) comprised recurrent funding of $489 million ($465 million) and capital funding of $35 million ($37 million). Capital funding mainly related to building sustainment upgrades addressing high priority clinical and infrastructure requirements.

The chart below shows revenues from the SA Government over the last five years.

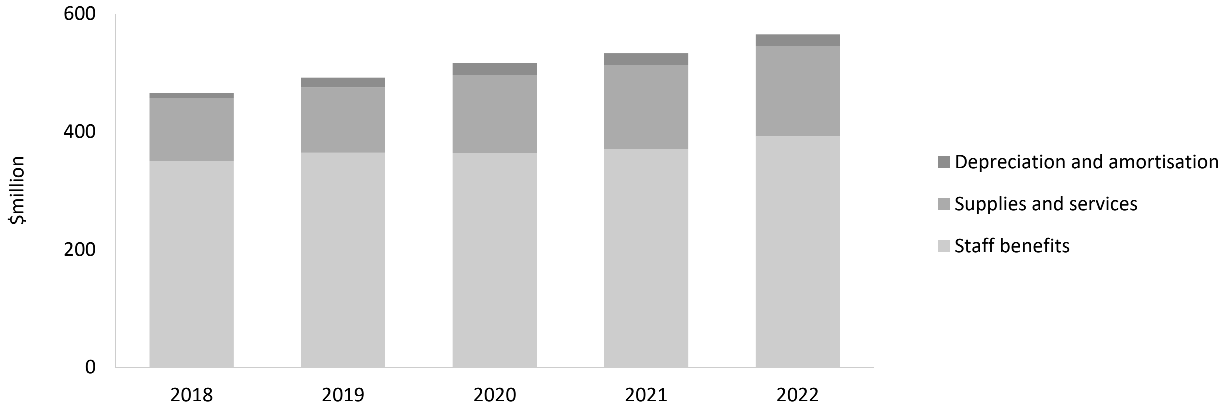



The chart shows that there has been overall growth in revenue over the five years and, in the last three years, additional spending on capital projects, which was mostly associated with sustainment works.

## Expenses

In 2021-22 total expenses increased by $32 million to $566 million.

The chart below shows the significant components of expenses for the last five years.




The chart shows that there has been overall growth in expenditure over the last five years in all three major categories.

### Staff benefits expenses

Staff benefits expenses, $392 million, represent 69% of WCHN's total expenses and increased from $370 million in 2020-21. This movement is attributable to:

- salaries and wages – $22.7 million increase, which mainly reflects increased staff numbers due to COVID-19
- annual leave – $4.1 million increase, largely due to staff being asked to cancel leave due to COVID-19 pressures on the workforce
- long service leave – $4.9 million decrease
- workers compensation – $4.2 million decrease.

The long service leave and workers compensation expenses are impacted by the actuarial assessment of the associated long service leave liability and workers compensation provision as at 30 June 2022.

The following table shows the breakdown of total staff numbers between medical, nursing and non-medical staff, based on FTEs, since 2017-18. The table shows an overall growth in FTE numbers over the five years, including in 2021-22.

| | 2017-18 FTEs | 2018-19 FTEs | 2019-20 FTEs | 2020-21 FTEs | 2021-22 FTEs |
|---|---|---|---|---|---|
| Medical officers | 329 | 343 | 339 | 347 | 378 |
| Nurses | 1,347 | 1,321 | 1,329 | 1,393 | 1,501 |
| Non-medical | 1,077 | 1,098 | 1,098 | 1,151 | 1,184 |
| Total FTEs | 2,753 | 2,762 | 2,766 | 2,891 | 3,063 |

The number of staff whose remuneration received/receivable exceeded the base executive level ($157,000) totalled 334 (324), comprising 284 (274) medical, 31 (31) nursing, 11 (10) administration and eight (nine) executive staff. Total remuneration for these staff was $98.4 million ($90.3 million).

### Supplies and services expenses

Supplies and services expenses increased by $11 million to $154 million. Significant movements in supplies and services were:

- medical, surgical and laboratory supplies – $3.5 million increase, mainly related to increased costs for COVID-19 supplies such as personal protective equipment and increased pathology costs for COVID-19 testing
- fee for service – $1 million increase, due to an increase in outsourced elective surgery because additional ward space was required for COVID-19 patients
- agency staff – $1 million increase, due to the increased use of agency staff to cover staff with COVID-19 or those required to isolate as close contacts, and also to cover staff working in the COVID-19 vaccination clinic
- housekeeping – $1.1 million increase, due to additional cleaning associated with COVID-19
- patient transport – $1 million increase due to more children being flown to Melbourne for heart surgery and increased charges for this service.

## Statement of Financial Position

### Property, plant and equipment

Property, plant and equipment represents 88% of WCHN's total assets. The carrying value of property, plant and equipment increased from $384 million to $403 million.

This increase was mainly due to:

- $33.6 million in capital works in progress additions to land and buildings, mainly relating to preliminary work on the new Women's and Children's Hospital and sustainment building upgrades to the existing Women's and Children's Hospital
- offset by $19.3 million in depreciation and amortisation expenditure.

The SA Government has committed in excess of $2 billion to building a new Women's and Children's Hospital. This includes $100 million over two years from 2025-26 for 50 additional beds, which was announced as part of the 2022-23 State Budget in June 2022. The planning and design phase of the project continued in 2021-22, with Lendlease appointed as the project's managing contractor in February 2022.

### Liabilities

Current liabilities increased by $6 million to $77 million and exceeded current assets of $33 million as at 30 June 2022. Cash and cash equivalents of $22.1 million are sufficient to meet current payables of $18.7 million.

WCHN is funded to meet expected cash flows for its current program delivery. Note 1.5 of WCHN's financial report discusses its continuity of operations.

Staff liabilities are the largest component of liabilities, totalling $131 million or 87% of total liabilities as at 30 June 2022 and comprising:

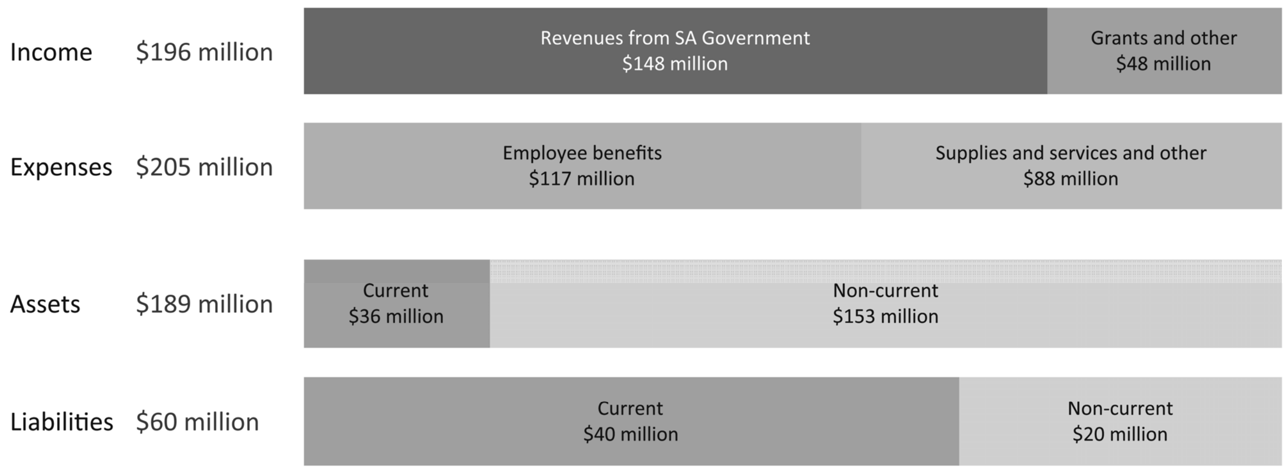
- staff benefits liabilities and related on-costs – $125 million ($132 million)
- provision for workers compensation – $6 million ($10 million).

Staff benefits liabilities and related on-costs decreased by $7 million to $125 million due mainly to a $9.4 million decrease in the long service leave liability and a $4 million decrease in accrued salaries and wages, offset by a $4.7 million increase in the annual leave liability. The decrease in the long service leave liability is largely attributable to an increase in the yield on long-term Commonwealth Government bonds from 1.5% to 3.75%, which is used as the discount rate when measuring the long service leave liability.

The provision for workers compensation decreased by $3.2 million. The provision is based on an independent actuarial assessment, and the actuarial model applied takes into account current claims as well as historical claims data. As explained in note 21.1 of WCHN's financial report, which provides information on the actuarial assessment, there is a high level of uncertainty about the ultimate value of claims.

# Yorke and Northern Local Health Network Incorporated (YNLHN)

### Financial statistics




**1,230** FTEs

**23** Hospitals and health service sites

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| | |
|---|---|
| **Significant events and transactions** | Responding to COVID-19 continued to have a significant impact, with associated costs of $6 million for additional public health activities. |
| **Financial report opinion** | **Unmodified** |
| **Audit findings** | — Ineffective debt management for sundry debtors.<br>— Inadequate segregation of duties for revenue and receipting. |

## Functional responsibility

YNLHN was established under the *Health Care Act 2008* (HC Act) on 1 July 2019. Its powers and functions are to provide health services in the Yorke and Northern region of South Australia. This region encompasses Balaklava, Booleroo, Burra, Clare, Crystal Brook, Gladstone, Jamestown, Kadina, Laura, Maitland, Minlaton, Moonta, Orroroo, Peterborough, Point Pearce, Port Broughton, Port Pirie, Riverton, Snowtown and Wallaroo.

### Governance

Local health network (LHN) governing boards are responsible for the overall governance and oversight for local health service delivery by the LHN, including governance of performance and budget achievement, clinical governance, safety and quality, risk management and the achievement of the board functions and responsibilities.

Each LHN chief executive officer (CEO) is accountable to, and subject to the direction of, the governing board for managing the operations and affairs of the LHN.

The Department for Health and Wellbeing's (DHW's) role is the 'system leader' and it focuses on setting strategic direction and statewide policy, high-level system direction and performance management of the public health system.

The Minister for Health and Wellbeing remains responsible for setting reform agendas and priorities.

A service agreement between YNLHN and the Chief Executive of DHW outlines DHW and YNLHN responsibilities, performance expectations and funding arrangements. The intent of the service agreement is to be binding on all parties.

## Scope of the audit

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

Financial services for YNLHN are provided through a mix of:

- finance services located within YNLHN
- administrative and financial services from the Rural Support Service (RSS) within the Barossa Hills Fleurieu Local Health Network Incorporated (BHFLHN)
- central services provided by DHW
- services provided by Shared Services SA (SSSA).

Our audit included the review of systems and audit work at DHW's central services, YNLHN, RSS and SSSA. A chartered accounting firm assisted the Auditor-General with the audit of YNLHN.

Specific areas of audit attention in 2021-22 included:

- payroll
- accounts payable, including procurement and contract management
- revenue, including debt management
- property, plant and equipment
- cash
- general ledger.

# Audit findings

### Communicating our audit findings

We communicated our audit findings to the CEO of YNLHN. The main findings and YNLHN's responses are discussed below.

## Audit findings

### Revenue

#### *Ineffective follow-up of sundry debtors*

We reviewed the effectiveness of sundry debtor follow-up activities performed by SSSA. We found instances where the follow-up and recovery of longstanding debtors was ineffective or not performed.

YNLHN advised us that its finance and performance committee would continue to focus on debtor management through reporting and follow-up of actions taken.

#### *Inadequate segregation of duties for revenue and receipting*

We reviewed patient billing in the CHIRON patient billing system and found opportunities to improve the segregation of duties by restricting user access. We have raised this matter with YNLHN for a number of years.

YNLHN advised us that system limitations prevented some access restrictions and that it had established controls and processes to minimise risks. It indicated it would review user access to CHIRON to ensure it is relevant and will work with RSS, which was investigating potential access changes in CHIRON.

In addition to the findings reported here, we made several findings about control activities performed by the RSS that impact YNLHN. They are reported in the section of this Report titled 'Barossa Hills Fleurieu Local Health Network Incorporated', as BHFLHN is responsible for the RSS.

# Interpretation and analysis of the financial report

The consolidated accounts of YNLHN include the incorporated Health Advisory Councils (HACs) within the region. These HACs were established under the HC Act to undertake an advocacy role on behalf of the community, to provide advice about health services, health issues, goals, priorities, plans and other strategic initiatives.

We are only showing the consolidated amounts below, as the difference between the consolidated and parent amounts is immaterial.

## Highlights of the financial report – Consolidated

| | 2022 $million | 2021 $million |
|---|---|---|
| **Income** | | |
| Revenues from SA Government | 148 | 138 |
| Fees and charges and other income | 18 | 19 |
| Grants and contributions | 30 | 29 |
| **Total income** | 196 | 186 |
| | | |
| **Expenses** | | |
| Staff benefit expenses | 117 | 109 |
| Supplies and services and other expenses | 77 | 66 |
| Depreciation and amortisation | 11 | 10 |
| **Total expenses** | 205 | 185 |
| **Net result** | (9) | 1 |
| | | |
| **Assets** | | |
| Current assets | 36 | 35 |
| Non-current assets | 153 | 153 |
| **Total assets** | 189 | 188 |
| | | |
| **Liabilities** | | |
| Current liabilities | 40 | 37 |
| Non-current liabilities | 20 | 21 |
| **Total liabilities** | 60 | 58 |
| **Net assets** | 129 | 130 |

## Statement of Comprehensive Income

### Revenues

#### Revenues from SA Government

YNLHN is principally funded by DHW and in 2021-22, DHW funding was 76% of its total income. The funding comprised operational funding of $144 million ($132 million) and capital funding of $4 million ($7 million). The increase in operational funding is due to additional funding for COVID-19 expenses and the new fee-for-service agreement with general practitioners.

#### Fees and charges

Fees and charges have remained stable and the significant components are:

- $5 million of residential and aged care charges, mainly long-stay nursing home fees
- $5 million of patient and client fees
- $2 million of fees for health services.

#### Grants and contributions

Grants and contributions increased by $1 million to $30 million and the significant components are $11 million ($11 million) of Commonwealth aged care subsidies and $17 million ($16 million) of Commonwealth grants.

## Expenses

### Staff benefit expenses

Staff benefit expenses represent 57% of YNLHN's total expenses and increased by $8 million (7%). The increase was due to an increase in FTEs, mainly for additional COVID-19 activities. YNLHN employed 1,230 FTEs as at 30 June 2022, an increase of 94 (8%).

The number of employees whose remuneration received/receivable exceeded base executive level ($157,000) totalled 19 (16), comprising one (one) medical, 16 (13) nursing, one (one) non-medical and one (one) executive. Total remuneration for these employees was $4 million ($3 million).

### Supplies and services expenses

Supplies and services expenses increased by $10 million, which was mainly due to increases of:

- $2 million in fee-for-service payments to general practitioners due to the new agreement that commenced on 1 February 2022
- $2 million in medical, surgical and laboratory due to additional testing and supplies for increased COVID-19 in the community
- $1 million in contractor and agency staff due to increased staff on sick leave and being unable to fill vacant positions
- $2 million in internal SA Health service level agreement payments due to a change in the costing allocations for the RSS.

# Statement of Financial Position

## Assets

Current assets increased by $1 million and essentially comprise cash and cash equivalents of $11 million ($10 million), receivables of $5 million ($4 million) and other financial assets of $19 million ($21 million), which primarily relate to the investment of aged care refundable deposits.

### Property, plant and equipment

As at 30 June 2022, property, plant and equipment represented 81% of YNLHN's total assets and the most significant component was $145 million ($143 million) of land and buildings.

## Liabilities

Current liabilities of $40 million exceeded current assets of $36 million at balance date.

Cash and cash equivalents of $11 million were sufficient to meet current payables of $8 million. YNLHN is funded to meet expected cash flows for its current program delivery. Note 1.4 of its financial report discusses continuity of operations.

## Staff-related liabilities

Staff-related liabilities make up 62% of YNLHN's total liabilities at 30 June 2022, comprising $32 million ($33 million) of staff benefits liabilities, $2 million ($2 million) of related on-costs and $3 million ($2 million) of provisions for workers compensation.

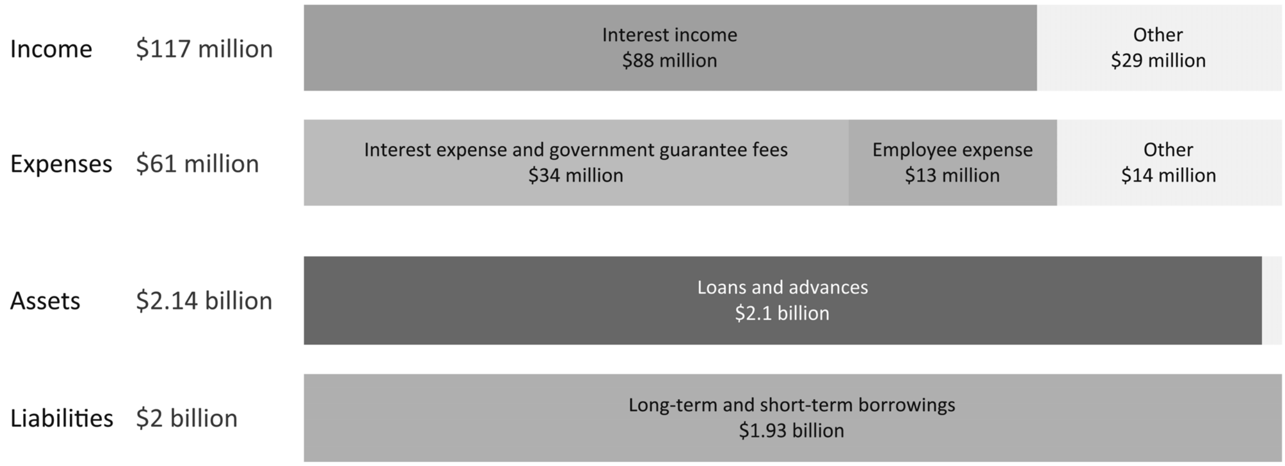
Note 21 of YNLHN's financial report provides further information on the independent actuarial assessments of provisions for workers compensation.

## Other liabilities

Other current liabilities make up 25% of total liabilities and mainly comprise of residential aged care bonds. Residential aged care bonds remained stable in 2021-22 at $13 million. They are refundable accommodation contributions or deposits made by residents when they enter aged care facilities.

# HomeStart Finance (HomeStart)

## Financial statistics




**115**
Total employees

**12,003**
Number of outstanding loans at 30 June

**$62.5 million**
Dividends and tax equivalents paid

### Significant events and transactions

- HomeStart is required to pay the Treasurer an annual dividend of 100% of its after tax profit. In June 2022 HomeStart paid a dividend of $46.4 million, comprising $36.7 million based on the expected profit for 2021-22 and the residual dividend for 2020-21 of $9.7 million. The actual dividend based on 100% of actual after tax profit for 2021-22 is $39 million. The remaining dividend of $2.3 million is recorded in the provision for dividend and will be paid in June 2023.
- Loans and advances decreased by $154 million due primarily to higher than average discharges as a result of property price increases and lower interest rates offered by other lenders, resulting in HomeStart customers refinancing.
- Borrowings decreased by $147 million, reflecting the decrease in loans and advances.
- Since the COVID-19 pandemic began, customers with 809 loans had requested some form of negotiated payment arrangement. By 30 June 2022, 488 had completed their arrangements and continued under normal loan management processes, while the remaining 321 loans had been discharged. There were no loans under a negotiated arrangement as at 30 June 2022.

| | |
|---|---|
| | — HomeStart loan products are designed so that instalments are indexed upward by CPI each year. At the onset of COVID-19 late in 2019-20, HomeStart paused the indexation of home loan repayments as a means of providing some form of cash flow assistance. The pause remained in effect for 2021-22. The CPI indexation has been approved to recommence in 2022-23. |
| **Financial report opinion** | **Unmodified** |
| **Audit findings** | No audit findings. |

## Functional responsibility

HomeStart is a statutory corporation established by *the Urban Renewal (HomeStart Finance) Regulations 2020* under the *Urban Renewal Act 1995*. It has a Board of Management subject to the control and direction of the Treasurer.

HomeStart's functions include:

- lending money or providing other financial assistance to facilitate home ownership in the State, including provision of finance on concessional or special terms to people of low to moderate income
- providing, marketing and managing home finance products
- providing, managing or facilitating finance for housing schemes and housing associations, and for mortgage relief schemes within South Australia
- providing, managing or facilitating finance for the development, ownership or operation of aged care residential accommodation or facilities
- to acquire and hold land for rental accommodation in regional areas or to provide, manage or facilitate finance for the development of rental accommodation in regional areas.

## Scope of the audit

### Audit of the financial report

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

Specific areas of audit attention in 2021-22 included:

- expected credit loss provision

- shared equity loans
- loans and advances
- interest income
- derivatives and hedge accounting
- intangible assets
- employee expenses and provisions
- the South Australian Government Financing Authority (SAFA) facility, including borrowings and interest expense
- purchases and payables
- treasury.

# Audit findings

### Communicating our audit findings

We did not identify any audit findings that needed to be communicated to HomeStart.

# Interpretation and analysis of the financial report

### Highlights of the financial report*

| | 2022 $million | 2021 $million |
|---|---|---|
| Interest income | 88 | 93 |
| Interest expense | (14) | (13) |
| **Net interest income** | 74 | 80 |
| Other income | 29 | 16 |
| Other expenses | (27) | (24) |
| Government guarantee fee | (20) | (23) |
| **Profit (Loss) before income tax equivalent** | 56 | 50 |
| Income tax equivalent expense | (17) | (15) |
| **Profit (Loss) after income tax equivalent expense** | 39 | 35 |
| | | |
| Other comprehensive income | 24 | 3 |
| **Total comprehensive result** | 63 | 38 |
| | | |
| **Assets** | | |
| Loans and advances | 2,096 | 2,250 |
| Other assets | 48 | 22 |
| **Total assets** | 2,143 | 2,271 |
| | | |
| **Liabilities** | | |
| Borrowings | 1,932 | 2,079 |
| Other liabilities | 26 | 30 |
| **Total liabilities** | 1,958 | 2,110 |
| **Total equity** | 185 | 162 |

* Table may not add due to rounding.

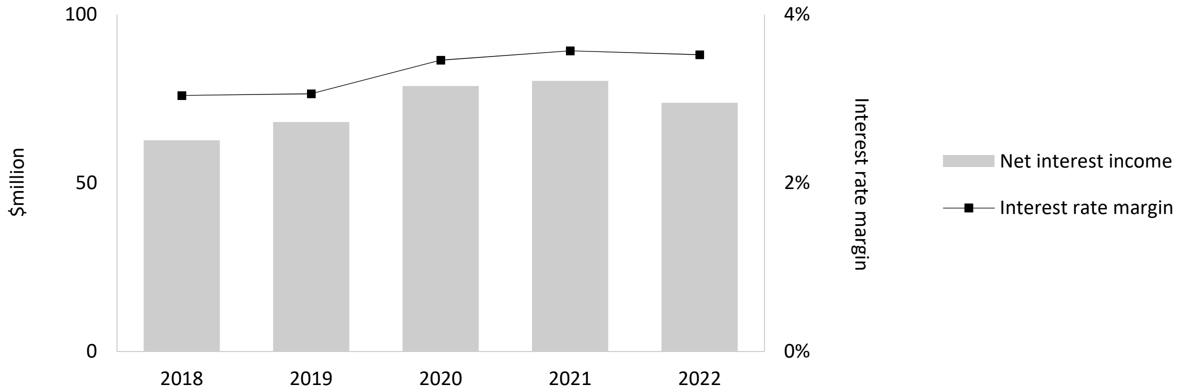
## Statement of Comprehensive Income

### Profit for the year

Profit before income tax equivalent payments increased by $6.1 million to $55.7 million. The analysis below outlines the main factors contributing to this result.

### Net interest income

The following chart compares the net interest income to the interest rate margin between loans and cost of funds, excluding the cost of the government guarantee fee.




Net interest income decreased by $6.5 million (8%) to $73.8 million in 2021-22. This movement is supported by a decrease in the loan portfolio of $154 million (6.8%) and in borrowings of $147.4 million (7.1%).

The $154 million (6.8%) decline in loans and advances has driven the reduction in interest revenue, but is also influenced by the move to fixed interest rates in recent years. Fixed rate loans offered a lower interest rate than variable loans until April 2022. Variable interest rates increased from 4.39% in 2021 to 5.14% in June 2022. Fixed interest rates for a term between one and three years increased from between 2.69% and 2.89% at 1 July 2021 to a range of 5.09% to 5.89% by 30 June 2022. Fixed rate loans increased to represent 33% of total loans compared to 24% in 2020-21.

While borrowings declined by $147.4 million (7.1%), interest expense saw an increase of $1.4 million (11%) due to the weighted average interest rates charged by SAFA increasing from 0.45% in 2021 to 0.51% in 2022. Interest rates were stable over the year until May 2022, when they began to rise. The weighted average rate in June 2022 was 1.38%.

Despite these movements, the chart above shows that the interest rate margin between loans and cost of funds remained stable at around 3.5%. HomeStart's standard variable rate is set to be generally in line with the standard variable rate of major lenders. Standard variable rates are generally adjusted when the Reserve Bank of Australia changes the official cash rate.

### Other income

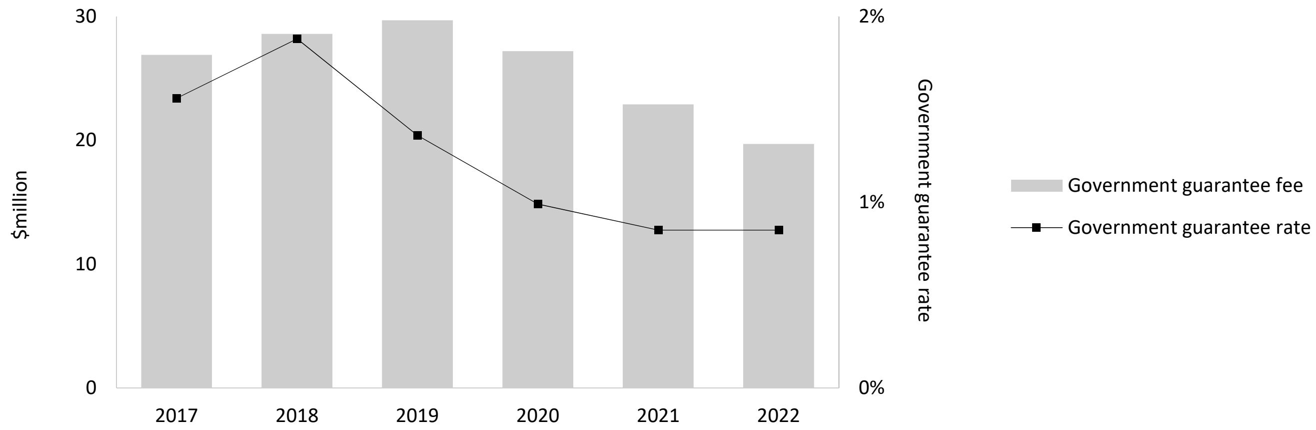
Other income increased by $10.3 million to $28.6 million. The increase is due primarily to the increase in fair value of HomeStart's breakthrough and shared equity option loans, which is in line with the increased property values experienced in South Australia. See 'Breakthrough and shared equity option loans' below for further information.

## Expenses other than interest and income tax equivalent

Expenses other than interest and income tax equivalent payments decreased marginally to $46 million in 2021-22, reflecting a $3.3 million decrease in government guarantee fees, partially offset by a $1.2 million improvement in bad and impaired loans income/expense relative to the prior year, a $567,000 increase in depreciation and amortisation expense and a $269,000 increase in employee benefits expenses.

See the 'Bad and impaired loans income/expense' and 'Provision for credit impairment' sections below for more information.

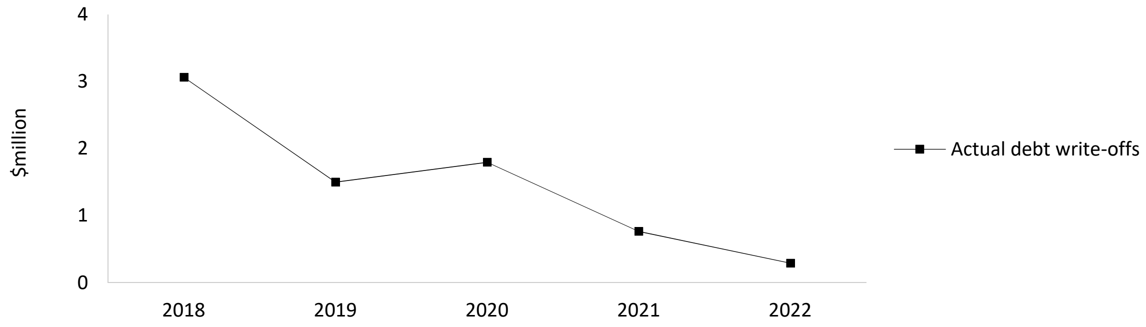
The movement in government guarantee fees and rates are shown in the chart below. Government guarantee fees are impacted by the total value of borrowings with SAFA and the government guarantee fee at the time of borrowing. The decrease in these fees reflects the maturity of two floating rate notes, valued at $522 million, with guarantee fees of 1.56% and 1.36% being replaced by four new floating rate notes with a 0.85% guarantee fee. The maturing existing floating rate notes are replaced with new floating rate notes at lower guarantee fees, resulting in lower government guarantee fees each year.




## Bad and impaired loans income/expense

HomeStart recognised a gain on bad and impaired loans of $707,000 for 2021-22, compared to a $1.95 million gain for 2020-21. The gain for 2021-22 mainly reflects a $1.22 million write-back of HomeStart's specific provision, which was lowered in response to reduced arrears, particularly for loans in arrears greater than three months. See 'Provision for credit impairment' below for more information.

The total provision for impairment at 30 June 2022 was $19.7 million ($20.7 million). The following chart shows the actual debt write-offs through the provision and the Statement of Comprehensive Income for the last five years.



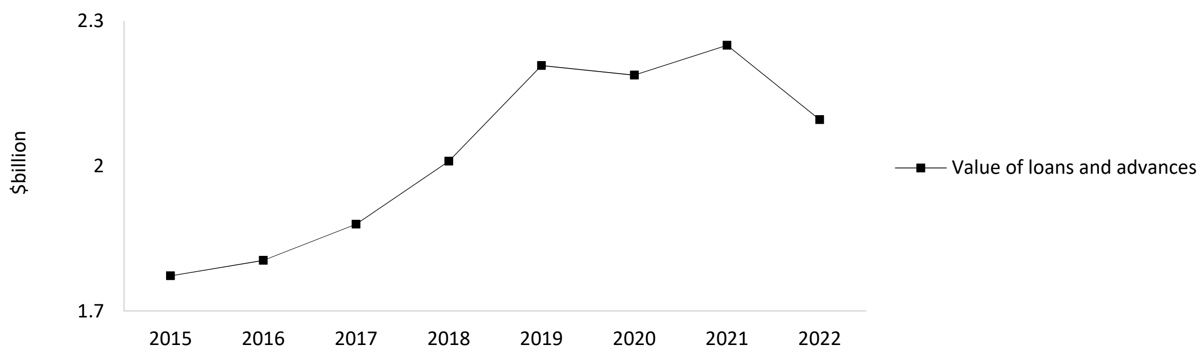

The chart illustrates a downward trend in debt write-offs over the past five years, reflecting the impact of the economic circumstances of borrowers. HomeStart has also tightened its lending policy and monitoring of loan repayment performance, with write-offs primarily relating to existing loans rather than new loans written in recent years. Government assistance payments during the COVID-19 pandemic provided households with increased cash holdings, resulting in more repayments into loans leading to reduced arrears on loans.

## Statement of Financial Position

### Loans and advances

At 30 June 2022 total loans and advances were valued at $2.1 billion, a decrease of $154 million from the previous year.

The following chart shows the value of loans and advances over the past eight years.



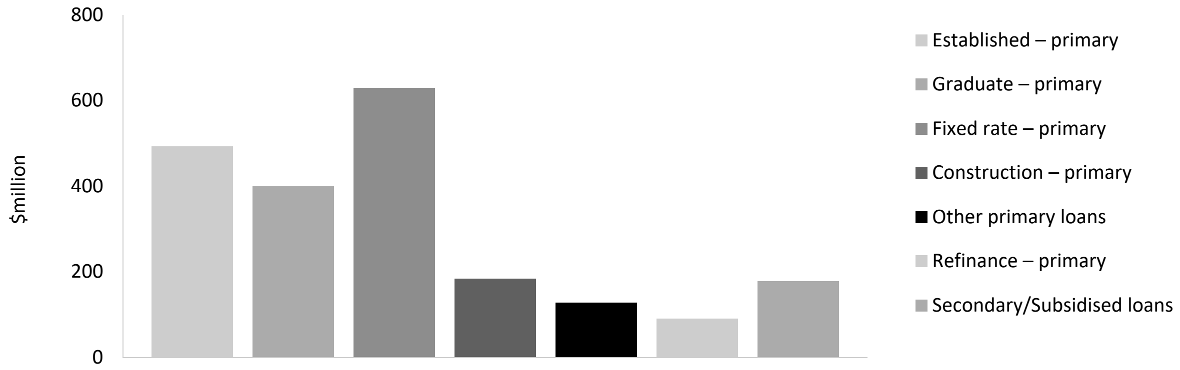

The decrease in the value of loans and advances this year reflects higher discharges than expected, with HomeStart customers refinancing with private lenders and rising property prices resulting in property sales and settlement of loans. HomeStart reported that 84% of discharges were the result of refinancing.

HomeStart interest rates are generally higher than commercial banks, as HomeStart's core business is to provide loans to low to moderate income earners who may not be eligible to borrow through commercial lenders. HomeStart also provides loans with a high loan-to-value ratio without charging lenders mortgage insurance.

The increase in loans and advances between 2015 and 2019 primarily reflected the growth in graduate loans. HomeStart changed the lending criteria for these loans in 2015, allowing students with a Certificate III qualification (or higher) to be eligible for a graduate loan.

HomeStart's loan portfolio includes both primary and secondary/subsidised loans. Primary loans are loans at market interest rates, whereas secondary/subsidised loans are loans at rates lower than market interest rates, such as Advantage and EquityStart loans.

The following chart shows the value of HomeStart's loan portfolio by loan type at 30 June 2022.




Fixed interest rate loans increased by $121.5 million to $629.6 million in 2022, accounting for 33% of total primary loans. Until April 2022 fixed interest rate loans offered a lower interest rate in comparison to variable interest loans. The growth in fixed interest rate loans slowed in May 2022, with fixed loan interest rates now exceeding the variable interest rates offered.

In 2022 there was a decrease in construction loans, with the HomeBuilder stimulus package offered by Commonwealth Government ending in 2020-21. There was a significant increase in construction loans in 2021 due to the $25,000 tax-free grant for owner occupiers who built new homes or carried out substantial renovation projects.

Secondary loans saw a small increase in 2022. They include the Starter Loan that was implemented as an initiative of the 2019-20 State Budget and expanded in the 2020-21 State Budget Housing Stimulus Measure. The Starter Loan is an interest and repayment-free loan for five years up to $10,000 to cover upfront costs for singles with a net household income of less than $65,000, or less than $90,000 for a couple. Starter Loans are funded by the Affordable Housing Fund administered by HomeStart. At 30 June 2022 there was $6.65 million in Starter Loans compared to $3.1 million at 30 June 2021. On 18 August 2020, the Treasurer agreed to extend the funding arrangement from $5 million to a total of $10 million for loans written until 30 June 2026. HomeStart only receives funds from the Department of Treasury and Finance (DTF) after the loans are written and reported quarterly. HomeStart has recognised a receivable of $721,000 from DTF in relation to Starter Loans settled.

## Breakthrough and shared equity option loans

Breakthrough and shared equity option loans are comprised of:

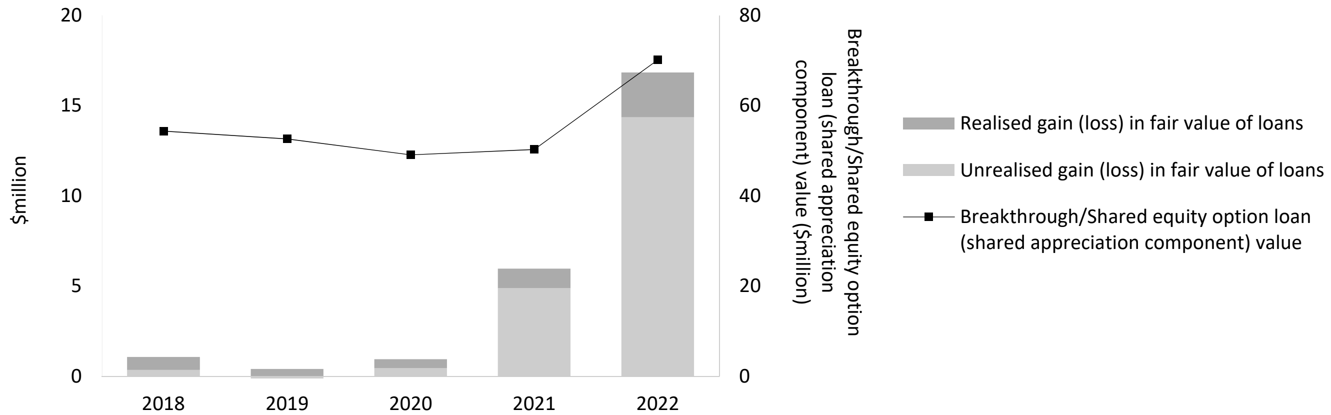
- a standard loan component with standard interest rates and repayments
- a shared appreciation component where the loan is repaid along with a percentage of the change in property value when the property is sold.

The shared appreciation component of these loans is recognised at fair value through profit and loss, while the standard loan component is recognised at amortised cost.

These loans represent a relatively small portion of the total loans and advances value, with the shared appreciation component of these loans representing 3.3% of HomeStart's total loan portfolio. The impact that the shared appreciation component has on HomeStart's operating result, however, has meant that it has implemented specific risk management strategies for these loans. One of those strategies is placing a cap on the total value of these loans outstanding at any given time.

In 2021-22 a net $16.8 million gain ($6 million gain) was recognised for these loans, comprising a $14.3 million gain ($4.9 million gain) recognised from revaluation and a $2.5 million gain ($1.1 million gain) realised on discharge of loans. The movement in the value of the shared appreciation component, and the impact of these loans on the operating result, follows the general growth in the Adelaide property market.

The chart below shows the impact of these loans on HomeStart's operating result and the total value of the shared appreciation component since 2018.




The breakthrough loan product was withdrawn from December 2017, with a new shared equity option loan released in April 2018.

The shared equity loan has since been expanded and is now offered on construction loans. The Shared Equity Fund for New Housing Construction was established as part of the Housing Construction Stimulus Package in response to COVID-19 in June 2020. The package included expanding HomeStart's existing shared equity option loan to be available for the construction of new homes to an approved limit of $21 million. This initiative was formed to target 20,000 affordable houses within 10 years, with the South Australian Housing Trust (SAHT) contributing up to 25% of the cost of the home, enabling low income buyers to build a home. The SAHT transfers funds to HomeStart as loans are settled, reimbursing HomeStart for its equity contribution.

At 30 June 2022 HomeStart had $561,000 in approved shared equity loans for construction loans.

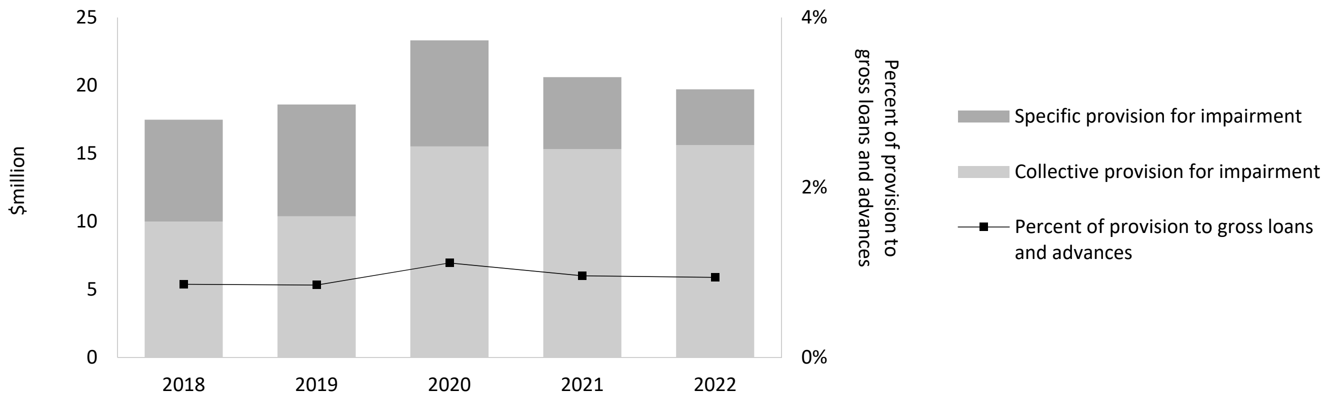
## Provision for credit impairment

HomeStart assesses whether there is objective evidence that a financial asset or a portfolio of financial assets is impaired at each balance date.

The total provision for credit impairment decreased by $1 million to $19.7 million in 2021-22. It has two components based on expected credit losses:

- specific provision – representing loans and advances that are individually assessed as impaired. As at 30 June 2022 this was $4.1 million ($5.3 million), with the decrease reflecting an ongoing trend of reduced arrears over the year and property price increases reducing shortfalls on loans under management. The provision for each loan is based on the estimated realisable value of the security less costs to sell, pre-sale costs such as repairs and maintenance and legal expenses and the remaining loan balance. The reduction in the specific provision for 2022 reflects improved arrears performance, with a lower number of loans meeting HomeStart's threshold for specific provisioning, and a reduction in the provision required for each loan due to the increase in property prices. The increase in property prices reduces HomeStart's deficit should the mortgage be repossessed
- collective provision – an expected credit loss model is used to calculate this provision. As at 30 June 2022 the collective provision was $15.6 million ($15.3 million). The calculation of the collective provision includes assumptions about future economic scenarios and weightings given to each scenario. Factors driving credit performance over the past 12 months are not likely to continue and HomeStart anticipates weaker credit performance into the future caused by increasing interest rates, high inflation, emerging COVID-19 variants and ongoing supply chain issues occurring nationally and globally. The collective provision increased marginally by $227,000 despite the decrease in loans and advances of $154 million, reflecting HomeStart's anticipation of the economic climate.

The following chart shows the level of the total provisions and their composition over the past five years.




The chart shows that the overall level of provisioning has remained fairly consistent since 2018, relative to total gross loans and advances, with the increase in 2020 recognising the anticipated impacts of COVID-19 on HomeStart's customers.

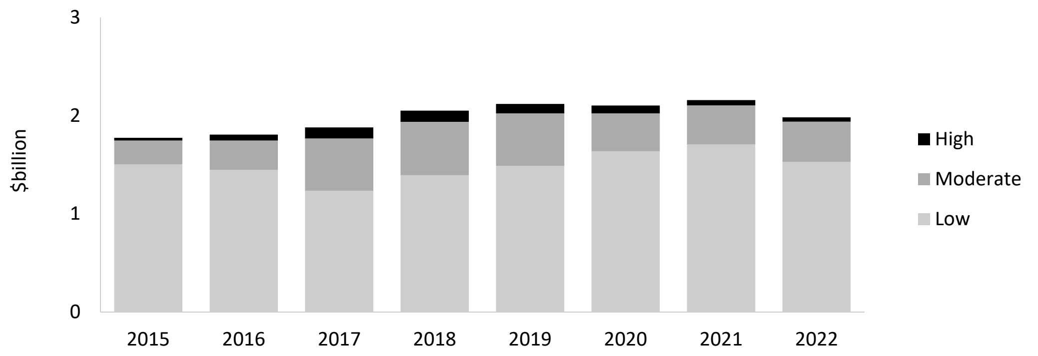
## General reserve for credit losses

For many years HomeStart has maintained a general reserve for credit losses (GRCL). It was used to set aside additional funds in excess of the specific and collective provisions and was consistent with the Australian Prudential Regulation Authority's (APRA's) prudential risk management requirement to retain sufficient retained earnings for capital adequacy purposes.

While HomeStart is not regulated by APRA, the use of a GRCL was consistent with the requirements of APRA Prudential Standard 220. HomeStart early adopted a revised version of the Standard in 2021, which removed the requirement to maintain a GRCL. This resulted in the transfer of the GRCL to retained earnings in 2021.

## Loan quality

HomeStart assesses the gross value of loans and advances to customers by credit risk grading. The following chart summarises that assessment.




The chart shows the proportion of high and moderate credit risk category loans, with most loans assessed as low credit risk. There was an increase in high and moderate credit risk loans from 2016, mainly as a result of changes to the credit risk classifications based on credit scores.

HomeStart advised us that although COVID-19 has impacted its provision for credit impairment, it has had minimal impact on the credit risk grading. Credit risk scores are applied when loans are approved and regularly reviewed based on an assessment of probability of default over the life of the loan. Loan arrears have generally been decreasing since 2019, resulting in overall improvement in risk ratings. Loan arrears have improved because of HomeStart's COVID-19 payment assistance (deferred payments), customers receiving JobKeeper payments from Centrelink and using these funds to repay their loans, and customers obtaining early release of superannuation through the Commonwealth Government's earlier COVID-19 response initiatives.

### Risk management for loans

HomeStart has a higher inherent risk for its loans than a commercial lender's loan portfolio. The key differences are that:

- generally HomeStart customers have lower incomes and borrow a greater percentage of their home value
- there is a significant concentration of lending in regional South Australia and outer metropolitan suburbs
- customers are not required to take out lender's mortgage insurance.

There are geographic areas with a greater concentration of HomeStart loans, with 34% of loans by value secured against properties in the City of Playford and the City of Salisbury. A further 17% of loans by value are secured against properties outside of the Adelaide metropolitan area.

HomeStart manages the risks associated with these concentrations of lending through its general lending policies, including loan to valuation ratios and limits on lending in some instances. As HomeStart lends only to individual owner-occupiers, it holds collateral against the value of the loans outstanding through mortgages on the associated properties.

HomeStart's principal exposure is to the risk of a borrower not being able to repay the loan. Where this occurs, the property may be subject to sale as a mortgagee in possession, with HomeStart seeking to recover outstanding amounts by selling the property. In this situation HomeStart is exposed to market risk that the price achieved for the property's sale does not cover the outstanding balance. HomeStart manages this risk by monitoring property valuations annually and complying with loan-to-value ratios for new loans.

As discussed above, HomeStart seeks to manage the risks associated with loan quality by maintaining both specific and collective provisions.

## Liabilities

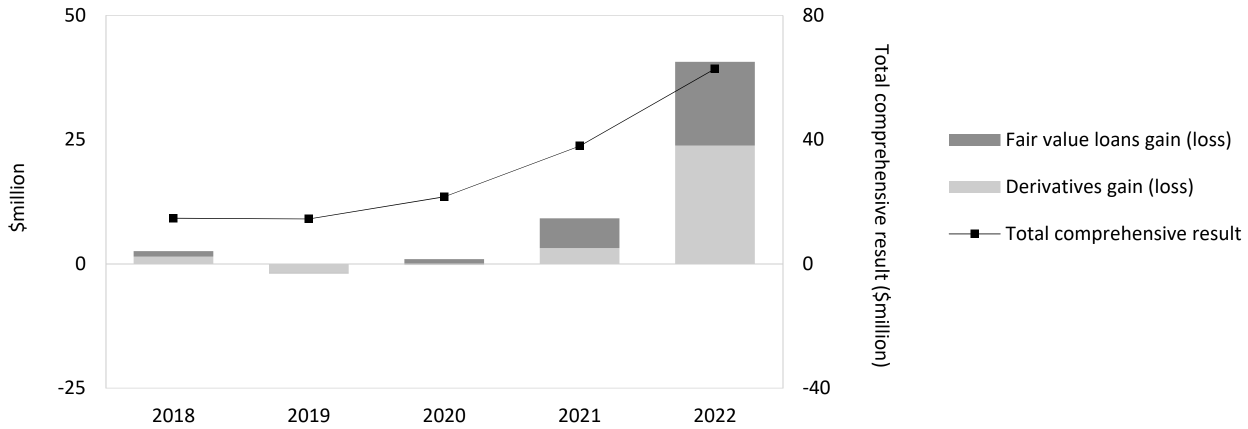
Borrowings at 30 June 2022 were $1.93 billion ($2.08 billion) and represent 99% (99%) of HomeStart's liabilities. HomeStart is required to use SAFA as its sole counterparty for all funding transactions. At 30 June 2022, HomeStart had an approved borrowing limit of $2.46 billion ($2.46 billion). Most of its borrowings from SAFA mature within five years, with $175.7 million of SAFA debt maturing over the next 12 months.

## Fair value and comprehensive result

HomeStart recognises derivatives and certain investments, including breakthrough and shared equity option loan (shared appreciation component) products, at fair value. The changes in market value of these items can impact its Statement of Financial Position and Statement of Comprehensive Income.

Derivatives are used to hedge (protect against) changes in interest rates. While these hedges remain effective (as defined by the accounting standards), changes in the fair value of hedges do not affect profit as they are recognised in the derivatives valuation reserve within equity. However, the realised and unrealised changes in the shared appreciation component of breakthrough and shared equity option loans at fair value are recorded in other income or other expenses in the Statement of Comprehensive Income.

The impact of all these changes is included in the total comprehensive result reported in the Statement of Comprehensive Income. HomeStart's total comprehensive result increased by $24.9 million to $62.8 million in 2021-22. The chart below shows the impact of the changes in the fair value of derivatives and loans classified as fair value through profit and loss on HomeStart's total comprehensive result for the last five years. The fair value gains increased significantly in 2022, which is in line with the valuation of properties in Adelaide.



It is important to note that the financial report combines the financial assets and financial liabilities measured at either fair value or cost. The fair value of net financial assets is $137 million ($128.7 million), while the carrying value of net financial assets is $171.6 million ($148.9 million). The increase in the margin between fair value and carrying value is a result of a reduction in interest rates during the year by SAFA.

## Distributions to and revenue from SA Government

HomeStart's distributions to the SA Government include dividends, guarantee fees and income tax equivalent payments. HomeStart also receives community service obligation (CSO) funding from DTF in recognition of the cost of performing the following non-commercial activities:

- acceptance of non-commercial credit risk
- Nunga loan program
- Advantage loan program
- domestic violence housing loans (none received or claimed in 2021-22).

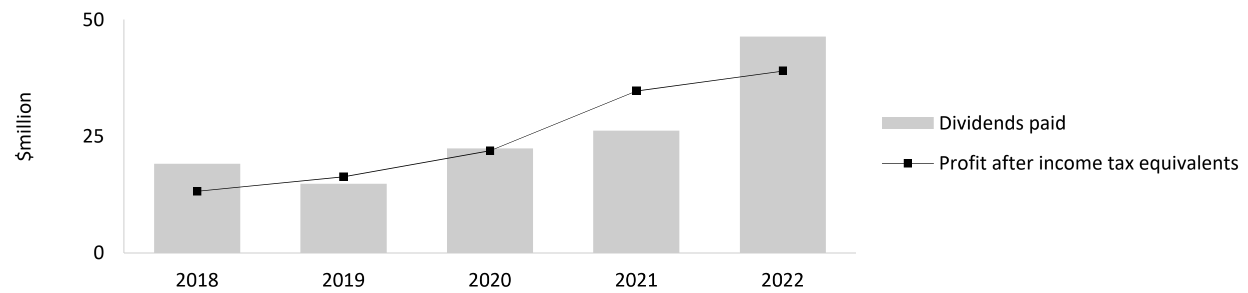
HomeStart's requirement to undertake CSOs is set out in its regulations.

The following table summarises these cash transactions with the SA Government for the four years to 2022.

| | 2019 $million | 2020 $million | 2021 $million | 2022 $million |
|---|---|---|---|---|
| SA Government distributions: | | | | |
| Dividend | 16 | 22 | 26 | 46 |
| Income tax equivalent | 7 | 9 | 11 | 16 |
| Government guarantee fee | 30 | 27 | 23 | 20 |
| Total distributions to SA Government | 53 | 59 | 60 | 82 |
| CSO income | (7) | (7) | (8) | (8) |
| Net amount provided to SA Government | 46 | 52 | 52 | 74 |

Note: Table may not add due to rounding.

The following chart shows profit after income tax equivalent payments and dividends paid for the past five years, highlighting HomeStart's sustained profit performance over that period.




In June 2022 the Treasurer approved the payment of a dividend of $36.7 million, noting the remaining dividend from HomeStart's final operating result would be paid in June 2023. The dividend HomeStart paid is comprised of:

- a residual dividend of $9.7 million to account for the difference between its forecast after tax profit and its actual after tax profit in 2020-21

- a dividend of $36.7 million relating to its budgeted after tax profit for 2021-22. While the 2021-22 performance statement requires 100% of profit to be paid, the Treasurer has approved the remaining dividend payable on the finalised after profit tax of $2.3 million to be paid on 30 June 2023.

HomeStart aims to return dividends to the SA Government regularly, in line with its established performance statement. Dividends are recommended by the Board and then approved by the Treasurer.

HomeStart pays an income tax equivalent to the SA Government in line with Treasurer's Instruction 22 *Tax Equivalent Payments*. The income tax liability is based on the State Taxation Equivalent Regime, which applies the accounting profit method. This requires that the corporate income tax rate be applied to net profit.

## Statement of Cash Flows

### Net cash flows

The following table summarises the net cash flows for the four years to 2022.

| | 2019 $million | 2020 $million | 2021 $million | 2022 $million |
|---|---|---|---|---|
| **Net cash flows** | | | | |
| Operating | 15 | 24 | 31 | 27 |
| Investing | (142) | 18 | (52) | 169 |
| Financing | 128 | (41) | 22 | (194) |
| Change in cash | - | 1 | 1 | 2 |
| Cash at 30 June | 3 | 4 | 6 | 7 |

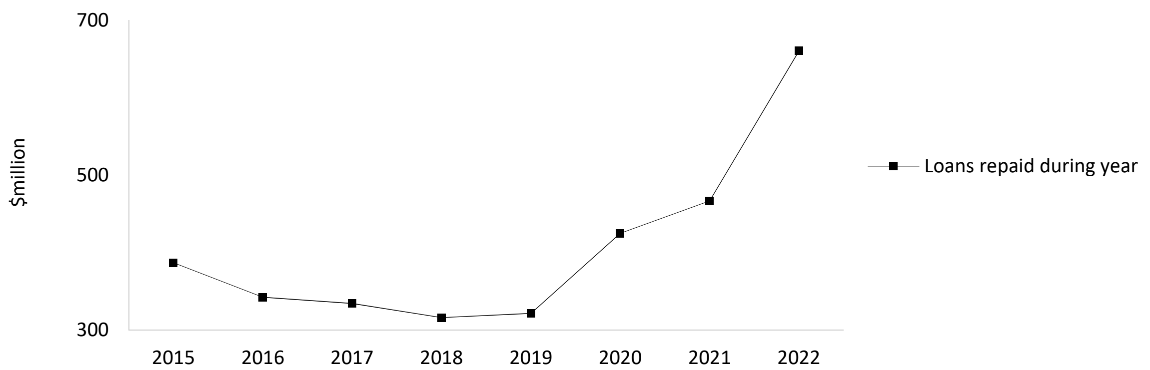
Note: Table may not add due to rounding.

Investing activities relate primarily to the provision of loans to customers. In 2022 there was a net $179 million cash inflow for customer loans repaid, which corresponds to the decrease in gross loans and advances.

The net financing cash outflow of $194 million largely reflects the repayment of borrowings of $522 million and dividends paid of $46.4 million, partially offset by new SAFA borrowings of $375 million.

### Customer loans repaid

The following chart shows loan repayments, including discharges, since 2015.



Customer repayments have increased annually since 2018-19. This is due largely to low interest rate levels resulting in:

- customers choosing to repay more debt or refinance with other institutions to take advantage of more suitable loan arrangements
- an increase in fixed repayment loan products repaying proportionately more principal.

There was a significant increase in discharges of $549 million in 2021-22. Of this amount, 84% refinanced to lower interest rate loans outside of HomeStart, with the remaining 16% selling due to increased property prices. A strong employment market and an increase in property values have created equity for HomeStart customers, and have enabled them to refinance with other lenders.

## HomeStart operating parameters

HomeStart is required to operate within financial parameters set down in its charter and performance statement approved annually by the Treasurer and the Minister for Infrastructure and Transport.

HomeStart's performance targets compared to actual results are detailed below.

| | Cabinet approved operating parameters | Performance statement target for 2022 | 2021 result | 2022 result |
|---|---|---|---|---|
| Operating profit before tax | n/a | n/a | $50 million | $56 million |
| Return on equity | 9% | 9% | 31% | 30% |
| Cost to income ratio | 55% | 53% | 35.32% | 39.95% |
| Capital adequacy ratio | 12% | *9-11% | 11.4% | 9.52% |

* In April 2021, HomeStart sought the Treasurer's approval to revise its operating parameters, including the approach to measuring capital adequacy. HomeStart sought to revise its capital adequacy ratio target range of 9% to 11% measures using APRA's Common Equity Tier 1 definition. This was approved by the Treasurer in July 2021.

The most significant factor contributing to HomeStart's above-parameter return on equity in 2022 was the decrease in guarantee fees on newly entered floating rate notes and the gains recognised on shared equity loans as a result of property price increases.

The Treasurer has approved a borrowing limit increase of 5.25% per annum, with requests subject to the approval of the responsible Minister with the concurrence of the Treasurer. HomeStart's current borrowing limit is set at $2.46 billion, which was approved in January 2020. HomeStart did not seek to increase its borrowing limits in 2021-22.

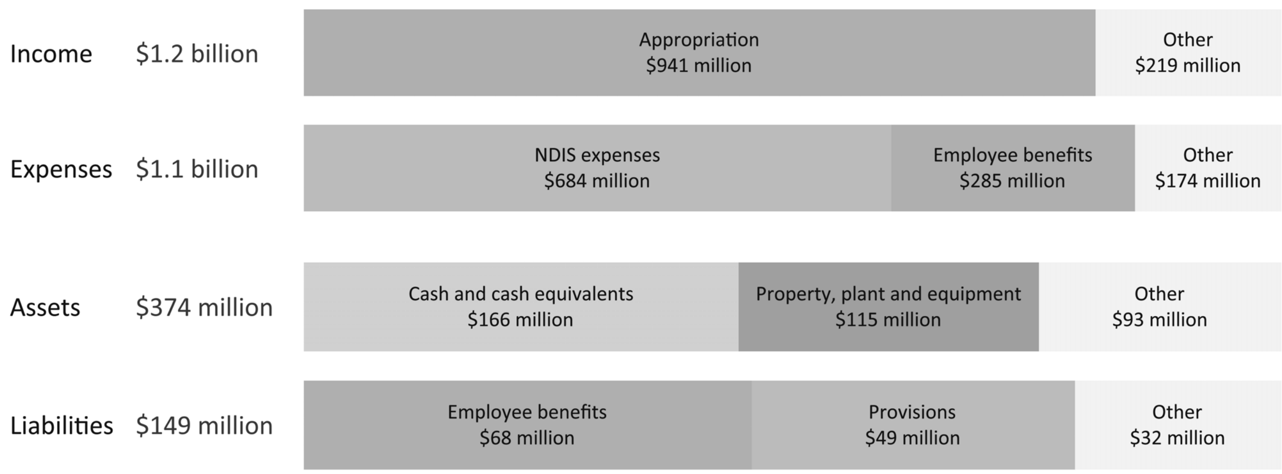
## COVID-19 outlook for HomeStart

HomeStart advised us that COVID-19 is not expected to materially impact its operations in 2022-23, noting this could change if the emergence of a new COVID-19 variant results in a return to major activity restrictions.

There were no loans on a negotiated payment arrangement at 30 June 2022.

# Department of Human Services (DHS)

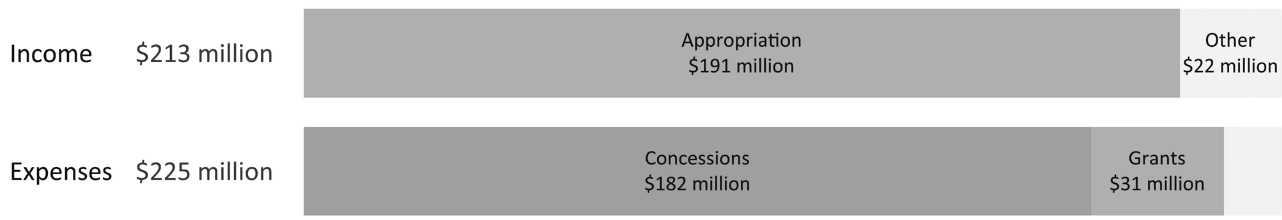
## Financial statistics




2,774
FTEs

221,000
Households receiving a concession

Administered items




### Significant events and transactions

- The State's National Disability Insurance Scheme (NDIS) contribution in 2021-22 was $840.9 million under the full scheme agreement, reduced by $157.2 million for State provided services.
- DHS commenced the consolidation of youth custodial services capital project. Total estimated costs for this project are $21.8 million, to be completed by the end of 2022-23. $2.2 million of capital works in progress was recorded at 30 June 2022.
- DHS continued making additional concession payments as a result of COVID-19, including $14.1 million of payments under the paid pandemic leave scheme.

### Financial report opinion

**Unmodified**

| | |
|---|---|
| **Controls opinion findings** | No significant findings. |
| **Other audit findings** | — Bona fide payroll reports were not reviewed and certified promptly.<br>— Penalty rates paid to staff were not included in the award. |

# Functional responsibility

DHS is an administrative unit established under the *Public Sector Act 2009*. It reports to the Minister for Human Services.

DHS's objective is to deliver strategies, programs and services that improve the wellbeing and safety of South Australians. It does this across its programs for communities, status of women, youth justice and disability.

DHS is also responsible for administering a number of funds and trusts on behalf of the Minister, including concession payments.

For more information about DHS's objectives and functions see note 1.2 of its financial report.

# Scope of the audit

## Audit of the financial report

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

Specific areas of attention in 2021-22 included:

- compliance with governance frameworks
- expenditure, including grant payments, concessions, and supplies and services
- employee benefits expenses and liabilities
- fixed assets
- revenue
- cash and general ledger
- client trust accounts
- follow-up of issues raised in 2020-21.

The audit considered control processes performed by both DHS and Shared Services SA.

We reviewed internal audit activities when designing and performing audit procedures.

## Controls opinion

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

- NDIS expenditure

- deposit accounts and special deposit accounts held with the Treasurer.

### Across-government reviews

In 2021-22 we also performed a number of reviews at DHS as part of several across-government reviews. These included reviews of:

- procurement
- contract management
- SA Public Sector Workforce Rejuvenation Scheme payments.

## Audit findings

### Communicating our audit findings

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

#### Controls opinion findings

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

#### Other audit findings

##### Payroll

In 2021-22 DHS's salaries and wages expense totalled $202.7 million ($184.8 million).

##### *Bona fide payroll reports not reviewed and certified promptly*

In previous years we have reported on bona fide payroll reports not being reviewed promptly at DHS. In 2020-21, DHS improved the number of outstanding bona fide reports by taking action to address gaps caused by changes to its organisational structure and the resulting bona fide workflow issues.

In 2021-22 DHS implemented a new automated bona fide report notification process. However, we found that this coincided with a significant increase in the number of outstanding reports, even more than previously when DHS was impacted by substantial staff departures.

If bona fide reports are not promptly reviewed and certified, payroll errors may not be identified and corrected, resulting in inaccurate payments to employees.

We recommended that additional reminders be provided to staff to review the bona fide reports, to ensure that they do not continue to build up.

DHS responded that its human resources system currently does not provide automatic escalation or reminders to staff that bona fides are outstanding. It will investigate options to automate reporting to management when bona fides are not reviewed. Data will be provided to directors monthly to track the prompt review of reports and DHS will continue to remind managers of their responsibilities.

##### *Penalty rates paid to staff are not included in the award*

Our testing of payroll transactions found that some disability services officers have been paid an afternoon penalty rate of 15%, which is not specified in the Intellectual Disability Services Award.

Without the inclusion of this penalty rate in the award, staff are being paid above enforceable minimum employment conditions.

We understand that this is a legacy penalty rate from a previous award. We recommended to DHS that if it continues to pay this penalty, it should consider options for ensuring the penalty rate forms part of the enforceable minimum requirements for disability services staff, to prevent unauthorised payments.

DHS responded that paying an afternoon penalty rate is an industry standard and forms part of the minimum conditions under the equivalent Federal award. DHS is exploring whether the penalty rate currently forms part of the enforceable minimum entitlements for disability services staff and options such as including the entitlement in the appropriate industrial instrument.

## Interpretation and analysis of the financial report

### Highlights of the financial report – controlled items

| | 2022<br>$million | 2021<br>$million |
|---|---|---|
| **Income** | | |
| Appropriations | 941 | 908 |
| Commonwealth-sourced grants and funding | 111 | 107 |
| SA Government grants, subsidies and transfers | 48 | 28 |
| Sales of goods and services | 37 | 24 |
| Fees and charges | 8 | 8 |
| Other revenues | 14 | 12 |
| **Total income** | 1,159 | 1,087 |
| | | |
| **Expenses** | | |
| NDIS expenses | 684 | 656 |
| Employee benefits expenses | 285 | 250 |
| Supplies and services | 90 | 86 |
| Grants and subsidies | 76 | 80 |
| Other expenses | 7 | 15 |
| **Total expenses** | 1,142 | 1,087 |
| **Net result** | 17 | - |
| Other comprehensive income | - | (9) |
| **Total comprehensive result** | 17 | (9) |
| | | |
| Net cash provided by (used in) operating activities | 15 | 7 |
| | | |
| **Assets** | | |
| Current assets | 253 | 227 |
| Non-current assets | 121 | 123 |
| **Total assets** | 374 | 350 |
| **Liabilities** | | |
| Current liabilities | 69 | 68 |
| Non-current liabilities | 80 | 74 |
| **Total liabilities** | 149 | 142 |
| **Total equity** | 225 | 208 |

## Statement of Comprehensive Income

### Income

DHS's main sources of income in 2021-22 were appropriations of $940.8 million and Commonwealth grants of $111.2 million.

Total income increased by $72 million to $1.2 billion, mainly due to increases in appropriation (up $32.7 million), SA Government grants, subsidies and transfers (up $20 million), sales of goods and services (up $13.8 million) and Commonwealth grants (up $4.6 million).

### Appropriations

Appropriations increased by $32.7 million to $940.8 million in 2021-22, reflecting the additional expenditure budgeted for NDIS contributions.

### Commonwealth-sourced grants and funding

Commonwealth-sourced grants and funding increased from $106.6 million to $111.2 million in 2021-22. This is primarily due to $9.6 million received for family, domestic and sexual violence response programs under a new agreement between the Commonwealth and the States. The increase is partially offset by a $7 million reduction in COVID-19 domestic violence support funding, which was received in 2020-21 to support initiatives including victim and survivor support packages and safety hubs, perpetrator behaviour change services (including the men's referral line), response services targeting vulnerable groups and community recovery initiatives.

Commonwealth funding for other programs remained relatively consistent, including DisabilityCare Australia Fund income of $77.9 million ($75.2 million) and Continuity of Support Program income of $21.1 million ($19.6 million).

### SA Government grants, subsidies and transfers

SA Government grants, subsidies and transfers increased from $28.1 million to $48.1 million, mainly due to:

- a $20.1 million increase in income from the National Education Reform Agreement, due to timing differences in receipts from the Department for Education (funding allocated to each year remains consistent)
- a $5.8 million increase in Department of Treasury and Finance (DTF) contingency funding, provided for the consolidation of youth custodial services capital project and the expansion of services under the child and family support system for the child and family assessment and referral network
- partially offset by a $5.1 million decrease in the COVID-19 (Community and Jobs) Support Fund through DTF, which provided support for people significantly impacted by COVID-19 restrictions.

### Sales of goods and services

Sales of goods and services increased from $23.6 million to $37.5 million, mainly due to a $15.5 million increase in disability support services income, relating to supported independent living services and community participation activities for clients. This represents funding DHS has received from the NDIS that is outside the scope of its in-kind service provision (see 'NDIS contributions' below) and funding DHS has received for the transition to home service.

## Expenses

In 2021-22 total expenses increased by $55.3 million to $1.1 billion. Movements in expenses include increases in NDIS contributions (up $27.6 million), employee benefits expenses (up $34.5 million) and supplies and services (up $3.4 million), partially offset by decreases in grants and subsidies (down $3.8 million) and loss on disposal of assets (down from $3.4 million in 2020-21 to a $1.5 million gain in 2021-22).

### NDIS expenses

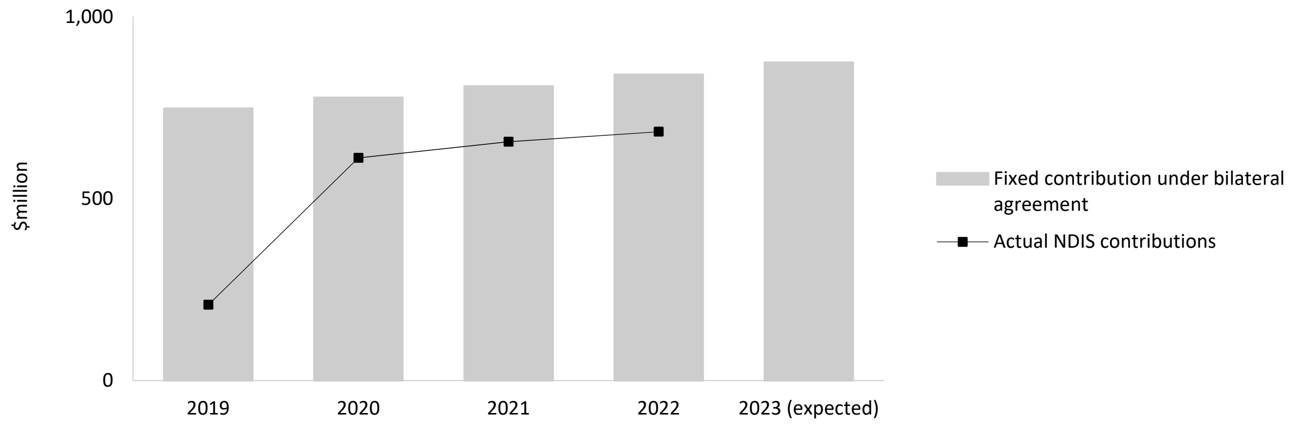
NDIS expenses increased from $656.2 million to $683.8 million in 2021-22.

South Australia started making contributions to the NDIS in 2018-19. Funding is paid to the National Disability Insurance Agency under the full scheme bilateral agreement with the Commonwealth. The objective of the agreement is to improve the outcomes of people with a disability by supporting them through the NDIS, with the shared goal of increasing their social and economic participation. The agreement involves agreed payments between the Commonwealth and SA Governments to fund the NDIS.

NDIS expenditure comprises the fixed State contribution under the bilateral agreement, offset by adjustments including the in-kind provision of services (such as the supported accommodation DHS continues to provide to disability clients).

The State's contribution to the NDIS under the bilateral agreement was $840.9 million in 2021-22. The adjustments to this fixed contribution included in-kind service provision by the State of $157.2 million and resulted in the total net expense of $683.8 million.

NDIS expenditure is expected to increase in 2022-23 as the fixed component of the bilateral agreement increases to $874.4 million.




We assessed whether DHS's internal controls for NDIS expenditure were suitably designed and operating effectively throughout the year. There were no significant findings from our review.

### Employee benefits expenses

Employee benefits expenses increased by $34.5 million to $285 million in 2021-22. This is mainly due to:

- a $17.9 million increase in salaries and wages, mainly due to an increase in staff of 156 FTEs and enterprise bargaining agreement increases. FTEs increased from 2,618 at 30 June 2021 to 2,774 at 30 June 2022, with the increase mainly in the Disability Services division
- a $13.1 million increase in workers compensation expenses as a result of an increase in provisions. The workers compensation provision is determined by an actuarial assessment. The increase is mainly due to the increase in the provision for seriously injured workers claims, mostly as a result of the impact of the Summerfield decision on the calculation of these claims.

### Supplies and services

In 2021-22 supplies and services expenses increased by $3.4 million to $89.8 million, mainly due to:

- a $3.3 million increase in brokerage care services due to an increase in clients and referrals to the exceptional needs unit
- a $3.1 million increase in drugs and medical supplies, as DHS purchased $2.9 million of rapid antigen tests in 2021-22 for use in disability services and to provide to non-government organisations.

These increases were partially offset by a $2 million decrease in accommodation expenses, as a result of DHS reducing the number of office premises it operates from and a reduction in the annual accommodation expense for the Riverside premises following a new agreement with the Department for Infrastructure and Transport that commenced in 2021-22.

### Grants and subsidies

Grants and subsidies decreased by $3.8 million to $75.9 million in 2021-22. Notable movements in grant funding include:

- a $5.6 million decrease in the adults with chronic conditions program, which from 1 July 2021 now forms part of the community connections program. Similarly, disability grants decreased by $1.7 million as grant programs ended, with grant payments under the National Disability Agreement now captured under the community connections program
- a $4 million decrease in financial hardship programs related to the vulnerable South Australians support package in 2020-21, which included financial guidance services and emergency relief programs to support people impacted by COVID-19 restrictions, such as temporary visa holders, recently unemployed people and small business owners with impacted businesses.

These decreases were partially offset by:

- a $3.1 million increase in the community connections program, which supports people whose independence and quality of life is at risk and who are unable to benefit from other services such as the NDIS, mental health and aged care sectors. The program aims to support people to strengthen their independence and connections with communities, social networks and services
- a $1.9 million increase in child and family support grants, as the intensive family support services and social impact investment programs have now been in place for a full financial year

- a $1.1 million increase in family and community development grants for additional programs funded in 2021-22.

## Statement of Financial Position

### Assets

DHS's major assets include cash and cash equivalents of $166.4 million ($151.3 million), property, plant and equipment of $114.9 million ($118.8 million) and receivables of $85.9 million ($73 million).

Total assets increased from $349.9 million to $372.4 million as at 30 June 2022, largely due to increases in cash and receivables.

DHS's cash balance increased by $15.1 million in 2021-22, largely due to expenditure being less than originally budgeted. This resulted in an increase to its accrual appropriation excess funds account.

Receivables increased by $12.9 million, largely due to accruals for disability support services income (see 'Sales of goods and services' above).

Property, plant and equipment remained relatively consistent, with decreases mainly the result of depreciation.

### Liabilities

Total liabilities increased by $5.5 million to $147.5 million. This was largely due to:

- a $5.1 million decrease in employee benefits liabilities, mainly due to the long service leave liability decreasing by $5.2 million to $34.6 million in 2021-22 due to reductions in the number of long service leave entitlement days, and an increase in the Commonwealth Government bond rate (from 1.25% to 3.5%) used in the actuarial calculation
- a $13.1 million increase in the workers compensation provision, up to $48.8 million, mainly as a result of increased provisions for seriously injured workers claims. This is in part due to the Summerfield decision, which increased the provisions for workers compensation across government. We note that recent legislative changes have not been included in the calculation of the provision as they cannot be reliably estimated at this time, however this may decrease the liability in future.

## Highlights of the financial report – administered items

| | 2022<br>$million | 2021<br>$million |
|---|---|---|
| **Income** | | |
| Appropriation | 191 | 183 |
| SA Government grants, subsidies and transfers | 11 | 13 |
| Client trust receipts | 9 | 10 |
| Other income | 1 | 2 |
| **Total income** | 212 | 208 |

| | 2022 $million | 2021 $million |
|---|---|---|
| **Expenses** | | |
| Grants and subsidies | 212 | 207 |
| Client trust payments | 9 | 10 |
| Other expenses | 4 | 17 |
| **Total expenses** | 225 | 234 |
| **Net result** | (13) | (26) |
| Other comprehensive income | - | 7 |
| **Total comprehensive result** | (13) | (19) |
| | | |
| **Assets** | | |
| Current assets | 51 | 63 |
| Non-current assets | 26 | 28 |
| **Total assets** | 77 | 91 |
| | | |
| **Liabilities** | | |
| Current liabilities | 27 | 28 |
| **Total liabilities** | 27 | 28 |
| **Total equity** | 50 | 63 |

## Statement of Administered Comprehensive Income

### Administered expenses

Grants and subsidies of $212.2 million represent 94% of total administered expenses. This balance is largely made up of concession payments (86%).

#### Concessions

Concession payments increased by $9.1 million to $181.6 million.  This is largely due to:

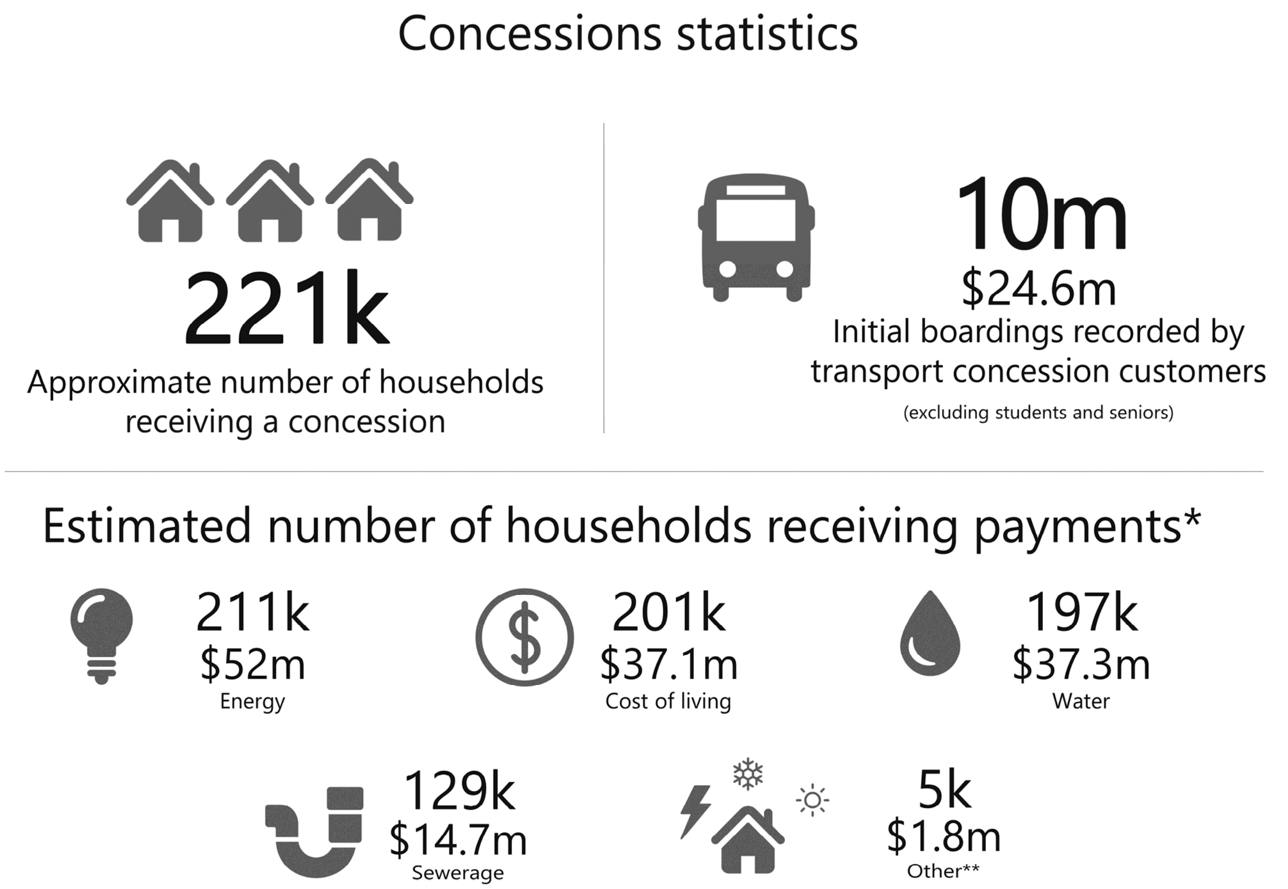
- a $13.6 million increase in paid pandemic leave scheme payments, up to $14.1 million. This scheme provided payments of up to $1,500 for eligible workers required to quarantine (administered by the Commonwealth and reimbursed by DHS) and $300 for eligible people in a designated COVID-19 cluster required to self-isolate while waiting for test results (administered by DHS). DHS reimbursed the Commonwealth $13.1 million in 2021-22, and paid $1 million to people isolating. It received over 11,000 applications in 2021-22, with approximately 3,400 applicants paid
- a $7.4 million increase in energy concessions. There were fewer households receiving energy concessions in 2021-22 compared to 2020-21. The increase in payments is largely attributable to:
  - delays in energy retailers providing accurate information to enable DHS to pay the concessions applied to energy bills. As a result there are payments made in 2021-22 that relate to concessions applied by retailers in previous financial years
  - $748,000 for the purchase and installation of solar systems as part of the Switch for Solar scheme in 2021-22.

These increases were partially offset by:

- a $4.6 million decrease in transport concession payments transferred, reflecting a reduction in public transport use due to COVID-19

- a $3.5 million decrease in water and sewerage concessions. Fewer households received these concessions in 2021-22 compared to 2020-21
- a $2.8 million decrease in concessions paid for the international student support package introduced in 2019-20 in response to COVID-19, which provided emergency cash grants to international students residing in South Australia and experiencing financial hardship. This program ceased in 2020-21.

The following chart highlights concession payments by number and value in 2021-22.




* The number of households receiving each concession type is provided by DHS and is unaudited.
** Includes emergency electricity payments, medical heating and cooling, and residential parks.

DHS advised us that approximately 221,000 households received an SA Government concession in 2021-22. Most received more than one concession type during the year and therefore one household may show up in more than one concession type in the above chart.

The number of households receiving a concession decreased from 227,000 in 2020-21. The decrease was mainly in households receiving energy, water and sewerage concessions, while the number of households receiving cost of living concessions increased.

The total amount of cost of living concessions ($37.1 million in 2021-22) has remained relatively consistent, as while 2020-21 saw fewer households paid, there was also a once-off boost payment. Households receiving the cost of living concessions were lower in 2020-21 due to concessions that were brought forward in 2019-20 as part of the SA Government's stimulus package in response to COVID-19.

# Department for Infrastructure and Transport (DIT)

## Financial statistics

| | | | | | |
|---|---|---|---|---|---|
| Income | $2.7 billion | Appropriation $748 million | Fees and charges $738 million | Commonwealth $695 million | Other $506 million |
| Expenses | $2 billion | Supplies and services $924 million | Depreciation $649 million | Employee benefits $149 million | Other $299 million |
| Assets | $41.3 billion | Current $4.7 billion | Non-current $36.7 billion | | |
| Liabilities | $1.4 billion | Current $481 million | Non-current $960 million | | |

**1,951**
Employees (excluding Rail Commissioner)

**$1.8 billion**
Capital expenditure

**23,000 km**
Roads managed

Administered items

| | | | | | |
|---|---|---|---|---|---|
| Income | $1 billion | Vehicle registration related charges $1 billion | | | |
| Expenses | $1 billion | Compulsory third party insurance $428 million | Stamp duties $224 million | Lifetime support scheme $180 million | Other $168 million |

### Significant events and transactions

- A new single provider, Ventia, started providing facilities management services from December 2021. These services were previously provided by two providers, Spotless and DIT.
- Project costs for the Adelaide Festival Plaza public works of $97 million and a car park lease of $30 million were expensed as they were completed and transferred to other agencies.
- Project costs for the Gawler Rail Line Electrification and Modernisation project of $628 million and North-South Corridor – Regency Road Pym Street project of $233 million were completed and recognised in assets.
- Land purchases for the North-South Corridor – Darlington to Torrens project amounted to $114 million.

| | |
|---|---|
| **Financial report opinion** | **Unmodified** |
| **Controls opinion findings** | — Improvements in the Across Government Facilities Management Arrangements (AGFMA) are in progress.<br>— Road maintenance contract management controls were still being implemented.<br>— Opportunities to improve asset management practices were noted.<br>— Metropolitan transport contract management practices are established, with some areas needing attention.<br>— Improvement required to documentation to support selected tenderer fields. |
| **Other audit findings** | — Employee attendance controls need improvement.<br>— Further action is needed to improve IT controls. |

## Functional responsibility

DIT is an administrative unit established under the *Public Sector Act 2009* and is responsible for transport systems and services, infrastructure planning and provision, and strategic land use for South Australia.

## Scope of the audit

### Audit of the financial report

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

Specific areas of audit attention in 2021-22 included:

- accounts payable
- payroll
- public transport contracts
- fees and charges, including motor vehicles, drivers licences and public transport
- income and expenditure for maintenance, property and building construction services
- accounts receivable
- bank reconciliation
- general ledger
- governance
- fixed assets, including capital works, road and rail network assets, and plant and equipment
- IT controls.

We considered the work of DIT's internal auditors in designing and performing our audit procedures.

### Controls opinion

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

- facilities maintenance services managed by DIT for other SA Government agencies
- contract management for road maintenance and metropolitan public transport contracts
- asset management for selected road, marine and rail assets, and for the Adelaide Oval
- purchasing non-current assets, including procurement, contract management and project delivery
- construction on behalf of other SA Government agencies, including procurement, contract management and project management
- acquisition and disposal of land and buildings
- operating expenditure, including contract management for key operational contracts
- motor registration related revenue
- expenditure of Commonwealth money
- bank accounts.

## Audit findings

### Communicating our audit findings

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

### Controls opinion findings

#### Improvements in the Across Government Facilities Management Arrangements are in progress

The AGFMA is an integral part of the SA Government's approach to maintaining, managing and improving building assets (including building fabric, plant and equipment). It is designed to enable the SA Government to identify the building work that needs to be done, negotiate a fair price, manage risk and maintain public records of work performed. Over 30 agencies participate in the AGFMA.

Services provided under the AGFMA include preventative maintenance, replacement/refurbishment maintenance, works less than $150,000, breakdown maintenance and planned small construction works.

*AGFMA reforms*

In 2018-19, we conducted a comprehensive audit of the AGFMA that considered some of the fundamental elements of DIT's Strategic Asset Management Framework. We found that the AGFMA was not operating as intended, and in particular that:

- improvements in AGFMA governance were required
- asset data collection was insufficient
- asset condition monitoring was not adequately performed
- controls to ensure only qualified subcontractors are used were deficient
- key reconciliations, segregation of duties and subcontractor invoice checks could be improved.

Several other SA Government reviews also identified areas that needed to be addressed.

In response, DIT commenced an AGFMA improvement program. This included a comprehensive review which concluded that while the fundamental premise of an across government arrangement remained sound, there were several aspects where there were clear opportunities to improve outcomes and a pressing need for reform. One of the key recommendations from the review was to commence a competitive tender process to fully outsource the AGFMA. Further information on our prior year findings are detailed in my earlier reports.

The procurement process resulted in a single provider, Ventia, being selected to provide all AGFMA services.

### AGFMA providers throughout 2021-22

On 6 July 2021 the SA Government entered into a contract with Ventia for the provision of the AGFMA services. This contract commenced on 1 December 2021 and, with all options (including GST), has an estimated total value of $4.2 billion over 11 years and 7 months.

For the period before 30 November 2021, the services were provided by two facilities management service providers (FMSPs) under the previous arrangements:

- Spotless, an outsourced contractor for the central and northern Adelaide service regions, operating under a contract
- DIT's in-house Facilities Services, for the southern Adelaide and country South Australia regions. DIT Facilities Services was self-governing and operated under a service framework.

In 2021-22, SA Government agencies paid about $349 million for AGFMA services comprising:

- around $79 million paid to Ventia, which includes $7.5 million paid by DIT for costs associated with transition and data validation
- around $270 million paid to the previous FMSPs. About $152 million of this was for minor and refurbishment works that were ongoing at the commencement date of the new AGFMA contract.

The previous FMSPs continued to provide services after 1 December 2022, including for building work underway and work excluded from the new AGFMA model to be transitioned to other providers. It is planned that the remaining activity under the previous AGFMA will cease during 2022-23.

### Changes to the AGFMA model

From 1 December 2021 Ventia commenced delivering services as the fully outsourced service provider of the AGFMA.

The contract with Ventia retains many of the fundamentals of the previous AGFMA, including:

- DIT remaining as the central policy and contract management agency

- agencies retaining responsibility for managing their locations, which includes portfolio and asset planning, asset service needs, annual works program, budget management, work request management, verifying work completion and making payment claims
- Ventia primarily being the works coordinator, with service provision and project work undertaken by appropriately qualified subcontractors.

There have also been some changes to the arrangements. These include:

- services being provided by a single fully outsourced provider, Ventia.
- some services previously provided under the AGFMA now being out of scope, including soft facilities management (eg cleaning, grounds maintenance, security patrols), highly specialised assets and assets that are not key functional assets with low value
- the IT systems for storing, maintaining and managing assets and maintenance services now being provided and controlled by Ventia. The system is no longer government owned and managed, with data being transitioned from previous government systems
- agencies being directly invoiced by Ventia rather than being invoiced to DIT, who previously recouped costs from participating agencies.

### *New AGFMA model responsibilities*

Both DIT, which administers the AGFMA, and participating agencies have responsibilities under these arrangements.

DIT's role as administrator is to:

- administer the AGFMA through its management of the service agreement
- establish appropriate mechanisms to support participating agencies and agency representatives in their roles under the AGFMA
- provide advice to participating agencies to meet compliance and to support the maintenance of government assets
- manage the performance of Ventia in line with the contract obligations, including conducting assurance activities and monitoring KPIs.

Agencies are responsible for managing their designated locations, which includes:

- development, maintenance and administration of strategic asset management plans
- verifying that work has been carried out in line with requirements
- paying fees for services procured in respect of its assets
- collaborating with the FMSP, now Ventia, to finalise the annual works program and budget
- issuing work requests
- participate in relevant governance groups
- ensuring work, health and safety standards are met.

The AGFMA is an important component of each participating agency's asset management system.

### *Transition to, and initial implementation of, the new AGFMA contract*

In 2021-22 DIT was transitioning to the new contract for the provision of the AGFMA. We note that there have been issues in the transition process, including:

- general system and process issues
- the inaccurate allocation of work orders, including multiple subcontractors arriving on site, or in some instances non-local contractors being engaged
- increased administrative workloads 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 allocation of work orders.

DIT advised us that issues raised during the initial implementation phase are tracked using a master issues register maintained by Ventia. DIT and Ventia executives meet regularly to discuss the register. For the more substantial issues, dedicated work groups and project teams have been created by Ventia to resolve the issues. They include workgroups for preventative maintenance compliance, annual service delivery plans monitoring, data validation, financial cost verification and KPI assurance and improvements. Representatives from DIT are included in these groups.

