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Government
of South Australia

Report

of the

Auditor-General

Annual Report

for the

year ended 30 June 2015

Tabled in the House of Assembly and ordered to be published, 13 October 2015

Second Session, Fifty-Third Parliament

Part A: Executive summary

By authority: P. McMahon, Government Printer, South Australia

2015

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30 September 2015

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 2015

Pursuant to the provisions of the *Public Finance and Audit Act 1987*, I present to each of you a copy of my 2015 Annual Report. This Report includes the Honourable the Treasurer's statements for the financial year ended 30 June 2015.

Content of the Report

This Report is in three parts – Part A, Part B and the Appendix to the Annual Report.

Part A: Executive summary contains my letter of transmittal setting out the opinions required of the Auditor-General pursuant to section 36 and identifying any examinations made under section 32 of the *Public Finance and Audit Act 1987*.

The executive summary primarily contains commentary on the main matters that should, in my opinion, be brought to the attention of the Parliament and the Government arising from the program of audit work performed at public sector agencies for 2014-15 and included in this Annual Report. These include significant financial outcomes and events and financial control matters communicated to agencies in 2014-15. It also includes commentary on some specific reviews undertaken in 2014-15, financial reporting matters requiring attention and some follow-ups from past audit reviews. It is important to note that supplementary and other reports will cover additional specific matters.

Part B: Agency audit reports contains a summary of the outcomes of the audit of each agency included in the 2014-15 Auditor-General's Annual Report. It also sets out more detailed comment on many of the matters in Part A. It features a snapshot of key agency information covering functional responsibility, financial statistics, significant events and transactions, and whether the financial statement and financial controls opinions are unmodified or modified (qualified). If modified, the key matters causing the modification are identified. The snapshot is followed by comments on financial administration matters for each agency that, in my opinion, are of importance to the Parliament and the Government. Finally, the individual reports contain selected financial ratios and information that is relevant for assessing financial performance and significant financial transactions of agencies noted during our audits.

The Appendix to the Annual Report (Volumes 1 to 5) contains the Treasurer's statements and scanned copies of the final audited financial reports of public sector agencies that were forwarded to me that are, in my opinion, of sufficient importance to warrant publication.

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(l)(a)(i), however with respect to section 36(l)(a)(ii) modified opinions were expressed on the financial reports of the following agencies:

- Adelaide Oval SMA Limited
- Department of Environment, Water and Natural Resources
- The Legislature – Joint Parliamentary Service
- University of South Australia.

In addition, without modification of the opinion on the financial reports of the Return to Work Corporation of South Australia and the Lifetime Support Authority, attention was drawn to the inherent uncertainty associated with certain liabilities reported for those entities at 30 June 2015.

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(l)(a)(iii) there were instances in many agencies where the systems of internal controls have not, in my opinion, achieved or maintained the standard required by the *Public Finance and Audit Act 1987*. As is set out in detail below, I am required to form an opinion as to whether the controls exercised by the Treasurer and public authorities provide reasonable assurance that the financial transactions have been conducted properly and in accordance with law.

Where I consider agency systems of internal controls have not achieved or maintained such reasonable assurance, 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 reports not included in this Report

Audit priority is given to areas assessed as of sufficient importance to warrant publication in this Report. I emphasise that this Report does not include individual audit summaries and financial reports for all public sector agencies that I am required to audit. A list of the public sector agencies not included in this Report is provided at the end of this Part of the Report. Some audits were continuing at the time of preparing this Report for publication. Should any matters of significance arise in completing 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(l) (ab) of the *Public Finance and Audit Act 1987* requires me to report on examinations made under section 32 that were 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 2015.

Report and assessment of controls

As required by section 36(l)(a)(iii) of the *Public Finance and Audit Act 1987*, the 2014-15 audit program 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. The program also covers, where applicable, whether the controls in operation were consistent with the Treasurer's Instructions with particular focus on Treasurer's Instructions 2 'Financial Management' and 28 'Financial Management Compliance Program'. The overall aim of that assessment was to establish whether those controls were sufficient to provide reasonable assurance that the financial transactions were conducted properly and in accordance with law.

It is not practical in any such assessment to review each and every control for each and every transaction. Whilst every effort is made to test the sufficiency of controls across a representative range of transactions, no system of control should be considered 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(l)(a)(iii).

Audit assessments involve reviewing the adequacy of procedures and testing a number of control components for a range of financial transactions having regard to risk and materiality.

In assessing the sufficiency of controls, particular regard is given to agency structures, risks 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.

Where I have assessed the controls exercised by agencies as not meeting a sufficient standard, I have made recommendations as to where, in my opinion, improvements are required. Audit findings, risk considerations, recommendations and agency responses are included in the relevant agency's report in Part B of this Report under the heading of 'Audit findings and comments'. All matters are subject to discussion with agencies. This gives the opportunity to confirm the factual nature of findings and discuss the effect and practicality of recommendations and other relevant issues. It is up to the agency to determine whether or not to adopt audit recommendations. In making this decision agencies have regard to risks, costs and benefits. Instances are included in Part B where we and agencies have not agreed and agencies have not adopted audit recommendations.

Changes to the content and format of the Annual Report

During 2014-15 I reviewed the format and preparation process for the Auditor-General's Annual Report. The format of the 2014-15 Report has changed from the past.

In essence, commentary arising from audit work at public sector agencies is contained in Parts A and B. Further commentary on specific matters, such as the State finances and local government examinations, will be published in a series of individual reports using the supplementary and other reporting powers available to the Auditor-General through the *Public Finance and Audit Act 1987*, and other legislation.

A foundational and critical part of this Department's work, as Parliament's provider of independent audit assurance services, is the audit of public sector agencies' financial reports. The key output of that work is an assurance opinion in the form of the independent auditor's report. This year I have published scanned copies of the final audited financial reports of public sector agencies forwarded to me, together with my independent auditor's report. They are included in the Appendix to this Report.

These changes mean the Report has a different look to it from previous years but the overall content of audit commentary and agency financial reports has not reduced. Further, I have included some financial reports that were not previously included in the Report, for example local health networks.

The next stages of review will encompass determining whether all public sector agencies' financial reports historically included in this Report continue to meet the criteria set out in the *Public Finance and Audit Act 1987*, refining any quality issues from scanning agency financial reports and further review of content.

My Department is also reviewing the reporting process to increase the online presence of Auditor-General's reports. The overall aim is to continually improve the content, relevance and accessibility of audit review outcomes.

Acknowledgments

I have great pleasure in recognising and thanking my professional and dedicated staff for their complete commitment and efforts in 2014-15. They have been most responsive to changes I have sought over a short period leading up to this Report. The high standard of their work throughout the year is evidenced in the timely production and the quality contents of this Report and the supplementary and other reports prepared by the Auditor-General through the *Public Finance and Audit Act 1987*, and other legislation. The senior management of our teams who have contributed to completing this work are listed in Section 10 of this Part of the Report.

I am also grateful for the professional services provided by contractors who have assisted with this year's audit program.

I also acknowledge the cooperation all public sector agencies gave to my staff during the financial year. I am particularly grateful for their positive response to my late request to consider certain financial report presentation matters to ensure the scanned published information met an appropriate standard for readers.

I would also like to pay special tribute to Mr Simon O'Neill who retired from the office of Auditor-General in March 2015. Mr O'Neill served in the South Australian public service for 43 years, all of which were with the Auditor-General's Department, with the last eight years as Auditor-General. Mr O'Neill made an outstanding contribution to the Auditor-General's Department and the State public service during his career and particularly in the role of Auditor-General.

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 11 student, Sinisha Cubelic for the cover photograph.

Yours sincerely

Andrew Richardson
Auditor-General

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Part A

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Executive summary

1 Introduction

1.1 An overview of events shaping public sector activities, finances and financial controls and the annual audit program

The compelling drivers for the State public sector continue to be demand for public services in health and ageing, education and child development, communities and social inclusion, transport and justice. These areas typically account for in excess of 80% of general government spending annually and this proportion is projected to grow slightly over the 2015-16 forward estimates. Major infrastructure and other capital spending and activity progressed, particularly with the new Royal Adelaide Hospital (RAH), the road network, public transport and renewal of IT systems. Public sector transformation processes continued including in health, urban renewal, housing and other agencies and aspects of public sector administration. Expenditure savings remain a key budget initiative. Recent licencing arrangements for lotteries and forestry operations settled in most respects in 2014-15. Legislative changes for work injury took effect resulting in the elimination of a longstanding unfunded liability. Two very large internal financial transactions were processed for water and third party motor vehicle insurance activities. The commencement date for the announced reform of third party insurance grew closer.

