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Report

of the

Auditor-General

Annual Report
for the
year ended 30 June 2009

Tabled in the House of Assembly and ordered to be published, 13 October 2009

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Part A: Audit Overview

By Authority: T. Goodes, Government Printer, South Australia

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Government of South Australia
Auditor-General's Department

9th Floor
State Administration Centre
200 Victoria Square
Adelaide SA 5000
DX 56208
Victoria Square
Tel +618 8226 9640
Fax +618 8226 9688
ABN 53 327 061 410
audgensa@audit.sa.gov.au
www.audit.sa.gov.au

30 September 2009

The Hon R K Sneath, MLC
President
Legislative Council
Parliament House
ADELAIDE SA 5000

The Hon J J Snelling, MP
Speaker
House of Assembly
Parliament House
ADELAIDE SA 5000

Gentlemen

REPORT OF THE AUDITOR-GENERAL: ANNUAL REPORT FOR THE YEAR ENDED 30 JUNE 2009

Pursuant to the provisions of the *Public Finance and Audit Act 1987*, I herewith provide to each of you a copy of my 2009 Annual Report. This Report includes the Honourable the Treasurer's Statements for the financial year ended 30 June 2009.

Content of the Report

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

Part A – The Audit Overview contains a summary of certain matters of importance regarding the audit program of work conducted at public sector agencies for 2008-09. More detailed comment on these matters is made in Part B Agency Audit Reports.

Part B – Agency Audit Reports (Volumes I, II, III, IV and V) contain comment on the operations of individual public authorities, the financial statements of those public authorities, and the Treasurer's Statements. A number of matters in Part B of this Report that, in my opinion, are of administrative and/or financial management importance to the Government and the Parliament are listed separately under the heading 'References to Matters of Significance'. This list can be found immediately after the Table of Contents in the front of Volumes I, II, III, IV and V of Part B.

Part C – The State Finances and Related Matters presents a general review, and report on the public finances of the State.

Auditor-General's Annual Report

In accordance with subsection 36(1)(a) of the *Public Finance and Audit Act 1987*, and subject to comments made within this Report, I state, that in my opinion:

(i) the Treasurer's Statements reflect the financial transactions of the Treasurer as shown in the accounts and records of the Treasurer for the financial year ended 30 June 2009;

(ii) the financial statements of each public authority reflect the financial transactions of the authority as shown in the accounts and records of the authority;

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

Whilst I have not seen fit to express a qualified opinion with respect to matters referred to in subsection 36(1)(a)(iii) above, there have been cases where in some agencies, systems of internal controls have not, in my opinion, been of an acceptable standard. Where this has occurred, I have, in accordance with the provisions of subsection 36(1) of the *Public Finance and Audit Act 1987*, drawn attention to this fact and included comment on my reason(s) in the report on the agency concerned in Part B of this Report.

Report and Opinion on Controls

As required by subsection 36(1)(a)(iii) of the *Public Finance and Audit Act 1987*, the audit included an assessment of the controls exercised by the Treasurer and public authorities in relation to the receipt, expenditure and investment of money, the acquisition and disposal of property and the incurring of liabilities and also, where applicable, whether the controls in operation were consistent with the Treasurer's Instructions with particular focus on TIs 2 and 28. The overall aim of that assessment was to establish whether those controls were sufficient to provide reasonable assurance that the financial transactions have been conducted properly and in accordance with the law.

It is not practical in any such assessment to review each and every control in respect of each and every transaction. Whilst every effort is made to test the sufficiency of controls across a representative range of transactions, it must be remembered that no system of control is 'fail-safe'.

The Parliament has recognised this in stating that the controls need only be sufficient to provide, at the time of audit, 'reasonable assurance' of the matters set out in subsection 36(1)(a)(iii).

The Audit assessment has been made by reviewing the adequacy of procedures and testing a number of control components against a range of financial transactions conducted at various levels of the organisation.

In assessing the sufficiency of these controls, particular regard has been had to the organisation's structure, risk and the inter-relation of policies, procedures, people, management's philosophy and operating style, demonstrated competence, and overall organisational ethics and culture. All of these matters serve as inter-related elements of control.

The standard by which Audit has judged the sufficiency of controls is whether and how well those controls provide reasonable assurance that financial transactions of the Treasurer and public authorities have been 'conducted properly and in accordance with law'. This concept requires the organisation to meet the standards of financial probity and propriety expected of a public authority and, at all times, discharge its responsibilities within the letter and spirit of the law, both in terms of its own charter and as an instrumentality of government discharging public functions.

Except for the matters detailed for each agency in Part B of my Report under the section 'Audit Findings and Comments', Audit formed the opinion that the controls exercised in relation to the receipt, expenditure and investment of money; the acquisition and disposal of property; and the incurring of liabilities were sufficient to provide reasonable assurance that the financial transactions were conducted properly and in accordance with the law. In respect of those matters where the controls exercised were not sufficient to provide that level of assurance, Audit has made recommendations as to where improvements are required.

Modified Independent Auditor's Reports

For the financial year ended 30 June 2009 qualified opinions were expressed on the Financial Statements of the following agencies:

- Department for Environment and Heritage
- Local Government Finance Authority of South Australia
- South Australian Motor Sport Board
- Department for Transport, Energy and Infrastructure
- University of South Australia

In addition, without qualification to the WorkCover Corporation of South Australia's Independent Auditor's Report, the Report drew attention to the inherent uncertainty associated with the outstanding claims liability reported at 30 June 2009.

In all cases where a modified opinion is given, the Independent Auditor's Report includes an explanatory paragraph clearly describing the reason for issuing a modified opinion. Further the reason for issuing a modified opinion is described in the commentary on each of those agencies to be found in Volumes I, II, III, IV and V of Part B of this Report.

Acknowledgments

I would again like to sincerely thank my staff for their dedicated efforts throughout the year. Their professionalism and dedication have been of the highest order and is reflected in the contents of this Report.

In addition I extend my thanks to the Under Treasurer, Government Publishing SA, and their staff, and the report printing coordinator, Mr D O'Keefe, for their efforts which have assisted materially in the production of this Report. The cooperation of all public authorities with my staff during the financial year is also acknowledged.

Yours sincerely,

S O'NEILL
AUDITOR-GENERAL

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AUDIT OVERVIEW

INTRODUCTION

My last Report was presented at a time of global financial difficulty and uncertainty. It turned into a global financial crisis and years of continuous growth in government revenues to fund increasing expenses were over.

The crisis caused the Government to revisit its budget position and priorities, through initially the 2008-09 Mid Year Budget Review and then the 2009-10 Budget. Both documents set significant targeted savings strategies in order to restore the State Budget from deficit positions in 2008-09 and 2009-10 to a surplus position in 2010-11. I make further summary comment on the State Budget position and finances in this Audit Overview and more detailed comment in Part C of this Report.

The global financial crisis, characterised by depressed financial markets, also contributed to negative investment returns and operating losses for the second straight year, for some of the State's large public authorities. These include the Superannuation Funds Management Corporation of South Australia, Motor Accident Commission and the WorkCover Corporation of South Australia (WorkCover).

Legislative change effective from 1 July 2008 made the Auditor-General the statutory external auditor of WorkCover. As a result, WorkCover is included for the first time in Part B of this Report. Commentary on WorkCover's and the other public authorities' financial operations for 2008-09 is provided in the respective agency report included in Part B of this Report.