Many improvements have been implemented by Ventia since 1 December 2021, however we note that many critical issues remain and services provided to agencies require improvement. Considerable work is required to ensure an optimised AGFMA for all users.

### *Summary of findings*

Because the transition to the new arrangements commenced in 2021-22, our 2021-22 audit focused on aspects of the procurement and understanding the new arrangements including, elements of governance and contract management.

Our review of the procurement focused on identifying whether key procurement documents had been prepared and appropriately approved. We found that this was the case.

We reviewed aspects of governance and contract management for the new contract with Ventia, noting that not all aspects of contract management would be in place yet. We found that DIT could improve its internal controls over the governance and contract management of the AGFMA in the following areas:

- roles and responsibilities for monitoring Ventia's compliance were not clearly defined and documented for some key obligations
- there was no key document detailing all of the key obligations under the contract and how they are being managed and monitored
- not all high risks assets had been confirmed by the data validation process within six months of commencement, as required in the contract
- there was no ability to confirm that the service delivery plans for 2021-22 were accurately and completely delivered, including statutory maintenance
- Ventia's systems could not provide DIT and agencies with visibility and accessibility to asset data for asset management, recording and maintaining the minimum data sets required by a Premier and Cabinet circular

- no monitoring or compliance activities had been performed by DIT over the security of data since the start of the contract with Ventia
- both Ventia and DIT's risk registers were incomplete
- there were no controls to monitor that the amounts Ventia charged were in line with contractual maximum rates
- subcontractor compliance documentation was not visible in Ventia's system for a sample of subcontractors tested
- KPI targets are not being met, KPI data cannot be presented as required by DIT and the KPIs reported for 2021-22 have not been verified.

In response, DIT advised us that:

- it will review the contract management plan, audit and assurance framework and contract deliverables register to ensure contract obligations and compliance are captured, monitored and managed
- it is varying the contract to allow for data validation on the basis of high-risk sites rather than high-risk assets, because this was considered more effective by Ventia and DIT. The timelines have also been altered to require the review of high-risk sites within 11 months
- workgroups have been established to provide assurance that Ventia has completed service delivery work
- projects have been established to work towards Ventia systems providing the required data, with the associated system upgrades planned for September and October 2022
- a review of data security practices commenced in August 2022
- DIT is undertaking a review of the risk management plan and register and will work with Ventia to ensure its risk management plan is updated
- the rates charged by Ventia will be assessed as part of the audit and assurance processes for the contract
- it has requested and received an improvement plan from Ventia for subcontractor compliance documentation and has included a review of Ventia's processes for subcontractor compliance in the audit and assurance plan
- a workgroup has been established to revise KPI reporting.

### *Audit comment*

Over the past two years we have concluded that the AGFMA was not operating as intended. DIT advised us that the new AGFMA model would address the concerns identified in our previous audits and in other internal and external reviews. Our overall assessment for 2021-22 is that the arrangements under the new AGFMA model are still in transition and are not yet operating as intended.

It is important that strong contract management processes are implemented and maintained by both DIT and participating agencies to ensure the SA Government achieves value for money from the new AGFMA. This will require both DIT and participating agencies to have reliable processes to monitor Ventia's performance.

## Road maintenance contract management controls were still being implemented

In July 2020 the Commissioner of Highways executed four road maintenance contracts 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.

Last year we performed a high-level review of DIT's contract management framework for the new road maintenance contracts. We found that while DIT had an established framework and structure for managing them, its contract management controls were still being implemented or needed improvement. This included processes for managing contract compliance, risk, systems for ordered services, management reporting, KPIs and payment claims.

Our 2021-22 audit focused on:

- gaining an understanding of the current status of road maintenance contract management, with a focus on our 2020-21 audit findings
- obtaining an update on the status of the work performed by DIT and external business consultants in 2021-22 to improve DIT's road contract management controls
- performing sample testing of ordered services to assess contract compliance, accuracy of payments and classification of these expenses.

Since last year, DIT has undertaken a range of work programs aimed at improving its management of the road maintenance contracts. This has included engaging:

- internal audit to assist in formatting and refining the risk management approach, preparing a draft contract obligations register and sample testing ordered services to assess contract compliance
- external business consultants to assist in establishing:
  - organisational governance, roles and responsibilities
  - processes for ordered services, contract compliance and assurance
  - KPI surveillance methods, roles and responsibilities
  - commercial contract management and reporting.

While we noted that DIT had made progress to improve its controls, there were still significant areas where controls were not yet implemented, including that:

- controls in place to track and monitor compliance with contract obligations were inadequate
- DIT's processes, roles and responsibilities for reviewing ordered services were not defined and documented, and did not ensure contractor compliance
- methods to track ordered services were ineffective
- KPI verification controls, measurement and data integrity needed improvement
- contractor-provided information for asset management needed improvement
- DIT was still resolving the appropriate staffing levels to perform the contract management and oversight of procurement activities required under the contracts.

In response, DIT advised us that it was implementing the recommendations made by the external business consultant, which it was expected to complete in six to twelve months. These included recommendations for tracking ordered services and KPI verification. DIT further advised us that:

- staffing levels, governance roles and responsibilities are under review
- a register to monitor contract compliance had been adopted
- further work is being undertaken to improve KPI measures and benchmarks
- preparations had commenced for a commercial reset process with the contractors, which includes consideration of the effectiveness of the performance framework, KPI measures and benchmarks, as well as data management
- a surveillance strategy and monthly implementation program has been developed to improve the accuracy of contractor-provided data and reporting
- a commercial maintenance management system to provide access to asset and condition data in near real-time will be purchased.

## Metropolitan transport contract management practices are established, with some areas needing attention

In 2020-21, new contracts commenced that:

- replaced existing bus passenger service contracts
- contracted private operators to provide tram and train passenger services, asset management and maintenance services.

DIT has established a division, the South Australian Public Transport Authority (SAPTA), to manage the public transport contracts, with separate sections for contract management, asset management, safety, network planning, and operations and customer transformation.

### *Bus and tram contracts*

Since 2000, bus passenger transport services in metropolitan Adelaide have been entirely provided by private companies.

On 10 March 2020 the Minister awarded seven service contracts for the operation of metropolitan Adelaide buses, with one of those contracts also including the operation and maintenance of tram services for the first time. While the SA Government has outsourced the operation of light rail and bus services, it has retained ownership of the bus and light rail assets.

The current contractors started providing the services in July 2020. The total estimated value of the bus and tram service contracts is $3 billion (GST inclusive) over a potential 10-year term to June 2030.

The service contracts include incentives for reducing the cost per passenger, increasing customer satisfaction and/or increasing patronage growth. The SA Government remains responsible for setting the pricing, service levels and service location.

### *Heavy rail contract*

The Outsourced Rail Operations Agreement (OROA) with Keolis Downer Adelaide Pty Ltd (operator) was executed in September 2020. The operator started providing heavy rail services from January 2021. The estimated value of the OROA is $2.1 billion over a potential 12-year term to February 2033.

We note that the SA Government has publicly announced its intention to revisit these arrangements in future.

The SA Government has retained ownership of the rail system infrastructure and assets, is responsible for setting pricing and receiving fares and determines the minimum level of service of the network. The operator is required to perform all work required 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.

Under the OROA, a portion of the monthly payment sum is withheld and placed in an escrow account. The operator claims money from the escrow account for expenditure on infrastructure maintenance and renewal work. The operator is required to fund the works if the expenditure exceeds the amount of available escrow funds.

### *Audit findings*

Last year we performed a high-level review of DIT's contract management framework for the new public transport contracts and observed that while DIT had established a sound contract governance framework for the contracts, there were some areas where contract management processes could be improved. They included documenting processes to ensure the performance monitoring statistics provided by contractors are accurate, implementing processes to ensure that the heavy rail operator complies with legislation or regulations and improving operator risk management monitoring.

Last year we also noted that DIT was not completely prepared for the commencement of the heavy rail contract, with key documents and the contract management plan, and filling contract management positions, not being completed in a timely manner.

In 2021-22 we reviewed aspects of the contract management practices for the metropolitan public transport contracts to determine whether:

- an appropriate contract management governance framework has been established
- processes to measure and report on contractor performance are implemented
- processes are established to ensure the contractor is paid in line with work performed
- processes are established to ensure the accuracy of payments made to contractors.

Our review included reviewing aspects of DIT's contract management processes to oversee the maintenance activities performed by the heavy rail and light rail contractors. This included considering asset management and maintenance, maintenance of information and condition inspections.

We observed that DIT had addressed, or was in the process of addressing, most of the matters we raised last year. We appreciate that some matters will take time to address. In 2021-22, DIT started a project to document its verification processes for KPI data under the bus, light rail and heavy rail service contracts. At the time of our audit, the Executive Director of SAPTA had approved five of the 42 verification processes. We noted that the project was expected to extend into 2022-23.

Our observations from our current audit reflect that DIT was working to improve its contract and asset management control processes. In addition to observing that documentation and KPI data verification processes for the heavy rail, light rail and bus contracts were not yet complete, we found the following:

- Heavy rail – Governance:
  - The risk management plan for the OROA was not documented.
  - There was no process in place to ensure that the operator was complying with its legislative requirements.

- Heavy rail and light rail – Asset management performance:
  - DIT had not documented processes or completed audits to adequately verify that the operators were performing maintenance tasks to comply with contract requirements. Consequently, DIT was not able to evidence that:
    - all planned maintenance and minimum renewal tasks were programmed by the operator
    - the operator had assessed the criticality and condition of assets after the start of the contract, or performed maintenance and renewal in line with contractual requirements
    - asset performance monitoring statistics and monthly reporting from the heavy rail operator were accurate.
  - The heavy rail operator's asset management system was not updated with the cost of subcontractor works.
  - The method of measurement for the infrastructure maintenance performance KPI was not formally agreed with the light rail operator.
- Heavy rail – Infrastructure payment claims:
  - The required independent audit of the infrastructure escrow account was not completed.
  - Subcontracted works in the operator's infrastructure claims were not reviewed for eligibility because the operator's asset management system was not updated with the cost of the works.
  - DIT had not documented its detailed procedures to check infrastructure payments claimed from the escrow account.
- Heavy rail, bus and light rail contract – Performance management of services:
  - DIT was not independently checking contractor provided data for several KPIs we tested.

DIT's response noted the outcome of our audit and detailed a range of measures and actions undertaken or planned to address the findings we raised.

### Opportunities to improve asset management practices were noted

In 2020-21, DIT started a restructure of its asset management framework to provide a whole-of-department approach to be adopted for transport assets, aligned with the requirements of ISO 55001:2014 *Asset management – Management systems – Requirements*. In 2021-22 DIT continued working on improving its asset management system and, at the time of our audit, had prepared a draft Asset Management Strategy and draft Levels of Service and Asset Performance Measures and Indicators documents.

These three documents link the customer and technical levels of service that DIT aims to achieve to the State Infrastructure Strategy, DIT's strategic plan and the National Service Level Standards. They also provide definitions of the performance measures used to determine each level of service. This is an extensive program aimed at defining the customer and technical levels of service and their performance measures. DIT noted that developing levels of service is an iterative process and supporting systems would need to be developed, which will take a relatively longer time to implement.

In September 2022 DIT advised us that it was continuing to work on its asset management framework, with a potential completion date of June 2023.

### *Road asset management*

DIT's road and structures network assets are valued at $27.2 billion as at 30 June 2022 and comprise the following assets:

- sealed roads
- the road corridor, which includes signs and safety barriers
- unsealed roads
- bridges and structures
- electrical assets, which include lighting and traffic signals
- data and systems, which include asset and traffic information.

For 2021-22 our review focused on DIT's management of sealed roads (pavements), bridges and structures for the following aspects of road asset management practices and systems:

- asset information is maintained
- asset condition is assessed
- risks relating to asset management are identified, treated and monitored
- maintenance programs are in place.

We also followed up on the findings from our 2020-21 review.

As we have observed in prior years, DIT has established a framework for managing its road network assets, which includes asset management policies, objectives, plans and information systems. As noted above, DIT was also working to improve its department-wide documents for its asset management strategy, levels of service and asset performance measures and indicators.

We found that DIT had made progress to address last year's findings, including:

- updating the condition rating scales in the bridges and structures asset management plan to more accurately reflect the appropriate inspection rating scale
- completing a draft Asset Management Strategy that outlines the governance arrangements and roles and responsibilities of asset owners and managers.

We noted, however, the following areas where improvement was needed:

- further improvements were needed for measuring and reporting some levels of service
- the bridges and structures asset management plan has not been reviewed since 2018
- bridges and structures condition inspections were overdue and were not scheduled based on criticality
- harmonising criticality measures across asset groups to assist in asset maintenance prioritisation between asset groups needed to improve.

DIT responded that it:

- had engaged the Australian Road Research Board to perform an independent review of the methodology DIT used to determine the pavement backlog forecast, which included levels of service alignment between technical and community requirements
- is updating the bridges and structures asset management plan

- plans to complete overdue bridge inspections by mid-2024 and commence programming condition inspections based on criticality in November 2022
- has had a workgroup assessing the prioritisation and management criticality measures between asset groups within the new draft asset management framework.

### *Marine asset management*

DIT is responsible for managing marine assets with a written down value of $534 million as of 30 June 2022.

As noted above, DIT was working to improve its departmental-wide documents for its asset management strategy, levels of service and asset performance measures and indicators. In 2021-22 the strategic asset management plan for roads and marine assets still provided the strategic direction for managing both asset types.

This year our review focused on following up DIT's progress in addressing the matters we raised in previous years.

We noted that DIT was developing various supporting documents and processes for managing marine assets during the year, including updating the Marine Assets Inspection Strategy and Marine Asset Inventory System documentation. We also noted that DIT has finalised and approved a new marine assets management plan.

While DIT is improving its management of marine assets, its asset management practices were still being refined, developed and implemented. We found that improvements were still required to ensure that:

- the results of condition assessments are recorded in the marine asset data system, including the date of the last condition inspection and the name of the assessor
- the required written reports and joint inspections with Santos are performed for the Port Bonython Jetty and recorded in the asset management system
- controls and treatments put in place to mitigate asset management risks are implemented and reflect the processes undertaken by DIT
- actual performance against the targeted level of performance in the asset management plan are monitored and reported on regularly
- the asset management plan documents how capability, user value and condition data will be used when planning and prioritising marine asset maintenance activities.

In its response DIT outlined action taken or planned to address the matters raised, including:

- recording visual inspections in the marine asset data system, with some other inspections being recorded in a master spreadsheet
- conducting a joint site inspection of the Port Bonython Jetty in September 2022 and entering into a new shipping management agreement in 2022-23
- reviewing and updating risks, controls and treatments in the risk register
- investigating tools to improve the measurement of selected actual levels of asset performance
- updating the asset management plan to help prioritise asset maintenance activities.

### Documentation of reasons for the selection of shortlisted tenderers for construction work on behalf of other SA Government agencies could improve

In 2021-22 DIT spent about $654 million on construction work for other SA Government agencies. DIT is responsible for procurement, tendering and contract management functions for this work.

We reviewed aspects of procurement, prequalification, tendering, contract management, project management and delivery. We found that DIT did not document the reason for selecting the shortlisted tenderers from a prequalification category. This results in the tenderer selection not being transparent and potentially being perceived as unfair or unjustified.

DIT responded that it had conducted the procurements in line with its policies. DIT advised us that it would implement improvements to its documentation.

### Reporting compliance with new procurement policies could improve

From July 2021 new procurement policies for non-construction activities applied to public sector agencies. Our audit included reviewing a sample of procurements to ensure the new requirements were being complied with.

We found that while DIT had complied with most requirements, not all planned and completed procurements were published in the forward plan as required by the new policies.

DIT responded that the reporting requirements were new and that all required data had now been updated.

### Highways Fund

Our review of the Highways Fund noted that a schedule setting out the program of works for 2021-22 was not submitted and authorised by the Minister before the start of the financial year as required by the *Highways Act 1926*. Further, DIT could not provide us with the authorised schedule when we requested it.

DIT's response confirmed that the program of works was submitted and approved late and that it was working to retrieve a copy of the approval.

## Other audit findings

### Employee attendance controls need improvement

In 2021-22 DIT's employee benefits expenses totalled $149 million, with related liabilities of $73 million.

We found that DIT could improve its controls to monitor and certify employee attendance. Weaknesses in this control increase the risk that employees are paid for work not actually performed and that leave records in the payroll system are inaccurate. We also noted that DIT's internal audit had identified areas for improvement in payroll processes.

DIT responded that it is investigating system enhancements to ensure that appropriate compliance and approvals are achieved.

### Further action is needed to improve IT controls for selected systems

Last year we identified shortcomings in aspects of DIT's information security controls for its systems for managing properties and leases (Promis) and accounts payable, accounts receivable, general ledger and fixed assets (Masterpiece).

Our follow-up review of these issues found that DIT had made progress by addressing all Promis, and most Masterpiece, weaknesses we identified. The following Masterpiece weakness remained:

- inadequate patch management due to delays in the vendor verifying that Masterpiece will function on the required updated operating and database system
- an audit logging procedure has not been developed.

DIT accepted the findings, indicating that it is regularly pursuing updates from the vendor on achieving the required functionality of Masterpiece, and is defining a logging procedure.

## Interpretation and analysis of the financial report

### Highlights of the financial report*

| | 2022<br>$million | 2021<br>$million |
|---|---:|---:|
| **Income** | | |
| Appropriation | 748 | 671 |
| Fees and charges | 738 | 725 |
| Commonwealth-sourced grants and funding | 695 | 796 |
| Intra-government transfers | 52 | 63 |
| Sale of goods and services | 141 | 194 |
| Rental income | 193 | 196 |
| Grants and subsidies | 56 | 66 |
| Other income | 64 | 52 |
| **Total income** | 2,687 | 2,763 |
| | | |
| **Expenses** | | |
| Employee benefits expenses | 149 | 188 |
| Supplies and services | 924 | 941 |
| Depreciation and amortisation | 649 | 652 |
| Grants and subsidies | 105 | 77 |
| Surplus cash paid to the Department of Treasury and Finance (DTF) | - | 114 |
| Other expenses | 194 | 59 |
| **Total expenses** | 2,021 | 2,031 |
| **Net result** | 666 | 732 |
| | | |
| **Other comprehensive income** | | |
| Changes in revaluation surplus | 13 | 721 |
| **Total comprehensive result** | 679 | 1,453 |
| | | |
| Net cash provided by (used in) operating activities | 1,474 | 1,295 |
| Net cash provided by (used in) investing activities | (1,756) | (1,150) |
| Net cash provided by (used in) financing activities | 177 | 168 |

| | 2022 $million | 2021 $million |
|---|---|---|
| **Assets** | | |
| Current assets | 4,673 | 4,878 |
| Non-current assets | 36,652 | 35,631 |
| **Total assets** | 41,325 | 40,509 |
| | | |
| **Liabilities** | | |
| Current liabilities | 481 | 618 |
| Non-current liabilities | 960 | 963 |
| **Total liabilities** | 1,441 | 1,581 |
| **Total equity** | 39,884 | 38,928 |

* Table may not add due to rounding.

The following chart shows the breadth and scale of DIT's activities, identifying 2021-22 operating expenses by activity and the value of fixed assets held to support these activities.

Activity

| | | |
|---|---|---|
| Roads and marine | $677m in operating expenses | $28.3b in fixed assets |
| SA Public Transport Authority | $629m in operating expenses | $4.1b in fixed assets |
| Across government services | $392m in operating expenses | $2.1b in fixed assets |
| Delivery of transport projects | $180m in operating expenses | $1.4b in fixed assets |
| Infrastructure planning and policy | $77m in operating expenses | $534m in fixed assets |
| Road safety | $65m in operating expenses | $3m in fixed assets |

Note: The net loss or gain on the disposal of non-current assets is recognised by activity in the chart above.

### Statement of Comprehensive Income

#### Income

Income totalled $2.7 billion. It includes appropriations of $748 million ($671 million) and SA Government grants, subsidies and transfers of $52 million ($63 million). DIT's revenue sources (excluding appropriation and intra-government transfers) are shown in the following chart, which demonstrates the importance of Commonwealth revenues (used largely for capital projects) and the significance of fees charged for motor registrations.

## $1.9 billion in revenue

(excluding appropriation)

**Fees and charges**

**$738m**

- $542m Motor registrations
- $87m Drivers licence fees
- $57m Metrotickets

**Commonwealth revenues**

**$695m**

- $95m SA Rural Roads – Safety Package
- $88m North-South Corridor – Torrens River to Darlington
- $92m Roads of strategic importance
- $80m Gawler Rail Line Electrification
- $58m Torrens Road (Ovingham) Level Crossing upgrade
- $51m Joy Baluch AM Bridge
- $30m Augusta Highway Duplication Stage 2
- $24m Port Wakefield overpass and highway duplication

**Other revenues**

**$454m**

- $154m Office accommodation
- $31m Government employee housing
- $104m Maintenance services
- $52m Concessional passenger income

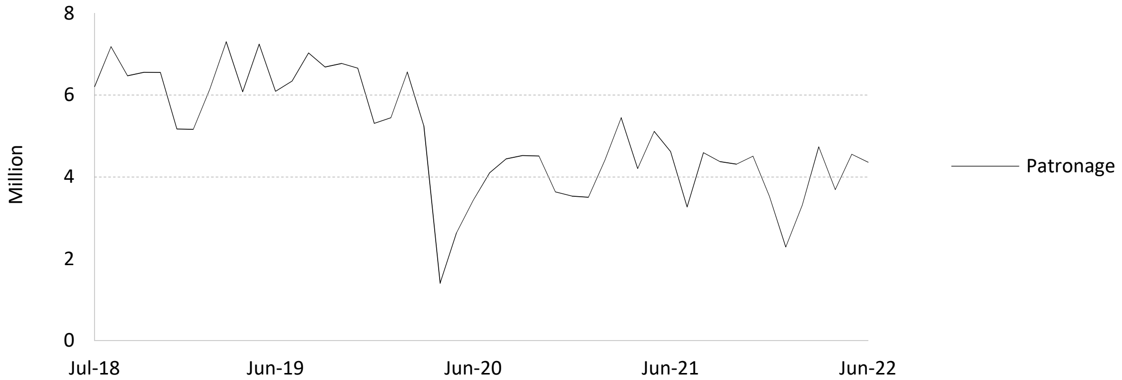
Total income decreased by $76 million (3%) to $2.7 billion, due mainly to a combination of:

- Commonwealth-sourced funding decreasing by $101 million. This funding is largely received to support major road and public transport capital projects. The scope and timing of capital projects varies from year to year
- appropriations income increasing by $77 million to $748 million
- sales of goods and services decreasing by $53 million to $141 million, due mainly to the facilities management services that DIT provided to other government agencies being replaced by a private provider from December 2021
- fees and charges increasing by $13 million to $738 million. This increase was due to variations in individual revenue lines, including:
  - motor registration charges increasing by $23 million (4%) due mainly to fee increases and growth in vehicle registrations
  - drivers licence fees increasing by $15 million (20%). These changes reflect drivers licence renewal duration preferences from year to year
  - land services fees, previously $16 million, no longer being received due to the transfer of this activity to the Attorney-General’s Department in 2020-21
- SA Government grants, subsidies and transfers decreasing by $11 million (18%) to $52 million, due mainly a decrease in intra-government transfers for various projects and initiatives.

## The impact of COVID-19 on patronage and Metroticket income

Over the past three years Metroticket income has decreased by $37 million (36%), reflecting the reduction in patronage due to COVID-19.

The chart below shows the monthly patronage trends.

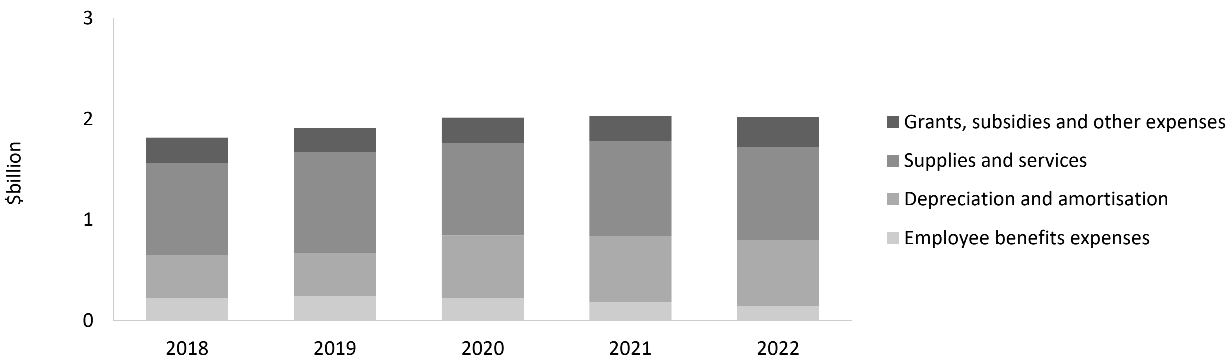



Patronage declined sharply in March and April 2020 (down about 77% in April), and while it has increased since then, the 2021-22 patronage levels remain about 42% below the 2018-19 levels.

The number of public transport boardings in 2018-19 was 67.3 million compared to 39.2 million in 2021-22.

## Expenses

DIT's major expense items for the five years to 2021-22 are shown in the following chart.




Expenses for the year totalled $2 billion ($2 billion) and are mainly attributable to:

- supplies and services expenses of $924 million (46%), of which $422 million was for public transport service contract payments, $239 million was for operating costs of major infrastructure maintenance and other service contracts and $142 million was for property expenses
- depreciation and amortisation expense of $649 million (32%), of which $429 million was for network assets, $97 million was for right-of-use assets, $62 million was for buildings and facilities and $57 million was for plant and equipment
- employee benefits expenses of $149 million (7%)

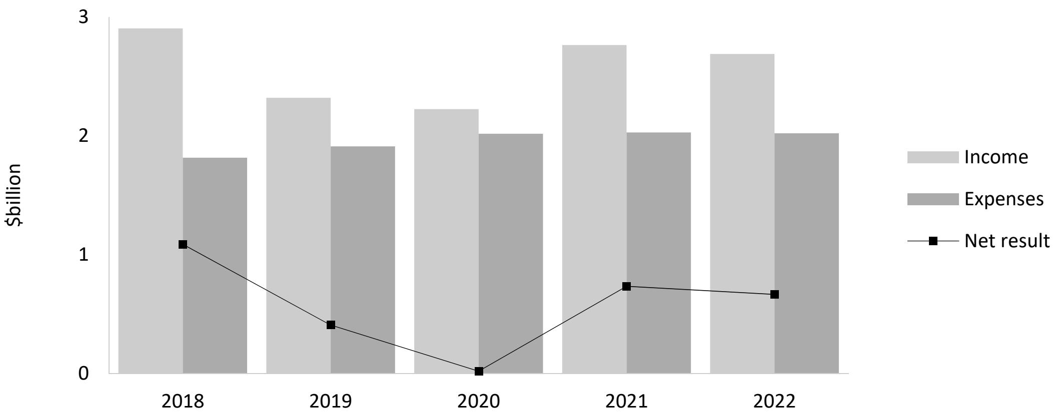
- other expenses of $173 million (9%), of which $122 million relates to assets that have been donated to other entities, which is discussed further below
- grants and subsidies of $105 million (5%).

Total expenses remained consistent with last year. The more notable movements in expenditure were as follows:

- other expenses increased by $135 million, due mainly to:
  - Adelaide Festival Plaza public realm costs of $97 million and car park related costs of $30 million being recognised as complete in 2021-22. The majority, $121 million, was transferred to the Department of the Premier and Cabinet. Another $6 million, mainly associated with works on Adelaide City Council land, was written off. These costs were recorded in DIT's accounts because DIT was provided the appropriation funding to construct these assets, in line with the arrangements for the Adelaide Festival Plaza precinct. For most building projects the responsible, or controlling, agency is provided the funds for construction projects
  - an increase to the site remediation provision of $13 million due primarily to including increased costs for waste management requirements
- no surplus cash was paid to the Consolidated Account compared to last year when $114 million was paid
- while supplies and services expenses showed a minor decrease of $17 million (2%) to $924 million, there were the following significant changes:
  - public transport service contracts expenditure increased by $83 million due mainly to rail services previously provided by DIT being contracted to private operators from January 2021, increased fuel costs and an increase in bus substitution services associated with the Gawler rail line project
  - property expenses decreased by $37 million, due mainly to the facilities management services that DIT provided to other government agencies being replaced by a private provider from December 2021
  - Rail Commissioner salary reimbursement costs decreased by $27 million to $16 million, due to the reduction in staff from the contracting out of rail services from January 2021
  - land administration fees decreased by $20 million to $0 due to the transfer of this function to the Attorney-General's Department in 2020-21
- grants and subsidies increased by $30 million to $107 million, mainly due to $24 million paid on specific community infrastructure grants to meet the incoming SA Government's election commitments
- employee benefits expenses decreased by $39 million (21%), due mainly to outsourcing the provision of services to private contractors, including rail services from January 2021, and facilities management services from December 2021, and the impact of the transfer of functions to the Attorney-General's Department in 2020-21.

## Net result

The following chart shows DIT's income, expenses and net result for the five years to 2021.




In 2021-22 DIT recorded a net result of $666 million ($732 million). Significant factors in the movement of the net result over the past five years have been:

- the value of State and Commonwealth funding for major infrastructure projects recognised as income, which varies each year depending on the size, nature and timing of approved major capital works
- between 2018 and 2019, DIT received $502 million following the wind up of the Motor Accident Commission. No money has been received since 2019.

## Statement of Financial Position

DIT's total assets as at 30 June 2022 were $41.3 billion ($40.5 billion) and are discussed below.

DIT's liabilities amounted to $1.4 billion ($1.6 billion) and mainly comprised lease liabilities of $1 billion ($983 million), payables of $305 million ($460 million) and employee benefits of $73 million ($89 million). The movement in liabilities largely reflects:

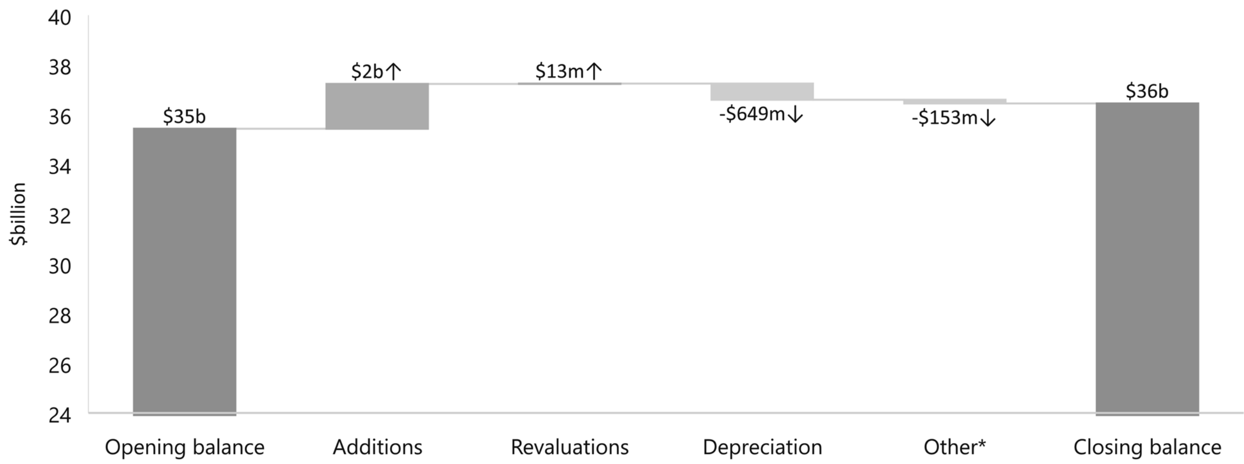
- a decrease in payables of $155 million, which relate mainly to the timing of construction projects delivery and facilities management services no longer being transacted though DIT systems
- the increase in lease liabilities of $22 million, due mainly due to a combination of:
  - additions of $123 million from entering into new office accommodation leases. Major new leases were $49 million for the new South Australian Fire and Emergency Services Commission accommodation and $27 million for new accommodation arrangements for Super SA
  - lease repayments of $127 million
  - lease re-measurements of $23 million from changes in lease rates and other modifications
- a decrease in employee benefits liabilities of $16 million, due mainly to a reduction in staff and the higher discount rate (3.5% in 2022 rather than 1.25% in 2021) applied in calculating the long service liability, and the timing of payroll payments resulting in there being no need to accrue salaries and wages this year.

### Cash

DIT's cash amounted to $4.4 billion ($4.5 billion) and includes $3.8 billion ($4 billion) held in the Highways Fund established under the *Highways Act 1926*.

## Fixed assets

DIT’s fixed assets totalled $36.4 billion and include network assets of $30.3 billion ($29.6 billion), land, buildings and facilities of $3.5 billion ($3.4 billion), capital works in progress of $1.9 billion ($1.8 billion) and plant and equipment of $693 million ($675 million). The following chart shows the movement in fixed assets during the year.




* Includes disposals, donated assets, right-of-use asset re-measurements and assets transferred to held for sale.

## Network assets

Network assets amounted to $30.3 billion ($29.6 billion) and represent 83% of total non-current assets. They comprise roads with a written down value of $24.1 billion (80%), structures with a written down value of $3 billion (10%) and rail and bus track assets with a written down value of $3.2 billion (10%).

The written down value of network assets increased by $773 million to $30.3 billion. The main movements were:

- the capitalisation of network projects totalling $1.2 billion, comprising $553 million for roads, $70 million for structures and $584 million for rail and bus track assets
- depreciation expense of $429 million, comprising $294 million for roads, $59 million for structures and $76 million for rail and bus track assets.

For many years DIT has had the Treasurer’s approval to value its roads and structures assets using an internally developed revaluation methodology. The revaluation methodology and rates were last updated in 2019-20 and this was discussed in my Annual Report for that year. DIT’s accounting policy is to review the revaluation methodology every five years, with intervening annual revaluations based on road component and structures unit rates provided by an independent external estimator each year.

## Capital works in progress

The value of capital works in progress increased by $78 million to $1.8 billion. The major movements in capital works are shown in the following table.

| Projects | Carrying amount 01.07.21 $million | Additions $million | Transfer to assets $million | Closing balance 30.06.22 $million |
|---|---|---|---|---|
| Gawler Line Electrification and Modernisation* | 460 | 244 | 628 | 76 |
| Road stimulus packages** | 193 | 231 | 81 | 343 |
| North-South Corridor Torrens to Darlington | 46 | 257 | 114 | 189 |
| Metropolitan intersection upgrade program | 148 | 145 | 69 | 224 |
| North-South Corridor Regency Road to Pym Street | 214 | 20 | 233 | - |
| Roads of strategic importance initiative*** | 100 | 145 | 60 | 185 |
| Joy Baluch AM Bridge | 58 | 63 | - | 121 |
| Port Wakefield Road overpass | 58 | 59 | - | 117 |
| Adelaide Festival Plaza precinct and carpark | 108 | 19 | 127 | - |
| Resealing and rehabilitation program | 41 | 75 | 41 | 75 |
| Rural roads package | 51 | 23 | 22 | 52 |
| Main South Road duplication | 9 | 42 | 2 | 49 |
| Strzelecki Track sealing | 21 | 24 | - | 45 |
| Horrocks Highway level crossing | 16 | 21 | - | 37 |
| Flagstaff Road widening | 10 | 16 | - | 26 |
| Granite Island causeway | 16 | 22 | 37 | 1 |
| Golden Grove park and ride | 8 | 21 | 28 | - |

* Includes rail cars.

** Includes seven intersection upgrades: Cross and Fullarton Roads; Glen Osmond and Fullarton Roads, Goodwood, Springbank and Daws Roads; Grand Junction and Hampstead Roads; Main North, McIntyre and Kings Roads; Main North Road and Nottage Terrace; Portrush and Magill Roads; and Torrens Road Ovingham level crossing.

*** Includes work for the Eyre Highway, Barrier Highway and Sturt Highway.

## Land, buildings and facilities

Land, buildings and facilities increased by $151 million to $3.5 billion, with the main movements due to:

- additions and transfers from capital works of $314 million, which include:
  - land purchased for construction projects of $139 million, which includes $114 million for the North-South Corridor Torrens to Darlington project
  - buildings and facilities of $86 million, which includes the Granite Island causeway for $37 million and Golden Grove park and ride for $28 million
  - $88 million for right-of-use assets associated with new office accommodation lease agreements, which included $36 million for the South Australian Fire and Emergency Services Commission and $20 million for Super SA
- depreciation expense of $158 million, of which $96 million was for right-of-use assets and $62 million for buildings.

## Plant and equipment

Plant and equipment totalled $693 million, an increase of $18 million from last year. The main movements for the year were:

- asset additions and transfers from capital works in progress of $77 million, which included $53 million for trains purchased as a part of the Gawler line modernisation and $18 million for new buses
- depreciation expense of $59 million.

## Statement of Cash Flows

Cash decreased by $105 million to $4.4 billion.

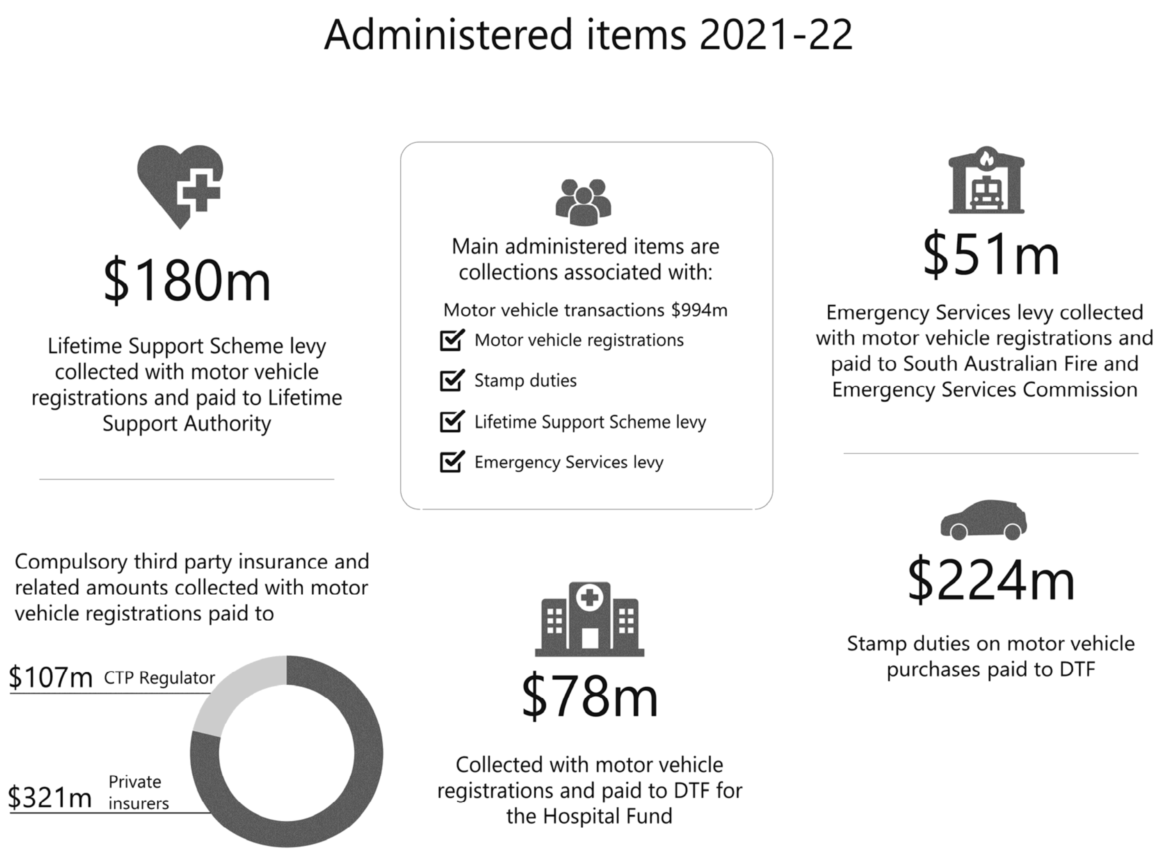
Cash flows provided by operating activities increased by $178 million to $1.5 billion, due mainly to changes in the level of funding received from the Commonwealth and SA Governments. The level of government funding is impacted by the timing and scope of capital projects.

The cash used in investing activities increased by $606 million to $1.8 billion, reflecting the increased level of capital projects approved by government.

The net cash flows provided by financing activities increased by $9 million to $177 million. They included an equity contribution from the SA Government under the *Appropriation Act 2021* of $277 million ($277 million). These contributions are recognised in the Statement of Changes in Equity. This was offset mainly by the repayment of lease liabilities of $127 million, primarily for office accommodation leases.

## Administered items

DIT is responsible for managing a range of activities on behalf of the SA Government. These activities are identified as administered items and reported separately where, for example, DIT does not control them but is responsible for transferring amounts to other eligible beneficiaries. In 2021-22 DIT was responsible for administering the following activities.




While the administered income decreased by $51 million to $1 billion, the following significant movements were noted:

- a decrease of $80 million in income due to the responsibility for some administered functions transferring to the Attorney-General's Department from 1 October 2020. There was a consequential reduction in related expenses
- an increase in charges collected associated with vehicle registrations of $27 million, mainly for stamp duties on vehicle purchases of $14 million and Lifetime Support Scheme levies of $11 million.

## Further commentary on operations

### Road maintenance backlog

The strategic asset management plan for road and marine assets identifies that DIT is responsible for planning, building, maintaining and operating roads safely and efficiently, meeting the needs of stakeholders, customers and users in an affordable manner. To help achieve these responsibilities, DIT aims to align its asset management practices with the international standard on asset management.

Our controls audits over the last four years have included high-level reviews of various aspects of DIT's road asset management practices. Our observations are included above and in prior year Reports.

As part of DIT's asset management processes it periodically obtains, collates and estimates the extent of the road network assets that are overdue for maintenance and rehabilitation work – its maintenance backlog. Estimation is based on available asset information and condition data relative to the expected level of service from the assets.

As part of our asset management review of road network assets, DIT provided us with unaudited information summarising the estimated backlog of work required. That information estimated, for the sealed road network (which is approximately 13,000 km), that:

- 1,520 km of regional sealed roads were 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 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.

In addition, other road network assets DIT identified as in backlog were:

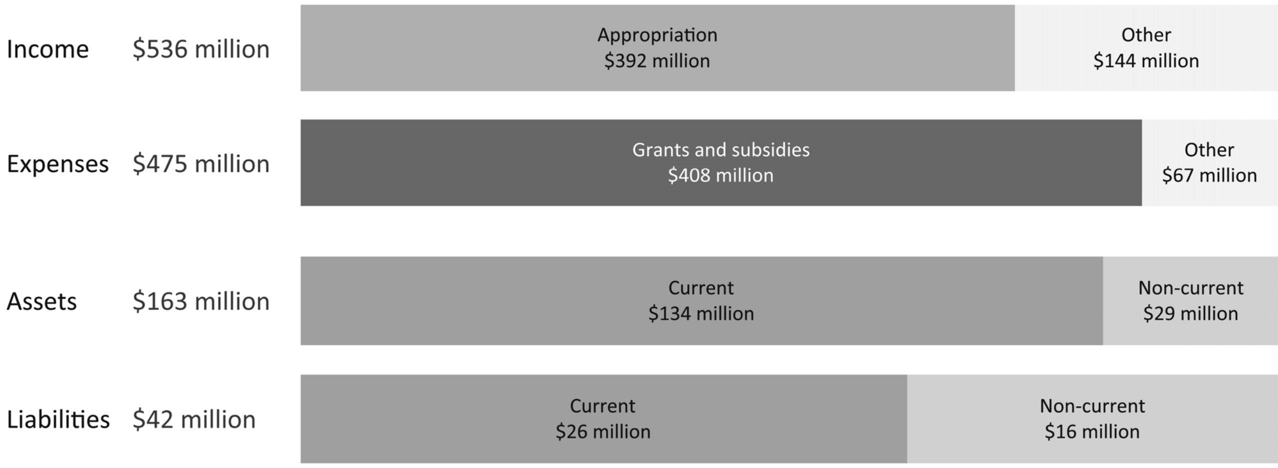
- electrical assets such as lights, light poles, traffic signals etc, with a ROM cost of $150 million
- bridges and structures, where further work was needed to estimate the maintenance backlog costs.

We note that as part of this year's asset management review for roads, DIT advised us that it had engaged the Australian Road Research Board to perform an independent review of the methodology used by DIT to determine the pavement backlog forecast, which included aligning levels of service between technical and community requirements.

It will be important for DIT to continue to refine and understand its asset condition and management data to properly inform its future asset management planning.

# Department for Innovation and Skills (DIS)

## Financial statistics




293
FTEs

### Significant events and transactions

- DIS provided $236 million in total funding to TAFE SA to support the provision of vocational education and training (VET).
- DIS continued to implement the Skilling South Australia initiative, a $196 million partnership between the Commonwealth and State Governments with the aim of skilling or upskilling people and meeting workforce needs.
- DIS also continued to implement JobTrainer, a joint $145 million investment by the Commonwealth and State Governments in skills and training to support specific groups, including those affected by the COVID-19 pandemic.
- DIS recorded a $61 million surplus in 2021-22, mainly as a result of the timing of spending Commonwealth and State JobTrainer funds.

### Financial report opinion

**Unmodified**

### Controls opinion findings

No significant findings.

**Other audit findings**

- DIS's quality and compliance framework for private registered training organisations (RTOs) needs review and the extent of its compliance programs and reviews should be strengthened.
- Nominal hours assigned to units of competency were not reviewed for suitability for the South Australian VET sector.
- DIS is not independently reviewing its manual assessment of claim payments to private RTOs.
- An internal audit of DIS's processes to manage a range of non-VET grant programs identified several significant opportunities to improve grant approval and monitoring processes and ensure that documentation to support grant management is maintained.

## Functional responsibility

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

Its main function is to drive economic growth and create jobs in priority industry sectors in South Australia underpinned by research, development and innovation capability.

## Scope of the audit

### Audit of the financial report

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

Specific areas of audit attention in 2021-22 included:

- expenditure, including funding to TAFE SA and private training providers, grants and accounts payable
- employee benefits and payroll processing
- revenue, including Commonwealth-sourced grants
- property, plant and equipment
- cash management, including bank reconciliations
- DIS's implementation of the new government procurement framework and contract management requirements in Treasurer's Instruction 18 *Procurement* (TI 18)
- DIS's implementation of the SA Public Sector Workforce Rejuvenation Scheme.

We also considered the work of DIS's internal audit in planning and conducting the audit. We made use of the work performed by internal audit over DIS's management of grants.

### Controls opinion

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

## Audit findings

### Communicating our audit findings

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

#### Controls opinion findings

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

#### Other audit findings

##### Payments to TAFE SA and private training providers

DIS provided $236 million in total funding to TAFE SA to support the delivery of VET. It also provided $86 million in VET funding to other training providers.

*Quality and compliance framework not reviewed and updated*

DIS makes payments to private RTOs that have a funding contract with DIS for eligible training activities. To support these payments, DIS developed a quality and compliance framework in 2016, and updated it in 2017. The framework aims to maintain the integrity of skills development and employment programs and the training system in South Australia, and guides DIS's quality and compliance monitoring activities.

We noted that DIS had not reviewed or updated the framework since 2017.

If the framework is out of date it may lead to an ineffective compliance program and result in compliance activities not being conducted as expected. In turn, DIS may not achieve its desired outcomes for government-funded training activities.

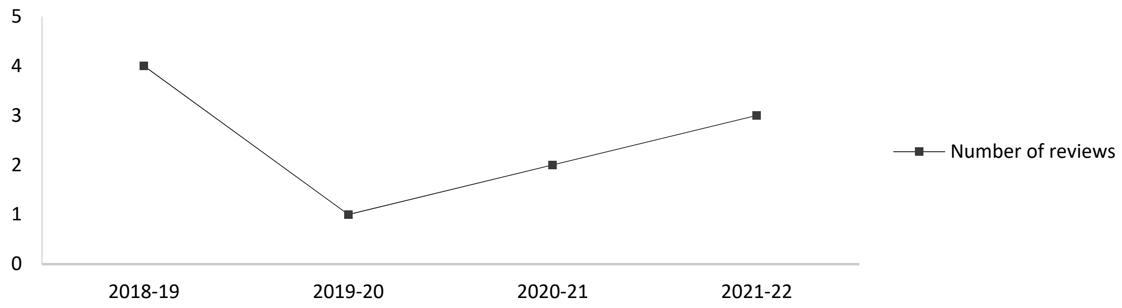
DIS responded that it would review the framework when it updates its forward planning processes to ensure its policies and procedures support an effective, risk-based schedule of review.

*Weaknesses in the current compliance program*

DIS payments to private RTOs increased from $47 million in 2018-19 to $86 million in 2021-22, and the number of organisations paid increased from 101 to 158 during that time.

DIS conducts reviews based on a forward plan, to ensure that private RTOs and employers use government funds appropriately and meet their contract obligations.

DIS's compliance reviews involve either a desktop review or an in-depth review (which is a desktop review followed by a site visit). The number of desktop or in-depth reviews DIS performed between 2018-19 and 2021-22 were:




The focus of DIS's quality assurance activities has shifted over time to following up issues identified by the Australian Skills Quality Authority (ASQA) and performing other reviews as a result of complaints or issues being identified by other stakeholders.

ASQA selects a sample from all private RTOs based on its own risk assessment process. The details of this process are not provided to DIS. Given this, we do not believe that ASQA's reviews should replace DIS's compliance reviews.

We also noted that DIS had not completed all of the reviews on its forward plan, due to other priorities. Reviews not performed in any given year may be rolled over to the next financial year.

Without a well-designed compliance program, quality assurance activities may not be effective in achieving DIS's desired outcomes. If resources are not allocated to performing quality assurance reviews, it may lead to government funding being inappropriately used and an increased risk of financial loss due to fraud.

DIS responded that it will review its current program, policies and procedures to ensure an effective compliance program is designed and implemented. Sourcing of additional short-term resources was underway to support an immediate expansion of its compliance activities through an increased quality audit program for all currently funded RTOs. Planning for the further resources that would be needed for the ongoing expansion and strengthening of its compliance program has been scoped and recruitment is expected to commence in the last quarter of 2022.

### *Weaknesses identified in the scope of in-depth reviews*

DIS's guideline for private RTOs states that providers will be profiled against selected risk indicators, which may lead to them being subjected to an in-depth review. This involves a desktop analysis of documents and a site visit. The desktop analysis involves testing a sample of student records to ensure their results were correctly recorded and a site visit involves inspecting student records and other documentation relevant to the funding contract.

We noted that the in-depth reviews DIS was performing at the time of our audit included analysis of training account and claims data to identify transactions that may require further investigation. Student records and other documents supporting these transactions were either requested as a follow-up to the desktop review or inspected during a site visit.

DIS did not randomly select students in its sample for testing, focusing only on certain categories of students. As a result, it is possible that the results for other categories of students were incorrectly recorded and that this was not detected.

In addition, we noted that DIS's in-depth reviews of the assessment of needs requirements did not include a review of the documents maintained to support the assessment of student eligibility. This would typically include verification of the Unique Student Identifier and other identification documents to ensure only eligible students receive subsidised training. DIS was not able to provide us with a rationale for not reviewing this information.

Without a well-designed in-depth review process, DIS's quality assurance activities may not achieve their desired outcomes.

DIS responded that it would prepare a detailed action plan by October 2022 and would liaise with key Department for Education staff to respond to this finding, as part of the process of transferring responsibility for 2022-23 internal control improvements to the Department for Education.

DIS also noted that more quality audits of prior year claims would commence in December 2022. This will involve sampling and validating student results and inspecting student eligibility documents using a random sampling approach, and will be incorporated into DIS's in-depth reviews.

### *Nominal hours assigned to units of competency were not reviewed for suitability for the South Australian vocational education and training sector*

DIS makes subsidy payments to RTOs based in part on the nominal number of hours allocated to each unit of competency. The nominal hours for any nationally endorsed training packages are sourced from the Victorian Purchasing Guide (VPG).

For a number of years, we have reported that DIS has not assessed whether the VPG hours are appropriate to use in the South Australian VET subsidy environment. DIS only checks that the hours recorded in its management system agree to the VPG nominal hours.

DIS has previously responded that additional resources would be needed to effectively implement this recommendation and that an alternative solution would be investigated in the interim.

At the time of our 2021-22 audit, DIS was implementing a process to review VPG nominal hours for their appropriateness in the South Australian context.

Without assessing whether the nominal hours in the VPG are suitable for South Australia, there is a risk that DIS may be paying more (or less) than is appropriate for a given unit of competency.

DIS responded that a process to review VPG nominal hours was being implemented, noting that it needed to resolve resource considerations from recent staff movements.

### *No independent review of manually assessed RTO claim payments*

DIS funds private RTOs for a number of courses on the Subsidised Training List where participants meet certain conditions. The system that manages these claims does not have the ability to assess whether these conditions are met, requiring DIS officers to manually assess them. The manual assessments are documented in spreadsheets, and performed by only one staff member. There was no evidence that they are independently reviewed.

We noted that a second officer was involved in reviewing the payments processed as a result of the assessments, but this only checked that payment details matched summary information in the system.

In 2020-21 DIS advised us that it would develop a policy or procedure and implement periodic reviews by an independent officer of a sample of claims that had been manually assessed. This control was not implemented at the time of our 2021-22 audit.

We also noted that the officer performing the manual assessments was responsible for:

- preparing funding contracts
- responding to issues and queries from service providers
- assessing claim data
- providing information to support compliance requests
- performing other reviews and communicating issues noted to private RTOs.

DIS advised us that there were no other resources available in the team to review these assessments.

Where there is a lack of segregation between claim assessments and payments and no independent review, particularly given the large number of claims requiring manual assessment, there is a risk of an error occurring and not being detected. This could lead to overpayments and a financial loss to DIS.

DIS responded that a procedure for reviewing a sample of claims would be developed by October 2022. The independent review of a sample of claims each month and rotating work within the team will start in September 2022.

### Grants management

Of its total grant and subsidy payments, DIS paid $86 million in non-TAFE SA VET grants and subsidies.

In 2021-22 DIS engaged a third party to perform an internal audit of the effectiveness of its grant management processes and practices.

The internal audit made several significant findings:

- DIS should investigate a more centralised process to manage the oversight of its various grant programs, with no central system currently in place to assist with grant administration and management.
- Of 15 grant payments tested, there was no evidence of the grant program's objectives, deliverables and outcomes for nine grants under three grant programs.
- Non-compliance with DIS's grants and subsidies policy was found, with no evidence of grant acquittals for three disbursements out of five tested.
- Three grant programs that should have been subject to a formal review under DIS policy had not been reviewed in two cases and, in the third, no evidence of the review could be provided, even though the program had changed.
- Two of 15 grant disbursements did not have evidence of the executed grant agreement required by Treasurer's Instruction 15 *Grant Funding*.
- There were gaps in the documentation needed to support that payments had been verified in line with requirements. This included eight of 15 payments where there was no evidence of the approval minute required by policy and two programs that did not seem to be designed in line with policy requirements for approvals. There were also anomalies in documented verification prior to payment.

- There was no evidence available of a full risk assessment having been done for three of the five grant programs reviewed.
- In 14 of 15 disbursements sampled, there was no evidence of any signed conflict of interest documents.
- In five of 15 disbursements sampled, there was no evidence of any assessment against grant program criteria.

DIS's responses to these findings were that:

- a grant management framework, including the review and update of systems, policies, procedures and responsibilities, would be implemented in 2022-23. This would also clarify responsibility for management oversight
- the procurement of a grant management system by October 2022 was planned to help drive improvements in the quality of initial grant program documentation and accountability for the monitoring, acquittal and formal review of grant programs
- the need for, and timing of, risk assessments across the grant management lifecycle would be reviewed and updated where appropriate
- the implementation of a grant management system would also provide an opportunity to build system controls requiring:
  - the finalisation and approval of grant agreements, as well as verifying documentation, before payments
  - a conflict of interest form to be completed at appropriate stages of the grant process
  - assessment processes and approvals to be appropriately documented.

# Interpretation and analysis of the financial report

## Highlights of the financial report

| | 2022 $million | 2021 $million |
|---|---|---|
| **Income** | | |
| Appropriations | 392 | 379 |
| Commonwealth-sourced grants and funding | 57 | 35 |
| SA Government grants, subsidies and transfers | 75 | 29 |
| Other revenues | 12 | 7 |
| **Total income** | 536 | 450 |
| | | |
| **Expenses** | | |
| Grants and subsidies | 408 | 379 |
| Employee benefits expenses | 39 | 40 |
| Supplies, services and other expenses | 25 | 25 |
| Payments to Consolidated Account | 3 | 3 |
| **Total expenses** | 475 | 447 |
| **Net result** | 61 | 3 |
| | | |
| Net cash provided by (used in) operating activities | 75 | 13 |

| | 2022 $million | 2021 $million |
|---|---:|---:|
| **Assets** | | |
| Current assets | 134 | 60 |
| Non-current assets | 29 | 36 |
| **Total assets** | 163 | 96 |
| | | |
| **Liabilities** | | |
| Current liabilities | 26 | 19 |
| Non-current | 16 | 21 |
| **Total liabilities** | 42 | 40 |
| **Total equity** | 121 | 56 |

## Statement of Comprehensive Income

### Impact of COVID-19

DIS received additional funding as a result of COVID-19. In particular it:

- received continued support through the JobTrainer National Partnership Agreement, jointly funded by the Commonwealth and SA Governments, to deliver additional low fee training as the economy rebuilds. Funding of $41.4 million was provided by the Commonwealth and a contribution of $59.4 million was received from the SA Government's COVID-19 Support Fund. Associated expenditure was $21.5 million
- received once-off funding provided by the COVID-19 Support Fund of $3 million to support dedicated live music venues, event promoters and professional touring artists to help rebuild their careers and businesses. Associated expenditure was $3 million.

### Income

DIS is predominantly funded by appropriation, receiving $392 million ($379 million) representing 73% (84%) of its total income.

In addition, DIS received $57 million ($35 million) of Commonwealth-sourced grants and funding. The increase in this funding in 2021-22 reflects an increase in National Partnership funding for the second year of the JobTrainer initiative.

DIS received $75 million ($29 million) from SA Government grants, subsidies and transfers.
This consisted mainly of:

- $63 million from the COVID-19 Support Fund, with $59 million to support the jointly funded Commonwealth and SA Governments' JobTrainer initiative
- $12 million from the Jobs and Economic Growth Fund, mainly to fund a number of projects promoting economic growth in existing businesses and helping to develop new industries.

Much of the funding received for the JobTrainer initiative was not spent in 2021-22, but is expected to be spent in future years to meet training commitments. This contributed significantly to the $61 million net result and increased cash balance at 30 June 2022.

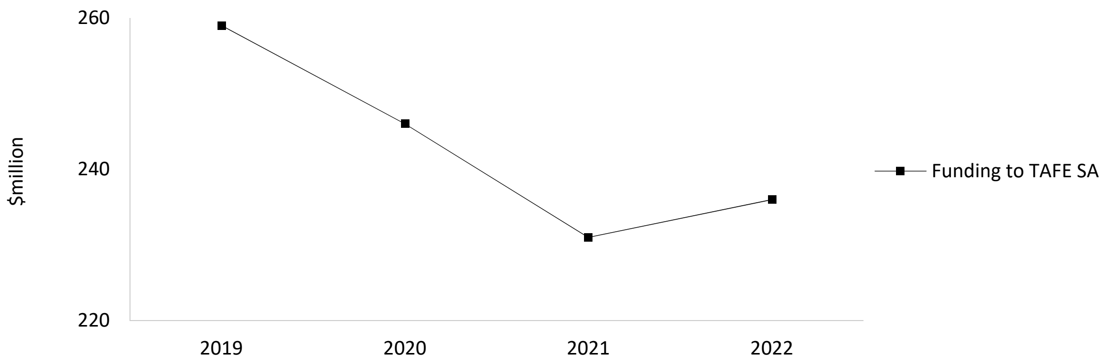
## Expenses

Total expenses for 2021-22 were $475 million ($447 million). The main expenses were grants and subsidies of $408 million ($379 million), employee benefits of $39 million ($40 million) and supplies and services of $18 million ($18 million), which collectively account for 98% (98%) of total expenses.

### Grants and subsidies

#### *Funding to TAFE SA*

Grants and subsidies to TAFE SA totalled $236 million ($231 million) for 2021-22. The chart below shows that funding to TAFE SA decreased in 2019-20 and 2020-21, increasing by $5 million in 2021-22.




The amounts shown in the chart include a number of elements. While, as discussed below, funding arrangements with TAFE SA have changed over recent years, funding generally covers specific course delivery, structural support, capital grant funding and other funding.

DIS is the predominant funder of TAFE SA as a purchaser of TAFE SA services.

In a 2019-20 memorandum of administrative arrangement (MoAA), DIS agreed to provide a set level of funding to TAFE SA in monthly instalments. Previous MoAAs split funding between amounts linked to the completion of specific training and other, more general, categories of funding. The total funding provided to TAFE SA in 2019-20 was fixed, regardless of the actual number of training hours delivered.

In 2020-21 the initial MoAA for funding TAFE SA commenced in July 2020. It was similar to the 2019-20 MoAA in that TAFE SA received a set amount of non-recourse funding to be allocated over 12 months. However an adjustment would be made for 2020-21 if TAFE SA did not complete the required level of activity in certain areas.

In 2021-22, funding arrangements changed again. The MoAA, signed in September 2021, noted that TAFE SA would receive a total of $211 million made up of:

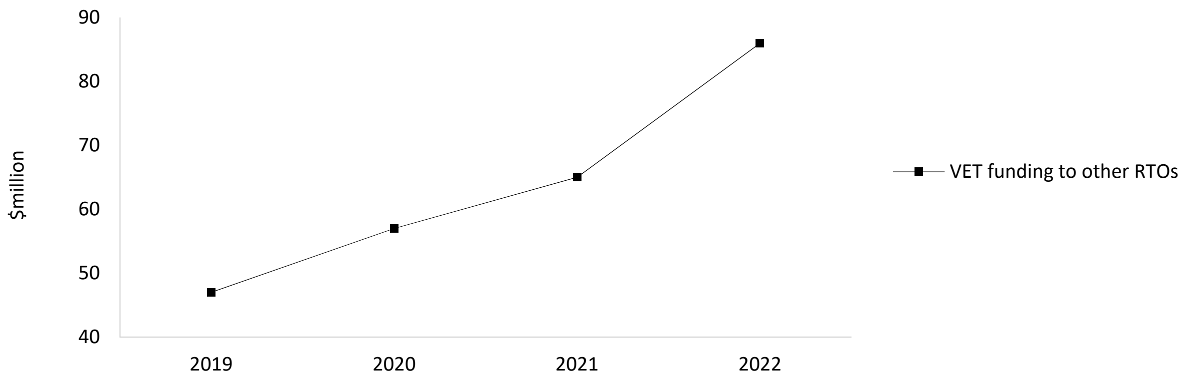
- fixed monthly payments from the purchaser, DIS, from 1 July 2021 to 31 December 2021
- payments from the purchaser for services delivered from 1 January 2022 to 30 June 2022
- specific funding from the Minister for Education during the term for replenishing working capital
- residual funding from the Minister for Education.

An amendment to the MoAA signed in February 2022 increased the total receivable by TAFE SA to $212 million.

Total funding received under this MoAA was $212 million. TAFE SA also received a further $24 million under a separate MoAA for capital funding.

### Other VET funding

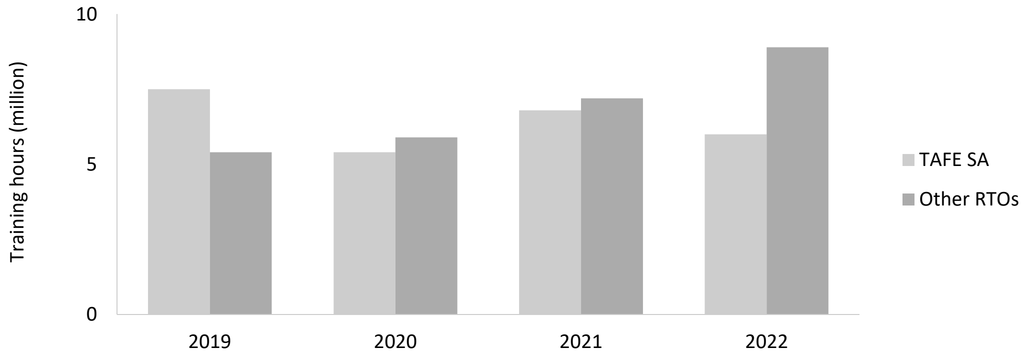
DIS also provides VET funding to other RTOs. The chart below shows the amounts provided for the last four years.




Funding to other RTOs has increased by $39 million since 2019, including a $21 million increase in 2022. The increases mainly reflect increased funding as a result of an increase in paid training hours from 4.4 million hours in 2017-18 to 8.9 million hours in 2021-22. The increase in 2021-22 includes additional funding provided by the Commonwealth and State Governments under the Skilling South Australia and JobTrainer initiatives.

Training subsidy prices also increased over this time due to indexation and subsidy price reviews.

The following chart shows the number of training hours funded by DIS over the past four years, split between TAFE SA and other RTOs.




Source: Data on the number of specifically funded/allocated training hours was provided by DIS and is unaudited. This data only includes hours for TAFE SA for activities specified in the MoAA.

The chart shows that total funded training hours decreased from 2019 to 2020, reflecting decreased subsidised training payments, before increasing again in 2021 and 2022.

There was an overall 900,000 hour (6%) increase in funded training hours in 2021-22, with an increase of 1.7 million training hours for other RTOs and a decrease in specific TAFE SA training hours of 800,000 hours.

A breakdown of training commencements, based on unaudited data provided by DIS, over the last two years is outlined below.

| | Training commencements | |
|---|---|---|
| | 2022 | 2021 |
| Funding source | Number | Number |
| JobTrainer* | 9,660 | 5,822 |
| Skilling South Australia | 16,774 | 19,408 |

* JobTrainer commenced in October 2020 and commencements are predominantly in July and February.

### *Other grants*

Other major categories of grants include innovation and science grants of $32 million ($28 million), creative industries grants of $29 million ($10 million) and other skills and employment grants of $24 million ($44 million). These grants generally include specific milestones or deliverables.

Innovation and science grants included payments of:

- $6.8 million from the Research and Innovation Fund to support business collaboration with researchers and universities, to commercialise products and support start-ups
- $6.3 million to help fund the National Collaborative Research Infrastructure Strategy. This is a Commonwealth Government project that helps researchers access new national research infrastructure. The project is led by organisations including universities, publicly funded research organisations and private companies
- $2.4 million to support the Royal Institution of Australia, an independent charity dedicated to connecting people with science
- $2.3 million for rental subsidies related to accommodation at Lot Fourteen.

Creative industries grants included payments to the South Australian Film Corporation of:

- $9.2 million to fund its operations
- $9 million under the post-production, digital and visual effects rebate.

Other skills and employment grants included payments of $16.9 million to businesses, groups and training providers under the Skilling South Australians scheme, associated with increasing opportunities for traineeships and apprenticeships.

### Employee benefits expenses

Employee benefits expenses decreased by $1.5 million to $38.6 million in 2021-22, mainly due to a reduction in 28 FTEs compared to 2020-21.

### Supplies and services

Supplies and services of $18 million mainly consisted of:

- accommodation and property costs of $5 million
- contractor costs of $4.7 million
- ICT charges totalling $4.2 million.

### Statement of Financial Position

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

| | 2022 $million | 2021 $million |
|---|---|---|
| **Assets** | | |
| Cash | 128 | 50 |
| Property, plant and equipment and intangibles | 29 | 36 |
| **Liabilities** | | |
| Payables | 21 | 13 |
| Employee benefits | 10 | 13 |
| Financial liabilities | 10 | 13 |

Cash increased by $78 million primarily due to $75 million in net cash provided by operating activities in 2021-22. The increases were mainly due to Commonwealth and SA Government and funding for JobTrainer, with these amounts mostly expected to be spent in future years.

DIS also received $4.1 million in capital contributions in 2021-22, partially offset by purchases of property, plant and equipment and intangibles of $1.1 million.

The $7 million decrease in property, plant and equipment and intangibles in 2021-22 mainly reflects depreciation and amortisation expense of $4.5 million.

## Further commentary on operations

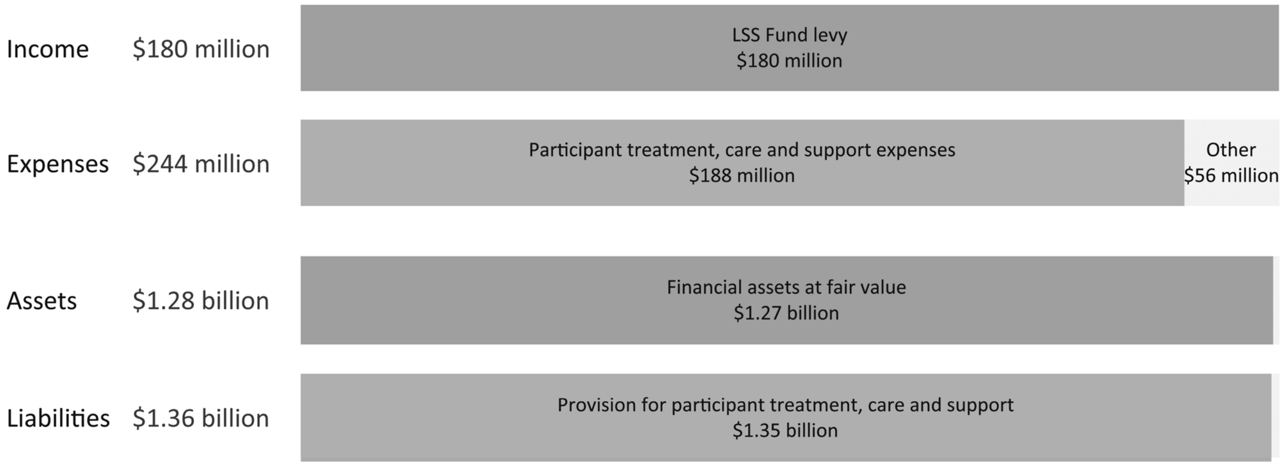
### Machinery of government changes

Effective from 1 July 2022:

- the title of the Department for Innovation and Skills was altered to the Department for Industry, Innovation and Science
- the Skills Planning and Purchasing, Traineeship and Apprenticeship Services, Skills Policy Reform, and Analytics and Information Systems functions were transferred to the Department for Education
- the Industry Capability Network SA and International Education (including StudyAdelaide) functions were transferred from the Department for Trade and Investment.

# Lifetime Support Authority of South Australia (LSA)

## Financial statistics




**95**
FTEs

**300**
Participants as at 30 June 2022

**93.7%**
Funding ratio

## Significant events and transactions

- The provision for the future cost of caring for current participants increased by $154.7 million to $1.35 billion.
- The fair value of investments increased by $92.3 million to $1.27 billion.
- At 30 June 2022 the Lifetime Support Scheme (LSS) was partly unfunded, with net liabilities of $85.7 million. The LSS has a funding ratio of 93.7%, exceeding its minimum target of 75%.
- The total number of participants increased from 274 to 300.

## Financial report opinion

**Unmodified**

An emphasis of matter was included in the financial report opinion relating to significant inherent uncertainty surrounding the estimate of the provision for participant treatment, care and support services, because of the long-term nature of the provision and limited participant experience to date.

## Audit findings

No significant findings.

# Functional responsibility

The LSA is established under the *Motor Vehicle Accidents (Lifetime Support Scheme) Act 2013* (the LSS Act).

The LSA administers the Lifetime Support Scheme (LSS or the Scheme) and the LSS Fund established by the LSS Act to support people who suffer very serious injuries in motor vehicle accidents in South Australia, regardless of fault. A person can be accepted as an interim or lifetime Scheme participant depending on their eligibility under the LSS rules.

### Lifetime Support Scheme Fund

Levies on motor vehicle registrations to pay for the Scheme expenses are collected by the Registrar of Motor Vehicles and paid into the LSS Fund. The LSA invests the levies with the Superannuation Funds Management Corporation of South Australia (Funds SA) until the funds are needed to pay for participant treatment, care and support and other costs of operating the Scheme.

# Scope of the audit

### Audit of the financial report

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

Specific areas of attention in 2021-22 included:

- expenditure related to participant treatment, care and support services
- the provision for treatment, care and support services
- investment revenue
- payroll and other administrative expenses
- financial assets
- general ledger.

We considered internal audit activities in planning and conducting the audit.

### Controls opinion

We reviewed controls over bank accounts and the provision for participant treatment, care and support as part of our overall controls opinion, which is discussed in Part B of this Report.

# Audit findings

### Auditor's report on the financial report

The following is an extract from the Independent Auditor's Report issued for the LSA's 2021-22 financial report, which is unmodified but notes a significant inherent uncertainty relating to the provision for participant treatment, care and support services.

***Opinion***

*In my opinion, the accompanying financial report gives a true and fair view of the financial position of the Lifetime Support Authority of South Australia as at 30 June 2022, its financial performance and its cash flows for the year then ended in accordance with relevant Treasurer's Instructions issued under the provisions of the* Public Finance and Audit Act 1987 *and Australian Accounting Standards.*

***Emphasis of matter***

*Without qualification to the opinion expressed above, attention is drawn to note 7.3 of the financial report. There is a significant uncertainty surrounding the estimate of the provision for participant treatment, care and support services because of the long-term nature of the provision and limited participant experience to date.*

### Communicating our audit findings

We communicated our audit findings in a management letter to the Chief Executive. There were no major findings.

## Interpretation and analysis of the financial report

### Highlights of the financial report*

| | 2022<br>$million | 2021<br>$million |
|---|---|---|
| **Income** | | |
| LSS Fund levy | 180 | 169 |
| Investment revenue | - | 215 |
| **Total income** | 180 | 383 |
| | | |
| **Expenses** | | |
| Participant treatment, care and support expenses | 188 | 617 |
| Duty on LSS Fund levy | 18 | 17 |
| Investment losses | 18 | - |
| Other | 20 | 19 |
| **Total expenses** | 244 | 653 |
| **Net result from operating activities** | (64) | (270) |
| | | |
| **Total comprehensive result** | (64) | (270) |
| | | |
| Net cash provided by (used in) operating activities | 111 | 109 |
| Net cash provided by (used in) investing activities | (111) | (116) |
| | | |
| **Assets** | | |
| Current assets | 5 | 5 |
| Non-current assets | 1,271 | 1,179 |
| **Total assets** | 1,276 | 1,184 |

| | 2022 $million | 2021 $million |
|---|---|---|
| **Liabilities** | | |
| Current liabilities | 53 | 46 |
| Non-current liabilities | 1,309 | 1,160 |
| **Total liabilities** | 1,362 | 1,206 |
| **Total equity** | (86) | (22) |

* Table may not add due to rounding.

## Statement of Comprehensive Income

### Net result

The LSA made a loss of $63.7 million ($270 million loss), largely reflecting:

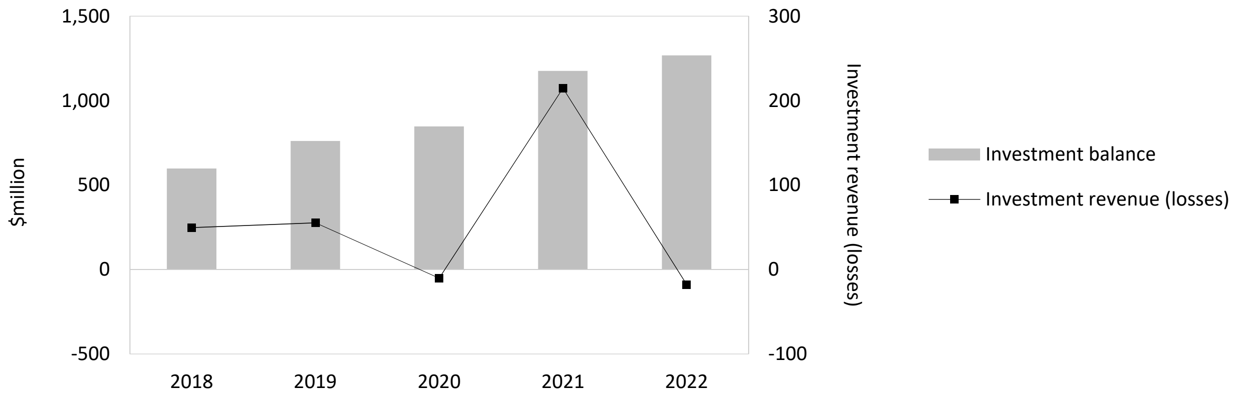
- revenues from the LSS Fund levy of $179.7 million
- LSS costs of $243.5 million, including a $154.7 million increase in the provision for participant treatment, care and support services
- an investment loss of $17.7 million ($214.8 million gain).

The LSA's net result depends significantly on the interdependence between the LSS Fund levy set before the start of the year and the movement in the provision for the cost of participant treatment, care and support services determined at the end of the year. Both the levy and the provision are determined using reports prepared by an independent actuary appointed by the LSA (see 'Liabilities' and 'Required fund contribution' below).

### Income

The LSA's income of $179.8 million ($383.4 million) mainly comprised the LSS Fund levy on South Australian motor vehicle registrations of $179.7 million ($168.5 million). No GST is payable on the levy.

The following chart shows the revenues and losses from investments and the investment balance over the five years to 2022. The LSA recognised a $17.7 million investment loss for 2022, following a $214.8 million gain in the prior year.

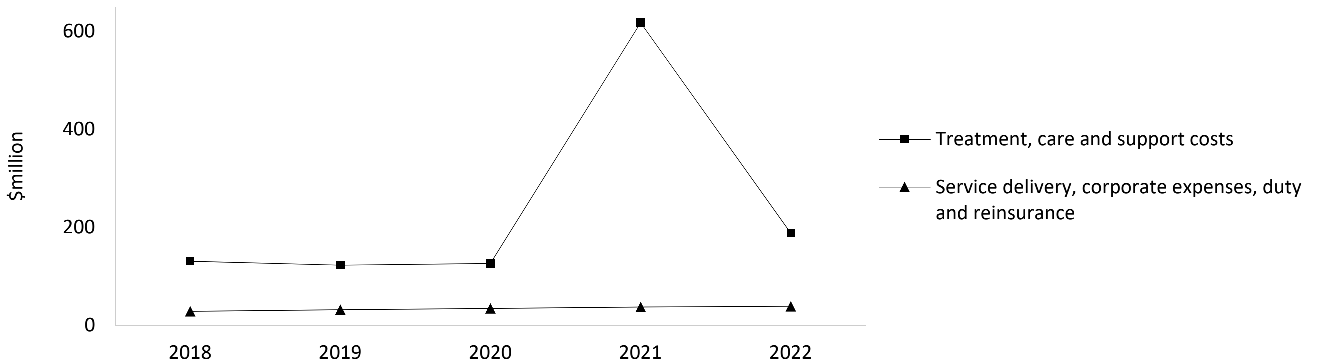



### Expenses

The LSA's expenses of $243.5 million ($653.4 million) comprised:

- $187.7 million ($616.8 million) for participant treatment, care and support expenses, of which $154.7 million was the increase in the estimate of future expenses for participants injured in motor vehicle accidents up to 30 June 2022. This increase was mainly due to the addition of another year of claims
- $17.8 million ($16.7 million) paid to the SA Government for the 11% duty on the LSS Fund levy payable under the *Stamp Duties Act 1923*
- a $17.7 million investment loss ($214.8 million gain). This reflected the weak investment returns from both domestic and international financial markets
- $3 million ($2.9 million) for premiums paid to reinsurers who provide cover for significantly larger than expected liabilities for estimated future participant care costs
- $17.3 million ($17 million) for general operating expenses, including $11.8 million ($9.7 million) for employee benefits, $3.5 million ($3.4 million) for service delivery and corporate expenses and $876,000 ($3.1 million) for research, education and programs.

The following chart shows the costs of participant treatment, care and support and the operational expenses that the LSA incurs in the ongoing administration of the Scheme. Note that participant treatment, care and support expenses include the expense recognised each year for the movement in the provision. The significant increase in costs for 2021 was driven by the $590.8 million increase in the provision for that year, resulting from the move to risk-free discount rates (see 'Provision for participant treatment, care and support services' below).




## Statement of Financial Position

The LSA's financial position depends significantly on the value of its investments exceeding the provision for participant treatment, care and support services. In 2022 total liabilities of $1.36 billion exceeded the LSA's total assets of $1.28 billion, a net deficiency of $85.7 million.

### Assets

The LSA's assets of $1.28 billion ($1.18 billion) consist mainly of cash, investments and receivables. During the year additional funds totalling $110 million were invested with Funds SA.

#### Investments

At 30 June 2022 the LSA had $1.27 billion invested with Funds SA in line with the LSS Fund investment strategy approved by the LSA Board, an increase of $92.3 million from 2021.

The LSA must maintain investments to fund its present and likely liabilities for participant treatment, care and support services. Its investment strategy takes into account its current risk appetite and the need to match investment returns to the long-term nature and timing of payments associated with the needs of Scheme participants.

The LSA's investments with Funds SA earned a nominal return of -1.2% in 2021-22 compared to its target of 6.25%. Investment returns reflect financial markets conditions. In 2021-22 investment returns were weak due to volatile financial markets and mostly negative returns over the year. The following table shows the return from investments over the last five years.

| | 2018 | 2019 | 2020 | 2021 | 2022 |
|---|---|---|---|---|---|
| Target investment return | 6.25% | 6.25% | 6.25% | 6.25% | 6.25% |
| Actual investment return | 9.4% | 8.2% | -1.0% | 23.7% | -1.2% |

## Liabilities

The LSA's liabilities of $1.36 billion consist mainly of the provision for participant treatment, care and support services.

### Provision for participant treatment, care and support services

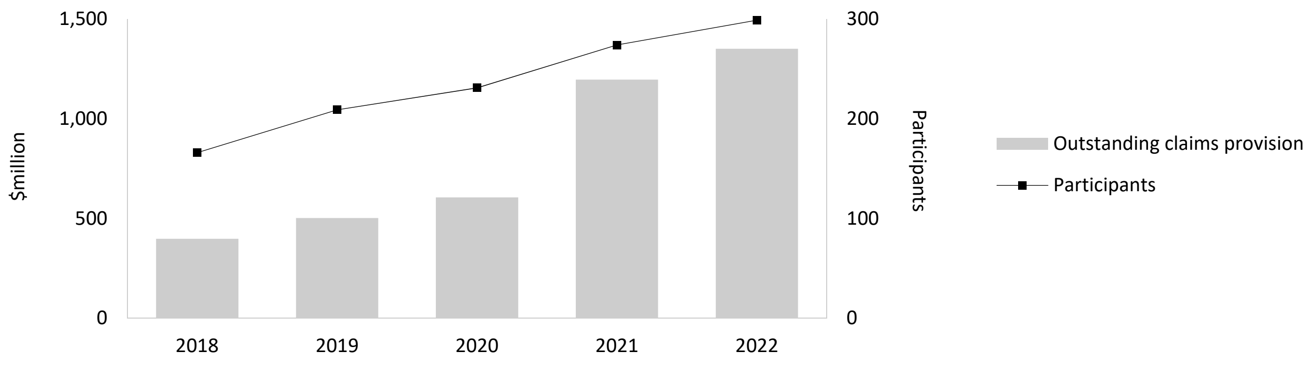
The provision was estimated to be $1.35 billion at 30 June 2022, an increase of $154.7 million.

The main reasons for the increase are:

- movements in actuarial assumptions, including revised mortality assumptions, which increased the provision by $257.2 million
- an additional year of participants entering the Scheme, which increased the provision by $250.5 million
- changes in economic assumptions, notably the risk-free discount rate and inflation expectations.

Note 7.3 of the LSA's financial report provides further details about the provision, including the key economic assumptions used when estimating it.

The following chart highlights the consistent growth in the outstanding claims provision up until 2020, followed by the significant increase in 2021 as a result of adopting risk-free discount rates. The decision by LSA to move to risk-free economic assumptions aligns its valuation basis to other lifetime care schemes, such as the NSW Lifetime Care and Support Scheme and Queensland's National Injury Insurance Scheme, which have all now moved to risk-free discount rates. It also prepares LSA for the change to AASB 17 *Insurance Contracts* in July 2025, which mandates the use of risk-free discount rates. The chart also shows the consistent growth in the total number of participants over the last five years.



The LSA appointed an independent actuary to estimate the liabilities of the Scheme, measured as the present value of the expected future payments for claims incurred up to 30 June 2022, including claims incurred but not yet reported. The LSA Board approved the valuation prepared by the actuary after also considering the report from a peer review actuary.

Information relating to the actuarial estimation is provided in note 7.3 of the LSA's financial report.

### Significant inherent uncertainty in the provision

The LSA's actuary report refers to the considerable uncertainty in the future claim costs, particularly for long-term claims and the provision of attendant care benefits.

The main areas of uncertainty identified in the current estimate were:

- the adequacy of benchmark packages for defining the lifetime care and support needs of participants
- future inflation levels for the provision of services, especially increases in attendant care hourly rates
- future levels of returns on Commonwealth bonds, which inform the discount rates applied
- the future severity of traumatic brain injury participants
- future life expectancy and changes to the types of support required leading up to end of life.

The LSA's actuary report identified material financial risks to the Scheme as follows:

- Attendant care cost pressures – maximum rates offered by the National Disability Insurance Scheme (NDIS) are currently higher than those gazetted by the LSA. If the LSA is forced to match NDIS rates, it will result in an increase in the provision.
- Supported accommodation – participants moving into supported accommodation generally results in much higher costs. If there is a shift towards more participants moving into supported accommodation, it will result in an increase in the provision.
- Inherent uncertainty of long-term estimates – seriously injured participants may require care for several decades or longer. The estimates for this will be uncertain and subject to change in line with emerging experience.
- Economic conditions – while the Scheme can operate through periods of temporary volatility, there is no guarantee that investments will deliver the anticipated long-term returns, or that those returns will keep pace with claims inflation.
- Number of participants – any erosion of the eligibility criteria, including that arising from disputes, may put financial pressure on the Scheme.

In estimating the liability at 30 June 2022 the actuary noted that, even with eight years of history, the very long-term nature of providing care and support for those seriously injured in motor vehicle accidents mean that the material uncertainty in the provision estimate remains.

The sensitivity analysis in note 7.3 of the LSA's financial report illustrates that relatively small changes to key assumptions in the estimate can result in changes in the order of many millions of dollars. For example, an increase in attendant care rates to match the NDIS can increase the provision by $51.7 million and a 1% decrease in the discount rate can increase the provision by $323.1 million.

Note 7.3 of the LSA's financial report also indicates the time frame over which it must manage claims. The uninflated, undiscounted weighted mean term is 21.8 years.

### Independent reviewing actuary

The LSA had the actuarial estimate reviewed by an independent reviewing actuary, who noted that the valuation results were reasonable in the circumstances and early development of the Scheme.

Having an independent reviewing actuary is prudent given the long-term purpose of the Scheme and the critical role actuarial expertise has in setting the levy annually and estimating the outcome at the end of each year.

### The Scheme is not an insurance scheme

The LSA determined the provision under AASB 137 *Provisions, Contingent Liabilities and Contingent Assets* and not AASB 1023 *General Insurance Contracts*. The latter is more prescriptive in the permitted choice of the discount rate (rate of investment return) to be adopted in deriving the present value of liabilities. The LSA is now using a discount rate consistent with AASB 1023. The discount rate used in 2022 was 3.92% compared to 2.6% in 2021.

### AASB 17 *Insurance Contracts*

The AASB is currently consulting on expanding the scope of AASB *17 Insurance Contracts* to include schemes like the LSS. If this occurs, the LSA may have to comply with AASB 17 from 1 July 2025. The LSA has estimated that adopting AASB 17 would increase the provision for participant treatment, care and support as at 30 June 2022 by about $300 million at 75% probability of adequacy. Note 9.3 of the LSA's financial report provides further information about this.

### Fund assets adequacy

As at 30 June 2022 the fund assets adequacy for the LSS was estimated at 77% (92%), which is the probability that the Scheme will be able to meet its future payment obligations in a run-off situation, assuming a long-term investment return of 6.25%. The LSA Board has historically targeted Scheme assets to be in excess of Scheme liabilities by a margin that results in fund assets adequacy of at least 75%.

### Current liabilities

At 30 June 2022 current liabilities exceeded current assets by $47.7 million. Most of the balance of current liabilities is the $44.1 million provision for participant treatment, care and support services. The LSA can access funds from its Funds SA investments if required.

### Required fund contribution – LSS levy

The LSA must determine, before the beginning of each financial year, an amount it considers is required to be contributed to the LSS Fund to meet expenses for the period. This amount is to:

- fund the present and likely future liabilities for participants who enter the Scheme in the period
- meet payments from the LSS Fund that exceed previously provided amounts estimated
- pay stamp duties

- provide for other matters in connection with any LSA liability under the LSS Act, including paying for any past liability that would otherwise be unfunded.

That determination is made in line with a report from an independent actuary engaged by the LSA. The LSA must report its determination to the Minister before the beginning of each financial year.

The Minister must, on receiving the report and taking into account such matters as the Minister thinks fit (including matters not covered by the report) and after consulting the Treasurer, determine an amount to be paid to the LSA for contribution to the LSS Fund for the relevant period (the required fund contribution).

If the Minister makes a determination that is inconsistent with the LSA's determination, the LSA must report that in its annual report.

Setting levies at an appropriate level is critical to the LSS. If break-even levies are charged each year, and if all underlying assumptions used to set the levy eventuate, the LSS will always be fully funded. If the levy is set too low each year, liabilities will exceed assets, causing the LSS to be underfunded.

### Annual contribution and levy

The estimated levy of $174.9 million including duty was required to cover the costs of operating the Scheme in 2021-22 and the probable liability increase at 30 June 2022.

The table below sets out the required fund contribution and levy for the past two years and for next year.

| | 2021 | 2022 | 2023 |
|---|---|---|---|
| Required fund contribution: | | | |
| LSA recommended ($million) | 163.3 | 174.9 | 188.8 |
| Minister approved | Yes | Yes | 184.1 |
| Average levy ($) | 108.50 | 113.32 | 116.51 |
| Average increase per vehicle over previous year ($) | 1.82 | 4.82 | 3.19 |

As the table highlights, the Minister determined an amount to be paid to the LSA that was different to the amount that the LSA recommended. As required by the *Motor Vehicle Accidents (Lifetime Support Scheme) Act 2013*, the LSA must report this in its 2021-22 annual report.

The actuary's estimates used to set the levy are, as with the estimated provision, sensitive to the number of LSS participants and the severity of their injuries. Small changes in these numbers can impact the estimate significantly.