South Australia’s economy is in transition. The 2015-16 Budget sets out the Government response to the State’s economic transition associated with the forthcoming closure of major parts of the domestic motor vehicle manufacturing industry, lower than projected mining royalties and other domestic and international economic challenges. Tax reductions and economic stimulus in targeted areas feature in the Budget. While no new efficiency dividends were applied to agencies in the 2015-16 Budget, significant savings are due to be achieved across the forward estimates from previously approved efficiency dividends and other savings measures.

These circumstances present the public sector with the imperative to ensure that all key elements of governance are functioning at a high standard. Some key aspects for ensuring that public services are delivered cost effectively are: continually seeking efficient and effective structural arrangements; responsive monitoring of operational and financial performance and of cost drivers; maximising the value for money from contracted private service arrangements; and ensuring capital projects are subject to disciplined and rigorous business case development and project governance and management to facilitate their likely success. Timely and relevant reporting is a further discipline for accountability and transparency of public sector performance and use of resources.

There were a number of Audit responses for 2014-15 to this operating environment. The major part of the audit program continued to focus on reviewing controls and the audit of financial reports. Our obligation is to cover every agency, every year. It requires us to revisit organisational ethics and culture, management philosophy, control systems and structures, risk analysis and how agencies operate within the law. These are all foundational aspects of public administration.

We also performed specific reviews, looking at aspects of governance and matters that were the subject of public interest during the year.

The Annual Report covers the majority of our work for the year. Supplementary reports following this Annual Report will cover some specific reviews. Section 8 of this Part provides more information.

1.2 2014-15 audit conclusion

In the letter of transmittal at the beginning of this Part, I have given the three annual opinions required by the *Public Finance and Audit Act 1987* (PFAA).

I have, as has been the experience in recent reports, given unmodified opinions.

I have done so as in my view, while many matters arose and were reported to individual agencies, the opinions as stated reflect an overall and collective view of public sector financial administration for a year.

I have, again as has been the experience in recent reports, stated that the opinions were subject to a number of important matters. I drew attention to agencies where modified financial report opinions were expressed and two instances where an emphasis of matter was made without modification of the financial report opinions.

I also drew attention to my view that there were instances in many agencies where their systems of internal control have not, in my opinion, achieved or maintained the standard required by the PFAA. Of the three opinions required, it is the financial control matters that are concerning, when seen collectively, as they mostly relate to fundamental areas of governance and financial control and accountability practices. I believe, however, that the majority of the matters identified in our audits are quite readily resolvable. This is discussed in further detail later in section 3 of this Part.

1.3 Public finances

The 2014-15 Budget estimated result is a net operating balance deficit of $279 million, a $200 million improvement compared to the budget.

The following table sets out major financial budgets and outcomes for the general government sector for the three years to 2015-16.

	2013-14 Result	2014-15 Budget	2014-15 Estimated result	2015-16 Budget
	$'million	$'million	$'million	$'million
Net operating balance	(1071)	(479)	(279)	43
Net lending	(1733)	(380)	(212)	(29)
Net debt	7 071	4 511	4 108	4 238
Net worth	39 654	39 124	38 660	39 485
	%	%	%	%
Revenue and expenses:				
Revenue real growth	(2.4)	2.8	5.7	1.3
Expenses real growth	(1.7)	(2.1)	0.5	(0.7)

The difference between the budgeted and estimated result for 2014-15 is explained by the better than budget improved revenue growth exceeding the unbudgeted real growth in expenses.

The revenue improvement was mainly due to increased dividend and income tax equivalent income from unbudgeted proceeds of $459 million from the Motor Accident Commission (MAC)[1] which, while within total public sector, is outside of the general government sector, the focus of the annual budget. This improvement flowed through to reducing the net lending deficit, estimated to be $212 million.

The general government sector is estimated to have net debt of $4108 million at the end of 2014-15. This improvement from the budget amount also reflects the payment from MAC into the Highways Fund, improving general government sector financial asset balances.

Net worth at 30 June 2015 is estimated at $38.7 billion, a decline of $994 million from 30 June 2014. Movements between government sectors do not flow through to the overall net worth of the total public sector. This reduction reflects a very large increase in the order of $2 billion, primarily from the annual revaluation of unfunded superannuation in 2014-15 due to a lower discount rate being used to value the liability, offset by higher than expected returns on superannuation assets[2] and an improvement in the net assets of the Return to Work Corporation of South Australia (ReturnToWorkSA) of more than $1 billion, mainly due to legislative changes.

Treasurer's Statements for 2014-15

The Treasurer's Statements reflect the financial transactions of the Treasurer as shown in the accounts and records of the Treasurer. The main public accounts are the Consolidated Account, special deposit accounts and deposit accounts established pursuant to the PFAA.

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

The Consolidated Account achieved a $1646 million surplus for 2014-15, exceeding the budget of $1575 million. The surplus included a budgeted $2.7 billion repayment of equity by the South Australian Water Corporation (SA Water).

Total payments from the Consolidated Account of $11.7 billion were within appropriation authority of $12 billion.

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1 MAC returned $852.9 million. For budget reporting, $459.2 million was treated as a dividend in the operating statement and the remaining amount of $393.7 million was treated as a return of capital in the balance sheet. The proportion allocated as dividend was calculated as 95% of MAC's 2013-14 total surplus of $483.5 million.

2 Table 4.2: Unfunded superannuation liability, 2015-16 Budget Paper 3 'Budget Statement', p 63. The superannuation liability is discounted using prevailing relevant rates. The value of the liability is highly sensitive to movements in the discount rate.

The balance of funds on hand in special deposit accounts, $3874 million, and deposit accounts, $869 million, collectively increased by $1.7 billion. The largest contribution to the increase was the MAC payment of $852.9 million in December 2014 to the State Government's Highways Fund (a special deposit account).

The Government's indebtedness to the South Australian Government Financing Authority reduced to $9015 million in 2014-15 from $10.6 billion. This was mainly due to the $1646 million surplus for 2014-15.

The Treasurer's Statements are included in the Appendix to the Annual Report.

Budget forecasts for 2015-16 to 2018-19

The 2015-16 Budget announced a range of initiatives to support the transition of the State economy and grow employment. Measures include significant tax reform and further investment. The Government also announced expenditure initiatives focussed on stimulating the economy through targeted investment in infrastructure, as well as measures to promote business investment, trade and tourism.

The 2015-16 Budget estimated result is a net operating balance surplus of $43 million, a $320 million improvement compared to the 2014-15 estimated result. The Budget then forecasts significant and growing net operating surpluses for the remaining three years ($961 million in 2018-19).

Key elements of the 2015-16 Budget contributing to this improvement include:

- growth in GST revenue
- budgeted operating expenditure restraint (negative real growth).

The Supplementary Report for the year ended 30 June 2015 'State finances and related matters: October 2015' provides detailed commentary and audit observations on aspects of the State's finances.

2 Significant financial outcomes and events in 2014-15

This section of the Report sets out a summary significant financial outcomes and events that occurred in 2014-15 and were subject to audit in forming our audit opinions. These transactions are characterised by being material either to the overall public finances or to the relevant agency financial report.

More detailed commentary and explanation of these events and related issues and risks is provided in the respective agency reports in Part B of this Report.

2.1 Key findings

The key findings in this section are:

- ReturnToWorkSA – a $1.3 billion decrease in the net outstanding claims liability moved ReturnToWorkSA into a net asset position of $370 million.

- MAC – made a payment of $852.9 million to the Highways Fund.
- SA Water – a $2.7 billion interim dividend has increased long-term borrowings.
- Lifetime Support Scheme commenced operating on 1 July 2014 and has a fully funded $93 million provision created for the future cost of caring for current participants.
- Urban Renewal Authority (URA) – incurred a loss before income tax equivalent of $123 million The Gillman site transaction did not settle in 2014-15.
- TAFE SA and the Department of State Development (DSD) – Skills for All program replaced by WorkReady.
- New RAH Public Private Partnership (PPP) – a Deed of Settlement and Release executed in September 2015; commercial acceptance now expected to occur in July 2016 and the hospital expected to open by November 2016.

Commentary is also provided on a number of other matters.

2.2 Return to Work Corporation of South Australia (formerly WorkCover Corporation of South Australia)

The *Return to Work Act 2014* fundamentally changed entitlements to the Return to Work Scheme (the Scheme) operations, with all of the new features to commence on or before 1 July 2015.

The legislative changes, coupled with ReturnToWorkSA's initiatives to get claimants back to work more promptly, resulted in a $1.3 billion decrease in the net outstanding claims liability, moving ReturnToWorkSA into a net asset position of $370 million. ReturnToWorkSA reported a comprehensive profit result of $1.5 billion in 2014-15. Its estimate of the outstanding claims liability as at 30 June 2015 is $2518 million. This is a discounted (present value) estimate, net of recoveries and including allowance for future expenses. The funding ratio increased from 71% to 114% meaning the Scheme has become fully funded.