The financial administration and management arrangements of many government agencies were affected in 2008-09 by the significant transitioning of the core financial services from the agencies to the Government's shared service provider, Shared Services SA (SSSA). Concurrently agencies were required to implement requirements of a revised financial principles and compliance framework, set out in Treasurer' Instructions which came into effect for 2008-09. Relevant observations and comments concerning these developments are provided in this Audit Overview and the agency reports of Part B of this Report.

The annual audits of agencies continue to include a focus on aspects of information and communications technology (ICT) developments and controls. The important matter of information systems security is discussed in this Audit Overview, and relevant findings from ICT audits of agencies during the year are the subject of comment in the agency reports of Part B of this Report.

This Audit Overview section of this Report concludes with a brief comment identifying Audit reviews that were in progress at the time of finalising this Report.

THE AUDIT PROCESS: IMPLEMENTATION OF A REPLACEMENT AUDIT METHODOLOGY

The mandate given to the Auditor-General for the performance of audits in terms of the *Public Finance and Audit Act 1987* is silent with respect to the manner in which those audits are to be conducted. It is left to the Auditor-General to determine the most appropriate audit methodology to use. This is consistent with the principle of the statutory independence of the Office of the Auditor-General.

In determining the most appropriate audit methodology to use it is important that any methodology chosen represents best practice and contributes to the overall efficiency and effectiveness of audits conducted by the Department.

The Department's current audit software/methodology is licenced to the Department from a major international accounting firm until 2010. Next year will be the last year that this methodology will be applied to the audits of agencies. It has been in use for close to 10 years.

Replacing an audit methodology is a significant project and the market for the supply of auditing software/methodology is very limited. The Department has been exploring options for a possible replacement. One possible replacement is a software/methodology that has been developed by and is used in some interstate Audit Office jurisdictions. This was tested in 2008-09.

The Department in 2009-10 will follow a process to fully evaluate, select and implement a replacement audit methodology, with partial implementation to occur in 2009-10 and full implementation in 2010-11.

THE PUBLIC FINANCES

Estimated results for 2008-09

The 2009-10 Budget shows the net operating balance for 2008-09 is estimated to deteriorate by $425 million to a deficit of $265 million from the budgeted $160 million net operating balance surplus. This is due to sharply deteriorating Goods and Services Tax revenue grants and taxation revenue without equivalent reductions in general operating expenses. Overall revenues and expenses exceed budget but this is largely due to the State receiving large Commonwealth economic stimulus grants and other Commonwealth funding and the related flow through spending.

Net borrowing is estimated to be $932 million, compared to budget of $548 million, the difference being due to the fall in the net operating balance. The general government sector is estimated to have net debt of $659 million at the end of 2008-09, $49 million higher than was budgeted.

Negative movements of investment markets resulted in the falls in the market value of investment assets.

The Superannuation Funds Management Corporation of South Australia, which manages the majority of the Government's financial assets, incurred a net loss from investing activities in 2008-09 of $2 billion. As the majority of managed funds are superannuation assets, most of this loss is reflected in an increase in the unfunded superannuation liability.

Unfunded superannuation liabilities are estimated to increase $3.3 billion to $9.7 billion for the year to 30 June 2009. This increase is extraordinary and is due to the following:

- $2 billion of the increase is due to the collapse of interest rates in 2008-09. Unfunded superannuation liabilities are valued at points in time by discounting future superannuation benefit payments by a discount rate that reflects the risk-free interest rate. A discount rate of 5.2 percent was used for the 2009-10 Budget, compared with 6.3 percent for the 2008-09 Budget. Should interest rates increase in the future, the value of the liability will reduce.

- A further $1.3 billion of the increase in unfunded superannuation liabilities is due to the negative returns from investment markets. The Government reports that by increasing its past service superannuation cash payments and assuming that the long-term target earnings rate will be achieved in the future, it remains on track to fully fund the superannuation liability by 2034.

The negative market returns caused a further deterioration in the Motor Accident Commission's statutory solvency level, calculated in accordance with a formula determined by the Treasurer, to 91.3 percent of the target level of solvency compared to

101.5 percent for the previous year. As at 30 June 2009 the Commission had net assets of $70 million, despite two years of poor investment markets leading to negative returns and operating losses.

WorkCover, which manages its own investments, also incurred a loss, resulting in a decline of its funding ratio from 60.8 percent to 56.7 percent, compared to the WorkCover Board approved target funding range of 90 to 110 percent. As at 30 June 2009 WorkCover had a net liability position of $1.1 billion although it recorded an improved operating result.

Budget forecasts 2009-10 to 2012-13

The net operating balance is projected to drop further in 2009-10 and then, only two years after the crisis, return to surplus in 2010-11 provided that expenses fall. Revenues also fall compared to 2009-10 and remain subdued over the forward estimates. To return to an operating surplus, the Government identified operating savings of $830.7 million over four years essentially commencing in 2010-11. How most of these savings are achieved depends on future recommendations by the Sustainable Budget Commission and their effective implementation.

The projected decrease in expenses in 2010-11 is clearly at variance with what was experienced or estimated in recent years. While an estimated increase in expenses in 2008-09 and 2009-10 and subsequent decrease in 2010-11 is magnified by the flow through effect of Commonwealth stimulus funding, achieving a surplus in 2010-11 by reducing expenses stands out as a key risk to the current budget strategy. I also note there is a risk to continually seeking to draw savings from the administrative/support service part of the workforce.

Last year I commented that prevailing economic events and the nature of some aspects of recent budgets elevated some of the risks to the 2008-09 Budget and beyond. I noted accordingly, these risks warranted the highest attention for monitoring, reporting and management of budget spending and revenues.

The events that ultimately unfolded in the latter part of 2008 and early 2009 were well beyond general expectations and are now considered the worst since the Great Depression.

Contingency provisions are built into the Budget to a similar extent to previous years. Beyond this and other changes in spending or taxation policies, unfavourable outcomes will flow to the net operating deficit and to net debt.

Revenue forecasts for the 2009-10 Budget are characterised by significant, temporary compositional changes. The Commonwealth responded to the global financial crisis with economic stimulus and other nation building funding to the states from which this State receives, over the next four years, nearly $3 billion in one-off infrastructure grant funding. Importantly, these monies are required to be spent on projects and are not available as general purpose revenue.

Net lending

With the combined influence of state and Commonwealth spending initiatives, general government sector capital spending (total net acquisition of non-financial assets) grows to extraordinarily high levels as the following explains:

- Spending peaks in 2009-10 and 2010-11 with both years targeting capital spending of $2.2 billion.
- This is $833 million or 62 percent more than estimated for 2008-09 and double what is estimated to be spent by 2012-13.

The capital program is well beyond the magnitude of any in many years and brings with it control risks to manage over the next two years to maintain accountability and take full advantage of the value of the proposed outlays.

General government sector net debt increases by $2.5 billion to $3.1 billion in 2012-13 from projected net borrowing (net lending deficits) due to the Government's significant capital investment program and net operating deficits in 2008-09 and 2009-10. Net debt of public non-financial corporations increases by $1 billion over the same period to $3.5 billion bringing total net debt to $6.6 billion and representing 7 percent of Gross State Product by 2012-13.

Budget monitoring and reporting

As occurred last year, Audit reviewed aspects of the Government's and the Department of Treasury and Finance (DTF) budget monitoring process for 2008-09, including operating results, overall savings targets and capital spending estimates. The Audit review also showed an improvement in data quality with the majority of agencies rated as medium and high on a high to low scale.

