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Government
of South Australia

Report

of the

Auditor-General

Annual Report

for the

year ended 30 June 2014

Tabled in the House of Assembly and ordered to be published, 14 October 2014

First Session, Fifty-Third Parliament

Part A: Audit overview

By Authority: A. Martin, Government Printer, South Australia

2014

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30 September 2014

The Hon R P Wortley MLC
President
Legislative Council
Parliament House
Adelaide SA 5000

The Hon M J Atkinson, MP
Speaker
House of Assembly
Parliament House
Adelaide SA 5000

Dear President and Speaker

Report of the Auditor-General: Annual Report for the year ended 30 June 2014

Pursuant to the provisions of the *Public Finance and Audit Act 1987*, I herewith provide to each of you a copy of my 2014 Annual Report. This Report includes the Honourable the Treasurer's statements for the financial year ended 30 June 2014.

Content of the Report

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

Part A – Audit overview contains a summary of certain matters of importance regarding the audit program of work conducted at public sector agencies for 2013-14. More detailed comment on these matters is made in Part B – Agency audit reports. The Audit Overview also outlines aspects of the audit program of work in progress for the local government sector

Part B – Agency audit reports (Volumes 1 to 6) contain comments on the operations of individual public authorities, the financial reports 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 1 to 6 of Part B.

Part C – 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 section 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 preceding financial year

(ii) the financial statements of each public authority reflect the financial position of the authority at the end of the preceding financial year and the results of its operations and cash flows for that financial year

(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 is sufficient to provide reasonable assurance that the financial transactions of the Treasurer and public authorities have been conducted properly and in accordance with law.

This opinion is stated subject to the following important matters.

I have not seen it necessary to qualify matters referred to in section 36(1)(a)(i), however with respect to section 36(1)(a)(ii) modified opinions were expressed on the financial reports of the following agencies:

- Department of Environment, Water and Natural Resources
- The Legislature - Joint Parliamentary Service
- South Australian Motor Sport Board
- University of South Australia.

In addition, without modification of the opinion on the financial report of the WorkCover Corporation of South Australia, attention was drawn to the inherent uncertainty associated with the outstanding claims liability reported for that entity at 30 June 2014.

In all cases where a modified opinion is given, the Independent Auditor's Report includes explanatory paragraphs 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 in Part B of this Report.

In addition, with respect to section 36(1)(a)(iii) there have been instances in many agencies where the 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 section 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.

Agency financial statements to be finalised

I also emphasise that there are agencies whose financial statements had not been finalised and the audits were continuing at the time of preparing this Report. Should any matters of significance arise in finalising the audits of those agencies, the impact of any matter referred to in section 36(1)(a)(i) and (ii) above will be advised to Parliament in a Supplementary Report.

Section 32 examinations

Section 36(1)(ab) of the *Public Finance and Audit Act 1987* requires me to report on examinations made under section 32 that have been completed during the preceding financial year and briefly describe the outcome of those examinations. No section 32 examinations were completed in the financial year ended 30 June 2014.

Report and assessment of controls

As required by section 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 Treasurer's Instructions 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 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 section 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 agency.

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

The standard by which I have 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 agency to meet the standards of financial probity and propriety expected of a public authority and, at all times, discharge its responsibilities within the letter and spirit of the law, both in terms of its own charter and as an instrumentality of government discharging public functions.

In respect of those matters where the controls exercised by agencies have been assessed as not meeting a sufficient standard, I have made recommendations as to where improvements are required and included commentary on these matters in the relevant agency's report in Part B of this Report under the heading of 'Audit findings and comments'.

Acknowledgments

I have great pleasure in recognising and thanking my professional and dedicated staff for their complete commitment and efforts in 2013-14. The high standard of their work throughout the year is evidenced in the timely production and the quality contents of this Report. The cooperation of all public authorities with my staff during the financial year is also acknowledged.

I would also like to pay special tribute to two long serving executives who retired during the year. Mr John Tate retired from the role of Deputy Auditor-General in January 2014 after thirty nine years' service and Mr Simon Marsh retired from the role of Director of Audits (Field Operations) in October 2013 after thirty two years' service. Both officers made an outstanding contribution to the Auditor-General's Department and the betterment of the public service during their careers.

I also extend my thanks to the Under Treasurer, Government Publishing SA and their staff, and the report printing coordinator, Mr Darryl O'Keefe, for their efforts which have assisted materially in the production of this Report.

Finally, I would like to thank the staff and students of Blackfriars Priory School for their work on the cover for this year's Report. In particular Mr Peter Fear for coordinating the design work and Year 12 student Mr Cameron Richards for the cover photograph.

Yours sincerely

S O'Neill
Auditor-General

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Audit overview

1 Introduction

The 2014-15 Budget introduces a return to major new savings measures. They amount to $1.5 billion over the four years of the Budget and add to sizable savings measures that were implemented in the 2010-11 Budget (influenced by the then Sustainable Budget Commission) and successive Budgets.

Last year's Report reflected on the matter of budget constraint, now heightened, in presenting a continuing challenge to those parties charged with governance for public sector agencies. The challenge for those parties (boards, chief executives, senior management) is to ensure their agencies operate with appropriate governance, financial control and accountability structures and practices for effective service delivery and prudent and transparent use of resources.

The annual audits of agencies are planned and undertaken in the knowledge of the budgetary environment, changing risk profiles of agencies and the statutory audit responsibilities of the *Public Finance and Audit Act 1987* (the PFAA).

As was the case for 2012-13, the annual cycle of agency audits for 2013-14 did not see a general noticeable improvement across agencies in governance, financial control and accountability practices. There were again signals of concern that evidence the requirement for agencies to engage in continual reassessment of the effectiveness of their key structures, systems and processes.

Certain important observations that have resulted from the 2013-14 audits of the public accounts, including the financial accounts and operations of public sector agencies, are provided in this Audit Overview and in the agency commentaries in Part B of this Report. Part C of this Report provides specific commentary on the State finances, including budget performance.

2 Audit program

The annual work program of the Auditor-General's Department was extended in 2013-14 to respond to the new and extended statutory remit of the Auditor-General to the local government sector.

Effective from 1 September 2013, amendments to the PFAA (particularly section 32) enable the Auditor-General at his/her own discretion to conduct an examination of a publicly funded body or project or local government indemnity scheme. The PFAA defines a publicly funded body or project to include a council or subsidiary of a council constituted under the *Local Government Act 1999*. In effect, from 1 September 2013 the statutory remit of the Auditor-General was extended to the local government sector.

Section 15 of this Audit Overview outlines aspects of the audit approach adopted and audit program conducted in relation to the local government sector in 2014-15.

3 Communication of audit matters to agencies

An important outcome of the audit of agency operations is the submission of an audit management letter(s) to the agency. The audit management letter brings to management's attention weaknesses noted in the audit process relating to governance, financial management and control and accountability. It also provides improvement recommendations for those matters raised.

Agencies are replying to the audit management letters advising specific responses of actions taken or intended to address the matters raised. However, as conveyed in prior Reports, Audit follow-up of matters previously raised with agencies reveals instances where the matters have not been actioned satisfactorily. The audit commentaries for agencies in Part B of this Report reflect these noted instances.

Agency management need to institute an appropriate mechanism to ensure corrective actions advised as taken or intended in response to audit management letter matters are implemented and continue to operate in an effective manner, unless change is justified.

4 The public finances

Since the global financial crisis in 2008-09 successive Budgets have made significant downward revisions to key revenue items (GST revenue and State taxation revenue). The Budgets have also implemented major saving initiatives, including $1.5 billion in the 2010-11 Budget and $1.5 billion in the recent 2014-15 Budget.

The 2014-15 Budget states that it has been framed in the context of the challenge of ongoing domestic and international fluctuations and a need to respond to the fiscal challenge posed by Commonwealth Budget reductions. Certain key elements of the 2014-15 Budget include:

- new expenditure savings initiatives of $1.5 billion
- removal of Emergency Services levy remissions realising $355.8 million in revenue
- realisation of expected proceeds of $500 million from the Motor Accident Commission (MAC) in 2016-17 from opening the provision of Compulsory Third Party insurance to the private sector from 1 July 2016
- suspension of three hospital capital expenditure projects
- changes to the capital structure of the South Australia Water Corporation (SA Water) in 2014-15, resulting in decreased general government sector net debt of $2.7 billion.

4.1 Estimated results for 2013-14

The 2014-15 Budget estimates a net operating balance deficit of $1232 million for 2013-14 compared to the budgeted deficit of $911 million. The difference between the budgeted and estimated result is mainly due to increases in employee expenses and other operating expenses.

The net lending deficit is estimated to be $1808 million, compared to the budgeted amount of $1455 million. The difference between the budgeted and estimated deficit is mainly due to deterioration in the net operating balance estimate in 2013-14.

The general government sector is estimated to have net debt of $6887 million as at the end of 2013-14.

Unfunded superannuation liabilities are estimated to be $10.5 billion for the year to 30 June 2014. 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, consistent with the requirement of prevailing Australian Accounting Standards. A discount rate of 4.3% was used for the estimate as at the 2014-15 Budget, compared with 3.7% for the 2013-14 Budget. A 1% increase in the discount rate is estimated to decrease the superannuation liability by $2.3 billion. The Government reports that it remains committed to fully fund the superannuation liability by 2034.

WorkCoverSA reported a comprehensive profit result of $235 million in 2013-14. This compares to a comprehensive profit result of $23 million in 2012-13. The improvement in the comprehensive profit was mainly due to a reduction in the cost of claims (due to a smaller increase in the outstanding claims liability). This contributed to an improvement in its funding ratio from 63.7% to 71%, compared to its approved target funding range of 90% to 110%. As at 30 June 2014 WorkCoverSA had a net liability position of $1131 million ($1366 million).

MAC reported a comprehensive profit result for 2013-14 of $483 million, compared to a comprehensive profit result of $371 million in 2012-13. MAC's statutory solvency level, calculated in accordance with a formula determined by the Treasurer, increased to 132.1% (111.9%) of the target level of solvency. As at 30 June 2014 MAC had net assets of $1251 million ($768 million).

4.2 Budget forecasts 2014-15 to 2017-18

The 2014-15 Budget expects net operating deficits for the general government sector for 2013-14 and 2014-15. The budget is expected to return to a surplus of $406 million in 2015-16 and the surplus is expected to grow to $883 million by 2017-18.

Revenues are estimated to improve consistently over the four years of the 2014-15 Budget. In 2015-16, when the Budget expects to return to a net operating surplus, taxation revenue is expected to increase by $271.4 million and grant revenue is expected to increase by $793.8 million (including GST revenue grants increase of $358.9 million, recurrent specific purpose grants from the Commonwealth increase of $116.2 million and capital grants increase from the Commonwealth of $306.6 million).

The Budget contains new operating initiatives totalling $471.4 million and new investing initiatives totalling $985.1 million. These significant initiatives have been offset by new operating and investing savings, revenues from external sources associated with the new initiatives and the use of provisions made in earlier budgets. Table 2.1 of 2014-15 Budget Paper 3 'Budget Statement' provides the details of these offsets.

Savings initiatives have been a major element of recent budgets since 2010-11. The 2010-11 Budget consolidated savings announced in earlier Budgets (of over $700 million p.a. by 2013-14) into new savings that totalled $1.5 billion over the four years to 2013-14, arising from the recommendations of the then Sustainable Budget Commission. The 2014-15 Budget introduces a return to major savings measures amounting to $1.5 billion over the four years of the Budget. This is made up of operating savings of $1.2 billion and investing savings of $290 million. The details of savings by individual agency and individual savings measures introduced in the 2014-15 Budget are provided in 2014-15 Budget Paper 6 ‘Budget Measures Statement’.