The Scheme actuary's projections are reviewed by an independent professional actuary engaged by the Auditor-General. Our audit did not identify any issues or variations from expected practice that required the estimate for 30 June 2015 to be adjusted in any material way. The inherent uncertainty associated with the new Scheme arrangements, however, prevents the degree of certainty on the estimate that would warrant no comment or clarification to the audit opinion. Without modification of the opinion on the financial report of the ReturnToWorkSA, attention was drawn to the inherent uncertainty associated with the outstanding claims liability reported for that entity at 30 June 2015.

2.3 Motor Accident Commission

MAC made a payment of $852.9 million in December 2014 to the State Government's Highways Fund. The payment was a return of net surplus capital as required by the Treasurer pursuant to section 26(2) of the *Motor Accident Commission Act 1992*.

The 2014-15 Budget announced the Government's intention to reform compulsory third party insurance arrangements from 1 July 2016 and the return of excess capital from MAC to the

Highways Fund to invest in improving the safety of roads in South Australia. The 2014-15 mid-year budget review announced that strong investment performance by MAC allowed a larger amount to be returned to the Highways Fund earlier than expected, whilst retaining sufficient solvency to meet Scheme obligations. Across the forward estimates total distributions from MAC were expected to be $1.2 billion compared to $500 million at the time of the 2014-15 Budget.

MAC reported a comprehensive profit result for 2014-15 of $425 million, compared to a comprehensive profit result of $484 million in 2013-14. The underwriting result for 2015 was a profit of $204 million compared with a profit of $124 million in 2014.

In 2015 the outstanding claims liability decreased by $205 million ($247 million decrease) to $1.9 billion, predominantly due to a change in the claims methodology and decreases in the superimposed inflation rate.

The Scheme actuary's projections are reviewed by an independent professional actuary as part of the audit by the Auditor-General. Our audit did not identify any issues or variations from expected practice that required the estimate for 30 June 2015 to be adjusted in any material way.

MAC's statutory solvency level, calculated in accordance with a formula determined by the Treasurer, decreased to 121.1% (132.1%) but continued to exceed the target level of solvency with the $852.9 million return of capital offset by the $205 million reduction in outstanding claims liability. As at 30 June 2015 MAC had net assets of $823 million ($1251 million).

2.4 Lifetime Support Authority of South Australia (LSA)

The LSA was established on 1 July 2013. The LSA administers the Lifetime Support Scheme and Fund for people who suffer serious lifelong disabilities in motor vehicle accidents.

The LSA made a surplus of $31 million for 2014-15. This was determined after income of $146.6 million (mainly from a levy on South Australian motor vehicle registrations) and expenses of $115.2 million. Expenses included $92.8 million for the initial recognition of the actuary's estimate of a provision for future expenses for participants injured in motor vehicle accidents between 1 July 2014 and 30 June 2015. Total equity at 30 June 2015 was $75 million.

The Board of the LSA determined the value of the provision after considering a report from an independent actuary. The Scheme is not an insurance scheme. Consistent with similar interstate schemes, the LSA determined the provision in accordance with relevant accounting requirements and did not apply a risk margin to its central estimate.

The liability estimate is measured as the present value of the expected future payments for claims incurred up to 30 June 2015, including claims incurred but not yet reported. Sensitivity analysis illustrates that relatively small changes to key assumptions in the estimate can result in changes in the order of millions of dollars.

An emphasis of matter was included in the financial report opinion relating to significant uncertainty surrounding the estimate of the provision for participants' treatment, care and support services because of the long-term nature of the provision and limited participants' experience to date.

2.5 South Australian Water Corporation

In the 2014-15 Budget, the Government announced its intention to transfer $2.7 billion in debt to SA Water, in order to bring SA Water's debt to asset gearing ratio in line with interstate statutory water corporations.

In response to a request from the Treasurer on 16 September 2014, the SA Water Board recommended that an interim dividend of $2.7 billion be paid to the Minister. On 30 September 2014 the Acting Treasurer approved the payment of $2.7 billion to the credit of the Consolidated Account. This dividend did not involve a cash transfer. It was paid in October 2014 through reassigning responsibility for $2.7 billion of existing debt from the Treasurer to SA Water.

In 2014-15 profit before income tax equivalents was steady at $197 million ($200 million). This was higher than estimated primarily due to a delay in completing the transaction (it was budgeted to occur on 1 July 2014), resulting in lower borrowing costs and also to operating expenditure savings including a decrease in electricity expenses, due mainly to decreased electricity usage from the operation of the Adelaide Desalination Plant of $20 million.

SA Water paid a dividend of $184 million, up from the budgeted $135 million, and an income tax equivalent of $109 million, up from the budgeted $60 million.

2.6 Urban Renewal Authority

The URA made a loss before income tax equivalent in 2014-15 of $123 million.

This was an $84 million decline from 2013-14, a loss of $39 million, primarily attributable to a loss from changes in the value of non-current assets of $97 million and a decrease in gross profit from sales of $16 million.

As a consequence, the URA's Board recommended budgeted dividends of $14 million not be paid in 2014-15. The Minister approved the URA's recommendation.

The URA is obtaining independent valuations for all inventories on a rolling basis over two years. The properties selected for independent valuation this year were those considered at highest risk of being reported at an amount above net realisable value. These properties were primarily industrial land holdings in the Port Adelaide area.

Total borrowings at 30 June 2015 amounted to $519 million and increased $47 million primarily to fund capital development costs for inventories and operating expenditure. The URA's approved debt ceiling at the commencement of 2014-15 was $510 million, comprising a core debt facility of $460 million and a working capital funding facility of $50 million. In May 2015, the Minister and Treasurer approved URA's request for an increase in the core debt facility to $540 million and the continuation of the $50 million working capital facility until 30 June 2016.

The URA's current liabilities ($216 million), mainly borrowings ($191 million), significantly exceed its total current assets ($128 million). The URA's borrowings are classified as current when the maturity date of the loan is within the next 12 months. Historically, the South Australian Government Financing Authority has rolled over loans into subsequent periods when the URA has not had sufficient funds to repay the loan.

Status of Gillman site transaction

We reported on the Gillman site transaction in the Supplementary Report ‘Audit of the Gillman site transaction: Key shortcomings in assessing an unsolicited proposal: December 2014’.

Settlement of the Stage 1 land sale remains contingent upon certain conditions precedent being met, including the relevant land being rezoned for industrial use and Adelaide Capital Partners receiving the necessary statutory and development approvals.

A Judicial Review of the Gillman site transaction was appealed to the Full Court of the Supreme Court of South Australia. The majority of the Full Court dismissed the appeal. In August 2015, IWS (the appellant) applied for special leave to appeal the majority decision of the Full Court to the High Court of Australia. A determination as to whether this special leave will be granted will be made by the High Court.

2.7 TAFE SA – Skills for All and the WorkReady Scheme

The Skills for All program commenced on 1 July 2012, with the aim of achieving an additional 100 000 training places. Eligible South Australian students were able to gain qualifications at little or no cost from an approved TAFE SA or private training provider of their choice.

Total expenditure of Skills for All funding since inception amounted to $740 million (over three years).

The State Government has announced a replacement program called the WorkReady Scheme for training, employment and skills activity and investment, to replace Skills for All from 1 July 2015. The aim of WorkReady is to align funding for subsidised training places to specific strategic industry sectors and growth areas and to support direct connections between training and jobs. The focus of WorkReady has resulted in a streamlined funded training list and a significant reduction in the number of subsidised courses.

Students who had previously enrolled under the Skills for All program will continue to be supported.

The State Government has allocated approximately 90% of new subsidised training places for 2015-16 to TAFE SA. The State Government has announced that this allocation will assist TAFE SA to transition to a competitive training market.

Vocational Education Training funding from DSD decreased by $32 million, due to a combination of a decrease in Skills for All program activity, with less training hours being delivered, and reductions in Skills for All course funding for training delivered. DSD provided structural adjustment funding totalling $44 million to TAFE SA, in addition to funding provided under the Skills for All program.

In late 2014-15 TAFE SA commenced consultation on its future service delivery arrangements – the Future Education Delivery Strategy. This reflects the continuing need for TAFE SA to change its service delivery approach and continue its transition to a fully competitive market for the provision of Vocational Education Training.

The Government has announced its intention to reduce any funding differential between amounts paid to TAFE SA and those paid to a private training provider for the provision of the same unit of competency in future years, and this will require further changes within TAFE SA.

2.8 Health

The new Royal Adelaide Hospital Public Private Partnership arrangement

The State has entered into a PPP arrangement with SA Health Partnership Nominees Pty Ltd (SAHP) to build, maintain and operate, and provide non-medical support services for the new RAH under a 35 year Project Agreement.

Upon commercial acceptance, the Central Adelaide Local Health Network Incorporated (CALHN) will recognise a leased asset and liability over the remaining 30 years of the Project Agreement during which the State is required to pay for the construction, maintenance and operation of the infrastructure provided and financed by SAHP. At the end of the lease period the State will take ownership of the new RAH.