Monitoring reports for 2008-09 showed that the overall end of year net operating projection for 2008-09 was mainly affected by the Department of Health which at May 2009, estimated a significant year-end deterioration in the order of $90 million. Of total planned savings:

- $129 million of portfolio savings was expected to be achieved as at 31 March 2009 but a shortfall of $38 million was likely, primarily due to the Department of Health where health service reforms and operations savings would not be achieved

- $45 million of central savings related essentially to shared services. $27.9 million was allocated to agencies and delays were experienced in delivering the remaining $17 million.

To achieve the expected capital program depended on agencies more than doubling expenditure in the last four months of the year compared to the average for the year to date.

Concluding comments

The 2009-10 Budget was prepared to respond to the global financial crisis that challenges all governments. While the Government does not expect to achieve some of its fiscal targets for part of the Budget period, the Budget ambitiously aims for a return to a net operating surplus in 2010-11. It has the welcome benefit of nearly $3 billion in one-off infrastructure grant funding. The extent of the capital project program has attendant operating risks arising from the number and value of projects. Savings initiatives play a substantial role toward achieving the Budget targets and experience is that some savings are difficult to achieve and/or to achieve within the desired timeframes. These areas will receive enhanced audit attention in the forward years.

Responses to my inquiries to the DTF about any changes to budget processes in response to the global financial crisis display confidence in the existing mechanisms of regular review and providing up-to-date advice on budget financial management. As always, strong and effective controls based on sound information systems, reporting integrity and effective monitoring are needed to support achieving the Budget targets.

Part C of this Report

More detailed commentary and Audit observations on aspects of the State's finances are presented in Part C of this Report. That commentary includes observations on the Treasurer's Financial Statements, prepared pursuant to the *Public Finance and Audit Act 1987* to report on transactions and balances in the public accounts.

The main public accounts are the Consolidated Account and Special Deposit Accounts and Deposit Accounts established pursuant to the *Public Finance and Audit Act 1987*.

FINANCIAL MANAGEMENT, ACCOUNTABILITY AND COMPLIANCE: CHANGED ARRANGEMENTS FOR AGENCIES: WORK STILL TO BE DONE

Introduction

A major part of the annual audit of government agencies involves the review of governance and accountability structures and policies and processes, including risk management and control and financial compliance arrangements.

Last year's Report mentioned that agencies will need to revisit these matters in response to changing circumstances and that it was highly relevant for the 2008-09 year.

Many agencies in 2008-09 were involved with the transition of their core financial services to SSSA causing changes to be made to their financial and accounting policies and procedures. At the same time the agencies were required to respond to a revised Treasurer's financial principles and compliance framework that came into effect for 2008-09.

The 2008-09 audit program for agencies included inquiry and review of the work undertaken by agencies to meet the requirements of the revised Treasurer's financial and compliance framework.

As the framework sets out policy and guidelines on the essential processes and controls required for good financial management and accountability, it is fundamental to the statutory audit mandate.

In particular, the Auditor-General is required by the *Public Finance and Audit Act 1987* to assess and give an opinion on the adequacy of internal control of the auditee agency. Inadequate regard to the framework requirements set out in Treasurer's Instructions can result in a qualification (exception) comment to the 'assessment of controls' opinion given for each agency in Part B of this Report.

Meeting the revised (replacement) framework

Up until this year the Financial Management Framework (FMF), issued under the Treasurer's Instructions (TIs), prescribed the key elements of governance and accountability to be followed by agencies.

Revised or new TIs, effective 1 July 2008, have resulted in the withdrawal of the FMF and introduction of a new Treasurer's financial principles and compliance framework. The relevant TIs are now the revised TI 2 'Financial Management' and the new TI 28 'Financial Management Compliance Program' (collectively referred to in this Report as the revised TIs 2 and 28).

The main changes are that mandatory requirements are in the TIs and the new TI 28 requires chief executives to develop, implement, document and maintain a robust and transparent Financial Management Compliance Program (FMCP). The FMCP is to address relevant policies, procedures, systems, internal controls, risk management, financial activities and reporting, and the adequacy of management reporting.

The way that agencies have approached and addressed the requirements of TIs 2 and 28, especially the new and significant requirement of TI 28 of implementing a FMCP, has differed. This is understandable, reflecting differences in agency structures and operations, including whether agencies have an audit committee and/or internal audit activity. Further, it has also reflected how well the agencies had addressed the governance and accountability requirements of the previous FMF, as many of the requirements carry through to the revised framework. In last year's Report I indicated that some governance and accountability processes in agencies required improvement.

Whatever the approach or actions taken by agencies to meet the requirements of TIs 2 and 28 the following briefly comments on certain matters that it is considered should be addressed. Audit focused on these matters when reviewing the status of the relevant agency during the year.

- ***Risk and fraud management*** – agencies implement and maintain appropriate governance frameworks including those which address risk and fraud management.
- ***Control and authority frameworks*** – agencies develop, document, formally approve and implement appropriate delegations of authority.
- ***Policies and procedures*** – agencies develop, and maintain policies, procedures, systems and internal controls.
- ***Documentation*** – agencies describe the FMCP and document the activities to regularly assess the adequacy of, and monitor compliance with the FMCP.
- ***Independent review*** – the agency financial management activities and FMCP incorporate independent review to support ongoing compliance and continuous improvement.

Audit observations

Agency reports in Part B of this Report provide comments on the status and progress of the agencies in addressing the requirements of TIs 2 and 28.

An overall review of those agency comments show that while many agencies are at varying stages of addressing a number of the salient matters described above, only a minority of agencies have satisfactorily met the requirements of both TI 2 and 28.

What earmarks those agencies from all other agencies is that they have adequately addressed the requirements of TI 2 and also the significant requirement of the new TI 28. As previously mentioned TI 28 requires the development and implementation of a FMCP which is integral to the revised financial principles and compliance framework. These agencies had conducted a FMCP covering the 2008-09 financial year.

Where Audit has concluded that an agency has not as yet addressed sufficiently the implementation requirements of TIs 2 and 28, a qualification (exception) comment to that effect has been included in the 'assessment of controls' opinion for the agency together with the related audit findings.

The audits of the financial management and accounting activities of agencies continue to highlight some basic weaknesses in the control environments and specific financial controls within agencies. These matters are also the subject of comment in agency reports in Part B of this Report. The lack of timely and adequate reconciliation processes for key accounts and systems in agencies is a frequently raised audit issue and is of concern. The timely performance of reconciliations is a key preventive and detective control for fraud. Also, the failure to reconcile significant accounts can inhibit the timeliness of preparation and audit of agency financial statements and/or result in the qualification of those financial statements.

Concluding comments

TIs 2 and 28 became effective for the 2008-09 financial year. At the same time that agencies were addressing the requirements of the TIs they were also involved in the shared services transitioning arrangements for some core financial services.

Audit review of the progress of agencies in meeting the requirements of TIs 2 and 28 revealed only a minority of agencies that had adequately implemented the requirements of the TIs. The extent of progress may have been influenced by the agencies' involvement in shared services transitioning arrangements.

There is still more work to be done by most agencies in 2009-10 to address outstanding issues with the implementation of TIs 2 and 28. In particular, that agencies in 2009-10 have in operation an effective FMCP.