The Budget notes that, with the exception of the Health and Ageing portfolio, agencies have delivered budgeted savings and agency savings budgeted to commence in 2013-14 are substantially on track. The Health and Ageing savings task was reassessed as part of the 2012-13 mid-year budget review. This included revising the level and timing of budget improvements it expected to be delivered across the forward estimates. The 2014-15 Budget introduces significant additional savings for this portfolio: table 2.4 of 2014-15 Budget Paper 3 ‘Budget Statement’ identifies additional total operating savings of $532.7 million for Health and Ageing. This includes $332 million specifically identified for reductions in hospital beds or other health service reductions. In consideration of past performance, achievement of the additional savings will be a significant challenge for Health and Ageing.

4.3 Net lending

A net lending deficit of $380 million is budgeted for 2014-15. The 2014-15 Budget projects a net lending deficit in 2015-16, with a return to net lending surpluses of $814 million in 2016-17 and $617 million in 2017-18. Net lending is impacted in 2015-16 by the inclusion of the new Royal Adelaide Hospital lease liability.

In June 2011 the Government announced financial close on a Public Private Partnership contract to build, operate and maintain the new Royal Adelaide Hospital. The total capital cost of the new hospital at contractual close was $2.09 billion. The new Royal Adelaide Hospital is recognised as an asset and a finance lease liability of $2.8 billion in the 2015-16 forward estimate year. The amount represents the net present value of design and construction costs, lifecycle payments, interest and other project costs.

4.4 Net debt

Net debt is expected to decrease from $6.887 billion as at 2013-14 to $5.269 billion as at 2017-18. Net debt peaks in 2015-16 at $7.146 billion. Expressed as a percentage of revenue, net debt is forecast to decrease from 45.1% as at 2013-14 to 28.2% as at 2017-18. As at 2015-16 the net debt to revenue ratio is expected to be 41.4%, which exceeds the new debt fiscal target of a maximum ratio of 35%. The net debt increase in 2015-16 is due to the expected recognition of the new Royal Adelaide Hospital ($2.8 billion) in that year.

The 2014-15 Budget net debt estimate of $4.511 billion as at 2014-15 is significantly lower than the expected net debt as at 2013-14 as a result of the proposed increase in the SA Water debt level by $2.7 billion. The effect of this adjustment on net debt is to move $2.7 billion of debt from the general government sector balance sheet to the public non-financial corporation balance sheet in 2014-15. The Government indicated that this adjustment will be made to ensure that the SA Water balance sheet is consistent with that of other government-owned utilities interstate. Page 74 of 2014-15 Budget Paper 3 ‘Budget Statement’ discusses this changed debt arrangement further.

Net debt is also expected to reduce in 2016-17 by a MAC contribution of $500 million, resulting from a government decision to open the provision of Compulsory Third Party insurance to the private sector from 1 July 2016.

4.5 Concluding comment

The 2014-15 Budget projects a return to a net operating surplus of $406 million in 2015-16 and a return to a net lending surplus of $814 million in 2016-17. Further, the Budget expects significant net operating surpluses in 2016-17 and 2017-18. This improvement is based on expected growth in GST and State taxation revenue and achievement of a significantly increased savings program.

Audit analysis indicates that a deteriorating gap between past average revenue experience and the 2014-15 Budget estimates for key revenue lines emerges in 2015-16 and is sustained over the final two estimate years. Further, Audit analysis of the trend of key estimated expenses for the 2014-15 Budget with past average experience shows a diverging difference. The trend of these expenses based on past average experience is significantly above the 2014-15 Budget estimated expenses. This difference highlights the significance of the expenditure restraint required in the 2014-15 Budget. For further analysis and explanation refer to pages 14 and 15 of Part C of this Report.

The risk remains that economic uncertainty will see revenue pressures re-emerge in key areas. Further, past experience indicates that the Health and Ageing portfolio will face significant challenges in achieving its increased savings targets, which represent a significant component of overall government savings measures.

4.6 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 PFAA to report on transactions and balances in the public accounts.

The main public accounts are the Consolidated Account, special deposit accounts and deposit accounts established pursuant to the PFAA.

5 Financial reporting obligations of agencies and matters requiring attention

5.1 Introduction

The PFAA requires public authorities to submit their financial statements to the Auditor-General within 42 days of the end of the financial year. This is a practical prerequisite for the Auditor-General to deliver a Report, including agencies' audited financial statements, to the President of the Legislative Council and the Speaker of the House of Assembly by 30 September annually.

The financial statement preparation responsibility is always a demanding and challenging task and financial statements will only be included in the Report once a comprehensive audit has been completed. In doing so agencies are required to provide Audit with all necessary information, records and explanations supporting an entity's financial statements.

5.2 Objective and requirement for quality financial reporting

In the accounting framework, an objective of general purpose financial reporting is to provide information to a user that is useful for making and evaluating decisions about the allocation of scarce resources. These reports are also a means by which managements and governing bodies discharge their accountability to the users of the reports.

High quality financial reporting means reporting that meets the requirements of Treasurer's Instructions promulgated under the provisions of the PFFA and generally accepted accounting principles, as set out in the Australian Accounting Standards, with transparency and full disclosure as relevant to the circumstances of individual agencies and for public sector accountability. This may include going beyond the minimum requirements of the general reporting framework.

5.3 Status of agency financial statements for 2013-14

This 2013-14 Report contains the financial statements of all the agencies expected except the South Australian Forestry Corporation. At the time of preparation of this Report the audit of the Corporation's financial statements is progressing in a satisfactory manner.

The end result was accomplished through the dedicated commitment and professionalism of audit and agency staff. Last year I reported that Audit found that overall the standard of preparing financial reports across the public sector had improved. Agency financial report preparation for 2014 again met a satisfactory standard. Shared Services SA (SSSA) has contributed to the improvement in its role of providing financial statement preparation services to many government agencies.

5.4 Matters to be considered for 2014-15

5.4.1 AASB 1055 Budgetary Reporting

The accounting standard AASB 1055 Budgetary Reporting applies to reporting periods beginning on or after 1 July 2014. AASB 1055 requires not-for-profit reporting entities within the general government sector, irrespective of the legal structure or size of those entities, whose budgeted financial statements are presented to Parliament to disclose:

- original budgeted amounts, presented and classified on a basis that is consistent with the financial statements prepared in accordance with Australian Accounting Standards

- explanations of major variances between the original budget and actual amounts (which may include reference to revised budgets presented to Parliament).

These disclosure requirements will apply to both the controlled and administered items of an entity where such budget information is presented to Parliament.

Not all general government sector not-for-profit reporting entities present budget information separately to Parliament. 2014-15 Budget Paper 4 'Agency Statements' sets out, in four volumes, budgeted financial statements for government departments and some statutory authorities. For example, the Department for Health and Ageing is included. However the major local health networks of the health sector, while referred to, do not show budgeted financial statements.

The disclosure requirements will apply to entities within the general government sector for the first time in 2014-15 financial reports. Each entity will need to assess whether they must provide budget reporting. DTF will need to relate with agencies and SSSA to ensure that the AASB 1055 requirements are appropriately met. This will necessitate clarifying where AASB 1055 applies, setting reporting guidelines for presentation and classification consistency, particularly where restatement is required, and ensuring relevant record systems and quality assurance processes are in place, so that agencies report causes of major variances in a consistent manner and in accord with other budgetary reporting.

The implementation of AASB 1055 will be a significant matter for DTF and agencies in 2014-15 and will have audit implications.

Audit is of the view that timely appropriate attention needs to be applied to the inclusion of budgetary information in relevant entity financial statements as it has the potential to affect the independent auditor's opinions on those financial statements for 2014-15.

5.4.2 Administered items

Government department financial statements must distinguish between those transactions and balances that are 'controlled' by agencies and those that are 'administered' by agencies on behalf of the Government. AASB 1050 Administered Items requires administered items to be disclosed. An example is tax revenue collected by DTF and credited to the Consolidated Account. That revenue is not directly available for the Department to use to meet its expenses.

The rationale for administered item disclosures is that effective and efficient administration of these items is an important role of a government department. Disclosure of this information enhances the discharge of accountability obligations.

Departments apply judgement in determining whether transactions and balances are administered. Over recent years, Audit has noted instances where activities were reported as administered items by a department and also reported in their own right. For example, the Independent Commissioner Against Corruption (ICAC) prepared financial statements for 2013-14 to report on its activities. The activities of that entity were also reported as an administered item of the Attorney-General's Department.

The reporting arrangements that have been applied by government departments to entities such as ICAC have varied significantly between departments. Some departments do not report administered activities where the activities are reported as a separate financial report, while other departments do include such activities.

Audit is of the view that in complying with accounting requirements for administered items, a consistent and efficient approach is necessary when meeting accountability obligations.

The requirement to review the approaches taken across government will be discussed with DTF in 2014-15.

5.5 Concluding comment

Financial reporting by agencies on an annual basis is a statutory and fundamental accountability requirement for all public sector agencies. The established frameworks and timelines are designed to support provision of quality and timely information to readers.

While a satisfactory standard of financial reporting was achieved across the public sector for 2013-14 ongoing diligence needs to be applied to this area to ensure the objective and requirement of consistency and quality of financial statement preparation continues to be achieved.

6 Governance and financial control and accountability practices of agencies: noticeable improvement is still required

6.1 Introduction

Last year's Report briefly stated the elements and practices considered important for effective agency governance and financial control and accountability. They are again stated:

- sound organisational structure
- clearly stated responsibility and authority relationship
- policy and planning
- adequate financial management accounting systems and controls
- risk profiling and assessment and effective control systems
- monitoring and reporting systems.

An important obligation for those parties that have governance responsibility for an agency (boards, chief executives, senior management) is to ensure the abovementioned matters are established and operating effectively within the agency.

6.2 Agency audits for 2013-14

The Auditor-General is required by the PFAA to assess and give an opinion on the adequacy of internal controls of agencies. Any deficiencies noted for the abovementioned elements and practices can result in a qualification (exception) comment to the 'assessment of controls' opinion given for each agency in Part B of this Report.

Consistent with previous Reports, the 2013-14 assessment of controls opinions for many agencies in Part B of this Report include a qualifying (exception) comment that reflects a weakness or control gap, or inappropriate process, or a significant shortcoming, in one of more aspects of the abovementioned elements and practices.

Similar to my overall assessment and view stated in last year's Report, the 2013-14 assessment of controls opinions and supporting audit commentaries for agencies in Part B of this Report, when compared with those in recent past Reports, show no noticeable general trend reduction in the number, type and severity of issues raised with agencies for attention. Noticeable improvement is still required across government agencies in areas of governance and financial control and accountability practices.

As stated last year, the audit commentaries (which, in a number of instances, included repeat issues) indicate signals of concern for parties that have governance responsibility for an agency to quickly address the causes of the shortcomings and remediate them.

An example of a concern was the noticeable deficiencies identified in certain agencies in the management and use of purchase cards, which undermine the optimal principle of their use, that of achieving purchasing efficiencies and savings.

6.3 Concluding comment

Agency reports in Part B of this Report again indicate the requirement for a number of agencies to address shortcomings in their governance, financial control and accountability structures and practices.

Overall the 2013-14 agency audits showed no noticeable trend reduction in the number and severity of matters raised with agencies when compared with recent past years. This is of concern and requires reassessment of approach by those with governance responsibility in effectively addressing matters requiring remediation.

7 The Government shared services arrangement: update status and savings

7.1 Introduction

SSSA is the Government-established central service provider agency to most other government agencies. It provides high volume administrative functions of payroll, accounts payable and accounts receivable, and other services such as financial accounting and reporting.

These functions were initially transitioned from other agencies to SSSA in their current state with current agency employees and systems. SSSA was to streamline and simplify administrative and technology services bringing significant efficiencies and savings across all government agencies.