Change in the Public Private Partnership contractual arrangements and commercial settlement of certain matters

Following execution of a Deed of Settlement and Release on 17 September 2015, the completion and commercial acceptance of the new RAH project by the State is now expected to occur in July 2016, with the hospital expected to open by November 2016.

The Deed provided for commercial settlement of a number of matters, including SAHP releasing the State from claims relating to:

- contamination remediation
- clinical equipment related modifications
- modifications
- other matters.

The Deed provides for the State to make payments to SAHP totalling $69 million for direct costs and delay costs, including the State’s share of financing costs payable over the period the commercial acceptance date was extended.

Valuation of assets – Royal Adelaide Hospital

The existing RAH land and buildings have, until this year, been valued on the basis of their use for hospital purposes. Buildings, which are specialised in nature, were valued using depreciated replacement cost with useful lives in the range of 8-54 years.

In 2014-15 the URA proceeded with an expression of interest process for the development and occupation of the RAH site. The expression of interest expressed the Government’s intention to deliver a mixed use precinct at the site. The Government stated that it was not ruling out any options that may be proposed for this development opportunity.

In September 2015 the Government agreed to vary the commercial acceptance date for the new RAH. It is now expected to open by November 2016. Moving to the new RAH is likely to change the current use of the RAH site.

At 30 June 2015 it was highly uncertain that RAH land and buildings would continue to be used for hospital purposes in the long term. While the use of the site as the hospital continues in the immediate future, the value of the buildings cannot be reliably measured until more is known about the future use or restrictions that will, in time, relate to the RAH site. CALHN recorded these buildings at no value as at 30 June 2015. This resulted in a $78 million revaluation decrement for buildings. $24 million was adjusted to the asset revaluation reserve and $54 million was recognised as a loss on revaluation of building assets expense.

The RAH land continues to be valued using a market approach, adjusted to reflect various restrictions, including it being parklands.

CALHN will need to revise the fair value of the RAH site assets in future accounting periods to reflect the outcomes of future Cabinet decisions. This process will determine the underlying value of the land and buildings that comprise the RAH site.

Given the uncertainty for this site, we agreed with the adopted accounting treatment.

CHIRON contingent liabilities

In 2014-15 the Department for Health and Ageing made a contingency disclosure for legal proceedings filed against the Crown in right of the State of South Australia by CHIRON Software Licence: Working Systems Software Pty Ltd, for alleged breaches of contract and infringement of copyright over the ongoing use of the CHIRON patient administration system.

Consistent with legal advice obtained from the Crown Solicitor, the State believes it has a right to continue to operate the system outside of licence. The case has been adjourned until October 2015. Liability cannot be reliably determined or measured at the time of this Report.

Transforming Health

In November 2014, the Transforming Health program was announced and represents a major reform program for the delivery of health services in South Australia. The aim of this reform process is to design a health system that embraces innovation, takes full advantage of technology and new advances in medical treatments and is flexible to meet the challenges of the future.

The 2015-16 Budget[3] states that Transforming Health involves substantial changes to improve quality of care for patients, including changes to service profiles and systems across hospitals and the SA Ambulance Service Inc.

There will be an estimated increase in operating expenses of $55.2 million and an estimated increase in hospital and ambulance infrastructure of $270.5 million to facilitate the system changes over the period from 2014-15 to 2018-19. The net operating costs and the investing expenditure will be partially offset by the Health Capital Reconfiguration Fund[4] ($305.7 million).

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[3] 2015-16 Budget Paper 5 ‘Budget Measures Statement’, p 44.

[4] Announced in the 2014-15 Budget. The Fund comprises funding for suspended works to be invested in the areas of the health system that best deliver the services.

2.9 South Australian Forestry Corporation (ForestrySA) forward sale of forest rotations and events after the reporting period

On 17 October 2012 the State Government sold the forward harvest rotations of the ForestrySA's Green Triangle plantations to a consortium led by The Campbell Group which manages OneFortyOne Plantations Pty Ltd (OFO). The Green Triangle plantations, which are located in the south-east of the State, span into Victoria.

ForestrySA manages the Green Triangle plantations under a plantation management agreement in return for a management fee. OFO pays the management fee directly to ForestrySA.

On 22 July 2015, the Minister for Forests announced that OFO will internalise the management of its plantations in 2015-16, effectively ending ForestrySA's obligation to manage OFO's plantations. OFO has offered to employ ForestrySA's staff predominantly involved in providing plantation management services to OFO. This arrangement will reduce significantly ForestrySA's workforce and operations.

2.10 South Australian Lotteries Commission (SA Lotteries)

On 26 November 2012 the State appointed Tatts as the exclusive Master Agent to operate the SA Lotteries brands and products for a term of 40 years in return for an upfront payment of $427 million. The transition period for full implementation ended on 10 June 2014.

SA Lotteries' workforce significantly reduced during 2013-14 from 71 employees to 12 employees. SA Lotteries had 11 FTE employees throughout 2014-15.

2014-15 was the first full year under the master agency arrangements. 2011-12 was the last full year of State based activity. The following table compares key financial data for 2014-15 and 2011-12.

	2014-15 $'000	2011-12 $'000
Total sales	441 658	423632
Cost of sales	388 221	372195
Gross margin	53 437	51437
Total expenses*	55 760	27369
Distribution to SA Government (excluding dividends and income tax equivalent)	74 590	69740

* Includes Master Agent fee in 2014-15.

Dividends and income tax equivalents were exchanged for the upfront payment of $427 million.

2.11 Fines Enforcement and Recovery Unit (FERU)

The FERU, a division of the Attorney-General's Department (AGD), is responsible for collecting outstanding fines and related payments. The FERU performs this function for court fines, expiation fees and other outstanding amounts, including Victims of Crime (VOC) levies and third party suitor amounts.

In 2014-15 the total amount of fines lodged with the FERU was $191 million. Total collections of $107 million (including VOC amounts) included $91 million collected on behalf of the State Government and $16 million on behalf of non-government entities, including local government councils.

Of the $339 million in total outstanding debt and related payments (excluding VOC), $305 million is under active management, with $143 million subject to payment arrangements and $104 million having been referred to the external debt collection agency.

2.12 Restructures of government agency arrangements in 2014-15

A number of restructures occurred during 2014-15. Generally, changes affect the comparability of agency financial information from the previous year.

Typically, agency restructuring leads to transition periods while transferred staff and activities settle into their revised arrangements. Issues that can arise during transition include the timeliness of settling delegations, updating and rationalising systems and policies and procedures and clarity of roles, responsibilities and accountabilities.

Department of the Premier and Cabinet/Attorney-General's Department/ Department of Treasury and Finance

SafeWork SA, previously part of the Department of the Premier and Cabinet, joined the AGD from 1 July 2014. Assets and liabilities relating to this business unit were transferred to the AGD effective 1 July 2014.

In February 2013 the Department of Treasury and Finance's corporate services function transferred to the Department of the Premier and Cabinet. The 2014-15 financial reports of the two departments reflect the full year impact of this transfer.

South Australian Motor Sport Board to the South Australian Tourism Commission

The *Statutes Amendment (Boards and Committees – Abolition and Reform) Act 2015* came into operation on 1 July 2015. The effect of this legislation was to abolish the South Australian Motor Sport Board as a separate entity and transfer all functions to the South Australian Tourism Commission.

Adelaide Convention Centre Corporation and Adelaide Entertainments Corporation

Changes to legislation resulted in the Adelaide Convention Centre Corporation being merged with the Adelaide Entertainments Corporation on 1 August 2015 to form the Adelaide Venue Management Corporation. The Adelaide Convention Centre Corporation will prepare a final financial report for the period ending 31 July 2015.

Department of State Development and other agencies

DSD was formed on 1 July 2014 as a result of the former Department for Manufacturing, Innovation, Trade, Resources and Energy being renamed. Functions from other agencies transferred to DSD were combined into the new Department. They were: the operations of the Department of Further Education, Employment, Science and Technology; the operational units of Arts SA, Aboriginal Affairs and Reconciliation, the Office of the Economic Development Board and Invest in SA, transferred from the Department of the Premier and Cabinet; the operational unit of Health Industries South Australia, transferred from the Department for Health and Ageing.

Eighty IT services staff transferred from DSD to TAFE SA in September 2014, to establish an internal technology services capacity within TAFE SA.

Urban Renewal Authority/Department for Communities and Social Inclusion

The responsibility for financial and asset management and not-for-profit community housing sector growth responsibilities under the *South Australian Housing Trust Act 1995* transferred from the South Australian Housing Trust to the URA in December 2014. As part of this change, 130 employees transferred from the Department for Communities and Social Inclusion to the URA in January 2015.