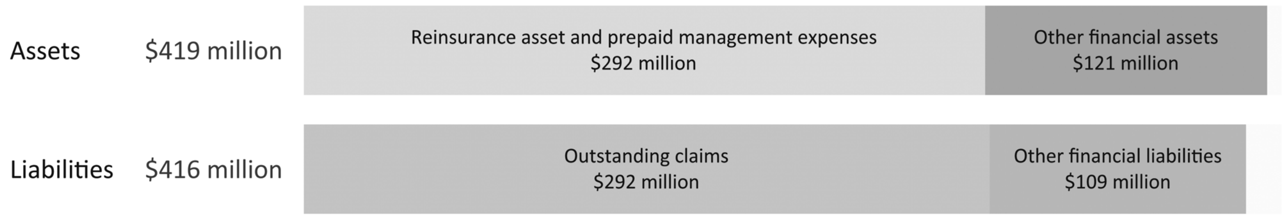
The estimated 2022-23 levy was based on an actuarial estimate as at 31 December 2021.

## Statement of Cash Flows

The Statement of Cash Flows reflects the investment of $110 million with Funds SA using the LSS Fund levy of $179.6 million. The LSA will use these investments to meet the costs of treatment, care and support services over the life of the Scheme participants.

# Motor Accident Commission (MAC)

## Financial statistics (Consolidated)




$10.3 million
Return of capital

MAC Fund assets were below the targeted solvency level by $349,000 (99.9% of the targeted level)

| | |
|---|---|
| **Significant events and transactions** | — 2021-22 saw a $125 million decrease in the outstanding claims liability, mainly reflecting claim payments and that no new policies have been issued since 1 July 2016.<br>— MAC paid $10.3 million to the Consolidated Account in June 2022 as a return of capital. |
| **Financial report opinion** | **Unmodified** |
| **Controls opinion findings** | A contract management plan for the National Indemnity Company (NICO) reinsurance arrangement had not been finalised. |

## Functional responsibility

MAC is established under the *Motor Accident Commission Act 1992* (MAC Act).

MAC's main function is to manage the run-off of claims against compulsory third party (CTP) insurance policies issued to motor vehicle users in South Australia before 1 July 2016.

From 1 July 2019:

- MAC's administration is performed by the South Australian Government Financing Authority (SAFA)
- the MAC Board is comprised of Department of Treasury and Finance staff.

### Reinsurance of MAC's remaining outstanding claims liability

In December 2018 MAC entered into a reinsurance arrangement with NICO, a subsidiary of Berkshire Hathaway. Under the contract, NICO assumed responsibility for the settlement and management of MAC's remaining outstanding claims liability at 1 January 2019, which had a value of $756 million.

MAC agreed to pay NICO $718 million through a combination of an initial payment and subsequent arrangements for assuming this responsibility.

The only remaining amount to be paid to NICO under the reinsurance arrangement is a $113 million payment due in January 2024. This comprises $100 million retained by the State for five years to support local fund managers and $13 million in related interest that will be due to NICO.

This reinsurance arrangement reduces the State's risk as the cost of settling claims now lies with NICO. The arrangement is designed to provide certainty to the State, subject only to satisfactory contract performance by NICO. If claims settle for more than the amount estimated at 1 January 2019, the additional cost will be borne by NICO. In the same way, should NICO be able to settle claims more favourably than expected in the January 2019 valuation, it will benefit from the reduced cost.

As the contract with NICO is a reinsurance arrangement, meaning that claims are still in MAC's name, the outstanding claims will remain on MAC's statement of financial position until they are extinguished, with an offsetting reinsurance receivable. Therefore MAC will need to maintain oversight of the outstanding claims liability to ensure claims are being managed and settled appropriately by NICO.

## Scope of the audit

### Audit of the financial report

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

Specific areas of audit attention in 2021-22 included:

- investment assets
- outstanding claims liability
- reinsurance asset
- return of capital.

### Controls opinion

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

- management of MAC's deposit account with the Treasurer
- management of the NICO reinsurance contract.

# Audit findings

## Communicating our audit findings

We communicated our audit findings in a management letter to the Chair of the MAC Board. The main finding and MAC's response is discussed below.

### Controls opinion findings

#### A contract management plan for the NICO reinsurance arrangement had not been finalised

For the last two years we have commented on the need for SAFA to establish a contract management plan for the NICO reinsurance arrangement. A plan clearly setting out how key contract risks and deliverables are being managed reduces the risk that contract management steps could be delayed or overlooked.

This year we noted that SAFA had started to draft a contract management plan, but it was not complete.

In response MAC advised us that the contract management plan will be finalised by October 2022.

# Interpretation and analysis of the financial report

## Highlights of MAC's consolidated financial report*

| | 2022<br>$million | 2021<br>$million |
|---|---|---|
| Net investment returns and fees | 7 | 7 |
| Management expenses | - | - |
| **Net result before market value movements** | 6 | 7 |
| Investment market value movements | (7) | 3 |
| **Total comprehensive result** | - | 10 |
| **Assets** | | |
| Current assets | 205 | 261 |
| Non-current assets | 214 | 296 |
| **Total assets** | 419 | 557 |
| **Liabilities** | | |
| Current liabilities | 84 | 129 |
| Non-current liabilities | 333 | 415 |
| **Total liabilities** | 416 | 544 |
| **Equity** | 3 | 13 |

* Table may not add due to rounding.

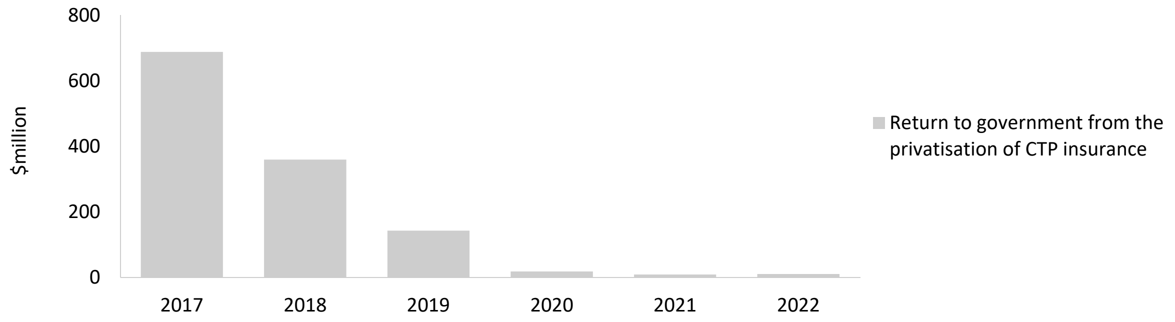
### Return of capital

Section 26(2) of the MAC Act provides that the Treasurer can direct MAC to make payments out of the surplus net assets of the MAC Fund. Since ceasing to be the sole CTP insurance provider for South Australia, MAC has returned surplus amounts to government each year. Payments were initially made to the Highways Fund, administered by the Department for Infrastructure and Transport, but payments since 2019-20 were made to the Consolidated Account.

MAC made a payment of $10.3 million in June 2022 ($9.3 million in June 2021) from the MAC Fund to the Consolidated Account, as approved by the Treasurer. These payments were made out of net assets in excess of the level required for sufficient solvency of the MAC Fund at the time of approval, and approved in line with the MAC Act.

As payments since 2019-20 were made from MAC's surplus net assets, they were treated as a return of capital in the financial report and recorded as a reduction in MAC's assets and total equity. As such, these payments are not reflected in MAC's total comprehensive results since 2019-20.

The following chart shows that a total of $1.2 billion has been returned to government by MAC in the last six years. The reinsurance arrangement with NICO discussed above means no more significant returns are expected.

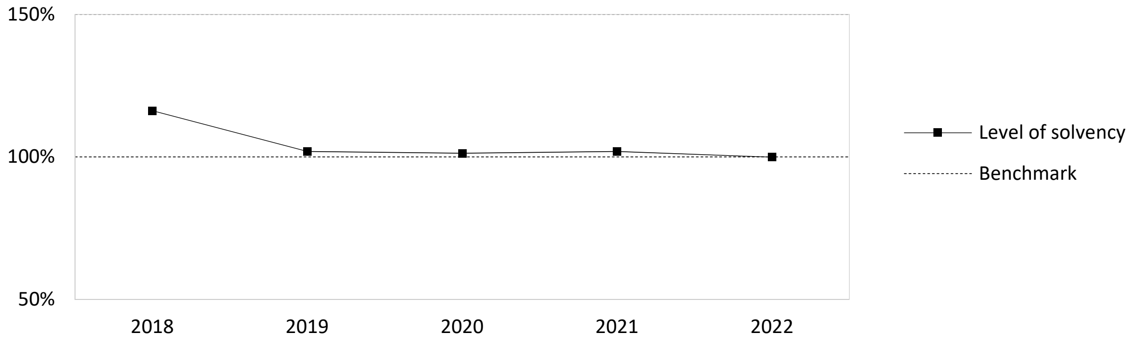



## Solvency level is below the target level

The MAC Act requires MAC to seek to achieve and maintain a sufficient level of solvency for the MAC Fund using a formula determined by the Treasurer. The formula issued by the Treasurer in December 2016 specifies that the MAC Fund will have a sufficient level of solvency if its assets exceed its liabilities.

As at 30 June 2022 the target level of solvency was $416.4 million and total assets were $416.1 million, $349,000 below the target level. This equates to 99.9% (101.9%) of the targeted solvency level. However, it is expected that the MAC Fund will be able to meet its liabilities as they fall due, as liabilities at 30 June 2022 include $12.8 million of non-cash liabilities, being deferred revenue.

The following chart shows the level of solvency achieved over the past five years.




The reinsurance arrangement now means that most of the risk associated with settling claims rests with NICO.

## Outstanding claims liability

MAC's liability for outstanding claims is from the period before 1 July 2016, totalling $292 million at 30 June 2022. The liability covers claims reported but not yet paid, claims incurred but not yet reported, the anticipated costs of settling those claims and other insurance costs.

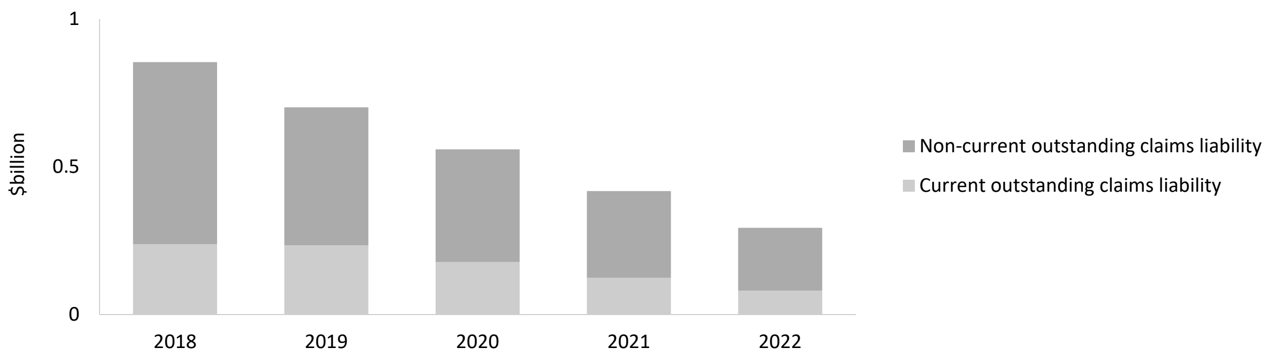
As noted above, while MAC entered into a full reinsurance arrangement with NICO from 1 January 2019, it still remains legally liable for outstanding claims and the liability. This liability, along with the offsetting reinsurance asset, will continue to be valued and recognised in MAC's financial statements until they are extinguished.

The annual 30 June MAC valuation does not affect the risks and benefits set out in the contract with NICO.

Calculating the liability is an estimation process and a range of factors, including economic assumptions, affect it. As a result, professional actuaries need to perform the calculation and, for reporting purposes, detailed disclosure of the assumptions needs to be included in the notes of the financial report.

In 2021-22 MAC's independent actuary was Finity Consulting Pty Ltd (Finity), consistent with the previous year. Full details of the actuary's calculations and assumptions are provided in note 11 of MAC's financial report.

The following chart shows the outstanding claims liability for the five years to 2022, with the continuing decrease a reflection of the run-off process since 1 July 2016.




Factors considered by the actuary that impact the estimate of outstanding claims include:

- the number of claims incurred
- the length of time taken to settle the claim
- the average amount of claim payments
- the inflation and discount rates used.

The outstanding claims liability consists of the 'old scheme' for claims prior to 1 July 2013, and the 'new scheme' for claims from that date to 30 June 2016. Legislative reform from 1 July 2013 changed scheme entitlements and, as a result, the two schemes are considered separately by Finity.

The new scheme introduced thresholds for economic and non-economic loss and placed caps on legal fees. Compensation for non-economic loss under the new scheme is based on a severity of injury scale, with an indexed maximum cap on damages.

Examples of the potential impact of changes to these assumptions are included in MAC's financial report. Some are shown in the table below.

| | Impact on provision % | Financial impact $million |
|---|---|---|
| Average size of attritional claims increases by 15% (old scheme) | 2.1 | 6 |
| Cost of attritional claims deteriorates by 5% per half year over the next two years (new scheme) | 4.8 | 14 |
| Above case estimates are overstated by 20% (new scheme) | 5.5 | 16 |

## The risk margin achieves 80% probability the provision is adequate

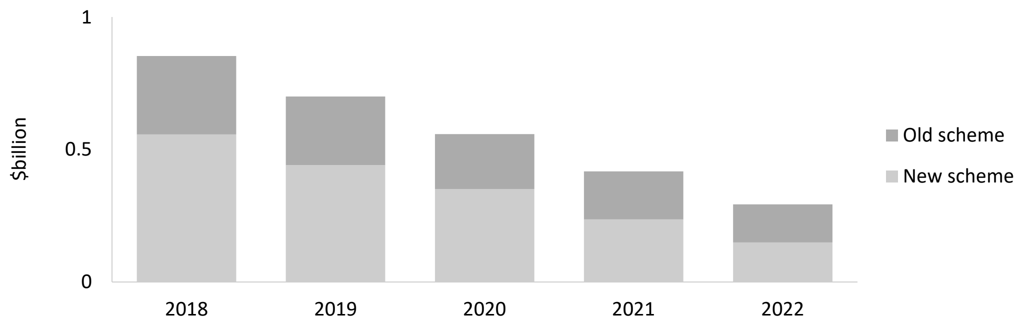
Also impacting on the outstanding claims liability calculation are the solvency requirements determined by the Treasurer under the MAC Act, which require a risk margin to be included in the provision to achieve an 80% probability the provision is adequate. This requirement exceeds the Australian Prudential Regulation Authority's nominated target of 75% probability, as set out in Prudential Standard CPS 320 *Actuarial and Related Matters*.

## $125 million reduction in the outstanding claims liability

The $125 million decrease in the liability at 30 June 2022 was mainly due to:

- an $81 million decrease due to a reduced number of expected future claim payments. This reflects payments made to settle claims and changes to estimates of future payments based on claims experience
- a $9 million reduction in the risk margins, following claim payments and decreases in expected future claims
- offset by a $25 million reduction in the discount to present value due to claims being a year closer to expected settlement.

The chart below shows the proportion of outstanding claims for the old and new schemes for the last five years.




As at 30 June 2022, CTP claims under the new scheme represented 51% (57%) of the outstanding claims liability. Claim numbers and values have so far been lower than expected under the new scheme and the outstanding claims liability calculation has therefore been adjusted to reflect this.

While the higher proportion of new scheme claims has a role in reducing the outstanding claims liability, as expected after introducing scheme reform, there is a higher level of uncertainty about these claims due to the limited claims experience to date. Accordingly, MAC has included a higher risk margin for the new scheme compared to the risk margin applied to the older claims, increasing the estimated liability when calculating the outstanding claims liability.

## Estimated timing of the settlement of claims

The estimated timing of payments to settle claims is shown in the following table.

| Up to 1 year $million | 2-4 years $million | 5-9 years $million | 10-14 years $million | 15-19 years $million | Total $million |
|---|---|---|---|---|---|
| 80 | 90 | 78 | 36 | 7 | 291 |

## Reinsurance assets and prepaid claims handling expenses

As a result of the reinsurance arrangement entered into with NICO, MAC now also recognises reinsurance assets and prepaid claims handling expenses for an amount that offsets the balance of outstanding claims.

Given the nature of the arrangement with NICO, the reinsurance assets and prepaid claims handling expenses are revalued each year in the same way as the outstanding claims liability, as they fully offset it.

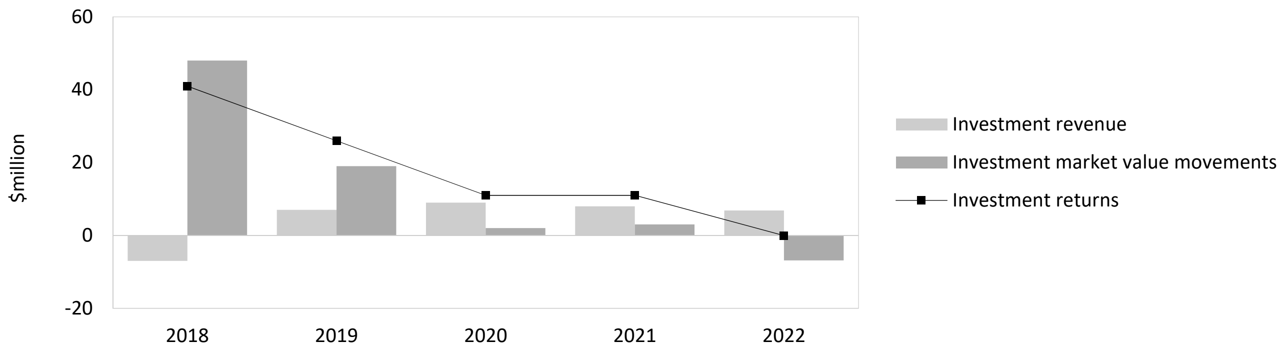
# Statement of Comprehensive Income

## Investment result

MAC uses the Superannuation Funds Management Corporation of South Australia, the SA Government's investment body, and two local fund managers to manage its investment portfolio. MAC holds investments in unit trusts with these fund managers. Its remaining investments mainly relate to the $100 million withheld from the NICO reinsurance arrangement that is scheduled to be paid to NICO in 2024.

MAC's investment returns this financial year resulted in a loss of $49,000 (surplus of $11 million). The investment result is a combination of investment revenue and investment market value movements, offset by fund management fees and direct operating costs.

MAC's investment result for the five years to 2022 is shown in the following chart.



In considering the impact of market movements on investments, it should be noted that the total invested has reduced significantly as a result of the reinsurance arrangement with NICO and associated payments.

### Total comprehensive result

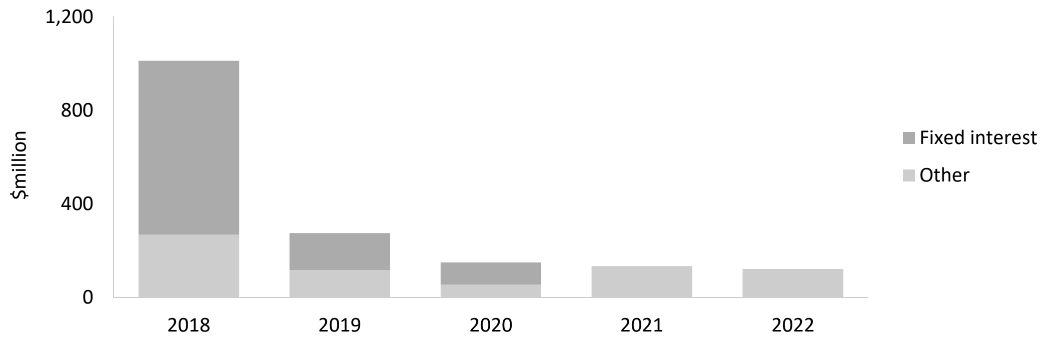
MAC's total comprehensive result for 2022 was a loss of $409,000 compared to a $10 million profit in the previous year.

## Statement of Financial Position

### Investments

MAC does not directly hold investments in equities or term deposits but rather holds units in pooled investment portfolios.

MAC's investment assets (excluding cash) for the five years to 2022 are shown in the following chart.

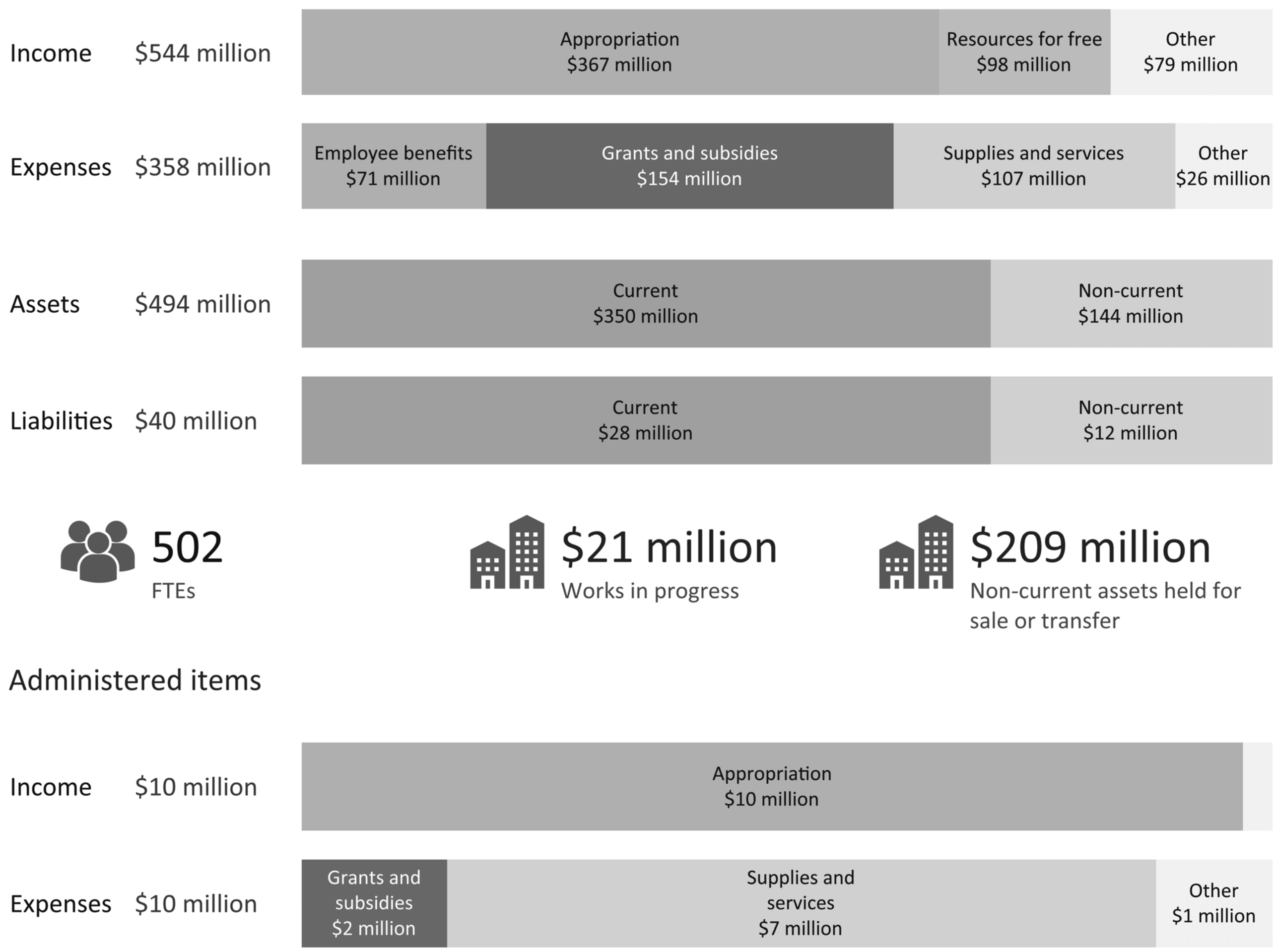



The chart shows a continued decrease in total investment assets, excluding cash, from $133.7 million in 2021 to $121.5 million in 2022. The decrease of $12.2 million in 2022 was principally due to:

- a $10.3 million return of capital
- a $6.9 million decrease in the market value of investments, offset by the reinvestment of $3.1 million of fund distributions.

# Department of the Premier and Cabinet (DPC)

## Financial statistics




## Significant events and transactions

— There was a change in government, with the new Premier sworn in on 21 March 2022.

— Additional appropriation was received in 2021-22 for the:

- Tarrkarri – Centre for First Nations Cultures project of $51.2 million
- Lot Fourteen Entrepreneur and Innovations Centre of $19 million
- Cultural Institution Collections Storage Facility of $12.1 million.

— $12.2 million was received from the Commonwealth Government for the development of the COVID-19 home quarantine app.

| | |
|---|---|
| | — $97.6 million of donated assets was received from the Department for Infrastructure and Transport (DIT) comprising:<br>• $91.5 million for the Adelaide Festival Plaza public realm, expected to transfer to other agencies in 2022-23<br>• $6 million for the Festival Plaza Car Park. This was subsequently transferred to the Urban Renewal Authority for $6 million.<br>— The SA Government approved the transfer of assets valued at $116.6 million to the Adelaide Festival Centre Trust, which will occur in 2022-23.<br>— The Adelaide 500 and Adelaide Motorsport Festival were re-established, with costs included in DPC's administered financial statements. The *South Australian Motor Sports (Miscellaneous) Amendment Act 2022* was proclaimed on 8 September 2022. It establishes the South Australian Motor Sport Board, which will be responsible for running these events. |
| **Financial report opinion** | **Unmodified** |
| **Controls opinion findings** | No significant findings. |
| **Other audit findings** | The annual State Active Directory (AD) security assessment identified that:<br>• the AD environment contains dormant administrative and user accounts<br>• DPC applies an inadequate account lockout duration and threshold. |

## Functional responsibility

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

DPC's responsibilities include providing specialist policy advice, supporting the Cabinet process, leading the implementation of the SA Government's strategic priorities and policy commitments, and providing a range of other government services. Further details are contained in note 1.2 of DPC's financial report.

DPC receives and passes on appropriation funding for a range of arts and cultural related government entities.

# Scope of the audit

## Audit of the financial report

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

Specific areas of audit attention in 2021-22 included:

- general ledger
- cash
- expenditure
- payroll
- grant expenditure
- corporate governance
- information technology governance controls – State AD.

We also reviewed DPC's:

- governance structures for the Lot Fourteen project
- implementation of and payments made under the SA Public Sector Workforce Rejuvenation Scheme
- procurement and contract management frameworks and governance arrangements to comply with Treasurer's Instruction 18 *Procurement*
- grant management framework and governance processes to determine whether grant outcomes were achieved.

We also considered the work of DPC's internal auditors in planning and conducting the audit.

## Controls opinion

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

# Audit findings

## Communicating our audit findings

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

### Controls opinion findings

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

## Other audit findings

### IT general controls review

#### *State Active Directory*

DPC governs the State AD and State Resource Directory environments. It runs an annual AD security assessment across these two environments.

DPC's annual 2022 security assessment identified the following weaknesses:

- the AD environment contains dormant administrative and user accounts managed by DPC
- DPC applies an inadequate account lockout duration and threshold.

DPC responded that it has:

- reduced the number of administrator accounts, and an external provider manages them
- configured the account lockout duration time to a minimal acceptable time and updated its policies accordingly.

# Interpretation and analysis of the financial report

## Highlights of the financial report – controlled items

| | 2022<br>$million | 2021<br>$million |
|---|---|---|
| **Income** | | |
| Appropriation | 367 | 261 |
| Sale of goods and services | 29 | 27 |
| SA Government grants, subsidies and transfers | 26 | 20 |
| Commonwealth and other grants | 16 | 7 |
| Resources received free of charge | 98 | - |
| Other income | 8 | 10 |
| **Total income** | 544 | 325 |
| | | |
| **Expenses** | | |
| Employee benefits expense | 71 | 55 |
| Grants and subsidies | 154 | 157 |
| Supplies and services | 107 | 79 |
| Cash transfer to the Consolidated Account | 6 | - |
| Depreciation and amortisation | 16 | 16 |
| Other | 4 | 4 |
| **Total expense** | 358 | 311 |
| **Net result** | 186 | 14 |
| | | |
| **Other comprehensive income** | | |
| Changes in property, plant and equipment asset revaluation surplus | - | - |
| | | |
| **Total other comprehensive income** | - | - |
| **Total comprehensive result** | 186 | 14 |

| | 2022<br>$million | 2021<br>$million |
|---|---|---|
| Net cash provided by (used in) operating activities | 106 | 33 |
| Net cash provided by (used in) investing activities | (40) | (15) |
| Net cash provided by (used in) financing activities | - | - |
| | | |
| **Assets** | | |
| Current assets | 350 | 77 |
| Non-current assets | 144 | 236 |
| **Total assets** | 494 | 313 |
| | | |
| **Liabilities** | | |
| Current liabilities | 28 | 32 |
| Non-current liabilities | 12 | 13 |
| **Total liabilities** | 40 | 45 |
| **Total equity** | 454 | 268 |

## Statement of Comprehensive Income

### Income

Total income for the year was $544 million, an increase of $219 million (67%) from the previous year.

The main increases in income in 2021-22 were:

- appropriation income, up $105.4 million (40%). In 2021-22 appropriation was received for:
  - Tarrkarri – Centre for First Nations Cultures project of $51.2 million
  - Lot Fourteen Entrepreneur and Innovations Centre of $19 million
  - Cultural Institution Collections Storage Facility of $12.1 million.

  Additional funding of $21.6 million was received from the Governor's Appropriation Fund, up from $545 000 in 2020-21
- resources received free of charge, up $97.5 million. This includes the following assets transferred from DIT:
  - $91.5 million for the Adelaide Festival Plaza public realm improvement
  - $6 million for the Adelaide Festival Centre car park transferred on completion of its construction. The car park was subsequently transferred to the Urban Renewal Authority
- Commonwealth-sourced grants, subsidies and transfers, up $8.8 million (123%) as $12.2 million of funding was received for the development of the COVID-19 home quarantine app. This was offset by a reduction in funding of $3.4 million for the Adelaide City Deal for Tarrkarri – Centre for First Nation Cultures
- SA Government grants, subsidies and transfers, up $6.4 million (33%) due to grant revenue received:
  - for COVID-19 support funding of $7 million
  - from the Jobs and Economic Growth Fund of $7.2 million
  - from the Business Case Fund for the digital government services strategic business case of $1 million

— from the Urban Renewal Authority of $1 million for the Lot Fourteen marketing and communications strategy.

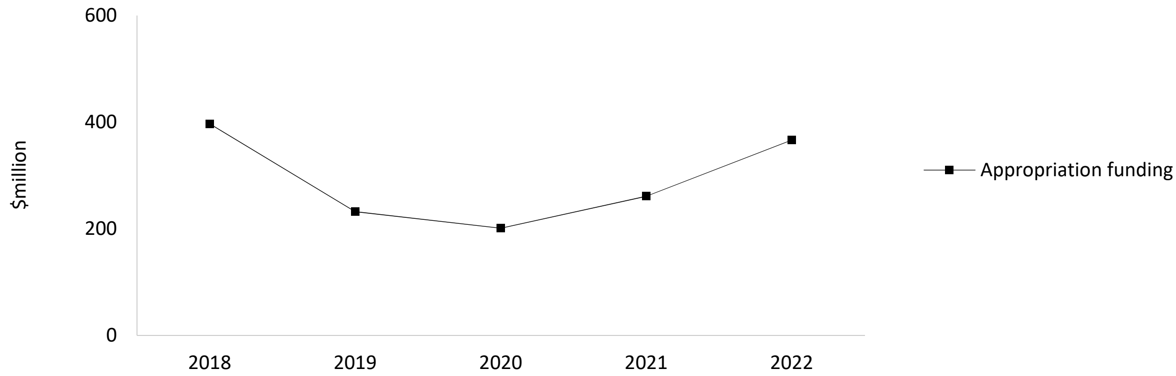
Most grant revenue received in 2020-21 was from the COVID-19 Support Fund

- sale of goods and services, up $2.3 million, mainly due to the recovery of costs from SA Health and the Victorian and New South Wales Governments for COVID-19 related applications.

## Appropriation funding

DPC's appropriation funding has varied markedly over the last five years, reflecting the different direct responsibilities it has had over that time. Significant machinery of government changes have previously resulted in DPC having more direct responsibility for areas including minerals and energy, Services SA and Shared Services SA, most significantly in 2018-19.

The following chart shows DPC's appropriation funding for the five years to 2022.




The reduction in appropriation funding in 2018-19 reflects responsibility for several areas transferring to other agencies from 1 July 2018, with DPC then taking on responsibility for Aboriginal Affairs and Reconciliation and Arts South Australia.

The increase in 2020-21 reflects the impact of the decision to directly fund DPC for the provision of ICT services to other government agencies.

The increase in 2021-22 reflects additional funding received for capital projects and additional appropriation received from the Governor's Appropriation Fund.

## Expenses

Total expenses for the year increased by $47.2 million (15%) to $358 million.

Employee benefits expense increased by $15.5 million (28%) and supplies and services by $27.9 million (35%).

The increase in employee benefits expense is due to:

- salaries and wages, up $7.5 million (18%) due to an increase in the number of employees, as additional employees were employed for data analytics, digital government and cyber security. There were also some cost recoveries for the development of COVID-19 related applications and systems, as noted under 'Income' above

- other employee-related expenses, up $2.8 million due to executive and ministerial staff termination payments.

The increase in supplies and services is due to:

- ICT charges, up $11.3 million (43%) due to the development of COVID-19 related applications and systems, and costs incurred to improve digital government services, cyber security resilience and electronic messaging, fixed transmission and cloud platform services across government
- contractors, up $10.1 million (151%) as contractors were engaged for the development of COVID-19 related applications and systems, as well as improving digital government services and cyber resilience projects.

Grants and subsidies decreased by $3 million (1.9%) to $153.7 million. The significant grant programs included:

- $113.3 million to major arts organisations to fund their operations
- $5.6 million in multicultural grants
- $5.2 million for Aboriginal Affairs and Reconciliation grants
- $5 million to minor arts organisations
- $4.2 million to the Convention Bid Fund
- $3.9 million to the Arts Recovery Fund
- $3.8 million to Local Economic Recovery.

The funding to major arts organisations mainly reflects annual funding to SA Government agencies. Out of the $153.7 million in total grant funding, $106.3 million (66%) was provided to the Libraries Board of South Australia, Adelaide Festival Centre Trust, Art Gallery Board, Museum Board, Adelaide Festival Corporation, South Australian Country Arts Trust, State Theatre Company of South Australia, State Opera of South Australia and Carrick Hill Trust.

In 2021-22 there was an increase in funding:

- to the Adelaide Festival Centre Trust operating and capital funding of $9.9 million (47%), mainly for income supplementation for the Adelaide Festival Centre closure during redevelopment works and for the Festival Plaza activation
- for multicultural grants of $2.8 million (101%) mainly for once-off funding to support culturally and linguistically diverse communities
- from the Convention Bid Fund of $1.4 million (53%) as additional events were held in 2021-22 as COVID-19 restrictions were relaxed.

There were offsetting decreases in grant funding:

- from the Arts Recovery Fund of $6.3 million (61%). These funds were used to fund and support individual artists, arts business and arts and cultural organisations, to assist the sector in managing its recovery from COVID-19 restrictions
- from the Local Economic Recovery Program of $4.5 million (54%). This program aims to boost local communities and industries most effected by the 2019 bushfires. Due to the delays in the delivery of assistance measures as a result of COVID-19, the program has been extended to 30 June 2024
- for the Ageing Well Initiative of $2.6 million, as this grant program ceased in 2020-21.

The cash transfer to the Consolidated Account of $6 million was the payment DPC received from the Urban Renewal Authority for the transfer of the Adelaide Festival Centre car park asset. This amount was subsequently paid to the Consolidated Account.

## Statement of Financial Position

Net assets increased by $186.3 million (69%) to $454.5 million.

### Assets

Total assets increased by $181.2 million (58%) to $494.4 million. The increase is mainly due to:

- cash, up $65.6 million. See commentary below for a further explanation of the increase in cash
- non-current assets classified as held for sale or transfer, up $208.1 million:
  - Land, buildings and improvements, plant and equipment, works of art and work in progress assets of $116.6 million relating to the Adelaide Festival Centre precinct are to transfer to the Adelaide Festival Centre Trust in 2022-23
  - $91.5 million of assets transferred from DIT for the Adelaide Festival Plaza public realm improvements are expected to be transferred to other government agencies
- intangible assets, up $1.6 million (11%) due to additions to work in progress of $6.1 million, mainly for the Government Services Portal project, offset by amortisation of $3.3 million
- property, plant and equipment, down $94 million (43%) mainly due to assets reclassified to assets held for sale or transfer of $116.6 million and deprecation costs of $12.6 million. These were offset by additions of $35.2 million, mainly to work in progress ($30.9 million) for the Tarrkarri – Centre for First Nations Cultures at Lot Fourteen and the Cultural Institutions Collection Storage Facility. In addition, $4.2 million of land was purchased for the Cultural Institution Collections Storage Facility.

### Liabilities

Total liabilities decreased by $5.1 million (11%) to $40 million. The decrease is mainly due to:

- payables, down $3.9 million (16%) mainly due to trade payables, down $3.7 million because outstanding invoices for capital projects as at 30 June 2021 were paid in 2021-22
- employee benefits liability, down $1.6 million (8%) mainly due to:
  - long service liability, down $1 million (8%) due to the increase in the Commonwealth bond yield rate used to calculate the liability to 3.5% from 1.25%, resulting in a decrease of $1.8 million, and long service leave paid on termination of $1.4 million. This decrease was offset by the addition to the provision of $1.7 million
  - accrued salaries and wages, down $1.4 million (87%) as no salaries and wages were accrued for the last pay in June 2022 because the final pay was processed to 1 July 2022.

### Statement of Cash Flows

Cash held at 30 June 2022 was $128.7 million, an increase of $65.6 million over the previous year. The increase was due to:

- net cash provided by operating activities of $105.7 million, an increase of $72.7 million from last year. The main components of this improvement were:
  - an increase in cash generated from operations of $120.2 million, mainly due to appropriations, up $105.4 million, receipts from Commonwealth-sourced grants, up $9 million, SA Government grants, subsidies and transfer, up $6 million and GST of $3.4 million recovered from the ATO. These were offset by decreases in sales of goods and services, down $1.9 million, and other receipts, down $1.7 million
  - offset by an increase in cash used in operations of $47.4 million, mainly due to employee benefits payments, up $15.7 million, payments to supplies and services, up $25.8 million, payment of grants and subsidies, up $1.1 million, and cash transferred to the Consolidated Account of $6 million
- offset by net cash used in investing activities, up $24.9 million due to purchases of property, plant and equipment being up by $34.9 million. Purchases of intangible assets were down by $4.1 million and $6 million of cash was received from the Urban Renewal Authority for the transfer of the Adelaide Festival Centre car park asset.

## Highlights of the financial report – administered items

| | 2022<br>$million | 2021<br>$million |
|---|---|---|
| **Administered income** | | |
| Appropriations | 10 | 10 |
| Commonwealth-sourced grants and funding | - | 1 |
| **Total administered income** | 10 | 11 |
| | | |
| **Administered expenses** | | |
| Grants and subsidies | 2 | 2 |
| Supplies and services | 7 | 7 |
| Other | 1 | 1 |
| **Total administered expenses** | 10 | 10 |
| **Net result** | - | 1 |
| | | |
| Net cash provided by (used in) operating activities | 2 | - |
| | | |
| **Assets** | | |
| Current assets | 42 | 40 |
| **Total assets** | 42 | 40 |
| | | |
| **Liabilities** | | |
| Current liabilities | 2 | 1 |
| Non-current liabilities | - | - |
| **Total liabilities** | 2 | 1 |
| **Net administered assets** | 40 | 39 |

## Statement of Administered Comprehensive Income

Administered income fell by $706,000 to $10.1 million (6.5%), mainly due to:

- Commonwealth-sourced grants and funding, down $842,000 primarily due to the timing of the recognition of the grants for the Wardang Island Tourism Master Plan and Wardang Island Revitalisation Project

- offset by other income, up $215,000, representing a return of grant funds.

Administered expenses increased by $571,000 (6.1%), mainly due to increases in:

- employee benefits, up $260,000 due to the inclusion of the part-year salary of the Minister for Tourism and Multicultural Affairs and the salaries and transfer of leave entitlements of South Australian Motor Sport Board employees. The South Australian Motor Sport Board commenced operations in May 2022 and as at 30 June 2022 was an administered item of DPC
- supplies and services, up $615,000 (9%) mainly due to the costs of re-establishing the Adelaide 500 event and the Adelaide Motorsport Festival.

These increases were offset by a decrease in grants and subsidies of $278,000 (14%), mainly due to the transfer of funding to Multicultural Affairs to manage the Australia Day Council grant arrangements.

## Statement of Financial Position

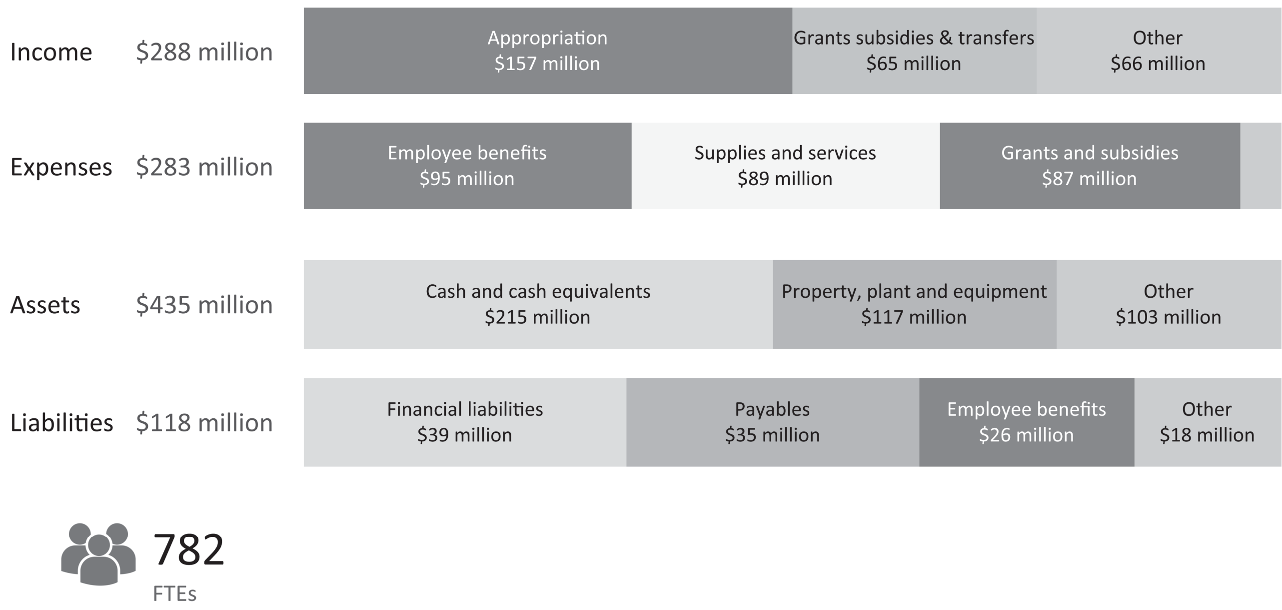
Administered current assets increased by $1.6 million to $42 million in 2021-22, mainly as a result of an increase in cash. The net cash provided by operating activities increased by $1.6 million as a result of:

- payments for supplies and services, down $908,000
- payments of grants and subsidies, down $729,000
- other receipts, up $215,000
- employee benefits payments, up $184,000
- appropriations, down $73,000.

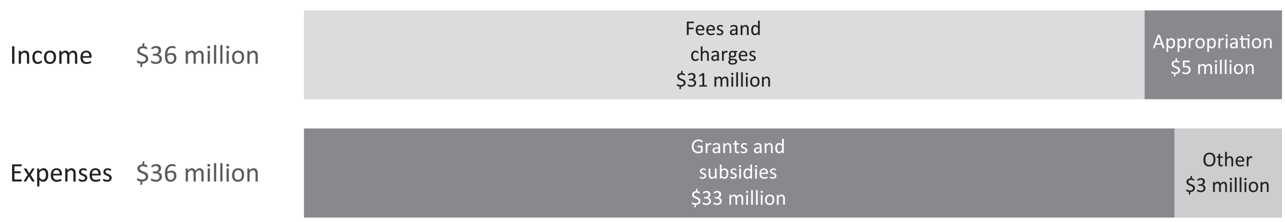
Administered liabilities increased by $1.4 million to $2.4 million, mainly due to payables being up by $1.4 million. Payables were up mainly due to accrued expenses relating to South Australian motor sport and funding to be paid from Aboriginal Affairs and Reconciliation for the construction and renovation of various projects across the State.

# Department of Primary Industries and Regions (PIRSA)

## Financial statistics




Administered items




## Significant events and transactions

- Grants and subsidies expenditure increased by $30.6 million, largely due to an additional $25.1 million of expenditure from the Regional Growth Fund (RGF) as a result of grant projects completed in 2021-22 that relate to prior year rounds of funding, and $7.6 million for statewide storm recovery grants in response to the storm and hail events in late October 2021.
- Supplies and services expenditure of $89.2 million was $25.5 million higher than originally budgeted, largely due to continued use of temporary staff for fruit fly biosecurity response activities.
- Pastoral land held by the Minister for Primary Industries and Regional Development was revalued upwards by $15.1 million to $69.2 million. The value of the land is determined by the Valuer-General. This land will transfer to the Minister for Climate, Environment and Water on 1 July 2022 as a result of machinery of government changes.

| | |
|---|---|
| | — Employee benefits expenses include \$3.5 million of targeted voluntary separation packages, \$1 million of SA Public Sector Workforce Rejuvenation Scheme payments and \$465,000 of other termination payments as a result of staff separations. |
| **Financial report opinion** | **Unmodified** |
| **Controls opinion findings** | No significant findings. |
| **Other audit findings** | — RGF grant management needs to improve.<br>— Revenue contract assessment process (for revenue recognition) needs to improve.<br>— Risk management procedures are outdated and there is no current strategic risk register.<br>— The legislative compliance register is incomplete.<br>— Leave return reports were not reviewed promptly.<br>— Emergency procurement provisions applied without a declared emergency.<br>— Procurement authorisations were not separated from existing delegations.<br>— Contract complexity assessment rationale was not documented.<br>— Vacancies resulting from the SA Public Sector Workforce Rejuvenation Scheme were not filled. |

## Functional responsibility

PIRSA is an administrative unit established under the *Public Sector Act 2009*. It reports to the Minister for Primary Industries and Regional Development.

PIRSA's objective is to grow primary industries and drive regional development in South Australia.

For more information about PIRSA's objectives and activities see note 1.2 of its financial report.

# Scope of the audit

## Audit of the financial report

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

Specific areas of audit attention in 2021-22 included:

- governance frameworks
- revenue, including research grant revenue and consultancies and services revenue. This included reviewing PIRSA's assessment and conclusions relating to the application of revenue accounting standards
- grants and subsidies expenditure, with emphasis on significant grant programs including the RGF, storm recovery programs and the horticultural netting program
- supplies and services expenditure
- employee benefits expenses and liabilities
- cash and general ledger
- loans receivable and borrowings
- fixed assets
- other financial assets, including investments in shares
- follow-up of 2020-21 audit findings.

The audit considered control processes performed by both PIRSA and Shared Services SA.

We considered internal audit activities when planning and conducting the audit.

## Controls opinion

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

## Across-government reviews

In 2021-22 we also performed several across-government reviews at PIRSA. They included:

- procurement
- contract management
- grant management
- SA Public Sector Workforce Rejuvenation Scheme payments.

# Audit findings

## Communicating our audit findings

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

## Controls opinion findings

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

## Other audit findings

### Grants and subsidies expenses

Grants and subsidies expenses for the year were $87 million ($56.4 million), of which $29.2 million ($4 million) related to the RGF.

#### *Regional Growth Fund grant management needs to improve*

The RGF is a $160 million program over 10 years that started in 2018-19. Its purpose is to unlock new economic activity in regional South Australia, deliver critical economic infrastructure to create direct benefits across regional industries and strengthen regional communities.

We have raised issues about the grant assessment and approval process for the RGF in previous years.

In 2021-22 we reviewed PIRSA's management of RGF grants and the guidelines and approvals in place before the election in March 2022. References to the Minister below refer to the former Minister for Primary Industries and Regional Development.

— *No planned program evaluation for the RGF*

The SA Government does not currently have a grant management guideline. However, the grant rules and guidelines issued by the Commonwealth Department of Finance provide an indicator for best practice. They suggest that an evaluation of a grant opportunity (round) should be conducted before initiating further grant opportunities to determine whether existing administration processes and requirements remain applicable. The evaluation should also consider the extent to which government outcomes and strategic directions remain appropriate as a result of grant activities.

PIRSA's grant management framework suggests periodic and post-completion performance evaluations for grant programs. It notes that evaluations are an important part of achieving best practice, as they contribute to informing future decisions about how grants should be used to promote the policy objectives and strategic intent.

There have been various competitive, strategic and special grant rounds over the past four years. We were advised, however, that PIRSA currently does not have a plan to evaluate the RGF grant program.

It is important to consider a periodic evaluation of the RGF program now rather than at the completion of the program in several years' time. We recommended that PIRSA consider a periodic evaluation of the RGF program to identify if grant outcomes are being realised and any improvement opportunities, to reduce the risk that program objectives are not being realised.

PIRSA provided the following response to our finding:

> *The RGF commenced under the former Government in 2018 with a strategic and competitive pool of funding. Since that time, at Ministerial direction, the fund has been modified to include many programs with different application processes and eligibility criteria.*

> *Due to the highly variable nature of the program this presents a challenging environment for PIRSA to conduct a full evaluation of the RGF and all its sub-programs. However, as the current government suspended the RGF as of 2 June 2022 and is currently reviewing the RGF and considering how it may align with its priorities, PIRSA will be undertaking a review of the RGF in preparation to advise the Minister on opportunities and issues encountered to date under the program and sub-programs.*

### — *Strategic project assessment conclusions and recommendations need clarifying*

We reviewed a sample of RGF applications and assessments. We identified one completed assessment and the subsequent minute to the Minister that did not include a clear recommendation from PIRSA's grant assessor.

The completed assessment template noted that some expenses in the grant application may not be eligible and suggested applying deed conditions if approved by the Minister, but did not include a clear recommendation and conclusion. The minute to the Minister provided two options for the Minister to approve or reject the request for funding. PIRSA provided the assessment report to the Minister but did not make a recommendation. This is inconsistent with the RGF guidelines and PIRSA's grant management procedure.

We recommended that PIRSA consider how advice is provided to the Minister based on conclusions from the assessment process. The completed assessment template should clearly document the recommendation by the grant assessor, to support accountability in the grant process.

PIRSA responded that it assesses all applications and provides direct advice to the Minister for approval. The Minister has the discretion to approve or not approve applications. The advice to the Minister rates applications as high, medium or low to align with funding criteria. PIRSA advised us that its assessment report and the South Australian Government Financing Authority's (SAFA's) financial review are provided as advice to the Minister to clearly identify risks and issues. PIRSA provides a recommendation with clear options to the Minister. The Minister, in choosing an option, may exercise their discretion to approve or reject the application.

The RGF is currently suspended pending a review by the Minister.

### — *Ministerial discretion in approving RGF projects should be clearer in the strategic pool guidelines*

We also identified one instance where the Minister approved RGF grant funding for a strategic project that did not meet the minimum co-contribution funding criteria. This was clearly highlighted by PIRSA to the Minister. The project requested funding for 96% of project costs. The RGF guidelines outline that applicants are expected to contribute at least half of the project costs or make a strong case for why more public investment is required. We considered that the Minister applied their discretion in approving this grant.

In 2019-20 we recommended that PIRSA update the publicly available RGF guidelines to provide information to applicants about the approval process, including that the Minister may discretionally approve applications. We noted that the RGF guidelines were updated for the competitive pool but not the strategic pool.

We recommended that PIRSA review and update the RGF guidelines for the strategic pool to ensure that information available to applicants reflects the approval process, including that the Minister may discretionally approve applications that do not adhere to the minimum requirements.

PIRSA responded that it will make these recommendations to the Minister for any new guidelines.

#### — *Information provided to the public can be improved*

The $10 million RGF strategic pool is available all year. However we found that the current version of the RGF guidelines was not available on PIRSA's website at the time of our audit. This may have prevented prospective applicants from accessing information about the RGF strategic pool and submitting an application.

The 2020-21 RGF guidelines state that applicants can seek grants from $50,000 to $2 million. We were advised that this limit was intended for the competitive pool and that strategic pool applicants could seek up to the maximum of $10 million annual funding.

We recommended clarifying this in the RGF guidelines so that applicants are aware of the potential funding available to them and for improved grant transparency.

PIRSA responded that it will ensure the RGF guidelines will be made publicly available on its website for the duration of any open round, once new guidelines are approved. PIRSA will also ensure that any new RGF guidelines accurately reflect any grant value upper limits.

## Revenue

PIRSA's revenue from grants, subsidies and transfers, Commonwealth grants (national partnership payments) and the sale of goods and services totalled $110.7 million in 2021-22 ($98.1 million).

### *PIRSA's revenue contract assessment process (for revenue recognition) needs to improve*

The assessment of PIRSA's revenue contracts is an important control as there are different requirements for revenue recognition, measurement and disclosure depending on which standard applies. Within individual standards, certain criteria must be met before revenue can be recognised and, if recognised, to determine whether it is at a point in time or over time.

In 2020-21 we reported that PIRSA had not implemented an ongoing assessment of all new revenue contracts. A process was designed but not fully implemented at the divisional level.

Our follow-up in 2021-22 found that PIRSA has subsequently redesigned its controls to ensure new and modified contracts are identified and assessed for revenue recognition. We reviewed the revised process and found the following areas that could be improved:

- Not all relevant contracts were assessed for revenue recognition.
- Revenue procedures were not updated to reflect how revenue assessment conclusions on accounting treatment flow through to revenue recognition in the general ledger.

- Staff performing revenue contract assessments were unaware of how their responses can affect revenue treatment, resulting in no action being taken to notify the finance team when adjustments to revenue may be required.
- Some revenue contracts were not accounted for in the way that the revenue contract assessment had concluded.

Without an adequate assessment of new or modified revenue contracts to determine how revenue should be treated under the accounting standards, or following through from assessment to accounting, revenue and associated balances and disclosures in PIRSA's financial report may be inaccurate.

We recommended that PIRSA:

- ensures revenue assessments are performed for all revenue contracts that meet the practical thresholds adopted
- updates its procedures to include the process that captures the revenue recognition conclusions from the contract assessments and flows this through to revenue journals recorded in the general ledger (ie point in time or over time)
- checks revenue recognised to date to ensure contract assessment conclusions were consistently applied to revenue recorded in the general ledger.

PIRSA responded that before October 2021 some contracts were not formally assessed as the finance team had already determined this type of revenue contracts would be recognised at a point in time and excluded from the monthly accrual process. From October 2021, the contracts unit staff complete an assessment template for all revenue contracts. These assessments are reviewed quarterly by the finance team, who will follow up and rectify any anomalies.

PIRSA also responded that it will:

- update work instructions to include the process to identify projects in the general ledger for which revenue contracts are recognised over time, and how this relates to contract assessments performed
- review older contracts against the revenue assessment criteria to confirm how the revenue should be treated
- provide further training to staff.

## Governance frameworks

### *PIRSA's risk management procedures are outdated and there is no current strategic risk register*

A risk management framework should provide for the ongoing monitoring and reassessment of risks to ensure that risk registers remain relevant and risks are effectively managed.

In 2019-20 we reported that PIRSA's risk management policy and procedure could be improved. PIRSA developed a new Enterprise Risk Management Framework in response to this. However in 2020-21 we found that it had not been implemented.

Our follow-up in 2021-22 found that PIRSA decided not to proceed with this framework and was instead reverting to its former policy and procedure, which were being reviewed to reflect current practices. We consider it important for PIRSA to finalise this review, as the former policy and procedure were last approved in 2019, and the SA Government has since replaced its Risk Management Policy Statement with the Risk Management Guide. PIRSA has incorporated this into the draft documents.

We also found that PIRSA had not documented its strategic risk register since 2019-20. PIRSA's procedures require an annual review of its strategic risks.

As a result PIRSA may not be effectively monitoring and managing all of its current risks, resulting in exposure to threats or events causing interruption to operations or impacting PIRSA's ability to achieve its objectives.

We recommended that PIRSA:

- finalise its risk management policy and procedure and consider incorporating more guidance about its risk appetite and when treatment plans are required
- review the strategic risk register at least annually.

PIRSA responded that it had finalised the risk management documents to reflect its current process and align with current requirements. It will review and update the strategic risks for 2022-23.

### *PIRSA's legislative compliance register is incomplete*

For a number of years we have reported on PIRSA's ongoing challenges with implementing a comprehensive legislative compliance framework, including that the legislative compliance register was incomplete, there was no coordinated approach for identifying and reporting breaches of legislation, and there is no central record of breaches to enable this reporting.

In 2020-21 we reported that PIRSA had developed a legislative compliance framework, but had not yet completely implemented it. Our follow-up in 2021-22 found that the legislative compliance register remains incomplete, specifically in relation to how identified legislative requirements are being monitored and whether any breaches have been identified.

Without a coordinated approach to monitoring and assessing compliance with legislation, breaches may not be identified or reported.

We recommended that PIRSA continue to update its legislative compliance register and document how divisions have assessed compliance. This can then be used to identify and report any breaches.

PIRSA responded that it has commenced quarterly reviews of the register with its divisions and will continue to work on completing the information for compliance monitoring processes.

## Payroll

Employee benefits expenses for the year were $95 million ($87.4 million).

### *Leave return reports were not reviewed promptly*

We identified instances where leave return reports were not reviewed and approved in the time frames outlined in PIRSA's procedures. We raised this as an issue with PIRSA in previous years. In 2021-22 the number of late reports increased.

Delays in reviewing leave return reports may increase the risk of employee leave balances being inaccurate, potentially resulting in employees accessing leave they are not entitled to, salary overpayments and misstated employee benefit liabilities in the financial report.

We understand that PIRSA has been restructuring its organisation, which may be contributing to increased delays in reviewing leave return reports. In times of heightened disruption, it becomes more important to review these reports promptly as staff leave or are moved.

PIRSA responded that it has implemented monthly reporting of leave return compliance with divisions and will consider introducing quarterly reports for executives to monitor.

### *Vacancies resulting from the SA Public Sector Workforce Rejuvenation Scheme not filled*

The SA Public Sector Workforce Rejuvenation Scheme aimed to rejuvenate the South Australian public sector workforce by providing an incentive to employees to cease employment. Vacancies were to be filled either at the same level or lower level by new recruits, graduates or current public sector employees. The Scheme was not designed as a downsizing initiative.

We found that PIRSA did not have a documented rejuvenation strategy to support filling vacancies resulting from the Scheme. The timing of the Scheme coincided with its organisational restructure.

We found that from the 23 employees who separated under the Scheme, six positions were listed as filled. Information we obtained suggests that staff departures were used as a cost-saving measure, contrary to the objective of the Scheme.

We recommended that PIRSA consider which vacated positions are intended to be filled and develop a strategy to achieve this.

PIRSA responded that it acknowledges our findings and will endeavour to uphold the intent of the Scheme where possible within its allocated budget. As it has been involved in a significant workforce restructure program, including abolishing a number of positions, it may be restricted in realising the full intent of the Scheme.

## Procurement and contract management

### *Emergency procurement provisions applied without a declared emergency*

Procurement Services SA (PSSA) issued a suite of policies that support Treasurer's Instruction 18 *Procurement* (TI 18), which came into effect from 1 July 2021.

We identified a procurement conducted by PIRSA under the provisions of PSSA's Emergency Situations Procurement Schedule (the Schedule). However, as this did not relate to a declared emergency under the *Emergency Management Act 2004*, the provisions of the Schedule should not have been applied. The procurement related to waste clean-up services after a severe storm caused damage to crops and infrastructure.

For this procurement, PIRSA did not apply the required acquisition and procurement planning. Instead it applied a limited market approach, noting that this was due to unforeseen and urgent requirements. A limited market approach can be approved by the Chief Executive, however this would form part of the acquisition planning process to be documented before the procurement.

We recommended that PIRSA liaise with PSSA to clarify the circumstances in which the Schedule can apply to avoid any future interpretation issues.

PIRSA responded that it will:

- consult with PSSA to clarify the application of the Schedule to enable PIRSA to execute its responsibilities in response to emergencies and recovery, while complying with the Schedule
- update its procedures to clarify the procurement protocols under emergency situations
- identify opportunities for expedited procurement processes in certain approved circumstances, adhering to policies while enabling quick response times where it is critical to the emergency incident.

### *Procurement authorisations not separated from existing delegations*

We found that PIRSA had not established the specific procurement authorisations required by TI 18. Instead staff are using existing contract authorisations established under Treasurer's Instruction 8 *Financial Authorisations* when approving acquisition plans.

Without specific delegations for procurement, staff authorising acquisition plans may not be aware of or properly consider TI 18 and associated policy requirements.

We recommended that PIRSA review its authorisations to ensure that procurement authorisations are specifically delegated. PIRSA advised us that its authorisations schedule is currently being reviewed and will be amended to better reflect TI 18 requirements.

### *Contract complexity assessment rationale not documented*

Risk and complexity assessments are required to be performed at various stages of procurement and contract management. The complexity assessment process is critical to understanding the business impact and resourcing required to manage a contract.

We found one contract where the complexity assessment was recorded in the procurement system as complex, but was recorded as routine in the purchase recommendation and draft contract management plan. There was no documented rationale to support the complexity assessment made.

We also found that the routine assessment does not align with the complexity scale factors in PSSA's guideline. As a result, this contract may not have been appropriately managed.

We recommended that complexity assessments be adequately documented, with consideration given to the complexity scale factors detailed in PSSA's guideline. PIRSA advised us that it has developed a matrix to assist with complexity assessments in the procurement process.

# Interpretation and analysis of the financial report

## Highlights of the financial report – controlled items

| | 2022 $million | 2021 $million |
|---|---|---|
| **Income** | | |
| Appropriation | 157 | 200 |
| Grants, subsidies and transfers | 65 | 62 |
| Commonwealth revenues (National Partnership payments) | 28 | 18 |
| Sale of goods and services | 17 | 18 |
| Other income | 21 | 18 |
| **Total income** | 288 | 316 |
| | | |
| **Expenses** | | |
| Employee benefits | 95 | 87 |
| Supplies and services | 89 | 90 |
| Grant and subsidies | 87 | 56 |
| Other expenses | 12 | 19 |
| **Total expenses** | 283 | 252 |
| **Net result** | 5 | 64 |
| **Other comprehensive income** | 5 | 5 |
| **Total comprehensive income** | 10 | 69 |
| | | |
| Net cash provided by (used in) operating activities | 18 | 69 |
| | | |
| **Assets** | | |
| Current assets | 254 | 236 |
| Non-current assets | 181 | 179 |
| **Total assets** | 435 | 415 |
| | | |
| **Liabilities** | | |
| Current liabilities | 70 | 54 |
| Non-current liabilities | 48 | 54 |
| **Total liabilities** | 118 | 108 |
| **Total equity** | 317 | 307 |

## Statement of Comprehensive Income

### Income

#### Appropriations

Appropriations from the SA Government decreased by $43.5 million to $157 million largely due to one-off funding received in 2020-21 for marine scalefish licence buy-backs, the drought support program and additional funding for the RGF strategic business round. These decreases were partially offset by statewide storm response and fruit fly biosecurity activities in 2021-22.

#### Grants, subsidies and transfers

Grants, subsidies and transfers revenue increased by $2.7 million to $65.1 million. The major component of grants continues to be grants from industry ($33.1 million) and grants from the administered industry funds ($13.4 million), remaining relatively consistent with the prior year.

Subsidies and transfers received from the Department of Treasury and Finance (DTF) increased by $1.7 million to $13.1 million. DTF provides funding for a range of projects in each year. The more significant projects funded in 2021-22 include $2 million for the plant-based food laboratory and $2 million for no and low alcohol wine sector projects. PIRSA also received an additional $3.8 million from DTF's contingency fund. In 2020-21 major projects funded by DTF included $3.8 million for the seasonal worker's regional quarantine facility and $2.4 million for the Growing the Livestock Sector program.

### Commonwealth grants (National Partnership payments)

Commonwealth revenues increased by $10.3 million to $28.4 million due to several new programs in 2021-22. The main programs funded were:

- the Regional Recovery Partnership ($10 million), supporting recovery of the Kangaroo Island region through projects such as the Kangaroo Island Workforce Accommodation Construction, Cape Willoughby Visitor Experience upgrades and establishing an AgTech Hub
- the National Water Grid Fund ($8.5 million), which aims to deliver water infrastructure investments to improve the reliability and security of water for regional communities, agriculture and primary industry sectors
- the On-farm Emergency Water Infrastructure Rebate Scheme ($4.3 million). See 'Drought support package and On-farm Emergency Water Infrastructure Rebate Scheme' below.

## Expenses

### Employee benefits expenses

Employee benefits expenses increased by $7.6 million to $95 million largely due to:

- an increase in targeted voluntary separation package (TVSP) expenses of $3 million. In 2021-22 TVSPs were paid/payable to 60 employees, of which 23 related to payments under the SA Public Sector Workforce Rejuvenation Scheme totalling $1 million. Five TVSPs were paid/payable in 2020-21
- an increase in workers compensation expenses of $1.7 million due to the revaluation of the workers compensation liability. The liability is determined by a consulting actuary and has increased due to the number of open seriously injured worker cases increasing and the impact of the Summerfield decision
- an increase in salaries and wages of $951,000, primarily due to enterprise bargaining agreement increases.

### Grants and subsidies expense

Total grants and subsidies increased by $30.6 million to $87 million. Grant expenses fluctuate each year depending on what grant programs are being delivered. Major movements in 2021-22 relate to:

- a $25.1 million increase in RGF grant expenses. Grant funding is paid in arrears as milestones are met. As a result, the payments in 2021-22 reflect grants entered into in previous funding rounds. See 'Regional Growth Fund' below

- $7.6 million was incurred in 2021-22 for statewide storm recovery payments. See 'Statewide storm recovery grants' below
- a $5.5 million increase in expenses under the Local Economic Recovery program. This program is jointly funded by the Commonwealth and SA Governments. It was established in response to the 2019-20 bushfires that affected Cudlee Creek and Kangaroo Island and supports local and regional economic and social recovery projects for these communities
- a $2.1 million increase in the horticultural netting program. This Commonwealth-funded initiative commenced in 2020-21. See 'Horticultural netting program' below
- a $5.9 million decrease in grant payments for bushfire recovery and response. Most bushfire recovery and response payments for the Cudlee Creek and Kangaroo Island bushfires were made to effected primary producers in 2019-20 and continued in 2020-21. Payments in 2021-22 mainly related to Kangaroo Island biosecurity response and rebuild activities, such as weed and pest management
- a $13 million decrease in the marine scalefish fishery reform expenditure for licences that were surrendered under the program in 2020-21. Final payments were made in 2021-22
- a $3.7 million decrease in drought support package expenses. See 'Drought support package and On-farm Emergency Water Infrastructure Rebate Scheme' below.

### *Regional Growth Fund*

The RGF was established in 2018-19. It is a $160 million fund available over 10 years to support regional South Australia. Its purpose is to unlock new economic activity in regional South Australia, deliver critical economic infrastructure to create direct benefit across regional industries and strengthen regional communities.

Funding is allocated each year for competitive grants, where applications are open for a set period and assessed against criteria, and strategic projects that are open all year for consideration by the Minister.

Round four of the competitive grants was open between May and July 2021. 29 applications were received, however no projects were approved by the Minister.

In 2021-22, five applications were received for strategic projects, with two approved by the Minister totalling $3.75 million. Another two projects were allocated a combined $500,000 from the strategic pool, although these do not meet the strategic project guidelines.

A further $2 million from the RGF was approved by the Minister for the design and delivery of a Regional Leadership Development program.

There were several additional rounds of funding from the RGF that started in 2021-22.

The Opening our Great Outdoors (OoGO) round opened in January 2022. It was intended to provide $10 million of funding available over two years, with applications closing on 30 June 2023. However applications have since been closed. Funding was available to projects that met the key principles of the RGF and supported economic generating regional tourism activities. It was available in two streams – regional tourism projects and regional accommodation projects.

OoGO was open to a greater range of entities than other RGF rounds, including commercial entities and certain SA Government entities. 43 applications were received, with six approved for a total of $4.8 million.

The SA Government announced an expressions of interest for timber supply at the end of 2020-21. The aim was to manufacture additional logs into structural timber for local South Australian home builders. $2 million was allocated from the RGF in 2021-22 as part of this round of funding. Two projects were approved for funding, totalling $828,000.

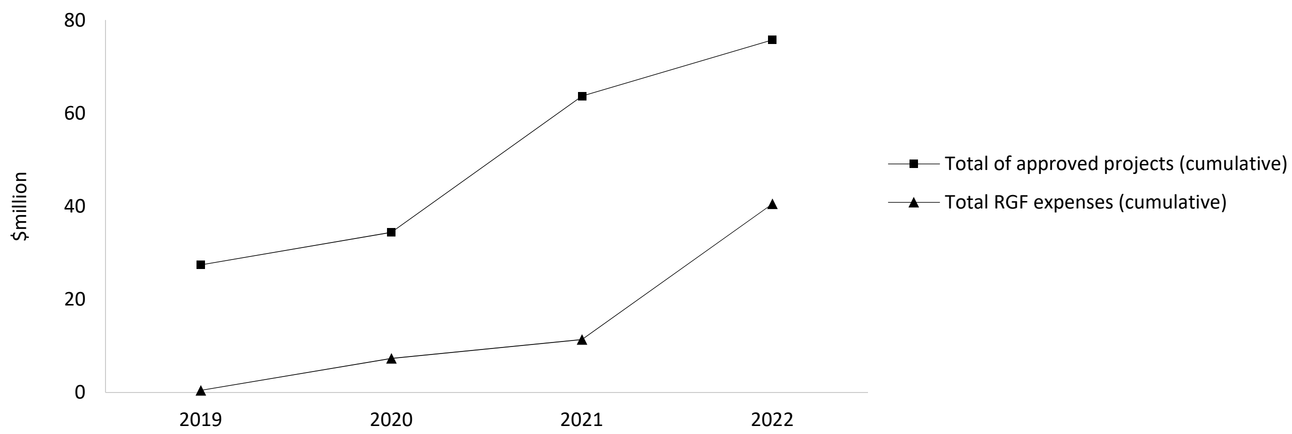
The Livestock Underpass Grant Scheme opened in July 2022 and will be open until 30 June 2023 or until allocated funding of $3 million is exhausted. This Scheme provides a 50% reimbursement (up to $100,000) to primary producers, abattoirs or saleyards as a contribution towards the cost of constructing underpasses beneath public roads to allow livestock to move safely between paddocks. As at 30 June 2022, two applications were received and approved, totalling $200,000.

Since the RGF began, PIRSA has committed to the following grant funding arrangements:

- **round one (2018-19)** – $27.4 million for 17 projects. Nine agreements totalling $4.2 million were for competitive grants and eight agreements totalling $23.2 million were for strategic projects
- **round two (2019-20)** – $6.9 million for 15 projects. 10 agreements totalling $4.4 million were for competitive grants and five agreements totalling $2.5 million were for strategic projects
- **round three (2020-21)** – $29.6 million for 26 projects. Three projects totalling $2.9 million were for the competitive round, 22 projects totalling $26.6 million were for the strategic business round and one project for $75,000 was for other strategic projects.

Contract management for the RGF grant agreements is being administered by SAFA. PIRSA reimburses SAFA for grant payments made after project milestones are achieved by grantees. Not all approved projects proceed to receive funding.

Total expenses for the RGF were $29.2 million ($4 million), as funds are not paid on approval but over time as project milestones are achieved. The graph below shows the total amount of approved projects and expenses up to 30 June 2022 since the RGF was established.




## Statewide storm recovery grants

Statewide storm recovery grant expenses totalled $7.6 million in 2021-22, in response to the hailstorm events in October 2021.

These recovery grants were to help with the costs of clean-up and other emergency measures, including rebuilding or replacing damaged/destroyed on-farm infrastructure. Grants of up to $10,000 were available to eligible primary producers who suffered direct storm damage across 24 local government areas.

Grant applications were open from November 2021 to March 2022. PIRSA received 870 applications for storm recovery grants. As at 30 June, 792 were approved.

Storm recovery grants are jointly funded through the Commonwealth and SA Government Disaster Recovery Funding Arrangements. PIRSA received funding to support these grants through the Governor's Appropriation Fund.

#### *Drought support package and On-farm Emergency Water Infrastructure Rebate Scheme*

In December 2019, the SA Government announced a $21 million drought support package to provide increased drought assistance to eligible primary producers experiencing hardship in response to the ongoing dry conditions in South Australia. The program includes financial assistance such as rebates for council rates, pastoral lease rent and on-farm water infrastructure, as well as providing supports such as mental health outreach services, rural financial counselling and grants to connect drought affected communities.

Grant expenditure under the drought support package was $2.5 million in 2021-22, bringing the total expenditure under this program to $10.7 million since it began.

The On-farm Emergency Water Infrastructure Rebate Scheme is a jointly funded program by the Commonwealth and SA Governments. The SA Government's contribution is through the drought support package. The $1.8 million ($3.4 million) of expenditure recognised in the financial report for the On-farm Emergency Water Infrastructure Rebate Scheme represents the grant expenditure funded by the Commonwealth. PIRSA received $4.3 million ($3.5 million) from the Commonwealth Government for this Scheme. Applications for the On-farm Emergency Water Infrastructure Rebate Scheme closed in April 2022.

#### *Horticultural netting program*

In 2020-21 the Commonwealth Government provided $14.6 million of funding for PIRSA to provide grants under the horticultural netting program. The purpose of the program was to provide funding to primary producers of horticulture crops for the purchase and installation of new netting or the replacement of damaged netting over land used to grow horticulture crops.

Grants are provided for up to 50% of the cost, up to a maximum of $300,000. The Commonwealth Government's funding is allocated equally across the Riverland and Greater Adelaide areas. The program started in June 2020 and closes on 30 June 2023 or when funding is exhausted.

As at 30 June 2022, 128 applications were received, with 114 approved. Grant expenses were $4 million in 2021-22, taking total expenditure under this program to $5.9 million.

### Supplies and services

Supplies and services expenses decreased slightly by $381,000 to $89.2 million in 2021-22, largely due to a $2.3 million decrease in contractors and temporary staff, as fewer temporary staff were engaged to help with the biosecurity response to manage fruit fly outbreaks in South Australia as part of the State's zero tolerance policy.

This decrease was partially offset by:

- a $610,000 increase in administrative and operating costs, including a $1.5 million increase in fence material purchases as part of managing the dog fence rebuild project on behalf of the Dog Fence Board, and a $541,000 increase in chemical and sterile insect technology payments for use in the fruit fly biosecurity response, partially offset by a $1.5 million decrease in laboratory supplies
- an $818,000 increase in ICT charges, mainly due to increased software licensing costs
- a $595,000 increase in other vehicle and equipment operating and management costs, mainly relating to an increase in fuel prices.

### Transfers to Consolidated Account

Transfers to the Consolidated Account decreased by $6.7 million to $545,000 in 2021-22. Transfers in the current year relate to proceeds from the sale of land, while in 2020-21, PIRSA transferred $7 million of surplus cash to DTF under the cash alignment policy and $293,000 for proceeds from the sale of land.

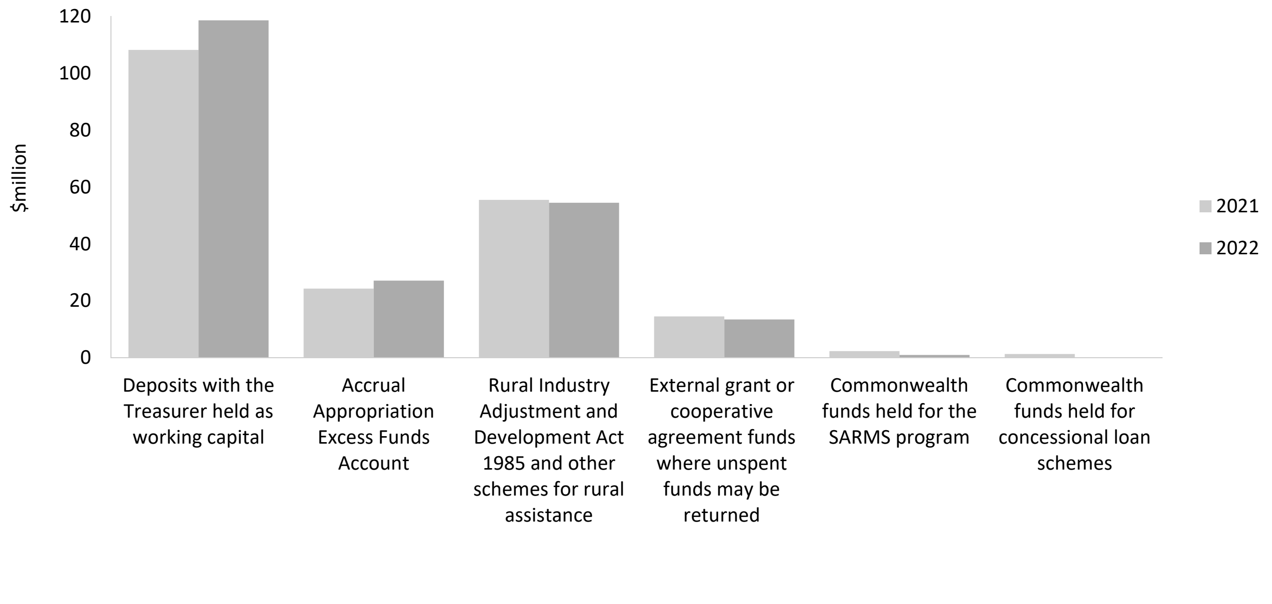
## Statement of Financial Position

### Assets

Total assets increased by $20.3 million to $435.3 million. This was primarily due to increases in cash and other financial assets as discussed below. Property, plant and equipment remained relatively consistent at $116.8 million ($117.1 million) with additions largely offset by depreciation and disposals.

### Cash and cash equivalents

PIRSA held cash of $215.1 million ($206.3 million) at 30 June 2022. The main components of cash held are shown in the chart below.



The main increase in PIRSA's cash is amounts held as working capital, largely due to appropriation funded capital and grant expenditure carried forward into 2022-23.

PIRSA's commitments, disclosed in note 9.1 of its financial report, show an increase of $21.3 million to $107.4 million in 2021-22. Most is to be paid within one year. The increase mainly relates to RGF grant funding and the SA Aquatic Science Centre upgrade project.

### Other financial assets

Other financial assets increased by $5.1 million to $30.3 million in 2021-22. This balance relates to investments in shares for unlisted entities, with the largest being the Australian Grain Technologies Pty Ltd. These shares are revalued annually, with changes in fair value treated as other comprehensive income. As these shares are unlisted there is no direct active market to determine their fair value. The valuation is performed by an independent valuer on a discounted cash flows basis and is subject to significant estimates and assumptions applied in this process. Note 6.4 of PIRSA's financial report explains these investments.

## Liabilities

Total liabilities increased by $10.3 million to $118.6 million. This increase was largely due:

- a $10.9 million increase in payables, mainly due to additional grant funding accruals and payments relating to the Aquatic Science Centre upgrade project
- a $4.8 million increase in contract liabilities, resulting from an increase in funding received from customers for which PIRSA has outstanding performance obligations to fulfil.

These increases were partially offset by:

- a $5.1 million decrease in employee benefit liabilities, mainly due to:
  - a $4.1 million decrease in long service leave liability as a result of less FTEs and an increase in the discount rate applied in the liability calculation from 1.25% to 3.5%
  - a $1.2 million decrease in accrued salaries and wages as the final pay run occurred on 30 June 2022
- a $928,000 decrease in financial liabilities, mainly due to a net decrease in indebtedness to the Treasurer. See 'Financial liabilities' below.

### Financial liabilities

Financial liabilities of $39.4 million mainly consisted of indebtedness to the Treasurer of $37.7 million ($38.4 million). Borrowings from the Treasurer relate to loans to cooperatives of $28.2 million ($24 million) and Commonwealth concessional loan schemes of $9.5 million ($14.4 million).

#### *Loans to cooperatives*

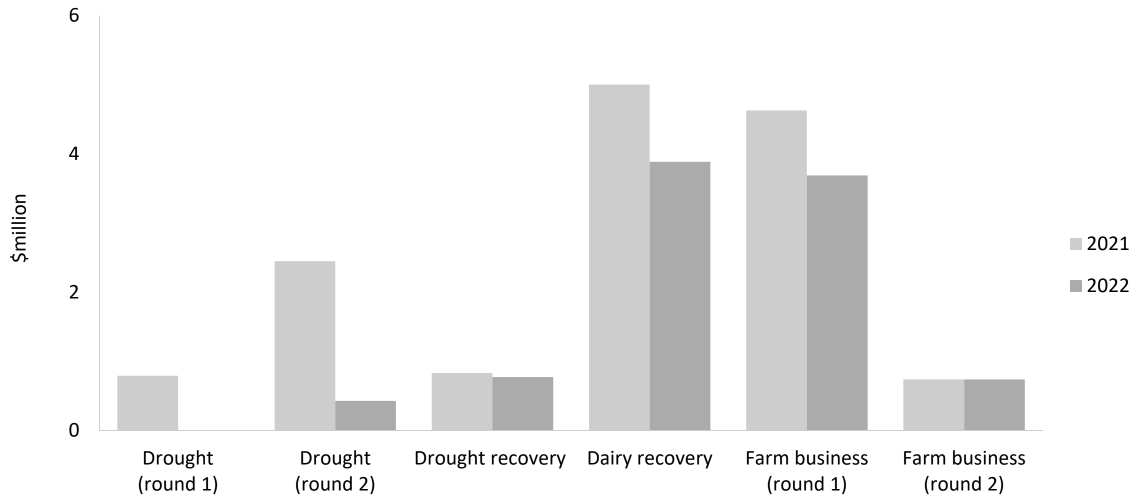
PIRSA administers loans to cooperatives provided by the SA Government. These are agreements between the Treasurer, PIRSA and approved loan applicants where the principal borrowed by PIRSA is on-lent to the approved loan applicant. Principal repayments made by an approved loan applicant are returned to the Treasurer to reduce PIRSA's borrowings. Note 6.2 of PIRSA's financial report provides information about the loan structure.

The loans to cooperatives scheme supports cooperatives engaged in processing and storing primary products. Eligible projects include the acquisition of assets associated with processing and storing primary products.

In 2019-20 one new loan was approved under the loans to cooperatives scheme. The total approved amount was $28.6 million, with $24.4 million drawn down by 30 June 2021. In 2021-22 an additional $3.5 million was drawn down. The remaining $700,000 is expected to be paid in 2022-23. An additional loan was granted in 2021-22 for $8.1 million, with the first drawdown for $2.4 million. Repayments were $1.7 million ($338,000) in 2021-22.

### *Commonwealth concessional loans schemes*

Commonwealth concessional loans schemes overall decreased by $4.9 million in 2021-22 as repayments were made. The chart below shows the components of the balance for each type of concessional loan scheme at 30 June.




Drought concessional loans were made available to applicants for debt refinancing, operating expenses and to meet the costs of drought recovery and readiness activities. Applications for round one of the scheme closed in June 2015 and applications for round two of the scheme closed in October 2016.

Drought recovery concessional loans were made available to applicants for new debt for planting and restocking activities or to refinance an existing drought concessional loan. This scheme closed in October 2016.

Dairy recovery concessional loans were made available to dairy farm businesses affected by the May 2016 decision of Murray Goulburn and Fonterra to reduce farm gate milk prices. They were for debt restructuring or new debt, operating expenses and costs associated with productivity enhancement measures. This scheme closed in October 2016.

Farm business concessional loans are made up of drought assistance concessional loans, dairy recovery concessional loans and business improvement concessional loans. Round one of this scheme for drought assistance and dairy recovery concessional loans closed in June 2017. Round two of the scheme included a new loan measure, business improvement concessional loans, in addition to continuing the drought assistance concessional loans and dairy recovery concessional loans. Round two of the scheme closed in June 2018.

The Commonwealth Government paid funds for these loans schemes in advance in agreed amounts and these funds were held in a special deposit account until paid to approved applicants. When the loans schemes were closed to new applicants, PIRSA returned any additional funds to the Commonwealth.

Since July 2018, farm business concessional loans applications have been made to the Commonwealth Government's single national administrator, the Regional Investment Corporation. PIRSA will continue to administer the existing loan agreements until the loan term ends or the loan is repaid/refinanced. As a result, no new drawdowns occurred for Commonwealth concessional loan schemes. PIRSA only receives repayments for existing loans that are then passed on to the Commonwealth. As at 30 June 2022 there were no impaired loans.

## Administered items

PIRSA administers 19 funds that are reported in its administered financial report. The main administered revenues are industry contributions and aquaculture and fishing licence fees. These are then paid out as grants and subsidies to support promotion, research and development, and other activities to benefit the different groups that have paid the contributions.

Total fees and charges revenue, including industry contributions and aquaculture and fishing licences, was $30.7 million ($31.3 million) and grants and subsidies paid out during the year totalled $32.6 million ($30.8 million). The Fisheries Research and Development Fund paid $11.7 million ($12 million) to carry out research, exploration and experiments for the conservation and management of living resources found in waters.

PIRSA also received $4.7 million ($5 million) in appropriation from the SA Government for the administered activities. $4.3 million ($4.7 million) of this was used for payments to the South Australian Forestry Corporation for community service obligations including native forest management and fire protection.

PIRSA's administered assets consist mainly of land held under the Pastoral Land Management Fund ($69.2 million) and cash ($22 million).

The pastoral land was revalued in December 2021 by the Valuer-General, based on the unimproved value of the land. This is in line with the *Pastoral Land Management and Conservation Act 1989.* The valuation resulted in a $15.1 million increase in the value of the land.

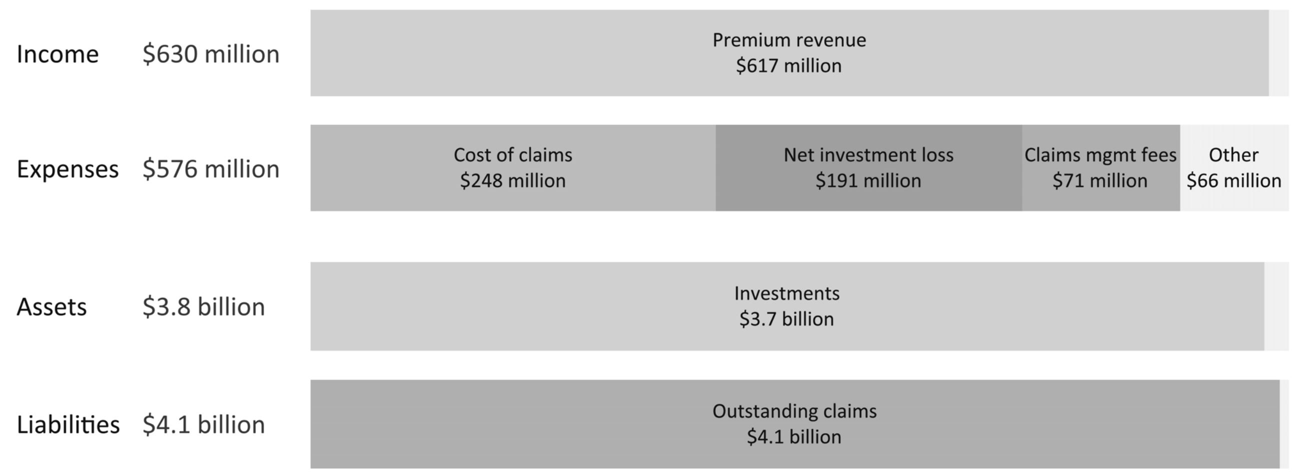
## Machinery of government changes

The following machinery of government changes were proclaimed with an effective date of 1 July 2022:

- The assets, rights and liabilities of the Minister for Primary Industries and Regional Development relating to the administration of the *Pastoral Land Management and Conservation Act 1989* are transferred to the Minister for Climate, Environment and Water, as outlined in the Administrative Arrangements (References to Ministers and Transfer of Assets) Proclamation 2022. This will result in the $69.2 million of pastoral land recorded in PIRSA's administered items being transferred to the Department of Environment and Water.
- Pastoral Unit employees within PIRSA will transfer to the Department for Environment and Water as a result of the Public Sector (Reorganisation of Public Sector Operations) Notice 2022.

# Return to Work Corporation of South Australia (RTWSA)

## Financial statistics




**255** FTEs

**1.7%** Average premium rate

**92.8%** Funding ratio

## Significant events and transactions

- The provision for outstanding claims was significantly impacted by the introduction of the *Return to Work (Scheme Sustainability) Amendment Act 2022*.
- The provision for outstanding claims decreased by $240.2 million.
- RTWSA's net investment loss was $191 million.
- RTWSA achieved a consolidated funding ratio of 92.8%, meaning that the Return to Work Scheme is not fully funded.
- The Compensation Fund had net liabilities of $480.9 million as at 30 June 2022.

## Financial report opinion

**Unmodified**

An emphasis of matter was included in the financial report opinion relating to inherent uncertainty in the estimate of the outstanding claims liability and the funding ratio.

## Audit findings

No significant findings.

## Functional responsibility

RTWSA was established under the *Return to Work Corporation of South Australia Act 1994* (RTWSA Act).

RTWSA administers the Return to Work Scheme (the Scheme) under the *Return to Work Act 2014* (RTW Act). The Scheme compensates injured workers and helps them return to work using premium and investment income from the Compensation Fund.

## Legislative changes

Legislative changes through the RTW Act have impacted significantly on the Scheme. The changes aimed to get injured workers back to work more promptly and reduce the cost of the Scheme, leading to reductions in the Scheme's net claims and premium rates.

The *Return to Work (Scheme Sustainability) Amendment Act 2022* (Amendment Act) changes include introducing the ability for claimants to combine injuries as part of the whole person impairment (WPI) assessment, and increasing the WPI threshold from 30% to 35% for physical injuries.

### Return to Work Act 2014

In December 2014 the RTW Act was proclaimed, with most provisions commencing on 1 July 2015 and some commencing earlier. The RTW Act replaced the *Workers Rehabilitation and Compensation Act 1986* on 1 July 2015.