In my opinion an effective FMCP will facilitate continuous improvement of the financial management and control and accountability processes of agencies. In this regard Audit will report in 2009-10 on the achievement of agencies to implement a FMCP.

THE SHARED SERVICES INITIATIVE: IMPLEMENTATION STATUS AND SAVINGS: AUDIT OBSERVATIONS

Introduction

The shared services initiative was announced in September 2006 in the 2006-07 Budget. The initiative involves transferring high volume administrative functions such as payroll, accounts payable, accounts receivable and other services and the related staff to a central service provider, SSSA. The underlying principle for the initiative is to streamline and simplify administrative and technology services bringing significant increases in efficiency and savings across all government agencies.

The shared services model adopted involves transitioning services from agencies 'as is', with review, reform and improvement of services to follow. The 'as is' transition involves services transitioned in their current state with the current agency employees and systems. Under this model the bulk of service reform and improvement happens after SSSA assumes ownership and responsibility for service provision to agencies.

Governance arrangements

The Shared Services Reform Office (SSRO) was established in October 2006 to develop a strategy and following approval, implement the initiative. The SSRO was succeeded by SSSA in October 2007. The project is overseen by the Chief Executive Shared Services Steering Committee (CESSSC) established in November 2006. The CESSSC comprises the Under Treasurer, Chair and the Chief Executives of certain major government departments together with the Executive Director SSSA.

While SSSA is a part of the DTF it has also established some specific governance structures. For example it has its own internal audit program and FMCP.

In addition, a Program Governance Board was established within SSSA in 2008-09 and is chaired by the Executive Director, SSSA. The Board consists of senior executives from SSSA and is responsible for ensuring that the shared services program meets its strategic objectives. In doing this it:

- ensures that projects are considered consistent with established frameworks (project prioritisation, program management, project management and change management)
- has specific responsibilities under the various frameworks
- considers applicable whole-of-government initiatives and their impact on SSSA.

SSSA is organised into a number of directorates. There is a separate service delivery directorate with each service (employee services, procure to pay, accounting services, ICT services and financial services) headed by a service delivery director. For the reform program there are also four separate directors appointed for the major reform areas.

SSSA have advised that at 30 June 2009 there are 554 full time equivalent staff in the service delivery area and 139 full time equivalent staff allocated to shared services reform and transition.

Progress of reform

The transfer of staff and services started in July 2008 and continued throughout 2008-09. The transfers in 2008-09 included:

- ***Tranche 1*** – accounts payable, payroll and accounts receivable functions were transferred throughout the year in three groups. This involved 586 full time equivalent employees from around 50 agencies.

- ***Tranche 2*** – Group 1 – the transition of financial services functions for six agencies occurred in early June 2009. This involved the transfer of 56 full time equivalent employees.

The financial services function defined nine services as in-scope; general accounting, external reporting, cash management, project accounting and job cost, system generated reporting, financial systems support, taxation, fixed asset accounting and purchase cards. The transition has been divided into two groups. The transition of the rest of the in-scope Group 2 agencies is expected to occur in late October 2009.

In most cases the transfers are 'as is'. That is the services transitioned in their current state with the current agency employees and systems.

Implementation risks

I mentioned last year that the initiative experienced delays from original timeline targets and that risks of not achieving the initial implementation cost and savings targets were identified. Transition delays, reduced in-scope employees, accommodation 'dead rent' and potential redeployment costs, have all put pressure on achieving announced savings and budgeted implementation costs.

At the time of the 2006-07 Budget, the implementation of shared services arrangements aimed to save $130 million (including savings from Future ICT and associated changes) over four years to 2009-10 offset by implementation costs of $60 million over the same period.

I noted last year that Cabinet was advised that, based on revised data, it would be difficult to fund the transition activities to completion from the $60 million budget. Cabinet were also advised that various factors have meant that savings from shared services may be lower than currently factored into the Budget. This reflects both the delay in implementation and the lower savings potential revealed by detailed information gathered during implementation.

In December 2008, Cabinet was advised that funding provided for the implementation of shared services was not sufficient to allow the full range of business and corporate services identified as potentially in-scope, in the October 2007 Cabinet submission, to be transitioned. That is, based on transitioning all in-scope corporate and business services the current transition strategy and timing would have significant additional implementation costs. It was also noted that the planned schedule for savings realisation is considered unrealistic, but the savings are considered attainable over a longer period.

Alternative transition strategy

As a result of the issues advised to Cabinet in December 2008 an alternative transition strategy was proposed. This strategy was based on achieving most of the savings identified and introducing some cost effective measures. The strategy varies from the original transition strategy as follows:

- Tranche 2 services re-defined. This will include transitioning financial services functions only for agencies that operate on the Masterpiece Financial System and are mainly CBD based. SA Health is a major exclusion from this transition.

- The remaining services (ICT services other than those provided by Government ICT and human resource services beyond the existing Tranche 1 services) will be deferred to Tranche 3. This transition will only be considered once the realisation of Tranche 1 and 2 services are well progressed.

- Defer indefinitely the transition of services from the remainder of Tranche 1 Agencies (approximately 40 small agencies).

Under this strategy the requirement for additional accommodation beyond Westpac House and Wakefield House has been deferred. The accommodation requirements for Tranche 2 service not yet transitioned will be met from the two buildings already occupied by SSSA.

It is estimated that additional operating expenditure of $11.64 million will be required over the 2009-10 to 2012-13 financial years to design, develop and implement Tranche 2 services. A major part of this expenditure is rental expenditure for Westpac House. Cabinet was advised in December, 2008 that a significant amount of this expenditure should be covered through agency accommodation rationalisation from Tranche 1 and Tranche 2 employees transitioned.

Additional funds would be required to progress transitions beyond the re-defined Tranche 2. Cabinet was advised that these funds will only be sought if justified by additional savings.

I also note that, in June 2009, $10 million was transferred into the Shared Services Special Deposit Account as 'working capital'. This amount was provided to meet an expected cash deficit. The payment was necessary as cash received for employee liabilities was insufficient to fund operations prior to agency service payments being received, together with a shortfall caused by delayed payments from agencies and some one-off transactions prior to 30 June 2009.

Accommodation

In July 2007, Cabinet approved a five year lease for space at 91 King William Street (Westpac House). This provides office accommodation for up to 680 SSSA employees (accounts payable and accounts receivable functions). At the time the Government Office Accommodation Committee (GOAC) noted that relocating employees was likely to result in significant vacant space in existing lease commitments. GOAC highlighted the need for effective backfill strategies for vacated premises to minimise the Government's exposure to 'dead rent' and to achieve anticipated cost savings.

In March 2008, Cabinet endorsed a submission for SSSA to occupy the whole of the government-owned Wakefield House to provide around 760 seats to meet estimated accommodation shortfalls. Wakefield House would provide payroll and ICT functions for SSSA.

In May 2008, Cabinet approved the lease arrangements for space at 77 Grenfell St and associated fit-out works to accommodate an additional 1000 employees associated with Tranche 2 and 3 services. This building was expected to be progressively required by SSSA from 1 July 2009.

I note advice to Cabinet that, at the time of the original budget allocation for shared services, it was assumed that accommodation savings would be realised by agencies as soon as staff moved to SSSA. It was also assumed that accommodation for SSSA would be readily available when required and there was no allowance for fit-out costs. These matters substantially underestimated the transition costs associated with accommodation. It was noted that many agencies will find it difficult to quickly realise accommodation savings.