Department for Health and Ageing

The Chief Executive, Department for Health and Ageing approved the transfer of 175 Financial Business Advisory and Hospital Based Revenue Services employees within finance to the local health networks and the SA Ambulance Service Inc effective 1 June 2015.

Department of Planning, Transport and Infrastructure internal restructure

Internal restructuring in the Department of Planning, Transport and Infrastructure resulted in the number of FTEs reducing by 301 in 2014-15. Targeted voluntary separation packages totalling $15 million were paid to 210 staff.

2.13 Summary of selected financial disclosures

A summary of selected financial statement items is included in section 9 of this Part.

The summary comprises information as disclosed in the financial reports included in the Appendix to this Report.

3 Significant financial control matters communicated to agencies in 2014-15

This section of the Report sets out significant financial control matters communicated to agencies in 2014-15 arising from our audits that were important to forming control opinions. To gain a full understanding of these and other matters, together with agency responses, I refer readers to Part B of this Report. The index to Part B will assist to direct readers to matters in individual agency audits.

It is important to note that audits rely on sampling of transactions within agencies and across the public sector. Where we have reported issues arising in individual agencies, we consider it is important they be considered by other government agencies to ascertain whether they have relevance and to assist to enhance public administration.

I also refer readers to section 4 of this Part for further financial controls matters.

3.1 Conclusion and key findings and overall recommendations for 2014-15

Forty four of the 64 agencies reported in this Report and subject to controls opinions[5], received modified (qualified) control opinions due to financial and management control weaknesses and compliance matters. The causes of qualifications ranged from a single matter to multiple reasons. Many matters were, for a range of reasons, unresolved from the previous year.

We also found weaknesses in some service provider areas including Shared Services SA (SSSA) and SA Health that impacted on a number of client agencies.

Overall, the 2014-15 agency audits have, as in past years, not resulted in a reduction in the number and importance of matters raised with agencies when compared to last year. Improvements in some areas are offset by new issues. The matters are concerning when seen collectively, as they mostly relate to fundamental areas of governance and financial control and accountability practices. As conveyed in prior Reports, our follow-up of matters previously raised with agencies revealed instances where the matters were not actioned satisfactorily.

Agencies have largely accepted our 2014-15 findings and recommendations and committed to resolving matters raised. In many instances we are advised that agencies have attended to the audit issues.

There are occasions where agencies have advised they do not accept our recommendations. These responses have generally indicated that the agencies are satisfied with their existing practices on a risk/cost benefit basis. Occasionally this reflected changed practices brought on by their response to cost saving pressures, restructuring or process change.

Agencies are responsible to ensure they have cost effective and adequate control practices and we respect that they have that responsibility. In making their assessment, agencies must ensure they have regard to meeting their legislative and other compliance responsibilities and the sufficiency of controls to provide reasonable assurance their transactions are conducted properly and in accordance with law. Our practice is to follow up agency responses in the next audit year. We will continue to have regard to risk, cost and taxpayers' expectations when assessing the sufficiency of controls.

We also note that there are opportunities for system improvements, some of which are well progressed, for example in payroll systems, where future control improvements may flow from being able to use online facilities within a revised and system based control environment. It is fair, however, to observe that system solutions can take longer to materialise than anticipated and have capital costs. It also notable that systems introduce other control issues, particularly access regimes and continuity risks.

Significant or frequently occurring control weaknesses identified across agencies related to:

- policies and procedures
- contract management

5 Adelaide Oval SMA Limited and the Legislature are not subject to controls opinions.

- service level agreements
- payroll systems including bona fide and leave reporting
- government purchase cards
- information systems access controls.

Further control issues are discussed under section 4 of this Part.

Recommendations

We recommend:

- agency management institute appropriate mechanisms to ensure corrective actions they have committed to take are clearly assigned to responsible officers, timelines are established, performance monitored and issues are resolved in a timely manner

- agencies give further attention to the capacity for information system improvements to assist delivery of cost effective and appropriately controlled financial administration

- where systems warrant renewal or revision, ensure full, robust and disciplined business cases are established to ensure such projects have a high likelihood of successfully delivering expected improvements.

3.2 Background

Public sector managers have the responsibility to cost effectively manage and control financial resources, operations and risk exposures within their agencies and to comply with relevant laws, regulations and instructions. The ability of public sector entities to operate and to report reliable, accurate and timely information is underpinned by an effective control framework.

The Auditor-General has the statutory responsibility to annually express an opinion on the sufficiency of controls and 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'. In performing tasks to support this opinion, we use relevant criteria against which to assess whether controls conform to established standards of financial management practice and behaviour. The primary sources of criteria are relevant laws, regulations and instructions (eg Treasurer's Instructions) and agencies' own policies. Where these sources are absent, we have regard to generally accepted standards of financial management practice and behaviour, especially where other Australian jurisdictions have issued authoritative guidance.

Assessing what is reasonable is a matter of judgement and circumstance that has regard to facts, changing practices, expectations and behaviours. What was reasonable at the time the PFAA was passed in 1987 is, in many respects, now regarded as overly conservative, risk averse and not cost effective. It is naturally appropriate to recalibrate processes to match contemporary imperatives and risk assessments.

There are, however, fundamental principles that underpin policy and procedure. These include integrity, financial probity and propriety, discharging responsibilities within the letter and spirit of the law and value for money. They are inherent values and essentially do not change over time.

For the most part, change is embedded in the relevant laws, guidelines and references as they are amended to align with contemporary standards and requirements. In this sense, change goes through a thorough process of debate and consultation that establishes the new agreed norm/standard. Nonetheless, there remains significant room for judgement. As a consequence, it is probable that auditors and management will disagree in some areas.

An important outcome of our audits is to communicate significant findings from the audit to those charged with governance. This may be a board chair or chief executive or the Parliament. This is a prudent and valuable outcome from the audit assurance services, an obligation under the PFAA and a professional responsibility under Australian Auditing Standards.

3.2.1 The meaning of audit findings and control qualifications

Consistent with previous Reports, the controls opinions for many agencies in Part B of this Report include a modifying (exception) comment that reflects our view that aspects of controls are of an insufficient standard to provide reasonable assurance.

Issues we bring to management's attention relate to governance, financial management and control and accountability. Where the controls exercised by agencies are assessed as not meeting a sufficient standard, we have made recommendations as to where, in our opinion, improvements are required.

All audits conclude with a natural justice process where draft audit issues are subject to agency scrutiny to ensure our issues are factually accurate, logically sound and present matters fairly. This also gives the opportunity to discuss the effect and practicality of recommendations and other relevant issues. Feedback from these discussions is considered and reflected, where appropriate, in final audit management letters and reports.

The natural justice process results in agreement on the majority of audit issues, findings and their resolution. It is up to agencies to determine whether or not to adopt audit recommendations. Agencies have regard to their view of risks, costs and benefits. On a number of occasions agencies put forward reasons for not accepting our recommendations. The primary differences arise where agencies evaluate the risks and benefits and consider that existing practices sufficiently address the relevant risk.

Responses received to issues raised in the current year are evaluated in the next audit. Should we continue to disagree with an agency assessment and have an alternative view, our practice will be to raise the matters for further consideration. We are also professionally obliged to perform additional work to address any residual audit risk before forming an opinion on controls and financial reports.

3.2.2 Independent Commissioner Against Corruption

Auditor-General's Reports are routinely forwarded to the Office for Public Integrity to ensure I meet my responsibilities under the *Independent Commissioner Against Corruption Act 2012*. The Office for Public Integrity is responsible to assess if any matter raises a potential issue of corruption, misconduct or maladministration in public administration.

3.2.3 Did we find material error?

It is clear that finding material error, such as overpayments or realised loss, would give persuasive evidence of the significance of audit findings and recommendations.

In practice this does not necessarily occur. I have outlined the standard by which we judge the sufficiency of controls to provide reasonable assurance that financial transactions of the Treasurer and public authorities have been 'conducted properly and in accordance with law'.

Where we have assessed that controls do not meet this standard, it is equally clear that this means an agency is exposed to increased risk regarding the financial probity and propriety expected of a public authority and its discharge of its responsibilities for cost effective public services.

Audit findings, risk considerations, recommendations and agency responses are included in the relevant agency's report in Part B of this Report under the heading 'Audit findings and comments'.

Significant or frequently occurring control weaknesses identified across agencies in 2014-15 included the following.

3.3 Policies and procedures

Policies and procedures are a fundamental element of good governance and control. Many policies are issued by central agencies such as the Department of the Premier and Cabinet and the State Procurement Board. Agencies are also responsible for forming their own policies and procedures. These establish performance and behaviour standards agencies require having regard to their specific circumstances and risk view. Keeping them up to date builds contemporary practices and forces out those that are redundant and inefficient.

Treasurer's Instruction 2 'Financial Management' (TI 2) specifies certain procedures for financial management, and requires each public authority to develop, implement, document and maintain policies, procedures, systems and internal controls to assist chief executives with their financial management responsibilities.