The legislative changes separated claims into two categories:

- short-term claims for injured workers with less than 30% WPI – will receive income support for up to two years and treatment costs for up to three years. The legislation also introduces a new lump sum benefit for economic loss available to workers with a WPI of at least 5%
- serious injury claims for injured workers with 30% or higher WPI – will receive income support until retirement age, and treatment and other care costs for life.

The Scheme's focus is on getting short-term claimants back to work and, in the case of serious injury claimants, providing lifetime care.

Under previous legislation, a worker's income support was reduced by 10% at 13 weeks and a further 10% at 26 weeks, equating to 80% of their pre-injury earnings. Under the RTW Act, a worker's income support will not be reduced until 52 weeks, at which point it will be reduced to 80% of their pre-injury earnings. This means workers receive more income support in their first year under the RTW Act.

The following table shows the percentage of claimants back at work at key intervals after the date of their injury.

| Year | 4 weeks | 13 weeks | 26 weeks | 52 weeks |
|---|---|---|---|---|
| 2015-16 | 75% | 83% | 86% | 88% |
| 2016-17 | 75% | 83% | 87% | 88% |
| 2017-18 | 79% | 87% | 90% | 93% |
| 2018-19 | 80% | 86% | 89% | 93% |
| 2019-20 | 78% | 83% | 86% | 91% |
| 2020-21 | 76% | 83% | 87% | 90% |
| 2021-22 | 77% | 83% | 88% | 92% |

Source: The data in this table was provided by RTWSA and is unaudited.

### Return to Work (Scheme Sustainability) Amendment Act 2022

Reforms were introduced to the RTW Act as a result of the Summerfield legal decision, which allowed for the combining of injuries for WPI assessment purposes. The Amendment Act was proclaimed on 28 July 2022. The key changes resulting from the reforms are as follows:

- The combining of injuries has been codified as a feature of the Scheme, aligning with the Summerfield decision.
- The threshold for accessing serious injury benefits increased from 30% to 35% WPI for physical injury claims.
- Serious injury claimants can elect to receive an economic loss lump sum payment instead of ongoing income support, and the restriction on medical redemptions being available to serious injury claims has been removed.
- A set of transitional rules prescribes how existing claims will be impacted by the reforms.
- The operation of impairment assessment guidelines will change, although it is not clear what impact this will have as the SA Government is yet to state its intentions.

## Overview of Return to Work Scheme

Employers must pay a premium to RTWSA based on remuneration provided to their workers. RTWSA invests the premium revenue until it is needed to pay compensation and other costs of operating the Scheme, including the claim management fees of two claims agents for managing workers compensation claims. Very small employers are not required to pay a premium, while self-insured employers must pay a fee instead of a premium.

## Scope of the audit

### Audit of the financial report

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

Specific areas of audit attention in 2021-22 included:

- the claims agent assurance framework
- premium income
- investments
- claims expenses
- actuarial estimates of outstanding claims liabilities
- the determination of claims for workers compensation
- workers compensation payments, including income support, lump sums and medical costs

- claims management fees
- general operating expenses
- payroll expenditure
- IT general controls.

We considered internal audit activities in designing and performing our audit procedures. We also made use of the IT general controls work performed by internal audit.

### Controls opinion

We reviewed controls over premium income, investments, claims expenses and outstanding claims liability as part of our overall controls opinion, which is discussed in Part B of this Report.

## Audit findings

### Auditor's report on the financial report

The following is an extract from the Independent Auditor's Report on RTWSA's 2021-22 financial report, which is unmodified but notes a significant inherent uncertainty relating to the outstanding claims provisions and funding ratio implications.

> ***Opinion***
>
> *In my opinion, the accompanying financial report gives a true and fair view of the financial position of the Return to Work Corporation of South Australia as at 30 June 2022, its financial performance and its cash flows for the year then ended in accordance with relevant Treasurer's Instructions issued under the provisions of the* Public Finance and Audit Act 1987 *and Australian Accounting Standards.*
>
> ***Emphasis of Matter***
>
> *I draw attention to notes 4, 10 and 11 of the financial report. There is a significant uncertainty surrounding the financial impact of legislative reforms which will only become clearer as outstanding claims experience emerges in future financial periods. If in future years the actual cost of claims described in notes 10 and 11 are greater than the balances recorded in the financial statements, this will adversely impact the funding ratio described in note 6.*

### Communicating our audit findings

Our audit did not identify any matters that needed to be communicated to RTWSA.

# Interpretation and analysis of the financial report

## Highlights of the financial report

| | 2022 $million | 2021 $million |
|---|---|---|
| **Underwriting result** | | |
| Premium revenue from registered employers | 617 | 533 |
| Net claims paid | (487) | (449) |
| Decrease (Increase) in net outstanding claims liability | 243 | (788) |
| Claims management fees | (71) | (66) |
| Other underwriting expenses | (12) | (7) |
| **Underwriting result** | 290 | (777) |
| | | |
| **Net investment and other income** | | |
| Net investment profit (loss) | (191) | 399 |
| Other income | 13 | 13 |
| **Net investment profit (loss) and other income** | (178) | 412 |
| | | |
| **Operating expenses** | | |
| Employee benefits expenses | (33) | (32) |
| Other expenses | (25) | (22) |
| **Total operating expenses** | (58) | (54) |
| **Result from operating activities before tax equivalents** | 54 | (419) |
| **Total comprehensive result** | 54 | (419) |
| | | |
| Net cash provided by (used in) operating activities | 82 | 76 |
| Net cash provided by (used in) investing activities | (74) | (107) |
| Net cash provided by (used in) financing activities | (2) | (2) |
| | | |
| **Assets** | | |
| Investments | 3,705 | 3,896 |
| Other assets | 96 | 86 |
| **Total assets** | 3,801 | 3,982 |
| | | |
| **Liabilities** | | |
| Outstanding claims | 4,061 | 4,301 |
| Other liabilities | 35 | 30 |
| **Total liabilities** | 4,096 | 4,331 |
| **Total equity** | (295) | (349) |

## Statement of Comprehensive Income

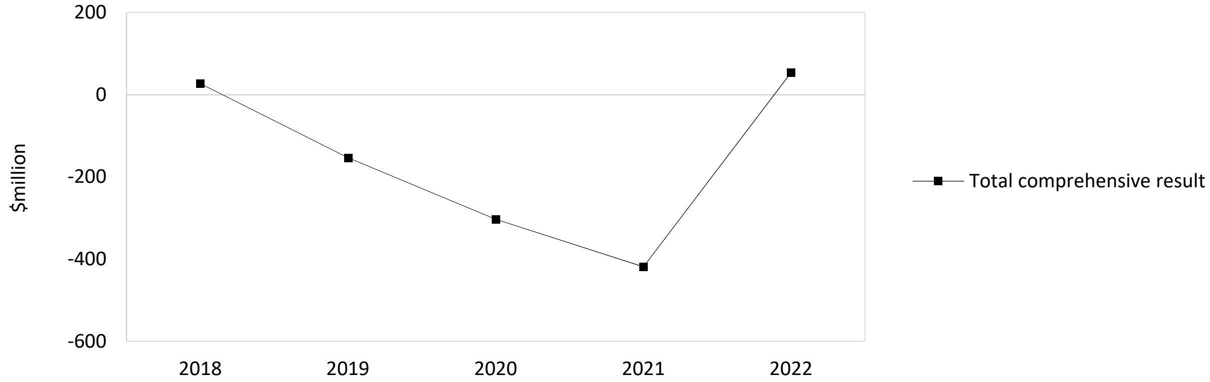
### Total comprehensive result

RTWSA’s total comprehensive result depends significantly on:

- premium rates being set before the start of the financial year, with the aim of ensuring premium revenue and investment income will at least cover the cost of new claims incurred during the financial year and administrative costs. The premium setting process depends significantly on the actuarial estimate of the cost of new claims likely to be received in the coming year and other factors determined by RTWSA’s Board of Management

- the actuarial estimate of the outstanding claims provision
- movements in the market value of its investments.

The following chart shows RTWSA's total comprehensive result for the five years to 2022.




Since 2018 the comprehensive result has steadily decreased, with losses incurred through to 2021. The $53.7 million profit for 2022 represents a $472.6 million turnaround from the $418.9 million loss incurred for 2021. The key factors driving this improvement were:

- an $83.8 million increase in premium revenue, due mainly to a 9.7% increase in the amount of remuneration employers paid to workers. The average premium rate also increased from 1.65% in 2021 to 1.7% in 2022
- an improvement in the cost of claims of $986.6 million, due mainly to the $242.6 million decrease in the outstanding claims liability. In 2021 the outstanding claims liability increased by $787.6 million. The decrease this year was driven by the recent legislative reform. See further commentary on the movements in the outstanding claims liability under 'Statement of Financial Position' below
- a $590.1 million deterioration in net investment profit. See commentary under 'Investment profits' below
- a $4.8 million increase in claims management fees. See 'Claims management fees' below for further information.

For the last two years RTWSA has not been required to pay any tax equivalents under Treasurer's Instruction 22 *Tax Equivalent Payments*. The RTWSA Act restricts the application of tax equivalents to financial years in which RTWSA makes a profit and achieves both a funding level of at least 100% (with its outstanding claims liabilities at a 75% probability of sufficiency) and a profit from insurance operations. Under the tax equivalents regime, the corporate tax rate (30%) is applied to any operating profit. In 2022 RTWSA did not achieve a funding level of a least 100% and therefore was not required to pay any tax equivalents. In 2021 RTWSA made a comprehensive loss and therefore was not required to pay any tax equivalents.

## Underwriting result

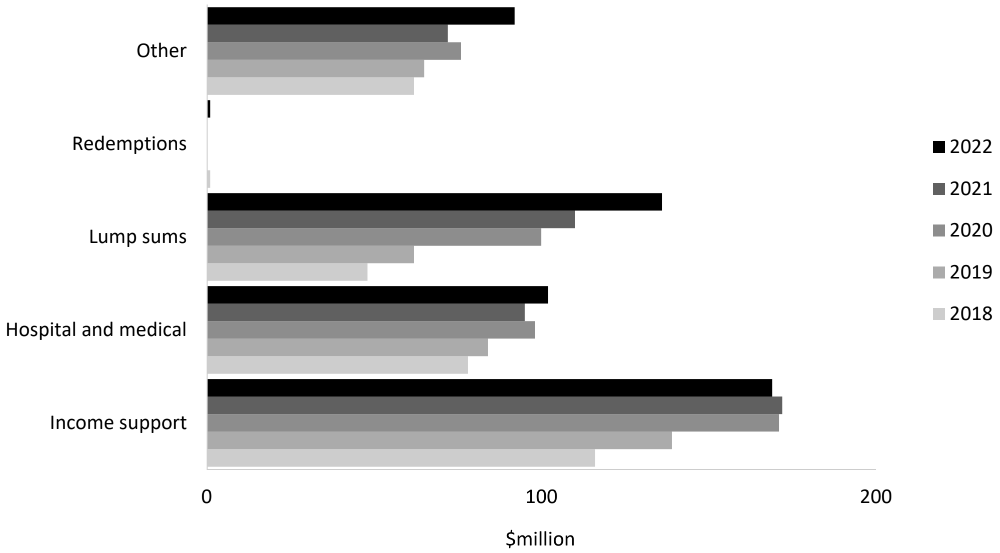
The underwriting result comprises registered employer premium revenue less claims expense. Investment income does not form part of the underwriting result. AASB 1023 *General Insurance Contracts* requires the underwriting result to be shown separately in the Statement of Comprehensive Income to help show the extent to which underwriting activities rely on investment income for the payment of claims.

The underwriting result was a profit of $289.8 million, compared to a loss of $776.6 million in 2021. The $1.066 billion upturn reflects a $986.6 million decrease in the cost of claims, mainly as a result of:

- a $242.6 million decrease in the net outstanding claims liability compared to a $787.6 million increase for 2021
- a $38.3 million increase in net claims payments compared to 2021.

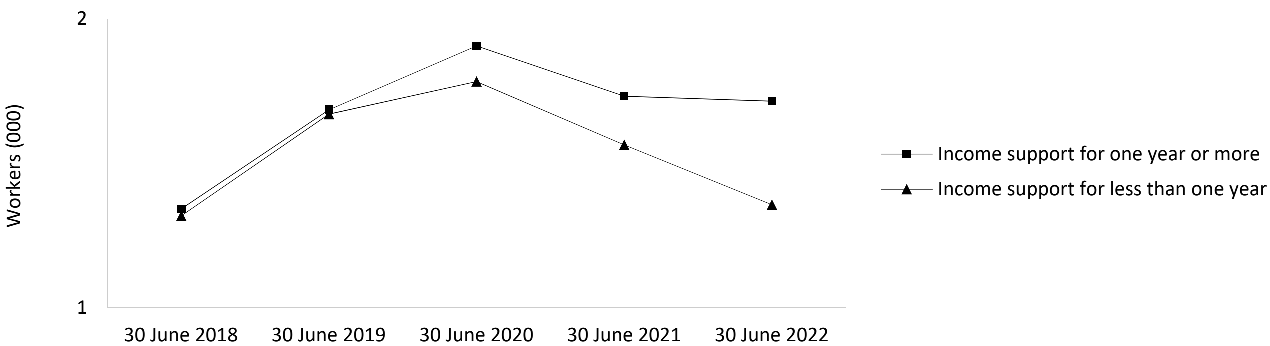
## Claim payments

The following chart shows claim payments for the five years to 2022.




The chart shows a decrease in income support payments in 2022 ($2.9 million) principally due to favourable return to work experience. Lump sum payments increased by $26.8 million in 2022 due to material increases in average sizes for lump sums as a result of combining injuries. Other payments increased by $7.9 million in 2022, mainly due to increased legal costs of $6.3 million following a high number of dispute settlements.

The change in the number of workers receiving income support for the five years to 2022 is shown in the following chart.

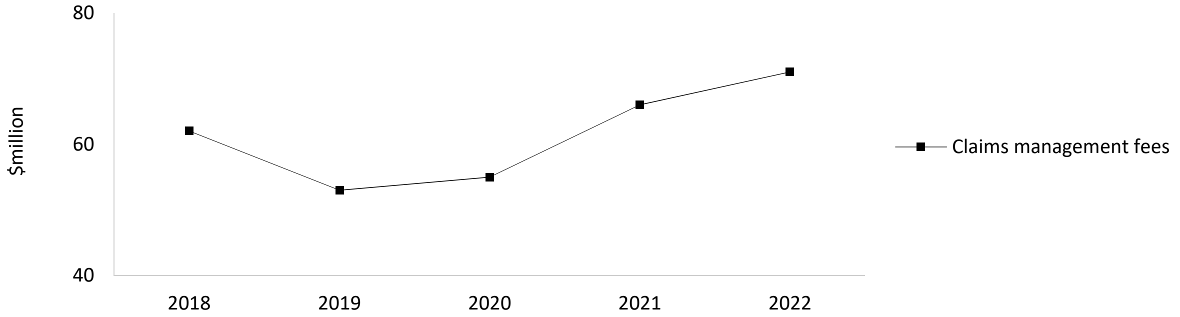



Source: The data in this chart was provided by RTWSA and is unaudited.

The chart shows the number of workers receiving income support increasing from 2018. In 2021 the number of workers receiving income support for a year or more (long-term claims) decreased by 9.1%, and for less than a year decreased by 12.3%. This was mainly due to improvements in return to work outcomes in the last 24 months. Decreases in workers receiving income support were again experienced in 2022.

## Claims management fees

The following chart shows claims management fees for the five years to 2022.



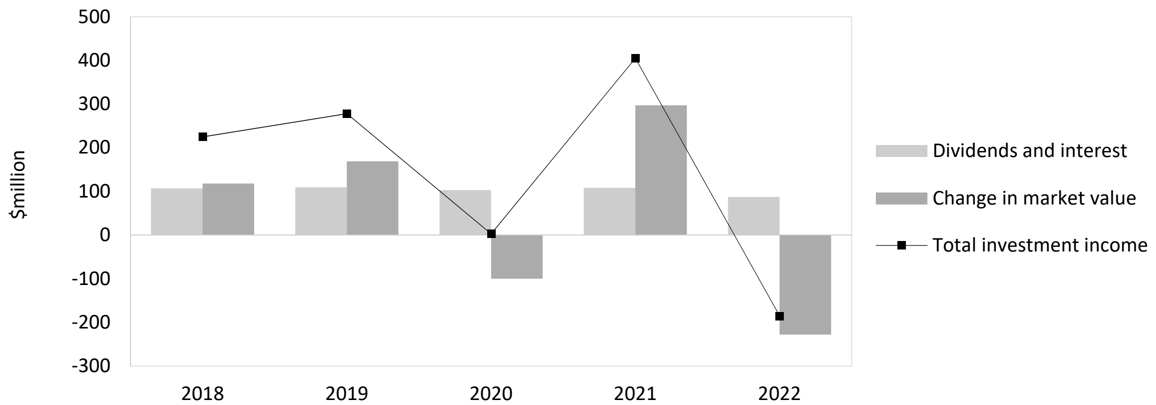

Claims management fees are paid to RTWSA's two claims agents for managing workers compensation claims.

Claims management fees increased by $4.8 million to $70.9 million in 2022, mainly as a result of an increase in base fee payments and funding to manage the Summerfield response. The decrease in claims management fees in 2019 was driven by the removal of additional payments to cover the extra costs incurred by the agents due to Scheme reform.

## Investment profits

RTWSA's investment profits have fluctuated significantly over recent years as a result of changes in the market values of its investments, which depend on financial market conditions and macroeconomic influences. In 2022 the weak performance of equity markets had a significant impact on RTWSA's investment returns.

The following chart shows RTWSA's investment income for the five years to 2022.

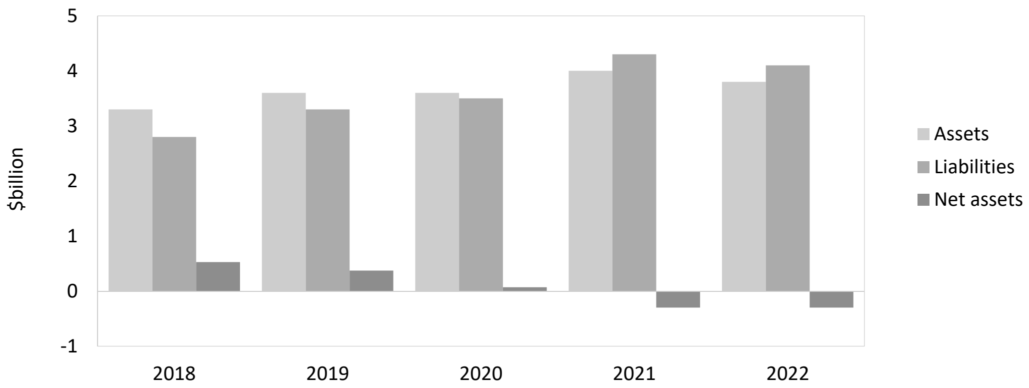


The chart illustrates the volatility in investment returns over the past three years, with the market value of RTWSA's investments held at 30 June decreasing by $227.7 million in 2022. Dividend and interest income decreased by $21.4 million to $86.5 million, a deterioration of 25%.

## Statement of Financial Position

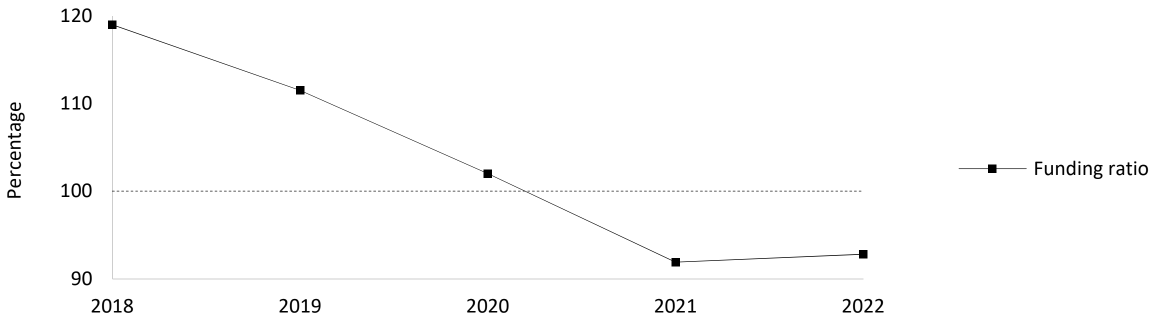
RTWSA's total equity improved by $53.7 million to net liabilities of $294.9 million. This was driven mainly by a $240.2 million decrease in the provision for outstanding claims to $4.061 billion, following an actuarial valuation. This improvement was partially offset by the $227.7 million decrease in the market values of investments to $3.705 billion.

The following chart shows RTWSA's assets and liabilities for the five years to 2022.




The chart shows that RTWSA's net asset position has deteriorated since 2019 and currently the Scheme is not fully funded. The funding ratio (assets divided by liabilities) was 92.8% in 2022 compared to 91.9% in 2021.

The following chart shows the funding ratio decreasing over the period to 2021, with a moderate improvement in 2022.




The Compensation Fund, which makes up the largest portion of the Scheme, has net liabilities of $480.9 million (see note 5 of RTWSA's financial report).

Under the RTW Act, a Scheme funding/review event occurs if for two consecutive years RTWSA operates at a funding level below 90% at a probability of sufficiency of 75%. If the Minister is satisfied that a Scheme funding/review event has occurred, the Minister must initiate a review of the Scheme that considers, among other things, the sustainability of the Compensation Fund over the short to medium-term.

## Liabilities

### Outstanding claims – Compensation Fund

Outstanding claims for the Compensation Fund comprised 98% (98%) of RTWSA's liabilities. The outstanding claims liability covers expected future payments including those related to claims reported but not yet paid, incurred but not yet reported and incurred but under-reported.

The liability is determined by RTWSA's management and Board of Management considering and assessing a comprehensive actuarial review of claims exposures by an independent actuary. Information about the actuarial estimation of outstanding claims liabilities is provided in notes 4 and 10 of RTWSA's financial report.

#### *RTWSA v Summerfield*

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). This decision substantially differs from RTWSA's previously adopted position on how key aspects of its WPI assessments should be undertaken.

The Summerfield legal decision allows for the combining of injuries for WPI assessment purposes.

RTWSA applied for special leave to appeal the Summerfield decision to the High Court of Australia. The application was refused on 5 November 2021.

As a result of the Summerfield decision, the Amendment Act was proclaimed on 28 July 2022. It introduced reforms to codify the combining of injuries under the law, but also to mitigate the financial impact of the Summerfield decision.

RTWSA's actuary has considered the impacts of the Summerfield decision and the introduction of the reforms in the outstanding claims liability as at 30 June 2022.

### Audit approach to the estimate of outstanding claims liability

Due to the nature and significance of the Scheme estimate of outstanding claims liability, our audit approach included focused review of the Scheme actuary's projections by an independent professional actuary engaged by the Auditor-General. The nature and impact of the 2014 legislative changes, the outcome of the Summerfield decision and the introduction of the reforms continued to warrant a high level of audit scrutiny.

Our audit did not identify any issues or variations from expected practice that would suggest the estimate of outstanding claims liability is unreasonable or that the estimate for 30 June 2022 should be adjusted in any material way. The inherent uncertainty associated with the Scheme arrangements and the reforms, however, prevents the degree of certainty over the estimate that would warrant no comment or clarification to the audit opinion.

The key valuation uncertainties in this valuation are:

- the impacts of the Amendment Act, including behavioural responses in combining injuries, the application of a higher WPI threshold and claimant selection of entitlement options under the amended RTW Act
- the ultimate number of serious injury claims
- legal precedent risk
- high levels of disputes and delays in the dispute process
- the impact of the COVID-19 pandemic
- the increasing number of hearing loss claims
- economic uncertainty.

The uncertainty in the Scheme has increased in the current valuation. The Scheme's actuary has identified that there are higher than normal levels of uncertainty in this valuation.

### *Central estimate of outstanding claims liabilities*

The central estimate of outstanding claims liabilities (Compensation Fund) was $3.361 billion at 30 June 2022. The net outstanding claims provision was $3.923 billion at 30 June 2022, including a risk margin of $634.6 million intended to achieve a 75% probability of sufficiency.

The net liability for outstanding claims has decreased from $4.157 billion at 30 June 2021. The $234.6 million decrease is mainly attributed to:

- a $294 million increase due to the inclusion of another year of claims
- a $155 million increase for serious injury claims before reform impact, reflecting:
  - confirmation of the ability of claimants to combine injuries ($250 million increase)
  - additional experience for Non-EnABLE claims ($45 million increase). Non-EnABLE claims are serious injury claims that are not managed by RTWSA's internal claims management team
  - higher 'incurred but not reported' experience ($60 million increase)
  - improved mortality outcomes ($75 million decrease)
  - reduced costs for combining claims, with experience indicating fewer claims reaching the serious injury threshold ($140 million decrease)
- a $142 million increase in short-term claims before reform impact, largely reflecting a combination of an increase in the assumed number of claims that will combine injuries, an increase in the number that remain in short-term rather than serious injury claims, higher numbers of claims seeking lump sums and higher average WPI scores
- an increase of $114 million following the increase in the risk margin from 16.5% to 19.3% to allow for the ongoing uncertainty in the valuation of the impact of combining injuries, a shift in the claims experience of lump sums and added uncertainty in the valuation of the impact of the Amendment Act
- a $126 million increase in short-term claims as a result of the reforms introduced by the Amendment Act

- a $631 million decrease in serious injury claims as result of the reforms introduced by the Amendment Act
- a $435 million decrease due to changes in economic assumptions, principally led by an increase in discount rates.

The liability for long-term claims may extend for many years beyond the current year, causing the liability to grow. Long-term claims make up a greater proportion of total claims. This is reflected in the weighted average expected term to settlement of claims being at 12 years in 2022 (see note 10(a) of RTWSA's financial report).

### Sensitivity to changes in key assumptions

The sensitivity analysis in note 10(f) of RTWSA's financial report illustrates that relatively small changes to key assumptions in the estimate can result in changes in the order of millions of dollars.

For example, a 1% gap between inflation and the real discount rate (with inflation exceeding the discount rate) would lead to an increase in the net outstanding claims provision of $519 million. There is also significant uncertainty regarding the serious injury claims cost arising from factors such as life expectancy, superimposed inflation and the ultimate impact of the reforms. The actuary's sensitivity analysis suggests that changes to each of these assumptions could change the net outstanding claims provision in the order of $300 million to $402 million.

### Impact of outstanding claims liability on funding ratio and premiums

As a result of legislative changes and RTWSA's initiatives to get claimants back to work sooner, the Scheme became fully funded for the first time in many years in 2014-15. For 2022 the funding ratio (assets divided by liabilities) was 92.8% (91.9% in 2021).

The average premium rate set by RTWSA for 2022 was 1.7% (1.65% in 2021).

### Legislative reform and other developments affecting the uncertainty of the outstanding claims liability

The actuarial estimation is primarily based on the anticipated impact of the RTW Act and the introduction of the Amendment Act. The impact will only become clearer as actual claims experience emerges under the legislation. Further, note 10 of RTWSA's financial report specifies the nature of a number of key uncertainties associated with the actuarial estimation and the sensitivities of the estimation to changes in key assumptions. The independent actuary noted the following:

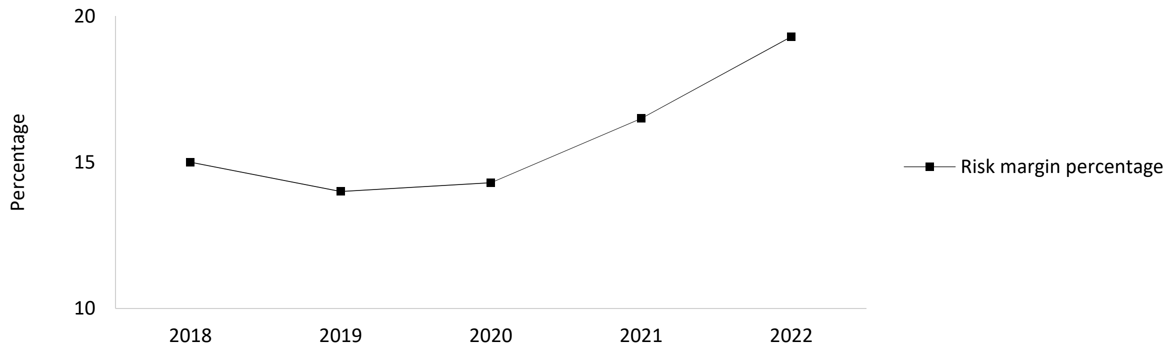
- The reform impacts have introduced changes to the RTW Act that attempt to manage the financial consequences of claimants getting higher WPI scores through combining injuries. The uncertainty relating to the impact of combining injuries is now compounded by the uncertainty in how successfully the reforms remove costs from other areas. A significant portion of the valuation is largely based on assumed outcomes, rather than being based on a reliable history. The uncertainty is elevated compared to normal valuations.
- There is a high risk of adverse behavioural change related to the reform impacts. The ultimate outcomes that emerge will directly depend on how claimants and their advisors seek to achieve higher WPI scores than in the past.

- There is a legal precedent risk related to the possibility of decisions that are unfavourable to the Scheme or the culture and behaviour of its participants. There are still a high volume of open disputes despite a number of key cases having been resolved over recent years. This risk will remain until a clear and decisive legal position is established as to how the Scheme should operate in practice. Compounding this are that:
  - with the introduction of new legislative provisions there will inevitably be new areas of challenge to their operation
  - boundaries on how and when injuries can be combined are still to be established.
- Under the RTW Act, there are significant differences between the compensation available to claims above the serious injury WPI threshold and those below. The Scheme will face significant financial consequences if this leads to more claims getting over the WPI threshold.
- Serious injury claimants are entitled to benefits for life and key uncertainties include:
  - claim numbers – these include the impact of late emerging claimants, as well as the large number of outstanding serious injury application disputes and WPI disputes
  - life expectancy – the future life expectancy of serious injury claimants has a significant impact on future cost projections
  - cost escalation – the potential for future cost escalation in a number of medical, care and treatment related items.
- Risks related to the outcomes for claims with current disputes include the possibility of decisions that are unfavourable to the Scheme, as well as the behavioural consequences of so many disputes remaining. Open dispute numbers remain high and more claims are moving into the later stages of the dispute resolution process.
- There has been unprecedented growth in hearing loss claim numbers in the last few years. If the upward pressure continues, further increases are likely.
- There is considerable uncertainty in financial markets, and this has impacted the discount rates used to determine the valuation results.
- While the COVID-19 impacts on claim outcomes to date have been modest, there is still uncertainty about how COVID-19 will impact over time.

### Probability of sufficiency

As disclosed in note 10 of RTWSA's financial report, the estimate of outstanding claims liability is determined by reference to a 75% probability that the provision for outstanding claims will be adequate. With the uncertainty of the impact of combining injuries, the reforms and a large number of open disputes, there is still considerable uncertainty in the Scheme. RTWSA has adopted the actuary's higher risk margin of 19.3% as at 30 June 2022 (16.5% in 2021), so that the net liability is adequately provided to a 75% probability of sufficiency. RTWSA's performance statement, authorised by the Treasurer, requires it to estimate its claims liabilities using a risk margin with at least 65% probability of sufficiency for the net liability. The Australian Prudential Regulation Authority sets a minimum of 75% in Prudential Standard GPS 320 *Actuarial and Related Matters*. Public sector entities are not bound by this requirement, but the parameters adopted by RTWSA are consistent with it.

The following chart shows the risk margin that has been applied to the outstanding claims liability over the past five years.




The increases in the risk margins in 2021 and 2022 highlight the increased level of uncertainty in the outstanding claims liability due to the impacts of the Summerfield decision and the reforms.

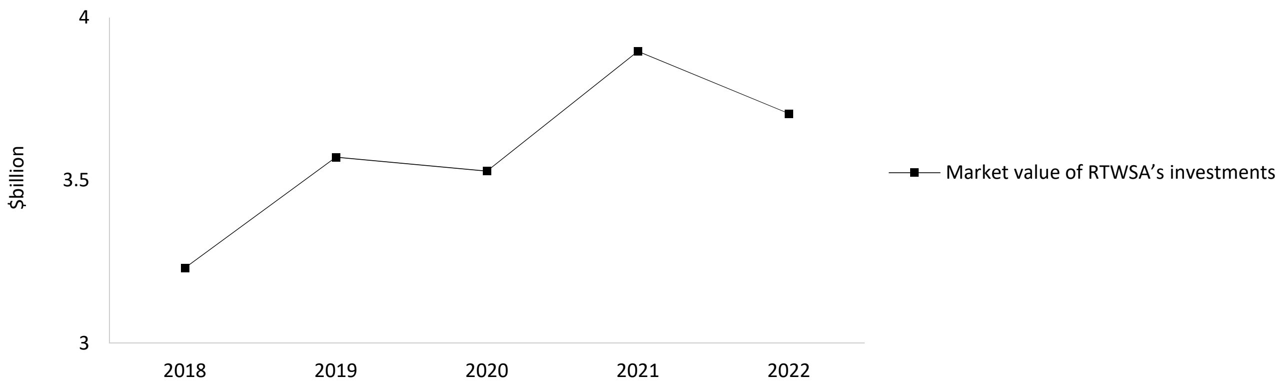
## Investments

RTWSA's investment portfolio of $3.705 billion ($3.896 billion) mainly comprises investments in pooled funds, discrete mandate funds and fixed-term deposits. RTWSA has appointed the National Australia Bank to be custodian of the pooled funds and discrete mandate funds.

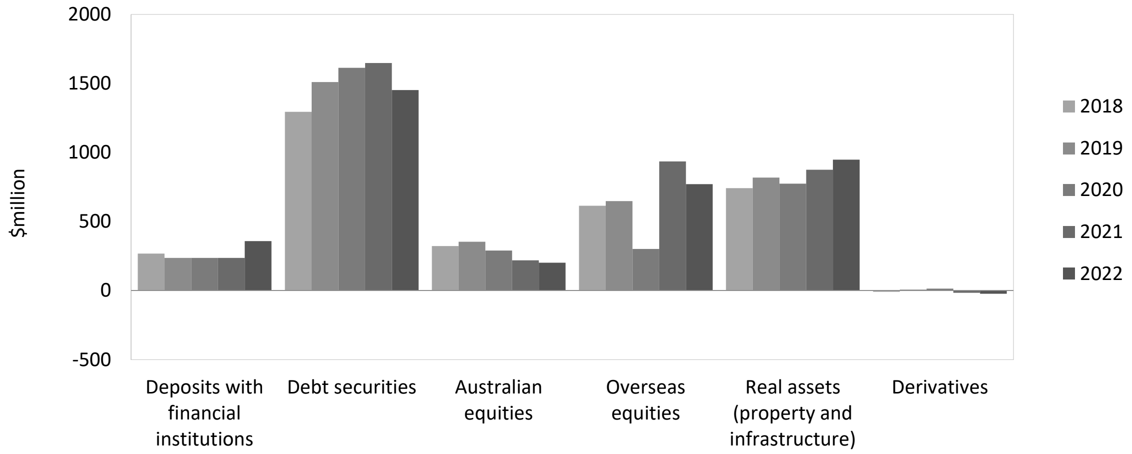
### Investment decisions

RTWSA investment officers implement its investment strategy, which involves rebalancing the investment portfolio held in pooled funds, discrete mandate funds and fixed-term deposits to minimise risk and achieve target returns. The investment officers also receive expert advice on investment matters from an external consultant.

The following chart shows the market value of RTWSA's investments for the five years to 2022.




The following chart shows RTWSA's investments by asset class for the five years to 2022.



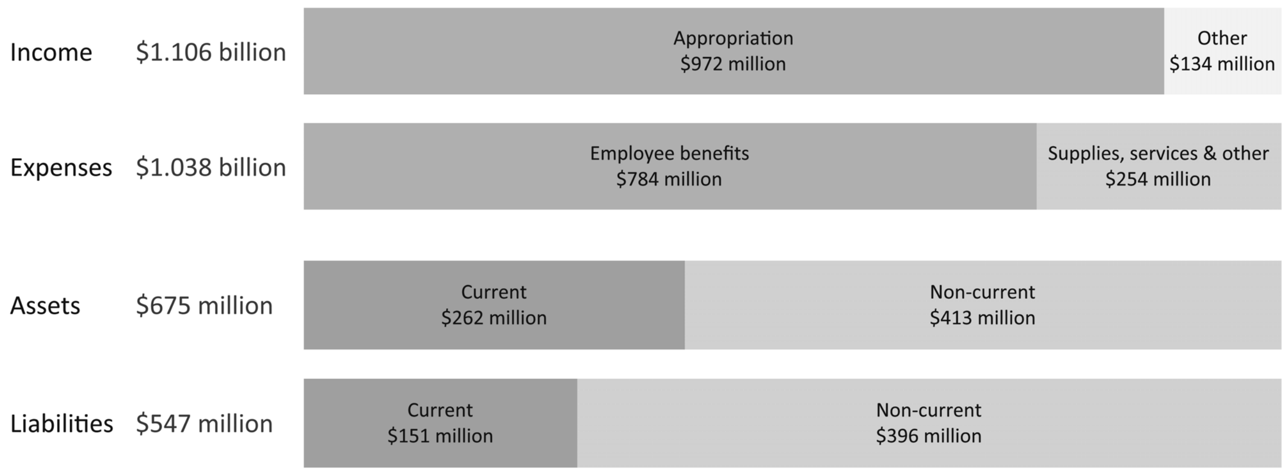

According to RTWSA, the return on investments measured in line with Australian Investment Performance Standards for the five years to 2022 was as shown in the following table.

| | 2018 | 2019 | 2020 | 2021 | 2022 |
|---|---|---|---|---|---|
| Return on investments | 7.5% | 8.4% | 0.0% | 11.8% | -5.0% |
| RTWSA Board of Management approved targeted return | 4.6% | 4.2% | 2.2% | 6.3% | 8.6% |

The current long-term objective for the investment program is a return of CPI plus 2.5% as approved by RTWSA's Board of Management. Other than in 2020 and 2022, the actual return on investments has exceeded these targets.

# South Australia Police (SAPOL)

## Financial statistics

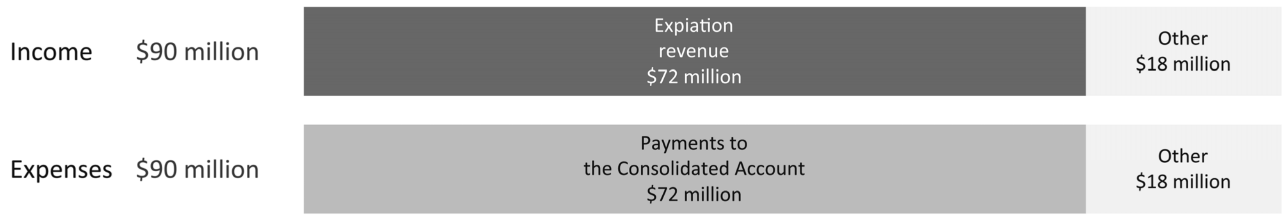



**4,592**
Police Act FTEs

**1,273**
Protective security officers and unsworn FTEs

**$784 million**
Total employee benefits expenses

### Administered items




## Significant events and transactions

- The sale of a portion of the former Largs Police Academy and former Stirling police station sites resulted in a return to the Consolidated Account of $13.95 million.
- SAPOL continued to play a significant role in responding to the impacts of the COVID-19 pandemic in South Australia. This has resulted in unbudgeted increases to expenditure, particularly supplies and services expenses.
- On 24 May 2022 the Commissioner of Police (the Commissioner) revoked his declaration of the COVID-19 outbreak as a major emergency, meaning that the Commissioner no longer had responsibility for setting COVID-19 directions.
- SAPOL was involved with the Australian Federal Police-led investigation (Operation Ironside) into organised crime syndicates responsible for drug imports, drug manufacturing and attempts to kill and other routine investigations. This saw an increase in its administered exhibit money of $2.14 million in 2021-22.
- The program budget for the Shield Program was $89.57 million.

| | |
|---|---|
| **Financial report opinion** | **Unmodified** |
| **Controls opinion findings** | Workforce planning and employee performance management controls could improve. |
| **Other audit findings** | — The Shield Business Transformation Program has experienced significant delays.<br>— SAPOL could strengthen its procurement and contract management practices.<br>— Improvements are required to selected IT controls. |

# Functional responsibility

SAPOL is an administrative unit established under the *Public Sector Act 2009* and operates under a legislative framework prescribed by the *Police Act 1998*.

SAPOL's functions are to:

- uphold the law
- preserve the peace
- prevent crime
- assist the public in emergency situations
- coordinate and manage responses to emergencies
- regulate road use and prevent vehicle collisions.

# Scope of the audit

## Audit of the financial report

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

Specific areas of audit attention in 2021-22 included:

- payroll
- workers compensation and additional compensation
- cash
- revenue from fees and charges
- expenditure
- expiation revenue
- contract management
- procurement
- rejuvenation payments
- seized exhibits.

### Controls opinion

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

## Audit findings

### Communicating our audit findings

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

#### Controls opinion findings

##### Improvements required in workforce planning and employee performance management controls

*Our scope of work*

Employee benefits expense is material for SAPOL and in the context of the whole of government. For this reason, we reviewed SAPOL's controls over salaries and wages and the management of its human resources. Our scope of work included:

- workforce planning:
  - whether SAPOL has reasonable processes to identify its current and future workforce needs to deliver its organisational and strategic objectives
  - whether SAPOL has processes to capture, report and monitor vacancies
  - the reliability, frequency of reporting of actual FTEs against its establishment profile to the Executive Leadership Team (ELT)
- reviewing whether staff appointments are in line with legislation
- employee performance management
- processes to ensure leave taken is deducted from the CHRIS payroll system.

We considered guidance issued by the Office of the Commissioner for Public Sector Employment (OCPSE) when reviewing controls over workforce planning.

*A comment on SAPOL sworn establishment levels*

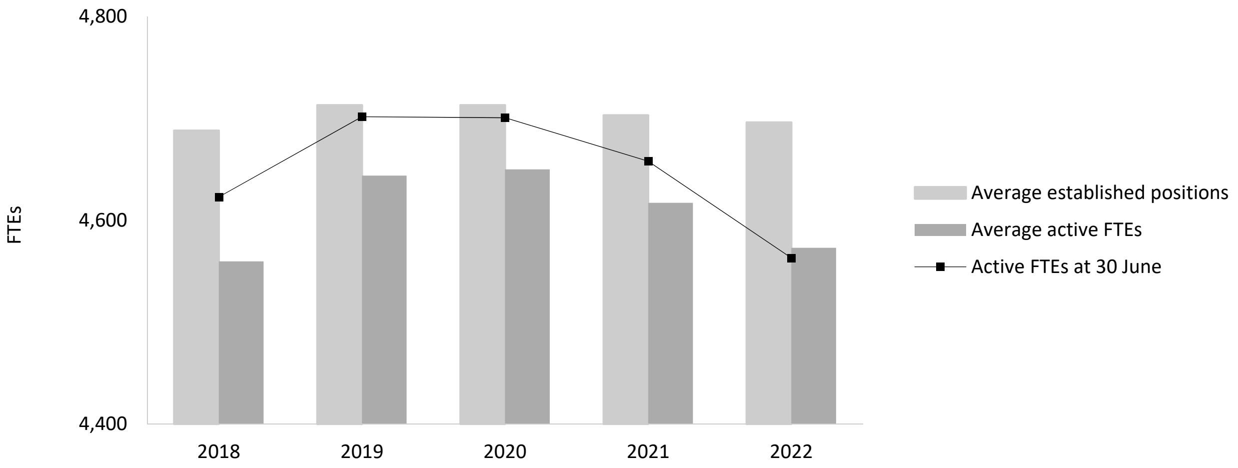
SAPOL's workforce is made up of both sworn and unsworn officers, with sworn officers forming the majority of the workforce (78%) with 4,592 FTEs at 30 June 2022.

SAPOL has processes to identify the minimum baseline sworn officers required to meet its service requirements. This is known as the 'sworn established profile'. The profile identifies both the number of FTEs required and the positions required in each service area to deliver on its objectives.

SAPOL's ability to deliver services depends on the sufficiency of its resourcing and effective management of that resourcing.

The following chart shows SAPOL's average sworn established profile and average active FTEs for the past five years. It illustrates that SAPOL has not met the average established profile for sworn officers over this period. Recruitment through 2019 and 2020 enabled SAPOL to largely achieve its sworn establishment profile by 30 June in those years. However since 30 June 2020, staff attrition has exceeded recruitment, with SAPOL operating 123.04 FTEs (on average) below its establishment in 2021-22.

SAPOL has noted that its inability to meet its sworn FTE establishment highlights a challenge faced by law enforcement agencies nationally and internationally.




Note: Data was supplied by SAPOL and is unaudited.

The average active FTEs figures include employees who are on extended leave without pay, meaning that the number of sworn positions filled may be lower than depicted in the chart. The latest SAPOL internal report reflects that there were 143 FTEs on extended leave at 30 June 2022.

### *Guidance on the review of establishment profiles could be improved*

SAPOL's General Orders require its service areas to monitor their establishment profile. However, our review of the approach taken by three service areas (Metro Operations Service, State Operations Service and State Emergency Management Section) noted inconsistencies in how each of them applied the requirements of the General Order. Noting where these inconsistencies occurred, we recommended that the General Order could be improved to provide guidance on:

- how frequently the review of establishment profiles should be performed and by who
- factors that should be considered when performing the review, including both employee and population demographics.

While SAPOL accepted that the General Order could provide more guidance, it noted that the requirements of the General Order are not the only activities that support SAPOL's monitoring of establishment profiles. It also noted that it recently introduced new positions in its People, Culture and Wellbeing unit that will support activities relating to workforce management, workforce mix, and attraction and retention strategies.

### Role of the Establishment Management Committee (EMC)

The role of the EMC was established in 2012 to provide corporate oversight over the sworn and unsworn workforce. It is responsible for managing vacancies to allow for flexibility and changes to staffing to meet the needs of the workforce or to meet SAPOL's strategic objectives. While other areas of the organisation have taken on responsibilities for managing various workforce management risks, the EMC was designed to provide executive-level monitoring of vacancies and staff movement in ensuring strategic objectives are being met.

We noted that SAPOL's EMC had not met for over 12 months and has no approved terms of reference.

Without an appropriate level of management oversight, staff numbers or resources may not be managed effectively, impacting on SAPOL's ability to meet its strategic objectives and business needs and its ability to fill the minimum identified establishment profile.

SAPOL acknowledged that the EMC last met in February 2021, at which time alternate mechanisms to monitor establishment were being considered. Given SAPOL's COVID-19 related obligations and resulting scrutiny of resourcing through the pandemic, no further EMC meetings were held. During the pandemic the Business Continuity Executive Management Group oversaw role management to ensure resources were prioritised to COVID-19 duties. As SAPOL has now reduced its commitment to COVID-19 duties, an interim Strategic Transfer Committee has been established to manage vacancies due to COVID-19 absences and front line resourcing challenges. When the Committee ceases, the EMC will be re-established.

### District Policing Model (DPM) effectiveness review

SAPOL has not completed a planned review of the effectiveness of its DPM.

A major restructure of SAPOL's metropolitan operations occurred in 2015, consolidating six metropolitan service areas into four districts and centralised command. This new DPM model was implemented in two stages, with stage 2 completed in March 2020. Stage 2 included a transition to a two-tiered response model, forming a response and a district policing team over four districts.

SAPOL had intended to review the effectiveness of stage 2, but was delayed due to significant resources being diverted to COVID-19. Without this review of effectiveness, SAPOL is at risk of not realising its intended objectives for this major change.

SAPOL responded that a review of stage 2 of the DPM will be performed and is anticipated to commence in 2023.

### SAPOL's recruitment checklist is not complete

We noted the need to improve SAPOL's controls to ensure that all recruits complete a DNA check as required by its General Orders. DNA testing is used by SAPOL to ensure that recruits do not have an offence history that would be considered grounds for employment ineligibility.

From a sample of 10 cadets and 12 trainee protective security officers (PSOs) appointed between 1 July 2021 and 10 February 2022, we found:

- an instance where DNA had not been collected for a PSO

- two instances where the DNA results had not been received eight months after the PSO had been appointed.

SAPOL has since updated its recruitment checklist to capture all recruitment requirements, with this process incorporated into a standard operating procedure.

### *The number of employees with an approved individual performance plan has not improved between March 2021 and December 2021*

In recent years we have reported on the importance of SAPOL ensuring that all staff have completed an individual performance plan (IPP). An IPP identifies the employee's role, standard of work expected and how their performance will be assessed. It documents the manager's assessment of the employee's performance and necessary action required.

We noted that, as at 31 December 2021, 71% of SAPOL staff had an active IPP – a figure consistent with the prior year. Without an active IPP, employees may be unaware of the performance standards for their position, if they are reaching them and how their performance could improve. Current reporting limitations mean that SAPOL is not able to identify and prioritise employees with long overdue IPPs.

SAPOL responded that since September 2021, monthly compliance reports are provided to its ELT and that as at August 2022, 87% of its employees have an active IPP. The increase is expected to continue with additional monitoring and reporting. SAPOL will continue to monitor all plans and explore the option of developing a written policy relating to the monitoring and reporting of IPPs.

## Other audit findings

### The Shield Business Transformation Program has experienced significant delays

In September 2009 Cabinet approved a submission for the acquisition of a Police Records Management System, now referred to as the Shield Business Transformation Program (Shield Program).

Stage 2 to 4 of the program were subsequently approved by Cabinet in November 2013. SAPOL expected to complete these stages over a seven-year period (2013-14 to 2019-20). When fully implemented, Shield is expected to provide a fully integrated operational policing system. It aims to increase efficiencies, improve resource deployment and provide a more comprehensive information/ intelligence picture.

Our 2021-22 high-level review noted that the program has experienced significant delays from its original estimated delivery schedule. The delays were mostly due to the time taken to build functionalities, changes to the scope and resourcing difficulties, which were exacerbated in early-2020 from the impacts of the COVID-19 pandemic. All system functionalities were originally expected to be implemented by October 2019. The final functional release is now not expected until June 2023.

Early in 2021, SAPOL estimated that an additional $34.37 million would be required to complete the remaining stages (stage 3 and 4). The 2021-22 State Budget allocated the program additional capital expenditure of $20.98 million over 2021-22 and 2022-23. The total amount requested but not approved ($29.59 million) included funding for contingency and to offset the risk of any future program delays. The total program budget has now reached $89.57 million. To date, SAPOL has spent $69.05 million, with $20.52 million left to complete the program.

SAPOL will need to diligently monitor program controls, including the project scope. If SAPOL meets its target completion date of the end of 2023, it will be able to decommission several legacy mainframe systems. Legacy system operational costs from 2023-24 are yet to be determined but forecast to increase, which is not budgeted for.

Our review also identified some areas where improvement is required to address:

- weaknesses in the governance of program finances
- the absence of a formal benefits realisation plan
- stage 3 to 4 business case still being in draft
- the lack of escrow deposits
- gaps in status updates on deliverables to the Shield Program Board
- weaknesses in disaster recovery processes.

SAPOL advised us that our findings were discussed at an August 2022 Shield Program Board meeting and have been reviewed, with a series of remediation actions being developed. The Shield Program Board will consider these remediation actions before providing a formal response to our findings.

Further details on our review of the Shield Business Transformation Program are included in Part D of this Report.

## SAPOL could strengthen its procurement and contract management practices

From 1 July 2021 most public authorities were required to comply with a new procurement framework. The framework consists of Treasurer's Instructions 18 Procurement (TI 18) and supporting policies approved by the Treasurer and administered by Procurement Service SA (PSSA). The approved policies include the Procurement Governance Policy, Procurement Planning Policy, Sourcing Policy and Contract Management Policy.

In 2021-22 we reviewed SAPOL's compliance with this new procurement framework. Our work included testing a small sample of new procurements and existing contracts. It did not cover contract reviews, extensions, variances and contract closure.

### *Complexity assessments do not clearly outline reasons to support the assigned classification*

Complexity assessments are undertaken to classify the procurement as either transactional, routine, complex or strategic. The classification determines the compliance requirements of the procurement process. We tested two procurements and found that SAPOL had not clearly documented the reason why both procurements were classified as routine.

Procurement activities that may vary depending on the classification of the procurement include the preparation of a risk management plan, a formal negotiation plan for contract negotiations and the requirements for a post-sourcing review.

SAPOL responded that its staff have since been advised to ensure complexity assessments are finalised in line with PSSA's Governance Policy.

### Conflict of interest declarations and confidentiality agreements

Conflict of interest declarations and confidentiality agreements were not completed by the officers involved in the procurement of COVID-19 personal protective equipment. PSSA's Sourcing Policy requires all participants in the evaluation process to complete a conflict of interest declaration and confidentiality agreement, even where there are no conflicts to declare. Without them, there is a risk that actual and perceived conflicts are not identified and managed, impacting the objectivity and perception of fairness of the procurement process.

SAPOL's Procurement and Contract Management Section has since been advised to ensure conflict of interest declarations and confidentiality agreements are completed by all procurement evaluation team members and details are maintained in the contract database.

### Non-compliance with the sourcing policy

SAPOL's request for quotation for one procurement we reviewed did not outline all the assessment criteria specified in the approved acquisition plan. PSSA's Sourcing Policy requires market invitation documents to clearly identify the evaluation criteria set out in the acquisition plan. Where the evaluation criteria published is inconsistent with the request for quotation, suppliers are not informed on all evaluation criteria. This may impact the information they provide to SAPOL in their quotations and affect their success rate. It may also create inefficiencies in the procurement process where SAPOL requires more information from suppliers to evaluate their bids and make a purchase recommendation.

SAPOL staff have been advised to ensure all evaluation criteria in the approved acquisition plan are included in the market approach documentation.

### SAPOL's policies do not reflect new PSSA Contract Management Policy requirements

We noted that SAPOL had not updated its General Order to reflect the changed contract management requirements in PSSA's Contract Management Policy, which became effective on 1 July 2021.

Where SAPOL does not update its General Order to reflect new regulatory requirements, it runs the risk that its staff are not aware of them and that as a result they manage contracts in a manner inconsistent with PSSA's expectations.

SAPOL advised us that it is reviewing its General Order and will have a revised version by 30 November 2022.

### SAPOL does not have processes to ensure contract managers have undergone contract management training

SAPOL policy requires staff assigned to manage contracts valued above $4.4 million to have undergone contract management training. However SAPOL does not have processes to ensure that contract managers attend this training. Our testing of two contracts valued above $4.4 million noted that neither contract managers assigned had the necessary contract management training.

Where contract managers are not adequately trained, there is a risk that contracts are not effectively managed and SAPOL does not achieve value for money. SAPOL responded that it will develop a register to track and monitor training compliance for contract managers by November 2022.

### *SAPOL's policies do not provide guidance on when contract risks should be reassessed*

It is important that contract arrangements are regularly reviewed to ensure that any new or emerging risks associated with the contract are identified and mitigated.

We noted that SAPOL had not reassessed the risks associated with one contract we reviewed, despite a contract variation significantly increasing the scope of services provided and increasing the value of it by $4.4 million. We noted that SAPOL's General Order does not provide any guidelines on the circumstances that would require a reassessment of risks.

SAPOL responded that its General Order will be updated to include guidance on when risk assessments are expected to be reviewed during the life of a contract.

## Improvements are required to selected IT controls

We reviewed IT controls supporting the Chris21 payroll system and SAPOL's South Australian Computer Aided Dispatch System (SACAD). The most significant observations are provided below.

### *Chris21 payroll system IT general controls*

Chris21 is maintained by Shared Services SA, with certain user access management controls managed directly by SAPOL.

We reviewed the SAPOL user access management controls for the Chris21 environment including privileged user access, user onboarding, user offboarding, user access reviews and audit logging of application users.

Our review identified a small number of exceptions, including an outstanding matter from 2020-21 relating to the insufficient review of application audit logs for privileged users.

SAPOL responded positively to our findings and recommendations with details of its remedial actions.

### *South Australian Computer Aided Dispatch System IT general controls*

SACAD is an operational system used by Triple Zero operators/call takers and dispatchers to prioritise, record calls and send personnel to emergencies as required.

SACAD is used by SAPOL, the SA Ambulance Service Inc (SAAS) and the South Australia Metropolitan Fire Service (SAMFS) and supported by the Attorney-General's Department, which originally implemented the system.

We reviewed the IT general controls operating across SACAD and the instances of it in SAPOL, SAAS and SAMFS. Our coverage included password management, user access management, privileged user access, audit logging, change management, patch management, back up and disaster recovery management.

Our review identified some areas of weakness where controls could be further improved. The areas relevant to SAPOL include patch management, privileged user access, user access management and audit logging.

These control weaknesses may increase the opportunity for inappropriate access and unauthorised changes to the SACAD application and its data going undetected.

At the time of this Report, SAPOL was preparing a response to our audit findings.

## Interpretation and analysis of the financial report

### Highlights of the financial report*

| | 2022 $million | 2021 $million |
|---|---|---|
| **Income** | | |
| Appropriation | 972 | 943 |
| Intra-government transfers | 85 | 81 |
| Fees and charges | 30 | 26 |
| Other revenues | 20 | 14 |
| **Total income** | 1,106 | 1,065 |
| | | |
| **Expenses** | | |
| Employee benefits | 784 | 801 |
| Supplies and services | 193 | 186 |
| Payments to the Consolidated Account | 14 | - |
| Other expenses | 47 | 46 |
| **Total expenses** | 1,038 | 1,033 |
| **Net result** | 68 | 32 |
| **Total comprehensive result** | 68 | 32 |
| | | |
| Net cash provided by (used in) operating activities | 52 | 56 |
| | | |
| **Assets** | | |
| Current assets | 262 | 242 |
| Non-current assets | 413 | 428 |
| **Total assets** | 675 | 670 |
| | | |
| **Liabilities** | | |
| Current liabilities | 151 | 160 |
| Non-current liabilities | 396 | 445 |
| **Total liabilities** | 547 | 605 |
| **Total equity** | 128 | 65 |

* Table may not add due to rounding.

### Statement of Comprehensive Income

#### Income

Total income increased by $41.3 million to $1.1 billion in 2022. This increase is largely attributable to a $28.5 million increase in appropriation funding, a $3.6 million increase in fees and charges, a $4.9 million increase in net gains from the disposal of non-current assets and a $3.6 million increase to SA Government grants, subsidies and transfers.

SAPOL receives appropriation funding based on its annual budgeted expenditure, less estimated revenues from fees and charges and other sources. The increase in appropriation funding for 2022 largely reflects budgeted increases in operating expenditure associated with SAPOL's COVID-19 responsibilities.

Fees and charges increased by $3.6 million to $30 million due primarily to increased clamping and impound fees. Changes were made to the *Criminal Law (Clamping, Impounding and Forfeiture of Vehicles) Act 2007,* which now requires owners to pay the impounding fee up front at the time the vehicle is released. The change was effective from 1 July 2021. Prior to this, owners were only liable to pay the impounding fee once court proceedings were complete.

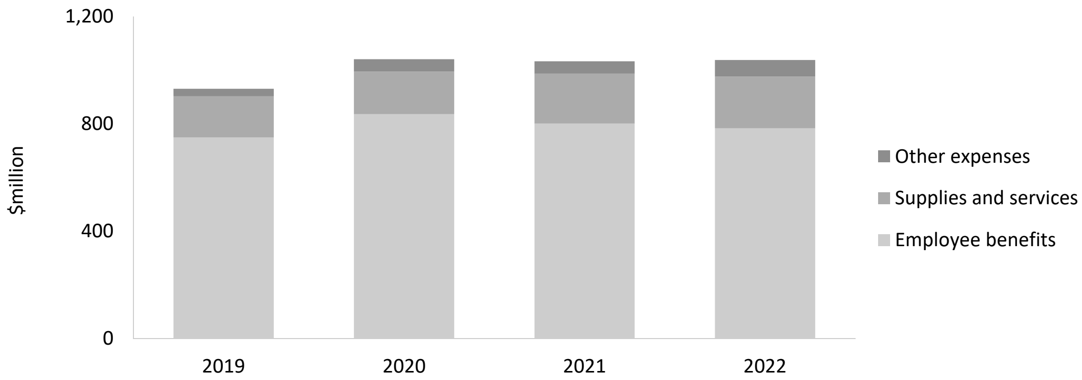
The net gain from the disposal of non-current assets increased by $4.9 million to $6 million following the settlement of the former Police Academy at Largs Bay and the former Stirling Police Station. Higher proceeds from the sale of vehicles were also experienced, with a strong second hand market for used vehicles.

SA Government grants, transfers and subsidies increased by $3.6 million to $84.6 million, largely due to:

- a $1.1 million (2.5% CPI) increase for the Community Road Safety Fund. SAPOL is reimbursed by the Department for Infrastructure and Transport for costs incurred for providing road safety services including the development of analytic capabilities, implementing road safety programs and heavy vehicle enforcement activities
- the receipt of $942,000 in 2021-22 from the Department of Treasury and Finance Contingency Fund, of which $710,000 was for solar batteries (Government Building Energy Fund). The remaining $232,000 was for costs relating to adjustments made to the 2021-22 enterprise agreement approved by the SA Employment Tribunal on 9 December 2021.

## Expenses

The following chart shows SAPOL's main expense items for the four years to 2022.




Total expenses increased by $5.7 million to $1.04 billion in 2022, driven by a $13.9 million increase to payments to the Consolidated Account and a $7.5 million increase to supplies and services expense, both partially offset by a decrease in employee benefits expense of $17.5 million.

The $13.9 million increase in payments to the Consolidated Account relates to the sale of the former Police Academy at Largs Bay and the sale settlement of the former Stirling police station.

Supplies and services increased by $7.5 million due largely to:

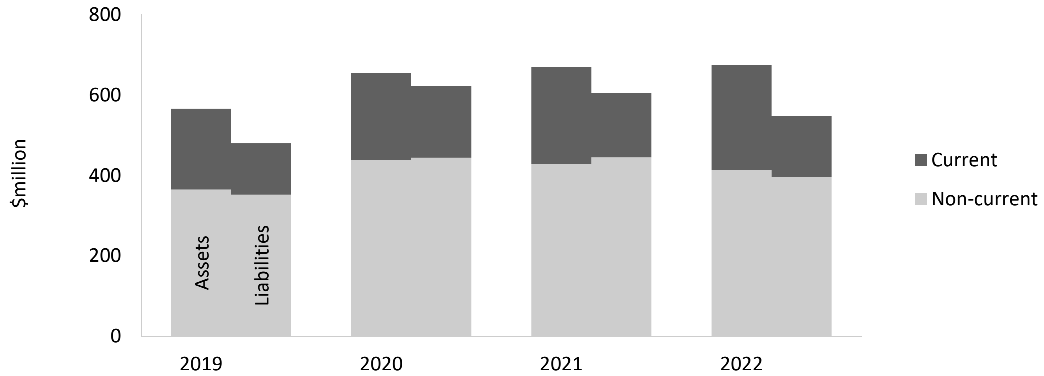
- a $6.4 million increase for uniforms relating to the purchase of multipurpose load bearing vests for SAPOL's police officers and protective security officers
- a $2.2 million increase in aviation costs due to higher helicopter hire costs and the associated costs of using a large dual engine helicopter. SAPOL previously used smaller single engine helicopters but the change was driven by new policy requirements. The increase is also attributable to increased usage and demand for aircraft services
- a $1.9 million increase in employee program and housing subsidies, with more employees living further than 100km from the CBD. SAPOL also incurred higher occupational health and safety and preventative maintenance costs due to the purchase of more personal protective equipment for its employees, paying for police medical officers to be onsite and a new project on the nature and extent of gender discrimination, sexual harassment and predatory behaviour in SAPOL
- a $1.2 million increase in motor vehicle costs due to higher fuel costs and operating lease payments for vehicles with the South Australian Government Financing Authority
- a $1.6 million increase in other expenses, primarily due to the contracting out of recruitment and psychological testing of protective security officers, the contracting out of security patrols and the costs to fitout police stations to store the newly purchased multipurpose vests
- a decrease in accommodation costs of $4.6 million, with reductions in building improvements including painting and flooring replacements, and police station security upgrades.

The decrease in SAPOL's employee benefits expense by $17.5 million is primarily due to:

- a $26.1 million decrease in the long service leave expense compared to 2021. Movements in long service leave expense are impacted by relative movements in the long service leave liability each year. Key economic assumptions used in estimating the long service leave liability have changed, with future cash flows discounted using the yield on long-term Commonwealth Government bonds, which increased from 1.5% in 2021 to 3.75% in 2022
- a decrease in the workers compensation expense of $7.9 million. The expense is also impacted by movements in the workers compensation provision. In 2022, the workers compensation provision was measured downwards by $2.4 million, which is $5.1 million less than the re-measurement expense in 2021. See 'Workers compensation provision' below for more information
- a $13.2 million increase in salaries and wages, due primarily to enterprise bargaining increases ranging from 1.5% to 2% during the year. SAPOL employees also received $1.3 million in once-off payments associated with the South Australian Public Sector Enterprise Agreement, which was signed in December 2021
- a $3.9 million increase to additional compensation expense, primarily driven by the increase in the additional compensation provision (see 'Additional compensation provision' below).

## Statement of Financial Position

SAPOL's assets and liabilities for the four years to 2022 are shown in the following chart.




## Assets

### Current assets

Current assets increased by $19.4 million, largely driven by a $32.5 million increase in cash and cash equivalents, offset by an $11.2 million decrease in non-current assets classified as held for sale.

The increase in cash and cash equivalents included a $25.8 million increase in the Accrual Appropriation Excess Fund Account. Funds held in this account can be accessed with the Treasurer's approval in a financial year when cash requirements exceed the appropriation provided for the cost of items, including employee-related liabilities.

The decrease in non-current assets classified as held for sale of $11.2 million is due primarily to the settlement of assets held for sale. This includes the sale of the former Police Academy at Largs Bay and the former Stirling police station.

### Non-current assets

Non-current assets decreased by $14.2 million, to $413.3 million, due mainly to a decrease in property, plant and equipment of $8.4 million and a decrease of $6 million in intangible assets.

The decrease in property, plant and equipment largely reflects depreciation and amortisation expense of $37.1 million, offset by asset additions of $27.2 million. Asset additions include $15.2 million for capital work in progress, $5.7 million in additions to right-of-use buildings and right-of-use vehicle additions of $5.7 million.

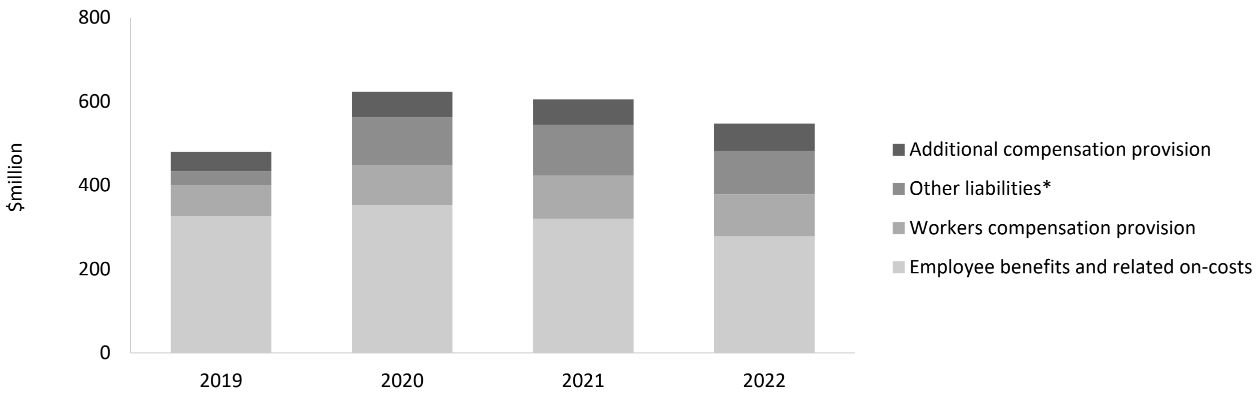
Capital work in progress included $15.2 million for various projects, including the upgrade of the Port Adelaide police station (including fitout, design and construction costs), an air conditioning replacement project, a digital evidence storage array project, a facility upgrade project with minor upgrades to various buildings and the construction of APY accommodation projects.

The $5.7 million increase to right-of-use buildings reflects five new leases for police stations, the largest being the Holden Hill police station, which was initially recognised at $3.1 million. The $5.7 million in additions to right-of-use vehicles relate to 284 new vehicle leases with LeasePlan. These new leases replaced 298 expired vehicle leases.

The $6 million decrease in intangibles largely reflects additions of $9.2 million for capital work in progress, offset by $7.5 million in amortisation expense and a prior year adjustment (decrease) of $6 million. The prior year adjustment reflects a change in accounting policy for the recognition of IT software intangible assets. These costs have now been expensed. Additions of $9.2 million primarily relate to capital costs incurred associated with the Shield project (stages 3 to 4), K2 Enterprise system (software and associated digital forms) and rostering and timesheet system upgrade.

## Liabilities

The significance of employee-related liabilities to total liabilities is shown in the following chart.




* Includes lease liabilities recognised for the first time in 2020.

Total liabilities decreased by $58.1 million (9.6%) to $547 million.

The decrease is largely attributable to:

- a $42.1 million decrease in employee benefits liabilities, explained further below
- an $11.1 million decrease in payables
- a $3.9 million decrease to lease liabilities
- a $2.4 million decrease to the workers compensation provision
- all offset by an increase of $4 million to the additional compensation provision.

### Employee benefits liabilities

The decrease in employee benefits liabilities was driven by a $39.8 million decrease in the long service leave liability. This liability decreased due primarily to the change in actuarial assumptions used in its measurement, which decreased the liability by $32.6 million. The key change was an increase in the rate used to discount future cash flows to present value. The discount rate used in the estimate increased from 1.5% in 2021 to 3.75% in 2022. The liability was also influenced by an increase in the value of long service leave taken in 2021-22, which resulted in 29,000 less calendar days included in the measurement compared to the prior year.

### Payables

Payables decreased by $11.1 million due primarily to a $7.2 million decrease in creditors and a $3.9 million decrease to on-costs associated with the employee benefits liability. The decrease in creditors reflects an increased focus on paying invoices promptly, and a reduction in creditors for capital projects. SAPOL has spent $34.1 million less than originally budgeted for its capital projects. The expenditure has been delayed and carried forward to later years to reflect anticipated expenditure.

The decrease in on-costs is consistent with the decrease in employee benefits liabilities, particularly the long service leave liability.

### Lease liabilities

The $3.9 million decrease in lease liabilities is due primarily to the repayment of lease liabilities and interest across the year of $14.8 million, offset by lease liabilities recognised for the first time for five new leases for police stations of $5.7 million and new vehicles leases of $5.7 million.

### Workers compensation provision

The workers compensation provision decreased by $2.4 million to $100.3 million. The decrease was impacted by the Summerfield decision and a 26.9% decrease in seriously injured worker claims.

Measurement of the provision for workers compensation as at 30 June 2022 includes the impacts of the decision of the Full Court of the Supreme Court of South Australia in *Return to Work Corporation of South Australia vs Summerfield* (Summerfield decision). The Summerfield decision increased the liabilities of the Return to Work Scheme (the Scheme) and the provision for workers compensation across government.

Legislation to reform the *Return to Work Act 2014* was proclaimed in July 2022, with the reforms expected to reduce the overall liability of the Scheme. The impacts of these reforms on the provision for workers compensation across government will be considered when measuring the provision as at 30 June 2023.

The increase in the provision as a result of the Summerfield decision was more than offset by the impact of the decrease in SAPOL's seriously injured worker claims.

There is a significant degree of uncertainty associated with estimating future claim and expense payments. The liability is impacted by agency claim experience relative to other agencies, average claim sizes and other economic and actuarial assumptions.

### Additional compensation provision

The additional compensation provision increased to $65.1 million, reflecting a $4 million increase in the provision as a result of re-measurement by the consulting actuary. The average claim size for both known and incurred but not yet reported applications have increased, resulting in an increase in the liability. The average number of known, open, successful applications has also increased. This is partially offset by changes in assumptions such as the inflation rate and discount rates adopted by the actuary in bringing the future estimated cash flows to present value.

## Administered items

### Expiation fees – $71.9 million collected

Expiation fees are collected by SAPOL on behalf of the SA Government. SAPOL treats the collection of expiation revenue under the *Expiation of Offences Act 1996* as an administered item and pays the revenue to the Consolidated Account. Expiation fees collected increased by $890,000 to $71.9 million.

Total expiation revenue for 2021 was impacted by COVID-19, which resulted in fewer vehicles on the roads, and the temporary suspension of red light camera expiation notices during the year.

In October 2020, the Supreme Court of South Australia quashed an appellant's conviction under rule 60 of the *Australian Road Rules.* The Court concluded that SAPOL had not tested a road traffic photographic detection device in line with the Road Traffic (Miscellaneous) Regulations 2014. As a result of the judgement, expiation notices issued from red light cameras prior to October 2020 but not yet paid at the time of Court ruling were withdrawn. Issuing expiation notices captured by fixed red light cameras was suspended until January 2021, when a technical fix was implemented.

### Victims of Crime levy – $15.1 million collected

SAPOL collects money associated with the *Victims of Crime Act 2001* from the expiation of offences included on expiation notices issued by police officers and other authorised officers. The *Victims of Crime Act 2001* provides for paying compensation to people who suffer injury as a result of criminal acts and recovering the money from offenders. SAPOL collects money and remits it to a special interest bearing deposit account managed by the Attorney-General's Department.

In 2021-22 Victims of Crime levy income received and paid to the Attorney-General's Department totalled $15.1 million. This was an increase of $2.5 million from the prior year, with the Victims of Crime levy increasing from $90 to $92 from 1 July 2021.

# Further commentary on operations

## Staffing

SAPOL employed the following active FTEs by category as at 30 June for the past two years.

| | 2022 FTEs* | 2021 FTEs* |
|---|---:|---:|
| *Police Act 1998* employees | 4,592 | 4,708 |
| Unsworn employees | 1,000 | 980 |
| Protective Security | 252 | 185 |
| Total | 5,844 | 5,873 |

* FTE data (which includes casuals) was supplied by SAPOL and is unaudited.

## COVID-19 impacts

On 22 March 2020 the Commissioner declared a major emergency under the *Emergency Management Act 2004* (the EM Act) to reduce the spread of COVID-19 in South Australia. Under the EM Act, the person holding or acting in the position of Commissioner is appointed as the State Coordinator for declared emergencies. A major emergency declaration under the EM Act gave the Commissioner, as State Coordinator, and any authorised officers broad powers to manage and coordinate the response to, and recovery from, the outbreak of COVID-19 in South Australia.

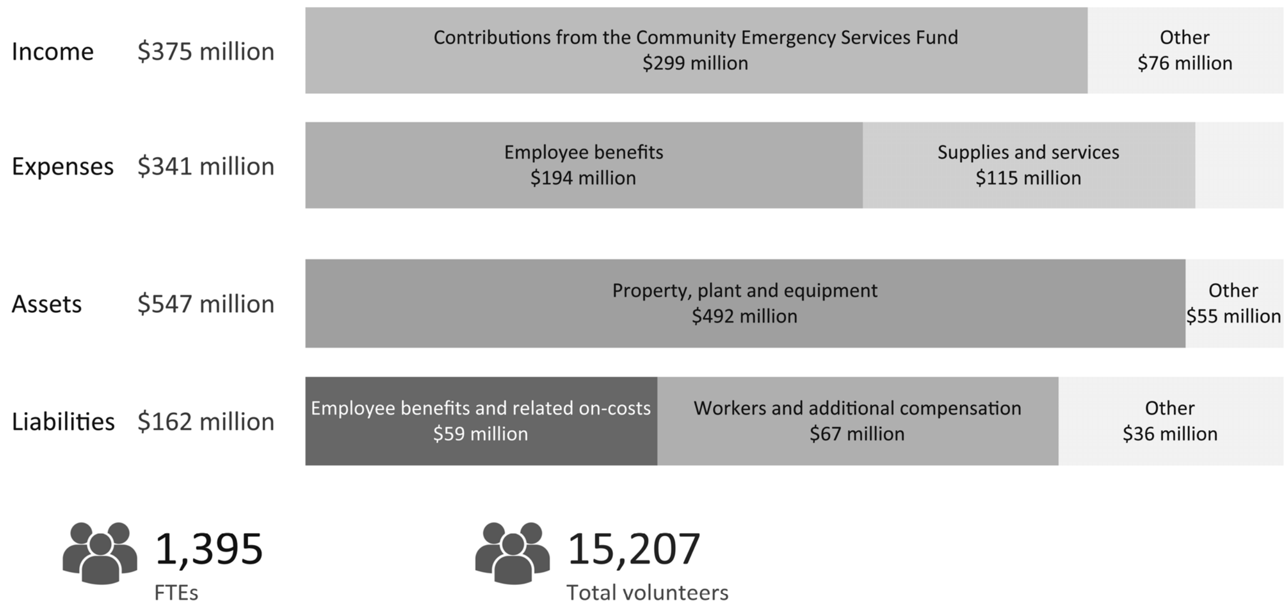
On 24 May 2022 the Commissioner revoked his declaration of the COVID-19 outbreak as a major emergency, meaning that the Commissioner no longer had responsibility for setting COVID-19 directions.

During the year, SAPOL continued to play a significant role in responding to the impacts of COVID-19 in South Australia.  Key impacts on SAPOL are disclosed in note 1.4 of its financial report.

COVID-19 will continue to impact SAPOL’s operations in 2022-23. The expected impacts are difficult to quantify and are influenced by whether or not a new COVID-19 variant emerges.  If a new variant does emerge, the key expected impacts are additional employee benefits expenses and supplies and services expenses associated with maintaining a safe work environment and delivering on SAPOL’s key objectives.

# South Australian Fire and Emergency Services Commission (SAFECOM)

## Financial statistics




Administered items


## Significant events and transactions

- The emergency services sector (ESS) continued to respond to the outcomes of the *Independent Review into South Australia's 2019-20 Bushfire Season*.
- The new emergency services headquarters opened in January 2022, uniting all emergency services organisations (ESOs) into one location.
- Each ESO continued to deal with the COVID-19 pandemic. This included administering the rapid antigen test close contact program, implementing operational workforce bubbles and managing workforce loss associated with mandatory vaccination policies and staff absences from COVID-19 infections.

| | |
|---|---|
| **Financial report opinion** | **Unmodified** |
| **Controls opinion findings** | No significant issues. |
| **Other audit findings** | — The ESS has not developed an ICT strategic plan or system disaster recovery plans.<br>— The identification and reporting of ESS ICT risks could be improved.<br>— Further improvement of ESS asset management practices is needed, including improvements to asset management planning.<br>— SAMFS asset maintenance activities need to improve.<br>— The service relationship between SAFECOM and the other ESOs is not supported by a current and formalised performance agreement.<br>— Employee performance review and development participation rates could improve.<br>— The confirmation of ESO local fund cash balances could improve.<br>— IT general control findings were identified for the Alert SA application and the South Australian Computer Aided Dispatch System (SACAD). |

## Functional responsibility

SAFECOM is established by the *Fire and Emergency Services Act 2005*, which also defines the ESS as:

- SAFECOM
- South Australian Country Fire Service (SACFS)
- South Australian Metropolitan Fire Service (SAMFS)
- South Australian State Emergency Service (SASES).

SAFECOM's legislative functions include the development of strategic and policy frameworks for the ESS, review and consultation roles. They also include responsibility for corporate governance across the ESS. SAFECOM also provides for the effective allocation of ESS resources and has a strategic leadership role in statewide emergency management.

SAFECOM administers the Community Emergency Services Fund (CESF), which is the main source of funding for all ESOs.

# Scope of the audit

## Audit of the financial report

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

The audit included access to systems and information maintained by SAFECOM and other ESOs to conduct relevant financial transaction and control compliance tests.

Specific areas of audit attention in 2021-22 included:

- revenue
- governance
- risk management
- supplies and services expenditure
- payroll and workforce management
- cash, including the ESS operating account and group, unit and brigade local funds
- asset management
- property, plant and equipment, including capital works in progress
- IT general controls
- the response status of the *Independent Review into South Australia's 2019-20 Bushfire Season*, including the implementation of its recommendations.

We also considered internal audit activities when planning and conducting our audit.

## Controls opinion

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

# Audit findings

## Communicating our audit findings

We communicated our audit findings in a management letter to the SAFECOM Chief Executive and the SACFS, SAMFS and SASES Chief Officers. The main findings and ESS responses are discussed below.

### Controls opinion findings

There were no significant findings from our controls opinion work.

### Other audit findings

#### The ESS has not developed an ICT strategic plan or system disaster recovery plans

Last year we identified that the ESS had not developed an ICT strategic plan. In 2021-22 we found that it was still not developed.

Without an ICT strategic plan, the ESS's ability to align technology needs with its strategic priorities, including compliance with the expectations of the South Australian Cyber Security Framework, can be adversely impacted.

We also considered whether SAFECOM had ICT disaster recovery plans for its systems, and found that they were not established.

Where ICT disaster recovery plans are not established, the ability to reduce damage or disruption and quickly recover from disaster events can be impacted.

The ESS responded that it intends to develop a formal ICT strategic plan in 2023 to support and guide existing ICT business plans and work programs. As part of reviewing the SAFECOM business continuity plan in 2022-23, the ESS will consider the extent and adequacy of disaster recovery planning documentation for all significant systems.

### Identification and reporting of ESS ICT strategic risks could be improved

We reviewed the ESS risk register and found that it does not effectively capture all ICT strategic risks. Specifically, local ESO risk registers are not always aligned with the ESS risk register. Therefore certain ESS ICT strategic risks captured on these local risk registers may not be centrally reported or monitored.

The ESS responded that it is undertaking a 'strategic risk refresh project' aimed at improving risk management and reporting. This will include developing an enterprise risk model to align ESO risks, controls, actions and reporting to help improve ESS strategic risk management.

### Further improvement of ESS asset management practices is needed, including improvements to asset management planning

Last year we identified that ESS asset management practices could be improved. These included developing a strategic asset management framework, gap analysis of existing asset management practices against international standard ISO 55000 *Asset Management*, integrated risk management reporting at the Board level and developing asset management training programs.

Our 2021-22 review found that while the framework was finalised, the remaining improvement actions had either not been undertaken or remained a work in progress.

Where asset management practices are not regularly assessed for improvement, there is an increased risk that the associated asset management activities will not achieve the required strategic outcomes.

The ESS responded that while it made progress in 2021-22, multiple challenges required the reprioritisation of resources to meet critical and core service priorities. Strategies for resourcing and progressing asset management programs are being considered. This will include SAFECOM working with the ESOs on the alignment of their individual asset management plans. These plans inform decisions about maintenance and other work on critical ESS assets. Where they are not fully in place, there is a risk that assets may not be managed in a way that best optimises their capability.

### SAMFS asset maintenance activities need to improve

We reviewed the SAMFS's asset maintenance activities and found the following.

### SAMFS's asset services partnership unassessed against formal performance standards

In 2018 the SAMFS entered into an asset maintenance service partnership agreement with Babcock Australasia (Babcock) for the provision of its asset management functions. The agreement requires a set of standards, including KPIs, to be established to assess performance. It also requires Babcock to submit KPI reports biannually.

We found that:

- no standards, including KPIs, were established to objectively assess Babcock's contractual performance
- no required formal and documented contract management meetings were occurring.

The SAMFS responded that is working with Babcock to develop KPIs on the contractually required information. Formalised meetings to record agreement outcomes, discussions and KPI compliance will occur in 2022-23.

### Maintenance scheduling matrices not used

SAMFS procedures state that Local Commanders must develop testing and servicing schedules for their site's operational plant and equipment. Maintenance scheduling matrices have been developed to support sites, and are designed to ensure all required testing is carried out and recorded.

We contacted six SAMFS sites and found that schedules had not been established for any of them.

The SAMFS responded that its risk matrix and services procedure will be updated to ensure that future SAMFS plant, equipment and appliance testing, including servicing and reporting, meets legislative compliance requirements. This will include reinforcing the time frames and expectations to each SAMFS site, and defining SAMFS Engineering and Babcock service requirements.

### Appliance and equipment inspection reporting anomalies

SAMFS procedures state that all appliance and equipment inspections must be documented as a record of inspection outcomes.

We assessed compliance with these inspection requirements for six SAMFS sites for the December 2021 quarter. We found:

- for two sites, no evidence of any inspection reporting could be provided because of either missing or not returned documentation
- for the remaining four sites, inspection reports were either missing, partially completed, unauthorised or lacked evidence of any review.

Where inspection reports are absent, the risk rises that SAMFS assets are not being inspected with the regularity that is required.

The SAMFS responded that all site Operational Commanders are being consulted on the need to comply with SAMFS procedures, and to ensure the required inspection reports are completed in line with policy time frames.

### The service relationship between SAFECOM and the other ESOs is not supported by a current, formalised performance agreement

The *Fire and Emergency Services Act 2005* outlines SAFECOM's obligations in supporting the ESS which include, among other requirements, implementing and maintaining for the ESOs:

- strategic policy frameworks
- strategic, administrative and other support services
- effective resource allocation
- appropriate systems and practices.

However, we found that the service relationship between SAFECOM and the other ESOs was not formalised into a service level agreement defining the expectations and responsibilities of all parties. The previous service level agreement expired in June 2020.

The ESS responded that it is developing a 'partnerships model' between SAFECOM and the other ESOs to provide a more strategic and less prescriptive approach to how SAFECOM provides services to the other ESOs.

As part of developing a new strategic plan, SAFECOM will also work with the other ESOs to develop a framework for updating service relationships.

### Employee performance review and development participation rates could improve

The ESS requires staff, excluding operational firefighters, to complete at least two performance review and development (PRD) discussions annually – an initial objective-setting discussion and a mid-cycle review of progress and performance.

We reviewed the ESS's 2021-22 PRD compliance rates and found a number of instances where no PRD discussions had occurred. We were advised that a combination of COVID-19 related absences, team changes, maternity leave, resignations and a focus on tasks deemed higher priority impacted the PRD progress of these employees.

Employees not participating in all stages of the PRD process adversely impacts the ESS's ability to achieve its strategic priorities.

The ESS responded that it will explore ways to improve future PRD employee participation rates, such as issuing periodic reminder emails, for all stages of the process.

### Confirmation of ESO local fund cash balances could improve

The SACFS and SASES control hundreds of regionally managed cash accounts known as local funds, which comprise fundraising, donations and other money collected locally. These local funds must be disclosed in their annual financial statements. At least annually, regions holding local funds must provide SAFECOM with confirmation of the local fund balance to support the 30 June cash balance reported in the financial statements.

We reviewed the confirmation process and found that it could be improved.

SAFECOM responded that it will work with the SASES and SACFS to ensure improved cash balance confirmation rates occur. This will include improving unit and brigade automated local fund reporting rates.

## IT general control findings for the Alert SA application and the South Australian Computer Aided Dispatch System

### *Alert SA*

SAFECOM's Alert SA mobile application is designed to provide support, and relevant bushfire information, to the South Australian community. Our audit considered Alert SA's IT general controls including:

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

Our review identified some areas where controls can be improved, including:

- third-party security control reporting
- retention of mobile application source code
- regular penetration vulnerability assessment testing and disaster recovery processes.

These control risks may increase the potential for malicious activity and Alert SA service disruption. SAFECOM responded positively to our findings and recommendations and agreed to take remedial action.

### *South Australian Computer Aided Dispatch System*

SACAD is a system used by Triple Zero operators, call takers and dispatchers to prioritise and record calls and send appropriate personnel to emergencies as required. It is used by the SAMFS, South Australia Police and the South Australian Ambulance Service, and supported by the Attorney General's Department which originally implemented the system.

In 2021-22 we reviewed the IT general controls operating across SACAD, including:

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

We identified some areas of weakness where controls could be further improved, including patch management, privileged user access, user access offboarding, user access management and audit logging.

These control weaknesses may increase the opportunity for inappropriate access and unauthorised changes to the SACAD application and its data going undetected. At the time of this Report, the SAMFS was still in the process of responding to our audit findings.

# Interpretation and analysis of the financial report

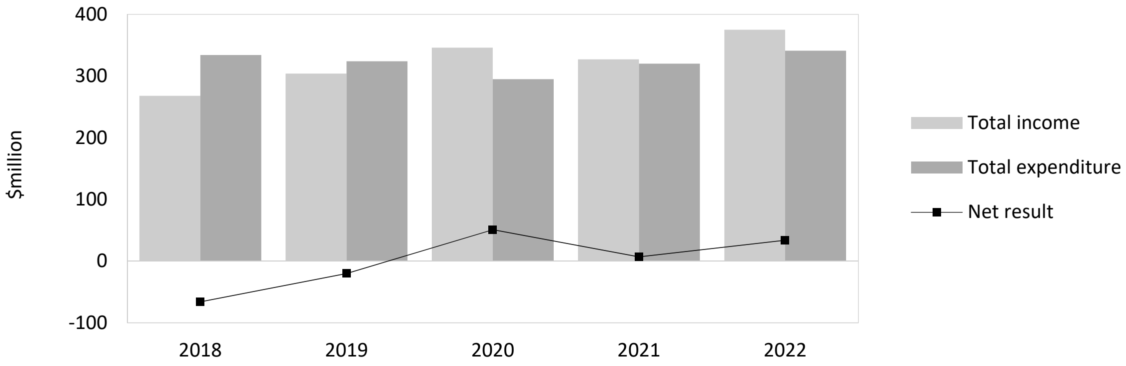
## Highlights of the financial report – consolidated emergency services sector

| | 2022 $million | 2021 $million |
|---|---|---|
| **Income** | | |
| Contributions from the CESF | 299 | 293 |
| Other income | 76 | 34 |
| **Total income** | 375 | 327 |
| | | |
| **Expenses** | | |
| Employee benefits | 194 | 185 |
| Supplies and services | 115 | 104 |
| Depreciation and amortisation | 28 | 27 |
| Other expenses | 4 | 4 |
| **Total expenses** | 341 | 320 |
| **Net result** | 34 | 7 |
| Other comprehensive income | - | - |
| **Total comprehensive result** | 34 | 7 |
| | | |
| Net cash provided by (used in) operating activities | 42 | 35 |
| Net cash provided by (used in) investing activities | (45) | (31) |
| | | |
| **Assets** | | |
| Current assets | 53 | 51 |
| Non-current assets | 494 | 468 |
| **Total assets** | 547 | 519 |
| | | |
| **Liabilities** | | |
| Current liabilities | 51 | 61 |
| Non-current liabilities | 111 | 108 |
| **Total liabilities** | 162 | 169 |
| **Total equity** | 385 | 350 |

## Statement of Comprehensive Income

### Net result

The following chart shows the total income, total expenses and consolidated net result for the past five years. It illustrates that contributions from the CESF and other income, mainly SA Government grants, subsidies and transfers, have generally been sufficient to meet total expenses.