In 2008-09 accommodation needs were re-assessed as part of an alternative transition strategy referred to above. As a result, Cabinet was advised that SSSA would not require the lease of 77 Grenfell Street. This will mean that significant operating and investing expenditure, included in the Budget forward estimates for this building, will not be required.

SSSA needed to acquire and fit-out a large amount of accommodation before any accommodation savings are realised by agencies. There will be periods where rent is paid on empty accommodation ('dead rent'), as SSSA has to secure accommodation some time before it is to be occupied. SSSA have advised that, at 30 June 2009 total 'dead rent' was $2.2 million.

During the year it was also clear that agencies could not immediately realise accommodation savings as soon as staff transitioned to SSSA. As a consequence, accommodation savings were not extracted from agencies as part of the transition budget adjustments. However, SSSA pricing will reflect accommodation costs incurred by SSSA. As a result, savings realised will be lower by the amount of agency accommodation savings not realised.

Reporting savings

Last year I commented that accountability is expected for the outcome of the initiative and for budgeted savings targets. I also highlighted that there is a risk that announced savings achievements could misinform readers about the level and manner in which savings are achieved.

Cabinet has been advised that various factors have meant that savings from shared services may be lower than currently factored into the Budget. There is an expected significant shortfall of $14.7 million against budgeted savings for 2008-09. This reflects both reduction in-scope and delay of implementation as initially envisaged and the lower savings potential revealed by detailed information gathered during implementation.

In response to my request to provide details of all savings amounts now included in the Budget for shared services initiative since its announcement, DTF provided the following information.

Shared Services Saving Task

	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	
	Result	Est Result	Budget	Budget	Budget	Budget	
	$'000	$'000	$'000	$'000	$'000	$'000	
Savings budgeted 2006-07	25 000	45 000	60 000	60 000	60 000	60 000	
Less: Savings allocated:							
Future ICT savings	24 099	24 702	25 319	25 952	26 601	27 266	
Supply SA warehouses	-	1 082	1 469	1 811	1 417	1004	
ICT - mobile carriage services	515	2 109	2 162	2 216	2 272	2329	
Future ICT implementation cost offset	386	-	-	-	-	-	**Total**
Balance of Savings	-	17 107	31 050	30 021	29 710	29 401	**137 289**
Less: Savings already achieved by agencies (Tranche 1 services)		2 371	2 454	2 540	2 629	2 721	**12 715**
Current Balance of Savings - Shortfall		14 736	28 596	27 481	27 081	26 680	**124 574**

A major element of the total savings target is ICT. Agency expenditure budgets were reduced overall by $25 million each year in the 2007-08 Budget to achieve these savings.

The current balance of savings represents the shortfall against original savings budgeted. For example, in 2008-09 savings are expected to fall $14.7 million short of the budgeted savings of $45 million. The extent of the shortfall in subsequent years will depend on the success of the reform activities within SSSA. Cabinet was advised in December 2008 that the planned schedule for savings realisation is considered unrealistic, but the savings are considered attainable over a longer period.

As mentioned earlier, the model followed by the Government was to transition agencies 'as is' and then to review, reform and improve services at a later stage. There have been significant transitions of employees and processes over the last year and the reform of these processes is expected to contribute significantly to the achievement of the savings shortfall.

I mentioned last year that these reform processes are essentially about reducing staff numbers involved in administrative activities and consequently the related overheads. Most savings are expected to be reported through SSSA as staff numbers and on-costs reduce.

Some savings will also occur in agencies and may arise from activities that predated the involvement of SSSA, but are still linked to the shared services initiative. For example, the table above includes amounts for 'savings already achieved by agencies (Tranche 1 services)'. I am advised that these amounts represent savings that had been implemented by agencies subsequent to the initial baseline data collection and prior to the transfer of in-scope accounts payable, accounts receivable and payroll functions to SSSA. DTF advised that, in July 2009, the Treasurer approved this amount be allocated against the shared services savings provision.

Given the already identified pressure on achieving savings and cost targets, it will be important that reported outcomes consolidate and reflect all significant costs associated with implementation and only savings that are reasonably attributable to the initiative.

I am advised that the Budget includes a contingency to allow for the possibility that savings from shared services are not achieved. This contingency would be an offset to any savings shortfall and would prevent, or at least limit, any adverse impact on the budget bottom line.

E-Procurement reform

In August 2009 Cabinet approved the acquisition and development of an across government e-Procurement solution at a cost of approximately $23 million over six years. The funding for this project is not included in the $60 million implementation budget.

The solution essentially involves automating the purchasing and accounts payable process and has the following main components:

- purchase management module – includes the generation of purchase requisitions and the issuing of order to suppliers
- invoice processing – enables the review, approval and processing of invoices for payment
- scanning and optical character recognition – involves electronic scanning of invoices and the capture of invoice details without the need for manual entry.

The e-Procurement solution is expected to realise savings in four main categories:

- accounts payable efficiency – savings will be achieved through a reduction in FTE's
- SSSA and agency avoided costs
- sourcing and purchase ordering efficiency
- savings in the cost of goods and services.

Cabinet was advised that from 2012-13 annual savings are expected to be $16 million. A significant proportion of these savings ($10.8 million per annum) are expected to be realised by agencies through savings in the cost of goods and services.

It is noted that the proposal is to phase in the full recoup of these agency savings through agency budget adjustments over a three year period commencing in 2010-11 and then fully on an ongoing basis.

Concluding comments

Significant transition of employees and functions has occurred during the year. In particular, the core financial systems of accounts payable, accounts receivable and payroll for most government agencies in-scope are now transitioned to SSSA.

The next tranche of transitions involving financial services functions has already started and will progress during 2009-10. This will have a significant impact on the way agencies meet their financial management and reporting obligations, including the preparation of their annual statutory financial statements.

Cost pressures have led to a revision of the original transition program and the expected costs of implementation will exceed the $60 million originally budgeted. The additional operating expenditure required for Tranche 2 transition is expected to be $11.64 million. Further, it is clear that the timing of the quantum of savings originally expected to be achieved will not be met.

I also note that savings in key areas (for example, ICT, e-Procurement and accommodation) are captured through adjustments to agency budgets. This is a reasonable approach to setting savings targets. However, it is also important to demonstrate that initiatives have resulted in reduced expenditure for the specific areas. This would allow a clear and explicit measurement of the success of the reform initiatives.

The pressures on original cost and savings targets means it is important that savings identified are clearly attributable to the shared services reform initiative.

SHARED SERVICES SA: AUDIT REVIEW OF OPERATIONS AND CONTROL ENVIRONMENT

Introduction

The shared services initiative is intended to deliver corporate and business services to all departments of the South Australian public sector. The initiative includes re-allocating core financial administrative responsibilities from the service receiver (departments and other agencies) to the service provider (SSSA). It is a major initiative and involves fundamental change to public sector administrative arrangements.

Review of Shared Services SA activities in 2008-09

During 2008-09 the payroll, accounts receivable and accounts payable functions of around 50 agencies were transferred to SSSA. 586 full time equivalent employees were transitioned from individual government agencies to SSSA. The transition involved the establishment of detailed service level documentation explaining the nature of the arrangements. This included clear allocation of responsibilities for processing data and control activities.