TI 2.5 requires that chief executives ensure that the policies, procedures and systems are properly documented. Unless otherwise required by a Treasurer's Instruction, legislation or other authority, documentation must be reviewed on a regular basis, revised where necessary and be readily available to all relevant officers of the authority.

Effective communication and training are essential for policies and procedures to achieve their aims. In our experience, even where policies and procedures are up to date, if they are not readily accessible and useable, they are likely to be ineffective. We have noted that agencies have tried some new ways of communicating, including the use of YouTube presentations.

Audit findings and risk exposure

We found many examples where agency policies and procedures were out of date, in draft form or incomplete. The causes included agency restructuring arrangements where agencies such as the Art Gallery Board and Libraries Board of South Australia moved into a new portfolio with DSD. This resulted in an overlap of policy and procedure references for those staff. Where policies and procedures are not reviewed in a timely manner, the policies may not reflect the practices agencies expect and require, meaning staff members may not follow correct processes. Consequently, there is an increased risk of internal control failure and processing errors.

3.4 Contract management

The public sector is an extensive user of private providers for services. These arrangements commit the State to payments annually exceeding $1 billion for services including infrastructure provision and maintenance, transport and contract staffing.

Examples include the following:

- Multi-trade contractors (MTCs) manage the majority of all job orders issued by the South Australian Housing Trust for responsive, vacancy, programmed and capital upgrade maintenance within defined geographical areas. The South Australian Housing Trust's MTC Agreements with five MTCs are worth an estimated $912 million over eight years (including renewals).

- The Adelaide Services Alliance contract commenced on 1 July 2011 for a term of 10 years, with an option for SA Water to extend the contract for a further six years in annual increments. The current annual value of the contract is in the order of $100 million.

- The State Procurement Board has strategic across-government contracts for energy, travel, auction services, stationery and temporary staffing.

- Operation and maintenance agreements with external parties for the SA Aquatic and Leisure Centre, Pines Hockey Stadium and Netball SA Stadium.

Auditor-General's Reports over a number of years have identified the importance of good contract management and the use of plans.

The State Procurement Board has issued the Contract Management Guideline. The State Procurement Board states that effective contract management supports achieving value-for-money outcomes by ensuring that all parties to the contract meet or exceed their obligations in line with the contract performance measures, time frames and expected deliverables.

The guideline includes specific reference to contract management plans. The contract management plan is an internal document for recording the key strategies, activities and tasks required to manage the contract and provides a systematic and accountable method to ensure that both parties fulfil their contractual obligations.

The contract management plan relates to the procurement objectives in the acquisition plan and is used by the public authority to review the performance of the contract and monitor the achievement of the contract outcomes. The contract management plan is normally drafted before the contract is executed, with the involvement of the contract manager where appropriate.

For contracts valued at or above $4.4 million, and significant contracts below $4.4 million (as determined by the public authority), an approved contract management plan must be developed, implemented and monitored (except for contracts that are of a one-off nature and have minimal management tasks).

Audit findings and risk exposure

Our audits of contract management practices found many examples where controls failed or were otherwise in need of improvement including:

- unreliability of performance data to assess contractors
- contractors not meeting performance benchmarks
- delays in implementing appropriate methods for assessing contractor performance
- compliance assessment activities not being performed
- unclear linkage of processes to contract risks
- inadequacies in contract management documentation including declarations and invoices
- no contract management plans being in place
- weaknesses in the documentation and assignment of responsibility to specific officers areas of non-compliance with contract requirements.

The weaknesses increase the risk that contracts do not achieve anticipated value-for-money outcomes.

3.5 Service level agreements and determinations (SLAs/SLDs)

There are many service arrangements existing between agencies. Arrangements are documented in an SLA/SLD or similar agreement.

SLAs/SLDs are widely used for internal service arrangements. As they are between public sector agencies, they are not enforceable contracts. As an example, SSSA has responsibility for processing financial transactions for most departments. SSSA agrees Service Summary and Operating Level Responsibility documents with client agencies. There are other similar arrangements.

Important functions for SLAs/SLDs include clearly defining the roles and responsibilities to be performed by the parties and setting agreed performance and quality measures to evaluate outcomes.

Audit findings and risk exposure

We continually find SLAs/SLDs are out of date, incomplete, in progress, have omissions of activities and responsibilities and are not actively managed.

Instances were identified where it was unclear who was responsible for basic controls, including review of the:

- validity and accuracy of payments
- appropriateness of financial delegations
- appropriateness of access to financial systems.

Lack of clarity through current, agreed SLAs/SLDs increases the risk that affected agencies may not meet their respective responsibilities and of key controls not being performed, resulting in potential invalid, inaccurate or incomplete processing of transactions and potentially impacting the accuracy of financial reports.

3.6 Payroll and human resources

There are in excess of 100 000 employees in the public sector. Section 9 of this Part indicates that the salaries and wages expense reported by agencies in this Report amounted to $6.6 billion in 2014-15.

Many payroll systems are used across the public sector. SSSA manages the majority of these payroll systems and transactions since they were transferred from agencies when SSSA was established. SSSA currently has 86 pay runs over a fortnightly period for all payroll systems including CHRIS 5, CHRIS 21, Valeo, Empower and HRMS. The CHRIS pay cycle alignment project, as part of the CHRIS 5 to CHRIS 21 project, has the goal to vastly reduce fortnightly pay runs to 11 by June 2016. Over a number of years further reform aims to streamline payroll processes and eliminate local practices that transferred to SSSA from originating agencies.

3.6.1 Payroll system audits

Payroll and human resource system controls receive substantial annual audit attention. This is a reflection of the materiality of this outlay, and the extent of activity and changes that occur in agencies personnel, systems and processes. A range of issues arise and many of them repeat from year to year. We again focused on these systems in our 2014-15 audits.

The fundamental aim for a payroll system is to ensure that salaries and wages are being paid correctly to bona fide (valid) public sector employees when they are due.

Correct payments are a function of numerous factors including an employee’s position, classification, award entitlements and time worked or leave taken.

In 2014-15, we have reported payroll control weaknesses and recommendations for many of the agencies in this Report.

The following discussion summarises the main issues arising and audit results.

3.6.2 Untimely review of bona fide reports

Bona fide reports or certificates are a feature of most payroll systems. These reports usually contain details of persons paid in the period, with content varying from full to summary payment information. The purpose of the report is for supervisors to confirm the validity of payroll payments made for a particular period. Review of this report is commonly regarded as an important detective control. Generally, bona fide reports or certificates are produced for every pay run. System reporting methods vary from traditional manual distribution for signing and return by an approving manager, to online reporting with automated escalation reminders.

The timely review of bona fide reports or certificates is important as it ensures that:

- all employees paid are bona fide employees (validity)
- all employees who should have been paid, were paid (completeness)
- hours worked, rates paid and leave recorded is accurate (accuracy).

Audit findings and risk exposure

We routinely found ineffective and untimely review and control of bona fide reports across agencies. We consider this increases the risk of financial loss due to inaccurate payroll processing within payroll systems. The nature of exposure of this risk is generally to small, individual transactions, however at a very high volume.

Our recommendations were tailored to the individual agency systems. Typically, they involved agencies distributing bona fide reports to pay point managers for their review each pay period and establishing and maintaining a central register to confirm that all pay points have reviewed and returned their bona fide reports in a timely manner. We also recommended agencies establish and communicate formal procedures that outlined this process.

The responses we received from agencies varied from agreement with the principals of improving the performance of this control, to disagreement as to the cost-effectiveness of the activity. The responses typically vary with the type of payroll systems operated, but also with the risk view that individual agencies took having regard to their systems.

A regular response this year was that transitioning workflow processes to system-based, online bona fide process was expected to improve control in this area.

The fundamental nature and need for payroll systems warrants some uniformity in the approach taken to establish the relevant degree and type of control over pay runs.

It is likely that online systems that are readily and routinely available to managers and have the capacity for automated escalation reminders for managers and relevant administration staff each pay run or regular review period, will lead to a general level of improvement over manual systems in this area.

I note we have found online systems where reports or certificates were outstanding. However, this was at considerably lower error rates than other systems. We formed the view that is likely to be appropriate for agencies to consider supplementing automated system generated reminders, when they become available, with focused follow-up of non-compliance.

There may be other alternative and effective controls that address the risk of valid payroll transactions, eg regular compliance audits.

Based on our longstanding findings and frequency of this issue, it is important that this area be given some focused attention by agencies to determine an accepted, cost effective approach to confirming the validity of payroll expenses.

3.6.3 Leave recording

The large public sector workforce means that liabilities for employee annual and long service leave entitlements are a substantial public sector liability. Section 9 of this Part indicates that the employee entitlements liability reported by agencies in this Report amounted to $2.5 billion in 2014-15.