The net result of $34 million was driven by increases in SA Government grants, subsidies and transfers of $36 million across the ESOs. This revenue increase was offset by rises in employee benefit expenses of $9.7 million and supplies and services of $11.7 million.

ESS net results can be impacted by the level of emergency situation activity in a reporting cycle.

## Income

The main source of revenue for the ESS is contributions from the CESF of $299 million ($293 million), which account for 79% (90%) of total income.

In 2022, total income increased by $48 million to $375 million due mainly to:

- a marginal increase of $6 million in CESF contributions
- a $36 million increase in SA Government grants, subsidies and transfers, which predominantly comprised $29.1 million of cash injections to the SAMFS to address projected cash funding shortfalls throughout 2021-22.

## Expenses

Total expenses increased by $21 million to $341 million. The main drivers of this increase are discussed below.

### Employee benefits expenses

Employee benefits expenses of $194 million ($185 million) represent 57% (58%) of total expenses. In 2021-22, they increased by $9.7 million due mainly to the impact of actuarial changes to the workers compensation liability.

ESS salaries and wages increased by $5 million (4%). While there was a marginal decrease in FTEs (see commentary under ‘Further commentary on operations’ below), wage pressure increases, such as additional overtime to meet COVID-19 related rostering shortfalls, and salary bracket creep contributed to the increase.

Other drivers included the SA Public Sector Workforce Rejuvenation Scheme payments of $1.5 million.

These increases were mainly offset by a $4.7 million net decrease in long service leave expenditure, which was impacted by an increase in the bond rate used in the actuarial calculation of the liability from 1.25% to 3.5%.

### Supplies and services expenses

ESS supplies and services increased by $11.7 million to $115 million. The main drivers of this movement included:

- aerial support costs – increase of $2.6 million (21%). The SACFS experienced increased aircraft standby costs to cover a longer fire season in 2021-22
- consultancy, contractor and legal fees – increase of $7.2 million (76%). This was mainly due to increased traffic controller and security staff contractor payments related to SAFECOM's coordination of the rapid antigen test program. These costs were recouped from SA Health
- communications – decrease of $1.9 million (22%). In 2020-21 there were non-capitalised upgrades to SAFECOM's emergency alert system that did not occur in 2021-22.

## Statement of Financial Position

### Assets

Property, plant and equipment (including capital work in progress) increased by $27 million (6%) to $492 million and represent 90% of total assets. The main asset classes held are land ($83 million), buildings ($134 million) and vehicles ($166 million) which account for 78% of property, plant and equipment.

The drivers of the $27 million increase were:

- $43 million in capital work in progress additions. This comprises:
  - SACFS additions of $23.2 million – includes $14.6 million in appliance purchases (mainly tankers), $5.3 million for the South Australian Government Radio Network (SAGRN) replacement program, and the purchase of $2.6 million in land and buildings
  - SAMFS additions of $14.9 million – includes $6.9 million in land and building expenditure for the construction of the Noarlunga Command Fire Station, $5.6 million in pumpers, and $2 million for the SAGRN replacement program
  - SASES additions of $5 million – includes $2.2 million for the construction of the Strathalbyn unit, $1.7 million for appliance purchases including sea vessels, trucks and storm trailers, and $400,000 for the SAGRN replacement program
- $13 million for the first-year recognition of a lease incentive asset associated with new ESS Keswick headquarters. This lease incentive, and the corresponding lease liability, is recognised in SAFECOM's financial statements
- offset by $27 million in depreciation.

### Liabilities

Total liabilities decreased marginally by $6.7 million (4%) to $161 million. Current liabilities of $51 million were less than current assets of $53 million at balance date.

Cash and cash equivalents of $35 million were sufficient to meet current payables of $18 million.

### Payables

Payables decreased by $7.1 million due to a decline in accrued expenditure. In the prior year the SACFS recorded $6 million in accrued expenditure related to appliance purchases, building maintenance, contractor fees and training courses that were not replicated in 2021-22.

### Employee benefit liabilities

Employee benefit liabilities decreased by $11.8 million mainly as a result of:

- a $5 million decrease in accrued salaries and wages. Because of the timing of the last payday in 2021-22, there were no wage accrual days
- a $6.6 million decrease in non-current long service leave liabilities. The decrease is mainly attributable to the annual actuarial remeasurement of the liability, with the main driver being an increase in the bond yields used to discount the liability as explained above.

## Statement of Cash Flows

Net cash provided by operating activities remained stable at $42 million ($35 million).

The following table summarises the consolidated sector's net cash flows for the five years to 2022.

| | 2018 $million | 2019 $million | 2020 $million | 2021 $million | 2022 $million |
|---|---|---|---|---|---|
| **Net cash flows** | | | | | |
| Operating | 23 | 38 | 35 | 35 | 42 |
| Investing | (29) | (27) | (30) | (30) | (45) |
| Financing | - | - | (2) | (2) | (2) |
| Change in cash | (6) | 11 | 3 | 3 | (5) |
| Cash at 30 June | 23 | 34 | 37 | 40 | 35 |

## Highlights of the financial report – SAFECOM

| | 2022 $million | 2021 $million |
|---|---|---|
| **Income** | | |
| Contributions from the CESF | 20 | 18 |
| Other income | 17 | 11 |
| **Total income** | 37 | 29 |
| | | |
| **Expenses** | | |
| Employee benefits | 9 | 9 |
| Supplies and services | 19 | 13 |
| Other expenses | 3 | 3 |
| **Total expenses** | 31 | 25 |
| **Net result** | 6 | 4 |
| **Total comprehensive result** | 6 | 4 |
| | | |
| Net cash provided by (used in) operating activities | (1) | 8 |
| | | |
| **Assets** | | |
| Current assets | 18 | 12 |
| Non-current assets | 15 | 3 |
| **Total assets** | 33 | 15 |

| | 2022 $million | 2021 $million |
|---|---|---|
| **Liabilities** | | |
| Current liabilities | 5 | 4 |
| Non-current liabilities | 14 | 3 |
| **Total liabilities** | 19 | 7 |
| **Total equity** | 14 | 8 |

## Statement of Comprehensive Income

### Income

SAFECOM's main 2021-22 funding source was the CESF of $20 million ($18 million), which accounted for 53% of revenues. SA Government grants, subsidies and transfers increased by $4.2 million to $13 million, mostly due to the recovery of funds from SA Health for administering the rapid antigen test close contact program.

### Expenses

Supplies and services expenses increased by $6 million to $19 million ($13 million). The increase mainly relates to the increased use of contractors to support the rapid antigen test program, the costs of which rose by $7.4 million to $10.3 million.

Employee benefits totalled $9 million ($9 million) or 28% of total expenses.

## Highlights of the financial report – administered items

| | 2022 $million | 2021 $million |
|---|---|---|
| **Income** | | |
| Revenues from levy sources | 356 | 339 |
| Other revenues | 1 | 1 |
| **Total income** | 357 | 340 |
| | | |
| **Expenses** | | |
| Contributions to SA Government administrative units | 339 | 325 |
| Grants and subsidies | 3 | 6 |
| Other expenses | 9 | 9 |
| **Total expenses** | 351 | 340 |
| **Net result and total comprehensive result** | 6 | - |
| | | |
| Net cash provided by (used in) operating activities | 7 | (1) |
| | | |
| **Assets** | | |
| Current assets | 21 | 15 |
| **Total assets** | 21 | 15 |
| | | |
| **Liabilities** | | |
| Current liabilities | 1 | 1 |
| **Total liabilities** | 1 | 1 |
| **Total equity** | 20 | 14 |

## Community Emergency Services Fund

Contributions, by way of levies, are made by all land owners (including State and Local Governments) for fixed and mobile property to fund the provision of emergency services. Levies are collected in line with the *Emergency Services Funding Act 1998*. They are set to cover the budgeted emergency services expenditure for the coming financial year.

The levy on fixed properties is collected by RevenueSA and applies to capital values adjusted for location and land use. The levy on mobile properties is collected by the Department for Infrastructure and Transport (DIT) using the vehicle registration system. Once collected, these levies are paid into the CESF.

The SA Government has also made direct contributions to the CESF in the form of remissions of levies (both fixed and mobile property) and concession subsidy payments through the Department of Human Services.

The costs of collecting levies and expenses relating to administration are also met from the CESF.

## Statement of Administered Comprehensive Income

For the year ended 30 June 2022 the CESF's net result was a surplus of $5.9 million.

### Administered income

Emergency services levies increased by $18 million to $357 million (5%). The increase in levy revenue and changes in remissions are shown in the table below.

| | 2018 $million | 2019 $million | 2020 $million | 2021 $million | 2022 $million |
|---|---|---|---|---|---|
| Fixed property collections | 221 | 146 | 155 | 164 | 171 |
| Fixed property remissions* | 25 | 119 | 119 | 119 | 129 |
| Mobile collections | 44 | 44 | 45 | 47 | 48 |
| Mobile remissions* | 3 | 4 | 4 | 3 | 6 |
| Government concessions | 6 | 6 | 6 | 6 | 3 |
| **Total** | 300 | 320 | 329 | 339 | 357 |

* Remissions are provided by the SA Government.

### Administered expenses

The following table shows the contributions made by the CESF to SA Government entities over the past five years.

| | 2018 $million | 2019 $million | 2020 $million | 2021 $million | 2022 $million |
|---|---|---|---|---|---|
| SAMFS | 139 | 148 | 152 | 164 | 163 |
| SACFS | 77 | 93 | 113 | 88 | 93 |
| South Australia Police | 22 | 22 | 23 | 23 | 24 |
| SASES | 20 | 21 | 23 | 23 | 23 |
| SAFECOM | 15 | 18 | 14 | 18 | 20 |
| Other SA Government entities | 6 | 7 | 10 | 9 | 16 |
| **Total** | 279 | 309 | 335 | 325 | 339 |

Contributions paid increased by $60 million or 22% over the five years. Most of the increase was received by the SAMFS ($24 million), SACFS ($16 million) and SAFECOM ($5 million).

In 2022 contributions to SA Government entities increased by $14 million to $339 million, a 4% increase.

Other expenses included $7 million paid to RevenueSA under the *Emergency Services Funding Act 1998* for administering the collection of fixed property levies. DIT was paid $1 million for collecting the mobile property levies.

### Statement of Administered Financial Position

CESF 30 June 2022 net assets increased by $6 million to $20 million ($14 million). This increase is explained by the movements in income and expense items described above.

CESF 30 June 2022 current assets totalled $21 million ($15 million), and mainly comprised cash and cash equivalents of $19 million.

## Further commentary on operations

### Staffing

SAFECOM and the ESOs employed the following active FTEs as at 30 June for the past two years.

| | *2021 FTEs | *2022 FTEs |
|---|---|---|
| SAFECOM | 72 | 76 |
| SAMFS | 1,046 | 1,028 |
| SACFS | 180 | 193 |
| SASES | 106 | 98 |
| Total | 1,404 | 1,395 |

* Staffing data was supplied by SAFECOM and is unaudited.

### Volunteers

The SACFS and SASES had the following active volunteers as at 30 June for the past two years.

| | *2021 FTEs | *2022 FTEs |
|---|---|---|
| SACFS | 13,450 | 13,497 |
| SASES | 1,700 | 1,710 |
| Total | 15,150 | 15,207 |

* Volunteer data was supplied by SAFECOM and is unaudited.

### New emergency services headquarters

The new emergency services headquarters opened in January 2022, uniting the SACFS, SAMFS, SASES and SAFECOM into one location. Based at Keswick, the $80 million purpose-built facility is earthquake resilient and features a command centre, backup power, water, wastewater storage and firefighting assets, and is designed to remain operational during a post-disaster recovery situation.

The emergency services headquarters is owned by Charter Hall Social Infrastructure Limited and is being leased to the SA Government over a 15-year period.

## Status update – ongoing response to the 2019-20 bushfires

### Independent Bushfire Review (Keelty Report)

In the summer of 2019-20, bushfires devastated many parts of South Australia and resulted in the loss of three lives. The SA Government commissioned an independent review, with support from various experts, to investigate the State's preparedness for dealing with significant bushfire activity and what could be done to mitigate the impact of bushfires in the future.

### Status update

In 2021-22 we considered the ESS's progress in addressing the Keelty report's recommendations.

The report made 15 recommendations, which were then converted to 69 action items, 48 of which are the ESS's direct responsibility.

### Completion status of outstanding action items

Of the 48 action items, we found that as at April 2022:

- 28 or 58% were completed
- 5 or 11% were on track and funded for completion
- 15 or 31% could only be completed, as advised to us by the SACFS and SASES, subject to further funding.

### Action item funding status

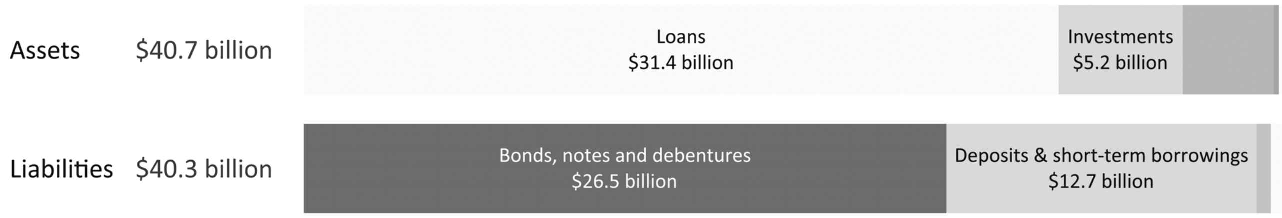
In 2020 the former SA Government announced $97.5 million in funding to address fire danger. $43.8 million of this was earmarked for the ESS as shown in the table below (figures unaudited).

| | Funding $million | Expenditure to April 2022 $million |
|---|---:|---:|
| SAFECOM | 9.6 | 4.2 |
| SACFS | 22.3 | 6.6 |
| SAMFS | 11.5 | 3.2 |
| SASES | 0.4 | 0.2 |
| Total sector | 43.8 | 14.2 |

SAFECOM also manages a further $16.7 million in Commonwealth and State funding that will be invested over five years as part of the South Australian Disaster Risk Reduction Grants program. SAFECOM receives this funding in instalments of about $3 million per annum. There have been two Commonwealth payments received to date, covering 2019–2021 and 2021-22.

# South Australian Government Financing Authority (SAFA)

### Financial statistics




**$74 million**
Profit before income tax equivalents

**7,016**
Number of fleet vehicles (Including held for sale)

| | |
|---|---|
| **Significant events and transactions** | — SAFA paid a $51 million dividend in June 2022.<br>— SAFA paid $35 million in income tax equivalents in June 2022. |
| **Financial report opinion** | **Unmodified** |
| **Controls opinion findings** | The 2021-22 financing strategy was not approved by the Treasurer before it was implemented. |
| **Other audit findings** | — Some monthly reconciliations were not always prepared and reviewed promptly.<br>— Some IT controls over the TechnologyOne financial system could be strengthened. |

## Functional responsibility

SAFA, a body corporate, was established under the *Government Financing Authority Act 1982* (SAFA Act).

SAFA is the central borrowing authority for the State, and is responsible for managing most of the State's debt and for implementing the SA Government's debt management policy as determined by the Treasurer.

Under section 15 of the SAFA Act, SAFA's liabilities are guaranteed by the Treasurer.

SAFA also administers the SA Government's:

- insurance and risk management arrangements through its insurance division
- passenger and light commercial vehicle fleet operations through Fleet SA.

# Scope of the audit

## Audit of the financial report

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

Specific areas of audit attention in 2021-22 included:

- cash
- financing
- treasury
- insurance
- general ledger
- IT general controls over SAFA's TechnologyOne financial system.

We considered the work of SAFA's internal auditors in planning and conducting the audit.

We specifically considered the work performed by SAFA's compliance unit and internal auditors for elements of our program, in particular:

- quarterly reporting by SAFA's compliance unit
- internal audit's reviews of fleet portal system security and resilience, and the calculation of fleet residual values and reserve prices.

## Controls opinion

We reviewed controls over SAFA's borrowings, investments, outstanding claims liability, interest expense, guarantees and indemnities, reinsurance process and bank accounts as part of our overall controls opinion, which is discussed in Part B of this Report.

# Audit findings

## Communicating our audit findings

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

### Controls opinion findings

#### The 2021-22 financing strategy was not approved by the Treasurer before it was implemented

SAFA's policy manual documents the way SAFA carries out its functions as a central financing authority. The manual requires SAFA's annual financing strategy to be approved by the Treasurer.

We noted that the 2021-22 financing strategy had not been approved by the Treasurer. We brought this to SAFA's attention and the strategy was subsequently approved by the Treasurer in May 2022.

We recommended that SAFA ensure the annual financing strategy is submitted to the Treasurer for approval before it is implemented in future.

SAFA responded that it will implement our recommendation, noting that it had regularly updated the Treasurer on the progress of funding targets.

### Other audit findings

#### Some monthly reconciliations were not always prepared and reviewed promptly

We noted instances where some of SAFA's monthly reconciliations were not prepared and/or reviewed promptly:

- monthly bank reconciliations for SAFA's vehicle leasing and disposal contractors
- corporate asset register to general ledger monthly reconciliations
- claims payment monthly reconciliations
- fleet receivables monthly reconciliations
- SAFA leasing database information to LeasePlan data monthly reconciliations.

SAFA responded that the exceptions we noted were a result of unplanned staff absences. All reconciliations had been completed and measures are now in place to ensure all reconciliations are prepared and reviewed promptly.

#### Some IT controls over the TechnologyOne financial system could be strengthened

In 2021-22 we reviewed the IT general controls over the TechnologyOne financial system. This included reviewing controls over password management, user access management, privileged user access, audit logging, change management, patch management, backup processes and disaster recovery management.

We identified that some controls could be strengthened, particularly those related to audit logging.

SAFA responded that it would take appropriate action to address the weaknesses we found.

## Interpretation and analysis of the financial report

### Highlights of the financial report*

| | 2022 $million | 2021 $million |
|---|---|---|
| Interest revenue | 742 | 743 |
| Interest expense | (723) | (759) |
| **Net interest revenue** | 19 | (16) |
| Net gain (loss) on financial instruments and derivatives | (16) | 143 |
| Leasing and hire revenue | 51 | 52 |
| Insurance premium revenue | 73 | 64 |
| Recoveries | (5) | (1) |
| Other income (including net gain on sale of property, plant and equipment) | 71 | 15 |
| Vehicle operating costs (including depreciation and impairment) | (31) | (31) |
| Insurance claims | (50) | (32) |
| Other expenses | (39) | (48) |
| **Profit (Loss) before income tax equivalents** | 74 | 147 |
| Income tax equivalent expense | (6) | (44) |
| **Profit (Loss) after income tax equivalents** | 68 | 103 |
| **Total comprehensive income** | 68 | 103 |

| | 2022 $million | 2021 $million |
|---|---|---|
| **Assets** | | |
| Cash, short-term assets and investments | 8,914 | 7,512 |
| Loans | 31,428 | 32,171 |
| Derivatives receivable | 35 | 297 |
| Property, plant and equipment (including held for sale) | 204 | 197 |
| Other assets | 76 | 75 |
| **Total assets** | 40,657 | 40,252 |
| | | |
| **Liabilities** | | |
| Deposits and short-term borrowings | 12,716 | 12,713 |
| Bonds, notes and debentures | 26,508 | 26,055 |
| Outstanding claims | 605 | 642 |
| Derivatives payable | 370 | 375 |
| Payables and other liabilities | 58 | 85 |
| **Total liabilities** | 40,258 | 39,870 |
| **Total equity** | 399 | 382 |

* Table may not add due to rounding.

## Statement of Comprehensive Income

### Interest revenue and expense

Interest revenue and expense are recognised on a market value accounting basis and accrued in line with the terms and conditions of the underlying financial instruments. Interest revenue decreased by $1.2 million or 0.2%, while interest expense decreased by $36.5 million or 4.8%.

The decrease in interest revenue and expense is mainly due to lower interest rates for most of 2021-22. They were also impacted by the timing of maturities and settlements for financial instruments, including derivatives.

### Net loss on financial instruments and derivatives

SAFA's 2021-22 operating result includes a net loss of $16 million on financial instruments and derivatives. This loss represents the downwards movements in the prices of financial instruments and derivatives SAFA held, mostly as a result of changes in market rates.

SAFA's risk management approach is discussed further under 'Business risk management' below.

### Leasing and hire revenue

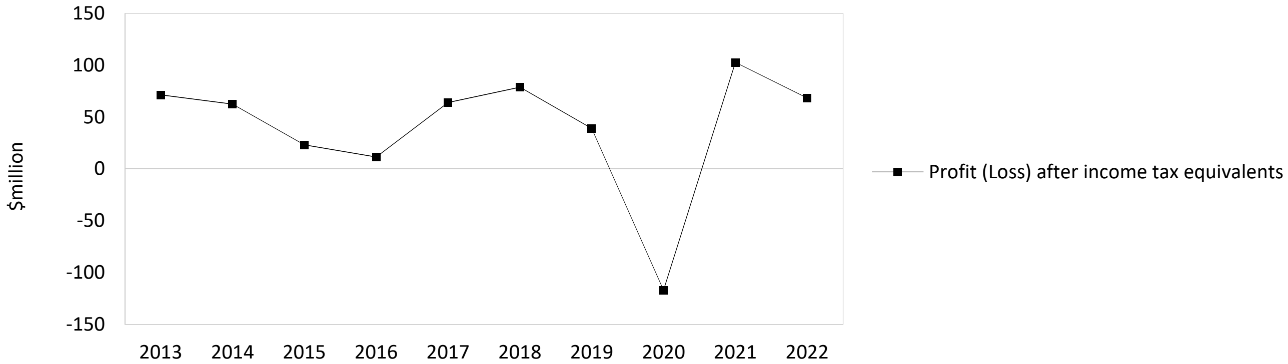
Leasing and hire revenue reflects the fees charged to other government agencies for leasing fleet vehicles. This amount remained steady at $51 million in 2021-22.

### Profit (Loss)

SAFA's profit before income tax equivalents was $74 million. It is required to pay the Treasurer an income tax equivalent on its profit, calculated by applying a tax rate of 30% to profit before tax.

In performing this calculation, some items are excluded. Notably, the Treasurer has exempted all financial assistance program transactions from the application of the tax equivalent regime. In June 2022 SAFA received $55 million in funding, recognised in other income, for future financial assistance programs to provide assistance to business in Whyalla and to support local music artists. The accounting profit was adjusted by the removal of these amounts before calculating the income tax equivalent.

The 10-year trend in SAFA's profit or loss after income tax equivalent expense is shown in the following chart.




The chart highlights the volatility in SAFA's results, which mainly comes from the financial performance of its insurance activities.

The 2022 profit after income tax equivalents of $68 million is primarily attributable to a profit on SAFA's treasury activities of $69 million. The profit from fleet activities of $24 million was offset by a loss on insurance activities of $24 million.

## Insurance activity impact on profit (loss)

SAFA's insurance activities are separated into four funds. Its result after income tax equivalents is, in net terms, only affected by Fund 1 and Fund 4 results, as SAFA is indemnified by the Treasurer against any operating profit or loss arising from the activities of Funds 2 and 3.

Fund 2 is used to fund liabilities arising from insurable incidents that:

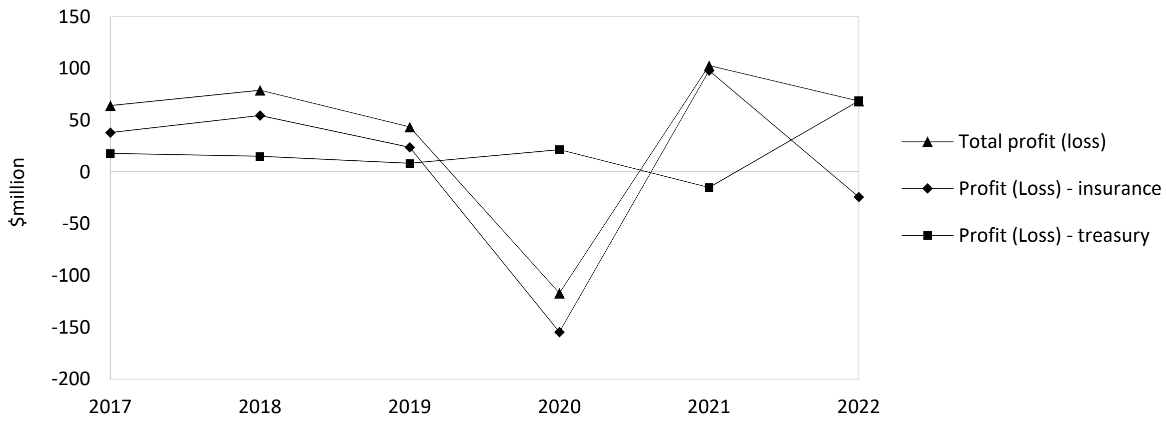
- occurred before 1 July 1994
- involve claims under the building warranty indemnity reinsurance arrangements up to 30 June 2013
- involve the former State Government Insurance Commission residual claims and workers compensation claims previously managed by the former South Australian Asset Management Corporation
- are historical workers compensation and asbestos claims previously managed by other SA Government entities.

Fund 3 is used to fund liabilities arising from claims under the building indemnity insurance scheme effective from 1 July 2013.

Fund 4 is used to manage liabilities for the SA Government's participation in the National Redress Scheme for Institutional Child Sexual Abuse. It is discussed further under 'National Redress Scheme for Institutional Child Sexual Abuse' below.

All of SAFA's remaining insurance activities are funded through Fund 1.

The impact of SAFA's insurance activities on its profit or loss after income tax equivalent expense is highlighted in the following chart.




SAFA's insurance activities reported a 2021-22 loss after tax of $24 million (profit after tax of $98 million). The decrease in its insurance profit reflects:

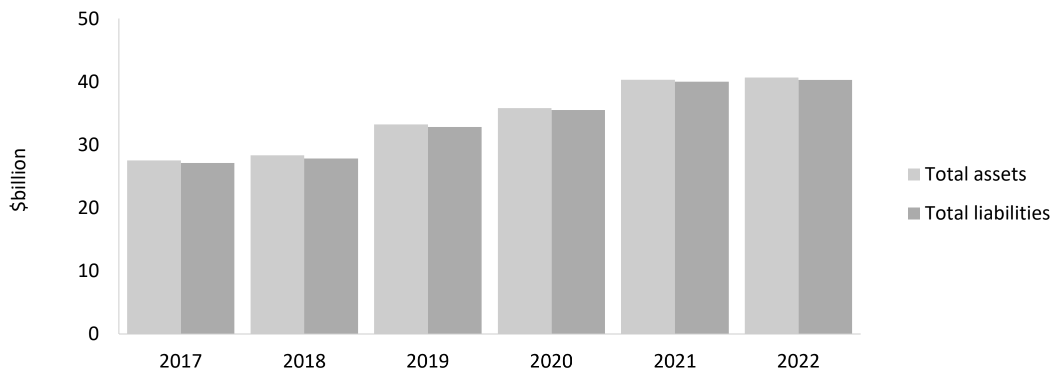
- a $166 million decrease in income, which is due mainly to a $170.8 million decrease in net gains on insurance investments with the Superannuation Funds Management Corporation of South Australia and a $4.1 million decrease in recoveries, offset by a $9.5 million increase in premium revenue
- an $8.5 million increase in expenses, which is due mainly to a $19 million increase in insurance claim expenses, a $3.6 million increase in indemnity to the Treasurer and a $3.1 million increase in outwards reinsurance expense, offset by a $17 million decrease in other operating expenses
- offset by a $52 million decrease in income tax equivalents in 2021-22 as its insurance operations made a loss, compared to a profit in 2020-21 on which tax was incurred.

These changes highlight the inherent volatility of insurance activities and the impact on SAFA's financial performance.

## Statement of Financial Position

### Assets and liabilities

A comparison of total assets and liabilities for the six years to 2022 is shown in the following chart.



In 2018 there was a gradual increase in SAFA's borrowings, with assets increasing by a corresponding amount.

Between 2019 and 2021 there were further significant increases in SAFA's liabilities of $4.9 billion, $2.7 billion and $4.4 billion, respectively, with total assets increasing by corresponding amounts. The increases were mainly the result of increases in loans to the Treasurer to meet funding requirements and to fund the Consolidated Account deficit for those years.

In 2022 there was a further $499 million increase in SAFA's total liabilities, with total assets increasing by $516 million.

The main increases in assets were in cash and short-term assets ($730 million), mainly in negotiable certificates of deposit, and investments ($672 million), mainly in bank and corporate securities. These increases were offset by a $632 million decrease in loans, which was due mainly to market value write-downs, offset by increases to meet the funding requirement for 2021-22.

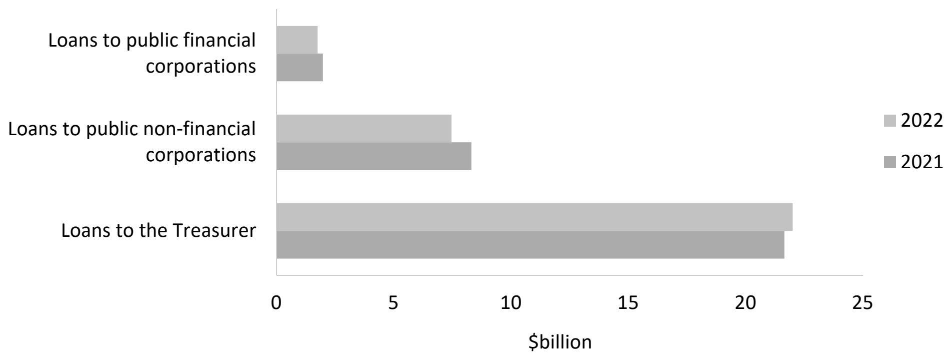
The increase in liabilities was due mainly to increases in bonds, notes and debentures ($453 million).

## Loans to government agencies

Total assets include loans of $31.4 billion, comprising SAFA's loans to the Treasurer to fund accumulated Consolidated Account deficits and loans to other public authorities.

At 30 June 2022 SAFA's loans to the Treasurer totalled $22 billion, an increase of $362 million since 30 June 2021. The Treasurer also had funds on deposit with SAFA totalling $9.8 billion ($9.7 billion) as at 30 June 2022.

The chart below shows SAFA's current and prior year government sector loan composition.




There was a current year increase in loans to the Treasurer of $362 million, while loans to public non-financial corporations decreased by $229 million and loans to public non-financial corporations decreased by $855 million. The increase in loans to the Treasurer is the result of funding for the $2.74 billion deficit in the Consolidated Account for 2021-22, mostly offset by market value movements.

The main loans to public non-financial corporations were to the South Australian Water Corporation (SA Water), the Urban Renewal Authority and the Adelaide Venue Management Corporation.

### Capital and distributions

At 30 June 2022 SAFA's capital reserves were represented by its retained earnings, which stood at $399 million ($382 million). A $51 million ($16 million) dividend distribution was made to the Treasurer in 2021-22.

The dividend payment was made under the SAFA Act, which states that any surplus of funds remaining after SAFA's costs have been met in any financial year must be paid into the general revenue of the State or otherwise dealt with as the Treasurer determines. The Treasurer approved SAFA's 2021-22 interim dividend payment in June 2022.

## Further commentary on operations

### SAFA Advisory Board

The SAFA Act provides that SAFA is constituted of the Under Treasurer and establishes the South Australian Government Financing Authority Advisory Board (the Advisory Board). The Advisory Board comprises up to seven members, one of whom is the Under Treasurer who is also Presiding Member.

The SAFA Act allows the Under Treasurer to request advice from the Advisory Board and consider any advice given. The Advisory Board can provide advice, as it sees fit, to the Treasurer or SAFA. SAFA's annual report must include details of any advice from the Advisory Board that the Treasurer or SAFA has decided not to follow and the reason for that decision. There were no occasions in 2021-22 when the advice of the Advisory Board was not followed.

### Business risk management

#### Operational risk management

SAFA has a number of mechanisms to manage operational risks, including:

- an annual risk assessment facilitated by the contracted internal auditors addressing changes to SAFA's operating environment and the financial markets it transacts with. This assessment is used to determine the scope of the internal audit program
- a policy manual that details parameters within which SAFA pursues its core objectives, including dealings with financial markets, reporting requirements and managing assets and liabilities. This manual is reviewed annually and subject to the Treasurer's approval
- a central procedures manual that provides a high-level summary of the actions that SAFA expects to be maintained within its treasury, insurance, fleet, commercial advisory and risk and operational support units. The procedures manual is also subject to annual review

- the compliance unit performing daily, weekly, monthly and quarterly reviews to ensure compliance with policy requirements. The compliance unit's work is reviewed and tested by SAFA's contracted internal auditor
- a Risk and Performance Committee comprising three independent members appointed by the Under Treasurer.

## SAFA's treasury portfolio structure

To help manage SAFA's treasury function and its associated risks, the assets and liabilities on its balance sheet are separated into distinct portfolios. The portfolio structure and related procedures contribute to transparency of operations, risk identification and management, and performance measurement and reporting.

SAFA's portfolio structure consists of:

- SAFA's principal portfolios
- the Treasurer's cost of funds portfolio
- client asset/liability management portfolios.

### SAFA's principal portfolios

SAFA maintains the following principal portfolios:

- funding
- liquidity
- foreign exchange hedging service.

The funding portfolio contains all of SAFA's term loans to clients, around $9.6 billion in assets. Its major function is to provide funding to clients on a defined maturity and rate basis.

The liquidity portfolio contains:

- all of SAFA's liquid assets and the funding that supports them
- deposits of excess cash from clients
- transactions relating to the cash loan to the Treasurer
- the Treasurer's deposit with SAFA.

The liquidity portfolio holds liabilities, assets and hedging instruments (including derivatives). It is run on the basis that mismatches between assets and liabilities are managed within risk parameters, with assets of $17.8 billion at 30 June 2022. These parameters are managed on a daily basis within the guidelines stipulated in the policy manual.

The foreign exchange hedging service portfolio covers all transactions associated with the service SAFA provides to public sector clients relating to the hedging of foreign currency exposures, mainly associated with purchases and sales of goods and services. The portfolio had a net asset position of -$65,195 at 30 June 2022.

Any profits or losses from the operations of the principal portfolios are recorded in SAFA's Statement of Comprehensive Income.

### Treasurer's cost of funds portfolio

The Treasurer's cost of funds portfolio is the primary portfolio for the Treasurer. It contains liabilities and assets managed against a benchmark range. The main management task for this portfolio is to minimise interest rate risk within the portfolio relative to the policy benchmark range set by the Treasurer. The net expenses of this portfolio are borne by the Treasurer.

There are transactions in the Treasurer's cost of funds portfolio that are not measured and reported against the benchmark range, such as Royal Adelaide Hospital transactions out to 2033. The interest rate exposure on these Royal Adelaide Hospital transactions is managed by fixing the interest rate for a defined term.

### Client asset/liability management portfolios

The client asset/liability management portfolios do not reside on SAFA's Statement of Financial Position and only impact on SAFA's profit and loss through fee income received. This includes SA Water's Financial Bureau Services Agreement.

SA Water manages its own debt. SAFA's role is to develop and document, in conjunction with SA Water and within strict policy guidelines, a risk management strategy for SA Water's exposures. The strategy must have regard to the likely impact of interest rate exposures on SA Water's results, an assessment of SA Water's ability to carry interest rate risk and SA Water's regulatory framework.

The Treasurer also makes loans directly to government entities and other bodies, including loans by the Treasurer to government departments and statutory authorities. SAFA administers these loans on behalf of the Treasurer.

## General market risk management

SAFA is the State's central borrowing authority and manages most of the State's debt. It lends funds raised from financial markets to a number of South Australian public sector clients, including the Treasurer who borrows on behalf of public sector agencies to support their operational requirements.

SAFA's Risk Appetite Statement indicates that it performs its treasury, insurance, fleet and commercial advisory functions to protect the interests of its owners and clients and to protect its reputation as a provider of services consistent with its strategic direction.

SAFA has a structured approach to risk management. It performs its treasury and commercial advisory functions with a moderate risk appetite and its insurance and fleet functions with a low risk appetite.

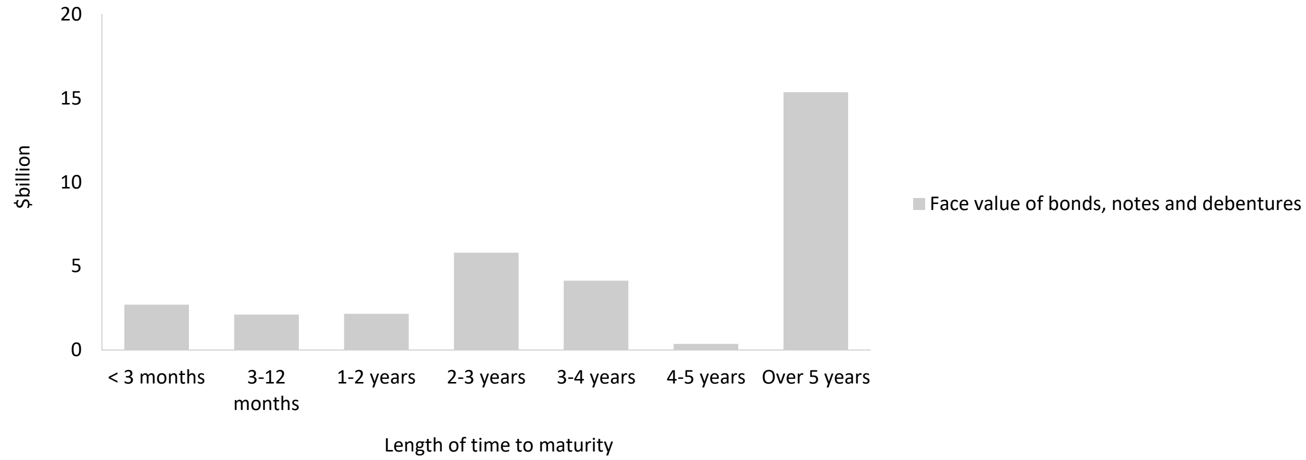
A moderate risk appetite approach for SAFA means that it is prepared to accept exposure to risk within pre-defined limits or parameters.

## Funding risk management

SAFA raises funds from domestic and international financial markets to support the SA Government's budgetary funding requirements.

Funding risk refers to the prospect of SAFA either being unable to raise funds when required, or only being able to raise funds at a higher cost. Accordingly, SAFA's objective for funding risk is to ensure that it is not exposed to a significant refinancing or funding risk within any financial year. Guidelines for funding risk are set by the Under Treasurer.

A maturity profile of the undiscounted principal and interest repayment amounts for SAFA's bonds, notes and debentures as at 30 June 2022 is presented in the following chart. Bonds, notes and debentures include SAFA's core funding issue of select lines and floating rate notes.




The chart illustrates that SAFA's principal and interest repayments vary each year for the next four years. From 2028, SAFA will have $15.4 billion of principal and interest repayments.

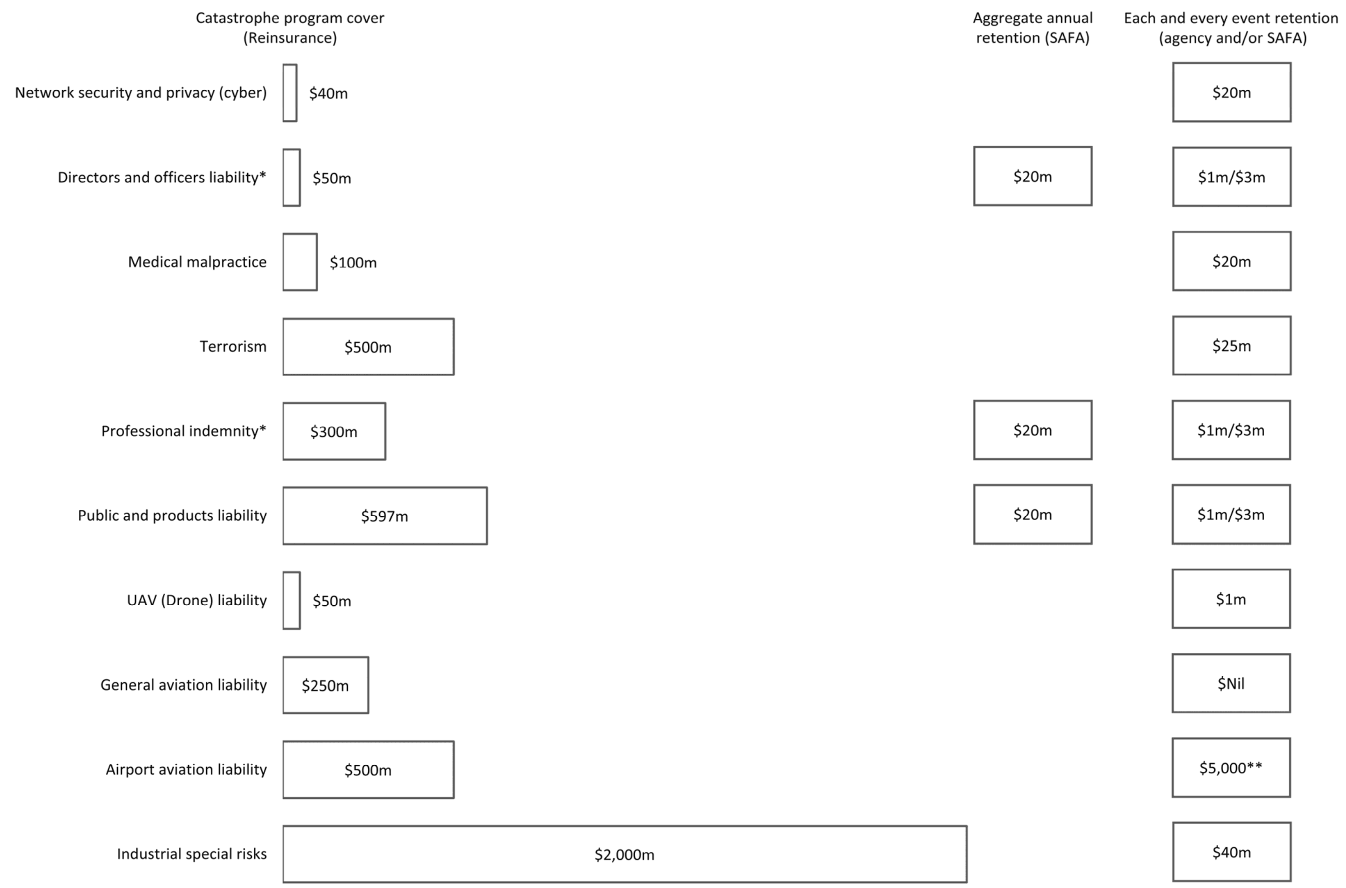
The chart does not include expectations for the SA Government's early refinancing or future financing requirements.

## Catastrophe reinsurance program

The SA Government is fundamentally a self-insurer. However, to protect the State's finances against a very large loss or claim, or a series of large losses or claims in a year, a commercial catastrophe reinsurance program is placed in the international insurance market. SAFA claimed under this reinsurance program for the first time in 2019-20, as a result of the December 2019 bushfires.

The reinsurance program is renewed annually and then approved by the Treasurer after consideration by the Advisory Board.

The structure of SAFA's catastrophe reinsurance program for 2021-22 is shown in the following diagram.




*  Full insurance placement could not be completed at acceptable/affordable terms for this insurance class.
**  Other than damage to aircraft which is $20,000.

SAFA's catastrophe reinsurance premium expense for 2021-22 was $16.7 million ($13.5 million), an increase of 24%.

This increased cost was mainly a result of:

- rising property insurance costs for those risks that have a significant natural catastrophe exposure
- liability reinsurers continuing to impose rate increases as they look to achieve portfolio sustainability.

Demand surge arising from natural catastrophe events, supply chain disruption due to COVID-19 and inflationary pressures from the pandemic were factors influencing the reinsurance market at the time of renewal. Insurers continue to be selective of the risks they are prepared to underwrite, which drives premium and deductible increases and places pressure on the breadth of policy coverage available.

SAFA reviews its coverage levels annually. While various factors influence its final choice of cover, key drivers in this evaluation are the market's willingness to accept risk for SAFA's preferred coverage, and SAFA's internal value-for-money assessments of the prevailing insurance market.

## School loans scheme

In the 2016-17 State Budget the SA Government established a new $250 million low interest loan scheme to help non-government schools upgrade infrastructure and facilities.

Loans of between $500,000 and $10 million per school were made available over five years, with loan terms up to 15 years. All non-government schools were eligible to apply and access was granted based on highest need, taking into account a school's socioeconomic status score. Priority was given to projects that invest in science, technology, engineering and maths, as well as early years facilities.

Since the scheme's inception there have been six funding rounds.

The first loan was drawn down under the scheme in February 2017.

Total funds advanced to non-government schools as at 30 June 2022 were $113.8 million, made up of $85.9 million (face value) in loans and $9.4 million in overdraft facilities. As at 30 June 2022, $18.5 million had been paid back.

The total value of approved school loans at 30 June 2022 was $115.4 million, with $1.4 million not yet drawn down.

In the 2020-21 State Budget the SA Government announced a new $320 million low interest loan scheme to help non-government schools upgrade their existing school facilities, including early learning centres co-located on a school site. SAFA is administering the new scheme, however loans under the new scheme are reported in the Department of Treasury and Finance's administered items financial statements, not SAFA's. For commentary on the new scheme see the section of this Report titled 'Department of Treasury and Finance'.

## SA Venture Capital Fund

In June 2017 Cabinet approved the establishment of the $50 million SA Venture Capital Fund as a notional fund within SAFA's Statement of Financial Position.

The objective of this Fund is to help early-stage South Australian companies attract private sources of co-investment from national and international investors. It has been managed by Artesian Venture Partners since March 2020.

Investments from the SA Venture Capital Fund are required to meet a range of criteria, including requirements for assets and staff to be located in South Australia within 12 months of the initial investment date.

In 2021-22 there were two new investments and a further investment in a company that has previously received investment, totalling $5.6 million.

As at 30 June 2022, investments in seven companies had been made from the SA Venture Capital Fund totalling $16.8 million.

## National Redress Scheme for Institutional Child Sexual Abuse

In May 2018 the SA Government approved South Australia's participation in the National Redress Scheme for Institutional Child Sexual Abuse (the Scheme) and for SAFA to administer all payments associated with this. In June 2018 the Premier signed an Intergovernmental Agreement confirming South Australia's participation.

The start date for the Scheme was 1 February 2019 and it will accept applications until 30 June 2027.

The Treasurer approved the transfer of $146.4 million from the Victims of Crime Fund to SAFA in June 2018 to meet the cost of paying claims made under the Scheme. Any funds not paid under the Scheme will be returned to the Victims of Crime Fund following closure of the Scheme.

The Scheme is administered through a separate fund, Fund 4. The Scheme's outstanding claims liability is calculated by an external actuary who considered:

- the number of applications for which the SA Government will have full or partial liability
- the average monetary payment for Scheme applications
- other relevant Scheme payments, including counselling, legal and administration costs
- the expected payment pattern and impact of discounting.

As at 30 June 2022 the outstanding claims liability for Fund 4 was $115.7 million ($122.9 million).

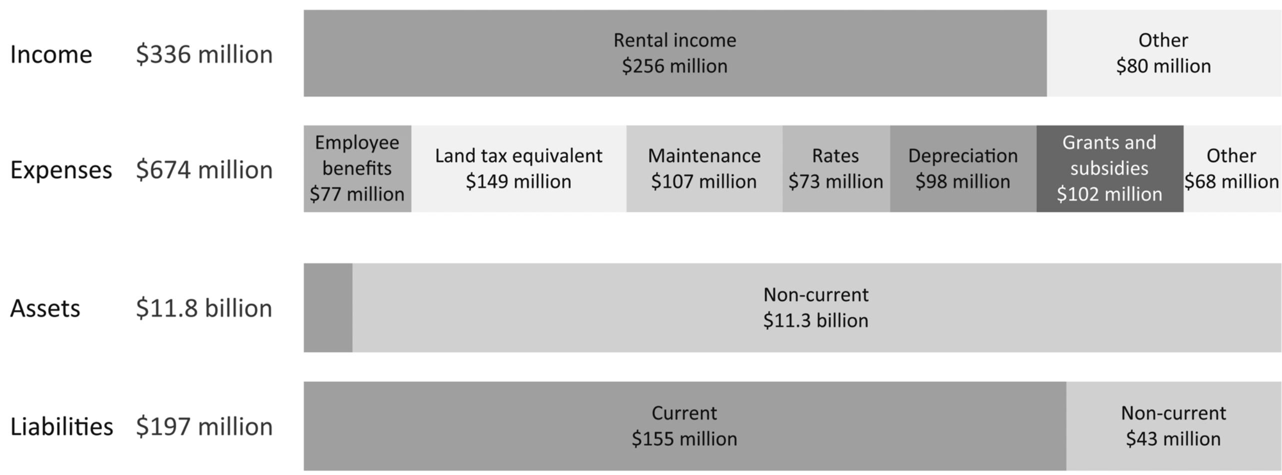
While the current estimate of claims is above the level of remaining funding that has been provided, the estimate is subject to change because the Scheme is open until 2027.

There were 632 (429) Scheme applications as at 30 June 2022.

In 2021-22 redress payments totalling $10.5 million ($17.3 million) were made to 117 (171) applicants.

# South Australian Housing Trust (SAHT)

## Financial statistics




**764**
FTEs

**$7.3 billion**
Value of rental property

**$338 million**
Net deficit

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### Significant events and transactions

- Property, plant and equipment was revalued upwards by $371 million.
- A new homelessness alliance model was implemented at an estimated cost of $103 million over two years.
- The SAHT started its procurement of new maintenance contractors. In 2021-22 it spent $107 million on maintenance activities performed by its maintenance contractors. New contracts are expected to be in place by 31 December 2022.

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### Financial report opinion

**Unmodified**

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### Controls opinion findings

The SAHT Board received no formal reporting on the non-financial performance of its 2021-22 capital investment program.

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### Other audit findings

The SAHT does not require proof of income and asset eligibility from HomeSeeker SA applicants.

# Functional responsibility

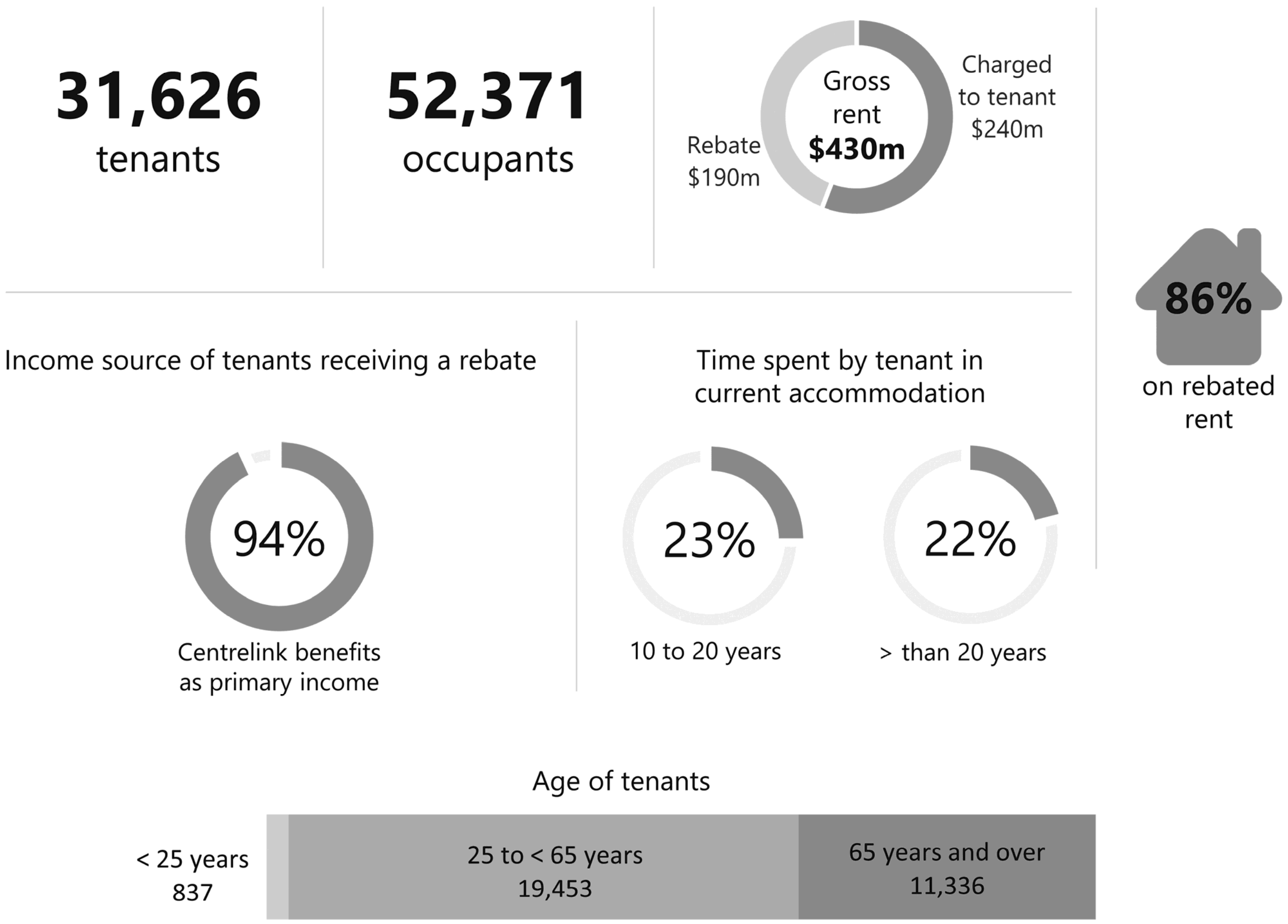
The SAHT is established by the *South Australian Housing Trust Act 1995* (SAHT Act).

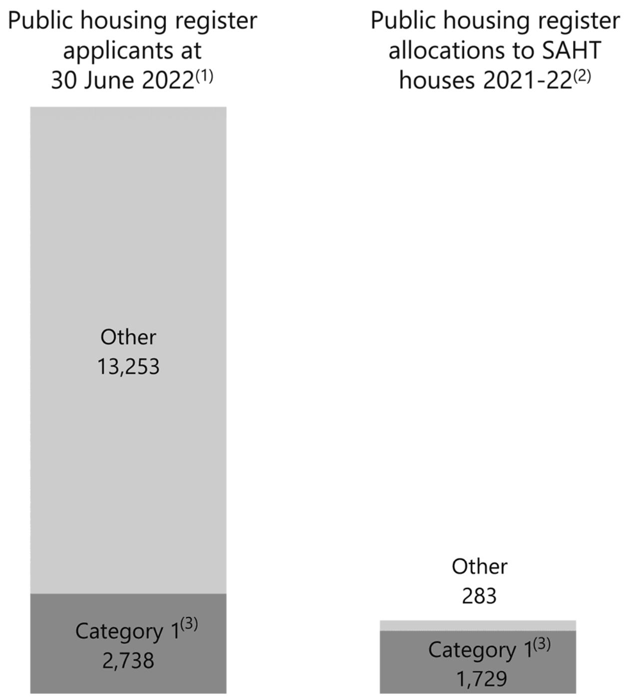
The functions of the SAHT include:

- the construction, purchase, ownership and management of houses and units for tenant occupation
- managing SAHT tenancies and housing grant programs.

# Snapshot of SAHT operations

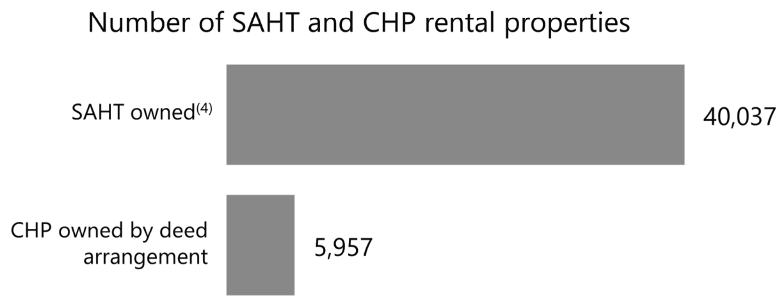
The SAHT's public housing operations (excluding SAHT housing managed by community housing providers (CHPs)) are summarised below.

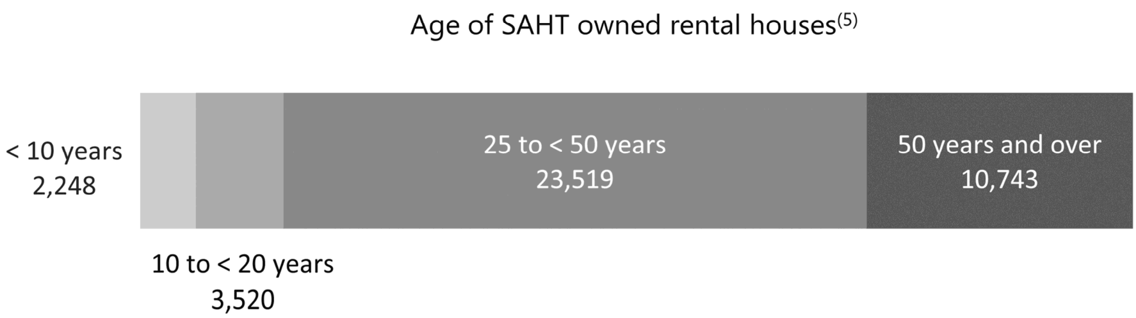





Property, plant and equipment

**$11.19b**




(1) Excludes tenants requesting a transfer to another property.
(2) Excludes tenants transferring between properties.
(3) Category 1 applicants are people with urgent housing need and long-term barriers to accessing or maintaining private housing options.
(4) Includes unlettable properties and SAHT owned properties managed by either the SAHT or CHPs.
(5) The age of seven rental houses is unknown.

All data included in the snapshot of SAHT operations was provided by the SAHT and is unaudited except for the value of rental income, rebates and property, plant and equipment.

# Scope of the audit

## Audit of the financial report

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

Specific areas of attention in 2021-22 included:

- revenue, including tenant rents and recoveries
- accounts payable
- payroll
- property expenses, including maintenance, land tax, council rates and water rates
- fixed assets, including rental properties, service concession assets and capital works
- grants to specialist homelessness service providers
- house sales
- general ledger.

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

## Controls opinion

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

- rental income
- asset management including:
  - land
  - buildings and improvements
  - assets under arrangement and service concession assets
- the receipt, expenditure and investment of money through the SAHT Operating Account.

# Audit findings

## Communicating our audit findings

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

### Controls opinion findings

#### The SAHT Board received no formal reporting on the non-financial performance of its 2021-22 capital investment program

We again noted the SAHT's ongoing commitment to applying best practice principles to its asset management. We found, however, that while the SAHT Board received formal reporting on the financial performance of its 2021-22 capital investment program, this did not cover the program's non-financial performance. For example, the SAHT Board received reporting on the actual cost of building houses against budgets, but not the number of houses built against targets.

Non-financial information could help the SAHT Board interpret financial information to identify performance problems. For example, increased costs of building individual houses could be due to unreasonable contract variations or higher than expected inflation. The number of houses built may be behind schedule due to procurement delays or building contractors not meeting their obligations.

In response to our finding, the SAHT advised us that:

- although no formal non-financial capital reporting occurred in 2021-22, reporting on the progress of outcomes occurred periodically through the Chief Executive's monthly report to the SAHT Board, and regular presentations were made to the SAHT Board's development working group covering capital programs and non-financial measures
- a report against annual investment plans will be developed and presented to the SAHT Board each quarter, covering progress against outcomes and budgets
- a Project Assurance Group will be introduced and will receive monthly reports for each program on progress, risks and milestones. This group will be responsible for assessing new proposals in line with the SAHT's recently implemented project management framework.

## Other audit findings

### The SAHT does not require proof of income and asset eligibility from HomeSeeker SA applicants

One of the SAHT's key functions is to support initiatives to increase the supply of affordable housing. This includes supporting the HomeSeeker SA initiative as follows:

- The SAHT manages the HomeSeeker SA initiative, which requires property developers to provide affordable homes for sale through the HomeSeeker SA website to eligible applicants on low to moderate incomes. Property developers must provide 15% affordable housing for significant property developments within the zones specified in the planning and design code issued under the *Planning, Development and Infrastructure Act 2016.* The SAHT sets the income and asset eligibility requirements for HomeSeeker SA applicants. Applicants are ineligible if their:
  - annual household income is more than $110,000 before tax (couple or family) or $85,000 before tax (single)
  - assets are valued at more than $616,000 (couple or family) or $482,500 (single).
- The SAHT constructs affordable homes for sale through HomeSeeker SA and aims to supply 1,000 new affordable homes between January 2020 and June 2026 as part of the Our Housing Future 2020-2030 strategy.

We found that:

- the SAHT does not require proof of income and asset eligibility from HomeSeeker SA applicants. Rather, it relies on statutory declarations by applicants that their income and assets are below the eligibility limits. The SAHT advised us that this method of confirming eligibility was implemented in around 2013
- this strategically important principle was not referred to the SAHT Board for approval.

In response to our finding, the SAHT advised us that it will:

- review the internal resourcing required to reinstate in-person eligibility checks to better assess whether prospective HomeSeeker SA buyers are within the nominated income and asset limits

- as part of the resourcing review, will undertake a cost-benefit analysis based on the level of perceived risk, noting that HomeSeeker SA buyers are paying market prices for homes and do not receive any direct government subsidy
- ensure the SAHT Board has an opportunity to consider the issue of the most appropriate verification method via a formal review of the relevant HomeSeeker SA Program Policy
- pending the outcome of the SAHT Board's consideration and appropriate internal approval processes, implement any required amendments to the SAHT's policy and procedure documents relating to HomeSeeker SA eligibility.

## Other comments

### Our Housing Future 2020–2030 housing and homelessness strategy

The National Housing and Homelessness Agreement sets out the quantum of Commonwealth funding to be provided to the States. It requires the States to have a publicly available housing strategy indicating projected housing demand and outlining reforms and initiatives to meet this need. It also requires a publicly available homelessness strategy that addresses priority areas of need.

In December 2019 the SA Government released the Our Housing Future 2020–2030 housing and homelessness strategy. This is a whole-of-government, whole-of-state 10-year strategy aimed at transforming the South Australian housing system. The SAHT led its development and will play a significant role in its delivery, including building up to 1,000 affordable houses.

### The SAHT's asset management practices continue to improve

The SAHT is responsible for managing property valued at $11.2 billion.

Since 2018-19 we have reviewed the SAHT's asset management practices and controls against aspects of the International Standard on asset management (ISO 55000) and have noted the SAHT's commitment to applying best practice principles to asset management.

In November 2018, the SAHT Board approved an asset management policy describing its asset management and reporting principles and a Strategic Asset Management Methodology (SAMM). The SAMM contains asset management objectives to guide the asset planning process for creating and maintaining a public housing portfolio that will achieve its organisational objectives. Its development was guided by ISO 55000 and the Strategic Asset Management Framework published by the Department for Infrastructure and Transport.

Our follow-up in 2021-22 found that the SAHT had made the following improvements to its asset management.

#### Improved asset management planning

One of the SAHT's goals is to achieve a 'competent' level of asset management maturity by 2025. This level is reached when the organisation can demonstrate that it systematically and consistently achieves the ISO 55000 requirements. To achieve this goal the SAHT has developed an asset management action plan. In 2020, as part of this plan, the SAHT replaced the SAMM with a strategic asset management framework and an interim asset management strategy that has clearer objectives and KPIs to meet its organisational objectives. In 2021-22 the SAHT assessed its progress towards achieving its goal by conducting an ISO 55001 self-assessment questionnaire, and rated its asset management maturity between 'developing' and 'competent'.

### Strategic asset management framework

In July 2020 the SAHT Board approved the Strategic Asset Management Framework 2020–2030, which:

- aligns the SAHT's asset management objectives with the organisational objectives in its Strategic Plan 2020–2025 and, in turn, aligns these objectives with those in the Our Housing Future 2020–2030 strategy
- requires the production of five-year regional asset management plans to inform decisions on retention, divestment, investment and development at a regional level. These regional plans are required to be supported by annual investment plans that include program and project targets for measuring progress. They comprise an investment plan for maintenance and an investment plan for development and strategic divestment
- details governance groups and reporting requirements to ensure asset management activities meet organisational objectives
- provides a structure to annually review the performance of the asset management system, including the use of the ISO 55001 self-assessment questionnaire.

Assets transferred to CHPs to manage properties and tenancies on behalf of the SAHT are also monitored through the strategic asset management framework's governance structure and reporting requirements to ensure accountability. CHPs have their own asset management and investment plans to ensure they meet their contractual obligations for maintaining and developing SAHT properties.

### Asset management strategy

In December 2020 the SAHT Board approved an interim asset management strategy to guide the SAHT's capital programs over the next five years. It includes KPIs with time frames to monitor the effectiveness of project and program actions, and is used to inform the development of regional asset management plans. In 2021-22 a consultant engaged by the SAHT completed a housing need and demand analysis to inform the asset management strategy and KPIs. Results of the analysis will be used in 2022-23 to inform the:

- 10-year asset management strategy that will replace the interim asset management strategy
- five-year regional asset management plans that will replace the interim regional asset management plans
- annual investment plans.

The SAHT expects the implementation of its final asset management strategy and its regional asset management plans will complete the actions in the asset management action plan, ensuring it meets its targeted 'competent' level of asset management maturity by 2025.

### Improved data on the condition of the SAHT's housing stock

The SAHT completed its assessment of the condition of its housing stock in 2020-21. It intends to use condition data to inform its future maintenance and asset management plans. The condition assessment program was conducted by a contractor who inspected every SAHT property. Maintenance contractors will keep the condition data up to date.

### Capital project management framework

The SAHT implemented a Portfolio Planning and Asset Management Project Management Framework in 2021-22. It specifies the requirements for governing individual capital programs and projects and mandates the use of standardised management tools, processes and templates that can be tailored to their project type, individual size and complexity.

### Affordable Housing Initiative (AHI)

The SAHT aims to build and sell 1,000 new affordable homes between January 2020 and 30 June 2026, through the AHI program. The program is currently budgeted to cost about $407 million, with sales of $430 million.

To achieve the goals of the AHI program the SAHT has created an AHI project management team that reports monthly on the performance of the program to the SAHT executive.

The SAHT has entered development agreements to build the affordable homes with a panel of four builders. Under these agreements, the SAHT will periodically invite the panel members to submit development proposals for packages of houses to be constructed on land supplied by either the SAHT or the builders. The SAHT will select preferred proponents to build the houses for each package. This procurement model is designed to sustain a competitive tension amongst the panel members, ensuring value for money over the course of the program.

The SAHT awarded the first land packages to panel members in December 2021 and has continued to release additional land packages to ensure a constant pipeline for developers. Before establishing the building panel, some houses that were built under the SAHT Better Neighbourhoods Program were allocated to the AHI program and sold to meet the AHI sale targets.

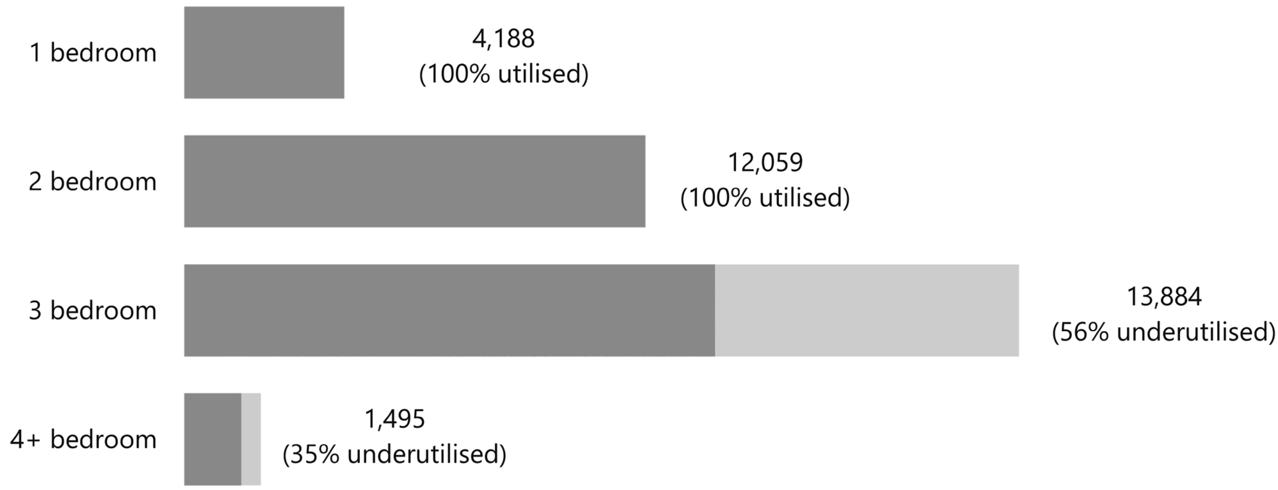
AHI houses are sold through the HomeSeeker SA program managed by the SAHT on behalf of the SA Government. HomeSeeker SA requires property developers, including the SAHT, to build and sell affordable housing to eligible applicants on low to moderate incomes.

### Underutilisation of SAHT properties (excludes CHP properties)

A key focus of the SAHT's asset planning is to reconfigure its housing stock through its renewal programs to better match its tenants' needs.

About 26% of the SAHT's tenanted houses are underutilised. This means the number of bedrooms exceeds the number the household needs by two or more and reflects an oversupply of three-bedroom houses (56% underutilised) and a shortage of smaller houses (100% utilised). A key focus of the SAHT's asset management strategy is to replace its three-bedroom houses with one or two-bedroom properties.

Utilisation of tenanted properties*




* Properties are defined as underutilised where the number of bedrooms exceeds the number that the household needs by two or more.

All data included in the table above was provided by the SAHT and is unaudited.

## Transfer of property and tenancy management to CHPs

The Our Housing Future 2020–2030 strategy replaced the Renewing Our Streets and Suburbs (ROSAS) initiative. ROSAS was implemented to rejuvenate older SAHT homes and improve the supply of affordable housing for rent or purchase while stimulating the construction sector. It included transferring responsibility for property and tenancy management for over 5,000 SAHT properties to CHPs by 2018. This occurred in two tranches. The first tranche of 1,086 SAHT properties (then valued at about $184 million) transferred to two CHPs in October 2015. The second tranche of 4,003 SAHT properties (then valued at about $1.1 billion) transferred to five CHPs in September 2017. A further 47 properties transferred in March 2018 (then valued at about $13 million).

The SAHT has applied a concurrent lease and deed model to these transfers. The leases for the first tranche had a three-year term that expired on 23 October 2018. The term was extended for 20 years. The leases for both the first and second tranches now have 20-year terms and require the CHPs to implement a stock renewal program.

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

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

All CHPs have established plans to support the stock renewal program. The SAHT retains the title to these properties and the CHPs must also comply with the SAHT's tenancy conditions, ensuring the conditions of transferred tenants remain the same. Due to the lease and deed arrangements, the housing stock remains recognised in the SAHT's Statement of Financial Performance, classified as service concession assets.

### Triennial review

The SAHT Act requires the Minister, once every three years, to have a report on the SAHT's operations and administration prepared by a someone independent of the SAHT and provided to Parliament.

The SAHT advised us that the report for the four-year period from 2017-18 to 2020-21 will be provided to Parliament in 2022-23.

### Procurement of maintenance trade contractors

The SAHT contracts multi-trade contractors (MTCs) to deliver maintenance programs for SAHT properties. The current contracts end on 31 December 2022. Procurement of MTCs to deliver the maintenance programs for the next eight years is underway. The SAHT estimates the cost of the contracts, inclusive of GST, will be $961 million (six-year base contract plus a two-year extension option).

The MTCs will deliver the maintenance programs under a revised maintenance service delivery model. Key changes in this model from the current model include:

- reconfiguration and reduction of the current 14 contract zones to six larger contract zones
- revised pricing arrangements that separate management fees from the schedule of rates for maintenance items
- enhancement of the model to foster a culture of shared accountability between the SAHT and MTCs for the delivery of maintenance programs.

We will review the MTC procurement process in 2022-23.

## Interpretation and analysis of the financial report

### Highlights of the financial report*

| | 2022<br>$million | 2021<br>$million |
|---|---|---|
| **Income** | | |
| Rental income | 256 | 246 |
| SA Government grants, subsidies and transfers | 8 | 25 |
| Other | 72 | 65 |
| **Total income** | 336 | 336 |
| | | |
| **Expenses** | | |
| Employee benefits expenses | 77 | 78 |
| Maintenance | 107 | 119 |
| Council rates and water rates | 73 | 71 |
| Land tax equivalent | 149 | 139 |
| Depreciation and amortisation | 98 | 99 |
| Grants and subsidies | 102 | 100 |
| Other expenses | 68 | 73 |
| **Total expenses** | 674 | 679 |
| **Net result** | (338) | (343) |
| Other comprehensive income | 366 | 206 |
| **Total comprehensive result** | 29 | (137) |

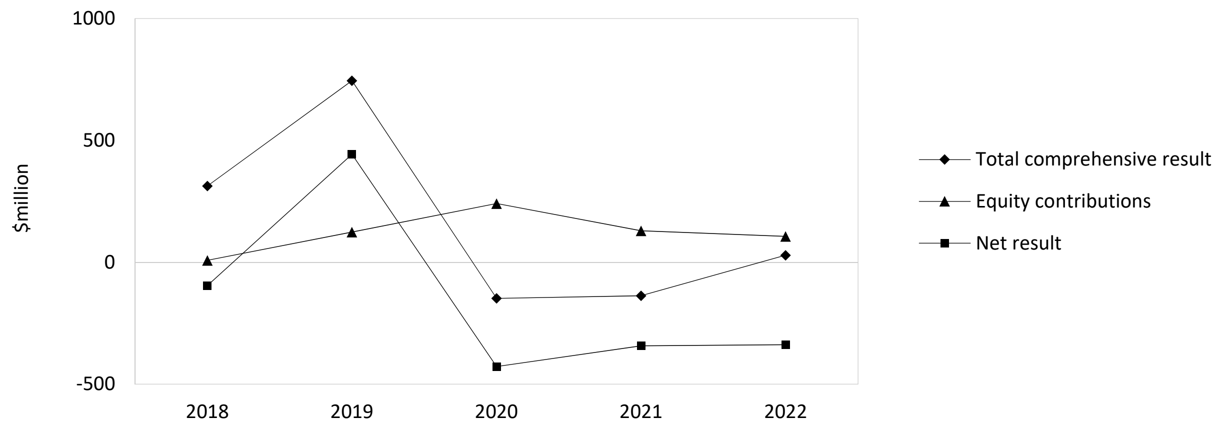
| | 2022<br>$million | 2021<br>$million |
|---|---|---|
| Net cash provided by (used in) operating activities | (149) | (492) |
| Net cash provided by (used in) investing activities | (69) | (34) |
| Net cash provided by (used in) financing activities | 103 | 127 |
| | | |
| **Assets** | | |
| Current assets | 533 | 680 |
| Non-current assets | 11,260 | 10,917 |
| **Total assets** | 11,793 | 11,597 |
| | | |
| **Liabilities** | | |
| Current liabilities | 155 | 90 |
| Non-current liabilities | 43 | 46 |
| **Total liabilities** | 197 | 136 |
| **Total equity** | 11,596 | 11,461 |

* Table may not add due to rounding.

## Statement of Comprehensive Income

### Total comprehensive result and equity contributions

The SAHT's comprehensive result and equity contributions for the five years to 2022 are shown in the following chart.



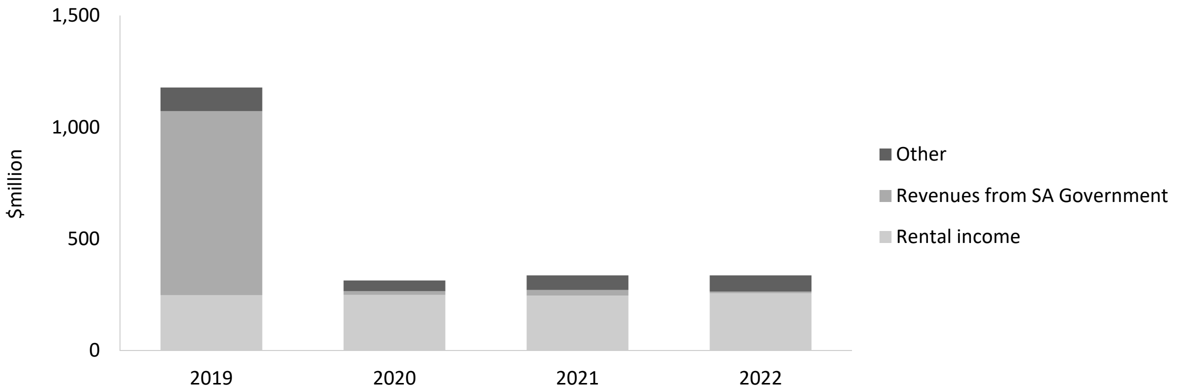

The chart shows deficits in the net result for the past three years.

The deficits were impacted by the SA Government's changed funding arrangements for the SAHT. Since 2019 the SAHT is funded primarily through equity contributions instead of grants. Equity contributions are not recognised as income in the Statement of Comprehensive Income. In 2022 the SA Government provided an equity contribution of $106 million ($129 million).

The total comprehensive result improved from a $137 million deficit last year to a $29 million surplus in 2022, due mainly to a $160 million increase in the upward revaluation for property, plant and equipment.

## Income

The SAHT's income for the four years to 2022 is shown in the following chart.




The chart shows the dramatic changes in the SAHT's funding arrangements from 2019.

In 2022 revenues from the SA Government decreased by $18 million to $8 million, due mainly to the cessation of general purpose grants ($9 million), emergency management reimbursements for bushfires and COVID-19 ($7 million) and rough sleeping initiative grants ($5 million). These reductions were partially offset by a $6 million build-to-rent capital grant to implement schemes for building and letting properties by developers to eligible tenants from the SAHT public housing register.

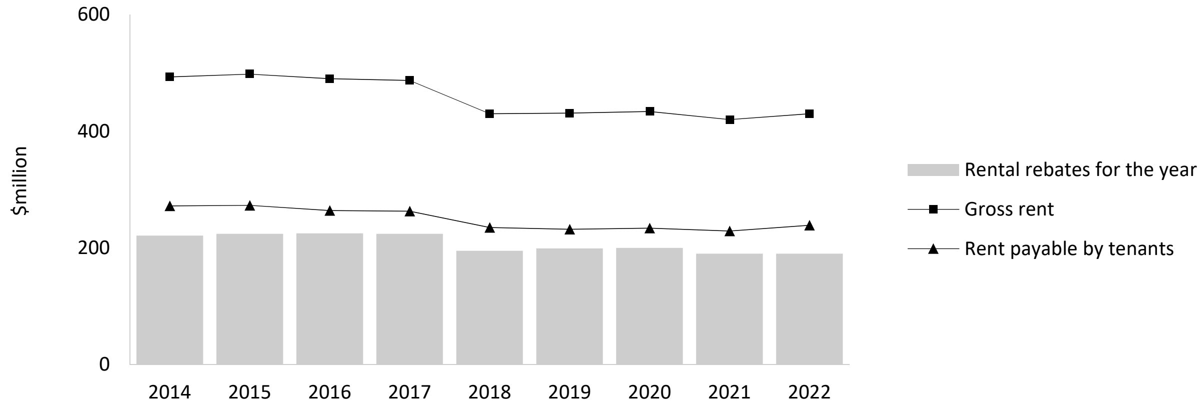
Other movements in total income for 2022 included:

- a net gain from disposal of assets of $28 million ($19 million). Proceeds from selling properties support the SAHT's financial viability strategy and its housing renewal and capital programs. Proceeds were $93 million ($108 million), while the net book value of assets disposed was $65 million ($89 million). This represents a profit margin of 30% (18%). The improved profit margin was due mainly to improved market conditions
- an increase in rental income of $10 million, due mainly to higher market rents and more tenants paying full market rent
- a $16 million ($17 million) recovery of GST incurred in prior periods as a result of the Australian Taxation Office advising the SAHT that the supply of accommodation to eligible tenants with a disability is a GST-free supply, and that the SAHT can claim GST input tax credits for GST incurred on historic costs from September 2016. The SAHT will finish analysing and recovering GST on historic costs in 2022-23.

### Rental operations

Information provided by the SAHT records that 86% (88%) of tenants pay reduced (rebated) rent. The amount of rent rebates depends on each tenant's circumstances, with rent payable charged at 25% of household income or market rent, whichever is lower. For tenants with a moderate household income from 1 July 2021, this percentage will progressively increase by 1% twice a year until it reaches 30%. Moderate income is based on average weekly earnings data published by the Australian Bureau of Statistics.

The trend of rents and rebates is shown in the following chart.




The chart highlights that gross rents, rental rebates and rent payable by tenants dropped in 2018 after responsibility for tenancy management of over 5,000 properties was transferred to the community housing sector between 2016 and 2018. The rent on these properties is retained by the community housing sector.

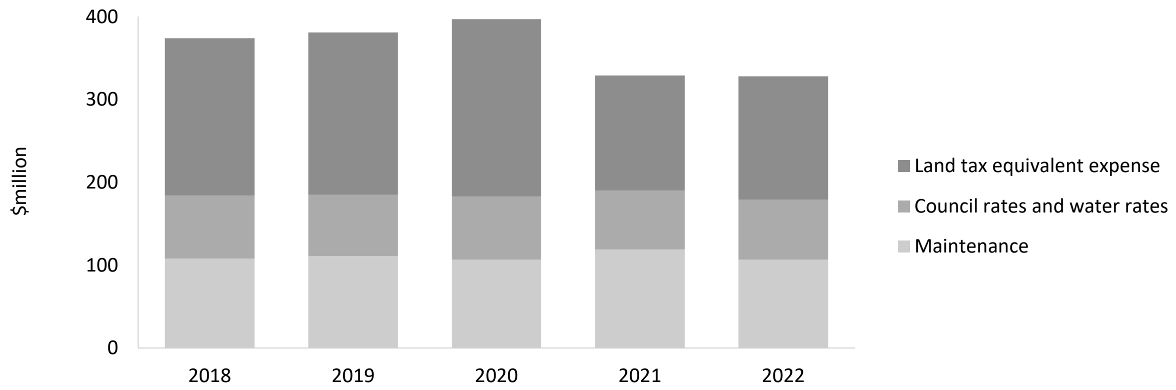
In 2022 gross rent (market rent) increased by $10 million to $430 million, while rebates remained at $190 million. Rebates as a percentage of gross rent were 44% (45%). The increase in rent payable by tenants reflects mainly:

- higher market rents determined by the Valuer-General and more tenants paying full market rent
- higher rents charged to tenants with moderate household income.

Rebates remained constant due to the number of tenants receiving rebates reducing, while average rebates per tenant increased.

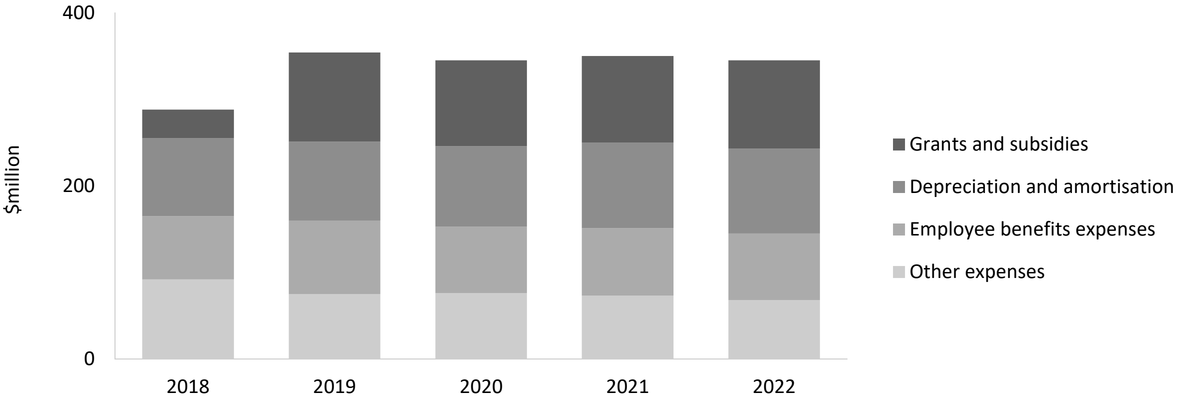
## Expenses

Major property expenses for the five years to 2022 are shown in the following chart.




Other than land tax equivalents, major property expenses have remained relatively constant over the last five years. The $75 million decrease in land tax equivalents for 2021 reflects a reduction in land tax rates set by RevenueSA. The SAHT is responsible for the land tax equivalent paid on properties owned by the SAHT but managed by CHPs. The SAHT is not responsible for council and water rates on these properties. Charges paid by the SAHT are driven by changes in the value of properties and rates charged by local government and the South Australian Water Corporation.

Other major expense items for the five years to 2022 are shown in the following chart.




The chart shows a large increase in expenses in 2019 when responsibility for paying grants to specialist homelessness service providers transferred to the SAHT. In 2022 these grants were $71 million ($71 million).

In 2022 total expenses reduced by $5 million to $674 million, due mainly to the following movements:

- land tax equivalents expense increasing by $10 million to $149 million, due mainly to increases in land values
- supplies and services expenses decreasing by $3 million to $43 million, due mainly to a $3 million reduction in office accommodation expenses for the new Riverside building lease that started in January 2021. In 2021 the SAHT entered into revised CBD office accommodation arrangements, which from January 2021 are accounted for in line with AASB 16 *Leases*
- maintenance expense decreasing by $12 million to $107 million. The maintenance expense in 2020-21 reflected additional maintenance performed to reduce the backlog that occurred in 2019-20 when COVID-19 restrictions prevented contractors from entering homes. The SAHT has also refined its process for estimating more precisely the value of outstanding maintenance orders completed but not yet invoiced by contractors at 30 June
- grants and subsidies expense increasing by $2 million to $102 million, mainly reflecting a $2 million increase in emergency accommodation assistance and $3 million to establish a homelessness prevention fund, partially offset by a $3 million reduction in the COVID-19 homelessness response. The homelessness prevention fund provides funding to pilot homelessness prevention initiatives and new innovative housing models
- impairment expenses decreasing by $5 million to $20 million, largely driven by a decrease in asset write-offs of $7 million, with less property demolitions relating to the SAHT's housing renewal programs. This was partially offset by a $3 million increase in impairment losses on receivables. Receivables of $10 million ($5 million) were written off.

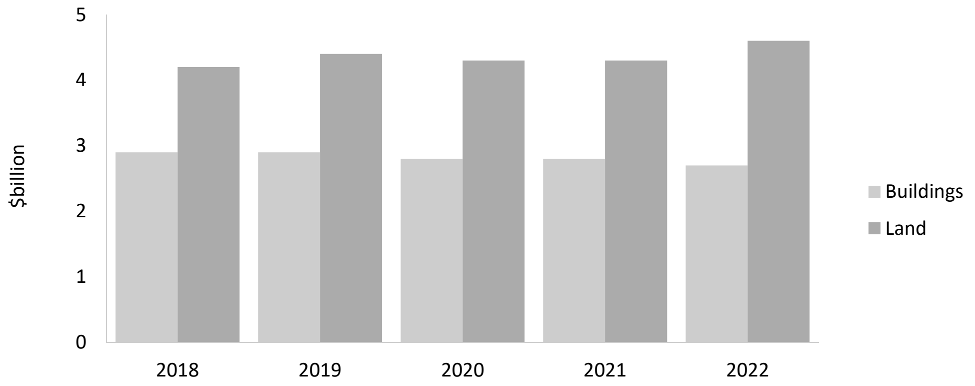
## Statement of Financial Position

The SAHT's financial position is dominated by its significant property assets and cash balance. Its current assets of $533 million ($680 million) were significantly higher than its current liabilities of $155 million ($90 million).

### Rental properties

The SAHT's rental properties are estimated to be worth $7.3 billion ($7.1 billion) and comprise 65% (66%) of the SAHT's property, plant and equipment of $11.2 billion ($10.8 billion).

The following chart shows the movements in the value of the SAHT's rental properties over the past five years.



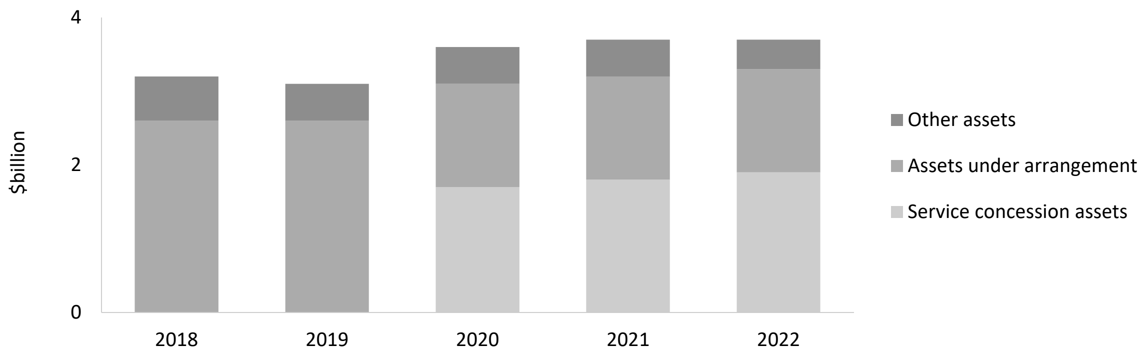

The chart shows that the value of rental properties has remained relatively constant despite a fall in the number of properties over the same period. The value is being maintained mainly through upward revaluations of individual properties and capital upgrades. The SAHT advised us that in 2022 its rental stock reduced from 34,888 to 34,603, a fall of 285 properties (0.8%), yet the value of its rental properties (valued at 1 July 2021) increased by $208 million (2.9%). Rental stock excludes SAHT owned rental properties managed by the community housing sector on behalf of SAHT.

The $208 million rise in the value of rental properties to $7.3 billion in 2022 reflects a net upward revaluation of land and buildings of $245 million and additions of $100 million, including completed capital works, maintenance upgrades and assets held for sale. These impacts were partially offset by transfers to other asset categories of $59 million (mainly to capital works in progress), disposals of $24 million and depreciation expense of $55 million.

The SAHT revalues most land and buildings annually using the Valuer-General's values. Because of the timing of the update of the Valuer-General's database and the SAHT's financial reporting obligations, reported values lag current market values. The values for 2022 were issued by the Valuer-General as at 1 July 2021. This policy has been consistently applied and reflects the practicality of valuing a very large housing stock. The Valuer-General has published a notice in The South Australian Government Gazette advising that the average percentage change in site values is 7% as at 1 July 2021 for 2021-22 and 10.9% as at 1 July 2022 for 2022-23.

## Property, plant and equipment (excluding rental properties)

The following chart shows the value of the SAHT's property, plant and equipment (excluding rental properties) over the past five years.