Since the implementation of this government initiative in 2008-09, my Reports have included specific commentary on the implementation funding and costs and savings related to this arrangement. This section of this Report provides a further update.

7.2 Organisational arrangements

During the year a number of minor transitions of services and staff occurred with a net total staff transitioning from SSSA of 11.3 FTEs. For 2014-15 potential minor transitions are being discussed with agencies, but no transitions are yet finalised.

7.3 Reform activity

7.3.1 Procure to pay

The 2012-13 Report conveyed that e-Procurement was implemented for all agencies excluding the Health and Ageing sector. SSSA advised that the implementation for the Health and Ageing sector is dependent on their deployment of the Oracle Corporate System which is not expected to be fully implemented until the middle of 2015.

Last year's Report also made comment that SSSA commenced the establishment of a common vendor masterfile for agencies using Masterpiece. This project was expected to be completed by the end of 2013-14. During the year SSSA experienced delays to this project due to technical issues and the need to incorporate the updated requirements to standardise and improve creditor payment performance reporting under Treasurer's Instruction 11 'Payment of Creditors' Accounts' (TI 11). The implementation of this project is expected to be piloted in February 2015 and the rollout completed in 2016.

In 2014-15 SSSA will be pursuing a standardised purchase card management system for use by agencies. This initiative is in response to the findings of the payment of accounts review conducted by the Commissioner for Public Sector Employment in 2012. The project is currently in the procurement phase with implementation to start in 2015.

7.3.2 Payroll

The 2012-13 Report indicated that SSSA was in the planning phase of a payroll reform project to transition from CHRIS 5 to CHRIS 21. During 2013-14 the detailed planning was completed and in February 2014 Cabinet approved implementation of this reform project at a budgeted total cost of $12.9 million. The budgeted cost is being funded through the reallocation of unspent implementation funding and by agencies and SSSA operations (including savings).

In parallel, negotiations have been taking place with the software supplier, Frontier, to establish a new contract and for the system design for the upgrade to CHRIS 21 with the database and pay cycle consolidation. In June 2014 Cabinet approved entering into a 10 year contract with Frontier for the implementation, support and maintenance of the CHRIS 21 system.

7.3.3 Financial accounting services

My previous Reports advised that SSSA had developed a financial services reform strategy which identified a number of potential projects that could be pursued across the end-to-end finance function. No funding was provided in the 2013-14 Budget for any of these projects.

In future SSSA will consider which (if any) of the projects can be progressed using future savings that can be reinvested into service delivery improvements.

For the preparation of the 2013-14 financial statements SSSA has been trialling the use of an end-of-year financial reporting tool for two agencies. SSSA is funding this improvement and consideration will be given in 2014-15 to further implementing the use of the tool.

7.3.4 Accounts receivable

The 2012-13 Report advised that SSSA had commenced developing a business case for accounts receivable reform covering invoice raising, receipting and the establishment of a common customer masterfile.

During 2013-14 SSSA considered the business case and decided not to pursue this initiative as the benefits did not support the costs.

7.4 Cost of implementation

On a number of occasions in past years 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 October 2007, to be transitioned to SSSA, while some aspects of the original in-scope transitions did not proceed.

As part of the 2012-13 mid-year budget review the uncommitted balance of $7.4 million for implementation funding was returned to DTF and savings targets across the forward estimates were removed. Audit was advised that this enabled SSSA to focus on service delivery and operations, with future savings to be reflected in the pricing of services or reinvested into additional service improvements.

Implementation funding and costs

	$'million
Implementation funding	60.0
2010-11 budget additional funding	8.3
Wakefield House appropriation	5.0
e-Procurement	20.4
Other	0.2
Implementation funding returned	(7.4)
Implementation funding allocated to payroll reform program	(2.0)
Total	84.5
Costs to 2013-14	84.5
Balance for reform and transition	-

During 2013-14 $2 million of unused implementation funds were reallocated to the payroll reform program. No further implementation funds are budgeted or will be incurred.

7.5 Achievement of savings

Previous Reports have discussed the savings targets at the time of implementation of shared services arrangements. These 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. These targets were overly ambitious and have been adjusted a number of times as the scope of activities to transition to SSSA changed and to account for the delay in implementation of other activities, such as e-Procurement in the Health and Ageing sector.

Consistent with previous years, in response to an Audit information request as part of preparing this section of the Report, the Department of the Premier and Cabinet provided details of all savings amounts included in the Budget up to 2017-18 for the shared services initiative since its announcement in 2006-07. The data provided and outlined in the table below has not been subject to audit.

Savings and shortfalls - 2007-08 to 2017-18

	Actual 2008 to 2012 $'000	Actual 2012-13 $'000	Actual 2013-14 $'000	Budget 2014-15 $'000	Budget 2015-16 $'000	Budget 2016-17 $'000	Budget 2017-18 $'000	Total $'000
Original budgeted savings	**250 000**	**60 000**	**60 000**	**61 500**	**63 038**	**64 613**	**66 229**	**625 380**
Revised budgeted savings	**238 348**	**54 489**	**57 900**	**59 346**	**63 038**	**64 613**	**66 229**	**603 963**
Less savings allocated to initiative prior to reform:								
Future ICT	126 673	27 266	27 948	28 647	29 363	30 097	30 850	300 844
Supply SA warehouses	5 779	1 004	1 029	1 055	1 081	1 108	1 136	12 192
ICT mobile carriage	9 274	2 329	2 387	2 447	2 508	2 571	2 635	24 151
Future ICT implementation cost offset	386	-	-	-	-	-	-	386
ICT efficiencies mid-year budget review 2011-12	-	2 900	5 900	6 000	6 150	6 304	6 462	33 716
Total savings allocated prior to reform	142 112	33 499	37 264	38 149	39 102	40 080	41 082	371 288
Less savings from reform initiatives:								
Tranche 1	9 994	2 721	2 816	2 886	2 959	3 033	3 109	27 518
Financial systems savings	1 569	890	912	935	958	982	1 007	7 253
e-Procurement	15 445	14 169	14 489	14 850	17 429	17 865	18 311	112 558
Procurement savings	3 633	1 366	1 400	1 435	1 471	1 508	1 545	12 358
Other savings	1 565	1 844	1 019	1 091	1 119	1 147	1 176	8 961
SSSA operating savings to payroll reform	-	-	3 100	518	-	-	-	3 618
SSSA accommodation savings for Service SA	-	-	370	550	563	578	593	2 654
ICT savings for the Dept of the Premier & Cabinet	-	-	-	1 617	-	1 000	1 025	3 642
Total savings from reform initiatives	32 206	20 990	24 106	23 882	24 499	26 113	26 766	178 562
Total savings	**174 318**	**54 489**	**61 370**	**62 031**	**63 601**	**66 193**	**67 848**	**549 850**
Shortfall (Surplus) against revised budgeted savings	**64 030**	**-**	**(3 470)**	**(2 685)**	**(563)**	**(1 580)**	**(1 619)**	**54 113**
Shortfall (Surplus) against original budgeted savings	**75 682**	**5 511**	**(1 370)**	**(531)**	**(563)**	**(1 580)**	**(1 619)**	**75 530**

The format of this table is consistent with the previous year. The table shows both the original and revised budgeted savings projected through to 2017-18, together with any shortfall of actual or estimated allocated savings against the respective targets.

As can be seen from the table SSSA has achieved the revised and original savings target for 2013-14 and has budgeted to achieve all future revised savings targets.

The savings allocated to the SSSA initiative prior to reform activities represent those savings that were included in the initiative submitted to Cabinet, however those savings were attained without any transition or reform activities occurring. For example, a major element of these savings is ICT. Agency expenditure budgets were reduced overall by $25 million each year in the 2007-08 Budget to achieve these savings and by a further $33.7 million by the 2012-13 mid-year budget review. To 2013-14 those savings attributed to SSSA amount to $212.9 million, with a further $158.4 million budgeted from 2014-15 to 2017-18.

The savings allocated to the SSSA initiative reform activities up to 'Other savings' principally represent those savings which were identified through the creation of and transition to SSSA. These include significant savings estimated to be achieved through the implementation of e-Procurement, which will be realised through agency budget adjustments. From 2013-14 additional savings budgeted from SSSA operations and to apply to payroll reform, Service SA accommodation and DPC ICT savings have been recognised. It should be noted that the latter saving is to meet DPC targeted budget savings rather than benefiting government wide agencies serviced by SSSA.

The following table compares the budgeted SSSA reform savings to the budgeted implementation costs.

Reform initiatives budget savings and budgeted implementation costs

	Total up to 2013-14	2014-15 to 2017-18 budget	Total
	$'000	$'000	$'000
Total savings from reform initiatives	77 302	101 260	178 562
Net savings from (cost of) reform	(84 557)	-	(84 557)
	(7 255)	101 260	94 005

The table indicates that to 30 June 2014 the cost of reform has exceeded savings achieved through the shared services reform process. It is anticipated that if budget results are achieved, all implementation costs would have been recovered by savings in 2014-15 and that by the end of 2017-18 total savings of $94 million over and above the costs of implementation will have been made. This indicates the savings benefits of the shared services reform process can be substantial, even though it has taken several years to realise and much longer than anticipated when the reform process first commenced.

7.6 Concluding comment

As reported in previous years, the original significant savings targets anticipated from the SSSA initiative have not been met, and this has been recognised through a number of downward revisions of these targets through the budget process across several years. Various delays in implementing reforms have also contributed to the need to revise the budget. While the implementation of SSSA has recorded significant savings, the major measure for effecting savings has been the direct reduction of agency budgets. While the costs of implementing the reforms will be recovered, this will occur over a longer timeframe than was originally anticipated.

During the year Cabinet approved the Payroll Reform project, involving the transition of CHRIS 5 to CHRIS 21. The project is being funded through the reallocation of unspent implementation funding and by agencies and SSSA operations (including savings). This further indicates (after the return of unspent implementation funds in 2012-13) that any system reforms and business improvements will need to be funded through SSSA operations (including savings) or in concert with government and/or agencies serviced by SSSA.

8 Shared Services SA financial systems and transaction processing: control environments on the improve

8.1 Introduction

SSSA operates core financial systems for the purpose of servicing the financial accounting and reporting requirements of many government agencies. The main systems and control environments in which they operate relate to accounts payable, accounts receivable, payroll and general ledger financial functions.

SSSA needs to maintain strong internal control environments and specific system and process controls to ensure the prevention and detection of potential fraudulent and malicious activity and for the integrity of daily processing of the financial transactions of the government agencies using SSSA services.

8.2 2013-14 review findings

Previous Reports have provided specific comment on weaknesses identified in relation to SSSA systems and control environments, including segregation of duty conflicts and user access issues. These deficiencies were originally raised by Audit in a major review undertaken in 2009-10.

Since 2009-10, as part of the annual audit of the systems and control environments, Audit has maintained an ongoing review of remediation developments at SSSA, and also examined and monitored other developments affecting the systems and environments.

Last year’s Report made specific comment on the progress being taken by SSSA to remediate key control weaknesses raised in prior years in order to achieve a satisfactory ongoing standard of control operation over financial transaction processing.

Audit review and evaluation of controls for the SSSA main accounts payable and payroll systems and environments concluded that controls met a generally satisfactory standard for 2013-14. Notwithstanding this overall conclusion, there were specific matters that were raised with SSSA for corrective action and review for process and procedural improvement.

Further commentary on this matter is contained in the agency audit report titled ‘Department of the Premier and Cabinet’ in Part B of this Report.

8.3 Concluding comment

It is an important responsibility for SSSA to continue to revisit and confirm the soundness of its control environments, particularly where there are changes in systems and processes. This responsibility recognises that SSSA operations are a major part of the overall control environment of financial transaction processing of government agencies.