The nature of this liability is that its accuracy depends on consistently correct updating of entitlements accruing and taken over the term of a person's employment.

Audit findings and risk exposure

Our audits found ineffective review of leave reports resulting in unrecorded or incorrectly recorded leave in payroll systems. Our testing identified instances where leave recorded in attendance records was not recorded or was incorrectly recorded in the payroll system. While we did not give focus to particular leave balances, we noted examples of excessive recreation leave balances and some instances of negative recreation leave balances. The latter can occur over Christmas periods where new employees are obliged to take leave in office closure periods. Other causes (eg system limitations for part-time employees) were also evident, as the highest negative recreation leave balance noted was in excess of 290 hours.

Ineffective review of leave reports increases the risk of unrecorded or incorrectly recorded leave. As with the bona fide reporting, it is of fundamental importance that leave recording systems are effective so that liabilities reflect employee's due entitlements.

3.6.4 Shared Services SA

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's services.

Previous years' findings

In previous Reports dating back to 2009-10, we have provided comment on the progress of action taken by SSSA to remediate various control weaknesses in order to achieve a satisfactory ongoing standard of control operation over financial transaction processing. In 2013-14 our review and evaluation of controls for the SSSA main accounts payable and payroll systems and environments concluded that controls met a generally satisfactory standard, although some minor matters still required attention.

2014-15 review findings

Payroll

In September 2014 a new service delivery model was implemented to bring together the existing functional teams within the agency based structure into single functional based teams.

As a result of SSSA implementing single functional based teams in September 2014, we assessed the controls that were in place both before and after the change. Our review found that in some instances the existing processes did not support the new single functional based team structure. We found that there were inconsistent processes being performed within functional teams and as a result some key controls were not operating effectively. As a result we concluded that controls did not meet a generally satisfactory standard for 2014-15.

The main areas of concern related to:

- inconsistent checking of various important pay run reports
- lack of monitoring and follow-up of errors identified by quality assurance processes
- missing documentation that could not be provided to us
- improvement required in controls around EFT files for payroll payment processing
- upgrading required of business continuity and disaster recovery plans
- improvement required in user access, password management and change management processes.

Details of our audit of SSSA is provided in the commentary under 'Department of the Premier and Cabinet' in Part B of this Report. Summary commentary for agencies affected by the payroll audit findings is also provided under the individual agency reports in Part B of this Report.

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 for financial transaction processing of government agencies.

Accounts payable

Our review and evaluation of controls for the SSSA main accounts payable system concluded that controls met a generally satisfactory standard for 2014-15.

3.7 Government purchase cards

Public sector use of purchase (credit) cards receives a high level of scrutiny from the public. This reflects instances of misuse of taxpayer funds and an inherently low tolerance for using public funds for purposes that do not accord with public expectations eg gifts or rewards for public sector employees.

Government agencies use purchase cards as a cost effective means of procuring a wide range of goods or services as part of their normal operations.

The use of purchase cards also presents a number of risks that need to be evaluated and appropriately managed. These risks include the use of purchase cards for non-work related expenses, poor procurement practices, inappropriate use of public funds, financial reporting errors and non-compliance with the Treasurer's Instructions.

These cards are provided under a whole-of-government contract for the provision of purchase cards with the ANZ. The contract, which has a term of five years, is due to expire in November 2017.

The Department of Treasury and Finance has issued Treasurer's Instruction 12 'Government Purchase Cards and Stored Value Cards' (TI 12), which provides the framework for the issuing and use of purchase cards within the SA Government.

Purchase cards are issued to individual employees within government agencies and each employee must sign an 'agreement and acknowledgement by cardholder' form, in the manner specified within TI 12, prior to being issued with a card.

The limits associated with each card issued are determined by the chief executive (or delegate – where that responsibility has been delegated). TI 12 specifies that the maximum limit, per transaction, that can be applied to any card is $10 000. Limits that are applied to individual cards are to be the lower of the employee's contract authorisation in the agency's delegations or $10 000. In addition to this transaction limit, a monthly limit is also imposed for each card issued.

TI 12 also specifies that cash advances from purchase cards may only be authorised by a chief executive for exceptional circumstances. All purchase cards issued are, by default, not authorised to allow cash advances and specific approval is required for this facility to be activated. In 2015, out of total of almost 7700 purchase cards under the contract, only 34 had the cash advance facility activated and the total value of cash advances withdrawn is typically quite low. Cash advances principally occur where purchase cards are used to support specific activities such as school trips to overseas destinations.

Purchase cards are only to be used for official purposes and appropriate records are required to be maintained for purchases made. Where an employee's contract authorisation is restricted to specific types of expenditure, the same restrictions apply to the use of their purchase card.

Other than the requirement that purchases are for official purposes, any further restrictions on the types of purchases that can be made on purchase cards are applied at an individual agency level. Some agencies, for example, restrict cardholders from using purchase cards for entertainment or hospitality expenses or travel without prior approval. Other agencies have imposed restrictions that purchase cards are not to be used to purchase gifts, software, IT services or fuel.

The number and use of purchase cards within agencies also varies significantly according to the policies of the individual agency. Some agencies, for example, encourage the purchase of goods or services below $2000 to occur via purchase card where possible, due to the lower transaction cost. In other agencies, purchase cards are used mainly for instances where they are a more convenient form of payment (eg to cover incidental expenses while travelling).

Monitoring of purchase card usage and the approval of payments to the provider (ANZ), are managed through a variety of systems across government (including e-Crow, card manager system and Promaster). SSSA also provides card management services to a number of agencies in coordinating the issue, cancellation and management of purchase cards.

Cardholders are required to certify expenditure on purchase cards each month and provide copies of receipts to support the expenditure. These payments are then approved, in most cases through the online system being used to manage the cards, by an appropriate delegate within the agency.

In addition to the requirement for monthly certification and approval of expenditure within the agencies, there are also overarching monitoring processes in place related to the contract.

The Department of Treasury and Finance provides each agency with a report of 'purchase card exceptions' each month for review. These reports highlight transactions that require further explanation. Typical transactions that would be included on this report are those relating to meals and hospitality amounts, accommodation and transactions classified (by ANZ) as being related to 'recreation'. Each agency is required to review the exception report and follow up instances where expenditure requires further explanation.

Audit findings and risk exposure

We found there remained a need to improve controls over the issue and use of purchase cards.

Control weaknesses included:

- having an inaccurate purchase card register
- evidence of transactions to support payments not being submitted in a timely manner or not being approved by the cardholder's manager or supervisor
- instances where records did not clearly demonstrate that the expenditure was for business purposes
- officers incurring or certifying expenses beyond their approved limits or approving expenditure when they were not authorised to do so (Department of Planning, Transport and Infrastructure, Department of the Premier and Cabinet, etc)
- examples where purchase card transactions were not in accordance with the policies and procedures on splitting of invoice payments, using third party transactions (eg PayPal), and purchasing fuel, flowers, printer cartridges, mobile telephones or accessories, computer software and staff gifts
- instances where officers used purchase cards for amounts in excess of the transaction and monthly limits established in delegations.

3.8 Information systems access

Information systems play an important role in the provision of government services and information to the public. They also store and process sensitive information that requires the implementation of effective security controls.

One key security control is to ensure logical access to systems, especially those with administrative privileges, is tightly controlled.

Audit findings and risk exposure

We found information systems access control weaknesses in many of our audits. For example, inconsistencies between agency approved delegations and system access permissions, lack of advisory arrangements to initiate system access change, untimely or insufficient review of access provisions to identify and correct the inconsistencies, delegations becoming inappropriate due to a position classification change and examples of inappropriate system access. These weaknesses increase agency systems' vulnerability to security incidents and disruptions to systems.

System controls can only be effective if the financial delegations are accurate when entered and are regularly reviewed to ensure their continued accuracy. These issues are readily fixed and the risk mitigated through disciplined exercise of processes and controls.

Information systems security will be discussed further in the Supplementary Report 'Information and Communications Technology: October 2015'.

4 Specific reviews – 2014-15

This section provides commentary on a number of specific reviews performed in 2014-15.

4.1 Capital investment procurement: significant risks and challenges to be managed

4.1.1 Introduction

The 2015-16 Budget states that the general government investing program is expected to be $1.3 billion in 2015-16, compared with the estimated result for 2014-15 of $1 billion.

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. The 2015-16 Budget highlights: the upgrade of the North-South Road Corridor; redevelopment of major metropolitan and regional hospitals including State works at the new RAH, Lyell McEwin Hospital and the Transforming Health program; major public transport projects, including the extension of the O-Bahn, commencement of electrification of the Gawler Railway Line and the purchase of new rail cars and buses; and education projects including a new city high school.

Capital investment in information systems also involves significant financial outlays. The large and ongoing program of information system renewal in the health sector is an example of the high value and complexity that those programs involve.

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.