Assets under arrangement are properties managed by the community housing sector on behalf of the SAHT under a variety of arrangements. In 2021, as a result of implementing AASB 1059 *Service Concession Arrangements: Grantors*, the SAHT reclassified certain community housing properties totalling $1.8 billion as service concession assets and restated the 2020 comparative as $1.7 billion.

In 2022 the SAHT's property, plant and equipment (excluding rental properties) increased by $136 million, due mainly to the following movements:

- service concession assets increasing by $66 million to $1.9 billion, largely driven by a net upward revaluation of land and buildings of $69 million and additions of $1 million, partially offset by depreciation expense of $12 million. These assets are revalued in the same way as rental properties using the Valuer-General's values. The balance of the increase mainly relates to net transfers in from other asset categories (principally on completion of capital works)
- assets under arrangement increasing by $34 million to $1.4 billion following a net upward revaluation of land and buildings of $53 million, offset by depreciation expense of $11 million and a net transfer to other asset categories of $8 million. These assets are revalued in the same way as rental properties using the Valuer-General's values
- capital works in progress increasing by $24 million to $153 million. This reflects additional works of $95 million ($113 million) and properties transferred in from other asset categories for development of $67 million ($62 million), partially offset by works completed of $139 million ($171 million)
- vacant land increasing by $23 million to $89 million reflecting additions of $4 million, upward revaluations of $4 million and net transfers in from other asset categories of $14 million following redevelopment of the properties
- remote indigenous leased properties decreasing by $9 million to $266 million, due mainly to depreciation.

## Intangible assets

Intangible assets remained at $35 million due to the capitalisation of $3 million in development costs relating mainly to developing the next phases of the Connect system, offset by amortisation costs.

## Current assets

Current assets decreased by $147 million to $533 million due mainly to a $115 million decrease in cash and deposits with the South Australian Government Financing Authority and a $20 million decrease in inventories resulting from property sales. The decrease in cash is explained further under 'Statement of Cash Flows' below.

## Liabilities

Total liabilities increased by $61 million to $197 million due mainly to land tax payable of $75 million. Land tax was fully paid by 30 June in the prior year. This increase was partially offset by an $8 million decrease in accrued expense due mainly to lower maintenance accruals.

### Statement of Cash Flows

In 2022 the SAHT recorded a cash decrease of $115 million following a $399 million decrease for the previous year. This reduction in cash was due mainly to:

- net cash used in operating activities of $149 million ($492 million), which included:
  - land tax equivalents payments of $75 million ($354 million), noting that six months of land tax was paid in 2022 while two years was paid in 2021 due to the timing of the receipt and payment of land tax assessment notices
  - development costs of $58 million ($129 million), noting that less property development activity occurred
- net cash used in investing activities of $69 million ($34 million), largely comprising purchases of property, plant and equipment of $66 million ($27 million), including purchases of property from the Department for Infrastructure and Transport for $29 million
- net cash provided by financing activities of $103 million ($127 million), which included equity contributions of $106 million ($129 million) from the SA Government.

### COVID-19 impacts

Key impacts of the COVID-19 pandemic on the SAHT's operations in 2022 were:

- a COVID-19 relief call centre was set up to provide, among other things, advice on short-term accommodation options for people unable to self-quarantine or self-isolate
- emergency accommodation was provided for people rough sleeping and required to self-isolate
- funding was provided to specialist homelessness service providers to case manage rough sleepers self-isolating in emergency accommodation to transition to longer term sustainable housing
- accommodation and transport was provided for indigenous community members required to quarantine before returning to remote communities.

The emergency management declaration concluded on 24 May 2022. All arrangements for emergency accommodation have reverted to pre-pandemic status, with the response to homelessness provided through the Emergency Accommodation Program.

## Further commentary on operations

### Implementing the homelessness alliance model

On 1 July 2021 the SAHT implemented the homelessness alliance model as a new way of helping the homeless.

Before this, the SAHT had contracted with a large number of non-government service providers to deliver Specialist Homelessness Services (SHS) and Domestic and Family Violence (DFV) services at a cost of about $70 million a year. The main objective of these services was to help the homeless find accommodation.

Under the homelessness alliance model the service providers have joined together to form five alliances, consisting of two metropolitan Adelaide and two country alliances, combined with a statewide DFV services alliance.

The SAHT expects the alliance model to have the following benefits:

- alignment and common understanding of reform objectives and goals by all stakeholders
- the promoting of collaboration between government and service providers to improve service outcomes
- longer term outcomes-based contracts for all contractors to evolve their service offerings
- flexibility to adapt to changes in service outcomes or priorities
- performance measures (KPIs) that drive desired behaviours to achieve reform outcomes, which are targeted through relevant and measurable metrics and adaptable over time
- efficient and agile use of available resources to deliver value for money
- improved data collection, analysis and reporting to capture the right data for measuring outcomes, provide transparency within the system, share learnings to optimise the delivery model and inform decision-making.

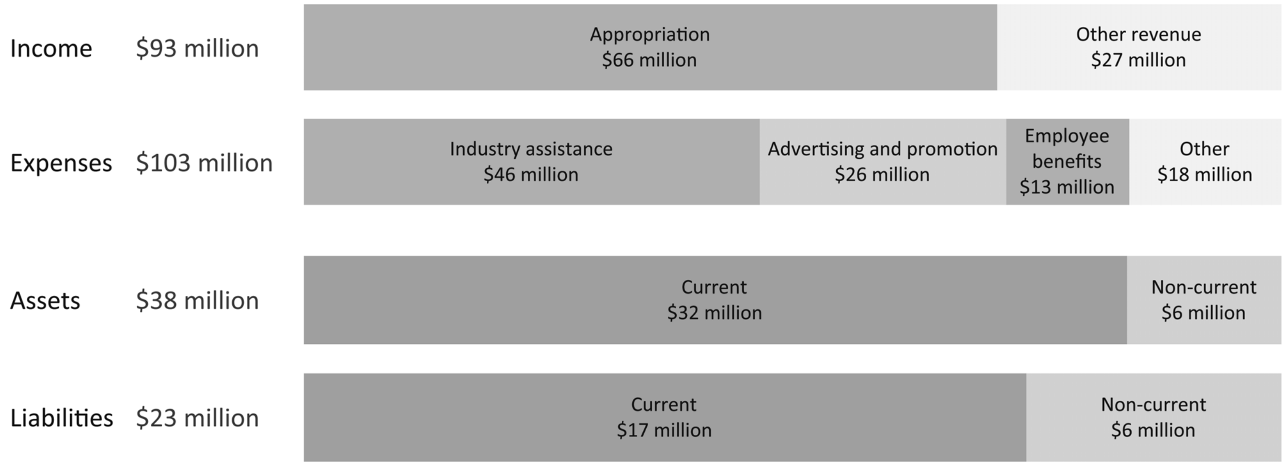
In November 2020 the SAHT released tenders for the supply of homelessness services under the alliance model. The tender excluded about $20 million of the $70 million of homelessness services provided annually, including highly specific services not suited to an alliance model. Respondents were required to detail in their tender submissions how their alliance would use a specified amount of funding to reform the delivery of SHS and DFV services, achieving the expected benefits of the alliance model.

After evaluating the tender submissions, the SAHT contracted five alliances to deliver homelessness services for an initial two-year period commencing 1 July 2021 at a cost of $103 million, with two extension options of two years each for an additional $201 million.

The SAHT has established an Alliance System Steering Group, comprising senior representation from the SAHT and from each alliance, to work collaboratively towards achieving the expected benefits of the alliance model.

# South Australian Tourism Commission (SATC)

## Financial statistics




110
FTEs

| | |
|---|---|
| **Significant events and transactions** | — The COVID-19 pandemic continued to impact the South Australian tourism industry and SATC. This included a reduction in the size, scope and profile of sponsored and managed events, and a decline in interstate and overseas visitor numbers.<br>— Managed the seventh and eighth instalments of the $10 million Great State Voucher campaign. This scheme will not be renewed in 2022-23.<br>— Ongoing management of the $20 million Tourism Industry Development Fund (TIDF) which was fully allocated in 2021-22. This fund aimed to stimulate private sector investment for accommodation and tourism products across regional South Australia. |
| **Financial report opinion** | **Unmodified** |
| **Audit findings** | No significant findings. |

## Functional responsibility

SATC is established by the *South Australian Tourism Commission Act 1993* and is a body corporate.

SATC's functions include securing economic and social benefits for the State by promoting and developing South Australia as a tourism and events destination. It aims to achieve this by:

- ensuring a coordinated approach to promoting South Australia

- attracting, developing, owning and supporting major and strategic tourism events
- developing tourism resources to maintain and preserve South Australia's environmental and cultural heritage.

## Scope of the audit

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

Specific areas of audit attention in 2021-22 included:

- revenue
- financial accounting
- cash and cash management
- employee benefits expenditure
- property, plant and equipment
- supplies and services expenditure
- industry assistance expenditure.

Some services, including accounts payable and payroll processing, were undertaken by Shared Services SA and were reviewed as part of our audit of Shared Services SA.

## Audit findings

### Communicating our audit findings

We communicated our audit findings in a management letter to the Chief Executive. No significant matters were identified.

## Interpretation and analysis of the financial report

### Highlights of the financial report*

| | 2022 $million | 2021 $million |
|---|---:|---:|
| **Income** | | |
| Appropriation | 66 | 67 |
| SA Government grants, subsidies and transfers | 20 | 21 |
| Other | 7 | 6 |
| **Total income** | 93 | 94 |
| | | |
| **Expenses** | | |
| Employee benefits expenses | 13 | 13 |
| Advertising and promotion | 26 | 32 |
| Industry assistance | 46 | 23 |
| Event operations | 9 | 11 |
| Other | 9 | 9 |
| **Total expenses** | 103 | 88 |

| | 2022 $million | 2021 $million |
|---|---|---|
| **Net result** | (10) | 6 |
| Other comprehensive income | - | (7) |
| **Total comprehensive result** | (10) | (1) |
| Net cash provided by operating activities | 1 | 12 |
| **Assets** | | |
| Current assets | 32 | 34 |
| Non-current assets | 6 | 8 |
| **Total assets** | 38 | 42 |
| **Liabilities** | | |
| Current liabilities | 17 | 9 |
| Non-current liabilities | 6 | 7 |
| **Total liabilities** | 23 | 16 |
| **Total equity** | 15 | 26 |

* Table may not add due to rounding.

## Statement of Comprehensive Income

SATC's financial activities vary from year to year depending on the mix of marketing, destination development and event activities it supports, the extent to which these activities are funded and, in recent years, the impact of COVID-19. The main events managed by SATC are the Santos Tour Down Under cycling race, National Pharmacies Christmas Pageant and Tasting Australia food and beverage festival.

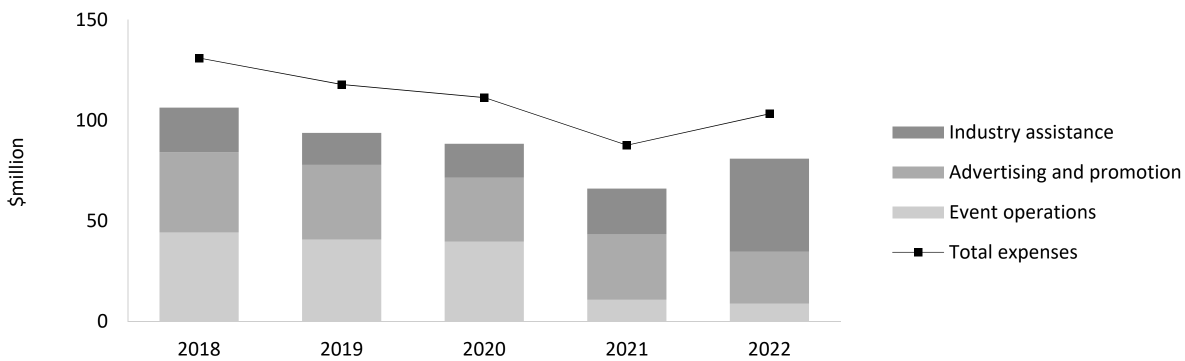
### Income

Income for the year remained steady at $92.7 million ($93.6 million), with SATC's two major revenue sources in appropriations and SA Government grants, subsidies and transfers remaining largely unchanged at $86.4 million ($87.7 million).

Sponsorship and participation income declined by $1.6 million (30%), with the main driver being a $950,000 (90%) decrease in cooperative marketing and advertising revenue. Specifically, in 2020-21 SATC received a $1 million Tourism Australia grant, but no equivalent revenue was received this year.

### Expenses

The following chart shows SATC's main expense items for the five years to 2022.



Total expenses increased by $15.6 million (18%) in 2021-22.

The main drivers for the increase were:

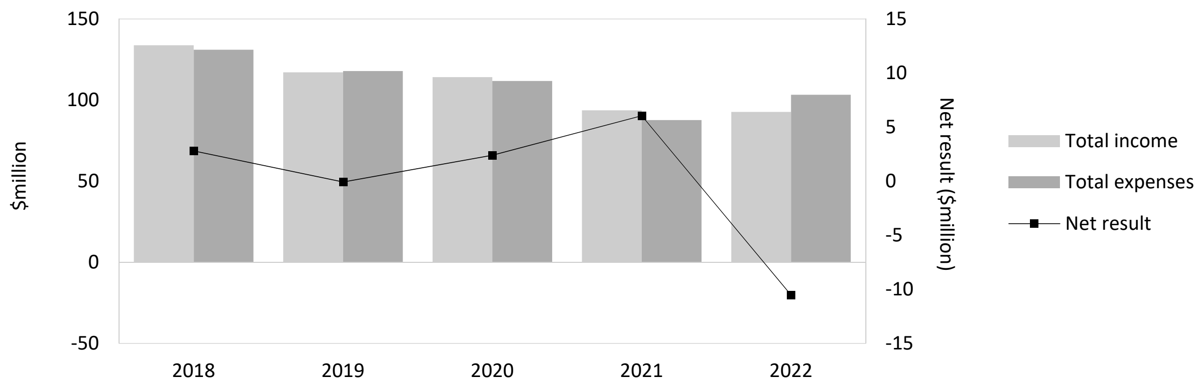
- a $23.6 million rise in industry assistance payments associated with implementing the final instalments of the Great State Voucher campaign, as well as other payments made from the TIDF to support regional tourism development projects
- a $2 million expense write-down, to the 30 June 2022 recoverable amount, of motorsport infrastructure assets that will be transferred for no consideration to the soon-to-be-established South Australian Motor Sport Board.

These rises were mainly offset by declines in:

- advertising and promotions ($6.7 million) – mainly attributable to reductions in major campaigns launched and paid for in 2020-21, such as the 'See it to believe it' marketing initiative
- event operations ($2 million) – largely due to a reduction in fees, permits and event management expenditure associated with the cessation of the Adelaide 500.

### Net result

The following chart shows total income, total expenses and the net result for the five years to 2022.




In 2021-22 SATC recorded its first net loss in a number of years. This result is explained by the movements in income and expense items outlined above.

## Statement of Financial Position

### Current and non-current assets

At 30 June 2022 current assets were $31.8 million ($34.4 million) and exceeded current liabilities of $17.3 million by $14.5 million.

The main current asset change in 2021-22 was the write-down of motor sport infrastructure assets, as explained above. Cash and cash equivalents, and receivables, remained steady.

SATC held $6.5 million ($8.1 million) in non-current assets at 30 June 2022, which mainly comprised right-of-use assets and Christmas pageant plant and equipment. The $1.6 million decline in 2021-22 was mainly due to depreciation expenditure of $1.7 million and some asset disposals. These were offset by acquisitions of Christmas pageant plant and equipment and right-of-use assets.

### Current and non-current liabilities

Total liabilities increased by $6.5 million, mainly as a result of current creditors and accrued expenses rising by $4.6 and $4.5 million, respectively.

For creditors, the rise was due to an increase in the volume and number of creditors at the end of the financial year. This broadly reflects the increasing return of tourism events post-COVID-19.

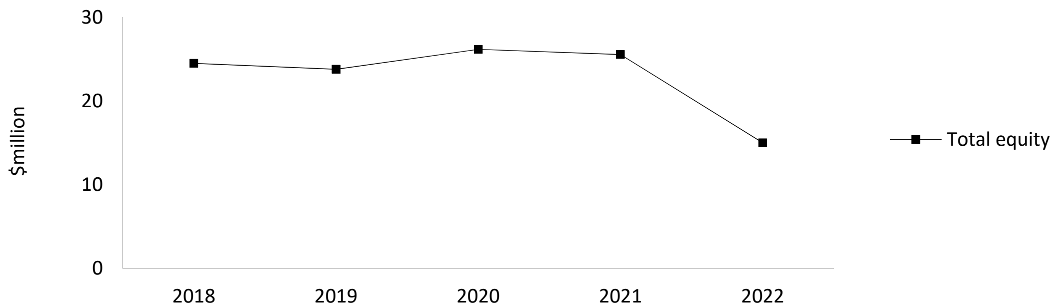
For accrued expenditure, the rise was mainly due to an increase in large industry assistance accruals, which were not as significant as at balance date in the prior year.

These large increases were offset by declines in:

- financial liabilities ($1.2 million) – these are lease liabilities, with the decline attributable to their ongoing lease-term amortisation
- provisions ($645,000) – these mainly represent SATC's workers compensation liability. However, the decline in the balance is mainly attributable to SATC meeting Adelaide 500 termination payments in 2021-22 that were recognised as other provisions in the prior year.

### Equity (net assets)

The following chart shows total equity (net assets) as at 30 June for the past five years.




Total equity decreased by $10.5 million or 41% in 2021-22. This is due to the movements in the statement of comprehensive income and financial position items explained above.

## Further commentary on operations

### Impact of COVID-19

COVID-19 continued to impact the South Australian tourism industry and SATC's operations in 2021-22. Predicting any future impact is difficult, with the severity and duration of public health restrictions and border closures being key factors. However, the easing of local restrictions and the progressive lifting of international traveller entry requirements provide for cautionary optimism.

SATC continued to launch intrastate and interstate marketing activities to drive visitation to regions in 2021-22. It intends to expand these campaigns into 2022-23, and will also target international markets as travel becomes more accessible and available.

## Tourism Industry Development Fund

In 2020 the $20 million TIDF was established to provide grant funding to private businesses in South Australia. Its objective was to stimulate investment in new and improved regional accommodation, and the development of tourism products and experiences.

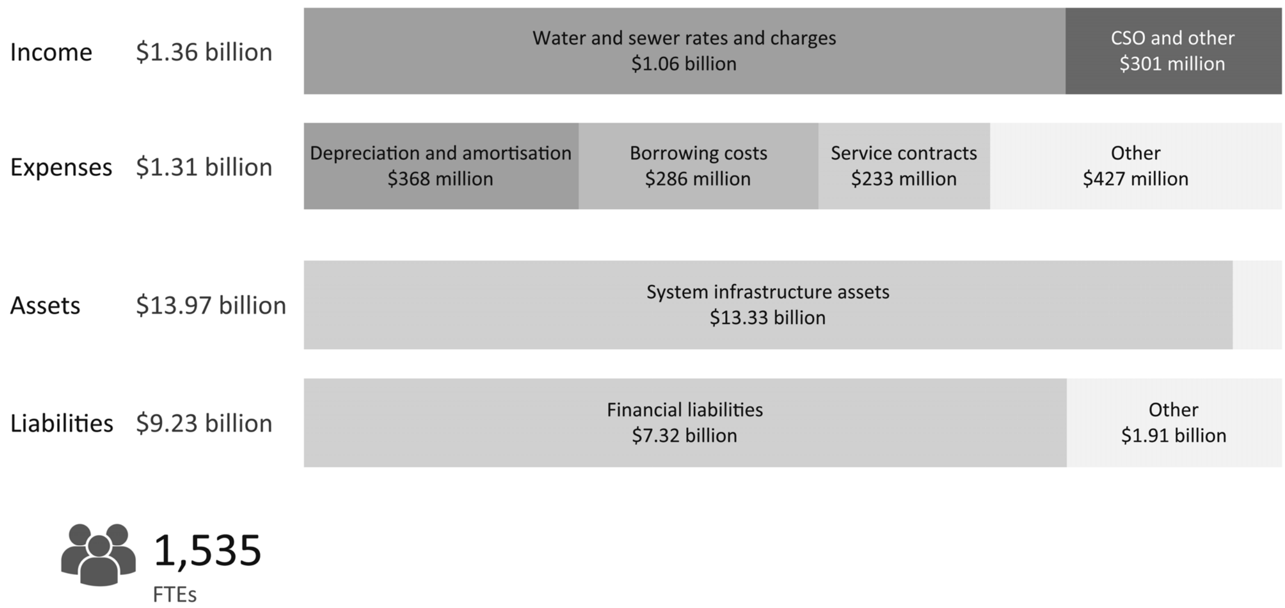
The TIDF provided grants between $20,000 and $500,000 to applicants and was fully allocated in 2021-22, with 114 regional tourism development projects awarded funding.

Under a memorandum of administrative arrangement with the South Australian Government Financing Authority, SATC was responsible for:

- assessing TIDF applications to confirm whether the proposed tourism project was within the scope of the TIDF
- provisionally approving draft grant deeds between the Treasurer and the grantee, before subsequent final approval by the Treasurer.

# South Australian Water Corporation (SA Water)

## Financial statistics




### Significant events and transactions

- SA Water recognised a profit before tax of $48 million, a decrease from the $93 million net result for 2020-21.
- SA Water's net contribution from the SA Government was $79 million, comprising dividend payments and income tax equivalent.
- SA Water's system infrastructure assets were revalued downwards by $504 million.
- Work neared completion on the Zero Cost Energy Future program. A total of $364 million has been spent on the program, with SA Water estimating that a further $4 million is required to complete it.
- Work continued on the Kangaroo Island Desalination Plant project, with $18 million spent in 2021-22. $22 million has been spent on the project to date, against a total project budget of $65 million.

### Financial report opinion

**Unmodified**

| | |
|---|---|
| **Controls opinion findings** | — No guidance on how quickly dam improvements are required to ensure dam safety is maintained within tolerable limits.<br>— The dams and weirs risk register does not record inherent risk ratings for identified risks.<br>— Open items remained in the dam inspection recommendation register.<br>— SA Water's strategic asset management plan (SAMP) was overdue for review.<br>— Opportunities to improve project management controls for the Kangaroo Island Desalination Plant project were identified. |
| **Other audit findings** | Leave and timesheet payroll reviews had not been undertaken since September 2021. |

# Functional responsibility

SA Water is established under the *South Australian Water Corporation Act 1994*. It is responsible to the Minister for Climate, Environment and Water.

SA Water's primary functions are to provide services for the storage, treatment and supply of water and removal and treatment of wastewater.

The *Public Corporations Act 1993* applies to SA Water and requires a charter and performance statement to be prepared by the Minister and the Treasurer after consultation with SA Water.

SA Water is a for-profit entity under Accounting Policy Framework II *General Purpose Financial Statements Framework*, APS 2.4.

# Scope of the audit

## Audit of the financial report

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

Specific areas of audit attention in 2021-22 included:

- revenue raising, collection, receipting and banking
- operating and capital expenditure
- payroll
- financial accounting

- non-current asset recording, valuation and depreciation
- borrowing and finance leases
- governance arrangements
- general IT controls.

We also considered the work of SA Water's internal auditors in planning and conducting the audit.

### Controls opinion

We reviewed controls over the purchase of non-financial assets, management of water and sewerage assets and the sale of goods and services (water and sewerage revenue) as part of our overall controls opinion, which is discussed in Part B of this Report.

## Audit findings

### Communicating our audit findings

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

#### Controls opinion findings

##### Management of water and sewerage assets

SA Water's infrastructure, plant and equipment assets of $13.3 billion are significant to the State. When forming our opinion on collective financial controls exercised by the Treasurer and public authorities, we reviewed SA Water's controls supporting the management of its water and sewerage assets. Due to the complex and varied nature of SA Water's assets, we vary the focus of our work each year. In 2021-22 we focused on controls for the management of dams and reservoirs.

##### *No guidance on how quickly dam improvements are required to ensure dam safety is maintained within tolerable limits*

We noted that SA Water's asset management plan for dams and weirs (D&W AMP) 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.

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.

SA Water's D&W AMP sets out its accepted customer and technical levels of service, including an expectation that dam safety should not pose an unacceptable risk to life. SA Water uses the ANCOLD limit of tolerability for societal life safety when measuring dam safety.

Societal risk is defined in the ANCOLD guidelines as:

> *the risk of widespread or large-scale detriment from the realisation of a defined hazard, the implication being that the consequence would be on a such a scale as to provoke a socio/political response.*

The societal risk rating for a dam is an amount determined by multiplying the estimated probability of failure in any given year by the estimated loss of life resulting from that failure. Measuring societal risk is performed by specialised dam engineers, considering a range of factors including the likelihood of dam flood capacity being exceeded and population levels.

SA Water's D&W AMP identifies six dams that plot, as of September 2018, above the ANCOLD limit of tolerability. They are:

- Baroota
- Mount Bold
- Hope Valley
- Sturt River
- Kangaroo Creek
- Warren.

Since September 2018 SA Water has completed works on the Hope Valley and Kangaroo Creek dams to reduce the societal risk below the limit of tolerability. It plans to perform the necessary works to ensure the societal risk to life safety for the other four dams is reduced to a tolerable limit by 2028.

SA Water's D&W AMP notes that dams that plot above the limit of tolerability for life safety present an intolerable risk and should be upgraded to reduce the risk to below the limit. SA Water uses an ALARP (as low as reasonably practicable) principle to help prioritise the use of its funds for dam upgrades. The D&W AMP notes that one aspect of this principle is that an upgrade might not be performed if it is impracticable or if its cost is grossly disproportionate to the improvement gained.

While this approach to scheduling dam safety upgrades appears to support decisions on how to prioritise the use of limited resources, it does not provide guidance for setting maximum time frames for ensuring the societal risk to life safety is reduced to within a tolerable limit.

SA Water's D&W AMP notes that the Mount Bold dam has not met the ANCOLD guideline societal risk criteria since as far back as 1998. If it is not expected to meet the limit of tolerability for life safety until 2028, this dam would have operated above the tolerable limit for at least 30 years.

While noting that significant time frames may be required for major dam upgrades, we recommended that SA Water update its D&W AMP to provide guidance for setting maximum time frames for ensuring that societal risk to life safety is reduced to within a tolerable limit for each dam.

SA Water responded that it had considered our recommendation and believed that, with science and technology abilities continuing to advance and change and with it the in-depth understanding of its dam assets and revised risks per dam, setting a maximum time frame for a dam safety upgrade could result in inefficient or suboptimal prioritisation and allocation of resources if other risks are identified in the interim.

Instead, SA Water advised that it will set a dam upgrade program objective in its D&W AMP over a ten-year period that is based on the greatest risk reduction that can be achieved across its dam portfolio, in line with organisational capacity. It will then review this objective every four years, prior to its submission to the economic regulator.

### *The strategic dams and weirs risk register does not record the inherent risk rating for identified risks*

We noted that the inherent risk rating (IRR) had not been completed for 79 risks recorded in SA Water's strategic dam and weir risk register.

The IRR represents the significance of the risk before considering mitigating controls. Recording the IRR is important to understanding the significance of controls established to mitigate the risk and the priority with which management action is required. Assessing a risk's IRR is required by SA Water's risk management framework.

SA Water responded that while the recording of inherent risk is not an ANCOLD requirement, it is reviewing inherent risk to ensure a consistent application across SA Water.

### *Open items in dam inspection recommendation register*

Recommendations from all dam inspections are recorded in SA Water's dam inspection recommendation register. They are allocated to the responsible team, usually the Dam Surveillance team for action.

We noted 468 open items on the dam inspection recommendation register, with most of them having been open for more than five years.

SA Water advised us that many of these open items have been addressed but the register has not been updated to show this. SA Water also added that it would conduct regular reviews of the register in future.

Timely closing of items in the register helps SA Water ensure that critical maintenance activities are actioned and maintains the efficiency of its asset management practices.

### *Mount Bold dam routine visual inspections not recorded in the asset management system*

SA Water has not recorded the results of routine dam visual inspections performed for the Mount Bold dam in Maximo, its asset management system, since 2011.

A routine visual inspection is the identification and reporting of deficiencies by visual observation of the dam by operating personnel as part of their duties.

We were advised that visual inspections for the Mount Bold dam have been performed over the past decade. The Dam Surveillance team collects checks and keeps the records of the routine visual inspections it performs, however the record of performance has not been maintained in Maximo. The results of daily inspections performed for all other dams are recorded in Maximo. This information is used by SA Water to inform its asset management plans and associated preventative and reactive maintenance plans.

Failing to record the results of routine visual inspections for the Mount Bold dam increases the risk that appropriate maintenance/dam upgrade activity is not scheduled.

SA Water responded that although dam inspection results are not recorded in Maximo, its officers enter dam inspection information into a separate database and on hardcopy sheets that can be viewed daily by the Dam Safety Unit.

#### *SA Water's strategic asset management plan was overdue for review*

We noted that SA Water's SAMP was overdue for review.

The SAMP requires a review of the relevance of asset management strategies and objectives every two years. This review is designed to ensure the asset management system is delivering the plans in an efficient and effective manner.

The SAMP was last reviewed in September 2018, meaning that it was due for review in September 2020.

We acknowledge that SA Water has scheduled its next review of the SAMP in preparation for the regulatory period commencing in 2024, with this review expected to be completed in the latter half of 2022.

An out-of-date SAMP increases the risk that it is no longer relevant and may not deliver asset management plans efficiently or effectively.

SA Water responded that its SAMP was under review and the frequency of future SAMP reviews will be assessed as part of this process.

### Opportunities to improve project management controls for the Kangaroo Island Desalination Plant project were identified

As part of forming our opinion on collective financial controls exercised by the Treasurer and public authorities, we reviewed SA Water's controls supporting the purchase of non-financial assets, focusing on its management of the Kangaroo Island Desalination Plant project. We identified the following matters.

#### *Kangaroo Island Desalination Plant – reporting to project steering committee*

At the time of our review in April 2022 we noted that the Kangaroo Island Desalination Plant project working group had not met with the project steering committee since December 2021.

The contract management plan for the Kangaroo Island Desalination Plant project specifies that the steering committee is to meet with the project working group every four to six weeks, with the aim of making decisions and providing direction to the project delivery team. The steering committee supports the decision-making capacity of the project working group and provides oversight to the delivery and financial elements of the project.

The absence of timely oversight from the steering committee increases the risk of project delay or failure.

We were advised by the senior project manager that the meeting delays were due to an internal redistribution of project and framework manager roles.

SA Water advised us that meetings between the project steering committee and the project working group have now recommenced. SA Water also responded that weekly updates were provided to the project's executive sponsor by the project team during the period that meetings did not occur.

#### *Kangaroo Island Desalination Plant – recording of risks*

The Kangaroo Island Desalination Plant project management plan requires the senior project manager to maintain a project risk register. From our review of the project working group minutes we observed that while emerging project risks were being identified, not all of them were being recorded in the risk register. These missing risks included:

- the absence of provisions for project change management. During the life of the project the position of project manager has changed three times, creating a risk of losing tactical knowledge and project slippages
- a detailed financial assessment that identified a contract that may be outside of the capacity of the contractor. We did observe that this risk had later been considered and addressed in a monthly report to the Chief Executive.

SA Water responded that going forward all risks will be recorded in the risk register. It also stated that project risks are regularly communicated verbally to the project's executive sponsor and the Board.

## Other audit findings

### Leave and timesheet payroll reviews not completed since September 2021

We noted that SA Water's payroll manager had not performed the leave and timesheet reconciliation since September 2021.

SA Water employees use the TimeWise system to record their attendance and apply for leave. Once attendance details are recorded in TimeWise, the system automatically notifies the appropriate delegate for approval.

To check that all employee timesheets and leave applications have been lodged and approved, the payroll manager performs a timesheet reconciliation in line with SA Water's procedure. Reminders are then sent to all employees who have outstanding actions to complete in TimeWise.

The absence of a regular and timely follow-up of outstanding timesheets and leave forms increases the risk that adjustments to time worked and leave taken are not recorded and processed in the payroll system, impacting the accuracy of employee leave balances.

We recommended that outstanding leave forms and timesheets be regularly reviewed as required by SA Water's procedure.

SA Water responded that it would review all outstanding timesheets in line with its procedure.

# Interpretation and analysis of the financial report

## Highlights of the financial report*

| | 2022<br>$million | 2021<br>$million |
|---|---|---|
| **Income** | | |
| Water and sewer rates and charges | 1,061 | 1,041 |
| Community service obligations | 134 | 132 |
| Other | 168 | 181 |
| **Total income** | 1,363 | 1,354 |
| | | |
| **Expenses** | | |
| Depreciation and amortisation expense | 368 | 354 |
| Borrowing costs | 286 | 299 |
| Operational and service contracts | 232 | 209 |
| Employee benefits expenses | 141 | 140 |
| Other expenses | 287 | 259 |
| **Total expenses** | 1,314 | 1,261 |
| **Net profit before income tax equivalents expense** | 48 | 93 |
| Income tax expense | 12 | 24 |
| **Net profit after income tax equivalents expense** | 36 | 69 |
| **Other comprehensive income (net of tax)** | (378) | 309 |
| **Total comprehensive result** | (342) | 378 |
| | | |
| Net cash inflows (outflows) from operating activities | 372 | 438 |
| Net cash inflows (outflows) from investing activities | (455) | (446) |
| Net cash inflows (outflows) from financing activities | 86 | 8 |
| | | |
| **Assets** | | |
| Current assets | 223 | 222 |
| Non-current assets | 13,743 | 14,175 |
| **Total assets** | 13,966 | 14,396 |
| | | |
| **Liabilities** | | |
| Current liabilities | 302 | 305 |
| Non-current liabilities | 8,932 | 9,002 |
| **Total liabilities** | 9,235 | 9,307 |
| **Total equity** | 4,731 | 5,089 |

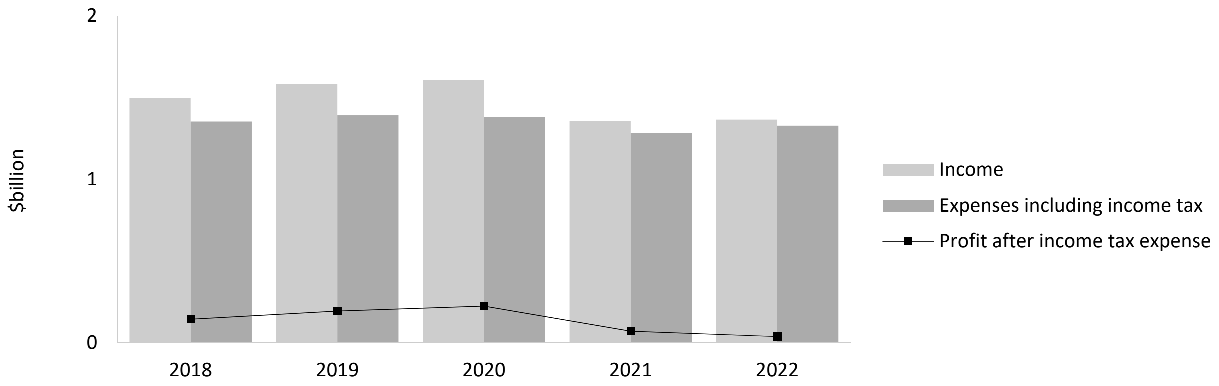
* Table may not add due to rounding.

## Statement of Comprehensive Income

### Operating result

SA Water's profit after income tax equivalents expense (income tax) decreased by $32.6 million to $36.3 million.

The following chart shows the income, expenses (including income tax) and profit after income tax for the five years to 2022.

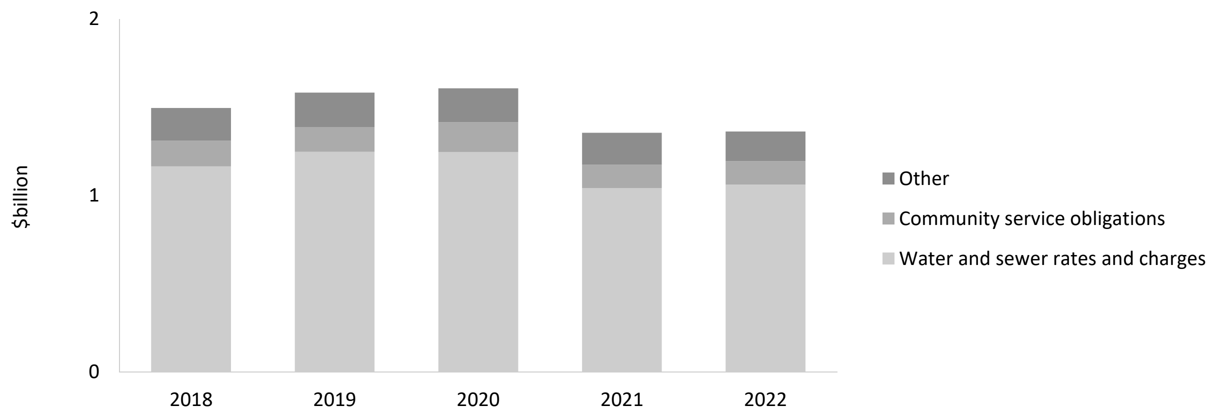



Since 2014 the Essential Services Commission of South Australia (ESCOSA) has regulated the revenue that SA Water can earn from providing drinking water and sewerage retail services. ESCOSA determines the revenue (not price) that SA Water may derive from these services, with SA Water setting annual water and sewerage charges to achieve the revenue limits determined by ESCOSA, and ESCOSA monitoring SA Water's performance. Further information on ESCOSA's role in making revenue determinations is provided under 'Further commentary on operations' below.

The chart above shows the gradual increase in SA Water's profit after income tax over the second regulatory period, which finished in 2020. The decrease in SA Water's profit after income tax since then reflects the impact of the regulator's final revenue determination for 2020–2024.

## Income

The following chart shows SA Water's main sources of income for the five years to 2022.



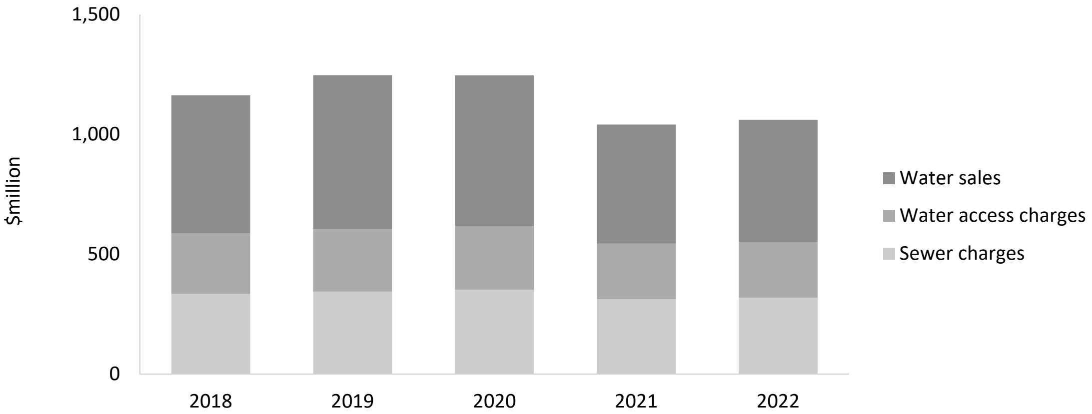

The chart shows total income generally increasing to 2020, largely reflecting increases in income from water and sewer rates and charges. In 2021 total income decreased by $252 million, largely driven by a reduction in income from water and sewer rates and charges following the implementation of a new regulatory period. In 2022 total income increased marginally to $1.36 billion.

### Water and sewer rates and charges

The major source of SA Water's income is water and sewer rates and charges. These mainly comprise:

- sewer charges, mainly set on property values
- water access charges, mainly set at a fixed amount
- water sales, charged by volume of water used.

The following chart shows these components for the past five years.



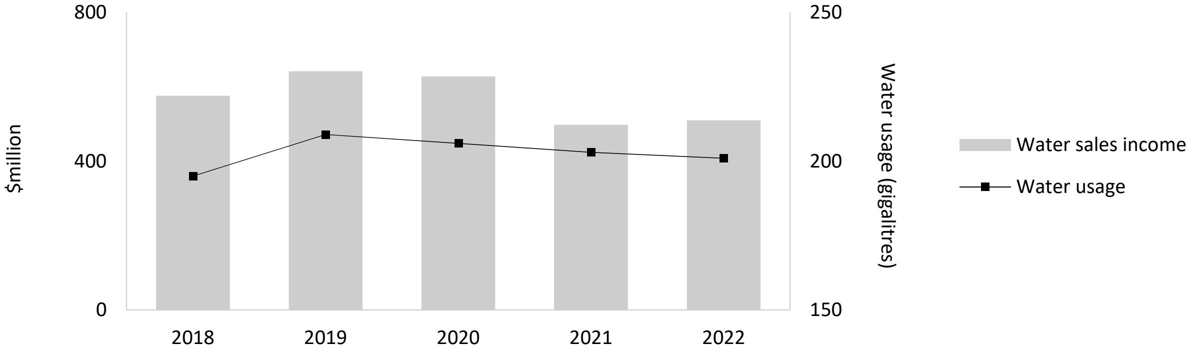

Water and sewer rates and charges revenue is affected by changes in prices charged and water consumption. Prior to 2020 these had increased steadily due to rate increases and increased demand for water.

The SA Water Final Regulatory Determination 2020 (Final Determination) established significant reductions in total revenue that SA Water may recover in the four-year period starting 1 July 2020.

The Final Determination resulted in reductions in the current regulatory period of 16% ($494 million) and 4% ($54 million) for drinking water and sewerage retail services, respectively, compared to the amounts determined for the previous regulatory period (2016–2020). ESCOSA reported that this revenue reduction was driven primarily by lower market-based debt and equity financing costs (through the regulated rate of return).

Further information on ESCOSA's role in making revenue determinations is provided under 'Further commentary on operations' below.

The following chart shows water usage and water sales income for the five years to 2022.




For the period covered in the chart, water usage peaked at 209 gigalitres in 2019, with reductions in each subsequent year. In 2022, demand of 201.1 gigalitres was attributed to a moderate summer. This decrease in water usage from 2021 was offset by a price increase of 1.1% in 2022.

The factors affecting water and sewer prices are discussed further under 'Further commentary on operations' below.

### Community service obligations (CSOs)

SA Water is required to provide a number of non-commercial services to the community on behalf of the SA Government. The SA Government provides SA Water with CSO funding to compensate it for these activities. CSO revenue increased by $1.1 million to $133.5 million in 2022.

CSOs are to compensate SA Water for:

- the shortfall in the recovery of costs associated with country water and sewer services (due to the requirement for statewide pricing) – SA Water received $108 million ($108 million) for this CSO
- the provision of water and sewer exemptions and concessions to certain properties, including charities and public schools – SA Water received $17.9 million ($17.3 million) for this CSO
- other payments such as the administration of the Pensioner Concession Scheme, South Australian Government Radio Network and emergency functional services, and maintaining water and sewerage services in remote communities.

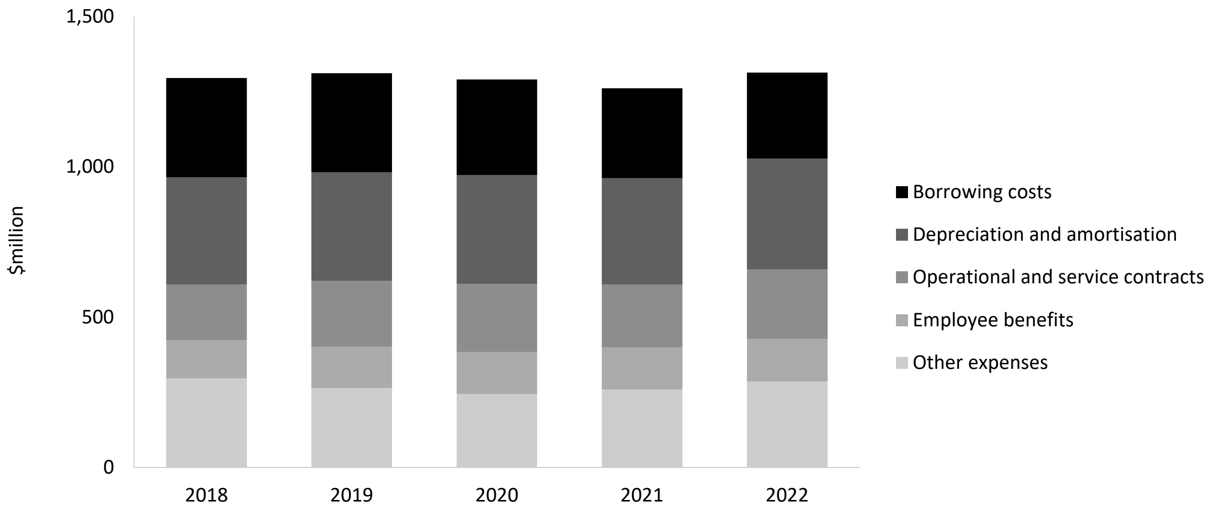
CSOs are provided under SA Water's financial ownership framework, which is agreed with the Department of Treasury and Finance.

### Other income

Income from all other sources decreased by $13 million to $168 million and comprises income from a range of sources, including contributed assets and recoverable works – which can vary from year to year depending on economic conditions and government initiatives – and gains on the disposal of infrastructure and other assets.

## Expenses

The following chart shows SA Water's main expense items, excluding income tax expense, for the five years to 2022.



Since 2018 employee benefits expenses have increased by $14 million, impacted by inflationary factors.

Operational and service contract expenses have increased by $47 million since 2018, with a $23.7 million increase in 2022. The 2022 increase was largely due to:

- significant initiatives such as a high voltage switchboard investigation, to improve safety and performance, and major asset maintenance of $17.9 million
- a $6 million increase in Adelaide metropolitan service delivery costs from carryover jobs and other additional works.

Borrowing costs are impacted by both the size of SA Water's debt and movements in interest rates. Since 2018, while SA Water's total borrowings have increased by $749 million, borrowing costs have decreased by $44 million, driven by lower market interest rates. For the current regulatory period SA Water expects only minor increases to the cost of debt, but is tracking to keep the cost of debt below the cost of debt allowance.

Other expenses include a range of expenses including services and supplies, costs associated with recoverable works – which can vary from year to year depending on government initiatives – asset write-offs and revaluation decrements, and electricity charges. SA Water has looked for methods to manage energy price risk, culminating in the July 2018 decision to purchase and install approximately 152 megawatts of solar photo-voltaic generation and 35 megawatt hours of energy storage through its Zero Cost Energy Future (ZCEF) program.

In 2022 total expenses increased by $54 million to $1.31 billion. The major contributing factors were:

- an increase in electricity charges of $21 million, driven by significant increases in average energy prices ($71 per MWh in 2021-22 compared to $34 per MWh in 2020-21). There also was an increase in water pumping of 11 gigalitres of water in 2021-22
- a $23.7 million increase in operational and service contracts, as noted above
- a $14.8 million increase in depreciation and amortisation expenses, driven by the upwards revaluation of non-financial assets in 2021
- further decreases in the value of ZCEF assets arising from revaluation, increasing the expense by $9 million from what incurred in 2021
- a $3.8 million increase in contract labour to cover employee vacancies and recruitment challenges
- a reduction in borrowing costs of $12.6 million, due mainly to lower market interest rates.

## Adelaide Desalination Plant (ADP)

The ADP was a major construction undertaking that commenced in 2008-09. The objective of the project was to construct and operate infrastructure that obtains and treats seawater to produce drinking quality water.

SA Water's major costs for the ADP are:

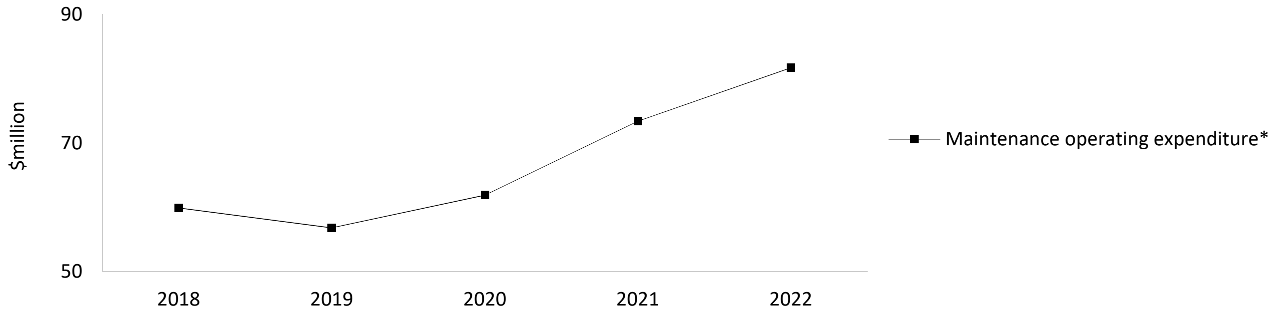
- operation and maintenance of the desalination plant (O&M contract). The O&M contract is for 20 years from 2012. In 2022 contract expenditure for operating the plant was $19 million ($17.7 million). Water produced by the plant was 5.3 gigalitres (5.3 gigalitres)

- power to operate the desalination plant. In 2022 expenditure for operational power (including relevant used renewable energy certificates) was $7.6 million ($6.6 million).

The total depreciation expense (including intangible assets) for the ADP was $47 million ($47 million) in 2021-22.

## Maintenance expenditure

The following chart shows SA Water's routine maintenance and repairs expenditure on water and sewerage assets since 2018.




* Data was provided by SA Water and is unaudited.

SA Water's routine maintenance and repairs expenditure, including pipe maintenance, increased by $8.3 million to $80.5 million in 2022. There are a number of factors that affect the level of maintenance, including the nature of the pipe being maintained (metropolitan versus country infrastructure), location, age and reason for maintenance. SA Water also has capital expenditure to renew its network, which is described further below.

## Pipe bursts data

Maintenance includes the costs of responding to pipe failures, or bursts. The number of bursts over the last five years, with data provided by SA Water and unaudited, is shown in the table below.

| | 2017-18 Number | 2018-19 Number | 2019-20 Number | 2020-21 Number | 2021-22 Number |
|---|---|---|---|---|---|
| Reported pipe bursts: | | | | | |
| Metropolitan | 1,693 | 2,026 | 1,801 | 1,831 | 1,895 |
| Country | 2,168 | 2,020 | 1,867 | 1,780 | 1,740 |
| Total | 3,861 | 4,046 | 3,668 | 3,611 | 3,635 |

For the time frame shown, the number of water and sewer pipe bursts peaked in 2018-19 and has since remained relatively constant, due mainly to climactic factors.

The Bureau of Meteorology's *National performance report 2020-221: urban water utilities* reports that SA Water's water main burst rates ranked sixth lowest among 15 large urban water utilities in 2021.

When the data on the number of bursts is considered with the pipe maintenance costs, there has not been a significant increase in maintenance costs due to pipe bursts, which is consistent with SA Water's analysis that the number of bursts is in line with longer-term trends.

### Other comprehensive income

Other comprehensive income includes gains and losses on the revaluation of property, plant and infrastructure and available-for-sale financial assets. In 2022 other comprehensive income showed a loss of $378 million ($309 million gain), principally due to the downward revaluation of infrastructure assets. This is discussed further under 'Statement of Financial Position' below.

## Statement of Financial Position

SA Water's financial position is dominated by non-current water and sewer infrastructure assets, and related borrowings and tax liabilities. Since 2017 total assets have decreased by $228.6 million, reflecting net revaluation decrements and depreciation, offset by additions to water and sewer infrastructure.

### Total assets

System infrastructure assets are operationally and financially significant to SA Water, representing $11.9 billion (85%) of the $14 billion in total assets.

In 2022 total assets decreased by $430 million from the previous year. Significant movements affecting assets during the year were:

- the downward revaluation of infrastructure assets, renewable energy assets and land of $552 million
- depreciation and amortisation charges of $368 million
- the acquisition of system infrastructure, plant and equipment and intangibles of $488 million (including water and sewer pipe network renewal and ZCEF assets).

#### An income approach is used to value system infrastructure and ZCEF assets

System infrastructure assets include water and sewer pipes, treatment plants, pumping stations, storage assets and buildings. These assets deliver water, sewerage and recycled water to and from the customer through SA Water's integrated network of assets.

In 2020 SA Water changed from a cost approach to an income approach for valuing its system infrastructure assets. When using an income approach, SA Water measures the fair value of its system infrastructure by estimating the net future cash flows generated by the use of these assets, discounted to present value using a weighted average cost of capital.

SA Water aligns its approach to determining the future cash flows with the methodology applied by ESCOSA. In addition to the cash flows for regulated assets under this approach, SA Water's fair value calculations include estimated cash flows from non-regulated assets, which are not included in ESCOSA's methodology.

The fair value of system infrastructure assets is determined by calculating the total value of all SA Water assets that contribute to the generation of future cash flows and then deducting asset classes that have been valued using the market or cost approach.

### Asset valuations are sensitive to changes in assumptions

The discounted cash flow model SA Water uses to determine the fair value of system infrastructure assets is highly sensitive to changes in key assumptions and inputs.

The following variables have the greatest impact on value:

- the nominal post-tax weighted average cost of capital used to discount future expected cash flows to present values, reflecting the relative risk of the business and the time value of money
- the perpetual nominal growth rate used to estimate the future growth in net cash flows, which is based on long-term inflation estimates
- estimates of future capital expenditure using the ESCOSA final capital expenditure determination as a basis.

The table below demonstrates the sensitivity of the calculation and the impact that small changes in these variables has when estimating the fair value of SA Water's system infrastructure. This sensitivity information is presented in note 13 of SA Water's financial report.

| Discount rate | Rate applied % | If higher by +0.1% | If lower by -0.1% |
|---|---|---|---|
| Nominal post-tax rate | 4.52% | 4.62% | 4.42% |
| Calculated fair value of infrastructure, plant and equipment ($billion) | 13.344 | 12.653 | 14.046 |
| Resulting change ($million) | | (691) | 702 |

| Perpetual nominal growth rate | Rate applied % | If higher by +0.1% | If lower by -0.1% |
|---|---|---|---|
| Nominal post-tax rate | 2.50% | 2.60% | 2.40% |
| Calculated fair value of infrastructure, plant and equipment ($billion) | 13.344 | 14.040 | 12.714 |
| Resulting change ($million) | | 696 | (630) |

| Sustainable capital expenditure | Value applied | If higher by $10 million | If lower by $10 million |
|---|---|---|---|
| Nominal post-tax value ($million) | 395.5 | 405.5 | 385.7 |
| Calculated fair value of infrastructure, plant and equipment ($billion) | 13.344 | 13.035 | 13.653 |
| Resulting change ($million) | | (308) | 308 |

System infrastructure assets have been revalued using the income approach from 2020. In 2022 this resulted in a revaluation downwards of $504 million, due mainly to the following:

- an increase in the nominal post-tax rate from 4.09% to 4.52%. Increases in the rate used to discount future cash flows will decrease the fair value of system infrastructure
- an increase in water and sewer rates by 3.2% from 1 July 2022. This differs from the full CPI increase that was anticipated when valuing system infrastructure in 2021. The decrease in revenue expectations results in a decrease in the fair value of system infrastructure.

The following data provides an overview of SA Water's water and sewer infrastructure assets for 2022.

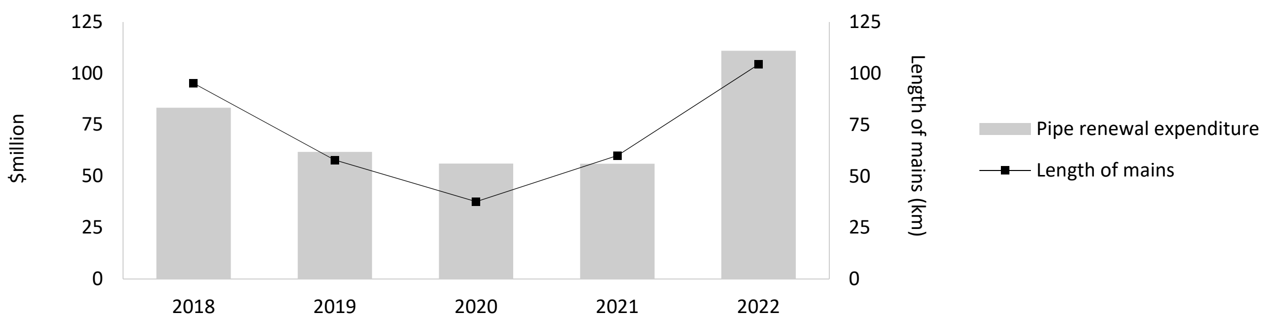
| Water | Assets* | Value |
| --- | --- | --- |
| Water customer connections | 797,743 | $659m |
| Major pipelines and trunk mains | 27,770km | $3.8b |
| Water treatment plants | 40 | $706m |
| Dams/Weirs | 31 | $579m |
| Desalination plants | 4 | $1.2b |

| Sewerage | Assets* | Value |
| --- | --- | --- |
| Customer wastewater connections | 624,579 | $625m |
| Wastewater mains | 9,105km | $1.9b |
| Treatment plants | 28 | $1.2b |

* Data on assets provided by SA Water and unaudited.

## Renewal of the water and sewer pipe networks

The following chart shows SA Water's pipe network renewal expenditure (based on data provided by SA Water) for both water and sewer pipes, which includes major projects for each year and the length, in kilometres of mains replaced, of water reticulation pipes only.




The chart shows that pipe renewals have increased from 2020, due to an initiative to replace water mains. Pipe renewal expenditure has also increased in line with mains replacement.

## Zero Cost Energy Future (renewable energy) assets

The scope of SA Water's ZCEF project includes the installation of 152 megawatts of solar photovoltaic and 35 megawatt hours of storage, and a control and analytics system to be located on or adjacent to around 33 of SA Water's high electricity usage sites. On completion, the project aims to provide 70% of SA Water's electricity needs. SA Water advised us that the project is expected to be fully completed by the end of 2022. The sites yet to be energised as at 30 June 2022 were Christies Beach (expected September 2022), Bolivar (expected October 2022) and Mannum Adelaide Pumping Station No.3 (expected December 2022).

When approved, the project had an estimated payback period of 8.3 years based on an estimated wholesale electricity price of $60/MWh. Current and estimated future reductions in average energy prices will likely extend the payback period to around 12 years.

ESCOSA informed SA Water that capital costs associated with the ZCEF project could not be included in the Final Determination. This was because, in ESCOSA's view, water and sewerage users were not adequately protected from the risks and benefits of the program not being realised. By treating the program as an unregulated activity, ESCOSA removed from its final determination of revenue all costs of the program and all future savings that SA Water expects to receive from it. All risks and benefits from the ZCEF program will therefore accrue to SA Water and the SA Government. Final drinking water and sewerage retail service revenues for the current regulatory period do not reflect the expected future savings, or costs, arising from the ZCEF program.

The total cost for the ZCEF project is estimated at $368 million. As at 30 June 2022, capital expenditure of $364 million had been recognised as completed assets or work in progress.

SA Water has elected to value its ZCEF assets using the income approach through a discounted cash flow model. The inputs used for the cash flows are largely derived on the capacity output of ZCEF based on estimated energy prices over the 29-year life of the assets.

The revaluation using the income approach resulted in a valuation of $307 million against a carrying value of $334 million, representing a revaluation downwards of $27 million. This is recognised as other expenses in the Statement of Comprehensive Income.

ZCEF generated 69.1 gigawatt hours of energy in 2021-22. SA Water advised us that this resulted in savings of $3.1 million in electricity expenses and also generated $4.8 million of external revenue.

## Liabilities

Total liabilities decreased by $72 million, impacted by:

- decreases in deferred tax liabilities of $164 million, mainly as a result of temporary differences in the recognition amounts recognised directly through equity, including revaluations of system infrastructure assets
- a decrease in trade creditors of $10 million, mainly reflecting a decrease in accruals for capital projects, including the ZCEF project, and payables associated with the cessation of the Allwater Alliance in 2021
- a decrease of $7 million in lease liabilities, due mainly to the expiration of another year of the lease term

- increased borrowings of $116 million to fund capital expenditure and dividends.

### Current assets and liabilities

At 30 June 2022 current liabilities amounted to $302 million, exceeding current assets of $223 million by $79 million. While such a deficiency in working capital can be of concern, SA Water has a strong cash flow position from operating activities and access to sufficient borrowing facilities with the South Australian Government Financing Authority (SAFA), which would enable all of its current liabilities to be met. A large component of its current liabilities is payables, comprising 61% (65%) of the balance, which includes obligations for capital purchases.

### Statement of Cash Flows

While cash increased to $7.2 million, SA Water's cash position is subject to significant changes associated with its operating, investing and financing activities. Factors affecting cash flows include:

- receipts from customers of $1.3 billion, largely reflecting water and sewerage charges
- investment in the construction and purchase of infrastructure, plant and equipment and intangible assets. In 2022 investing payments for assets amounted to $455 million ($446 million), representing the number of large infrastructure projects, including the ZCEF program
- payment of a cash dividend to the SA Government of $30 million ($82 million)
- an increase in SA Water's financing requirements, with net cash inflows from borrowings totalling $116 million ($107 million).

## Further commentary on operations

### Financial ownership framework, charter and performance statement

SA Water operates under a financial ownership framework, charter and performance statement, all approved by the Treasurer and Minister.

The performance statement defines the contribution to the SA Government in terms of dividends, repayment of capital, income tax equivalents and other rates and taxes. The key financial performance measures agreed to in the performance statement are set out in the following table.

| Performance measure | Target 2021-22 | Actual results 2021-22 |
|---|---|---|
| Profit ($million) | 73.4 | 48.1 |
| Tax expense ($million) | 22.0 | 11.7 |
| Dividend ($million) | 49.5 | 29.9 |
| Total contribution ($million) | 71.5 | 41.6 |
| Gearing ratio (%)* | 50.0 | 52.4 |

* Total interest-bearing debt (including borrowings and lease liabilities) divided by total assets.

SA Water's actual total contribution of $41.6 million ($105.9 million) was $29.9 million below its performance statement target. SA Water's performance targets were significantly reduced from 2021 in response to the budgeted impacts of ESCOSA's Final Determination – see comments under 'Water and sewer rates and charges' below. Increases in electricity, contract costs and depreciation significantly impacted SA Water's net result for 2022.

The dividend target was calculated at 100% of profit, in line with SA Government requirements for government businesses.

SA Water's performance statement and financial ownership framework includes CSO payments from the SA Government to support non-commercial services and requires SA Water to maintain a gearing ratio of at least 45%. For 2022 a target gearing ratio of 50% was specified.

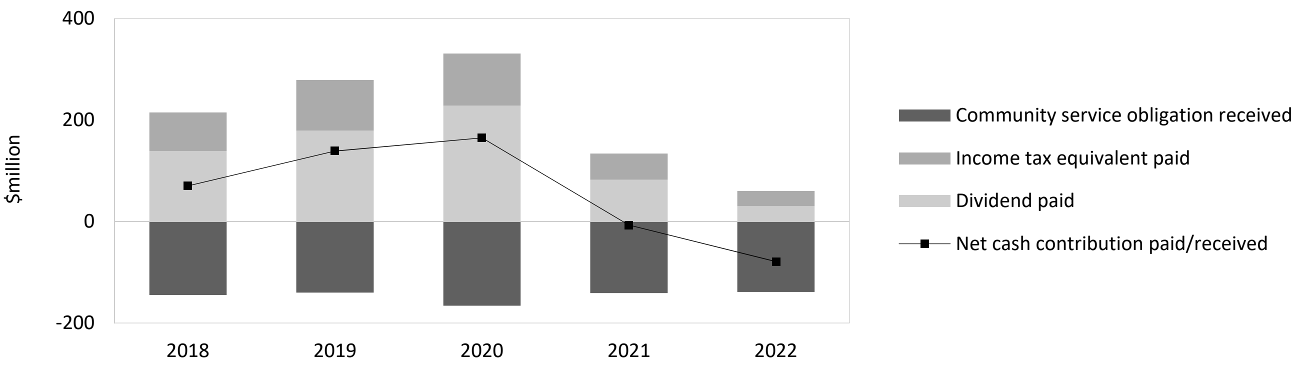
The following table summarises movements in the major items influencing borrowings.

| | 2018 $million | 2019 $million | 2020 $million | 2021 $million | 2022 $million |
|---|---|---|---|---|---|
| Net cash inflows from operating activities | 487 | 476 | 518 | 438 | 372 |
| Net cash outflows from investing activities | (413) | (527) | (576) | (446) | (455) |
| Surplus (Shortfall in) cash from operations after investing activities | 74 | (51) | (58) | (8) | (83) |
| Dividend payments to owners | (139) | (179) | (228) | (82) | (30) |
| Surplus (Shortfall in) funds to pay for dividends and investing activities | (65) | (230) | (286) | (90) | (113) |
| Net increase in borrowings | 66 | 221 | 305 | 107 | 116 |

Net borrowings increased by $116 million in 2022, reflecting the new debt required to pay for dividends and investing activities. In September 2020, the Treasurer approved a core debt limit of $8.163 billion for SA Water, an increase of $1.13 billion from the previously approved debt limit of $7.037 billion. The approved working capital facility limit with SAFA as at 30 June 2022 was $150 million.

The 2022 performance statement included a decision to maintain SA Water's debt to asset ratio of at least 45% and specifically a target of 50% in 2022. As discussed, the actual debt to asset ratio was 52.4%.

SA Water's cash contributions to the SA Government (dividends and income tax equivalent) and CSO funding provided by the SA Government for the five years to 2022 is shown in the following chart.



The chart shows the amount of money returned to/received from the SA Government through income tax equivalent and dividend payments reducing significantly in 2021 and 2022, resulting in a net $79 million ($7 million) contribution from the SA Government.

### Comparison with other water utilities

SA Water is required to maintain a debt to asset ratio of at least 45%. This requirement is designed to ensure debt is in line with other interstate water utilities. At 30 June 2022 SA Water had a debt to asset ratio of 52.4%.

The table below shows SA Water's 2022 gearing ratio and the gearing ratios for four major water utilities from around Australia as at 30 June 2021.

| | SA Water (2022) | Sydney Water | Melbourne Water | Water Corporation WA | Yarra Valley Water |
|---|---|---|---|---|---|
| Gearing ratio | 52.4% | 59% | 48% | 32% | 56% |

SA Water's revised gearing ratio is similar to those of Melbourne Water and Yarra Valley Water in Victoria and Sydney Water. Gearing ratios have been impacted by the introduction of AASB 16 *Leases* for all entities.

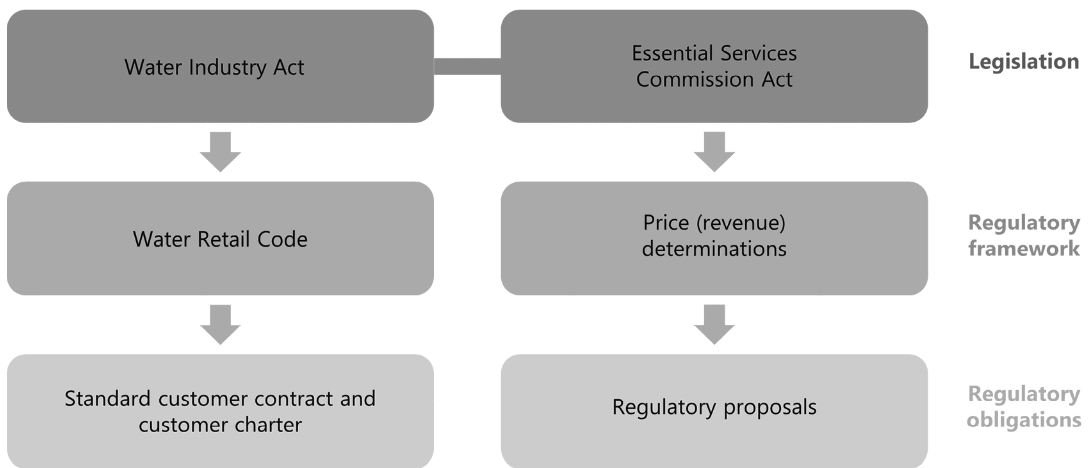
## Water and sewer rates and charges

### Essential Services Commission of South Australia

Under the *Water Industry Act 2012* (the WI Act) ESCOSA is appointed as the independent economic regulator for the South Australian water industry. ESCOSA commenced its role as regulator on 1 January 2013. SA Water operates within the requirements of the WI Act by holding a licence, and continuing to provide water supply and sewerage services.

Under the WI Act, ESCOSA is responsible for making price determinations. In making them, the WI Act requires ESCOSA to comply with the requirements of any pricing order issued by the Treasurer under the WI Act.

Legislation and regulatory framework



## Pricing orders

Under the WI Act, the Treasurer has issued a number of pricing orders since September 2012. They have specified that ESCOSA is to determine the revenue (not price) that may be derived from the provision of drinking water and sewerage retail services (separately).

Both the first regulatory period (1 July 2013 to 30 June 2016) and the second regulatory period (1 July 2016 to 30 June 2020) included the requirement that ESCOSA adopt specified values for SA Water's retail water and sewerage Regulated Asset Bases (RABs), at $7.77 billion and $3.58 billion respectively, as at 1 July 2013 (in December 2012 dollars).

In May 2020 the Treasurer issued a pricing order that stated that from the regulatory period commencing on 1 July 2020, the reduced RAB for the provision of drinking water retail services was to be set at $7.25 billion as at 1 July 2013 (in December 2012 dollars). This decrease in the RAB reflected the outcomes of an independent inquiry into South Australian water prices, the *Abridged Advice – Final Report of the SA Inquiry into Water Prices.*

The inquiry recommended that the Treasurer consider its findings that:

- the value of the opening RAB originally established in the second pricing order in May 2013 was not reasonable, and should be changed
- there is a wide range of credible values, but it is difficult to support a June 2013 asset value higher than $7.25 billion (in December 2012 dollars).

ESCOSA considers the RAB when determining the revenue for water and sewerage services. We provide no opinion on the amount of the RAB set by the Treasurer. The RAB is rolled forward each year based on regulatory principles to adjust for net capital additions, disposals and depreciation.

The RAB differs from the value of assets reported in SA Water's financial report. The total RAB assets as at 1 July 2013 specified in the pricing order were $10.83 billion in December 2012 dollars (comprising $7.25 billion for water services and $3.58 billion for sewerage services). This compared to SA Water's total assets at 30 June 2013 of $13.8 billion.

The first regulatory period (1 July 2013 to 30 June 2016) had a 190 gigalitre drinking water demand forecast for each year. For the second regulatory period (1 July 2016 to 30 June 2020), the demand forecast was set each year ranging from 190.1 gigalitres for 2016-17 to 194.5 gigalitres for 2019-20.

The current regulatory period that commenced on 1 July 2020 has a 194 gigalitre drinking water demand forecast for the first year, increasing each year to 195.5 gigalitres in the final year, 2024. Actual demand for 2021-22 was estimated to be 201.1 gigalitres.

### ESCOSA determinations

In June 2020 ESCOSA released the final regulatory determination to apply to SA Water for the period 1 July 2020 to 30 June 2024. This establishes the total revenue that SA Water can recover in this four-year period, based on an RAB of $7.25 billion as at July 2013, for the provision of drinking water retail services and other allowable expenditure.

This latest determination sets SA Water's maximum allowable revenue for drinking water retail services at $2.54 billion over the four years (averaging $635 million p.a.) and $1.22 billion for sewerage retail services (averaging $304 million p.a.). These amounts are based on December 2018 dollars. Based on 2020 estimations, these figures represent a reduction in SA Water's drinking water and sewerage retail service revenues of about 16% and 4%, respectively, over the current four-year period.

ESCOSA's revenue determinations set four-year total revenue caps for water and sewerage services. Both caps are subject to a demand adjustment mechanism if actual water sales or sewerage connections are materially different to forecasts. ESCOSA monitors compliance with these caps, but any adjustments allowed under the regulatory framework, including any demand adjustments required, are assessed at the end of the regulatory period

ESCOSA reported that the revenue reductions in the Final Determination for 2020–2024 were driven primarily by lower market-based debt and equity financing costs (through the regulated rate of return).

On ESCOSA's analysis, the revenue outcomes will provide SA Water with sufficient revenue to fund efficient operations, finance prudent investments on a long-term basis and meet the health, safety, environmental and customer service standards that apply to SA Water in the current four-year period.

## SA Water pricing

SA Water sets annual water and sewerage charges to achieve the revenue limits determined by ESCOSA, with ESCOSA then monitoring SA Water's performance.

SA Water prices vary according to customer type. The charges for water for residential customers for the five years to 2022-23 are detailed below.

| Residential water charges | 2018-19 $ | 2019-20 $ | 2020-21 $ | 2021-22 $ | 2022-23 $ |
|---|---|---|---|---|---|
| First tier: first 0.3288 kL* per day | 2.36/kL | 2.39/kL | 1.95/kL | 1.97/kL | 2.03/kL |
| Second tier: from 0.3288 kL* to 1.4247 kL per day | 3.37/kL | 3.41/kL | 2.78/kL | 2.81/kL | 2.90/kL |
| Third tier: over 1.4247 kL per day | 3.65/kL | 3.70/kL | 3.01/kL | 3.04/kL | 3.14/kL |
| Annual residential water supply charge per year | 297.80 | 301.60 | 271.40 | 274.40 | 283.20 |

* 0.3836 kL from 2020-21.

ESCOSA set maximum levels of revenue for drinking water and sewerage services across the regulatory period (1 July 2016 to 30 June 2020) of $3.12 billion and $1.3 billion, respectively. Prices rose in line with inflation for the remaining years of the second regulatory period.

Residential water use charges decreased by 18.7% for 2021, the first year of the current four-year regulatory period, and 1.1% in 2022. Residential water use charges for 2023 will increase by 3.2% on average.

## Regulatory accounting statements

SA Water is required to submit regulatory accounting statements to ESCOSA. Under Water Industry Guideline 2 *Water regulatory information requirements for major retailers*, issued under the *Essential Services Commission Act 2002*, ESCOSA has specified requirements for major retailers for the collection, allocation, recording and reporting to ESCOSA of regulated business data. Under Guideline 2, SA Water is required to submit special purpose financial statements.

# Superannuation sector overview

## South Australian public sector superannuation

The SA Government and its controlled entities contribute to defined benefit and defined contribution superannuation schemes for their employees.

Defined benefit schemes provide post-employment benefits to members as defined by the relevant scheme rules. The main defined benefit schemes are now closed to new members.

Defined contribution schemes are post-employment benefit schemes under which the employer pays fixed contributions into a fund. The amount of benefits payable to members depends on a number of factors such as the amount of member and employer contributions, investment earnings and fees charged to the member's account.

The Auditor-General audits the following South Australian public sector superannuation schemes.

| Scheme | Type | Membership/Beneficiaries |
|---|---|---|
| South Australian Superannuation Scheme (SASS) | Hybrid (defined benefit and defined contribution) | *Pension Scheme*<br>SA Government employees who elected to contribute to SASS before 30 May 1986<br><br>*Lump Sum Scheme*<br>SA Government employees who elected to contribute to SASS after 1 July 1988 and before 4 May 1994 |
| Police Superannuation Scheme (Police Super) | Defined benefit | South Australian police officers who commenced employment with South Australia Police on or before 31 May 1990 |
| Southern State Superannuation Scheme (Triple S) | Defined contribution | SA Government employees from 1 July 1995 |
| South Australian Ambulance Service Superannuation Scheme (Ambulance Super) | Hybrid (defined benefit and defined contribution) | Employees of the SA Ambulance Service Inc |
| Super SA Retirement Investment Fund (SSARIF) | Mixed (income stream and defined contribution) | SA Government employees who have retired, or are nearing retirement age, or have ceased employment with the SA Government |
| Parliamentary Superannuation Scheme (Parliamentary Super) | Hybrid (defined benefit and defined contribution) | Members of Parliament |
| Super SA Select (Select) | Defined contribution | SA Government employees wishing to join a taxed scheme |
| Judges' Pensions Scheme (JPS) | Defined benefit | South Australian judges |
| Governors' Pensions Scheme (GPS) | Defined benefit | Former Governors of the State |

Many schemes offer insurance services to their members, which may include income protection, death, and total and permanent disability. Members of schemes not offering insurance, such as Select and SSARIF, may access insurance benefits by membership of Triple S or SSARIF's flexible rollover product.

All public sector superannuation schemes are exempt public sector superannuation schemes, which are superannuation schemes that are not regulated by the Australian Prudential Regulatory Authority (APRA) under Schedule 1AA of the Superannuation Industry (Supervision) Regulations 1994. Exempt public sector superannuation schemes have unique attributes that include, but are not limited to, the following:

- concessional contributions (ie contributions before tax) plus earnings may be released from the age of 55 (or 50 for Police Super members), on termination of South Australian public sector employment. This does not require permanent retirement
- non-concessional contributions plus earnings may be released irrespective of age on terminating South Australian public sector employment
- a member's preservation age will generally remain at age 55 (or 50 for Police Super members) and not increase to age 60
- due to their exempt status, the schemes are not regulated by APRA. However, for statutory purposes, the schemes report to APRA under an agreement between the Commonwealth and State Governments.

A number of South Australian public sector superannuation schemes are also constitutionally protected (ie Triple S, SASS, Parliamentary Super, JPS, GPS, Police Super). As a result, these schemes have the following unique attributes:

- concessional contributions are not taxed on receipt into the scheme, and therefore there is no requirement to deduct the 15% contributions tax
- there is no tax payable on contributions or earnings until the member leaves the scheme. This includes tax on fund income
- there are no annual concessional contribution caps, but a lifetime concessional contribution cap is in place
- annual non-concessional caps do apply to members of the constitutionally protected fund, however any tax payable levied by the ATO is against the member.

## Administration and funds management

The following table shows the entities responsible for administering (ie receipting contributions and paying benefits) each of the public sector superannuation schemes.

| Scheme | Entity responsible for administration |
|---|---|
| SASS, Triple S, SSARIF, Ambulance Super | South Australian Superannuation Board |
| Parliamentary Super | South Australian Parliamentary Superannuation Board |
| JPS, GPS | Legislation is committed to the Treasurer |
| Select | Southern Select Super Corporation |
| Police Super | Police Superannuation Board |

Except for Police Super, the Department of Treasury and Finance – State Superannuation Office (Super SA) provides outsourced administration services to the schemes. The Police Super Office, an administrative unit of South Australia Police, provides administration services to Police Super.

The Superannuation Funds Management Corporation of South Australia (Funds SA) is responsible for investing and managing the superannuation schemes' funds in line with the *Superannuation Funds Management Corporation of South Australia Act 1995*.

## Investments and related performance

In 2021-22, market performance was down compared to 2020-21. The financial market environment has been volatile and returns mostly negative this year. Investment performance was impacted by the combination of high inflation, rising risks to economic growth and the ongoing Russian-Ukrainian war.

As at 30 June 2022, the superannuation schemes had $36.1 billion ($38.3 billion) in investments. The fair value of assets decreased by 6% or $2.2 billion. This reflects lower investment returns from the significant reduction in market performance.

Net investment income in 2021-22 decreased by $8.6 billion (130%). Property Tax-Exempt was the highest performing asset class, with a positive return of 9.7%. International Equities Tax-Exempt was the lowest performing asset class, with a negative return of 15.8%.

Reported investment expenses increased marginally (4%) in 2021-22 due to investment activities. This year Funds SA reported only expenses directly incurred in the investment of assets under management for each asset class, and not indirect expenses.

The following table summarises the rates of return advised to us by Funds SA for the balanced and growth options for tax exempt (ie constitutionally protected) schemes.

| | 2020<br>% | 2021<br>% | 2022<br>% |
|---|---|---|---|
| Balanced | (0.3) | 21.9 | (6.4) |
| Growth (closed in February 2021) | (0.7) | - | - |
| High Growth (transitioned from Growth in February 2021) | - | 24.8 | (6.1) |

Further details are included in the Superannuation Funds Management Corporation of South Australia commentary in this Report.

## Surplus (Deficit) of net assets to member benefits liabilities

The SA Government controls and funds a number of defined benefit superannuation schemes designed to provide employees with pensions or defined lump sum benefits on retirement. Except for JPS and GPS, these schemes are now closed to new members.

As at 30 June 2022, the total deficit of net assets to member benefits liabilities was $4.2 billion ($3.3 billion). This is shown in the table below.

| | Net assets available for member benefits | | Member benefits liabilities | | Total equity over (under) funded | |
|---|---|---|---|---|---|---|
| | 2021<br>$million | 2022<br>$million | 2021<br>$million | 2022<br>$million | 2021<br>$million | 2022<br>$million |
| SASS | 5,285 | 4,721 | 8,766 | 8,802 | (3,481) | (4,081) |
| Police Super | 2,383 | 2,279 | 2,328 | 2,454 | 55 | (176) |
| Parliamentary Super* | 243 | 225 | 190 | 196 | (53) | 29 |
| Ambulance Super* | 237 | 216 | 198 | 193 | (36) | 20 |
| JPS | 323 | 309 | 254 | 272 | 70 | 36 |
| GPS | 3 | 3 | 2 | 4 | 1 | (1) |
| Total | 8,474 | 7,753 | 11,738 | 11,921 | (3,266) | (4,173) |

* Amounts included relate only to the defined benefit portion of the schemes.

The total unfunded member benefits liabilities (deficit of net assets to member benefits liabilities) were calculated in line with AASB 1056 *Superannuation Entities*.

## Different liability balances are reported under separate accounting standards

The terms of these defined benefit schemes create an obligation for the SA Government to pay future benefits to scheme members. The SA Government estimates an $8 billion liability at 30 June 2022 for unfunded superannuation benefits in the 2022-23 State Budget (see 2022-23 Budget Paper 3 *Budget Statement*, page 57). This figure is significantly larger than the accumulated deficit of net assets to accrued benefits of $3.5 billion identified above.

This variance is due mainly to the different discount rates used to calculate accrued member benefits liabilities under AASB 1056, and the rate required under AASB 119 Employee Benefits. While both standards require measurement of the present value of expected future benefit payments, superannuation schemes are required to use a market-determined, risk-adjusted discount rate appropriate to the scheme. The schemes apply discount rates ranging from 6% to 7% p.a.

For the purposes of the State Budget and whole of government financial reporting, the SA Government's unfunded superannuation liability is measured in line with AASB 119, which requires the use of a risk free discount rate reflecting the market yields on Commonwealth Government bonds. The discount rate at the time of the 2022-23 State Budget was 2.7% p.a. (see 2022-23 Budget Paper 3 *Budget Statement*, page 59). The higher discount rate results in a lower present value liability calculation.

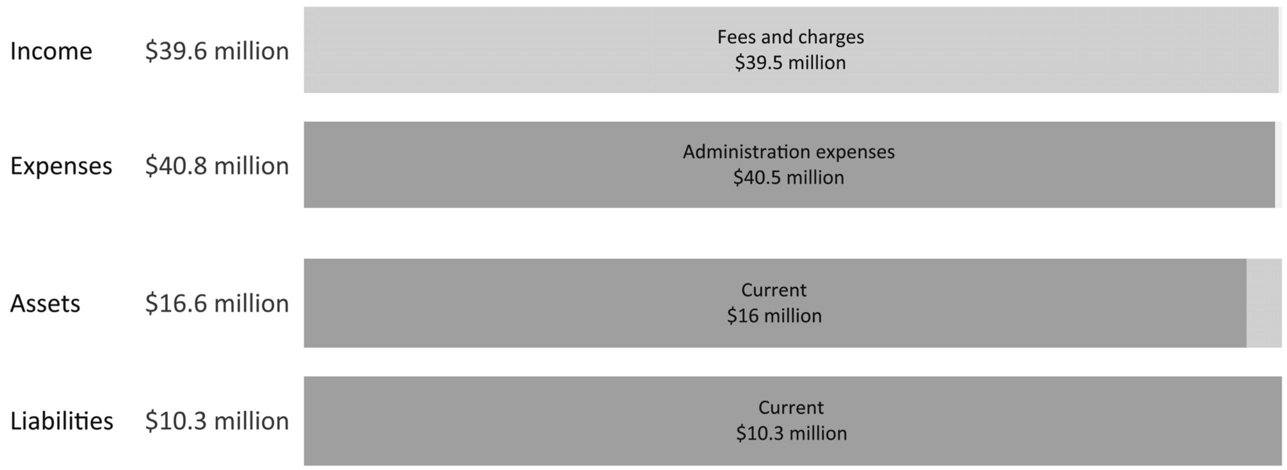
## Catch-up funding cash payments continue

A program began in 1994-95 to fully fund all employer superannuation liabilities. The 2021-22 State Budget reported that the SA Government was on target to meet its commitment to have the defined benefit schemes fully funded by 2034 (see 2022-23 Budget Paper 3 *Budget Statement*, page 57).

The past service liability contribution for 2021-22 was $424 million ($500 million). The purpose of this contribution is to catch up the shortage of funding for employment in years prior to the full funding policy. The past service contribution is affected by a number of factors including the long-term earnings rate on superannuation assets. Where investment performance exceeds the assumed rate, it is possible to reduce the level of past service payments required to fully fund superannuation liabilities by 2034. Additional contributions are needed to compensate for reduced earnings to remain on target.

# South Australian Superannuation Board (SASB)

## Financial statistics




## Significant events and transactions

- The financial market environment has been volatile and returns mostly negative this year. Investment performance was impacted by the combination of high inflation, rising risks to economic growth and the ongoing Russian-Ukrainian war.
- In May 2021, Parliament passed the Statutes Amendment (Fund Selection and Other Superannuation Matters) Bill 2020, which amended the *Southern State Superannuation Act 2009* and the *Superannuation Act 1988*, allowing Triple S superannuation scheme members to direct employer contributions to a fund of their choice. Parliament subsequently passed the Statutes Amendment (Fund Selection and Other Superannuation Matters) Bill 2021. This will make further amendments to these Acts. Super SA is still making the administrative and system changes needed to bring fund selection into effect for members.

## Financial report opinion

**Unmodified**

## Audit findings

No significant audit findings.

# Functional responsibility

SASB was established by the *Superannuation Act 1988* (the Super Act).

SASB is responsible to the Treasurer for administering the following superannuation schemes:

- South Australian Superannuation Scheme (SASS) under the Super Act
- Southern State Superannuation Scheme (Triple S) under the *Southern State Superannuation Act 2009*
- Super SA Retirement Investment Fund (SSARIF) under the Southern State Superannuation Regulations 2009
- South Australian Ambulance Service Superannuation Scheme (Ambulance Super) under the Super Act.

SASB's administration of these schemes involves maintaining:

- accounts in the names of all members
- employer contribution accounts
- proper accounts for each financial year on receiving contributions and paying benefits.

The Department of Treasury and Finance (DTF) – State Superannuation Office (Super SA) provides services to administer the schemes.

The Superannuation Funds Management Corporation of South Australia (Funds SA) is responsible for investing and managing the schemes' funds under the above legislation and the *Superannuation Funds Management Corporation of South Australia Act 1995*.

# Scope of the audit

## Audit of the financial report

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

Specific areas of audit attention in 2021-22 included:

- reviewing general ledger ICT controls
- reviewing ICT general controls for the core superannuation system
- investment valuations
- measuring accrued benefits and the current funding position
- taxation.

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

## Controls opinion

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

# Audit findings

### Communicating our audit findings

No significant matters were identified by the audit.

# Interpretation and analysis of the financial report

SASB's financial report reflects its administration role in that:

- revenue is mainly to reimburse DTF fees from the superannuation schemes
- expenses relate mainly to fees paid to DTF to administer the superannuation schemes.

### Highlights of the financial report

| | 2022<br>$million | 2021<br>$million |
|---|---|---|
| **Income and expenses** | | |
| Total income | 39.6 | 37.5 |
| Total expenses | 40.8 | 33.1 |
| **Total comprehensive result** | (1.2) | 4.4 |
| Net cash provided by (used in) operating activities | 8.9 | (2.7) |
| **Assets** | | |
| Cash and cash equivalents | 10.7 | 1.7 |
| Receivables | 5.9 | 11.2 |
| **Total assets** | 16.6 | 12.9 |
| **Total liabilities** | 10.3 | 5.3 |
| **Total equity** | 6.3 | 7.6 |

### Statement of Comprehensive Income

The total comprehensive result for the year was a loss of $1.2 million (profit of $4.4 million). This result mainly reflects:

- revenue from recoveries of administration fees of $39.5 million ($37.4 million). These are the administration fees charged to the superannuation schemes administered by SASB. They are set by SASB to recover the costs of its operations from the schemes and amounts received are paid to DTF as a reimbursement of actual costs incurred in operating SASB
- administration expenses of $40.5 million ($33.1 million). This amount is paid to DTF for administrative services, and includes the reimbursement of $5.2 million in strategic project costs.

The increase in revenue from recoveries of administration fees of $2.1 million (5.5%) reflects the increased costs SASB incurred in administering the superannuation schemes in 2021-22. It reflects that SASB is undertaking a range of reforms to its operations, including preparing for the introduction of choice-of-fund legislative changes.

## Statement of Financial Position

The main movement in the Statement of Financial Position was a $9 million increase in cash and cash equivalents, mainly reflecting administration fees received prior to 30 June 2022. This increase is partially offset by:

- a $5.3 million decrease in receivables
- a $5 million increase in payables, mostly associated with a $2.2 million increase in payables to DTF for administration fees and $2.3 million in strategic project expenses also payable to DTF.