The following section of this Report discusses the changes concerning the Government's banking arrangements which will impact on SSSA control environments and demonstrates the need for their continual revisit and evaluation for adequacy.

9 Whole-of-government banking transition: follow-up of implementation status

9.1 Background

Government banking services are generally conducted under the contractual arrangements specified in whole-of-government banking contracts. These cover the contractual arrangements for over 300 agency bank accounts and over 2200 merchant terminals.

Since 2012 DTF has been managing the transition of banking services within government through the following whole-of-government contract changes:

- Transactional banking – Westpac Banking Corporation (Westpac) to Commonwealth Banking Corporation (CBA). This includes the provision of bank accounts and deposit facilities, cheque and electronic banking facilities, cheque outsourcing and retail branch banking services.

- Merchant banking – Australia and New Zealand (ANZ) Banking Group to CBA. This includes the provision of customers to pay amounts to government using credit cards either face-to-face or via e-Commerce, interactive voice response or mail order.

- Purchase card banking – ANZ remains as the supplier. This includes the provision of a card facility to government employees to make purchases of goods and services and the related account and transaction information services.

Given the importance of the banking transition Audit has been relating with DTF concerning progress and developments. Last year's Report communicated the then transition status (timeframes and costs) of the changed banking arrangements, potential impacts of the transition for government agencies and security controls of the new banking arrangements.

9.2 Banking services transition status

With the exception of the Health and Ageing portfolio, Audit was advised in mid-July 2014 that all in-scope payroll, accounts payable and accounts receivable services have transitioned to CBA.

Westpac bank accounts used under the old contractual arrangements continue to be closed, with an estimated 75% of accounts closed in June 2014. The remaining accounts will be closed by the direction of the agencies.

For merchant services 2500 merchant terminals had been transitioned to CBA and this is considered complete. Some non-mandatory departments have elected not to transition across to CBA under the whole-of-government contract and services will remain with ANZ.

In relation to Health and Ageing the transition to CBA has taken longer due to its size and complexity. Although all payroll transactions have transitioned to the new banking arrangements the transition of Health and Ageing accounts payable and accounts receivable related bank accounts has been dependent on the migration of certain Health and Ageing legacy systems to its Oracle Corporate System.[1] It was determined by Health and Ageing, DTF and SSSA that the required resourcing to complete the transition should be focused on bank accounts linked to the Oracle Corporate System rather than the legacy systems.

9.3 Extensions of previous banking contracts

Throughout the banking transition process to CBA, DTF has sought several contract extensions with both Westpac and ANZ.

For Westpac the transactional banking services contract has been formally extended to September 2014. Under this extension agreement the Government is required to maintain a minimum average cash balance in all government accounts in excess of $50 million.[2] If this cash balance falls under the $50 million threshold Westpac is to charge the Treasurer a minimum cash balance fee.

In relation to the merchant services agreement with the ANZ, DTF has also obtained an extension to the original contract to September 2014. Under the terms of this extension the current fee structure remains. Services that will remain with ANZ are to be individually documented between the agency and ANZ.

9.4 Transition costs to current contract banking arrangements

The cost to government of transitioning to the government banking arrangements has included DTF project costs and the allocation of resourcing and funding by agencies involved in the transition.

A September 2012 Cabinet Submission indicated that the new banking contract arrangements would result in an estimated annual savings benefit to government of approximately $2.75 million. These savings would be achieved through reduced banking fees, higher interest earnings and transaction rebates. In addition the Cabinet Submission indicated that CBA had offered to help the Government fund certain transition costs up to a particular value. The anticipated savings would assist agencies to meet their forward estimates savings targets.

DTF has recently advised Audit that as the transition is yet to be finalised the full transition costs are not known, but based on current estimates they are expected to be in the order of $2 million. DTF has indicated that costs over the original estimate have not required any additional funding, but have been met from higher than anticipated banking contract revenue and/or branch savings.

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[1] Since July 2010 Health and Ageing has been implementing components of the new financial management system, called Oracle Corporate System. This system aims to replace the Health and Ageing legacy financial systems with a whole-of-health integrated system.

[2] The minimum balance requirement has been reduced during the transition period from $250 million to $50 million.

In addition, although a full review of the annual savings benefit has not been completed due to the transition still being in progress, DTF is satisfied that the value-for-money benefits of the new banking arrangements will be achieved. A more detailed benefit analysis is expected to be conducted by DTF in 2015.

9.5 CommBiz security and reporting functionality

Similar to Westpac's Corporate Online system, CBA's CommBiz[3] system has a number of security control options in relation to access to the system, authorisation of payments and user administration.

In reviewing security configurations of CommBiz applied within agencies Audit has noted that some agencies are not applying appropriate security controls within the system, in particular ensuring that dual authorisation has been applied when processing banking payments or administering users.

Last year Audit recommended that DTF provide agencies a documented minimum security template for using CommBiz. DTF has since drafted a CommBiz framework document that provides this guidance, which is expected to be published after selective external review.

In addition, Audit has raised with DTF a number of reporting limitations (or reporting enhancement requests) in relation to CommBiz. For example, feedback from some users indicated that CommBiz changes to be authorised in the system were not easily identifiable. In response DTF advised that these matters have been raised with CBA. Further, SSSA has created a manual process to assist with the identification of system changes within CommBiz before they are authorised.

9.6 Concluding comment

Agencies' transition to the new government banking arrangements is nearing completion. It is important for agencies to review their banking processes post-transition to ensure appropriate security controls are operating effectively within their changed processes to prevent exposure to fraudulent activity.

10 Creditor account payment performance of agencies review: progress update

10.1 Introduction

The total value of invoices paid and the number of invoices processed each financial year by government is significant. In 2014 the total value of invoice payments public sector-wide was in the vicinity of $14.4 billion and represented around 2.5 million invoices.[4] These invoice payments are processed both by SSSA on behalf of agencies, and by agencies responsible for processing their own accounts.

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[3] CommBiz is the internet program that allows transactions to be processed by employees of the SA Government on government agency CBA bank accounts.

[4] Unaudited amounts as reported in the Department of Treasury and Finance 'DTF Budget and Monitoring System Account Payment Performance (June 2014)' report.

TI 11 prescribes mandatory requirements for managing creditor account payments within government.

Last year's Report included specific comment on the results of an Audit review of agency creditor account performance. This matter was again reviewed in 2013-14.

The following commentary provides a recap of last year's review and outcomes and the scope and results of the 2013-14 review.

10.2 Recap of 2012-13 review and outcome

In 2012 a government review was performed by the Commissioner for Public Sector Employment into the account payment performance of public sector agencies. A report outlining a series of observations and recommendations emanating from his review dated 30 June 2012 was delivered to the then Minister for the Public Sector.

As a result of the Government review, TI 11 was reissued in late 2012 with a number of amendments. The amendments included the new requirement for agencies to develop relevant policies and procedures relating to the payment of creditors' accounts and revisions to agency reporting requirements on account payment performance.

In response the 2012-13 Audit review focussed on determining whether, in accordance with TI 11 requirements, agencies had paid accounts on a timely basis, prepared and submitted performance reports and developed policies and procedures relating to the payment of creditors' accounts.

The review identified that a number of agencies did not comply with the revised requirements of TI 11. In particular the review revealed instances where:

- monthly performance reports were not provided by the chief executive to the Minister or governing body (whichever was applicable) in the reporting format and within the timeframe required by TI 11

- adequate analysis/explanation of account payment performance including action taken or to be taken was not provided as part of the performance report

- policies and procedures had not been prepared and/or maintained to ensure compliance with the revised TI 11 requirements.

In addition, the review identified that a consolidated monthly performance report was submitted to the Minister for the Health and Ageing portfolio in aggregate and did not provide a breakdown of account payment performance for the Department for Health and Ageing, local health networks or SA Ambulance Service Inc. This matter was referred to the agency, recommending that performance reports be prepared for each of these reporting entities. The response from the Department for Health and Ageing indicated that, going forward, separate monthly performance reports would be prepared for each of these reporting entities.

10.3 2013-14 audit inquiry and scope

During the 2013-14 financial year there have been further changes to the creditor account payment performance area and TI 11. The main changes involved:

- the introduction and effective operation of the *Late Payment of Government Debts (Interest) Act 2013* from February 2014 which provides 'for interest to be paid on the late payment of debts due to small businesses in connection with contracts for the supply of goods and services to State Government'

- further amendments to TI 11 in response to requirements of the abovementioned Act.

The 2013-14 annual audit program for agencies provided for a follow-up review of certain matters identified in last year's review and gave consideration to agency compliance with the more recent amendments to TI 11.

10.4 2013-14 follow-up review results

Overall Audit noted improvement by agencies in recognising and responding to the revised requirements of TI 11.

Most sample agencies reviewed showed evidence of preparing and submitting monthly account payment performance reports to responsible Ministers or governing bodies of agencies and, where required, provided appropriate analysis/explanation of late account payment performance.

In addition, given the recent implementation of the *Late Payment of Government Debts (Interest) Act 2013*, most agencies reviewed had updated their policies and procedures to reflect the amendments associated with the charging of interest on late payments.

Audit did identify some agencies that did not fully comply with the requirements of TI 11. Instances were noted where:

- adequate analysis/explanation of account payment performance, including action taken or to be taken, was not provided as part of the performance report

- policies and procedures had not been updated to cover the inclusion of monthly reporting of the account payment performance report and the late interest payment.

In relation to the preparation of performance reports for the Department for Health and Ageing, local health networks and SA Ambulance Service Inc, Audit noted that the Department for Health and Ageing provides monthly reports to the Minister.

The reports include a summary of the current month's 30 day performance compared to the previous month for the Department for Health and Ageing and each local health network. The report also includes changes and trends in account payment performance and a high level summary of the measures being taken by the Department for Health and Ageing to improve the payment performance. The reports do not identify the reasons for changes or trends in account payment performance.

Audit noted that for Health and Ageing (consolidated) in the year ended 30 June 2014, 76.7% of invoices (83% by value) were paid within 30 calendar days or less. With the exception of the Department for Health and Ageing, which is paying approximately 94% of its accounts within 30 days, the majority of local health networks are paying on average 70% of their accounts within 30 days. Of all the local health networks, the Northern Adelaide Local Health Network Incorporated is the best performer at around 82% (76% by value) paid within 30 days, while the Women's and Children's Health Network Incorporated is the worst performer at around 66% (66% by value) paid within 30 days.

Year-to-date data for 2013-14 showed that for Health and Ageing (consolidated) 7.2% of invoices (5% by value) were paid after more than 60 calendar days.

Audit recommended the Department for Health and Ageing improve the reporting information to explain why local health networks or specific health units are not paying accounts within 30 days or where a local health network's account performance for the month has deteriorated compared to previous months. Audit also raised for consideration the setting of time and performance targets for the respective health units based on their particular circumstances.

The Department for Health and Ageing advised that the rollout of phase 3 of the Oracle Corporate System will integrate a function to electronically manage the flow of invoices across all Health and Ageing and assist the sector in attaining full compliance with the requirements of TI 11. In recognition of this situation, Cabinet was advised that continued investment in improving local procedures would not be cost effective. The Department for Health and Ageing is exempt from any interest penalties for late payments until such time as the rollout is complete. Notwithstanding, the Department indicated it continued to take steps to improve payment performance.

10.5 Payment milestone targets

As communicated in the 2012-13 Report, one of the amendments to TI 11 included the removal of the minimum benchmark requiring an analysis/explanation of an agency's account payment performance in the monthly report. Agencies were required to provide an analysis/explanation of an agency's account payment performance where the agency had paid less than 90% of its accounts (by number of accounts) within 30 days.