The transition of functions in 2008-09 involved the transfer of whole functions and staff ‘as is’ from agencies to SSSA. Essentially this meant simply relocating existing staff and functions (and related IT infrastructure) to SSSA locations. Reform would occur later.

My audit coverage in 2008-09 included a review of the transitioned functions, including the service level documentation and the changes to the control environment at the government agency subject to transition. Audit work also extended to assessing the control environment established by SSSA for each individual 'as is' transition.

Some principles for shared services controls

I commented last year on some important principles to consider when transitioning agencies to a shared services environment. These included:

- negotiated arrangements must enable chief executives to demonstrate how they meet their responsibilities for agency control systems as required by the TIs
- a clearly defined set of practices and procedures should exist to direct and control the whole transaction process for each service function (ie payroll/HRMS; accounts receivable; accounts payable). These should be consistent with the respective control responsibilities of agencies and SSSA while also facilitating effective and efficient administration
- resource allocation between agencies and SSSA should support their respective responsibilities
- adequate controls must be maintained over the transition period.

SSSA responded that they have addressed these matters through the development of a clearly defined service level determination and supporting service catalogue which outlines responsibilities for each party. This involves the formal documenting of roles and responsibilities within operating level responsibility documents. Further, other initiatives established have included:

- survey of transitioning agencies to gain an understanding of the current control environment in relation to the relevant TIs
- development of an Internal Control Framework for SSSA and an Internal Control Checklist for each of the services which will result in an Internal Control Register for each agency service
- working closely with each agency to ensure that resource allocations support each respective responsibility and assisting agencies in the consideration of redesign of processes to ensure that adequate control is maintained
- collection and review of existing agency policies, procedures and other relevant documentation for each of the transitioning services to ensure an adequate control environment on transition
- development of a detailed transition readiness plan to ensure that SSSA, agencies and individuals are prepared for transition.

Audit of controls in a shared services environment

As mentioned earlier, the payroll, accounts payable and accounts receivable functions for around 50 government agencies were transferred to SSSA in 2008-09. These are the core functions which process the agencies' financial transactions. Therefore these are significant changes that impact on the control environment of the agencies.

A major focus of the audit of government agencies is on the core business cycles (such as revenue, expenditure and payroll) that generate information for inclusion in the financial statements of each public authority. The audit includes an assessment of the controls within the business cycles as well as testing financial records and transactions.

The services provided by SSSA form part of a public authority's controls and financial records and therefore were included in that assessment and testing in 2008-09.

The Audit mandate requires that each agency's control environment is assessed. Due to the differing range of systems, processes and procedures undertaken by SSSA and public authorities, each agency's control environment as performed by SSSA was also assessed separately. This was required due to the transition of functions from agencies to SSSA 'as is'. This was a significant audit effort and required the cooperation of SSSA to facilitate the efficiency and effectiveness of the audit process. SSSA provided that assistance.

Audit review of transitioned functions in 2008-09 indicated that, while the responsibility for processing transactions had transferred to SSSA, the majority of the control responsibility remained with the government agencies. That is, agencies were still responsible for the majority of controls that ensure transactions processed were properly authorised, valid and complete.

Notwithstanding, a common control issue identified by my audit of the shared services environment was the need to review and update policies and procedures that transitioned from agencies to SSSA. For details of control issues identified as part of the audit of the 'as is' environments reference should be made to commentary on the individual government agencies in Part B of this Report to Parliament.

The specifics of the responsibility for controls is documented in the service level determination and supporting documentation that was agreed between individual agencies and SSSA. Due to the transition of functions and staff most government agencies have experienced changes in the control environment. This has included implementation of new controls and allocation of control responsibilities to different officers.

As the control environment has changed it is incumbent on agencies and SSSA to clearly document (and assess for compliance) the changed control arrangements for their specific areas of responsibility. In most cases this will include a review and update of existing polices and procedures. This is consistent with the requirements of TI 2 which specifies that chief executives must develop, document, and maintain policies, procedures, systems and controls for all financial areas.

I also noted that SSSA have established an internal audit program and part of that program reviewed the control environment over the processing of transactions at SSSA. This review also identified areas for control improvement. The internal audit program is discussed further under the heading 'Shared Services SA internal audit strategy' below.

Audit of service delivery revenue controls

Audit review of SSSA in 2008-09 included a review of controls over the charges levied and collected from agencies. These charges are for the provision of transaction processing services. The review indicated that, while a number of controls had been established there was scope for improvement. For details of the audit findings and the SSSA response refer to the section of Part B of this Report titled the 'Department of Treasury and Finance'.

Transition of financial services functions in 2008-09

One of the significant impacts of the financial services transition is the transfer of responsibility to SSSA, from the agencies, for the preparation of the agencies' annual statutory financial statements. The specific responsibilities are outlined in service level documentation.

It is important to note that the financial services transition does not remove the statutory responsibility for the preparation and sign off of the financial statements from the chief executive and the chief financial officer of the transitioning agencies. It is critical, therefore, that the agencies and SSSA clearly understand and agree specific responsibilities for preparing financial statements and associated time frames. This will assist the transitioning agencies to meet their annual final draft financial statement submission date to the Auditor-General and overall financial statement accountability obligations.

During 2008-09 six agencies transitioned this function to SSSA with the rest of the in-scope agencies transitioning in 2009-10. This means that 2009-10 will see significant change in the processes for the preparation of financial statements and their subsequent audit. SSSA will have a critical role in preparing the financial statements for most major entities of government. This will extend to facilitating the audit of the financial statements.

Shared Services SA internal audit strategy

Last year I mentioned that SSSA have also developed an internal audit strategy outlining an approach to evaluating the effectiveness of the SSSA control environment. I also commented that a strong internal audit program and the type of agency assurances proposed in the strategy are vital elements to monitoring the maintenance of effective internal control.

SSSA prepared a comprehensive internal audit plan during 2008-09 covering the period 2008-09 to 2010-11. The plan includes coverage of key business processes within SSSA, including ICT services. The plan also extends to coverage of areas such as human resource strategy, compliance and risk management, project management and service level and performance management.

The internal audit coverage for 2008-09 included a review of controls over the transitioned accounts receivable, payroll and accounts payable functions. These reviews identified areas where controls could be improved. SSSA have established appropriate responses and timeframes to address the control observations. The relevant observations from the internal audit of the transitioned functions were also included in the annual assurance letters to client agencies.

Shared Services SA annual assurance letter to client agencies

SSSA provided an annual management letter to all agencies that transitioned as part of Tranche 1. This letter addressed the effectiveness of internal controls at SSSA in order to assist agency chief executives to conclude and sign off on the effectiveness of internal controls.

The letter provides an overview of the control environment operating within SSSA. The letter also concluded that the internal control environment established by SSSA operated effectively for the year ended 30 June 2009. Notwithstanding, the letter also included specific information on control improvements identified during the year. This included control findings identified as part of the internal audit of transitioned functions.

Concluding comments

SSSA is now responsible for processing the transactions for key financial areas for a large number of government agencies. SSSA has recognised the importance of a sound control structure to underpin the processing environment. This has received specific attention through the establishment and conduct of a comprehensive internal audit program. SSSA also provided annual assurance letters to agencies addressing the control environment.

There will be transfers of additional staff and functions in 2009-10 and a similarly diligent and structured approach will be required.

It is also important to note that, while transition of functions and staff has occurred, the agencies retained the majority of the responsibility for ensuring effective controls over the processing of financial transactions.