### General reserve

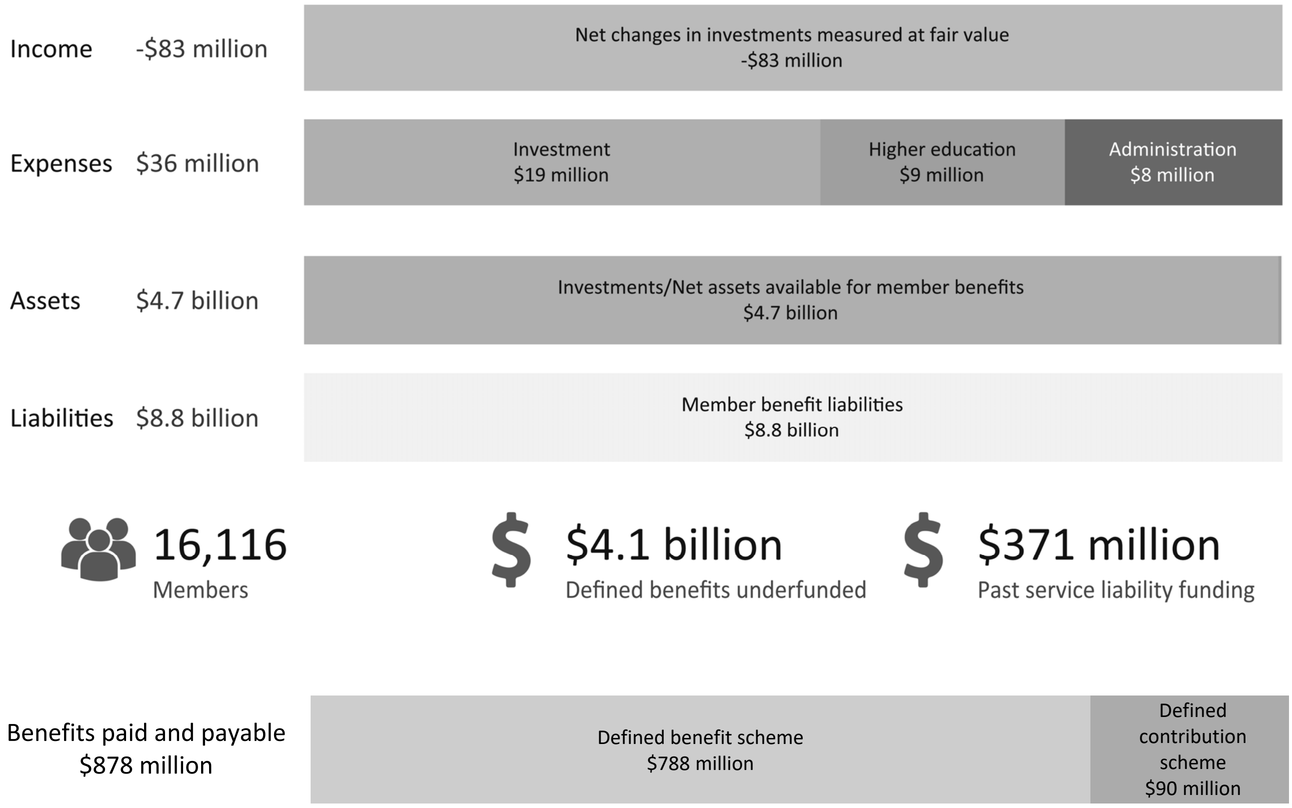
SASB has established a general reserve to:

- account for under and overspending on office expenditure
- provide for future project expenditure
- provide funding for the triennial SASB election.

In 2021-22, SASB transferred $1.2 million from the general reserve to retained earnings due to its negative operating result for the period.

# South Australian Superannuation Scheme (SASS)

## Financial statistics




| | |
|---|---|
| **Significant events and transactions** | Changes in investments measured at fair value for 2021-22 were -$83.2 million, reflecting significantly lower investment performance in 2021-22.<br><br>The financial market environment has been volatile and returns mostly negative this year. Investment performance was impacted by the combination of high inflation, rising risks to economic growth and the ongoing Russian-Ukrainian war. |
| **Financial report opinion** | **Unmodified** |
| **Audit findings** | No audit findings. |

# Functional responsibility

SASS was established by the *Superannuation Act 1988*.

SASS provides superannuation benefits for people employed by the SA Government and other prescribed people and makes provisions for their families.

SASS is divided into two segments – the Pension Scheme and the Lump Sum Scheme.

The Pension Scheme is the superannuation scheme for SA Government employees who elected to contribute to SASS before 30 May 1986. Contributors to it are entitled to a pension-based benefit.

The Lump Sum Scheme is the superannuation scheme for SA Government employees who elected to contribute to SASS after 1 July 1988 and up to 3 May 1994. Contributors to it are entitled to a lump sum-based benefit.

# Scope of the audit

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

Specific areas of audit attention in 2021-22 included:

- investment valuations
- measuring accrued benefits and the current funding position.

We also reviewed controls over:

- contributions revenue
- benefits payments
- cash management
- maintenance of member accounts.

The investment and management of SASS's assets is reviewed as part of the Superannuation Funds Management Corporation of South Australia (Funds SA) audit.

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

## Controls opinion

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

# Audit findings

## Communicating our audit findings

There were no audit findings identified in our audit of SASS.

# Interpretation and analysis of the financial report

## Highlights of the financial report

| | 2022 $million | 2021 $million |
|---|---|---|
| **Assets** | | |
| Investments | 4,713 | 5,282 |
| Other assets | 16 | 16 |
| **Total assets** | 4,729 | 5,298 |
| **Liabilities** | | |
| Benefits payable and other current liabilities | 8 | 13 |
| **Total liabilities** | 8 | 13 |
| **Net asset available to pay benefits** | 4,721 | 5,285 |
| **Member benefits** | | |
| Defined benefit member liabilities | 8,307 | 8,166 |
| Defined contribution member liabilities | 495 | 600 |
| **Total member liabilities** | 8,802 | 8,766 |
| **Equity** | | |
| Defined benefits that are over (under) funded | (4,081) | (3,481) |
| **Total equity** | (4,081) | (3,481) |
| **Revenue** | | |
| Changes in investments measured at fair value | (83) | 1,057 |
| **Total revenue** | (83) | 1,057 |
| **Expenses** | | |
| Investment expenses | 19 | 18 |
| Higher education expense | 9 | 9 |
| Administration expenses | 8 | 8 |
| **Total expenses** | 36 | 35 |
| **Result from superannuation activities** | (119) | 1,022 |
| Net change in defined member benefits liabilities | (505) | (31) |
| Allocation to defined contribution member accounts | 25 | (113) |
| **Operating result** | (599) | 878 |
| **Changes in member benefits** | | |
| Net contributions | 433 | 486 |
| Benefits to members (paid and payable) | (878) | (843) |
| Net cash flows from operating activities | (19) | (14) |
| Net cash flows from investing activities | 467 | 369 |
| Net cash flows from financing activities | (446) | (374) |

## Statement of Financial Position

### Investments

Total investments decreased by $569 million to $4.7 billion, due to significantly lower investment returns.

## Member benefits liabilities

SASS is a defined benefit superannuation scheme. It is comprised of the old scheme whose members are entitled to a pension benefit payment and the new scheme whose members are entitled to a lump sum benefit payment.

The table below shows the net assets available for member benefits, member benefits liabilities and the resulting excess of liabilities over net assets.

| | 2021 $million | 2022 $million |
|---|---|---|
| Net assets available for member benefits | 5,285 | 4,721 |
| Member benefits liabilities | 8,766 | 8,802 |
| Over (Under) funded member benefits liabilities | (3,481) | (4,081) |

The $8.8 billion in member benefits liabilities comprises $8.3 billion (94%) for the defined benefit liability and $495 million (6%) for the defined contribution liability.

Total unfunded member benefits liabilities increased by $600 million to $4.1 billion. This was largely due to:

- a decrease in total net assets available for member benefits of $564 million
- offset by a decrease of $36 million in total member benefits.

As mentioned in the 'Superannuation sector overview' section of this Report, the SA Government has committed to fully fund the defined benefit superannuation schemes by 30 June 2034.

The demographic assumptions of the 2019 triennial actuarial review were applied to the calculation of the 2022 member benefits liabilities. The following assumptions were used:

- discount rate 6.5% (6.5%)
- long-term salary inflation 1.5% (2.5%)
- long-term CPI factor 2% (2%).

### Vested benefits

Vested benefits are the benefits members are entitled to had their membership been terminated at reporting date. The vested benefits as at 30 June 2022 were $8.9 billion ($8.9 billion), as disclosed in note 4 of SASS's financial report.

## Income Statement

### Investment revenue

Total revenue decreased significantly to $83 million as a result of significantly lower earnings from changes in investments measured at fair value.

Overall investment performance was significantly lower than 2020-21, with many categories experiencing negative returns this year. Overall returns decreased across most investment categories in 2021-22, with sharp decreases in defensive alternatives and equities due to interest rate movements. There were positive movements for unlisted assets such as core infrastructure and property due to the lagging nature of valuations.

Further details on investment returns are included in the Superannuation Funds Management Corporation of South Australia commentary in this Report.

### Expenses

Investment expenses increased marginally by $1 million to $19 million.

## Statement of Changes in Member Benefits

### Contribution revenue

Contribution revenue and membership statistics, supplied by Super SA, are shown in the following table.

| | 2021 $million | 2022 $million |
|---|---|---|
| Contributions for past service liability | 416 | 371 |
| Contributions by employers | 27 | 23 |
| Public authority employer contributions | 32 | 30 |
| Contributions by members | 11 | 9 |
| Total | 486 | 433 |

| | 2020 Number | 2021 Number | 2022 Number |
|---|---|---|---|
| Pension Scheme | 14,714 | 14,296 | 13,898 |
| Lump Sum Scheme | 2,816 | 2,508 | 2,218 |
| Total | 17,530 | 16,804 | 16,116 |

Net contributions decreased by $53 million (11%) to $433 million, mainly due to:

- a decrease of $45 million (11%) in contributions for the past service liability
- a decrease of $5 million (13%) in total contributions by employers and employees.

Past service liability contributions represent funding from both SA Government (since 1994) and public sector employers to meet accrued superannuation liabilities. The SA Government expects to fully fund its liabilities by 30 June 2034. During the year the SA Government transferred $369 million ($416 million) into the South Australian Superannuation Scheme Contribution Account for past service liability funding. Public sector employers contributed $2 million ($194,000).

The reduction in employer contributions is indicative of a closed scheme where the number of active members is decreasing due to retirements.

### Benefits to members

Benefits to members expense comprises the benefits paid and the change in the liability for accrued benefits. Benefits expense can fluctuate significantly due to changing assumptions in the calculation of the estimated liability for accrued benefits. In 2021-22 the assumptions used varied to reflect the market movements, resulting in a small increase in benefits to members of $35 million (4%) to $878 million. This increase is represented across both pension and lump sum members and reflects a decrease in member numbers, consistent with last year, offset by the indexation of pensions based on CPI.

An annual actuarial assessment of the defined benefit members liabilities is required by AASB 1056 *Superannuation Entities*. Details of the liability are provided under 'Statement of Financial Position' above.

## Further commentary on operations

### Funding of benefit payments

Benefit payments are funded from a number of sources that have remained relatively consistent. Over half of the benefit payments are funded from the South Australian Superannuation Scheme – Employer Account.

The South Australian Superannuation Fund (the Fund) portion of a benefit is fully funded. Member contributions are deposited into the Fund and, on payment of a benefit, a proportion of the amount is charged against the Fund. The amount charged is determined by legislation and regulation.

There are numerous arrangements covering the funding of the employer liability for accrued superannuation benefits. Depending on the employer's arrangement with the South Australian Superannuation Board they may either:

- make provisions for superannuation liabilities in their own accounts and pay for benefits as they emerge
- contribute fortnightly to employer contribution accounts managed by Funds SA, in this way funding their accruing liability
- make cash contributions to the Treasurer, which are invested with Funds SA.

Note 1(d) of SASS's financial report provides details of the various funding arrangements.

Although a portion of the total superannuation liability is currently unfunded, members' entitlements to benefits must be paid out of the Consolidated Account, or a special deposit account established for that purpose.

Membership statistics for the last three years, provided by Super SA, are shown in the following table.

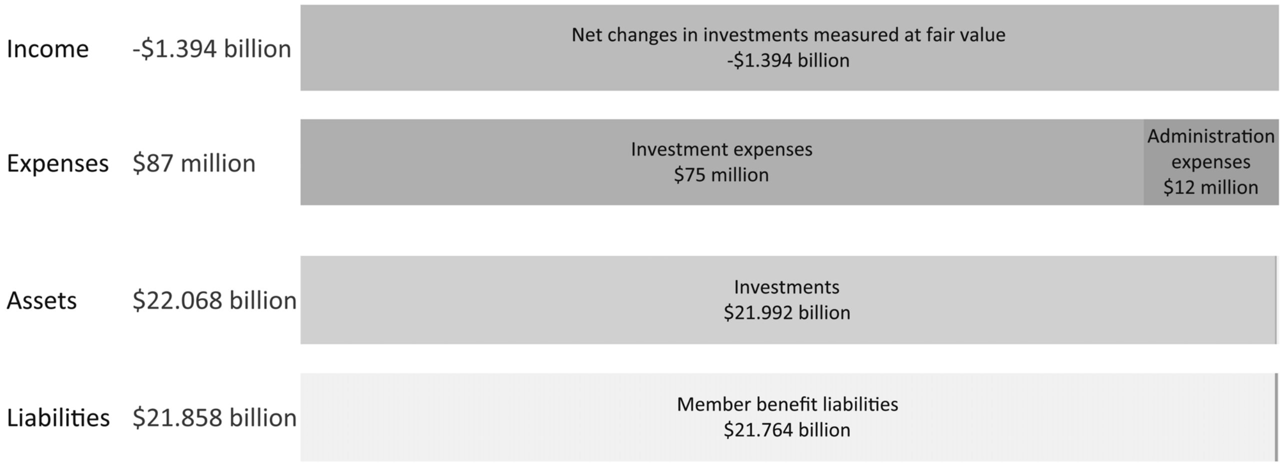
| Pension Scheme | 2020<br>Number | 2021<br>Number | 2022<br>Number |
|---|---|---|---|
| Contributory | 213 | 159 | 126 |
| Preserved | 210 | 176 | 143 |
| Superannuants | 14,291 | 13,961 | 13,629 |
| Total | 14,714 | 14,296 | 13,898 |

| Lump Sum Scheme | 2020<br>Number | 2021<br>Number | 2022<br>Number |
|---|---|---|---|
| Contributory | 1,883 | 1,662 | 1,432 |
| Preserved | 933 | 846 | 786 |
| Total | 2,816 | 2,508 | 2,218 |

| Number of members | 2020<br>Number | 2021<br>Number | 2022<br>Number |
|---|---|---|---|
| Contributory | 2,096 | 1,821 | 1,558 |
| Preserved | 1,143 | 1,022 | 929 |
| Superannuants | 14,291 | 13,961 | 13,629 |
| Total | 17,530 | 16,804 | 16,116 |

# Southern State Superannuation Scheme (Triple S)

## Financial statistics




**173,021**
Number of members

**$1.963 billion**
Net contributions

| | |
|---|---|
| **Significant events and transactions** | Net changes in investments measured at fair value for 2021-22 were -$1.394 billion, reflecting significantly lower investment performance in 2021-22.<br><br>The financial market environment has been volatile and returns mostly negative this year. Investment performance was impacted by the combination of high inflation, rising risks to economic growth and the ongoing Russian-Ukrainian war. |
| **Financial report opinion** | **Unmodified** |
| **Audit findings** | No audit findings. |

## Functional responsibility

Triple S was established on 1 July 1995 by the *Southern State Superannuation Act 1994* and is continued under the *Southern State Superannuation Act 2009*.

Triple S is a defined contribution scheme that provides superannuation and other products and services for the benefit of people employed, or who have ceased employment, with the SA Government.

## Scope of the audit

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

Specific areas of audit attention in 2021-22 included:

- ICT general controls for the core superannuation management system
- investment valuations.

We also reviewed controls over:

- contributions revenue
- benefits payments
- cash management
- maintenance of member accounts
- reconciling superannuation data from the superannuation administration systems to the general ledger.

The investment and management of Triple S's assets is reviewed as part of the Superannuation Funds Management Corporation of South Australia (Funds SA) audit.

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

### Controls opinion

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

## Audit findings

### Communicating our audit findings

There were no audit findings identified in our audit of Triple S.

## Interpretation and analysis of the financial report

### Highlights of the financial report

| | 2022 $million | 2021 $million |
|---|---|---|
| **Assets** | | |
| Investments | 21,992 | 23,396 |
| Other assets | 76 | 85 |
| **Total assets** | 22,068 | 23,481 |

| | 2022 $million | 2021 $million |
|---|---|---|
| **Liabilities** | | |
| Benefits payable | 68 | 42 |
| Insurance liabilities and payables | 26 | 28 |
| **Total liabilities** | 94 | 70 |
| **Net assets available for member benefits** | 21,974 | 23,411 |
| **Member benefits** | | |
| Member benefit liabilities | 21,764 | 23,100 |
| **Total net assets** | 210 | 311 |
| **Total equity** | 210 | 311 |
| **Revenue** | | |
| Changes in investments measured at fair value | (1,394) | 4,116 |
| **Total revenue** | (1,394) | 4,116 |
| **Expenses** | | |
| Investment expenses | 75 | 73 |
| Other expenses | 12 | 28 |
| **Total expenses** | 87 | 101 |
| **Result from superannuation activities** | (1,481) | 4,015 |
| Insurance activities | - | 1 |
| Net benefits allocated to members accounts | 1,392 | (3,858) |
| **Operating result** | (89) | 158 |
| **Changes in member benefits** | | |
| Net contributions | 1,963 | 1,830 |
| Benefits to members (paid and payable) | (1,899) | (1,517) |
| Net cash flows from operating activities | (30) | (19) |
| Net cash flows from investing activities | (66) | (248) |
| Net cash flows from financing activities | 112 | 281 |

## Statement of Financial Position

The accumulative nature of Triple S (a defined contribution scheme) means that member benefits liabilities are fully funded.

### Net assets available for member benefits

Net assets available to pay member benefits decreased by $1.437 billion (6%) to $21.974 billion. This decrease reflects the accumulative nature of Triple S, where the decrease reflects the total of contributions received and net investment income less benefits paid and other expenses. In 2021-22, the actual return on investments was significantly lower.

## Income Statement

### Revenue

Total revenue decreased by $5.5 billion compared to 2020-21 as a result of significantly lower earnings from net changes in investments measured at fair value.

Overall investment performance was significantly lower than 2020-21, with many investment categories experiencing negative returns this year. Overall returns decreased across most categories, with sharp decreases in defensive alternatives and equities due to interest rate movements. There were positive movements for unlisted assets such as core infrastructure and property due to the lagging nature of valuations.

Further details on investment returns are included in the Superannuation Funds Management Corporation of South Australia commentary in this Report.

### Expenses

Total expenses of $87 million were $14 million less than in 2020-21. This reduction is mainly due to a decrease in the transfer to other schemes, offset by small increases in investment and administration expenses.

## Statement of Changes in Member Benefits

### Net contribution revenue

Total contributions increased by $133 million (7%) to $1.963 billion in 2021-22. Contributions increased across all contribution categories, with the largest increase in transfers from other superannuation entities.

Details of contribution revenue and membership statistics, supplied by Super SA, are provided in the following table.

| | 2021<br>$million | 2022<br>$million |
|---|---:|---:|
| Contributions by employers | 1,257 | 1,327 |
| Contributions by members | 105 | 112 |
| Transfers from other superannuation entities | 467 | 523 |
| Government co-contributions | 1 | 1 |
| Total | 1,830 | 1,963 |

| | 2021<br>Number | 2022<br>Number |
|---|---:|---:|
| Contributory members | 30,920 | 31,037 |
| Non-contributory members | 92,290 | 97,532 |
| Preserved members | 51,961 | 43,711 |
| Spouses | 749 | 741 |
| Total | 175,920 | 173,021 |

Active members of Triple S (including spouse members) can elect to make contributions.

Employers are required to make contributions for active eligible contributory and non-contributory members of Triple S.

In 2021-22 overall member numbers were down slightly (2%). This was mainly due to a decrease in preserved members (16%), offset by a smaller increase in non-contributory member numbers (6%).

### Benefits paid and payable

Benefits paid and payable to members increased by $382 million (25%) to $1.899 billion, mainly due to a 2,899 decrease in member numbers and their corresponding exit payments.

The movement in benefits paid and payable over recent years is shown in the following table.

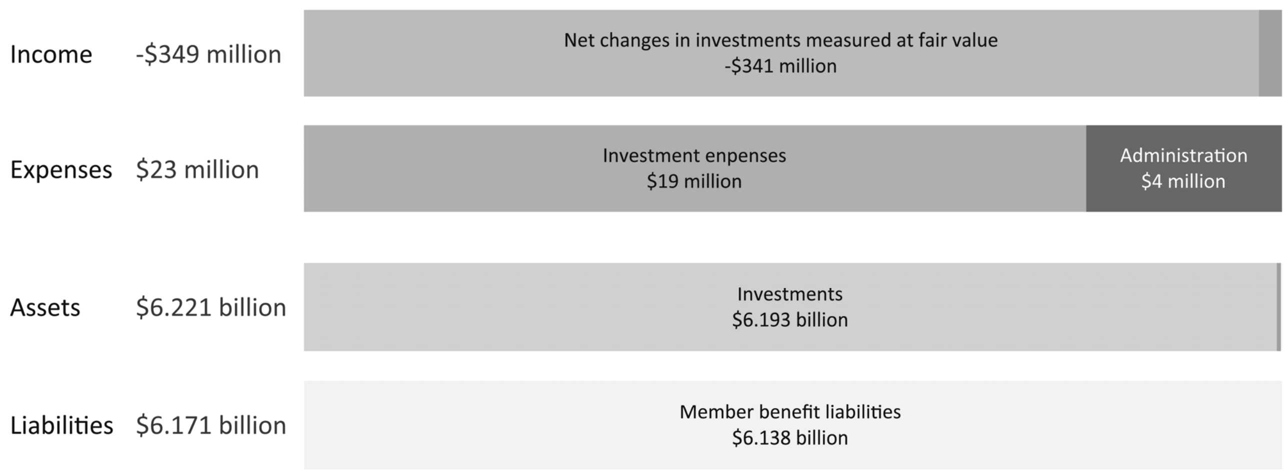
| | 2019<br>$billion | 2020<br>$billion | 2021<br>$billion | 2022<br>$billion |
|---|---|---|---|---|
| Benefits paid and payable | 1.4 | 1.6 | 1.5 | 1.9 |

## Statement of Cash Flows

The analysis of cash flows shows that Triple S maintained a $38 million balance of funds on hand at 30 June 2022 ($22 million at 30 June 2021). Amounts not used to pay benefits and other expenses are transferred to Funds SA for investment, which is reflected in the cash flows from investing and financing activities.

# Super SA Retirement Investment Fund (SSARIF)

## Financial statistics




**20,383**
Number of members

**$6.188 billion**
Net assets available for member benefits

| | |
|---|---|
| **Significant events and transactions** | Changes in investments measured at fair value for 2021-22 were -$340 million, reflecting significantly lower investment performance in 2021-22.<br><br>The financial market environment has been volatile and returns mostly negative this year. Investment performance was impacted by the combination of high inflation, rising risks to economic growth and the ongoing Russian-Ukrainian war. |
| **Financial report opinion** | **Unmodified** |
| **Audit findings** | No audit findings. |

# Functional responsibility

SSARIF continues in existence under the *Southern State Superannuation Act 2009*.

SSARIF provides investment services and other products and services for the benefit of people who have retired, are reaching retirement age or have ceased employment with the SA Government.

# Scope of the audit

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

Specific areas of audit attention in 2021-22 included:

- ICT general controls for the core superannuation management system
- investment valuations.

We also reviewed controls over:

- contributions revenue
- benefit payments
- cash management
- maintenance of member accounts.

The investment and management of SSARIF's assets is reviewed as part of the Superannuation Funds Management Corporation of South Australia (Funds SA) audit.

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

## Controls opinion

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

# Audit findings

## Communicating our audit findings

There were no audit findings identified in our audit of SSARIF.

# Interpretation and analysis of the financial report

SSARIF comprises transactions for the Super SA Income Stream Product (Income Stream) and the Flexible Rollover product.

## Highlights of the financial report

| | 2022 $million | 2021 $million |
|---|---|---|
| **Assets** | | |
| Investments | 6,193 | 6,247 |
| Other assets | 28 | 40 |
| **Total assets** | 6,221 | 6,287 |
| | | |
| **Liabilities** | | |
| Benefits payable | 16 | 9 |
| Other liabilities | 17 | 75 |
| **Total liabilities** | 33 | 84 |
| **Net assets available for member benefits** | 6,188 | 6,203 |
| | | |
| **Member benefits** | | |
| Income Stream member liabilities | 4,384 | 4,464 |
| Flexible Rollover product member liabilities | 1,754 | 1,687 |
| **Total member liabilities** | 6,138 | 6,151 |
| **Total equity** | 50 | 52 |
| | | |
| **Revenue** | | |
| Changes in investments measured at fair value | (341) | 912 |
| Other revenue | (8) | 14 |
| **Total revenue** | (349) | 926 |
| | | |
| **Expenses** | | |
| Investment expenses | 19 | 19 |
| Other expenses | 4 | 4 |
| **Total expenses** | 23 | 23 |
| **Result from superannuation activities** | (372) | 903 |
| | | |
| Net benefits allocated to members accounts | 324 | (818) |
| Income tax expenses | (47) | 43 |
| **Operating result** | (1) | 42 |
| | | |
| **Changes in member benefits** | | |
| Net contributions | 1,399 | 1,059 |
| Benefits to members (paid and payable) | (1,089) | (873) |
| | | |
| Net cash flows from operating activities | (16) | (1) |
| Net cash flows from investing activities | (302) | (193) |
| Net cash flows from financing activities | 309 | 189 |

## Statement of Financial Position

Net assets available to pay member benefits decreased by $16 million (0.3%) to $6.188 billion. This is principally the result of significantly lower investment returns, offset by additional funds invested. It is also indicative of the accumulative nature of SSARIF, where the decreases reflect the total of contributions received and net investment income less benefits paid and other expenses. The accumulative nature of SSARIF also means that it is fully funded.

## Income Statement

### Revenue

Total revenue decreased to -$349 million ($925 million) as a result of significantly lower earnings from changes in investments measured at fair value.

Overall investment performance was significantly lower than 2020-21, with many categories experiencing negative returns this year. Overall returns decreased across most investment categories in 2021-22, with sharp decreases in defensive alternatives and equities due to interest rate movements. There were positive movements for unlisted assets such as core infrastructure and property due to the lagging nature of valuations.

Further details on investment returns are included in the Superannuation Funds Management Corporation of South Australia commentary in this Report.

### Expenses

Total expenses remained unchanged at $23 million ($23 million).

## Statement of Changes in Member Benefits

Total contributions increased by $340 million (32%) to $1.399 billion, mainly due to:

- an increase of $353 million in rollovers from other schemes
- an increase of $17 million in member contributions
- offset by a decrease of $31 million in income tax expense on rollovers.

Contributions to SSARIF are all voluntary and are therefore open to fluctuation.

Benefits paid or payable to members increased by $216 million (25%) to $1.089 billion due to:

- an increase of $117 million (22%) in payments from Income Stream
- an increase of $98 million (30%) in payments from the Flexible Rollover product.

The increase in benefits paid and payable is due to the increase in the number of members, resulting in increased benefit payments to members. In 2021-22, there were 1,479 (8%) more members.

Total benefits available to members ultimately depend on the investment strategy and investment performance, with no guarantee of return provided by the SA Government.

## Statement of Cash Flows

The net cash from operating activities decreased by $14 million, mainly due to decreased income tax revenue. The movement in tax balances reflects the weak performance of Australian and global markets in 2021-22. It also reflects the impacts from the recognition of trust distribution income, the realisation of capital gains and losses, and the movement in unrealised capital gains and losses.

The net flows from investing activities decreased by $109 million, mainly due to increased payments from Funds SA for the purchase of investments being offset by a smaller increase in receipts from Funds SA from the sale of investments.

The net flows from financing activities increased by $120 million, mainly due to increased member contributions and net transfers from other superannuation entities, offset by smaller increases in payments for Income Stream, the Flexible Rollover product and contributions tax.

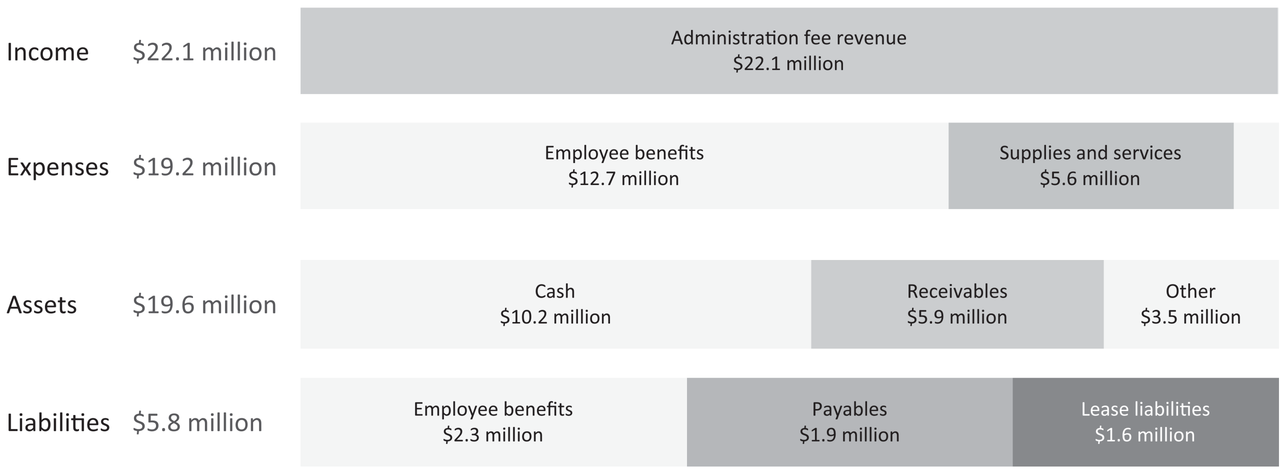
## Further commentary on operations

Membership statistics, provided by Super SA, and total investments for the last four years are shown in the following table.

| | 2019<br>Number | 2020<br>Number | 2021<br>Number | 2022<br>Number |
|---|---|---|---|---|
| Flexible Rollover product | 5,819 | 6,352 | 6,782 | 7,572 |
| Income Stream | 10,686 | 11,460 | 12,122 | 12,811 |
| Total | 16,505 | 17,812 | 18,904 | 20,383 |
| | $million | $million | $million | $million |
| Total investments | 4,947 | 5,163 | 6,247 | 6,193 |

# Superannuation Funds Management Corporation of South Australia (Funds SA)

## Financial statistics

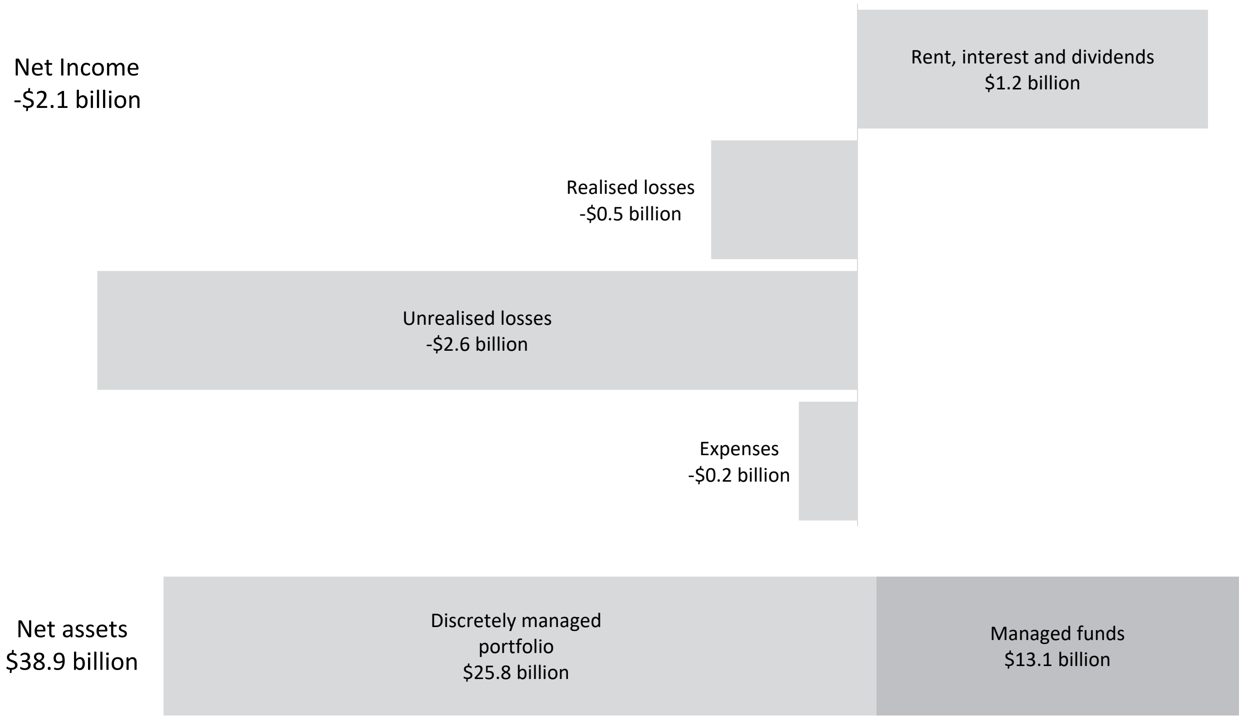



62
FTEs

11
Investment options

31
Client accounts managed

## Funds under management



| | |
|---|---|
| **Significant events and transactions** | — Funds under management decreased by $2.3 billion (5.6%) during the year. This is largely attributable to $2.6 billion of unrealised losses.<br>— Overall performance was impacted by events in the second half of 2021-22, including the Russian-Ukrainian war, global inflation and interest rate rises. Asset classes holding equities and debt instruments were most impacted by negative returns, while property and private market asset classes produced positive returns.<br>— In 2021-22, Funds SA restructured its asset classes, transferring assets from the Diversified Strategies Growth and Diversified Strategies Income asset classes to new asset classes representing previous sub-strategies Core Infrastructure, Private Markets, Defensive Alternatives, Credit and Growth Alternatives.<br>— Corporate administration fees increased by 11.8% to $22.1 million in 2021-22. This was due to the performance of funds under management in the first half of the financial year, when asset balances were higher.<br>— Salaries and wages increased by 18.3% to $10.4 million as Funds SA continued to expand its workforce to meet future capability needs, with FTEs increasing from 58 to 62 during the year.<br>— Funds SA commenced a significant investment data and technology project to implement new investment management systems. |
| **Financial report opinion** | **Unmodified** |
| **Audit findings** | No significant findings. |

## Functional responsibility

Funds SA is a statutory authority established by the *Superannuation Funds Management Corporation of South Australia Act 1995* (the SFMCSA Act).

Funds SA's main function is to invest and manage the public sector superannuation funds, nominated funds of approved authorities and other funds (funds under management) under strategies it formulates. Details of Funds SA's objectives and functions are provided in note 1.2 of its financial report.

### Restrictions on operations

Under the SFMCSA Act, Funds SA is subject to the direction and control of the Minister. However, a ministerial direction must not be given for an investment decision, dealing with property or the exercise of a voting right.

Funds SA has broad powers over the investment of funds under management. It cannot, however, borrow money or obtain any other form of financial accommodation unless authorised to do so by the Regulations under the SFMCSA Act or by the Minister. In addition, the Regulations impose restrictions so that Funds SA cannot invest in real property outside the State or enter into derivative transactions (eg futures contracts, forward contracts and swaps) without the Minister's authority. The Minister has provided authority for Funds SA to enter into such investments.

### Structure

Funds SA staff operate across distinct business groups being investment, operations, corporate engagement, people and organisational performance, governance, risk and compliance, and business services. This structure is complemented by extensive use of external fund management firms. Funds SA employs a 'manager of managers' approach, using fund managers for most investments. A single custodian entity is used for the assets managed by most of those fund managers. The custodian is responsible for holding, valuing and accounting for the assets. Each fund manager and the custodian is appointed under an agreement that dictates the scope for investment services, fees and reporting requirements.

Funds SA outsources client unit pricing, private equity administration and general ledger functions to the custodian, but remains responsible for developing investment strategies.

## Scope of the audit

### Audit of the financial report

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

Specific areas of audit attention in 2021-22 included:

- investment policy and strategy approval and compliance
- client fund allocation and redemption transactions
- investment allocation, income and valuation
- monitoring of custodian activities
- fund manager appointment, monitoring and termination activities
- fund administration fees
- corporate assets and expenditure.

We considered internal audit activities when planning and conducting the audit.

### Controls opinion

We reviewed controls over investment assets under management and deposit accounts as part of our overall controls opinion, which is discussed in Part B of this Report.

## Audit findings

### Communicating our audit findings

Our audit found that overall the controls established by Funds SA were satisfactory. Our findings were low risk and were communicated verbally to management. Funds SA responded that it will take action to address them.

## Interpretation and analysis of the financial report

### Highlights of the financial report

| Funds SA | 2022 $million | 2021 $million |
|---|---|---|
| **Total income** | 22.1 | 19.8 |
| **Total expenses** | 19.2 | 17.8 |
| **Net surplus (deficit) and total comprehensive result** | 2.9 | 2.0 |
| Net cash provided by (used in) operating activities | 3.5 | 5.1 |
| **Total assets** | 19.6 | 17.1 |
| **Total liabilities** | 5.8 | 6.2 |
| **Total equity** | 13.8 | 10.9 |

| Funds under management | 2022 $billion | 2021 $billion |
|---|---|---|
| **Net income** | (2.1) | 7.1 |
| **Net assets** | 38.9 | 41.2 |

### Statement of Comprehensive Income

Funds SA's operating result for the year was a net surplus of $2.9 million ($2 million).

Administration fee revenue, representing fees charged for services provided to Funds SA clients, increased by $2.3 million (11.8%). This was due to an increase in average funds under management in the first half of the financial year, which is the basis for calculating the administration fee.

Funds SA sets its administration fee annually under a cost recovery policy to cover budgeted corporate expenditure. The rate charged did not change from the previous year.

Expenses increased by $1.4 million (8.1%) mainly as a result of an increase in employee benefits costs, up $2 million, partially offset by a $587,000 reduction in supplies and services expenses.

The increase in employee benefits costs was due mainly to increased salaries and wages, up $1.6 million, as a result of hiring additional staff. This is in line with Funds SA's strategic plan to build capacity and strengthen its capabilities to execute its strategic initiatives.

The decrease in supplies and services was mainly due to decreases in:

- contractors and temporary staff, down $862,000, due to fewer contractors being hired for projects such as IT projects in 2021-22. This coincides with the increase in employee benefits costs as Funds SA has now hired more staff
- human resources expenses, down $161,000, with less recruitment in 2021-22 as positions are now filled.

These decreases were partially offset by increases in travel and accommodation, up $160,000, due to COVID-19 travel restrictions being lifted, and information technology expenses, up $203,000, due to the continuing information data and technology project implementation.

## Further commentary on operations

### Funds under management

#### Funds SA responsibilities

As mentioned, Funds SA exists to invest and manage the public sector superannuation funds, funds of eligible superannuation schemes and nominated funds of approved authorities.

To do this, Funds SA has established a range of different investment options and tailored multi-sector strategies it offers to its clients. These investment options and strategies comprise a mix of differing strategic asset allocations to meet its clients' investment objectives, differing time horizons and levels of acceptable risks.

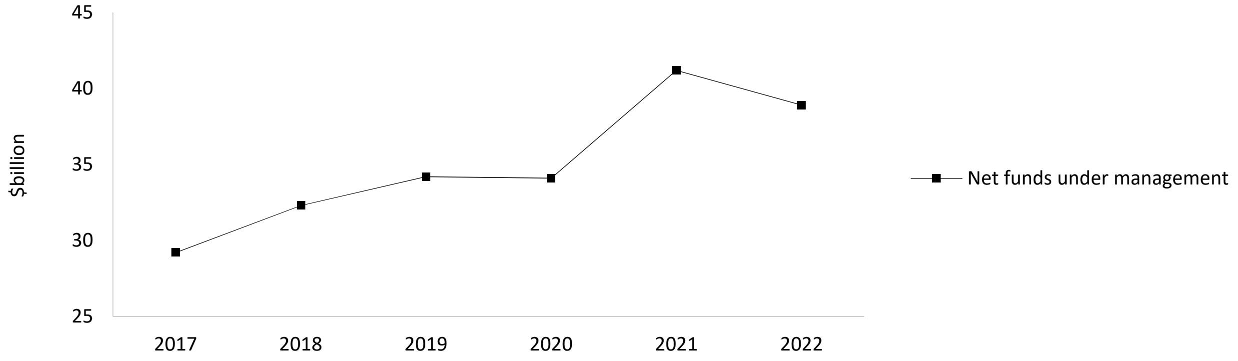
Funds SA is responsible for managing the investment portfolios it has established in line with asset allocations and investment performance reporting agreed with its clients.

#### Investor responsibilities

The public sector superannuation funds, eligible superannuation schemes and approved authorities work collaboratively with Funds SA to design investment strategies that meet their investment needs. They deposit funds with Funds SA throughout the financial year to acquire units in an investment option, which in turn holds units in each of the asset classes that make up that investment option. They receive investment performance reporting to meet their responsibilities for their invested funds.

## Funds under management decreased in 2021-22

The following chart shows the net funds under management as at 30 June over the past six years.

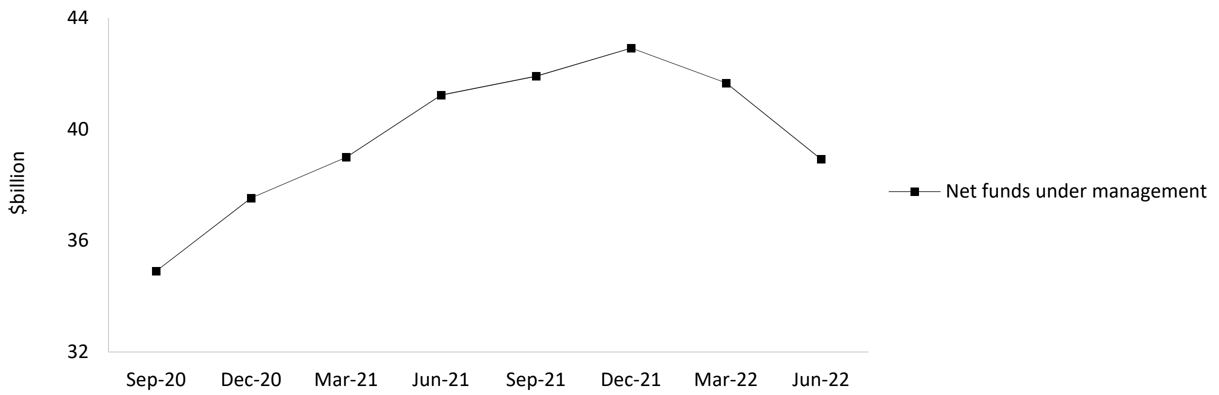



The total funds under management had a significant decrease from $41.2 billion to $38.9 billion at 30 June 2022. This was largely due to the $2.1 billion net investment losses, and net investor activity (applications less redemptions) redeeming $119.2 million.

The decrease in net income in 2021-22 was due to negative returns on funds under management (see 'Income from investments' below). This is in contrast to 2020-21 where strong asset performance drove a significant increase in funds under management, with a $7.1 billion gain recorded.

Movements in funds under management values have been volatile for the past few years, initially as a result of the impact of the COVID-19 pandemic on global economic markets, and then the subsequent strong recovery.

More recently the market has been impacted by the Russian-Ukrainian war, global inflation and rising interest rates. The following chart shows how funds under management fluctuated over each quarter for the past two years, and the impact of the above factors coinciding with the decline in the funds under management balance in the second half of 2021-22.



## Entities investing with Funds SA at 30 June 2022

The following table sets out the entities investing with Funds SA, the investment options used and funds under management at 30 June 2022.

| Investor/Fund | Investment option | Funds under management $million |
|---|---|---|
| Superannuation funds | | |
| South Australian Superannuation Board: | | |
| South Australian Superannuation Scheme: | | |
| South Australian Superannuation Scheme – Employer Contribution Accounts | Defined benefit strategy | 2,624 |
| South Australian Superannuation Fund – Old Scheme Division | Defined benefit strategy | 1,599 |
| South Australian Superannuation Fund – New Scheme Division | Various | 489 |
| Southern State Superannuation Scheme: | | |
| Southern State Superannuation Fund | Various | 21,992 |
| Super SA Retirement Investment Fund | Various | 6,193 |
| South Australian Ambulance Service Superannuation Scheme | Balanced taxable | 293 |
| Police Superannuation Board: | | |
| Police Superannuation Scheme | Defined benefit strategy | 2,278 |
| South Australian Parliamentary Superannuation Board: | | |
| Parliamentary Superannuation Scheme | Various | 269 |
| Trustee of the SA Metropolitan Fire Service Superannuation Scheme: | | |
| SA Metropolitan Fire Service Superannuation Scheme | Various | 479 |
| Other superannuation schemes | Various | 360 |
| Approved authorities for the purpose of investing with Funds SA | | |
| South Australian Government Financing Authority | Various | 696 |
| Motor Accident Commission | Capital defensive tax-exempt | 16 |
| Lifetime Support Authority of South Australia | Lifetime Support Authority strategy | 1,268 |
| Other authorities | Various | 370 |

### Asset allocation

An investment policy drives decisions about how funds will be invested. The SFMCSA Act provides that Funds SA's objective in performing its functions is to achieve the highest return possible on investment of the funds while having proper regard for:

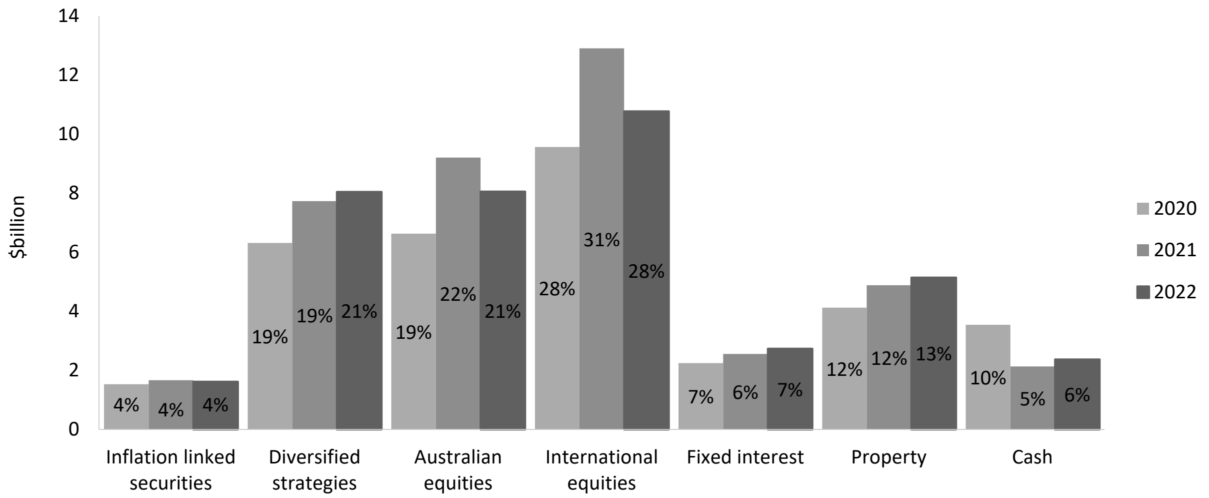
- the need to maintain the risks relating to investment at an acceptable level
- the need for liquidity in the funds
- any other matters that are prescribed by regulation.

Underpinning the investment policy and decision-making is an understanding of the financial risks facing Funds SA. One of the key strategies Funds SA uses in managing its financial risk is to diversify its funds under management into various asset classes.

In 2021-22, Funds SA restructured its asset classes. This restructure split out subclass holdings to separate asset classes. A portion of the assets in the former Diversified Strategies Growth (taxable and untaxable) asset classes were transferred to new asset classes established for Core Infrastructure (taxable and untaxable). The Diversified Strategies Growth asset classes were then renamed Private Markets (taxable and untaxable) to reflect the remaining asset holdings in private equities. Similarly, assets in the former Diversified Strategies Income asset class were transferred to new asset classes established for Credit and Growth Alternatives. The Diversified Strategies Income asset class was then renamed to Defensive Alternatives to reflect the remaining assets.

Funds SA continually monitors investment performance during the year and makes adjustments to investment subclass holdings as required.

The holding of each asset class (excluding the socially responsible investment class, which only represents 0.5% (0.4%) of the total funds under management) as a percentage of total funds under management at 30 June for the last three years is shown in the following chart. The asset classes include both taxed and untaxed funds where applicable. The diversified strategies group in the chart below includes the former Diversified Strategies Growth and Diversified Strategies Income asset classes, which have been separated into Core Infrastructure, Private Markets, Credit, Defensive Alternatives and Growth Alternatives asset classes for 2021-22.




The chart shows the changes in asset class value and percentage holdings over the year. Movements are due to a combination of investment returns, investor switches and investment strategy asset allocation changes.

The International Equities and Australian Equities asset classes decreased in value and percentage holdings, mainly due to significant negative returns in 2021-22. International Equities Tax-Exempt recorded a return of -15.8% and Australian Equities Tax-Exempt returned -7.5%, a significant reduction from prior year returns of 37.1% and 29.4% respectively. Returns in Australian equities varied by industry sector, while international equities were more significantly impacted by ongoing COVID-19 related supply chain issues and rising inflation, particularly in the United States.

Diversified Strategies asset classes increased in both percentage holdings and value. They were restructured in 2021-22, with most tax-exempt asset classes producing positive returns (Core Infrastructure (1.9%), Private Markets (3%), Defensive Alternatives (2.4%) and Growth Alternatives (4.2%)), while the Credit asset class recorded a negative return (-9.4%). Due to the restructure, the returns noted here are for the three months to 30 June only.

Property assets increased in percentage holdings and in value due to a 9.7% return, a slight decrease from the prior year's 10.8% return. Positive returns were attributed to strong demand in the Australian property market across sectors, in particular office and industrial.

The value and percentage holding of fixed interest assets increased, mainly due to additional investments in Short-Term Fixed Interest. However, returns on fixed interest assets decreased from the prior year, with Short-Term Fixed Interest recording a -5.8% return and Long-Term Fixed Interest recording a -12.2% return. The negative returns were caused by market bond yields increasing, which reduced the value of the fixed rate bonds that Funds SA held. The significant negative return in Long-Term Fixed Interest reflects the market projection of expected inflation and subsequent interest rate rises.

Inflation Linked Securities remained relatively steady, as a result of additional investments made during the year offsetting a -6% return. The negative return is attributed to investments in government bonds that have declined in value due to increasing bond yields, and changing expectations of inflation in the later part of the financial year.

Cash holdings increased in value and percentage holdings, due to the increased placement of funds for the financial year. The return of 0.1% is consistent with the prior year, as interest rates remained at a record low for most of 2021-22.

The primarily long-term nature of investment strategies means funds under management are exposed to periodic rises and falls in financial markets.

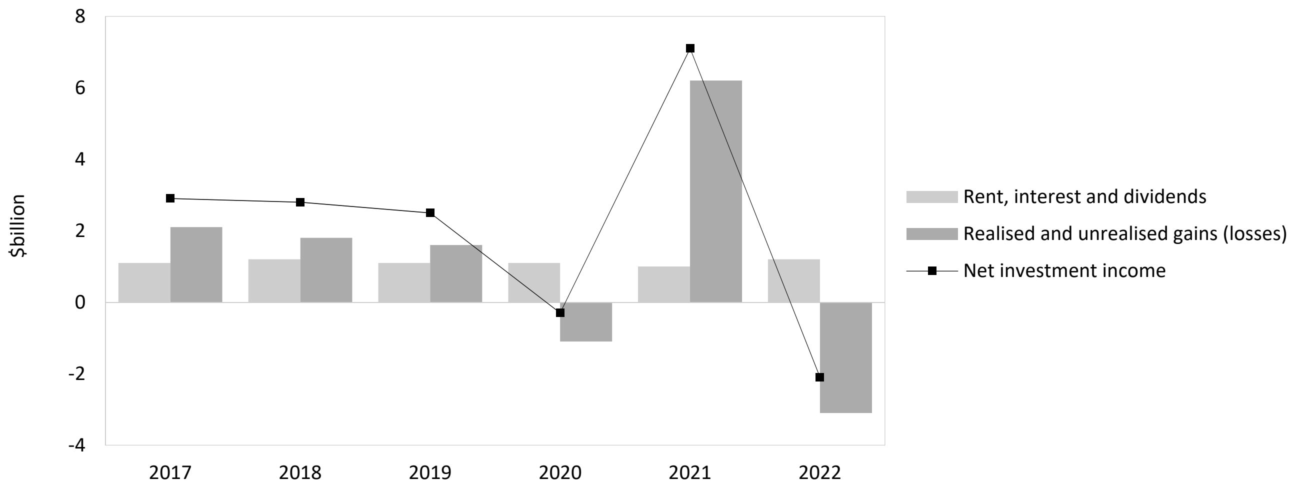
## Income from investments

Net income from investment activities comprises income from rent, interest and dividends, and realised and unrealised gains and losses from investment valuations, less expenses incurred in the investment activity.

Net income from investment activities was a deficit of $2.1 billion (surplus of $7.1 billion in 2020-21). Income comprised rent, interest and dividends of $1.2 billion ($1 billion), reduced by realised losses of $523 million ($2.3 million gain) and unrealised losses of $2.6 billion ($3.9 billion gain), and investment expenses of $159.2 million ($148.4 million).

Schedule 1 of Funds SA's financial report provides full details of income earned from investment activities for each asset class.

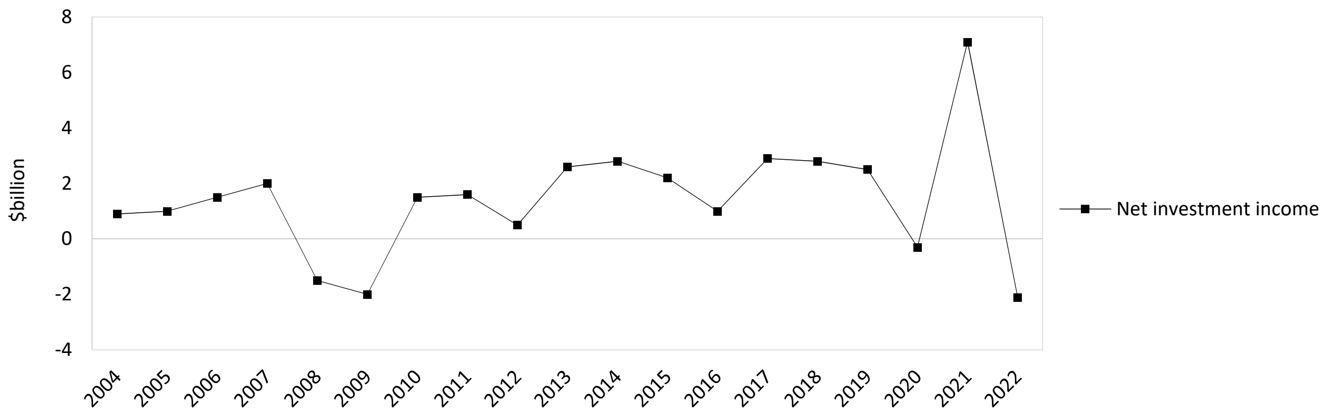
The investment result for funds under management for the six years to 2022 is shown in the following chart.




Rent, interest and dividends income remained consistent with previous years. In 2021-22, there was a significant decrease in the value of investment assets leading to unrealised losses of $2.6 billion. These losses are a significant reduction from the $3.9 billion of unrealised gains in the prior year. This is the nature of long-term investments, where there may be volatility in the short term. This volatility has been more pronounced over the past few years, as we have seen from the economic impacts of COVID-19 and subsequent rebound, and more recently the impact of the Russian-Ukrainian war, global inflation and rising interest rates.

Funds SA's investment strategies are developed in line with the time horizon for each investment option. Each one carries a different level of acceptable risk. Negative returns may occur during the investment horizon. For example, the balanced option has a risk of negative returns in four to six years out of 20. There is more information about each investment option's return in 2021-22 under 'Investment option performance' below.

The chart below shows the long-term performance of total funds under management.




The years with overall negative performance reflect significant events that impacted the economy. Losses correspond with the Global Financial Crisis in 2008 and 2009, the start of the COVID-19 pandemic in 2020 and the Russian-Ukrainian war in 2022 corresponding with global inflation and interest rate rises.

## Income by asset class

The following table shows net income earned for the five years to 2022, highlighting the varying performance of the major investment asset classes. It should be noted that the magnitude of net income earned from investment activities in each year is a function of not only the performance of financial markets, but also the size of total assets invested in those markets.

| | 2018 $million | 2019 $million | 2020 $million | 2021 $million | 2022 $million |
|---|---|---|---|---|---|
| Inflation Linked Funds | 81 | 147 | 55 | 84 | (94) |
| Property | 439 | 370 | (179) | 459 | 471 |
| Australian Equities | 849 | 577 | (470) | 2,077 | (619) |
| International Equities | 933 | 620 | 444 | 3,471 | (1,919) |
| Fixed Interest | 72 | 224 | 106 | (17) | (292) |
| Diversified Strategies* | 417 | 533 | (249) | 1,015 | - |
| Core Infrastructure | - | - | - | - | 106 |
| Private Markets | - | - | - | - | 507 |
| Credit | - | - | - | - | (356) |
| Defensive Alternatives | - | - | - | - | 43 |
| Growth Alternatives | - | - | - | - | 64 |
| Cash/Socially Responsible/Other | 34 | 31 | 19 | 37 | (15) |
| **Total net income** | 2,825 | 2,502 | (274) | 7,126 | (2,104) |
| **Total value of assets invested as at 30 June** | 32,321 | 34,179 | 34,096 | 41,230 | 38,926 |

* The Diversified Strategies asset classes were restructured in 2021-22, with these now being shown separately as Core Infrastructure, Private Markets, Credit, Defensive Alternatives and Growth Alternatives.

Most asset classes had decreases in net income for 2021-22.

The earlier chart showing asset class holdings indicated that Funds SA's investment strategy is weighted towards international equities, which returned the largest income deficit. The table above also shows a large decrease in income for Australian equities, consistent with the respective market performance during the year and proportion of percentage holdings.

Income from fixed interest has decreased for both Short-Term and Long-Term Fixed Interest, impacted by bond yields increasing. The Inflation Linked Securities and Credit asset classes have also been similarly impacted.

Income from property increased marginally in 2021-22, while Private Markets and Core Infrastructure also contributed positive results as a result of improved asset valuations.

The volatile nature of these investments will cause their returns to fluctuate from year to year in line with prevailing economic conditions.

### Investment expenses

In 2021-22 investment expenses totalled $159.2 million ($148.4 million). This represents only those expenses incurred directly by the fund, such as management and administration fees. The indirect investment expenses are captured as part of unrealised gains/losses through the revaluation of the unit price of Funds SA's pooled investments.

Investment expenses increased by 7.2% in 2021-22 mainly due to management fees as the average funds under management balance was higher in the first half of 2021-22.

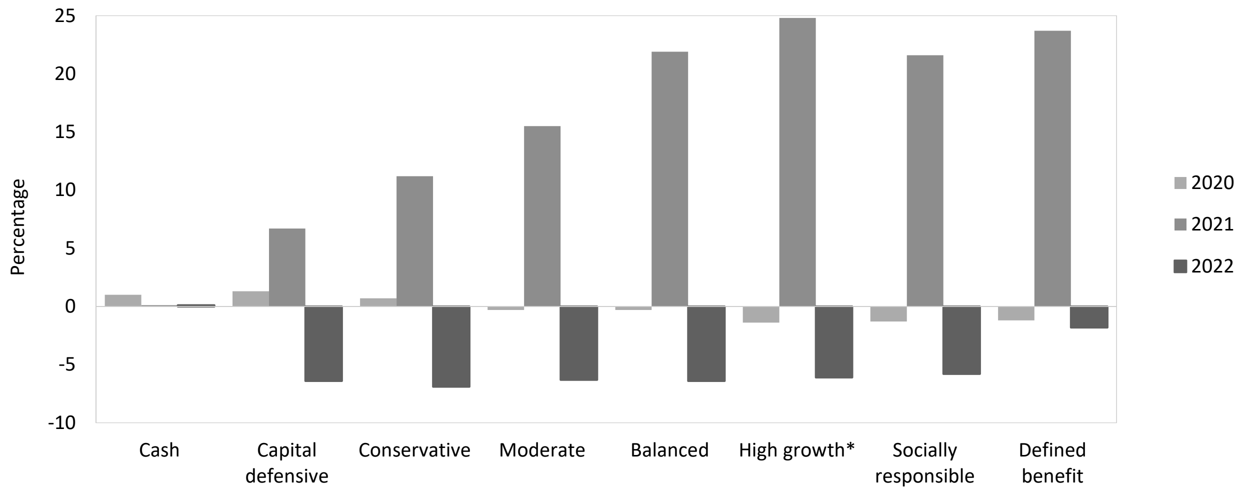
Investment expenses reported in Schedule 1 of Funds SA's financial report are 0.38% (0.39%) of average funds under management.

| Year | Investment expenses $million | Average funds under management $billion |
|---|---|---|
| 2020 | 103.4 | 34.5 |
| 2021 | 148.4 | 37.5 |
| 2022 | 159.2 | 41.5 |

Funds SA's indirect cost ratio (incorporating indirect costs not accounted for in the financial report) for the balanced tax-exempt fund in 2021-22 was provided by Funds SA as 0.75% (0.82%) and is unaudited.

## Investment option performance

The chart below shows the returns for Funds SA's tax-exempt investment options and multi-sector strategies as at 30 June for the past three years.




* In 2020-21 the growth option was merged with the high growth option, as the strategic asset allocations of these options had become aligned. The 2020 figure represents high growth only before the merger.

The chart shows the significant volatility in returns over the past few years, with a significant decrease in 2021-22. All investment options (except cash) and multi-sector strategies achieved significantly lower returns than the previous year, ranging in return from -1.8% for the defined benefit strategy, to -6.9% for the conservative option. The returns of each investment option and multi-sector strategy reflect the performance of the underlying asset classes.

The table below shows Funds SA's percentage return for each of the past 10 years for the balanced tax-exempt fund, which represents over 45% of total funds under management. These figures were provided by Funds SA and are unaudited.

| | 10 years % p.a. | 2013 % | 2014 % | 2015 % | 2016 % | 2017 % | 2018 % | 2019 % | 2020 % | 2021 % | 2022 % |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Balanced | 8.3 | 14.7 | 13.8 | 9.4 | 3.9 | 11.0 | 9.5 | 8.1 | (0.3) | 21.9 | (6.4) |

Funds SA's balanced investment option holds 75% allocated to growth assets. This is comparable to what Chant West categorises as a growth fund with 61-80% allocated to growth assets. The performance of the balanced tax-exempt fund for 2021-22 was behind the median return of -3.3% for growth funds as surveyed by Chant West. Funds SA's balanced option performance over 10 years (8.3%) is ahead of the median return of 8.1%, however, once adjusted for tax, is slightly below at 8%.

## Asset class performance against benchmark

The performance against target benchmarks for certain asset classes for 2021-22 and for the three years ended 2021-22 is shown in the following table. These figures were provided by Funds SA and are unaudited.

| | 1 year Actual % | 1 year Benchmark % | 3 years Actual **% | 3 years Benchmark **% |
|---|---|---|---|---|
| Cash | 0.1 | 0.1 | 0.4 | 0.3 |
| Short-Term Fixed Interest | (5.8) | (5.2) | (0.6) | (0.7) |
| Long-Term Fixed Interest | (12.2) | (12.6) | (3.3) | (3.4) |
| Inflation Linked Securities Tax-Exempt | (6.0) | (6.4) | 1.0 | (0.1) |
| Credit | *(9.4) | *(8.7) | n/a | n/a |
| Defensive Alternatives | *2.4 | *0.6 | n/a | n/a |
| Growth Alternatives | *4.2 | *1.1 | n/a | n/a |
| Property Tax-Exempt | 9.7 | 11.6 | 5.1 | 5.6 |
| Australian Equities Tax-Exempt | (7.5) | (6.8) | 4.0 | 3.4 |
| Australian Equities Passive Tax-Exempt | (6.9) | (6.8) | n/a | n/a |
| International Equities Tax-Exempt | (15.8) | (9.5) | 7.0 | 6.7 |
| International Equities Passive Tax-Exempt | (12.4) | (12.3) | n/a | n/a |
| Core Infrastructure Tax-Exempt | *1.9 | *1.1 | n/a | n/a |
| Private Markets Tax-Exempt | *3.0 | *1.1 | n/a | n/a |
| Inflation Linked Securities Taxable | (4.2) | (4.7) | 0.5 | 0.3 |
| Property Taxable | 9.7 | 11.6 | 5.1 | 5.6 |
| Australian Equities Taxable | (7.6) | (6.8) | 4.3 | 3.4 |
| Australian Equities Passive Taxable | (6.9) | (6.8) | n/a | n/a |
| International Equities Taxable | (15.4) | (9.1) | 6.9 | 6.7 |
| International Equities Passive Taxable | (8.9) | (9.1) | n/a | n/a |
| Core Infrastructure Taxable | *1.4 | *1.1 | n/a | n/a |
| Private Markets Taxable | *2.8 | *1.1 | n/a | n/a |
| Socially Responsible | (7.6) | (7.0) | 4.6 | 4.8 |

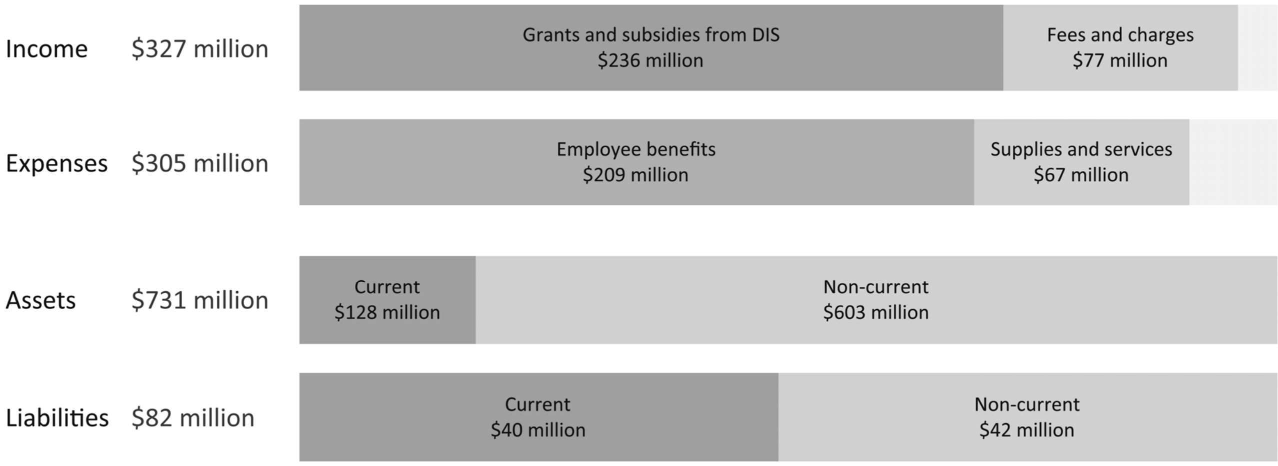
* These asset classes were restructured in 2021-22. The actual and benchmark returns represent three months only instead of a year.
** 'n/a' in the table above is for recently established asset classes that do not have sufficient activity for comparison to be included.

The performance of asset classes against benchmark for 2021-22 varied depending on the asset class. Excluding those asset classes established during the year, most asset classes underperformed against their benchmark, except for Long-Term Fixed Interest, Inflation Linked Securities and International Equities Passive Taxable.

Across a three-year time horizon asset classes performed closer to the benchmark. The Australian Equities and Inflation Linked Securities had the strongest relative performance against the benchmark over three years, with Property and Cash having the weakest performance when comparing to the three-year benchmark.

# TAFE SA

## Financial statistics




**1,896**
FTEs (including casuals and hourly paid instructors)

**11.4 million**
Number of registered training hours commenced

| | |
|---|---|
| **Significant events and transactions** | — TAFE SA received $236 million in funding from the Department for Innovation and Skills (DIS) to support the provision of vocational education and training (VET).<br>— The Bolder Future for TAFE SA plan commenced, which aims to set TAFE SA's future direction and includes reviews of course delivery, use of facilities, services and student experiences. |
| **Financial report opinion** | **Unmodified** |
| **Controls opinion findings** | — Controls over the use of the CommBiz banking system could be improved to reduce the possibility of inappropriate payments being processed.<br>— TAFE SA is yet to sign the revised memorandum of administrative arrangements (MoAA) for the Across Government Facilities Management Arrangement (AGFMA). |

**Other audit findings**

- Some hourly paid instructors continue to commence work before signing a letter of offer.
- Contract management practices could be improved by ensuring contract managers are trained, contract management plans are in place and contract performance reviews occur and are documented for all contracts.
- The appropriate level of approval was not sought for a limited source procurement.
- There was no documented strategy to manage how identified roles would be filled where staff had left under the SA Public Sector Workforce Rejuvenation Scheme.

# Functional responsibility

TAFE SA is established under the *TAFE SA Act 2012* and is a statutory corporation to which the provisions of the *Public Corporations Act 1993* (other than section 35) apply.

The TAFE SA Board is responsible to the Minister for Education, Training and Skills.

TAFE SA's main function is to provide technical and further education.

# Scope of the audit

## Audit of the financial report

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

Specific areas of audit attention in 2021-22 included:

- expenditure and accounts payable
- payroll processing
- revenue, including funding from DIS, student revenue and accounts receivable
- cash
- property, plant and equipment
- general ledger and reconciliation
- TAFE SA's implementation of the new government procurement framework and contract management requirements in Treasurer's Instructions 18 *Procurement* (TI 18)
- TAFE SA's implementation of the SA Public Sector Workforce Rejuvenation Scheme.

We considered the work of TAFE SA's internal auditors in planning and conducting our audit.

### Controls opinion

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

## Audit findings

### Communicating our audit findings

We communicated our audit findings, including some that were raised in prior years, in management letters to the Chair of the TAFE SA Board. The main matters raised and TAFE SA's responses are detailed below.

#### Controls opinion findings

##### TAFE SA can improve controls over the use of CommBiz to reduce the possibility of inappropriate payments being processed

TAFE SA uses CommBiz to access banking information.

Authorisation caps can be applied to bank account payments at both individual user account and bank account levels, limiting the value of payments that can be approved.

Our review of TAFE SA's CommBiz controls identified that it had not applied an upper limit at the bank account level and had given all users a very high payment limit. In addition, TAFE SA CommBiz users can potentially create a payment transaction to a bank account that is not in their defined list of payees.

Where appropriate payment limits or restrictions to alter payee details are not established, there is an increased risk of financial loss due to fraud.

TAFE SA replied that it had implemented zero dollar transaction limits for all of its users. In addition, the set-up of new users for its CommBiz account now requires authorisation by an executive director. TAFE SA has also introduced independent quarterly CommBiz user access reviews.

##### Asset management framework

The MoAA for the AGFMA between TAFE SA and the Department for Infrastructure and Transport (DIT) describes the roles and responsibilities of the parties involved in delivering the AGFMA.

A new MoAA was provided to TAFE SA for review on 29 October 2021, with fundamental changes from the previous MoAA. This includes changes in the scope of works, the assets covered and the responsibilities of the various parties.

TAFE SA did not accept the new terms in the MoAA and therefore had not signed it at the time of our audit. TAFE SA advised us that it continues to operate under the transitional MoAA signed in May 2021, notwithstanding the significantly changed nature of the arrangements now in place.

Without a signed MoAA, roles and responsibilities for implementing the new AGFMA arrangements may be unclear, which could lead to future disputes.

TAFE SA responded that there is one remaining matter of concern in relation to the new MoAA and that it continues to work with DIT to resolve it.

## Other audit findings

### Payroll

Total salaries and wages expenses for TAFE SA employees were $173 million (including annual leave in 2021-22), of which around $4 million was paid to hourly paid instructors (HPIs).

#### *Some hourly paid instructors continue to start working without signing a letter of offer*

We have reported for a number of years that contracts for HPIs were being signed after the HPI started working with TAFE SA. In 2021-22, TAFE SA's system records indicate that around 96% (94%) of its 1,035 HPIs accepted contracts before starting work.

TAFE SA's prior responses to this matter have reinforced its very low tolerance for HPIs commencing work without a contract. Its policies require a contract to be in place before an HPI commences, in part to ensure there is a clear agreement on contract arrangements.

The absence of a signed employment contract increases the risk of HPIs not understanding their responsibilities as TAFE SA employees and that TAFE SA is not complying with its enterprise agreement.

TAFE SA responded that the non-complying managers have been advised that TAFE SA will have no tolerance for not ensuring a signed contract is in place before an HPI commences work. A weekly report is provided to managers to identify HPIs who have not signed their contract. In addition, HPIs who have not signed a contract will be instructed not to attend the workplace.

TAFE SA is pursuing a system-driven solution to further support this process.

### New contract management and procurement framework compliance

Data from TAFE SA's contract management system shows it managed contracts with a total value of $171 million in 2021-22, including new contracts valued at $15.8 million that were executed during the year.

We reviewed TAFE SA's procurement policies, and their application, for consistency with the requirements of TI 18. We selected a sample of significant procurements to evaluate whether processes had been properly implemented. We also reviewed TAFE SA's contract management approach for a sample of contracts.

#### *Contract managers have not completed the required contract management training*

We found that TAFE SA had not implemented processes to ensure that contract managers had the required contract management training. We acknowledge that high staff turnover at TAFE SA may have contributed to this issue.

Where staff have not been trained, there is an increased risk that TAFE SA may not effectively manage contracts and may not achieve value for money.

TAFE SA responded that it understands the importance of the training requirements outlined in the Procurement Services SA (PSSA) Contract Management Policy and genuinely attempted to implement them. There were only two contract managers on staff and both resigned before the full training regime was implemented. TAFE SA is currently recruiting additional contract management staff who will undertake the required training.

### *Contract management plans were not finalised and approved*

The former State Procurement Board's Contract Management Policy defined a contract management plan as an internal document outlining key strategies, activities and tasks required for managing a contract. Contracts valued at or above $4.4 million were required to have an approved contract management plan.

Both the contracts we reviewed were valued over $4.4 million and assessed as complex. We found that while the original contract management plans at the time the contracts were executed were endorsed and approved:

- both contract management plans were updated in 2020, but these versions were still in draft and not approved
- we were advised that a further update was needed to one of the plans before it could be finalised and approved
- the other plan was pending a contract variation before it could be finalised and approved.

We acknowledge that a high turnover in procurement and contract management staff at TAFE SA may have contributed to this issue.

Without an approved contract management plan, there is a risk that staff may not be complying with TAFE SA's expectations and that contracts may not be effectively managed.

TAFE SA responded that while it attempted to document formal contract management plans where required, this was hampered by high staff turnover. It had, however, been undertaking certain contract management activities to mitigate the risks.

### *Performance review meetings are not consistently documented*

Both contract management plans for the two contracts we reviewed require a performance review meeting to be held between the TAFE SA contract manager and the contractors' contract manager on a regular basis throughout the life of the contract.

Both contracts were executed in 2016.

For one of these contracts, we were provided with agendas and minutes for three meetings that occurred in 2016, two in 2017 and one in 2022. No further records of any contract performance meetings were available. We noted that the TAFE SA contract manager role has been vacant for several months and that no regular meetings occurred in this time. These meetings are required to be held every two months under the contract management plan.

For the other contract, we were provided with agendas and minutes for one meeting that occurred in 2016 and two in 2017. No further records were provided until October 2021 when a new contract manager was appointed. We note that this contract manager subsequently left TAFE SA in June 2022. Quarterly meetings were required to be held under the contract management plan.

Where minutes of performance review meetings are not kept, there is no evidence that the meetings are occurring as required. Contractor KPIs may not be met and monitored as outlined in the contract. In addition, contracts may not be effectively managed and TAFE SA may not achieve value for money through the contract.

Further, risk management issues may not be monitored and emerging risks may not be identified and addressed. Contractor performance issues or disputes may not be identified, monitored and managed.

TAFE SA responded that it has been actively working to implement the new contract management requirements, including recruiting new staff, to ensure necessary performance review meetings were conducted and documented. Additional meetings were held, but they were not consistently minuted and documentation was not provided for audit.

#### *TAFE SA did not seek approval for a limited source procurement arrangement*

PSSA requirements and TAFE SA's procurement planning policy both require an open market approach to be used for procurements above $550,000, unless a limited sourcing arrangement is approved by the Chief Executive.

We identified one procurement with an estimated value of more than $550,000 for which only a limited number of suppliers from a government panel were invited to bid. A former TAFE SA director approved the acquisition plan. We are not aware that the Chief Executive approved a limited sourcing arrangement.

Where TAFE SA does not comply with direct or limited market approach requirements, there is a risk that value for money will not be obtained, there may be a lack of sufficient planning and process and there is a reputational risk. TAFE SA may also be in breach of TI 18 and other relevant policies.

TAFE SA responded that this was a secondary procurement activity procured from an across-government panel, which was undertaken in line with the TAFE SA's procurement planning procedure and using a sufficiently competitive procurement process.

TAFE SA will ensure that procurements of this nature are approved by the appropriate delegate.

### SA Public Sector Workforce Rejuvenation Scheme

TAFE SA made payments of $2.1 million, excluding leave payments, to 48 employees who separated from it under the workforce rejuvenation scheme.

Our review of TAFE SA's process to manage this scheme found that there was no documented strategy addressing how identified roles would be filled in a way that would address the objectives of the scheme.

There is therefore a risk that the objectives of the scheme, to rejuvenate the workforce, may not be met.

TAFE SA responded that of the 48 rejuvenation exits, 23 positions were backfilled within the broad guidelines set. The other 25 positions remained vacant for a variety of reasons.

TAFE SA acknowledged that the rejuvenation process was not intended as a cost savings measure and said that it continues to recruit positions where possible.

TAFE SA did not develop an individual policy to backfill roles, instead opting to use guidelines set by the Department of Treasury and Finance as it was not a requirement for agencies to develop individual policies and TAFE SA did not consider the scheme established measures to be audited against.

## Interpretation and analysis of the financial report

### Highlights of the financial report

| | 2022 $million | 2021 $million |
|---|---|---|
| **Income** | | |
| Grants and subsidies from DIS | 236 | 231 |
| Student and other fees and charges | 77 | 83 |
| Other income | 14 | 17 |
| **Total income** | 327 | 331 |
| | | |
| **Expenses** | | |
| Employee benefits | 209 | 206 |
| Supplies and services | 67 | 62 |
| Depreciation and amortisation | 26 | 26 |
| Other expenses | 4 | 4 |
| **Total expenses** | 306 | 298 |
| **Total comprehensive result** | 21 | 33 |
| | | |
| Net cash provided by (used in) operating activities | 34 | 63 |
| | | |
| **Assets** | | |
| Current assets | 128 | 153 |
| Non-current assets | 603 | 619 |
| **Total assets** | 731 | 772 |
| | | |
| **Liabilities** | | |
| Current liabilities | 40 | 47 |
| Non-current liabilities | 42 | 47 |
| **Total liabilities** | 82 | 94 |
| **Total equity** | 649 | 678 |

### TAFE SA's governance arrangements

Up until March 2022, TAFE SA's governance arrangements involved both the Minister for Education and the Minister for Innovation and Skills.

From 2017-18 to March 2022, TAFE SA reported to the Minister for Education, the principal representative of the SA Government as TAFE SA's owner. TAFE SA's performance agreement and charter were agreed with the Minister for Education.

TAFE SA also had a key relationship with the Minister for Innovation and Skills as the purchaser of VET services.

In practice, this meant:

- TAFE SA reported to the Minister for Education about its total operations and the Minister for Education was responsible for approving key governance documents, including the annual performance agreement and TAFE SA's charter
- TAFE SA worked closely with DIS and the Minister for Innovation and Skills to deliver VET training and help to meet policy objectives in relation to VET
- TAFE SA was mainly funded by DIS.

Since March 2022, TAFE SA has been responsible to the Minister for Education, Training and Skills.

### Continued changes to TAFE SA funding

TAFE SA's funding arrangements with DIS have continued to change over recent years.

In 2019-20 the main MoAA for funding TAFE SA provided for a set level of funding. In prior years, the MoAA had specifically provided for some individual VET outcomes, as well as a lower level of set funding. While the 2019-20 MoAA continued to set targets for VET training provision, specific funds were not paid based on individual VET outcomes, with the set funding level directly provided across 2019-20.

In 2020-21 an amended MoAA for funding TAFE SA, which commenced in July 2020, was signed in May 2021. This MoAA was similar to the 2019-20 MoAA, with TAFE SA receiving a set amount of non-recourse funding to be allocated over 12 months. It did provide, however, for an adjustment to be made where TAFE SA did not complete the required level of activity in certain areas.

In 2021-22 TAFE SA's funding arrangements changed again. The new MoAA signed in September 2021 noted that TAFE SA would receive a total of $211 million made up of:

- fixed monthly payments from the purchaser, DIS, from 1 July 2021 to 31 December 2021
- payments from the purchaser for services delivered as specified in an attachment to the MoAA from 1 January 2022 to 30 June 2022
- specific funding from the owner Minister, the Minister for Education, during the term for replenishing working capital cash flow
- residual funding from the owner Minister.

An amendment to the MoAA signed in February 2022 increased the total receivable by TAFE SA to $212 million.

TAFE SA also received capital funding of $24 million under a separate MoAA.

TAFE SA's reliance on DIS funding is discussed further below.

## Statement of Comprehensive Income

### Income

#### Funding from the Department for Innovation and Skills

TAFE SA's main income source is funding from DIS. Total funding from DIS was $236 million

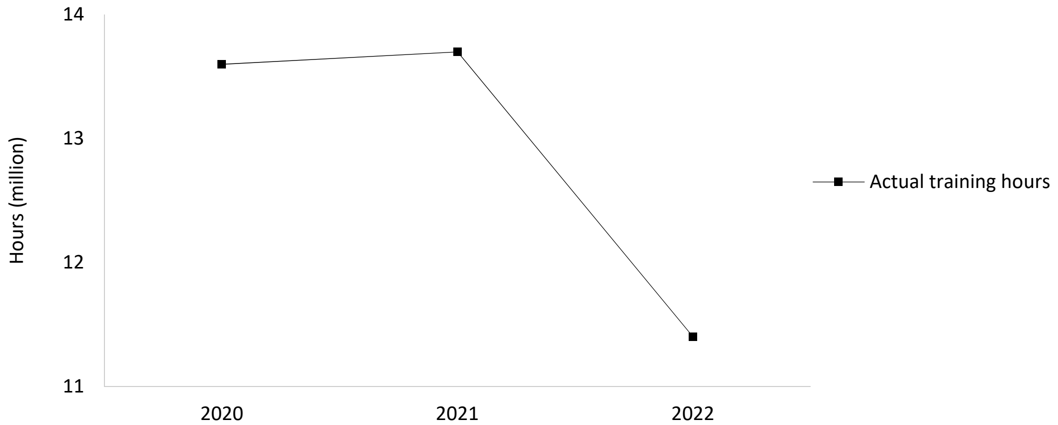
($231 million) in 2021-22 and continued to account for 72% of TAFE SA's total income. It is made up of the following components.

| | 2022 $million | 2021 $million |
|---|---|---|
| MoAA for funding and purchasing TAFE SA services | 212 | 212 |
| MoAA for capital funding | 24 | 19 |
| Total income | 236 | 231 |

The 2021-22 MoAA also did not include a specific target for the number of subsidised training hours to be delivered by TAFE SA. As with the approach to funding as a whole, the inclusion of specific training hour targets in MoAAs has changed over recent years, with no expected number of training hours to be delivered identified in MoAAs since 2018-19.

TAFE SA training hours identified as being for direct VET course delivery for DIS funded training decreased by 1.6 million training hours in 2021-22 to 6 million training hours.

The following chart shows the training hours delivered by TAFE SA over the last three years.




Source: Training hours data provided by TAFE SA and unaudited.

The chart shows that total registered training hours increased slightly in 2020-21 but decreased in 2021-22. Total registered training hours commenced in 2021-22 were 11.4 million hours compared to a budgeted delivery of 11.6 million hours.

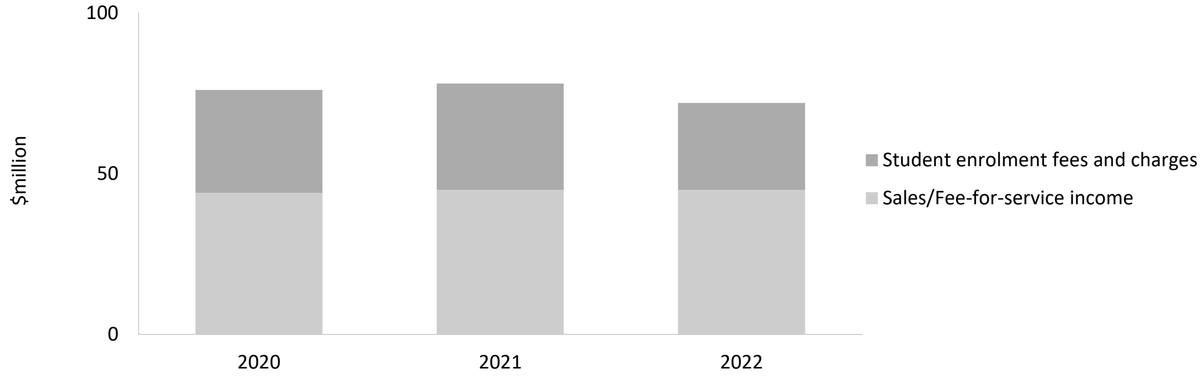
The decrease in 2021-22 partly reflects a change in government policy that required TAFE SA to cease delivery of some courses in the metropolitan area.

There are also measurement differences between years as certain hours related to exempt activity and changes to the treatment of some subsidised hours are not consistent between years. The impact of these changes is partly offset by timing differences in the recognition of some hours started in 2020-21, but counted in 2021-22.

### Student and other fees and charges

Student and other fees and charges totalled $77 million ($83 million) and make up 24% (25%) of TAFE SA's total income.

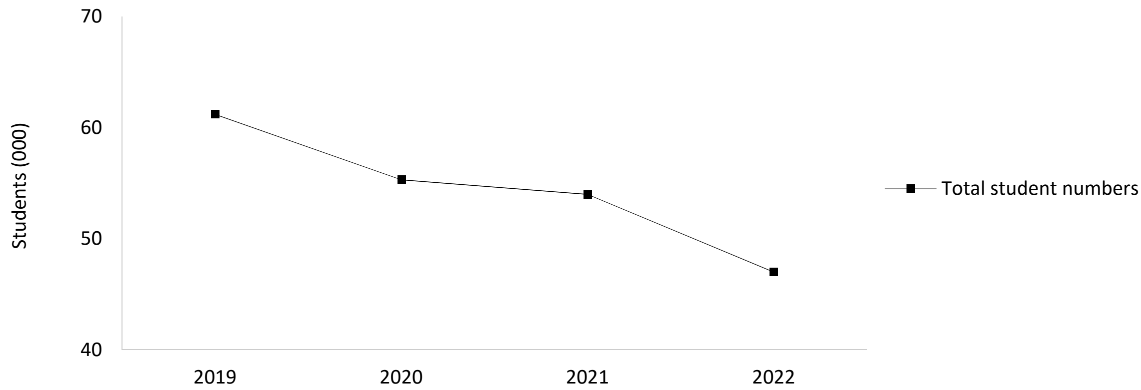
The main components of student and other fees and charges for the past three years are shown in the following chart.




The chart illustrates that sales/fee-for-service income remained steady over this period while student enrolment fees and charges decreased. The main reason for the decrease in student enrolment fees and charges is the removal of certain courses where the eligibility for exemption hours and subsidies paid for training ceased in 2020-21.

Total sales/fee-for-service income for 2021-22 was $45 million ($45 million), of which $27 million ($25 million) was received from the Commonwealth Government for the Adult Migrant English Program (AMEP) and Skills for Education and Employment (SEE) program.

TAFE SA's total student numbers have decreased over the last four years to around 47,000 in 2021-22, as shown in the following chart.




Source: Number of students data provided by TAFE SA and unaudited.

## Expenses

TAFE SA's total expenses increased by $8 million or 3% in 2021-22. This included a $5 million increase in supplies and services

### Employee benefits

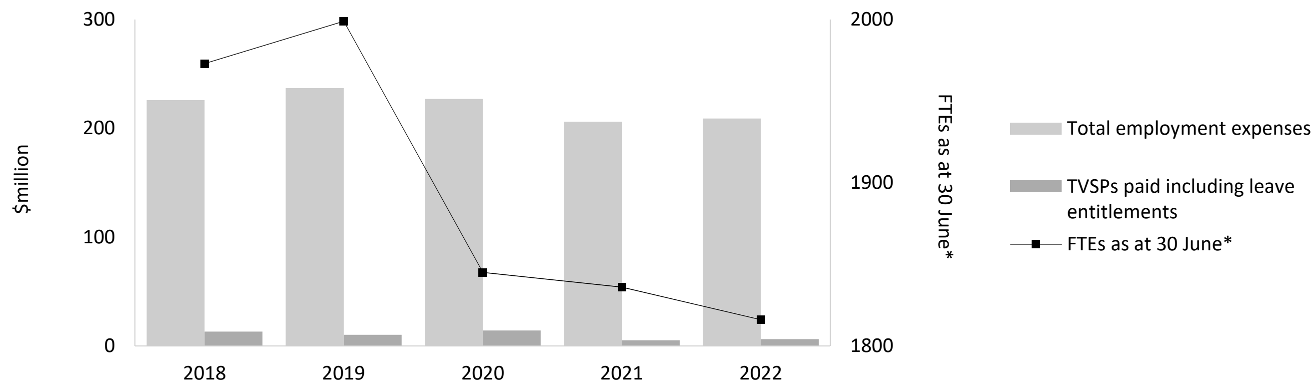
Employee benefits are TAFE SA's main expense, accounting for 69% (69%) of total expenses.

Employee benefits expenses increased by $3 million to $209 million in 2021-22. This was mainly due to:

- an increase in salaries and wages and annual leave of $2.8 million, mainly due to one-off $1,000 payments to staff relating to Enterprise Agreement changes, offset by reductions due to a decrease in staff numbers
- an increase in workers compensation expense of $2.3 million due to higher payments and additional provisions
- offset by a decrease in long service leave expense of $3.4 million due to changes in actuarial assumptions and the discount rate used, with the discount rate used to calculate the liability at 30 June 2022 increasing to 3.5% from 1% in the previous year.

Employee benefits expenses included payments of targeted voluntary separation payments (TVSPs) and related leave of $6 million ($5 million) to 70 (47) staff. The 2021-22 amounts include payments under the SA Public Sector Workforce Rejuvenation Scheme of $3 million to 48 employees, including the payout of leave.

The following chart shows total employment expenses, TVSP payments and FTE staff (not including casuals and HPIs) for the last five years.




* FTE data provided by TAFE SA and unaudited.

TAFE SA has paid 440 TVSPs over this five-year period, including the 70 paid this year.