It was noted in last year's Report that agencies had established and applied different benchmarks (above 90%) in determining whether an analysis/explanation of account payment performance would be included as part of their performance report. The inconsistency raised for consideration the need to provide a benchmark so that agencies can apply a consistent measure in performing their analysis and reporting responsibilities in relation to account payment performance. Consideration would also need to be given as to the level to be set as the benchmark. In practical reality the benchmark may not be 100% but close to that mark to reinforce the expectation of paying all accounts due and payable within 30 days of the receipt of the invoice.

Audit advised in last year's Report that these matters were to be discussed with DTF. Given there were further amendments to TI 11 during 2013-14, it was considered that these matters should be discussed with DTF after completion and assessment of the 2013-14 audit program.

Audit intends to commence discussions with DTF in early 2014-15.

10.6 Concluding comment

The follow-up audit in 2013-14 of agency's creditor payment performance practices reveals overall that agencies, with the exception of Health and Ageing sector agencies, had recognised and responded to the revised requirements of TI 11. Health and Ageing sector agencies are falling far short of the previous payment performance benchmark (90% of accounts within 30 days) due to use of their legacy systems.

In 2014-15 Audit will continue to examine specific aspects of compliance of creditor payment performance, including compliance with TI 11 and agencies' policies and procedures.

11 Effective delivery of major ICT projects: Audit review in progress

Previous Reports have included commentary on some major ICT project developments. This has been done to highlight problems that have arisen during their development and implementation.

The problems, if not managed in a timely and proper manner, can result in increased costs, time/benefit realisation delays or material loss through project abandonment, functional deficiencies or prolonged use of legacy systems.

At the time of preparation of this Report, Audit was finalising a review of some important ICT development projects, notably:

- RISTEC – replacement taxation revenue management system
- Oracle Corporate System – whole-of-health integrated financial system to replace health unit legacy systems
- Enterprise Patient Administration System – replacement for a large number of legacy patient administration systems operating within health units
- CASIS – a system development for the management of concessions and seniors cards administration.

Matters arising from the review will be subject to supplementary reporting to Parliament.

12 Cyber security: a significant and ongoing risk for government and agencies

12.1 Introduction

The ongoing implementation and management of appropriate cyber security controls is critical to government protecting sensitive information and providing government services.

Last year's Report indicated a growing volume of cyber security incidents reported where government and its agencies were specifically targeted.

As part of the Government's response to the growing cyber threat, during 2014 the Office of the Chief Information Officer (the OCIO) introduced certain initiatives. An important initiative was the engagement by the OCIO of an external contractor to undertake an independent whole-of-government security assessment. This included an evaluation of current practices and assessment of cyber security protections and procedures for agencies. The scope included elements of governance, business information risk management and implementation of technical controls to reduce or manage inherent ICT system risks. These agency assessments seek to provide an increased understanding on the level of maturity of agencies' capabilities to manage and respond to cyber security threats.

At the time of preparation of this Report the Cyber Security taskforce of government is currently finalising a Cabinet submission that is intended to inform Cabinet of the findings of these across-government assessments.

Given the importance of applying appropriate cyber security controls and oversight within government, the annual audit program continues to maintain an ongoing review of certain cyber security initiatives. In addition, the audit program provides for the review and assessment of aspects of agencies' ICT management and security controls.

12.2 Agency ICT management and controls

12.2.1 Background

The Information Security Management Framework (ISMF) promulgated by the OCIO represents the Government's mandated information security standards, guidelines and control mechanisms for government agencies. The ISMF takes a standards-based approach and requires agencies to establish and maintain an Information Security Management System (ISMS).

12.2.2 Results of agency audits

As mentioned above the annual audit program involves the review and assessment of ICT management and security controls of agencies, including compliance with the ISMF.

Audits of agencies during 2013-14 identified instances where greater attention needs to be given to the strategic management of ICT resources, and highlighted notable shortcomings in security controls for systems and processes.

The agency reports contained in Part B of this Report, where applicable, include specific commentary on matters that have resulted from the conduct of ICT-related audits. The specific commentary is generally presented under the heading 'Information and communications technology and control'.

12.2.3 Development of the Information Security Management System

A significant mechanism for compliance with the ISMF is for agencies to establish and maintain an ISMS. To assist in this process, in February 2012 the OCIO released an ISMF guideline titled 'Transition guidance for agencies and suppliers'.

This guideline identified ISMS transition guidance. This included a phased transition approach, with the first phase to have been completed by 30 June 2013 and a final phase by 30 June 2017.

As previously mentioned, the OCIO engaged an external contractor to undertake an independent whole-of-government security assessment. One important aspect of this assessment was the evaluation of agencies' compliance maturity in relation to ISMF requirements and the implementation status of an agency's ISMS.

This external assessment recognised that the majority of agencies have commenced the implementation of an ISMS. Despite this progress there was a lack of clarity within agencies on how to appropriately classify their critical systems or assets and the required scope of their ISMS rollout. Agencies face further uncertainty with regard to the degree of complexity, focus and resource requirements to be applied to implement their ISMS within the required timeframes.

The review also identified certain security control matters that were consistent with issues raised by Audit in the conduct of the agency ICT-related audits during 2013-14 and prior years.

12.2.4 Audit comment

In 2013-14 the OCIO initiated whole-of-government assessment and Audit reviews of ICT management and control matters at agencies identified shortcomings in security management and technical security controls. The shortcomings reinforce the requirement for agencies to implement an effective ISMS.

12.3 Website management and security

12.3.1 Background

Government websites (and website applications) provide information and a range of services to the public and are critical to both the public and internal agency stakeholders.

To help strengthen website security, in 2012 the OCIO issued new whole-of-government standards specifically relating to web server security and web application security.

Last year's Report noted that agency compliance with these new government website standards needed improvement. For example, many agencies did not have good processes in place to undertake risk assessments of their websites and/or had not prepared a plan to address issues found in risk assessments. The Report also noted that a number of government websites had been reported to have been hacked or had unauthorised disclosure/modification.

In acknowledgement of these matters the previous Report stated that Audit will be conducting security testing of selected government websites during 2013-14.

12.3.2 Audit website security testing performed during 2013-14

During 2013-14 Audit conducted website security testing of selected agencies. This initially involved gaining an understanding of:

- internal policies and procedures relating to the management and security of the agencies' websites
- the details of their external facing websites and website-based applications
- the results of any assessments of the level of compliance of the selected agencies' websites against the mandatory website standards
- the results of any penetration testing of the agencies' websites and any current website risks yet to be remediated
- the details of any known recent website related security incidents.

Once this information had been considered Audit performed a security assessment of a number of sample websites, with the assistance of an external security firm.

Audit's security assessment involved onsite security control testing using specialist security tools. Network-based scans were also run against the website's external facing production environment. To avoid undue stress on the production systems or network gateways the network-based scans were conducted at a mutually acceptable time agreed with agencies (eg, after business hours). In addition, the majority of onsite testing was performed on test/development sites that replicated the production sites.

The Application Security Verification Standard 2013[5] and Common Vulnerability Scoring System[6] were used for the testing approach and risk ranking of findings.

12.3.3 Results of agency website testing

In examining the information provided by agencies and the results of onsite security testing of selected agencies Audit noted a number of vulnerabilities and management control issues that required improvement.

In particular, information provided to Audit revealed:

- some gaps existed in compliance with the whole-of-government web application and security standards
- certain policies and procedures relating to website security and management either had not been finalised or required updating

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[5] The Application Security Verification Standard (ASVS) aims to help organisations (government and non-government) to develop and maintain secure applications. For more details refer to http://www.owasp.org

[6] The Common Vulnerability Scoring System (CVSS) provides an open framework for communicating the characteristics and impacts of IT vulnerabilities. CVSS consists of three groups: Base, Temporal and Environmental. For more details refer to http://nvd.nist.gov

- vulnerabilities had been highlighted by some internal agency automated scans.[7] These vulnerabilities ranged from high risk to informational only. High risks affecting some websites included vulnerabilities to cross-site scripting, SQL injections and directory enumeration. These could result in the potential exposure of sensitive information, hijacking of user account(s), the integrity of the database(s) being compromised and the modification of website content being presented to the users.

In relation to onsite security testing performed by Audit with the assistance of an external security firm, the testing highlighted some positive controls. For example, one website tested demonstrated that the site would typically be resistant to casual attackers. In addition, the application was resistant to injection and authorisation bypass attacks.

Despite the existence of some positive controls, testing by Audit noted the following security and control concerns:

- user credentials for some sites were sent in clear text
- password control weaknesses existed, including no password lockout control for failed password attempts, no password expiry and poor enforcement of users to select strong passwords
- weaknesses in website session key management, which exposed some keys to interception and/or allowed duplicate concurrent sessions to the website
- one website application did not adequately validate user input, thus allowing cross-site scripting attacks and variables in web form could be overridden
- it was possible to enumerate valid user accounts and their selected security questions associated with a particular website application
- due to a lack of detective controls in one website application, some users were able to extract personal information for all users in the database without being subjected to rate limiting or detection
- encryption was not used for some data transfers
- one website tested allowed the tester to download a document uploaded by another user
- a request to a non-existent file on one website resulted in the exposure of the server path used for storing files
- the 'File Not Found' error page exposed the application versions in use by one particular site
- improvement was required to strengthen the formal review of application logs to monitor potential malicious activity.

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[7] It should be noted that the scan risks and ratings provided by the automated scanning tools do not take into account the role and functionality of the tested website. For example, vulnerabilities to a website with minimal functionality or linkage with other databases/systems may not actually present a high risk to the agency and hence do not require urgent remediation attention.

Comprehensive audit management letters detailing the concerns identified from website testing were forwarded to the selected agencies for remediation attention.

In response to the issues raised with the selected agencies, Audit received advice of remediation actions to improve the security deficiencies of the websites tested and to comply with the Government standards. In one instance the system tested was being considered by the agency for replacement as it was judged to have reached its end-of-life.

12.3.4 Audit comment

In 2012 the OCIO issued new whole-of-government standards for web server and web application security.

The 2012-13 Report noted that agency compliance with the new standards needed improvement. Compliance by agencies would mitigate risks of website hacking or unauthorised disclosure/modification.

Audit review and testing of certain agency websites in 2013-14 indicate aspects of non-compliance with the standards and security and control concerns that needed to be addressed. The relevant agencies have implemented remediation actions.

Overall the audit results evidence the need for all government agencies to assess their status regarding compliance with OCIO website standards.

12.4 Cloud computing within government

12.4.1 Background

In September 2011 the National Institute of Standards and Technology defined cloud computing as a delivery model for enabling ubiquitous, on-demand network access to a shared pool of configurable computing resources that can be rapidly provisioned and released with minimal management effort or service provider interaction.

Between 2011 and 2013, the State's position on cloud computing was aligned with the Federal Government's approach and process to sourcing cloud and other ICT-related capabilities.

Audit notes that certain agencies have progressed the implementation of cloud-based arrangements. To date these arrangements are generally not considered to be applied to significant systems.

12.4.2 Recent cloud computing developments

Recently the Federal Government changed its position on cloud computing. As part of this process the Federal Government is developing a new roadmap for reference to the use of cloud services.

This change in direction by the Federal Government has impacted on the State's progress to adopt and promote standardised guidance for cloud-related services, and has created some uncertainty about the State's cloud framework strategy approach.

As a centralised cloud computing policy position is not yet defined the decision to invest through particular ICT sourcing models, such as cloud, continues to rest with each individual agency. Agencies are still required to conduct their own policy analysis and due diligence when considering any outsourcing arrangement. This is also in line with previously established governance, investment and contractual frameworks.

As a result of the continuing uncertainty, the OCIO has received feedback from agencies requesting greater leadership and direction on this matter.