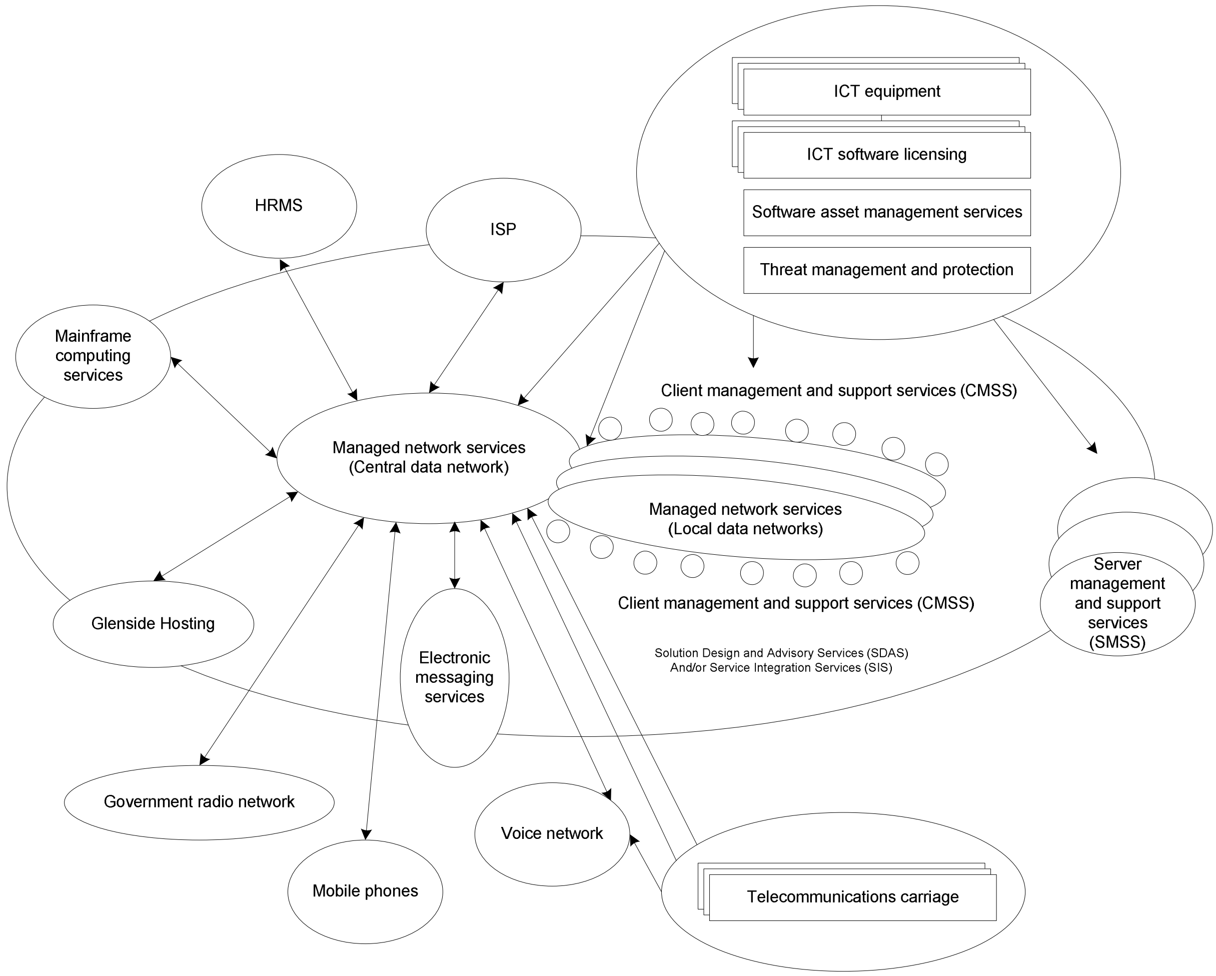
INFORMATION SYSTEMS MANAGEMENT AND SECURITY: AUDIT COMMENT AND DIRECTION

State ICT environment

The Government, through its many agencies, uses computer information systems to process, transmit and store information critical to the performance of its key business operations and financial outcomes. Other computer information systems process and manage more sensitive and confidential information which can be of a personal nature.

These systems operate on a wide and diverse range of telecommunications infrastructure, internet infrastructure, computing hardware, operating systems and databases. Many ICT services and infrastructure provision are contracted to external service providers.

The following diagram obtained from Office of the Chief Information Officer depicts some understanding of the range and complexity of the State ICT infrastructure and operations environment.



Security of government systems and information

There should be the highest standards of security over government systems and information through the proper functioning and authorised access to the systems and information.

The Office of the Chief Information Officer within the Department for Transport, Energy and Infrastructure (DTEI), through the ICT Board, sets the information communications technology strategy, policies, standards and guidelines for the Government of South Australia. It is assisted by a Security and Risk Assurance team (SRA) in DTEI.

The SRA developed and maintain the Information Security Management Framework (ISMF) for the South Australian Government. It represents the Government's mandated information security standards, guidelines and control mechanisms for government agencies.

In particular the ISMF requires agencies to set a clear policy direction for information security, and to classify the importance of information in terms of integrity, confidentiality and availability. The classification facilitates the development and application of appropriate security controls.

Security controls are diverse to address and protect information stored, transmitted or processed on application systems, databases, operating systems, communication networks including the internet and wireless communications, e-mails and removable storage media.

The ISMF makes it clear that security is a management issue and that chief executives have ultimate responsibility for all security matters within their agencies.

Continuous audit focus

The magnitude and diversity of government agency computer systems and facilities and information, and their contribution to service delivery outcomes, requires that information security be an on-going annual focus of Audit.

The annual audit strategy and plan incorporates reviews of a number of critical matters relating to information security at a whole-of-government and agency level. Reviews undertaken this year, as was the case last year, have identified some matters that required attention by agencies.

The following provides some specific observations on certain matters identified from Audit's reviews that are considered significant to government agencies in exercising due diligence in protecting their systems and information.

Important audit observations

Information classification and security protection

The fundamental requirement for agencies to have policy direction and information security classification sets the foundation for well established and applied controls within agencies.

In classifying information, agencies must catalogue their information assets, ensure all information assets have an identified owner and have information security classifications defined and approved. Without classifying the information it is difficult to implement appropriate controls and it is possible to over or under-protect the information by implementing or excluding particular security controls.

In four agencies examined this year, South Australian Police (SAPOL), Public Trustee, DTEI and WorkCover, the matter of effective information security classification was raised.

SAPOL maintains key financial systems and information on a mainframe computer at the Glenside Data Centre. Audit's examination found a need for SAPOL to identify a business owner and ensure its information on the mainframe computer for certain systems is classified, including information received and transmitted via network connections.

Similarly, the Audit review of the Public Trustee found that it had not determined the ownership of and classified information on its computer processing facility.

In respect to DTEI, Audit's review of the TRUMPS system found that agreements with external parties who use DTEI's data did not require the third parties to treat it in accordance with the classification of that data.

WorkCover is in the process of progressing two major system acquisition/development projects to replace critical operational and financial systems. As part of that process, WorkCover has recognised the importance of information security classification through an on-going project to catalogue and classify information assets. Audit conveyed the importance of the need to continue the on-going project for information security classification.

The agencies responded positively to Audit's observations on this important matter.

The necessity for information security classification is not only related to existing systems, but is critical for new system acquisition/development projects of agencies.