The chart shows that FTEs have generally fallen over the last five years. Employment costs have also fallen overall in this time, although salary increases are now offsetting reductions in FTEs. Salaried FTEs are at their lowest level in five years, decreasing from 1,836 as at 30 June 2021 to 1,816 this year. FTEs as at 30 June 2022 are comprised as follows, based on data from TAFE SA.

| | 2022 FTEs | 2021 FTEs |
|---|---|---|
| TAFE SA Act | 963 | 981 |
| Public Sector Act | 842 | 845 |
| Excess staff | 11 | 10 |
| HPIs | 42 | 68 |
| Casuals | 38 | 41 |

## Supplies and services

Overall supplies and services expenses were $67 million, an increase of $5 million or 8% from 2020-21.

The main factor in this increase was a $5 million increase in contracted services fees, predominantly due to spending on the Bolder Future program including project management costs.

## Statement of Financial Position

The most significant items in TAFE SA's Statement of Financial Position are shown in the following table.

| | 2022<br>$million | 2021<br>$million |
|---|---|---|
| **Assets** | | |
| Cash and cash equivalents | 111 | 137 |
| Receivables and contract assets | 16 | 15 |
| Property, plant and equipment | 596 | 612 |
| **Liabilities** | | |
| Payables | 22 | 25 |
| Employee benefits | 50 | 61 |

### Assets

#### Cash

The decrease in TAFE SA's cash balance mainly reflects a $50 million return of capital under the cash alignment policy to the Department of Treasury and Finance and capital purchases of $10 million, offset by a net cash inflow from operating activities of $34 million.

#### Receivables and contract assets

Receivables and contract assets of $16 million ($15 million) as at 30 June 2022 include amounts owing from the Commonwealth Government of $7 million ($3 million) for AMEP, SEE and VET student loan schemes.

#### Property, plant and equipment

Property, plant and equipment decreased by $16 million to $596 million as at 30 June 2022.

These assets are mostly campus assets and associated infrastructure that have been owned by TAFE SA since October 2019. The $16 million reduction in the value of them is predominantly due to depreciation expenses of $24 million, offset by additions of $8 million.

As the asset owner, TAFE SA is responsible for developing asset management plans for these assets based on its future plans.

### Liabilities

Payables decreased by $2 million in 2021-22 to $22 million.

Employee benefits overall reduced by $11 million in 2021-22 to $50 million. The reduction mainly reflects:

- a $6 million decrease in accrued salaries and wages due to the timing of the end of the financial year relative to payroll processing timing
- a reduction in long service leave liabilities of $6 million due to an increase in the discount rate used to value the outstanding liability, from 1% to 3.5%, and leave paid out to staff separating under TVSPs and the workforce rejuvenation scheme.

## Further commentary on operations

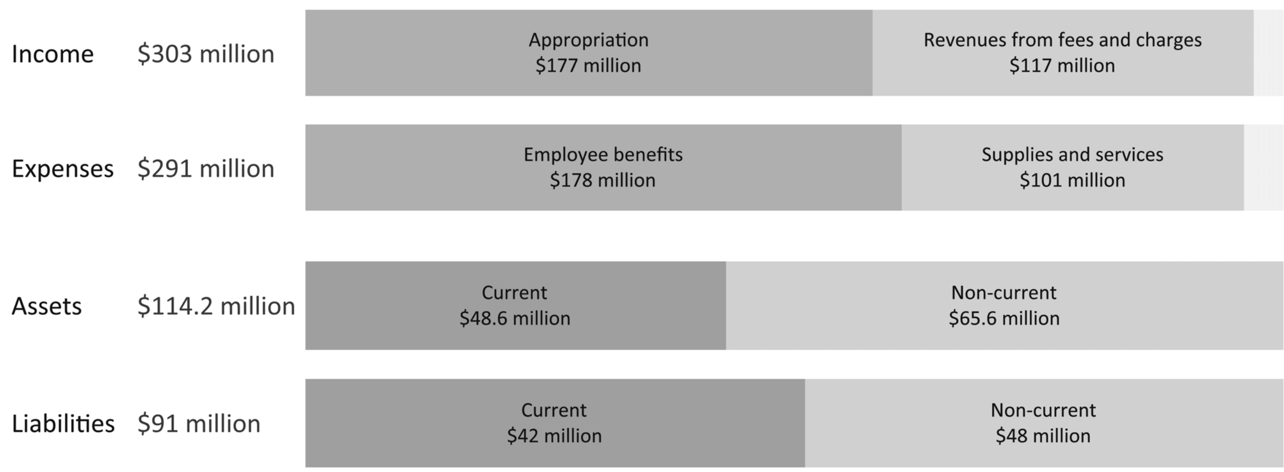
In 2020-21 TAFE SA commenced the multi-year Bolder Future for TAFE SA initiative, a program that aims to allow TAFE SA students and staff to achieve, succeed and thrive while providing industries, employers and communities with real-world outcomes and a skilled, job-ready workforce. The initiative consists of seven programs with a total budgeted cost of around $22 million to 2024-25:

- Program 1 – Training and education excellence, including:
  - repositioning the education training profile
  - increasing enrolments and completions across courses
  - improving productivity of delivery
  - improving teaching and learning quality.
- Program 2 – Growth for sustainability, including:
  - fee-for-service discovery
  - fee-for-service strategy
  - implementation of a fee-for-service strategy that is market-led and meeting financial targets.
- Program 3 – Digital first delivery, including:
  - determine digital delivery requirements of TAFE SA Education training profile
  - improve digital infrastructure.
- Program 4 – Student engagement and success, including:
  - student support service redesign
  - a digitally enabled student experience.
- Program 5 – People who are proud, including:
  - strategic workforce plan.
- Program 6 – Infrastructure for innovation, including:
  - develop and execute an infrastructure plan
  - student access hubs.
- Program 7 – Governance and operations excellence, including:
  - corporate support.

Work under this initiative continued in 2021-22, with ongoing programs and progress being regularly reported to the TAFE SA Board.

# Department of Treasury and Finance (DTF)

## Financial statistics




1,864
Number of FTEs

Administered items


**Significant events and transactions**

— DTF has paid $407 million in grants/payments in responding to the COVID-19 pandemic, comprising grants for small business ($379 million) and private hospital payments ($28 million).

— The Fines Enforcement and Recoveries Unit (FERU) transferred from the Attorney-General's Department on 1 July 2021. This resulted in the transfer of net controlled assets of -$412,000 and net administered assets of $870,000.

**Financial report opinion**

**Unmodified**

| | |
|---|---|
| **Controls opinion findings** | — The approach to managing the contract with DTF's outsourced payroll service provider for Shared Services SA (SSSA), Frontier, needs improvement to ensure compliance with key contract terms.<br>— Key payroll and accounts payable control processes at SSSA could be strengthened.<br>— Patch management and disaster recovery planning could be improved for some of SSSA's main IT systems.<br>— User access to key systems used for whole-of-government procurement and contract management could be improved. |
| **Other audit findings** | — DTF procurement and contract management processes could be improved.<br>— The implementation of the SA Public Sector Workforce Rejuvenation Scheme in DTF was not actively monitored to ensure outcomes were achieved.<br>— Accounts payable control processes could be strengthened.<br>— Taxation revenue control aspects raised in prior years were unresolved.<br>— Weaknesses in DTF's active directory password setting need to be investigated. |

## Functional responsibility

DTF is an administrative unit established under the *Public Sector Act 2009* and is responsible to the Treasurer.

On 1 July 2021 the FERU transferred from the Attorney-General's Department to DTF.

DTF administers a range of activities on behalf of the Treasurer, including transactions on behalf of the SA Government for the Consolidated Account.

Notes 1.2 and A1.1 of DTF's financial report provide details of its functions and an overview of its administered activities.

## Scope of the audit

### Audit of the financial report

The audit program covered major financial systems to obtain sufficient evidence to form an opinion on the financial report. It also considered the work of DTF's internal auditors.

Specific areas of attention in 2021-22 included:

- taxation revenue
- payroll
- expenditure
- procurement
- general ledger maintenance and reconciliation
- receipting and banking
- HomeBuilder grant payments
- IT general controls.

#### Financing and insurance services

Commentary on these activities is included in the section of this Report titled 'South Australian Government Financing Authority (SAFA)'.

#### Superannuation services

Commentary on these activities is included in the section of this Report titled 'South Australian Superannuation Board'.

#### Public finances

We review various aspects of the public finances. The results will be reported in a separate Auditor-General's report on the state finances. The Treasurer's statements for the year ended 30 June 2022 will be published on the Auditor-General's Department website after this Annual Report is tabled in Parliament.

### Controls opinion

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

- Commonwealth Government revenue
- taxation revenue – payroll tax
- taxation revenue – stamp duty – conveyances on sale of property
- Treasurer's guarantees and indemnities
- unfunded superannuation liability
- SSSA – accounts payable and payroll functions
- Treasurer's statements A, F, G and I
- a sample of whole-of-government contracts.

## Audit findings

### Communicating our audit findings

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

## Controls opinion findings

### Contract management of DTF's outsourced payroll services provider needs improvement to ensure compliance with key contract terms

Parts A and B of this Report include commentary on the data breach that occurred at SSSA's outsourced payroll services provider, Frontier, in November 2021.

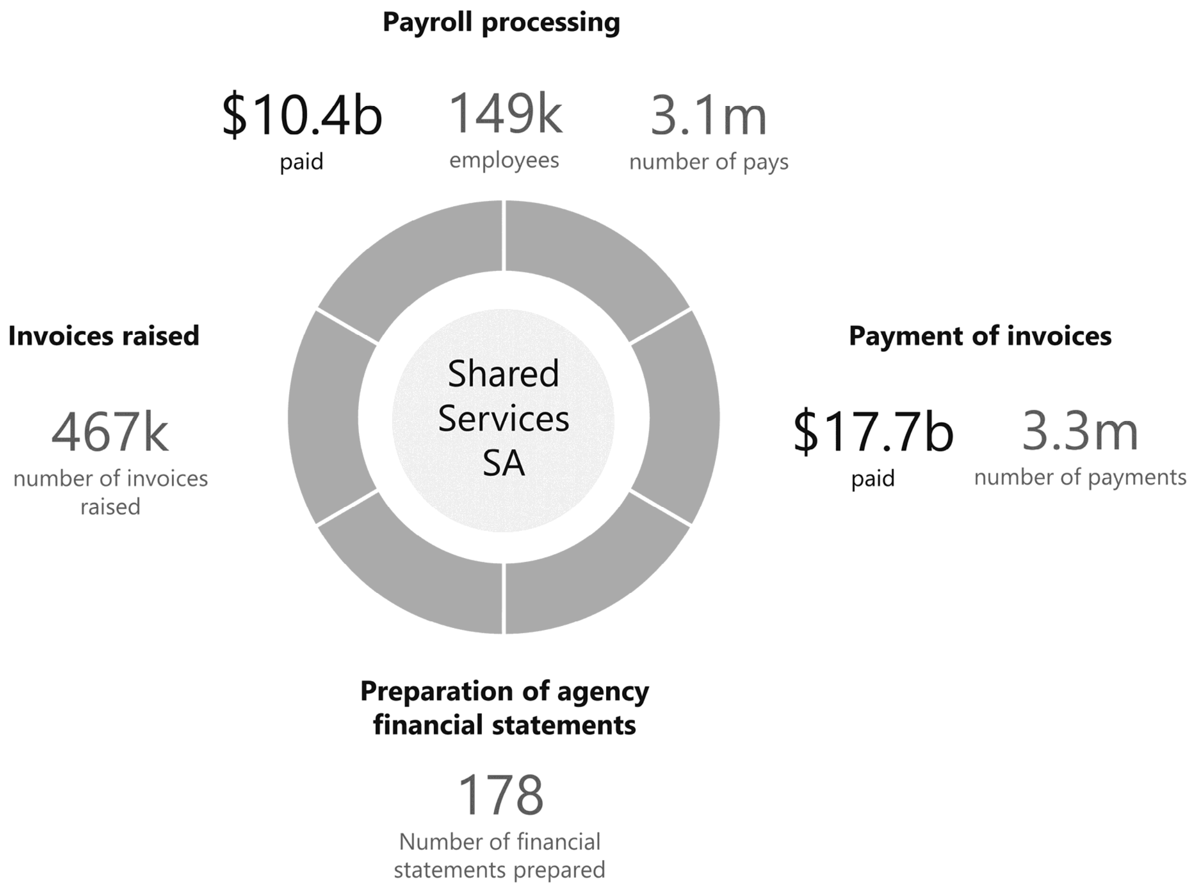
As outlined in those parts, I consider that this data breach highlighted a key gap in the contract management approach for the contract with Frontier. DTF will need to have specific processes in place in future to ensure compliance with key contract terms by its provider.

Parts A and B provide my assessment of the impact of this weakness on the collective controls opinion for 2021-22, which I have consequently qualified.

### SSSA – financial systems and transaction processing controls

SSSA processes financial transactions on behalf of a large number of SA Government agencies under service level determinations. Its processing includes accounts payable, accounts receivable, payroll, general ledger processing and financial accounting.

The table below provides statistics for the services SSSA provides.



Each year SSSA processes around 3.1 million employee pays using the Chris21 and VALEO payroll systems. It also processes around 3.3 million invoice payments.

In addition to the payroll systems mentioned above, the main IT systems used by SSSA are:

- Readsoft – for scanning invoices
- Basware – payment processing
- Masterpiece – accounts receivable, accounts payable and general ledger
- CommBiz – banking software used to process payments.

### *Payroll*

SSSA payroll functions include:

- maintaining employee data
- processing, calculating and disbursing payroll
- identifying and managing salary overpayments
- calculating targeted voluntary separation packages and termination payments.

Most SA Government payroll is processed through Chris21, with VALEO used for the Department for Education.

The significant matter we identified through our payroll review and communicated to DTF and SSSA is detailed below.

#### — *Final sign-off of some pay runs was not recorded before CommBiz authorisation*

SSSA uses a pay run checklist to record reports, processes and tasks related to each pay run. In the system used for this, when an activity is complete the responsible employee sends the task to a data integrity officer to verify its completion before pay is disbursed. This workflow occurs for each task in each category of the pay run.

We noted one instance where the Data Integrity task sign-off was recorded after the dual authorisation to disburse the pay was given in CommBiz.

SSSA responded that the task not signed off prior to disbursing the payment was the leave update report, which does not impact pay as it is a process to update employee leave balances and associated reporting. SSSA also advised us that it continues to make improvements to the process implemented in November 2021, one of which will be to designate the leave update as a post-pay task.

### *Accounts payable*

SSSA processes payments on behalf of SA Government agencies. We review key controls over the SSSA processing environment annually and the main matter we identified in 2021-22 is outlined below.

#### — *Some invoices were paid more than once*

SSSA made a number of duplicate payments that were not identified by its internal controls.

The Readsoft system matches the vendor's ABN on the invoice with the corresponding record in the accounts payable master file. SSSA is responsible for ensuring that the vendor details have been correctly matched or applying the correct vendor details in cases where they have not been clearly identified.

SSSA also performs a validity check on the vendor's ABN before creating any new vendors.

Although these processes were in place, we understand the causes of the duplicate payments were:

- the duplicate invoice had different vendor codes and bank details to the invoice image
- the manually coded Basware header did not agree with the invoice image.

SSSA agreed that the current duplicate report parameters should be reviewed.  It also acknowledged that better communication between teams would increase awareness and advised us that it would develop a specific training session.

In addition, reviewers will be reminded of their responsibility to thoroughly check the key fields of the invoice data against the invoice.

### *IT general controls*

Given the importance of SSSA's systems to SA Government transaction processing, we review IT general controls each year.

#### — *Basware*

SSSA operated two versions of Basware in 2021-22 – the version which has been in place for some years, referred to as Current Generation (CG) and a newer version called New Generation (NG). Basware NG is a cloud-based version of the software and SSSA clients have been transferring to it from Basware CG.

##### o Basware CG

We found that SSSA does not have a documented policy or procedure that details its requirements for Basware CG patch management. Basware CG is running legacy operating systems that are not regularly patched.

SSSA responded that it was implementing Basware NG and that migration activities were complete for all user agencies other than SA Health.  The targeted migration date for SA Health is 31 October 2022.

SSSA also advised us that because Basware CG is a legacy system, adopting an optimal patch management approach is technically challenging and presents significant operational risks.

##### o Basware NG

We found that SSSA did not have a formally documented disaster recovery plan.

SSSA responded that its disaster recovery plan for Basware NG was recently finalised. Disaster recovery testing was successfully completed for the SA Government environment, with a disaster recovery test for the SA Health environment scheduled to occur by 30 June 2022.

#### — *Masterpiece and Chris21*

We found that improvement was needed in SSSA's patch management processes for the Masterpiece and Chris21 applications.

SSSA responded that it would develop a vulnerability management strategy, including a patch management process that clearly articulates the requirements for Masterpiece and Chris21.

For Chris21, Frontier is developing a program of work to ensure patching levels are brought fully up to date.

Given that Masterpiece is a legacy application, SSSA noted there may be technical operational limitations in the upgrades and/or patching that can be undertaken.

### Whole-of-government procurement review findings

DTF provides strategic procurement and contract management services for whole-of-government contract arrangements.  Its internal auditors reviewed a sample of these procurement arrangements and the contract management processes in place during 2021-22.

#### *User access to procurement and contract management systems*

The two key systems used by DTF's Strategic Procurement Team are the Procurement and Contract Management System (PCMS) and SharePoint.

All employees in Strategic Procurement can access all procurement and contract folders, including those procurements and contracts they are not actively involved in.

Internal audit recommended:

- restricting access to SharePoint (and records management system once implemented) folders for individual procurements and contracts to employees who have a role in the procurement or managing the contract
- performing regular PCMS and SharePoint user access reviews.

DTF responded that:

- the records management system had been configured with separate folders for each procurement team and permissions will be applied to restrict access
- monthly PCMS and SharePoint user access reviews will be performed.

## Other audit findings

### DTF procurement and contract management review

DTF's internal auditors reviewed procurement and contract management, including testing a sample of DTF contracts.

### *Records management structures and permissions needed revision*

Due to the structure of contract records in the records management systems, no single team at DTF has full visibility over all procurement and contract management records, and associated activities (extensions, variations, performance management).

Not being able to retrieve procurement and contract management records promptly can result in a lack of oversight of certain procurement activities and insufficient evidence of compliance with policies and procedures.

Internal audit recommended the implementation of a permission structure, where folders that are relevant to procurement and contract management can be accessed by the Procurement Governance Team.

DTF responded that it will establish appropriate file and permission structures.

### *Completion of mandatory procurement and contract management training should be monitored*

DTF has a decentralised approach to procurement and contract management. Execution of key processes is managed at the local level, with review and approval undertaken by managers in line with delegations.

DTF has mandatory training requirements for all staff engaging in procurement planning or contract management. Internal audit noted that there was no monitoring or enforcement of these mandatory training requirements.

Internal audit recommended that DTF identify all staff who perform procurement and contract management activities and monitor whether they have attended the required training.

DTF responded that it will establish training requirements as part of its capability development plan and report training attendance twice a year.

### *Monitoring of Procurement Governance Committee conditions of approval could improve*

Where the DTF Procurement Governance Committee (PGC) requires conditions to be met before the execution of a contract, the conditions are recorded in two trackers, one for Super SA and one for the rest of DTF. These trackers are provided to the PGC monthly. All procurement activities with a condition are recorded on a project register.

Internal audit's review of a sample of contracts on the project register found that conditions for the contracts in their sample were not included in the relevant tracker and therefore were not being reported to the PGC.

Internal audit recommended that DTF reconcile procurement activities with conditions to the trackers, to ensure they are complete.

DTF responded that it will implement internal audit's recommendation.

## SA Public Sector Workforce Rejuvenation Scheme

### *DTF did not have a documented strategy to rejuvenate the workforce following departures*

The aim of the SA Public Sector Workforce Rejuvenation Scheme was to rejuvenate the South Australian public sector workforce by making available an incentive to employees to cease employment in it, as discussed further in Part D of this Report.

We found that DTF did not have a documented strategy addressing how vacated positions would be filled in a way that would address the objectives of the Scheme.

We recommended that, for future schemes of this nature, DTF ensures that it has a documented strategy in place to achieve the identified outcomes.

DTF accepted that it did not have a documented strategy to rejuvenate the workforce following departures, but was confident that it implemented the Scheme in a manner consistent with its intent.

### *No internal reporting on whether vacated positions were filled*

DTF made payments to 63 employees under the Scheme, with staff leaving before the end of December 2021.

We noted that there was no internal reporting about the filling of positions vacated under the Scheme.

We recommended that DTF:

- prepare a report on the status of vacated positions under the Scheme
- for future schemes of this nature, ensure that it reports regularly on the status of their implementation.

DTF accepted our recommendations. It advised us that as at September 2022, 94% of the positions vacated under the Scheme were directly filled in the months following the Scheme's conclusion.

## Accounts payable

### *Ministerial payment authorisations incorrectly set up in Basware*

Payments processed through Basware require payment approval by an authorised financial delegate.

DTF ministerial authorisations are set up in Basware as super delegates and Chief Executive authorisations are set up as normal or special delegations.

We noted that ministerial payment authorisations for two DTF employees were incorrectly set up in Basware as special delegates rather than super delegates. This meant that the higher ministerial authorisation limit could be used to approve inappropriate payments, which may result in financial loss to DTF.

We noted that a change request was submitted to SSSA to correct this error for one of these employees. A request to correct the error for the other employee was also required.

DTF responded that SSSA had processed a change request to revise the Basware delegations for the two officers, consistent with approved Ministerial and Chief Executive delegations.

#### *Payment information in Basware special and super delegation reports not reviewed completely and promptly*

We noted that 158 payments worth more than $437 million were approved for payment in Basware by DTF special and super delegates up to 30 April 2022.

Monthly reports are provided to DTF by SSSA for the review of Basware transactions approved by special and super delegates, but are only reviewed by DTF every six months.

DTF's review of these reports did not identify that the two DTF employees discussed in the matter above were incorrectly set up in Basware as special delegates rather than super delegates.

DTF responded that these reports will be reviewed monthly from 2022-23.

#### *Basware user access reviews not performed promptly*

SSSA provides quarterly Basware user access reports, including financial authorisation limits, to DTF for review. This review aims to ensure user access levels and financial delegations are still appropriate.

We noted that the most recent review was performed in July 2021 and that the review covering the six months to 31 December 2021 was not finalised as at 4 May 2022.

DTF responded that the December user access review was finalised in May 2022 and the June 2022 review was scheduled for completion in July 2022.

### Taxation revenue

#### *Periodic review of user access privileges is not being performed for the RIO taxation revenue application*

DTF reviews RIO user access privileges, although we noted that the reviews have not been regular, with the last review completed in September 2020. We also noted that user access changes identified in this last review had not been made at the time of our audit due to resources being prioritised to the land tax reform project.

We recommended that DTF:

- regularly reviews RIO user access privileges, including access assigned to sensitive functions within the RIO application
- ensure that required changes identified in the reviews are made promptly.

DTF responded that a review of RIO user access privileges is scheduled for completion in December 2022, including making user access changes identified in the review.

Future reviews of privileged RIO access users will be conducted annually, while reviews of all current RIO users will be conducted quarterly.

### *Reviews of SAILIS to RIO data have not been performed since April 2020*

The RIO application is used to perform land tax and Emergency Services levy assessments based on property and ownership data uploaded from the SAILIS land management system.

DTF has developed a reconciliation application that compares data between SAILIS and RIO and generates weekly valuation and ownership comparison reports that detail any discrepancies.

Due to a change in the SAILIS platform that prevents the reports being run, no reviews have been performed since April 2020.

In 2021-22 we noted that an IT solution had been developed and tested, but DTF and Land Services SA were yet to agree on how often the reports would be run.

DTF responded that:

- reports will be produced and reviews performed weekly
- it was negotiating with Land Services SA about the most appropriate time for execution and delivery of the report files. Negotiations were expected to be finalised in September 2022, with the weekly reviews to commence in October 2022.

## State active directory

### *Weaknesses in DTF's password settings require investigation*

The Department of the Premier of Cabinet (DPC) governs the State Active Directory (AD) and State Resource Directory (RD) environments. DPC runs an annual security assessment across these two environments.

DPC's assessment identified the following weaknesses for DTF:

- The AD environment may contain dormant administrative accounts managed by DTF. This is based on the last time the account's password was changed or the user last logged on. These accounts could be subject to unauthorised use.
- Thirty user accounts managed by DTF were set to not require a password. There is an increased chance that these accounts can be compromised.
- Two user accounts managed by DTF may have the password configured to never expire. These accounts are not required to change their passwords on a regular basis.

To address the above weaknesses, we recommended that DTF:

- remove any administrative accounts that are no longer required
- identify and review user accounts with blank passwords
- review accounts that have been configured for the password never to expire and ensure that all instances are justifiable and within DTF'S security policy.

DTF responded that:

- all privileged user accounts will have privileges removed where appropriate and be disabled when no longer needed
- it no longer has user accounts with no passwords
- it only exempts service accounts from password expiry. It will review all enabled AD user accounts to ensure only service accounts have passwords that never expire.

## Interpretation and analysis of the financial report

### Highlights of the financial report – controlled items*

| | 2022 $million | 2021 $million |
|---|---|---|
| **Income** | | |
| Appropriation | 177 | 148 |
| Fees and charges | 117 | 105 |
| Other income | 9 | 5 |
| **Total income** | 303 | 258 |
| | | |
| **Expenses** | | |
| Employee benefits expenses | 178 | 164 |
| Supplies and services | 101 | 84 |
| Other expenses | 13 | 21 |
| **Total expenses** | 291 | 268 |
| **Net result** | 12 | (10) |
| | | |
| **Other comprehensive income** | | |
| Changes in revaluation surplus | - | 1 |
| **Total comprehensive result** | 12 | (9) |
| | | |
| **Assets** | | |
| Current assets | 49 | 34 |
| Non-current assets | 66 | 64 |
| **Total assets** | 114 | 99 |
| | | |
| **Liabilities** | | |
| Current liabilities | 42 | 38 |
| Non-current liabilities | 48 | 49 |
| **Total liabilities** | 91 | 87 |
| **Total equity** | 24 | 12 |

* Table may not add due to rounding.

### Statement of Comprehensive Income (controlled items)

#### Income

Income increased by $45 million to $303 million in 2022 mainly due to:

- a $29 million increase in appropriations, reflecting that the FERU transferred to DTF from 1 July 2021

- a $12 million increase in revenue from fees and charges, mostly as a result of a $7.4 million increase in recoveries from the South Australian Superannuation Board, a $1.8 million increase in SafeWork SA workplace health and safety prescribed fees and a $1.4 million increase in fees for services provided to SA Government agencies, including whole-of-government contract management and non-service level agreement services provided by SSSA
- a $3.8 million increase in SA Government grants, subsidies and transfers, mostly due to $2 million in funding provided for administration of COVID-19 relief schemes and a $2 million increase in grants, subsidies and transfers provided by the SA Government, of which $1.5 million related to a Masterpiece system replacement business case.

### Expenses

Expenses increased by $23 million to $291 million in 2022 mainly due to:

- a $17 million increase in supplies and services expenses, mostly due to an $8.5 million increase in contractors and temporary staff, a $4.8 million increase in ICT expenses and a $2.3 million increase in general administration and consumables, offset by a $2.6 million decrease in corporate recharge expense
- a $14 million increase in employee benefits expenses, mostly due to the transfer of FERU staff from the Attorney-General's Department on 1 July 2021, enterprise bargaining agreement increases and $2.6 million of SA Public Sector Workforce Rejuvenation Scheme payments to 68 DTF staff, offset by a $5.2 million decrease resulting from the higher discount rate (3.5% in 2022 compared to 1.25% in 2021) used in the actuarial calculation of the long service leave liability
- offset by a $7.6 million decrease in surplus cash transferred to the Consolidated Account.

## Statement of Financial Position (controlled items)

### Assets

Total assets increased by $15 million to $114 million in 2022 due mainly to:

- a $9.7 million increase in cash
- a $4.7 million increase in receivables, reflecting a $2.5 million increase in trade receivables and a $2.5 million increase in accrued revenues
- a $3.6 million decrease in intangible assets, mostly due to:
  - $2.5 million in additional work in progress recognised in 2021-22, relating to RevenueSA taxation systems
  - $2.1 million of internally developed computing software transferred through administrative restructures
  - $6.7 million in amortisation expense
  - the $1.5 million derecognition of externally acquired computer software
- a $5 million increase in property, plant and equipment, mostly due to:
  - $9.1 million in additional work in progress recognised in 2021-22, mainly relating to building fitouts

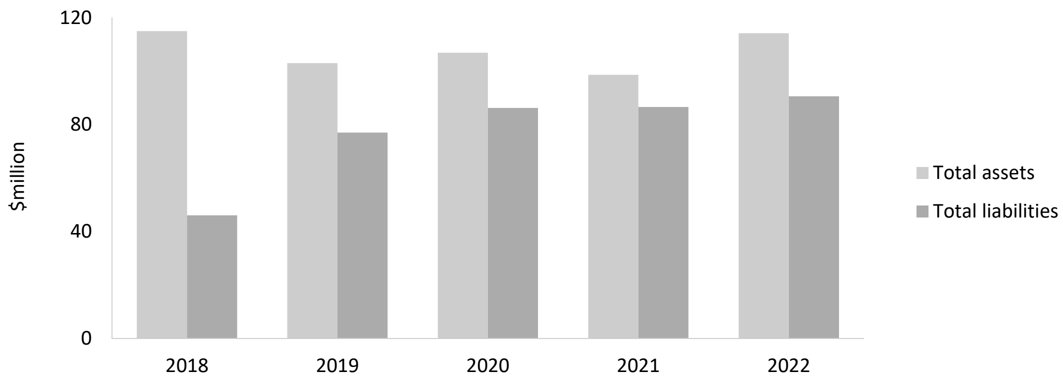
- $1.1 million of building fitouts and right-of-use buildings transferred through administrative restructure
- $5.1 million in depreciation and amortisation expense.

### Liabilities

Total liabilities decreased by $4.1 million to $91 million in 2022 due mainly to:

- a $7.5 million increase in payables, mostly due to:
  - an $8 million increase in accrued expenses, mainly relating to FERU supplies and services paid by the Attorney-General's Department
  - an $801,000 decrease in employment on-costs, mainly a result of the reduction in employee benefits liability
- recognition of a $5.9 million accommodation incentive relating to leased Super SA accommodation
- a $7.5 million decrease in employee benefits, mostly due to:
  - a $4.5 million decrease in the long service leave liability, mainly resulting from the higher discount rate used in the actuarial calculation of the liability
  - a $4.2 million decrease in accrued salaries due to the timing of the last pay run date this year
  - a $1.1 million increase in the annual leave liability, mainly resulting from additional employees transferred through administrative restructure and higher salaries
- a $1.7 million decrease in provisions for workers compensation, comprising $894,000 in payments and an $800,000 reduction in the liability due to the actuarial assessment.

The following chart shows DTF's asset and liability balances since 2018.




Assets have varied across the last five years, with fluctuations primarily reflecting the timing of the development of software for RevenueSA and the South Australian Superannuation Board and building fitouts.

## Statement of Cash Flows

DTF's cash position as at 30 June 2022 was $24 million, an increase of $10 million mostly due to $7 million of funds held in the accrual appropriation excess funds account.

## Highlights of the financial report – administered items*

The administered financial statements mainly reflect DTF's transactions on behalf of the SA Government for the Consolidated Account. The Consolidated Account result for 2022 is reported in the Treasurer's statements (published on the Auditor-General's Department website).

| | 2022<br>$million | 2021<br>$million |
|---|---|---|
| **Income** | | |
| Taxation | 4,974 | 4,312 |
| Commonwealth revenues | 10,699 | 8,960 |
| Appropriation | 2,762 | 2,419 |
| Other revenues | 1,582 | 1,345 |
| **Total income** | 20,019 | 17,036 |
| | | |
| **Expenses** | | |
| Payments to SA Government | 13,855 | 12,021 |
| Grants, subsidies and transfers | 4,984 | 4,110 |
| Other expenses | 1,086 | 948 |
| **Total expenses** | 19,926 | 17,079 |
| | | |
| **Net result and total comprehensive result** | 93 | (43) |
| | | |
| **Assets** | | |
| Current assets | 2,781 | 2,534 |
| Non-current assets | 164 | 231 |
| **Total assets** | 2,945 | 2,765 |
| | | |
| **Liabilities** | | |
| Current liabilities | 1,805 | 1,508 |
| Non-current liabilities | 272 | 483 |
| **Total liabilities** | 2,077 | 1,991 |
| **Total equity** | 868 | 774 |

* Table may not add due to rounding.

## Statement of Comprehensive Income (administered items)

### Administered revenue

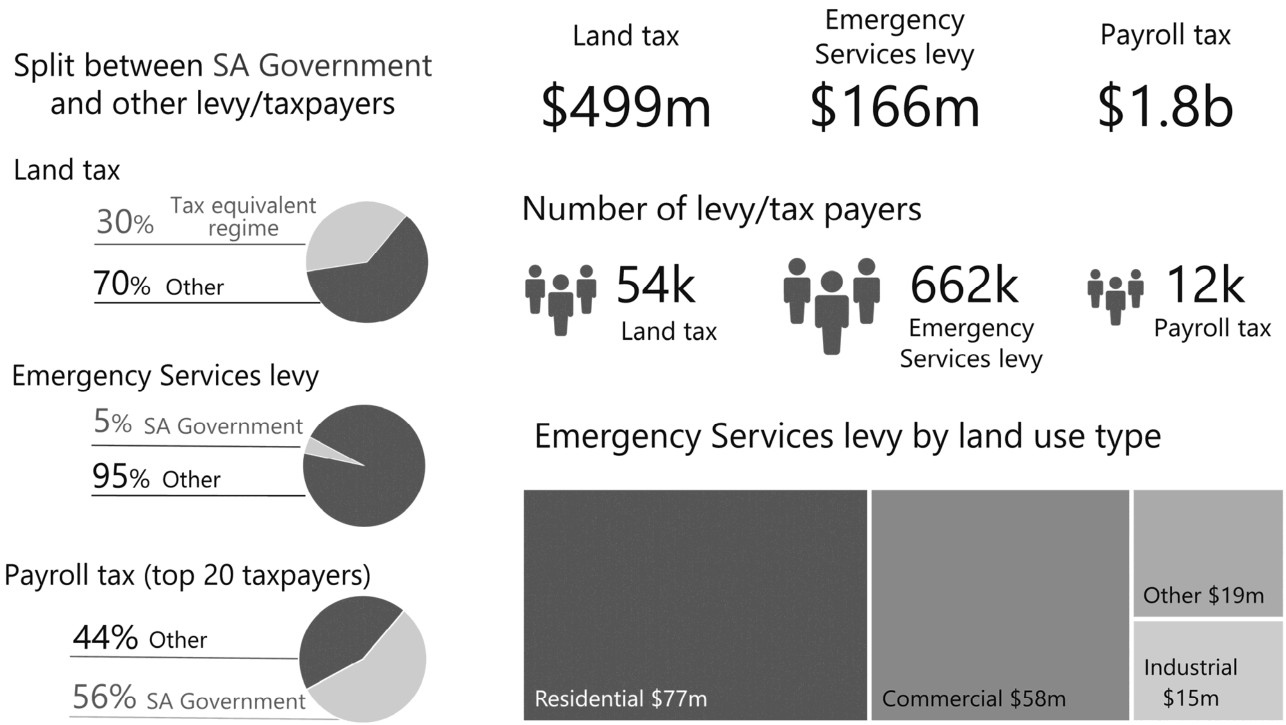
Taxation revenue increased by $663 million to $4.97 billion in 2021-22, due mostly to:

- increases of $340 million in stamp duty on property sale conveyances, $336 million in payroll tax and $42 million in stamp duties on general insurance
- a decrease of $100 million in land tax, which was mainly due to the late third and fourth quarter invoicing of land tax to the South Australian Housing Trust, which, consistent with DTF's taxation revenue accounting policy, was not recognised in 2021-22 as payment had not been received from the Trust by 30 June 2022.

The following table of State taxation statistics shows that SA Government agencies paid:

- 30% of land tax but only 5% of the Emergency Services levy in 2021-22
- 56% of payroll tax collected by RevenueSA from the top 20 taxpayers in 2021-22.

# State taxation statistics




Commonwealth revenue increased by $1.74 billion to $10.7 billion in 2021-22, comprising mainly a $1.08 billion increase in GST revenue grants and a $647 million increase in funding received under the Inter-Governmental Agreement on Federal Financial Relations (IGAFFR).

Commonwealth funding received in the current and prior years for various infrastructure and capital projects is recorded initially as unearned revenue and then recognised as expenditure on the projects as incurred. In 2021-22 grant revenue received from the Commonwealth for capital projects and recognised as unearned revenue was $166 million and grant revenue recognised in 2021-22 for capital works completed was $372 million.

Appropriation from the Consolidated Account increased by $343 million to $2.76 billion in 2021-22, reflecting increased funding for DTF's administered activities.

Other revenue increased by $237 million to $1.58 billion in 2021-22, due mostly to:

- a $103 million increase in fees and charges, due mainly to $110 million in FERU revenue collected and recognised for the first time, offset by a $6.7 million decrease in guarantee fees
- a $76 million increase in the return of surplus cash from agencies to the Consolidated Account
- a $50 million return of equity capital contribution from TAFE SA
- an $11 million increase in dividends from SA Government agencies due mainly to a $20 million increase from HomeStart Finance and a $35 million increase from the South Australian Government Financing Authority, offset by a $52 million decrease from the South Australian Water Corporation

- an $8 million increase in grants and contributions, due mainly to a $9.9 million increase in Emergency Services levy remissions, offset by a $1.7 million decrease in intra-government transfers received for various administered activities
- a $39 million decrease in revenue from the return of private hospital funding.

## Administered expenses

Administered expenses increased by $2.85 billion to $19.9 billion in 2022, mainly due to:

- a $1.83 billion increase in payments to the SA Government mostly due to:
  - a $2.06 billion increase in the transfer of revenue received on behalf of the Consolidated Account
  - a $219 million decrease in the transfer of surplus cash to the Consolidated Account
- an $874 million increase in grants, subsidies and transfers mostly due to:
  - a $693 million increase in recurrent grants, subsidies and transfers
  - a $69 million increase in equity capital contributions to SA Government agencies
  - a $205 million increase in grants/payments in response to COVID-19
  - a $100 million decrease in capital grants, subsidies and transfers
- a $160 million increase in other expenses due mostly to a $76 million increase in refunds and remissions, a $50 million increase in the reduction in the value of the Treasurer's investment in the State Owned Generators Leasing Co Pty Ltd and a $24 million increase as a result of the first-time inclusion of fines enforcement and recovery suitor payments
- a $76 million decrease in employee benefits expenses, mostly due to a $47 million decrease in payments to the Police Superannuation Scheme and the South Australia Superannuation Fund to support funding of the defined benefit liability of the schemes
- a $56 million increase in interest on the Treasurer's borrowings from the South Australian Government Financing Authority.

## Administered net assets

Net assets changed from $774 million in 2021 to $868 million in 2022. This was due to:

- administered assets increasing by $180 million due mainly to:
  - a $42 million increase in cash, due to an increase in deposits with the Treasurer
  - a $205 million increase in receivables, mostly due to an increase in receivables of $199 million from the Commonwealth for funding for capital works projects already completed by the Department for Infrastructure and Transport (DIT)
  - offset by a $71 million decrease in other financial assets, mostly due to a $63 million reduction in the value of the Treasurer's investment in the State Owned Generators Leasing Co Pty Ltd

- administered liabilities increasing by $86 million due mainly to:
  - a $299 million increase in payables, mostly due to a $263 million increase in revenues collected but not yet paid into the Consolidated Account and a $26 million increase in accrued expenses
  - a $212 million decrease in other liabilities, mostly due to a $206 million decrease in unearned Commonwealth revenue for capital projects (mainly for DIT and the Department for Health and Wellbeing) and unearned revenue of $7 million relating to the novation of Urban Renewal Authority loans to the Treasurer as part of the process of TAFE SA buying its campus assets from the Urban Renewal Authority.

## Further commentary on operations

### Commonwealth Government funding arrangements

The IGAFFR is the framework for the Commonwealth's financial relations with the States and Territories. It provides for the following types of Commonwealth payments:

- general revenue assistance, including the ongoing provision of GST payments, to be used by the States and Territories for any purpose
- national specific purpose payments to be spent in the key service delivery sectors agreed to between the Commonwealth and the States. Each national specific purpose payment is linked to a national agreement that contains objectives, outcomes, outputs and performance indicators, and clarifies the roles and responsibilities of each jurisdiction
- national partnership payments to support the delivery of specified outputs or projects, to facilitate reforms or to reward those jurisdictions that deliver on nationally significant reforms.

Under the IGAFFR all Commonwealth funding, with the exception of funding under the National Health Reform Agreement, is provided to DTF, which distributes funds to agencies. The Treasurer has established a special deposit account to receive and disburse money paid to the State for the national specific purpose payment purposes listed in Schedule F of the IGAFFR and the national partnership payment purposes listed in Schedule G.

The balance of the IGAFFR account at 30 June 2022 was $19 million ($151 million). This represents funds that DTF is yet to transfer to other agencies.

Commonwealth funding, presented on a cash basis, was provided in 2022 for the purposes shown in the following table. The Commonwealth provided $10.19 billion to DTF and $1.98 billion directly to the health sector. Of this Commonwealth funding, 59% related to GST revenue grants of $7.12 billion that can be used for any purpose, whereas most of the remaining Commonwealth funding is for specific purposes.


Source: Australian Government GovTeams report as at 30 June 2022.

### Economic stimulus programs

COVID-19 Support Fund – $379 million spent

In response to COVID-19, the SA Government established the Business and Jobs Support Fund and the Community and Jobs Support Fund to support businesses, jobs and community organisations.

In the 2021-22 State Budget the SA Government announced that the funds were combined to create the COVID-19 Support Fund. Expenditure totalling $379 million ($147 million) was made from the fund in 2022, including $232 million in small business support grants to around 37,000 businesses, $90 million in business hardship grants to around 24,000 businesses and $57 million in tourism hospitality and gym grants to around 16,000 businesses.

### Local Government Infrastructure Partnership Program

In October 2020 the SA Government announced the Local Government Infrastructure Partnership Program to help local government accelerate spending on community infrastructure projects that:

- contribute to the future economic growth of the region
- support the SA Government's Growth State agenda
- improve local infrastructure facilities for businesses and community organisations to enable them to grow in the future
- upgrade key community facilities.

Under the program, the SA Government will provide grants to councils for up to 50% of the cost of approved infrastructure projects. Councils will fund the remaining 50% either through their own reserves or borrowings. Infrastructure projects can include other funding partners, including the Commonwealth Government and/or local businesses.

Applications for grants closed on 29 January 2021. They were assessed by a panel of staff from the Office of Local Government and DTF.

The program was fully subscribed, with $106.9 million in grants approved for 57 projects across 58 local councils.

In 2021-22 grant deeds for 54 projects were executed, though one grant deed was terminated by the council as it ceased the project due to construction and cost issues. Grant deeds for the remaining three projects were yet to be finalised as at 30 June 2022.

Grant payments to reimburse costs are made to local councils in line with key project milestones and as agreed with local councils in grant agreements. Most councils have experienced project interruptions and significant delays due to supply chain issues and labour shortages.

As at 30 June 2022 payments totalling $7 million had been made.

## Private hospital payments – $28 million spent

In March 2020 the Commonwealth, States and Territories entered into the National Partnership Agreement on COVID-19 Response. The objective of the agreement is to provide financial assistance for the additional costs incurred by State health services in responding to the COVID-19 outbreak and efforts to minimise the spread of COVID-19.

Part of the agreement addresses funding arrangements between the States and private hospitals.

Under the agreement, the Commonwealth provides funding to enable private hospitals to maintain capacity for responding to State or Commonwealth public health requirements for both COVID-19 and non-COVID-19 activities, and to support their viability to resume normal operations at the end of the COVID-19 pandemic.

Private hospital payments totalling $28 million ($56 million) were made in 2022, comprising payments to hospitals of $28 million ($7.2 million) and $0 ($48.3 million) payments to the Department for Health and Wellbeing for funding not required by private hospitals to be returned to the Commonwealth. Amounts not required by private hospitals were retained by the Department for Health and Wellbeing but deducted from future Commonwealth funding for COVID-19 associated costs.

## School loans scheme

In the 2021-22 State Budget the SA Government announced a new $320 million low interest loan scheme to help non-government schools upgrade their existing school facilities, including early learning centres co-located on a school site.

Loans of between $500,000 and $10 million per school were made available for three years, with loan terms up to 15 years and an initial five-year interest free period.

SAFA is administering the loan scheme. Since its inception there have been two funding rounds.

Total funds advanced to non-government schools as at 30 June 2022 were $3.2 million.

The total value of approved school loans at 30 June 2022 was $112 million, with $108.8 million not yet drawn down.

## Fines Enforcement and Recovery Unit – $424 million debt outstanding

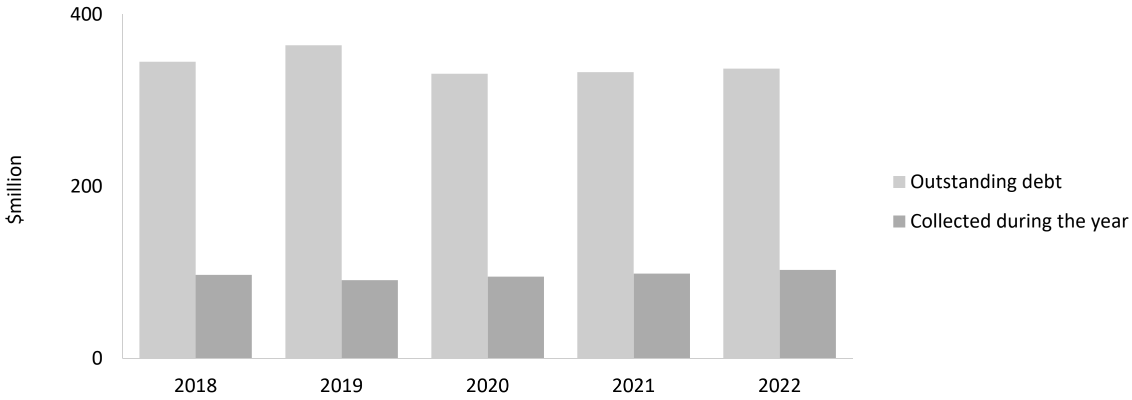
The FERU collects outstanding fines and related payments (suitor amounts and fees and charges associated with overdue amounts). It performs this function for court fines, expiation fees (including overdue local government amounts referred) and other outstanding amounts, including Victims of Crime levies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

As at 30 June 2022, the balance of debt managed by the FERU was $423.6 million ($410.9 million), which includes $36.2 million ($30.7 million) that is not yet due. This comprises:

- fines – $237.5 million ($226.1 million). This includes expiations of $168.3 million ($156.9 million) and pecuniary sums of $69.2 million ($69.2 million)
- Victims of Crime levies – $86.7 million ($78.1 million)
- FERU fees – $99.4 million ($106.8 million).

$127.8 million ($128.3 million) of the debt relates to court penalties, while $295.8 million ($282.6 million) relates to expiation notices.

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




The chart highlights that while outstanding debts increased in 2019 and decreased in 2020, they remained steady in 2021 and 2022. The level of collections has increased since 2019, reflecting different collections management by the FERU and the use of powers to suspend dealings with the Registrar of Motor Vehicles or driver's licences (among other powers available).

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

In 2021-22 fines lodged with the FERU totalled $201.4 million ($198.2 million). Total collections of $114.6 million ($112.5 million), including Victims of Crime amounts, included $103.1 million ($101.5 million) collected on behalf of the SA Government and $10.7 million ($10.5 million) collected on behalf of non-government entities, including local government councils.

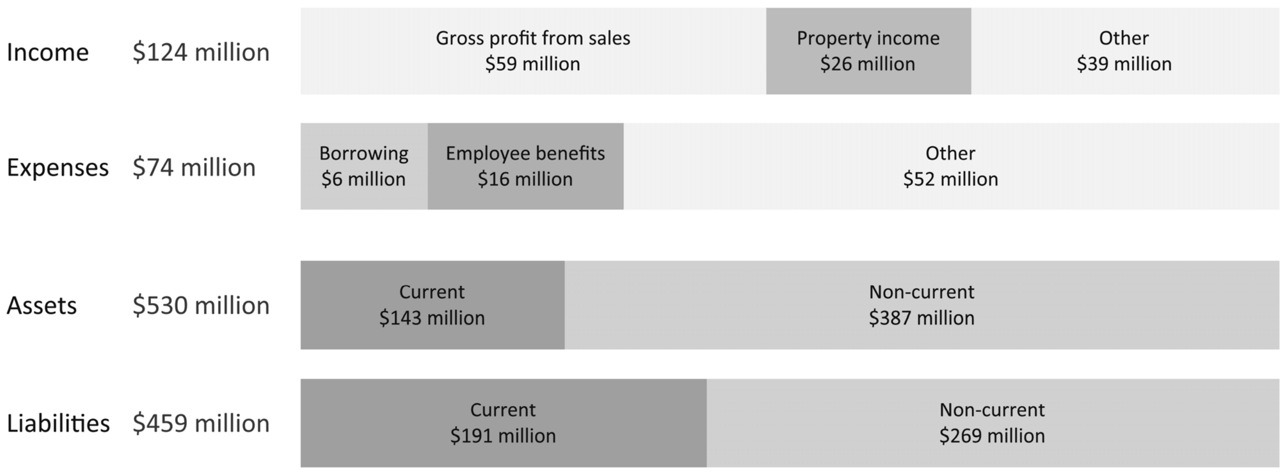
The FERU has engaged a panel of external debt collectors to help collect outstanding amounts, particularly those that are more difficult to recover. The outstanding amounts collected by debt collection agencies since the start of the arrangements in 2016-17 total $32.8 million.

Of the $423.6 million ($410.9 million) in total outstanding debt and related payments, $293.9 million ($353.4 million) is under active management, with $164 million ($152.2 million) subject to payment arrangements, $36.2 million ($30.7 million) subject to arrangements prior to fines being overdue and $47.6 million ($46.1 million) not owed to the State. $30.4 million ($173.6 million) of fines were referred to debt collection agencies in 2021-22.

From May 2019 the FERU began to recover State debt on behalf of other government agencies. As at 30 June 2022 the FERU was recovering State debt for 22 (19) government agencies. In 2021-22 the total debt referred to the FERU was $55.6 million ($35.7 million), of which $7.7 million ($3.7 million) has been collected and $9.4 million ($5.2 million) is subject to payment arrangements. $5.6 million ($3.9 million) of debt has been paid back directly to government agencies.

# Urban Renewal Authority (URA)

## Financial statistics




**135**
FTEs

**$40 million**
SA Government equity contributions

**$50 million**
Profit before income tax equivalent

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**Significant events and transactions**

— The URA recognised a profit of $50 million, that included $37 million on the sale of land in Oakden. This result was the first profit generated by the URA since 2017-18.

— A property developer agreed to pay $135 million over 11 years to develop the URA's Oakden land, resulting in the recognition of $81 million in sales revenue and a corresponding amount as a deferred payment receivable. The $54 million difference will be treated as a financing arrangement and recognised periodically as interest revenue over 11 years.

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**Financial report opinion**

**Unmodified**

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**Controls opinion findings**

The URA's policies and procedures do not include detailed guidance on when previous write-downs of inventories can be reversed.

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**Other audit findings**

No audit findings.

# Functional responsibility

The URA is established by the *Urban Renewal Act 1995* (URA Act).

The URA is responsible for leading and coordinating urban renewal activity to ensure future housing needs are met through better planned, affordable and vibrant mixed use (residential and commercial) urban developments located near transport, employment, education and other services.

The URA's functions under the URA Act include:

- developing residential, commercial and industrial land in the public interest, particularly for urban renewal purposes
- facilitating public and private investment, undertaking development activities that are attractive to potential investors and participating in the development of the State
- managing the orderly development of areas through the management and release of land
- holding land and other property to be made available as appropriate for commercial, industrial, residential or other purposes.

The URA's trading name is Renewal SA. It is a for-profit entity under the Treasurer's Instructions (Accounting Policy Statements).

### Urban renewal program

The URA conducts its urban renewal program through a series of development projects. Its major projects are currently Lot Fourteen, Playford Alive, Tonsley, Bowden and Prospect. A separate business plan is prepared for each project and progress against the plan is monitored. See 'Major development projects' below for further discussion of these projects.

# Scope of the audit

### Audit of the financial report

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

Specific areas of audit attention in 2021-22 included:

- corporate governance
- management of projects, procurements and contracts
- land sales
- property income
- payroll
- capital and operating expenditure
- land inventory.

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

### Controls opinion

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

- inventories, including land held for sale and development projects
- managing the Renewal SA Operating Account.

## Audit findings

### Communicating our audit findings

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

#### Controls opinion findings

#### The URA's policies and procedures do not provide detailed guidance on when previous inventory write-downs can be reversed

According to the URA, the cumulative previous write-downs of its development project inventory total around $426 million.

We noted that the URA's policies and procedures do not include detailed guidance on the circumstances under which previous inventory write-downs will be reversed. Without this guidance there is an increased risk that future reversals of write-downs will not comply with AASB 102 *Inventories*.

The URA acknowledged that an update to its policies and procedures governing the reversal of write-downs would provide certainty about the circumstances under which an asset is written down and, if applicable, reversed. The URA advised us that it is currently conducting, as part of its organisation-wide transformation program, a review of all of its policies and procedures, and will address our findings as part of that review.

There is more information about inventory write-downs and reversals under 'Inventory valuations and write-downs' below.

## Interpretation and analysis of the financial report

### Highlights of the financial report*

| | 2022<br>$million | 2021<br>$million |
|---|---:|---:|
| **Income** | | |
| Sales | 149 | 69 |
| Cost of sales | (90) | (48) |
| Revenues from SA Government | 8 | 7 |
| Property income | 26 | 23 |
| Gain from changes in value of non-current assets | 16 | 4 |
| Other revenues | 15 | 5 |
| **Total income** | 124 | 60 |

| | 2022 $million | 2021 $million |
|---|---|---|
| **Expenses** | | |
| Employee benefits expenses | 16 | 14 |
| Operating expenditure, depreciation and amortisation, other expenses | 52 | 44 |
| Borrowing costs | 6 | 9 |
| **Total expense** | 74 | 67 |
| **Profit (Loss) before income tax equivalent** | 50 | (7) |
| **Income tax equivalent** | (15) | - |
| **Total comprehensive result** | 35 | (7) |
| | | |
| Net cash provided by (used in) operating activities | (9) | (128) |
| Net cash provided by (used in) investing activities | (5) | (3) |
| Net cash provided by (used in) financing activities | 16 | 132 |
| | | |
| **Assets** | | |
| Current assets | 143 | 88 |
| Non-current assets | 387 | 365 |
| **Total assets** | 530 | 453 |
| | | |
| **Liabilities** | | |
| Current liabilities | 191 | 60 |
| Non-current liabilities | 269 | 394 |
| **Total liabilities** | 459 | 453 |
| **Total equity** | 71 | - |

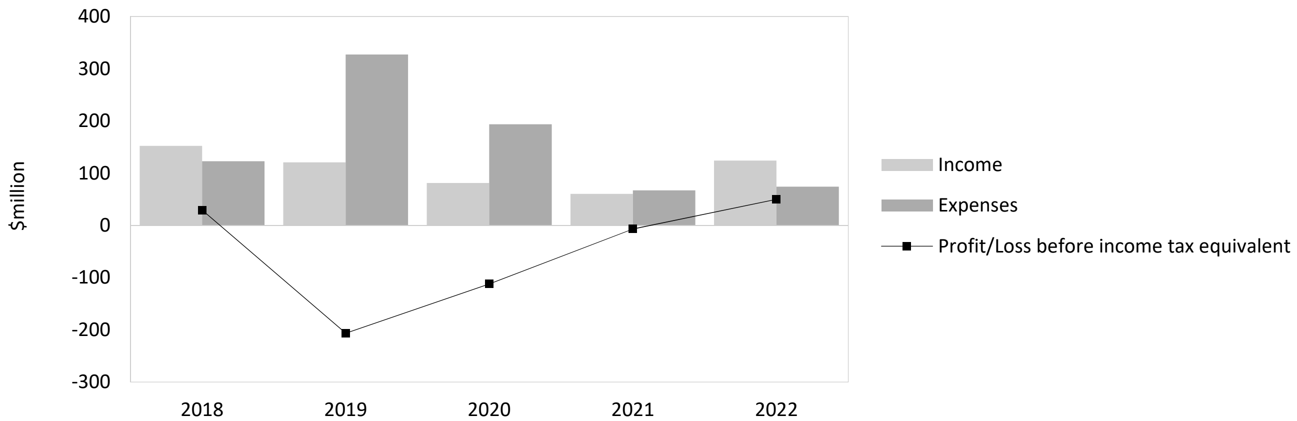
* Table may not add due to rounding.

## Statement of Comprehensive Income

The Treasurer has classified the URA as a for-profit entity. The URA's capacity to generate profits is significantly influenced by a range of matters, including government policy. Key elements are discussed in the commentary below.

### Profit (Loss) before income tax equivalent

The following chart shows the income, expenses and profit (loss) before income tax equivalent for the five years to 2022.



The URA has generated a profit for the first time since 2017-18.

The URA's profit before income tax equivalent for 2021-22 of $50 million was significantly higher than its 2020-21 loss of $7 million. The $57 million improvement was due mainly to an increase in gross profit from sales and gains from increased investment property values.

The nature of the URA's business means that its profit (loss) before income tax equivalent is influenced by movements in the value of its inventory and investment property. Losses in 2018-19 were driven by write-downs in the values of development projects (inventories). These write-downs reflected reduced sales forecasts and the SA Government's decision to replace project capital grants with equity contributions. Unlike grants, equity contributions are not recognised as income and cannot be included as future income for projects when measuring their net realisable value.

The following is a more detailed analysis of the income and expenses that resulted in the 2021-22 profit.

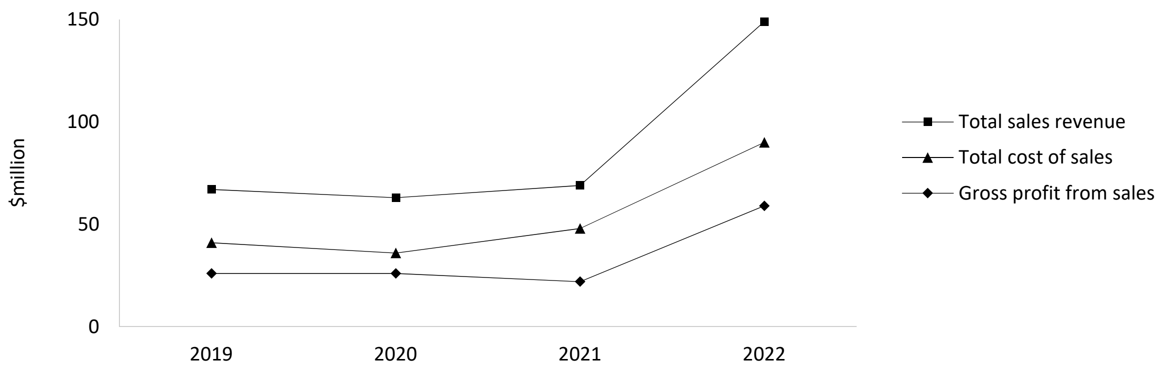
## Income

Total income increased by $63 million to $124 million, due mainly to:

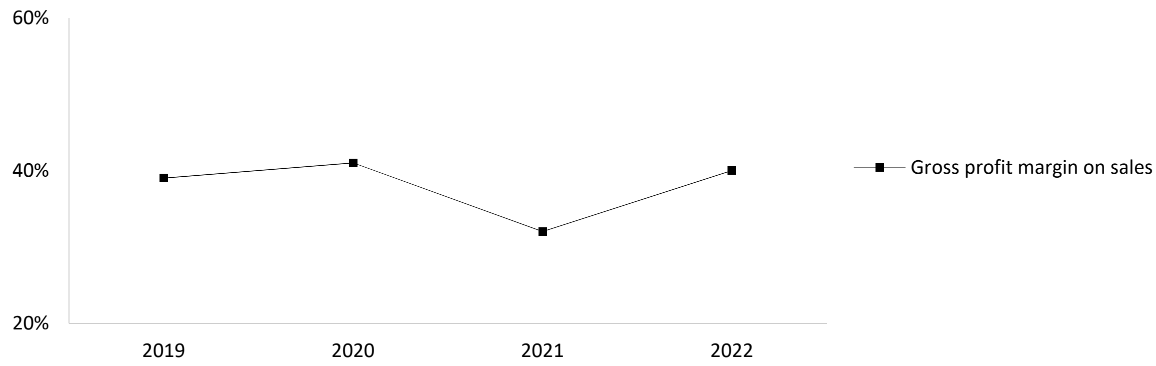
- gross profits from sales increasing by $38 million to $59 million. Sales increased by $80 million to $149 million, while cost of sales increased by $42 million to $90 million. The increases were driven by the sale of land in Oakden, the details of which are as follows:
  - In 2020-21 the URA purchased the Oakden land for $44 million from other government agencies, packaging them together for future development.
  - In September 2021 a property developer agreed to pay $135 million to develop the Oakden properties.
  - The URA recognised the development agreement as a sale as required by AASB 15 *Revenue from Contracts with Customers.*
  - Because the developer is paying the sale amount of $135 million over 11 years, the URA discounted the future payments to their present value of $81 million, recognising this amount as the sale value in 2021-22 and a corresponding amount as a deferred payment receivable. The $54 million difference will be treated as a financing arrangement and recognised periodically as interest revenue over 11 years, with a corresponding amount added to the deferred payment receivable. The receivable reduces as the developer makes payments. The developer paid $15 million in 2021-22.
  - The cost of the sale, including the cost of acquiring the land from other government agencies, was $44 million and resulted in a $37 million profit
- a $6 million increase in interest revenue due to the deferred payment financing arrangement with the Oakden property developer
- gains from investment property values increasing by $13 million to $16 million. Investment properties are independently valued, with the increases in value for 2021-22 mainly related to the Adelaide Station and Environs Redevelopment, the Northern LeFevre Peninsula and Technology Park.

Further information on changes in the value of inventories and investment properties is provided under 'Assets' below.

The following chart shows the total land sales and cost of sales for the four years to 2022.




The gross profit margin on sales shown in the chart below is an important driver of the URA's profitability and is influenced by market prices for land and the costs of acquisition and development. Gross profit margins on sales increased in 2021-22 from 31% to 40% due mainly to the Oakden sale, which had a profit margin of 46%. Excluding the Oakden sale, the gross profit margin on sales was 32%, about the same as the prior year.




Sales of properties written down to their net realisable value (which represents their likely sales value less future development costs) usually have lower gross profit margins than sales of properties carried at cost and below their net realisable value. The SA Government sometimes requires the URA to undertake development projects that are not purely commercial in nature. These projects are often written down because their net realisable value is below their cost.

## Expenses

Expenses were $74 million ($67 million), with the $7 million increase reflecting the following key movements:

- Operating expenses increased by $9 million to $50 million, due mainly to increases in payments to contractors for infrastructure procured by the URA and funded by the Department for Trade and Investment to support the rebuild and expansion of the Thomas Foods facility at Murray Bridge. This facility was destroyed by fire in January 2018.
- Employee benefits expenses increased by $2 million to $16 million, due mainly to an increase in FTEs from 125 to 135.
- Borrowing costs decreased by $3 million to $6 million. Lower interest rates and the lower balance of borrowings throughout 2021-22 compared to the prior year resulted in reduced interest and guarantee fee charges.

## Dividend

Under the URA Act, the URA is required to recommend to the Minister whether a dividend will be paid each financial year. The dividend is based on the URA's accounting profit. The URA is also required to declare a dividend of 100% of the after tax profit relating to the Adelaide Station and Environs Redevelopment site, under the requirements of the Cabinet decision to transfer the site to the URA effective 30 June 2013.

The Minister, in consultation with the Treasurer, approved a dividend payment of $4 million for 2021-22, with the provision that any change between the 2021-22 expected profit and final profit be adjusted for as part of the 2022-23 dividend declaration process.

## Statement of Financial Position

The URA's total assets of $530 million, mainly comprising investment properties and inventories worth $396 million, exceeded its total liabilities of $459 million. The URA's total liabilities mainly comprise South Australian Government Financing Authority (SAFA) borrowings of $381 million.

The URA's net asset position improved by $71 million due mainly to an equity contribution of $40 million from the SA Government and profits after income tax equivalent of $35 million, partially offset by a $4 million dividend payment.

The major movements in the Statement of Financial Position are discussed below.

### Assets

Total assets were $530 million ($453 million). The $77 million increase is mainly attributable to increases in receivables of $81 million and investment properties of $21 million, offset by decreases in inventories of $30 million.

#### Receivables

Receivables increased by $81 million to $103 million due mainly to $83 million of deferred payment arrangements, of which $73 million relates to the Oakden sale.

#### Investment properties

Investment properties increased by $21 million to $105 million, driven largely by gains of $16 million in the fair value of the properties, the purchase of the lease rights for a portion of the Festival Plaza car park for $6 million and net capitalised expenses of $1 million, partially offset by disposals of $1 million.

#### Inventories

The URA's primary activities involve holding and developing land inventory for sale. The value of inventory at 30 June 2022 was $291 million ($321 million). The $30 million decrease in inventory reflected:

- inventory additions comprising:
  - $55 million ($50 million) in capitalised development costs including direct materials, salaries, land tax and borrowing costs where those costs are directly attributable to land currently under development. These costs are then expensed as part of cost of sales when inventories are sold

— $5 million ($81 million) in land purchases. In 2020-21 the URA made significant land purchases at Oakden, Prospect and Forestville for future development

- inventory reductions mainly comprising $90 million ($48 million) of inventory sold and included in cost of sales.

## Inventory valuations and write-downs

In line with AASB 102 *Inventories,* the URA recognises inventory at the lower of its cost and net realisable value. The measurement of the net realisable value of inventories depends on their intended use. The URA has grouped its inventories into the following two classes:

- land held for sale requiring low capital investment. As at 30 June 2022 the carrying amount of land in this class was $156 million ($165 million). The reduction was due mainly to land sales at Edinburgh Parks, Technology Park and the East Grand Trunkway
- development projects requiring significant capital investment over extended periods of time before the land can be sold. These projects may be initiated by the SA Government, which provides community service obligation (CSO) funds to partly support the costs for these projects. From 2019-20 funding for capital works on the Lot Fourteen, Bowden and Tonsley projects is provided to the URA as an equity contribution. In prior years all CSO funding was provided as a grant. While CSO grants for capital works have largely stopped, they are still provided by the SA Government mainly to fund the operating costs of managing these projects. As at 30 June 2022 the development projects were valued at $135 million ($156 million). The decrease in 2021-22 largely reflects the sale of land costing $90 million, including the significant Oakden land sale, partially offset by capital expenditure of $55 million that was mainly for Lot Fourteen and Playford Alive.

In 2021-22, the URA did not reverse significant previous write-downs because it considered there was no clear evidence that market conditions had improved or that the circumstances that caused the previous write-downs no longer exist.

The following table shows the inventory write-downs and reversals and the investment property fair value gains and losses that have occurred over the last five years.

| | | Write-downs (Reversals) | | | | Carrying amount | Land area | Land area |
|---|---|---|---|---|---|---|---|---|
| | 2018 | 2019 | 2020 | 2021 | 2022 | 30.06.22 | 30.06.21 | 30.06.22 |
| Inventory | $million | $million | $million | $million | $million | $million | Hectares | Hectares |
| Development projects: | | | | | | | | |
| Tonsley | (1) | 40 | 1 | - | - | 18 | 38 | 33 |
| Playford Alive | - | (8) | (3) | - | - | 14 | 301 | 292 |
| Bowden | (1) | 21 | 2 | 2 | - | - | 9 | 9 |
| Woodville West | (5) | (1) | (2) | (2) | - | 3 | 1 | 1 |
| Lot Fourteen | - | 63 | - | - | - | 62 | 6 | 7 |
| Prospect | - | - | - | - | - | 8 | - | 2 |
| Forestville | - | - | - | - | - | 29 | - | 4 |
| Land held for sale | 3 | (1) | - | (2) | - | 156 | 2,924 | 2,897 |
| Total inventory | (4) | 114 | 1 | (2) | - | 291 | 3,279 | 3,244 |
| Investment property | 1 | 6 | 28 | (2) | (16) | 105 | 114 | 114 |
| Total inventory and investment property | (2) | 120 | 29 | (4) | (16) | 396 | 3,393 | 3,358 |

Note: Table may not add due to rounding.

The values shown in the table are influenced by the impact of the URA's capitalisation policy and sales forecasts on the carrying amount of long-term development projects and their net realisable value.

### *Capitalisation of costs*

Significant land tax and other holding costs are included in the determination of their net realisable value. Longer development periods result in higher holding costs and lower net realisable value. This is particularly evident for Playford Alive, where the development costs for this project are expected to end in 2025-26. The project, which currently has a land area of 292 hectares, has a carrying amount of $14 million. This is due to the level of investment required to make the project saleable and the extended period over which revenue is expected to be realised.

The table above also highlights the creation of the new Prospect development project following the purchase of land in Prospect in 2020-21. Land purchased at Forestville in 2020-21 is classified as development project inventory because the URA intends to develop the land over a long period.

### *Sales forecasting*

Development project write-downs and reversals relate mostly to changes in the cash flow models the URA uses to determine the net realisable value of its development projects. Importantly, these changes include reductions in revenue forecasts that occur when the URA reassesses the likely outcomes of its business strategies for these projects. The revised revenue forecasts take into account the prevailing challenging market conditions and the extent to which the conditions are expected to continue into the future. In response, the URA modifies its business strategies for some development projects to lower future costs. However, if it considers that its revised strategies will be insufficient to fully recover the past costs of some projects, it writes them down. If there is clear evidence that market conditions have improved or the circumstances that caused the previous write-downs no longer exist, it reverses the write-downs.

### *Revised funding arrangements*

The large $114 million net write-down of development projects in 2018-19 mainly resulted from the SA Government's revised arrangements for funding the URA's development projects. As previously mentioned, from 2019-20 funding for capital works on the Lot Fourteen, Bowden and Tonsley projects is provided to the URA as an equity contribution rather than as CSO grants. In line with AASB 102, the URA removed these amounts from the net realisable value calculations for these projects, resulting in significant write-downs.

## Inventory is valued at the lower of cost and net realisable value

AASB 102 requires that the value of inventory be measured at the lower of cost and net realisable value. Cost represents the actual cost of acquiring or constructing inventories, while net realisable value represents the estimated proceeds that will be received from the sale of the inventories less any selling costs and remaining estimated construction costs.

The URA initially measures the carrying value of its inventories at their actual cost. At the end of each financial year, it estimates the net realisable value of the inventories for comparison to their carrying values. Inventory carrying values are written down when they exceed their net realisable values.

However, when inventory net realisable values exceed their carrying values the URA does not, and is not required to by AASB 102, disclose their net realisable value. The URA's inventories have a carrying amount of $291 million ($321 million). If they were all measured at their net realisable value, the URA's financial position would be significantly improved. The URA advised us that land held for sale (currently recognised at $156 million) has an estimated fair value of $399 million. Importantly this fair value was estimated using independent valuations obtained over two years, reducing the reliability of the estimate.

#### Measuring net realisable value involves estimating

The net realisable value of inventory may not equal its fair value if the entity does not intend to sell the inventory in its current condition in the most advantageous market at measurement date. The URA estimates the net realisable value of its land held for sale using independent valuations of current market value less estimated selling costs. Measuring the net realisable value of large development projects is more complex. For these projects, the URA determines net realisable value by estimating the future net cash flows of the projects (before interest) and discounting the cash flows back to present values. Accordingly, inventory valuations can change from year to year because of changes that influence these estimates.

The estimated cash flows are based on the amount and timing of sales and development costs, which for some projects extend many years into the future. The URA estimates when the development of each land parcel under current strategies will be completed and its market price once developed, and also estimates the development costs taking into account inflation. Changes to market conditions, policies or project strategies can also change the net realisable value of projects.

### Liabilities

Total liabilities increased by $6 million to $459 million and reflected:

- liability increases mainly comprising:
  - unearned income increasing by $9 million to $25 million, due mainly to a $9 million increase in revenues received in advance of satisfying obligations
  - the creation of a $15 million provision for income tax equivalent, payable on the $50 million profit for 2021-22
- liability decreases mainly comprising SAFA borrowings reducing by $20 million to $381 million. These borrowings comprise 83% (89%) of total liabilities. Borrowings are primarily required to fund property purchases, capital development costs for inventories and operating expenditure. See 'Borrowings and gearing' below for further commentary on debt management.

## Statement of Cash Flows

Cash and cash equivalents increased by $2 million to $14 million following large movements in cash flows from operating and financing activities.

Net cash used in operating activities reduced by $119 million to $9 million, largely reflecting a $102 million decrease in payments for land purchases and development, following $81 million of land purchases in Oakden, Prospect and Forestville in 2020-21, and additional project payments in 2021-21.

Net cash used in investing activities increased by $2 million to $5 million due mainly to the purchase of investment properties, partially offset by a decrease in the purchase of property, plant and equipment.

Net cash provided by financing activities reduced by $116 million to $16 million, largely reflecting:

- proceeds from borrowings decreasing by $342 million to $6 million
- repayments of borrowings decreasing by $247 million to $26 million
- equity contributions from the SA Government decreasing by $19 million to $40 million.

# Further commentary on operations

## The URA's strategic and business plans

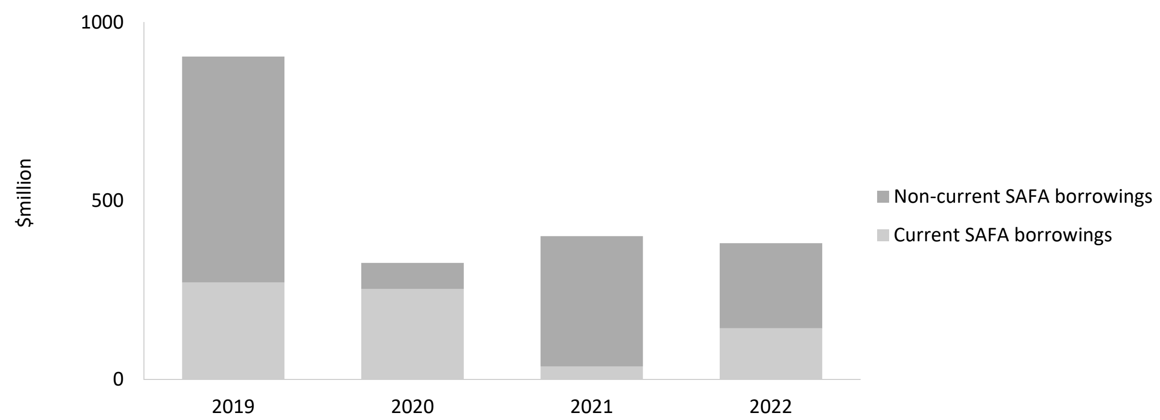
The URA Act requires the URA Board to ensure, as far as practicable, that appropriate strategic and operation plans and targets are established for the URA.

In September 2020 the URA Board approved the URA's strategic plan for 2020–2023 and in July 2021 the URA Board noted the URA's business plan for 2021-22. The URA Board receives regular reporting of progress against the goals and measures in these plans. The URA Board also noted the annual business plans for each of the URA's major development projects.

## Borrowings, equity contributions and gearing

The URA borrows from SAFA to fund land developments and operating expenditure. Its current business model requires a level of up-front investment in projects that result in an accumulation of borrowings, until such time as sufficient revenues are realised to progressively retire the loan.

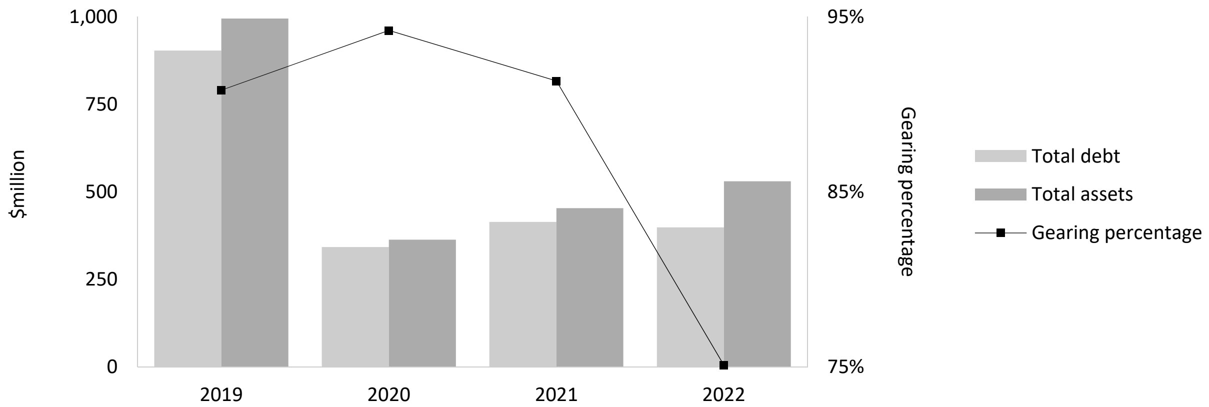
The chart below shows the value of SAFA borrowings since 2019.




The URA borrowed $400 million in 2016-17 to partly fund the purchase of TAFE SA properties from the former Department of State Development for $619 million (including $24 million in stamp duty). The SA Government provided an equity contribution of $219 million to fund the difference. The URA sold the properties to TAFE SA in November 2019 at its carrying book value of $601 million and used some of the proceeds to repay borrowings. It was not required to repay the $219 million equity contribution.

The URA's loans from SAFA at 30 June 2022 reduced by $20 million to $381 million, reflecting reduced borrowing activity and loan maturity dates.  $143 million in SAFA borrowings will mature in 2022-23.

The chart below shows the trend in the URA's gearing ratio, measured as total debt (loans and lease liabilities) divided by total assets.




A higher gearing ratio in the private sector normally indicates a higher financial risk for lenders and investors, whereas for the URA its entire debt is guaranteed by the SA Government. Gearing as at 30 June 2022 was 75% (91%). Under the Financial Ownership Framework the Treasurer and the Minister approved that gearing for the URA be under 90% and that, if exceeded, gearing be returned below 90% within a reasonable period. The Treasurer also approved a performance statement for the URA that sets the gearing target at 89.9% for 2021-22.

## Debt management and financial sustainability

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

In September 2021 the Treasurer approved the URA's debt ceiling remaining at $510 million until 30 June 2024, which includes a core debt facility of $460 million and an overdraft facility of $50 million. The URA's borrowings from SAFA at 30 June 2022 were $381 million.

## Status of major development projects

### Lot Fourteen

In March 2018, the former Royal Adelaide Hospital site (renamed Lot Fourteen) was transferred to the URA from the then Department for Health and Ageing for $0 consideration.

Cabinet approved a publicly available Development Master Plan for Lot Fourteen in December 2019 that required Lot Fourteen to be developed into an Innovation and Commercialisation Precinct, which will include:

- the Innovation Centre
- the International School of Culinary Excellence
- Hospitality and Tourism
- the National Aboriginal Art and Cultures Gallery

- Space Mission Control
- the Space Discovery Centre.

The Development Master Plan only relates to the URA’s component of the broader project comprising mainly demolition works, refurbishment of heritage buildings and delivery of infrastructure and public realm works. Only the estimated costs and revenues for delivering the Development Master Plan are reflected in the URA’s project budget. Construction and ownership models for the Innovation Centre, the International School of Culinary Excellence, Hospitality and Tourism, and the National Aboriginal Art and Cultures Gallery will be considered separately by the SA Government. Their estimated construction costs and revenues are not included in the URA’s project budget.

Following Cabinet approval in February 2019, the former Premier delegated responsibility for the overarching management and delivery of the Lot Fourteen project to the State Project Lead, a senior employee of the Department of the Premier and Cabinet (DPC). These governance arrangements aim to provide a single point of accountability for the project, given the multiple government agencies involved. In addition to the URA those agencies are:

- DPC
- Department for Innovation and Skills
- TAFE SA
- Defence SA
- Arts South Australia
- Department for Trade and Investment
- Department of Treasury and Finance.

A Lot Fourteen Strategic Steering Committee, comprising members from some of the above agencies and chaired by the State Project Lead, helps coordinate and monitor the progress of the project.

In May 2019, the former Premier provided a ministerial direction to the URA to implement any instructions issued by the State Project Lead within specified boundaries. In February 2020 the Chief Executive of DPC issued the governance and operational protocols to operate between the URA and DPC for delivering of the Lot Fourteen project. The protocol specifies that, among other things, the URA is responsible for providing development services including demolition works, refurbishment of heritage buildings, and delivery of infrastructure and public realm works, in line with the scope of works approved by the State Project Lead.

The URA expects it will complete its capital component of the project by 2026-27 with sales ending in 2027-28, and estimates its capital expenditure will be $337 million over the life of the project.

The URA’s costs will be partially funded through the sale or lease of allotments, with the balance funded by the SA Government. The URA currently owns the Lot Fourteen land and redeveloped allotments and intends to sell some through long-term ground leases.

Lot Fourteen inventory is valued at $62 million ($28 million). Lot Fourteen capital expenditure was $35 million ($55 million) in 2021-22, while CSO funding received from the SA Government to fund the operating costs of managing the project including the car park was $2 million ($3 million). The capital expenditure of $55 million in 2020-21 included $27 million that was recorded against and extinguished the remaining balance of a provision for future development expenditure (liability).

## Playford Alive

The Playford Alive project was approved by Cabinet in February 2006. The project involves renewing the suburbs of Davoren Park and Smithfield Plains and developing land at Munno Para, Munno Para Downs, Andrews Farm and Penfield. The URA delivers the renewal areas of the project for the South Australian Housing Trust (SAHT) and develops the greenfield component of the project in its own right. The URA expects that capital expenditure on the project will end in 2027-28, with sales and other costs continuing beyond this time.

Playford Alive inventory is valued at $14 million ($16 million). Income from inventory sales was $19 million ($15 million), while capital expenditure was $10 million ($12 million).

## Tonsley

In December 2009, the SA Government approved the purchase of the former Mitsubishi Motors Tonsley Park manufacturing site at Clovelly Park. The URA is developing the site into a precinct that supports knowledge-intensive industries helping the economic growth of southern Adelaide. Land is also being developed and sold from the site. The URA expects the final year of significant capital expenditure on the project will be in 2022-23, with sales continuing until 2027-28.

Tonsley inventory is valued at $18 million ($29 million). Income from inventory sales was $19 million ($4 million), while capital expenditure was $5 million ($6 million). Sales include $10 million to be received under a deferred payment arrangement from a property developer.

## Woodville West

The Woodville West medium density residential development commenced in 2009 following Cabinet approval for the then Department for Communities and Social Inclusion to demolish outdated SAHT owned dwellings and create new dwellings. The project was transferred to the URA in April 2012.

The Woodville West project was substantially completed in 2020-21. The remaining inventory is valued at $3 million ($4 million). Income from inventory sales was $1 million ($11 million), while capital expenditure in 2021-22 was $29,000.

## Bowden

Bowden is a higher density urban infill project expected to house approximately 3,200 residents in over 1,850 dwellings, and has a substantial commercial and retail component. The URA manages land development, remediation, infrastructure works, community engagement and marketing, with the private sector purchasing vacant developed land for building construction. In 2022-23, the URA expects to finalise an agreement with a developer to redevelop the former gasworks site. It expects the final year of significant capital expenditure on the project will be in 2028-29, with sales continuing until 2034-35.

Bowden inventory is valued at $0 million ($0 million) after a $2 million write-down in 2020-21 due to the re-timing of sales to the later years of the project and increased capital expenditure. Income from inventory sales was $6 million ($9 million), while capital expenditure was $3 million ($3 million).

## Prospect

Prospect is a residential development on land purchased in 2020-21. The project aims to deliver 170 new dwellings with 55% to 60% affordable housing outcomes (apartments and townhouses utilising HomeStart Finance's shared equity product). The URA expects the final year of significant capital expenditure on the project will be in 2024-25, with sales continuing until 2025-26.

Prospect inventory is valued at $8 million ($8 million), while capital expenditure in 2021-22 was $97,000.

## Forestville

Forestville will be a residential and food-orientated retail development on the former Le Cornu site purchased in 2020-21. The project will commence in 2022-23 with key planning, engagement and approval activities to take place, led by a consortium contracted to deliver the development. The project currently aims to deliver 305 medium to high density dwellings.

Forestville inventory is valued at $29 million.

# Annexure – Agencies we audit whose financial statements will be published on the Auditor-General's Department website

The *Public Finance and Audit Act 1987* (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. The PFAA also allows me to publish other documents on that website. This includes 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 the agencies I audit on the Auditor-General's Department website (www.audit.sa.gov.au).

## A.1 Agency financial statements included in this Annual Report to be published immediately after it is tabled

The following agencies are included in Part C and their financial statements will be published on our website immediately after this Annual Report is tabled.

Adelaide Festival Centre Trust
Adelaide Venue Management Corporation
Attorney-General's Department
Auditor-General's Department
Barossa Hills Fleurieu Local Health Network Incorporated
Central Adelaide Local Health Network Incorporated
Child Protection – Department for
Correctional Services – Department for
Courts Administration Authority
Education – Department for
Energy and Mining – Department for
Environment and Water – Department for
Environment Protection Authority
Eyre and Far North Local Health Network Incorporated
Flinders and Upper North Local Health Network Incorporated
Health and Wellbeing – Department for
HomeStart Finance
Human Services – Department of
Infrastructure and Transport – Department for
Innovation and Skills – Department for
Lifetime Support Authority of South Australia
Limestone Coast Local Health Network Incorporated
Motor Accident Commission
Northern Adelaide Local Health Network Incorporated

Premier and Cabinet – Department of the
Primary Industries and Regions – Department of
Public Trustee
Return to Work Corporation of South Australia
Riverland Mallee Coorong Local Health Network Incorporated
SA Ambulance Service Inc
South Australia Police
South Australian Fire and Emergency Services Commission
South Australian Government Financing Authority
South Australian Housing Trust
South Australian Superannuation Board
South Australian Superannuation Scheme
South Australian Tourism Commission
South Australian Water Corporation
Southern Adelaide Local Health Network Incorporated
Southern State Superannuation Scheme
Super SA Retirement Investment Fund
Superannuation Funds Management Corporation of South Australia
TAFE SA
Treasury and Finance – Department of
Treasurer's statements
Urban Renewal Authority
Wellbeing SA
Women's and Children's Health Network Incorporated
Yorke and Northern Local Health Network Incorporated

## A.2 Agency financial statements not in this Annual Report and to be published after the audit is completed

The financial statements of the following agencies that are not included in Part C of my Annual Report will be published on our website as soon as reasonably practicable after their audit is completed.

Aboriginal Lands Trust
Adelaide Cemeteries Authority
Adelaide Festival Corporation
Adelaide Film Festival
Agents Indemnity Fund
Alinytjara Wilurara Natural Resources Management Board
Art Gallery Board
Australian Children's Performing Arts Company
Australian Energy Market Commission
Board of the Botanic Gardens and State Herbarium
Carrick Hill Trust
Coast Protection Board
Commission on Excellence and Innovation in Health

Construction Industry Training Board
CTP Regulator
Dairy Authority of South Australia
Defence SA
Distribution Lessor Corporation
Dog and Cat Management Board
Dog Fence Board
Electoral Commission of South Australia
Essential Services Commission of South Australia
Eyre Peninsula Landscape Board
Generation Lessor Corporation
Governors' Pensions Scheme
Green Adelaide Board
Health Services Charitable Gifts Board
Hills Fleurieu Landscape Board
History Trust of South Australia
House of Assembly
Independent Commissioner Against Corruption
Independent Gaming Corporation Ltd
Infrastructure SA
International Koala Centre of Excellence
Joint Parliamentary Service
Judges' Pensions Scheme
Judicial Conduct Commissioner
Kangaroo Island Landscape Board
Legal Services Commission
Legislative Council
Libraries Board of South Australia
Limestone Coast Landscape Board
Local Government Finance Authority of South Australia
Lotteries Commission of South Australia
Mamungari Conservation Park Co-management Board
Minister for Primary Industries and Regional Development – Adelaide Hills Wine Industry Fund
Minister for Primary Industries and Regional Development – Barossa Wine Industry Fund
Minister for Primary Industries and Regional Development – Citrus Growers Fund
Minister for Primary Industries and Regional Development – Clare Valley Wine Industry Fund
Minister for Primary Industries and Regional Development – Grain Industry Fund
Minister for Primary Industries and Regional Development – Grain Industry Research and Development Fund
Minister for Primary Industries and Regional Development – Langhorne Creek Wine Industry Fund
Minister for Primary Industries and Regional Development – McLaren Vale Wine Industry Fund

Minister for Primary Industries and Regional Development – Riverland Wine Industry Fund
Minister for Primary Industries and Regional Development – South Australian Apiary Industry Fund
Minister for Primary Industries and Regional Development – South Australian Cattle Industry Fund
Minister for Primary Industries and Regional Development – South Australian Grape Growers Industry Fund
Minister for Primary Industries and Regional Development – South Australian Pig Industry Fund
Minister for Primary Industries and Regional Development – South Australian Sheep Industry Fund
Murraylands and Riverland Landscape Board
Museum Board
Native Vegetation Fund
Northern and Yorke Landscape Board
Office for Public Integrity
Office for Recreation, Sport and Racing
Office of Green Industries SA
Office of Hydrogen Power South Australia
Office of the Commissioner for Public Sector Employment
Office of the Industry Advocate
Office of the National Rail Safety Regulator
Office of the South Australian Productivity Commission
Outback Communities Authority
Parliamentary Superannuation Scheme
Planning and Development Fund
Police Superannuation Scheme
Premier's Delivery Unit
Professional Standards Council
Rail Commissioner
Residential Tenancies Fund
Retail Shop Leases Fund
Rural Industry Adjustment and Development Fund
Second-hand Vehicles Compensation Fund
Small Business Commissioner
South Australian Ambulance Service Superannuation Scheme
South Australian Arid Lands Landscape Board
South Australian Country Arts Trust
South Australian Country Fire Service
South Australian Film Corporation
South Australian Forestry Corporation
South Australian Local Government Grants Commission
South Australian Metropolitan Fire Service
South Australian Skills Commission
South Australian State Emergency Service
South Eastern Water Conservation and Drainage Board
State Opera of South Australia

State Owned Generators Leasing Co Pty Ltd
State Planning Commission
State Theatre Company of South Australia
Stormwater Management Authority
StudyAdelaide
Super SA Select Fund
Teachers Registration Board of South Australia
Trade and Investment – Department for
Transmission Lessor Corporation
West Beach Trust

# Part C – General index

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## D



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## F



## G



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## I

## R



## S

## T