In an effort to address this situation, the OCIO has engaged an external contractor to assist in developing a draft cloud position for consultation. This will form the basis of a new across-government cloud policy framework which will attempt to provide agencies with clear:

- understanding of the roles that central government and service delivery agencies should undertake in enabling and supporting the proposed policy position
- direction in relation to cloud computing procurement/use
- guidance on evaluating cloud computing offerings.

While the OCIO is currently assessing certain aspects of SA Government cloud arrangements, some agencies are reviewing the Federal Government's cloud guidelines. This includes privacy, legal issues and financial considerations for cloud computing arrangements as well as ensuring that contractual control over specific data is maintained. Audit also notes that the South Australian Privacy Committee has prepared guidance on privacy and records management considerations in relation to cloud environments.

More recently cloud-related guidance from across Australian jurisdictions is being considered by the States with a view to harmonising processes nationally where possible and practical.

12.4.3 Audit comment

Developments in relation to the Government's cloud computing policy position and its implications for agency adoption of cloud computing arrangements will again receive Audit attention in 2014-15.

12.5 State Government ICT data held outside South Australia

12.5.1 Background

Federal and State Governments within Australia have been actively examining options relating to the storage and processing of their data outside traditional jurisdictional boundaries. This is usually as a result of cloud computing considerations.

The Federal Government released a policy and guideline encompassing minimum controls over data sent interstate or overseas titled 'Australian Government Policy and Risk management guidelines for the storage and processing of Australian Government information in outsourced or offshore ICT arrangements (July 2013)'.

12.5.2 Recent developments

In September 2013, the SA Government released an ISMF ruling titled 'Storage and processing of Australian Government information in outsourced or offshore ICT arrangements'. This ruling aimed to provide some direction for agencies regarding the outsourcing and offshoring of data.

The ruling outlines the responsibilities that apply to service suppliers engaged by agencies. Most notably service suppliers must not:

- send or store State data, customer data, personal information or any other related data/information that uses or requires the use of 'protective markings' as described in the ISMF (ie security classified information) outside of Australia

- send or store State data, customer data or any other related data or information associated with State Government critical information infrastructure outside of Australia without the express written consent from the State

- send or store customer data outside of Australia without the express written consent of an agency chief executive (or delegate authority).

The ISMF ruling indicated that information may be outsourced or offshored, subject to a risk assessment being undertaken that considers compliance with the ISMF.

12.5.3 Audit comment

In 2014-15 Audit intends to ascertain, where applicable, an agency's approach to the conduct of the relevant risk assessment. In particular, how the agency is able to validate that service suppliers are meeting their security contractual obligations.

12.6 Concluding comment

The effective delivery by government of information and services to the community and businesses with utmost regard to the protection of sensitive information requires agencies to apply robust cyber security measures and controls.

The OCIO whole-of-government security assessments conducted during 2013-14 and Audit's annual program of agency ICT audits (including website security and testing audits) evidences the existence of cyber security control deficiencies.

Agencies need to ensure ICT is recognised and treated as a strategic management matter, reflected in emphasis being given to the implementation of an effective ISMS. Also in this regard the OCIO may need to provide more clarity of guidance covering the ISMS milestone implementation timeframes and associated deliverable expectations.

Audit continues to monitor and consider audit implications for developing ICT initiatives of government, including cloud computing developments.

13 Infrastructure procurement: significant risks and challenges to be managed

13.1 Introduction

The capital investment program of government involves sizable outlays of taxpayer monies. The 2014-15 Budget reflects an investment over four years of $10.1 billion. The program for 2014-15 is $1.9 billion compared to an estimated result of $2.2 billion for 2013-14.

The investment program is diverse in nature. It can involve road and transport projects, hospital and school works, water and wastewater projects, housing, entertainment and sporting facilities. The program also involves significant and complex projects. For example, the Adelaide Oval redevelopment (recently completed), new Royal Adelaide Hospital (NRAH) (in progress) and the upgrade of the North-South Road Corridor (over the next four years).

Major projects carry high inherent risks including probity, cost estimations, escalations and timeliness of completion. They also require appropriate project management expertise, information systems and controls.

The importance of the abovementioned matters, and for continuing Audit attention to this significant area of government expenditure, has been demonstrated through the statutory requirement for the Auditor-General to review and report on the Adelaide Oval redevelopment. Also the knowledge and experience gained through that review process will be applied to other infrastructure review projects, including the NRAH.

13.2 Adelaide Oval redevelopment

On 29 September 2011 the *Adelaide Oval Redevelopment and Management Act 2011* (the Act) came into operation.

The Act requires financial supervision of the project by the Auditor-General and provides for the Auditor-General to report to Parliament on specific financial matters associated with the redevelopment and the ongoing management of Adelaide Oval. Six Reports have been provided to the Parliament in discharge of the reporting responsibilities under the Act, notably:

- 29 February 2012
- 31 August 2012
- 28 February 2013
- 31 August 2013
- 28 February 2014
- 29 August 2014.

These reports have raised matters for the attention of the various parties engaged in the project development, including the Government, the Department of Planning, Transport and Infrastructure and the Adelaide Oval (SMA) Pty Ltd. The matters raised have covered project governance, management and reporting, procurement and contract management, authorities and approvals, and clarity of financial arrangements.

As mentioned above Audit will apply knowledge and experience gained from this statutory review responsibility to other infrastructure project reviews.

13.3 Public Private Partnership (PPP): new Royal Adelaide Hospital

Last year's Report included comment on some important aspects of the NRAH project development. The commentary below recaps on certain matters previously reported and updates on project and contract developments that have been noted in the review of the project's progress in 2013-14.

13.3.1 Project background

As reported last year the following briefly summarises the key pre construction milestone events for the NRAH project:

- announcement of the preferred proponent in December 2010
- contract and financial close achieved in May/June 2011
- commencement of the design and construction phase in mid-2011.

In June 2011 contractual and financial close arrangements were concluded with SA Health Partnership Consortium (SAHP) to build, operate and maintain and provide non-medical support services for the NRAH under a 35 year contract.

At financial close, the public sector comparator analysis showed it was $137.4 million cheaper to the Government to procure through a PPP arrangement over the life of the project compared to a traditional government procurement approach. The estimated total risk adjusted value of the contractual arrangement at financial close was $3160.6 million (net present cost) compared to the risk adjusted public sector comparator of $3298 million (net present cost). The value at financial close represented the net present cost of construction, maintenance and the provision of non-clinical support services over a 35 year period.

The estimated total value of the contractual arrangement at contractual close provides for a capital cost for design and construction by SAHP of $1.85 billion (nominal). This excluded state works of $244.7 million (nominal) towards the overall hospital development and consists of those elements to be delivered and financed by the State, including core clinical equipment and precinct works. The state works budget was increased to $248.1 million in 2012-13. The increase of $3.4 million represents funding for additional electrical supply infrastructure approved by Cabinet in September 2012.

13.3.2 External review of new Royal Adelaide Hospital project governance and progress

The previous Report indicated that changes were being made to the governance arrangements for the project.

The changes were being made in response to the outcome of an independent consultant's review, that was initiated by the Department for Health and Ageing, to identify options for strengthening project governance, project/contract management and transition planning for successful commissioning of the NRAH (Central Adelaide Local Health Network Incorporated (CALHN) reform program).

The consultant's report, completed in June 2013, was presented with a submission to Cabinet in October 2013. The submission and report highlighted a number of significant matters to be addressed in focusing on the transition to the redesign and reform of health care services and other activities necessary to achieve the CALHN reform program.

In summary the notable matters to receive priority attention included:

- strengthening and refocusing of the governance framework
- identifying all specific projects for the CALHN reform program (successful transitioning and commissioning for the NRAH) for coordination through a dedicated program management office
- developing a refresh business case for the NRAH (including the CALHN reform program) and budget for the costs of transition planning and implementation for the NRAH
- engaging additional experienced resources, including in change management, operational commissioning and assurance management.

Cabinet approved recommendations put forward in the submission. These included the implementation of the recommendations of the independent consultant, and the reprofiling of investing project funds of $22.7 million from 2015-16 to operating funds for the period 2013-14 to 2016-17, to enable acceleration and improvement of the transition and implementation planning requirements for the NRAH.

Consistent with the intent of undertaking periodic independent reviews of the project's progress, a further review was completed by the independent consultant in May 2014. The detailed review included a follow-up review status of recommendations in the June 2013 report and further recommendations for other significant areas, summarised as priority actions for attention. The May 2014 report of the consultant indicated significant progress since the June 2013 review and the need to build on the progress.

13.3.2.1 First review

In response to the matters identified for priority attention in the first report of the consultant the following measures were taken:

- The governance framework was reviewed to expand its focus from the design and construction of the NRAH to the delivery of the full program of work for successful transitioning and commissioning of the NRAH (CALHN reform program).

  The revised structure involved the establishment of governance committees, including a revised steering committee, a new operations board and clinical advisory group. Also the appointment of an interim program director who, with the operations board, plays a key role in the management oversight and accountability of various work streams of the reform program.

- The CALHN reform program was implemented comprising eight work streams (eg workforce, procurement and supply, ICT and PPP contract management) and development of an overall work program based on stream project plans. The process was supported by the establishment of an Integrated Program Management Office.

- An updated business case is being developed with the assistance of a major external accounting firm. Progress on the business case follows the development of a workforce profile which is the main contributor to the business case. The development of a transition and commissioning budget is also in progress.

- The engagement of experienced resources has included the implementation of an assurance program with the appointment of an independent assurance management contractor. The Department of Planning, Transport and Infrastructure has been engaged to focus on the PPP contract concerning design and construction and facilities management under a memorandum of administrative arrangement.

13.3.2.2 Second review

As mentioned previously, whilst the second review of the independent consultant indicated significant progress from the first review, the second review and report raised further priority actions for attention. The main feature of these actions related to governance, resources and PPP relationship, clinical engagement and the ICT program (a work stream of the CALHN reform program).

In relation to the first area the consultant report raised the matter of further strengthening the governance framework through the permanent appointment of a strong and experienced Program Director. The appointment was made in June 2014. Another matter related to the appointment of senior personnel, including an ICT Project Director. This is in progress. Specifically in relation to the ICT Project Director, an appointment was made in late August 2014. A further matter related to ensuring work stream alignment with the SAHP master works program. This is being considered and/or progressed along with other matters relating to this area.

With regard to the second area of clinical engagement there is a need to develop detailed models of care and an internal communications strategy. These are in progress.

The third area, the ICT program, came under particular attention in the consultant's review. The consultant indicated that ICT is critical to the delivery of the model of care at a major contemporary hospital and to treat the NRAH as a high risk ICT systems integrated project. The consultant further indicated that:

- facilities; clinical and equipment; enterprise and local applications; state and local infrastructure and network, combined with business processes and training, must be successfully integrated and tested for the new hospital to be operational

- major changes were required to ICT delivery, including teams' structure, resources, schedule, approach and governance with resource and cost implications with these changes.

A significant recommendation (as noted above) was the appointment of an ICT Project Director with end-to-end responsibility for all NRAH ICT works and elevation of the ICT program within the strengthened governance structure. The consultant's recommendations are in progress and being addressed in the development of the transition and commissioning budget, which is also in progress.

13.3.3 Contractual risk

The contractual arrangement between the State and SAHP took into account a range of transferred risks to SAHP, including significant risks relating to design and construction. In essence the design and build of the hospital is a fixed price arrangement. One of the significant transferred risks relates to contamination risk for known pre-existing contamination. There is, however, a contractual risk sharing arrangement for unknown pre-existing contamination where the State will reimburse SAHP 80% of such costs.