Some new major system acquisition/developments to occur within agencies in the immediate future include the replacement State taxation system, the Further Education student management and information system, the e-Procurement system of SSSA and the project to replace key financial systems for the health sector.

It is paramount that these system acquisition/development projects have an effective information security classification process as part of their design and development.

Application of appropriate security controls

It was mentioned earlier that there can be a range of security controls. The common purpose is to prevent unauthorised access and ensure the adequate protection of agency key systems and critical/sensitive information.

It is relevant to comment on some matters that highlight the importance of these security controls. Some of these matters have been raised with the relevant agencies. The agencies have advised that corrective actions were planned or were being undertaken.

User access privileges

Agency computers, sometimes known as servers, contain key system applications of a financial and operational nature and store sensitive and confidential information. Access to these computers is controlled by providing certain rights or privileges to users based on their job responsibilities. This is essentially to prevent conflicts of interest and ensure unauthorised external users do not have access.

Audit found in a number of agencies that user access security arrangements to agency data and information provided privileges to some staff which exceeds that necessary to perform their job functions. Excessive privileges were found in the reviews of DTEI, SAPOL, and WorkCover. This can provide an opportunity for users to perform unauthorised transactions, compromise the integrity of agency data, and manipulate confidential information.

Security configuration standards for agency computers

Agency computer servers provide a wide variety of services to internal and external users. Many servers also store or process sensitive information for the agency. It is important that agencies implement effective security configuration on these servers to prevent unauthorised access and protect the agencies' information assets.

For the review of WorkCover, Audit found that there was limited documentation that described the agency's computer security configuration settings for some current systems. Suggestions for improvement in some settings were made by Audit.

Regarding the DTEI TRUMPS system review, improvements were suggested in the arrangements with external contracted service providers for the area of database, network and operating system security configuration settings.

Agency network connectivity management

Government agency systems are connected to a variety of internal and external communication networks. These include the Government's central network StateNet, the internet, networks for the justice, education and health agencies, university networks and agency local or internal networks. The process of managing and controlling the connections between the networks and information transmitted can be described as network connectivity management.

In this regard, where data stored on agency systems is classified, for example, for confidentiality purposes as protected, the ISMF recommends that systems with such data should be considered for protection by a firewall.

A firewall is a part of a computer system or network designed to block unauthorised access while permitting authorised communications. Firewalls can be implemented in either hardware or software, or a combination of both.

The TRUMPS system of DTEI is a major and technically complex system and a significant repository for personal, financial and operational information. As a result of the review of many aspects of the TRUMPS system, Audit raised that the overall security and management of the system could be enhanced by the provision of a dedicated agency firewall to protect access to its network. DTEI undertook to investigate the matter of such a firewall with the external contracted network service provider.

Risks were found in agency network connectivity with external agencies and external contracted service providers in relation to system interfaces. Audit tested the controls for the integrity and confidentiality of TRUMPS information at DTEI and found that sensitive information passing through the Government (StateNet) network to non-government entities had not been risk assessed and considered for encryption. DTEI is currently addressing this matter.

Although StateNet is part of the SA Government controlled environment, sensitive information sent between agencies and external contracted service providers should be assessed periodically and wherever possible additional data protective controls such as encryption be considered.

Security provision by external contracted service providers

Significant information technology infrastructure and services are provided by external contracted service providers. For example, EDS (Australia) Pty Limited provides mainframe services and distributed computing support services to government agencies. Dimension Data Australia Pty Limited provides network management services to agencies. Information security services are an integral part of those arrangements.

External contracted service providers are required to comply with the ISMF for information security services provided to agencies. The providers and the agencies concerned should have processes in place to ensure their compliance with the ISMF.

In DTEI and SAPOL it was found that there were inadequate mechanisms and processes for demonstrating if the agency systems were being managed by the external contracted service providers in compliance with the ISMF and contracted obligations. Audit has recently been advised of actions taken in regard to this matter and is currently giving it further review attention and consideration.

Patching of software

Patching of software is essentially a process of correcting known weaknesses or errors in existing operating or application system software. The patches are provided by the software or system supplier. Audit noted during its reviews that sometimes there was an inconsistent understanding of the patch process that would be used for agency systems between the agency and the contracted service provider.

This was the case in the review undertaken at WorkCover in regard to the computer operating system software and a related finding in SAPOL where key database management and operating system software components were found to be out of date. The review of DTEI also found a need to address the procedures for patching of software with the contracted service providers.

The adequacy of procedures for important security patches and updates to software provided by vendors was also raised in the review of SSSA in regard to payroll and personnel systems.

Removable computer media

Removable computer media provides the facility for users of systems to store information of any nature on devices capable of being used to transfer that information to other computers or devices. This allows users to copy the information and view or process it on computers at external premises. The information stored on such media needs to be protected in line with its security classification.

Removable computer media itself generally refers to some types of devices designed to be read by removable readers and drives. Examples include:

- optical discs (Blu-ray discs, DVDs, CDs)
- memory cards (compact flash card, secure digital card, memory stick)
- floppy disks/zip disks
- magnetic tapes
- USB memory sticks and external hard disk drives.

In the SAPOL review, Audit found floppy disks were used to transfer payroll related confidential information from the agency system to SSSA of the DTF for input and processing. Such media are particularly vulnerable and are generally not protected with encryption software.

SAPOL also utilises floppy disks to upload certain sensitive (non-financial) information to its systems on the mainframe computer at the Glenside Data Centre. The use of this type of media for transfer of information between computers can give rise to the risk of loss or disclosure of data due to theft or media failure.

In an incident that has received recent attention, a USB memory stick containing confidential and sensitive information in relation to the New Royal Adelaide Hospital Public Private Partnership procurement process was lost. Such an incident has the potential to weaken the integrity and competitive strength of the procurement process.

Management of incidents

The Government's policy on notifiable incidents requires agencies and contracted suppliers to notify the Office of the Chief Information Officer about security incidents which disrupt government information and telecommunication services. Notifiable incidents can include disruptive events, misconduct, or criminal activity. They can have an adverse impact on the trust and confidence in government services.

The matter of the need for improvement in security incident notification arrangements was the subject of Audit comment in the review of DTEI in relation to arrangements with external contracted service providers.

Concluding comments

Audits over recent years have identified many weaknesses in relation to agency key systems controls. These weaknesses have presented risks of unauthorised access that could compromise the confidentiality, integrity and availability of the systems and information. The majority of the weaknesses identified fall short of the Government's minimum standards for information security management and control.

Again this year I have provided examples of inadequate security control practices in regard to major computer systems of government and in the protection of sensitive information.

The provision of effective security controls over systems and information is important not only for current operational agency systems, but in particular for new acquisition or system development projects. Particular regard should be given at an early stage to the information security classification process as the foundation base for the development, implementation and maintenance of effective security controls over agency systems and information. The satisfactory operation of those controls should be verified annually by the agencies concerned.

It is my intention to maintain a continuing focus of review of government systems' information security and control. Such focus will include major existing, developing or newly implemented systems of government.

I also intend to relate further with the Office of the Chief Information Officer on the Government agency wide implications of these matters.

AUDIT REVIEWS IN PROGRESS

At the time of preparation of this Report there are certain matters that are in progress of review that will result in reporting to the Parliament. The reviews include areas of government advertising, public private partnerships, and information and communications technology and systems developments.