Last year's Report made comment that Audit review of project and contract documentation noted the submission by SAHP of a number of claims for remediation of unknown contamination. The Report conveyed that in acknowledging the potential significance of unknown pre-existing contamination and its possible impact on the Department for Health and Ageing's financial statement reporting obligations, Audit raised with the Department for Health and Ageing the requirement for contingent liability disclosure in the financial accounts. The Department for Health and Ageing responded with inclusion of a note in the 2012-13 financial statements that provided disclosure information on this matter. The note indicated that a number of claims have been submitted and a detailed validation process is being undertaken of the submitted claims.

The 2013-14 financial statements of the Department for Health and Ageing and CALHN again include a note reflecting the position status of this matter at the time of sign-off of the audit of these financial statements (refer note 37 of the financial statements of the Department for Health and Ageing included in Part B of this Report).

13.3.4 Role of the Independent Certifier

The project documents covering the contract arrangement between the State and SAHP include the Independent Certifier Agreement. Both the State and SAHP are obliged under the project agreement to resource the role of the Independent Certifier on shared cost until 12 months after the date for commercial acceptance.

The Independent Certifier is engaged to carry out the independent certifier services in accordance with the project agreement relating to key project issues, including progress reporting, completion requirements and change requests, including extension of time requests. In addition, the Independent Certifier is able to be appointed as an independent expert as outlined in the project agreement for the purpose of accelerated dispute resolution.

In determining entitlement to an extension of time request the Independent Certifier will consider certain matters, including that the relevant notices have been submitted; the cause of the delay was an extension event; and that the cause of the delay was beyond the reasonable control of the constructing party SAHP. The Independent Certifier's determination is capable of dispute by either party through the dispute resolution process as set out in the Project Agreement.

At the time of preparation of this Report there has been no determination by the Independent Certifier regarding an extension of time.

13.3.5 State works

As mentioned above under 'Project background' the NRAH project development provides for a budget of $248.1 million for state works. Expenditure at 30 June 2014 amounted to

$65 million. This comprised utilities infrastructure works (including electrical supply) and road works $36 million, core clinical equipment and ICT $2 million and project management and transitioning $27 million.

13.4 Concluding comment

The capital investment program of government is significant in financial terms, diverse in nature, and includes major infrastructure projects going forward. The projects involve significant risks and challenges that require effective management. They will receive continuing Audit attention.

The NRAH is the single largest infrastructure project to be undertaken by the SA Government. It is a PPP development and presents significant challenges for SAHP and government (through relevant agencies, principally the Department for Health and Ageing, CALHN and the Department of Planning, Transport and Infrastructure) in working towards commissioning and operation in 2016. The commentary above briefly reflects many of the challenges facing the government agencies.

Audit will continue with its review and reporting on the NRAH project development, including progress with recommendations arising from the independent consultant engaged to gateway review the project and specific projects and tasks of the CALHN reform program.

14 Authorised officers: action commenced to review administrative processes across government

14.1 Background

In my Supplementary Report to Parliament for the year ended 30 June 2013 'Appointment and administration of authorised officers: November 2013' (Supplementary Report) I provided comment on the review outcome of four sample agencies examined in relation to specific matters involving the appointment and authorisation of authorised officers. Certain legislation (Acts) allows for the appointment of authorised officers to assist government agencies in the performance of their functions and responsibilities.

Authorised officers have powers to make inquiries, gather documentary evidence and, in certain cases, enforce penalties. Deficiencies in the appointment of authorised officers may lead to adverse operational and legal consequences for the relevant agency and the Government. It is important that government agencies establish and maintain appropriate administrative processes for the appointment and management of authorised officers in compliance with relevant legislation.

The review across the four agencies identified common issues and highlighted the likelihood of similar findings in other government agencies. As explained in the Supplementary Report, I wrote to the Chief Executive of the Department of the Premier and Cabinet recommending the issues be raised with all chief executives to review their administrative practices over the appointment and administration of authorised officers. In response, in November 2012 the Chief Executive of the Department of the Premier and Cabinet wrote to the main agency chief executives highlighting the review findings and requesting they consider undertaking an internal review of their authorised officer processes.

14.2 Follow-up review of progress

In June 2014 Audit sought updates from the four government agencies on the status of addressing the issues raised in the 2013 review. In addition, I wrote to 13 other agencies across government to obtain an understanding of the status of their internal reviews.

The following commentary provides a summary of the progress and status of action being taken across government regarding the appointment and administration of authorised officers.

14.3 Follow-up of the agencies reviewed in 2013

14.3.1 Department for Education and Child Development (DECD)

The specific matters that were subject of findings and comments in the Supplementary Report and status of action taken are provided below.

- The Children's Protection Regulations 2010 prescribe the Department for Families and Communities (renamed in 2011-12 the Department for Communities and Social Inclusion (DCSI)) as the department for the purposes of the *Children's Protection Act 1993* (CPA). As a result of the machinery of government changes in 2011-12, Families SA employees were transferred to DECD from DCSI and it was unclear whether these employees retained the appropriate authority as authorised officers under the CPA. The lawful appointment of authorised officers was clarified through the operation on 5 December 2013 of the *Administrative Arrangements (Interpretative Provision) Proclamation 2013*. In particular, reference to the Department for Families and Communities in regulation 5 of the Children's Protection Regulations 2010 has effect as if it were a reference to DECD.

- The Chief Executive's delegation of authority allowed a manager or supervisor to both approve and then proceed to remove a child from a dangerous situation. Audit raised the potential conflict between this delegation and the intention of the CPA in placing a limitation on the powers of an authorised officer. Further, Audit had raised some uncertainties arising from two instruments of delegations that were signed on the same day. These issues were to be resolved as part of Families SA's redesign and restructure process (redesign program). This redesign program involves the implementation of a new governance and team structure and includes addressing a range of legislative compliance matters by the end of 2014. In the interim, a departmental circular was issued in February 2014 to ensure the segregation of delegated powers to approve and to remove a child from a dangerous situation. In finalising the redesign program, new practice guidance and procedures will include arrangements for the appointment and administration of authorised officers and be published by the end of 2014.

- Audit raised that the form and content of identity cards were considered inappropriate and that DECD should consider appropriate measures to manage the appointment of authorised officers and identity cards. DECD anticipates that all staff will be provided with new identity cards and a register of authorised officers will be established once the redesign program is finalised by the end of 2014. In the interim, the Chief Executive has signed a letter of authority for the Care Concerns Investigation Unit to conduct investigations on behalf of DECD.

14.3.2 Department for Health and Ageing (DHA)

The following describes the specific matters that were subject of findings and comments in the Supplementary Report and status of action taken.

The findings related to the lack of documented policies and procedures for the appointment and administration process for authorised officers, inconsistent practices across DHA, the local health networks and the SA Ambulance Service Inc (SAAS), and the lack of a formal regular review of authorisations. While mechanisms had been in place that were specific to DHA, the local health networks and SAAS, the findings advocated a streamlined approach on the appointment and administration of authorised officers.

In response to the issues raised by Audit, DHA drafted a directive in September 2013, titled 'Appointment and administration of authorised officers under legislation committed to the Minister for Health, Minister for Ageing and the Minister for Mental Health and Substance Abuse' (the directive), with the intention of full compliance by six months from the date of approving the directive.

In September 2014 DHA provided an update to Audit which advised that the directive was endorsed on 20 August 2014, with full compliance expected by 20 February 2015. Compliance with the directive is mandatory. Further, DHA advised that an annual compliance review of the directive will be undertaken and a report prepared for the Chief Executive and the relevant Minister on any review findings.

14.3.3 Department of Planning, Transport and Infrastructure (DPTI)

The specific findings and comments that were outlined in the Supplementary Report are noted below together with the status of action taken.

The findings included the appointment of authorised officers not made in accordance with delegations, the lack of documented policies and procedures for the appointment and authorisation for authorised officers, inconsistent practices across DPTI and the lack of a formal regular review of authorisations.

A status update from DPTI indicated that all actions to address the audit matters have been implemented. Notably, DPTI has:

- undertaken a comprehensive review of all Planning SA's Ministerial delegations and implemented a new instrument of delegations

- developed an overarching framework to support legislative compliance, including the determination of legislation, roles and responsibilities. The framework requires internal audit to provide an annual assurance on compliance with the framework

- performed (by internal audit) its annual review of legislative compliance with the framework, which covered nine Acts. In July 2014 DPTI provided Audit with a report on the outcome of the review with a follow-up review expected to be undertaken in January 2015.

14.3.4 Attorney-General's Department (AGD)

The following describes the specific findings and comments mentioned in the Supplementary Report and status of action taken.

The findings related to inaccuracies in the instrument of delegations, the lack of documented policies and procedures for the appointment and authorisation for authorised officers, inconsistent practices across AGD and overlap of statutory responsibilities of authorised officers.

AGD advised that the actions to address the audit matters have been or are in the process of being implemented. Specifically:

- a comprehensive register of authorised officers has been established, providing proper control over the issuing of identity cards
- while work has commenced on drafting policies and procedures, due to staff changes this activity was not finalised within the initial timeframe advised in 2013. AGD now expects it to be completed by mid-December 2014
- AGD's Consumer Business Services division is undertaking a comprehensive review of all delegations and authorisations. This includes an examination of over 40 Acts to centralise the delegation and authorisation function to allow the implementation and administration of proposed new policies and procedures. AGD expect that this review will be completed by mid-December 2014
- AGD had sought legal advice to clarify the overlap of responsibilities of authorised officers between the *Liquor Licensing Act 1997* and the *Food Act 2001* (which is administered by DHA). Consistent with legal advice, Audit recommended that a memorandum of understanding be established to clearly outline the role and responsibilities of the relevant authorised officers in the interest of ensuring public health safety. AGD advised that a new compliance model is being implemented and expected to be completed by end of September 2014. Once the new model is fully functional, AGD will consider developing a memorandum of understanding with DHA.

14.4 Status of reviews of certain other agencies across government

In June 2014 I wrote to 13 other government agencies to obtain an understanding of the progress of their internal reviews. All agencies responded positively and indicated that a review had been commenced within their agency.

Of the 13 government agencies, four had completed a review. One agency provided a comprehensive report on the outcome of its review, undertaken by its internal audit division. The findings of that review were consistent with those raised in my Supplementary Report, including instances of unauthorised appointments being made under four separate Acts.

The remaining agencies provided varying timeframes for completion between the periods September 2014 to March 2015. Agencies also advised of issues that had been identified and were in the process of being addressed. Certain notable issues were:

- an agency was seeking legal advice to clarify whether references in legislation to authorised personnel constitute an authorised officer role

- the need to review policy and procedures due to recent machinery of government changes
- centralising administrative practices for better control over the appointment and management of authorised officers
- one agency has substantially upgraded their system database to record all authorised officer appointments, and enhanced its functionality by generating unique ID numbers and increased reporting capability.

14.5 Concluding comment

Deficiencies in the appointment of authorised officers may lead to adverse operational and legal consequences for the relevant agency and the Government. My Supplementary Report to Parliament in November 2013 highlighted deficiencies in the appointment and administrative processes within four government agencies.

In response to the Supplementary Report other government agencies under instructive advice from the Chief Executive of the Department of the Premier and Cabinet are undertaking reviews of their authorised officer processes. Many of the reviews were in progress at the time of finalising this Report and were confirming similar deficiencies to those raised in the Supplementary Report.

The results so far from the agency reviews in progress, including identified process deficiencies, warrant agencies to complete their reviews and implement corrective action in a prudent and timely manner.

The 2014-15 annual audit program will be extended to include a detailed examination and confirmation testing of the adequacy of the reviews undertaken by agencies and remediation actions implemented as a result of the reviews.

15 Local government: new role for the Auditor-General is underway

15.1 Introduction

On 1 September 2013 the *Independent Commission Against Corruption Act 2012* came into operation. At the same time, amendments to enabling Acts for other inquiry and investigative agencies, including the Auditor-General, became operative. In particular, section 32 of the PFAA was amended, which significantly changed (extended) the role of the Auditor-General in relation to the local government sector.

From 1 September 2013 section 32 of the PFAA enables the Auditor-General the discretion to examine:

- the accounts of a publicly funded body, including one which has ceased to exist, and the efficiency and economy of its activities (section 32(1)(a))
- the accounts relating to a publicly funded project, including one which has ceased to exist, and the efficiency and cost-effectiveness of the project (section 32(1)(b))

- the accounts relating to a local government indemnity scheme (scheme) and the efficiency and cost-effectiveness of the scheme (section 32(1)(c)).

Section 32 of the PFAA also enables the Treasurer or ICAC to request the Auditor-General to conduct an examination of a publicly funded body or project or scheme.

A publicly funded body includes a council constituted under the *Local Government Act 1999* (the LGA), including a subsidiary and a regional subsidiary of a council. In effect the statutory remit of the Auditor-General has been extended to the local government sector.

The following provides commentary on the audit work undertaken so far and an overview of the governance and audit arrangements regarding councils and schemes.

15.2 Audit responsibility

Section 32 provides a broad scope and discretionary power of examination by the Auditor-General. The examination of the accounts, efficiency and economy, and/or cost effectiveness of a council's activities/projects and the schemes may relate to a review of a diverse range of matters.

It is important to note that under the PFAA the Auditor-General is not required to provide an audit opinion on the financial statements of the councils and the schemes nor on the controls exercised by each council. These audit opinions are provided by the auditors appointed by each council and for each scheme as further explained under sections 15.3.4 and 15.4.2.

Prior to considering the matter of any examination that may be initiated under section 32 of the PFAA, I considered it appropriate to obtain a preliminary understanding of each councils' and schemes' governance, organisation and audit arrangements.

I formally wrote to the Local Government Association of South Australia (the LGASA) and each council in February 2014 and May 2014 respectively to request information for certain aspects of these arrangements. The LGASA and councils have progressively provided information in response to the letters of request over a period of six and three months, respectively.

At the time of finalising this Report, Audit was in the process of reviewing the documentation provided by the LGASA and the councils, which may give rise to potential matters for formal examination under section 32 of the PFAA. In accordance with the PFAA, the outcome of any future examination will be provided in a specific report to Parliament.

15.3 Councils

15.3.1 Legislative framework

The local government system operates within the following legal framework:

- LGA
- *Constitution Act 1934*
- *Local Government (Elections) Act 1999* (SA)
- Local government regulations.

South Australia has 68 councils established under the LGA to provide for the Government and management of its local areas in accordance with the provisions of the LGA. There are 18 councils in the metropolitan area of Adelaide and 50 councils that cover the populated regional area of South Australia. The Outback Communities Authority, a public authority under the PFAA, provides certain arrangements for some of the more remote areas of South Australia that are outside the local government council boundaries.

A key role of a council is to act as a representative and make informed decisions in the interests of its community, including the provision of various public services and facilities. As such, a council is primarily accountable to its local community. A council is not subject to Ministerial direction by either State or Federal Governments. However, councils work jointly with the State Government under other Acts and may be subject to specific advice and direction in making council decisions, for example, in areas of planning and development, public health and safety and environment.

All councils are members of the LGASA (established under schedule 1 of the LGA). The LGASA is recognised as the representative body of local government in South Australia and provides leadership to councils. The LGASA is also intended to promote and advance the interests of local government to State and Federal Governments.

On behalf of the local government sector, LGASA endorsed an agreement between the State and Local Governments, the State-Local Government Relations Agreement. This agreement outlines the principles and protocols to achieve a better strategic alignment between the two tiers of government. Further, the State and Local Governments are committed to work together on issues of mutual importance to achieve better outcomes for the South Australian communities.

15.3.2 Governance arrangements

Councils are governed by a principal member (the Mayor or chairperson) and councillors (the elected members).

Pursuant to the LGA, the council appoints a chief executive officer for the daily management of the council's operations and affairs. To assist in performing its functions, Councils may establish a governance structure which comprises:

- council committees to inquire and report on a specific matter to the council, provide advice to the council or to perform delegated powers, functions or duties (section 41 of the LGA)
- subsidiaries to provide a specified service(s) or perform a function of the council (section 42 of the LGA)
- regional subsidiaries where two or more councils may unite to provide a specified service(s) or carry out a specified activity, or perform a function of the councils (section 43 of the LGA).

The establishment of a subsidiary or regional subsidiary requires the approval of the Minister for Local Government (the Minister), a charter published in The South Australian Government Gazette, and the appointment of a board of management. Like councils, these subsidiaries are subject to comprehensive administrative and financial obligations. These include the development of business plans, establishing audit committees and presentation of audited annual financial statements to the relevant council(s).

The exception to the above governance arrangements is the Roxby Council, which operates under the *Roxby Downs (Indenture Ratification) Act 1982* and encompasses all the powers, functions and duties of other councils with some notable exceptions. This includes the appointment of an Administrator rather than elected councillors to perform all the functions of council.

A review of documentation provided to Audit by councils has indicated the following matters:

- The number of council committees established varies significantly across the councils, largely depending on the size and complexities of council functions and activities. The committees have terms of reference to support their functions and membership includes community representatives (non-elected members). The nature of these functions relates to providing advice to the relevant council on, for example, corporate governance and finance matters, strategic planning and development and the management of specific projects or assets of the council (for example community halls).
- Only one metropolitan council has established subsidiaries (three in total) for the specific purposes outlined in the respective subsidiary's charter.
- Approximately 20 regional subsidiaries have been created for the provision of services such as waste management and regional local government associations.

15.3.3 Administrative and financial accountability

In response to an independent inquiry into the financial sustainability of local government undertaken in 2005, key amendments to the LGA were made in 2005 and 2009 to improve the administrative and financial management practices within councils, including the following requirements:

- a council's strategic management plan must include a long-term financial plan (10 year) and an infrastructure and asset management plan
- a council's long term financial plan must include estimates and target ranges for key financial indicators (an operating surplus ratio, a net financial liabilities ratio and an asset sustainability ratio). Such ratios are disclosed in the council's audited financial statements.

These requirements aim to provide more useful information to councils to make better and informed decisions. In particular, in calculating capital expenditure needed to maintain and renew existing assets, to continue providing services to the local community without compromising the council's financial performance and future sustainability.

The LGASA considered that the abovementioned financial indicators provided a robust assessment of financial performance and sustainability by considering trend data, both historic and projected targets over the long term (10 years).

It is also important that such data is supported by a robust assessment of council assets in developing an infrastructure and asset management plan. The LGASA's 2013 report on financial indicators (up to 2011-12) concluded that the rigour of infrastructure and asset management plans of some councils was not sufficiently developed.

Council documentation provided to Audit has indicated that some councils had yet to adopt current long term financial and infrastructure and asset management plans.

15.3.4 Audit arrangements

A council, subsidiary and regional subsidiary must establish and maintain effective auditing of its operations. In recent years, certain amendments to the LGA have been made to improve the effectiveness of auditing:

- An audit committee must be established and include at least one independent member, with financial experience relevant to the functions of an audit committee.
- The council auditor's responsibility in conducting the audit has been extended to include an assessment of the controls exercised by the council.

Documentation provided by the councils has indicated the following notable matters:

- councils (including subsidiaries) have an audit committee with terms of reference to support their functions
- audit committees include an independent member
- regional subsidiaries have an audit committee except for those granted an exemption by the Minister in accordance with the LGA. The Minister has granted an exemption until 30 June 2016 for some regional subsidiaries.

A function of an audit committee is to recommend to the council (including subsidiaries) the appointment of an auditor. The LGA outlines the scope of the auditor's functions, including:

- providing an audit opinion on the council's financial statements (a financial statement opinion)
- whether the controls exercised by the council during the financial year are sufficient to provide reasonable assurance that the financial transactions of the council have been conducted properly and in accordance with law (a controls opinion).

In accordance with the transitional provisions of the *Local Government (Accountability Framework) Amendment Act 2009*, the Minister granted an extension until the 2013-14 financial year for the auditors of the prescribed councils (17 metropolitan councils) to provide a controls opinion. The auditors of all other councils are required to provide a controls opinion commencing the 2015-16 financial year.

In accordance with the Local Government (Financial Management) Regulations 2011, the council auditor must assess the internal controls based on the criteria in the 'Best Practice Model - Internal Financial Controls' (as published by the LGASA and approved by the Minister).

Audit inquiry of prescribed councils indicates that significant work has been undertaken to ensure compliance with the best practice model criteria. This work has entailed regular self-assessments and progress reporting to the council's audit committee. At the time of finalising this Report, the audits of councils' financial statements for the 2013-14 financial year were in progress. The councils' financial statements together with the audit opinions (includes the controls opinion) are required to be presented to the Minister by 30 November 2014.

15.4 Indemnity schemes

15.4.1 Legislative framework

The following two local government indemnity schemes have been established under Schedule 1 clause 2 of the LGA:

- Local Government Association Mutual Liability Scheme (LGAMLS) – the LGAMLS provides members with an integrated risk, claims and legal services for civil liabilities

- Local Government Workers Compensation Self-Insurance Scheme (LGAWCS) – the LGAWCS provides a scheme for self-insurance against legal liability owed to scheme member employees.

While membership is discretionary, all 68 councils are members of both schemes. The LGA provides for the governance and administrative arrangements of the schemes as described below.

15.4.2 Governance and administrative arrangements

These schemes are managed by the LGASA in accordance with the respective Scheme Rules. The scheme rules provide for the following matters:

- the governance arrangements where the LGASA has established separate boards of management to administer the individual schemes. The boards of management are accountable to the LGASA Board

- the appointment of a scheme manager. The LGASA has appointed a scheme manager (the Local Government Risk Services, an entity of an external insurance broker) to manage and administer the schemes. The arrangement is reflected in operation agreements dated 30 June 1997 for LGAWCS and 1 July 2001 for LGAMLS. Given the long-term relationship with the same scheme manager, these governance arrangements are reviewed every five years by an independent consultant, with the latest review undertaken by an external major audit, tax and advisory firm in late 2013

- the LGASA to maintain a fund for the receipt of monies and make payments for the purposes of the respective scheme

- the financial provisions including the preparation of annual accounts of the respective schemes

- the audit arrangements where the accounts of the schemes are audited annually by the respective auditor appointed by the LGASA. The auditor provides an audit opinion to the LGASA and the respective board of management

- both boards of management shall appoint an actuary to provide advice on all aspects of the scheme, including in the preparation of the scheme's annual budget.

15.5 Concluding comment

Amendments to the PFAA have extended the Auditor-General's statutory remit to in effect include the local government sector. Section 32 of the PFAA provides a broad scope and discretionary power of examination by the Auditor General.

The examination of the accounts, efficiency and economy, and/or cost effectiveness of a council's activities/projects and the schemes may relate to a review of a diverse range of matters. Prior to considering the matter of any examination that may be initiated under section 32 of the PFAA, I considered it appropriate to obtain a preliminary understanding of each councils' and schemes' governance, organisation and audit arrangements. In response to a formal written request, the LGASA and councils have progressively provided information regarding these arrangements.

The governance and audit arrangements of the councils (including councils' subsidiaries) and schemes are comprehensive and embodied in the governing legislation. A council's principal role is to act as a representative and make informed decisions in the interests of its community and provide various public services and facilities. As such, a council is primarily accountable to its local community with a high degree of public consultation and transparency required in its decision-making processes.

The annual work program of the Auditor-General's Department will include specific examinations that may arise from my understanding of the nature of the schemes' and councils' functions and activities and the environment in which they operate. An examination may take the form of a matter specific to a scheme or council or a matter of common application across the local government sector. In accordance with the PFAA, the outcome of any future examination will be provided in a specific report to the relevant publicly funded body and to the Parliament.