In June 2015 I reported on health ICT systems and the Camden Park distribution centre. In August 2015 I reported on the Adelaide Oval redevelopment. The main project is complete and the oval is now well used. Surrounding works continue and I reported that a dispute on acceleration cost sharing and reimbursement remained unresolved.

We are progressing Supplementary Reports on the new RAH, further health information systems and other infrastructure projects.

The following matter was also considered this year.

4.1.2 Courts Precinct Urban Renewal project procurement

In 2014-15 a brief and targeted high level review was performed of the Courts Precinct Urban Renewal project procurement. A full audit was not done because the procurement was discontinued. The project received Cabinet approval to proceed in October 2012. Approval to discontinue and to acquire design intellectual property was given in March 2015.

This project was notable because it highlighted the importance of establishing the likelihood of project success at the earliest possible stage and ensuring there is clarity about the range of values and affordability of projects and the impact of alternative financing methods.

In this project, market sounding occurred and an expression of interest process proceeded.

Nonetheless, the request for tender resulted in operating lease option bids that were well beyond the expected value range. The leasing option represented a significant premium compared to the estimated cost of the State Government funding a design, construct and maintain option, and was assessed as not being value for money.

Negotiations with a preferred bidder did not achieve the threshold project objectives of producing a value-for-money off balance sheet proposal. It was accordingly appropriate that the State exercise the reserved rights to reconsider the project and the procurement process discontinued.

The Courts Administration Authority advised it incurred expenses of $356 000 for the project and the Department of Planning, Transport and Infrastructure received $2.8 million for the procurement process and additional funding to acquire intellectual property. The final amount spent was not confirmed at the time of this Report.

The final result was the proposed PPP to provide modern court facilities and office accommodation for the Courts Administration Authority did not proceed.

The State has not yet replaced existing infrastructure that is regarded by the Courts Administration Authority as being in a state of disrepair, subject to inefficiencies and no longer meeting contemporary requirements.

Additional commentary on this matter is provided under ‘Courts Administration Authority’ in Part B of this Report.

4.2 Governance and accountability review 2014-15

4.2.1 Introduction

Past Reports have briefly stated elements and practices we have considered important for effective agency governance and financial control and accountability. They are:

- sound organisational structure

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

Those who are responsible for public sector governance (boards, chief executives, senior management), have the important obligation to ensure the abovementioned matters are established and operating effectively within agencies.

Good governance practice is accepted as being a foundation for the effective performance of public sector entities. The Australian National Audit Office's Public Sector Governance Better Practice Guide succinctly states the scope and aims of good practice:

> *Public sector governance encompasses leadership, direction, control and accountability, and assists an entity to achieve its outcomes in such a way as to enhance confidence in the entity, its decisions and its actions. Good public sector governance is about getting the right things done in the best possible way, and delivering this standard of performance on a sustainable basis.*[6]

Evolving arrangements for delivering public services, risks, technological advancements and complexity in operations are among a myriad of factors associated with the continuous change and challenges faced by those responsible for public sector governance.

Successful projects have one thing in common, that is strong governance and independent assurance services.

4.2.2 Overview of 2014-15 review

In 2014-15 we reviewed elements of governance and accountability arrangements at 19 significant agencies in the public sector.

We were interested in the practices adopted by individual agencies and the degree of consistency in practices across the sampled agencies.

The areas chosen aimed to encompass:

- control and compliance elements, eg management and assurance committee structures and activities

- cultural indicators of ethical attitude and behaviour and accountability and transparency, eg interests and gifts disclosures

- an indicator of innovation – participation in the Office for the Public Sector's 90 day projects in line with Change@SouthAustralia aims and guidelines.

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6 'Public Sector Governance: Strengthening performance through good governance', Australian National Audit Office, June 2014, p 7.

4.2.3 Audit findings

We found agencies were using most of the elements of governance and accountability we reviewed and there was a strong level of consistency in the structures and practices used by agencies. This was largely expected given the extent and nature of established government-wide compliance requirements and guidelines and the widely accepted elements of governance practice.

We identified a number of areas where we considered governance practices could be improved. The more significant matters were, in summary, where there was the absence of:

- a structured or formal legal compliance program to ensure compliance with legislative requirements
- a current endorsed risk management plan
- a fraud and corruption control plan
- a fraud control officer with clearly defined roles and responsibilities
- a current register of interests as applicable to the agency's operations
- monitoring of Treasurer's Instruction breaches
- reporting on gifts and benefits
- an agency specific social media policy.

4.2.4 Consistent practices

We found agencies uniformly used the following structures and practices. Some areas of improvement related to these matters are outlined later in this section.

Executive management committees

Executive management committees comprised the most senior executives in agencies, headed by the chief executive. These were used to oversee agency activities and support the chief executive in agency management. The committees typically considered and monitored the advice, operation and performance of other committees and agency activities. They considered significant emerging issues, including the provision of independent and expert advice, which was adequately evidenced in the meeting minutes.

Health and safety committees

These committees manage and oversee mechanisms to monitor health and safety performance and internal controls, including compliance with legislative requirements. Committees received regular reports on health and safety incidents and performance and periodic reports on health and safety audits.

Audit/Risk committees

Audit/Risk committees are a widely accepted means of assisting boards and chief executives to oversight and monitor an organisation's risks, internal controls and corporate reporting processes.

Agencies uniformly had audit/risk committee arrangements to monitor risk management, financial accountability and internal control performance, including compliance with legislative requirements.

Committee membership included an independent chair or members.

There was a high degree of consistency of committees having:

- adequately responded to internal and external audit recommendations with issues promptly resolved and regularly reported
- reviewed draft financial reports before their submission to the Auditor-General
- implemented a risk management framework where risk was considered in all agency activities/projects and decision-making
- endorsed a fraud and corruption control policy which was reviewed at least annually and reflected recent changes relating to the Independent Commissioner Against Corruption
- arranged periodic training to agency staff regarding fraud awareness.

Ethical behaviour

There is likely to be no more basic expectation that the public have of the public sector than to expect ethical behaviour and integrity in decision making.

The *Public Sector Act 2009* sets out public sector principles and practices. Section 5(6) provides:

> *(6)* ***Ethical behaviour and professional integrity***
>
> *Public sector employees are to—*
>
> - *be honest;*
> - *promptly report and deal with improper conduct;*
> - *avoid conflicts of interest, nepotism and patronage;*
> - *treat the public and public sector employees with respect and courtesy;*
> - *make decisions and provide advice fairly and without bias, caprice, favouritism or elf interest;*
> - *deal with agency information in accordance with law and agency requirements;*
> - *avoid conduct that will reflect adversely on the public sector;*
> - *accept responsibility for decisions and actions;*
> - *submit to appropriate scrutiny.*

Section 6 provides that 'Public sector employees must observe the public sector code of conduct'.

A new Code of Ethics for the South Australian Public Sector, issued under the *Public Sector Act 2009*, where it is referred to as the Code of Conduct, came into effect on 13 July 2015.

Our review looked at how agencies managed and maintained oversight of ethical behaviour and professional integrity in the public sector.

Agencies established mechanisms to promote the Code of Ethics for the South Australian Public Sector and monitored and enforced ethical behaviour and professional integrity in their public sector employees. Methods employed included policies, induction and other training, online guidelines, chief executive and newsletter updates and review mechanisms.

Internal audit

Agencies had internal audit arrangements to monitor financial accountability and internal controls, including compliance with legislative requirements.

The internal audit function was independent of the operational activities of the agency and the manager of internal audit had direct access to the chief executive and chair of the audit committee. They worked to audit committee endorsed internal audit annual (or longer) programs which sought to address key agency risk priorities. Internal audit planning considered major IT risks and whole-of-government compliance reviews when determining risks.

Internal auditors completed, reported on and followed up action taken by management to address issues.

Treasurer's Instructions 2 and 28 compliance

TI 2 specifies procedures for financial management and requires each public authority to develop, implement, document and maintain policies, procedures, systems and internal controls to assist chief executives with their financial management responsibilities.

Treasurer's Instruction 28 'Financial Management Compliance Program' (TI 28) mandates that each chief executive must develop, implement, document and maintain a robust and transparent financial management compliance program (FMCP).

We found agencies had processes to develop, implement, document and maintain policies, procedures, systems and internal controls.

It is, however, also notable that we found in the course of our financial control audits, numerous issues with the currency and application of policies and procedures as discussed in section 3 of this Part.

Agencies had current delegations of authority that were consistent with and addressed the requirements of the Treasurer's Instructions and particularly:

- contracts (including purchases) – TI 8.11.1
- payments and disbursements – TI 8.15.

FMCPs were not expected to be the same between agencies but developed to reflect agency activities and risks. The programs included assessing policies, procedures, systems, internal controls, risk management, statutory and other financial reporting, and the adequacy of management reporting.

Agencies had developed and maintained FMCPs. Responsibility for the FMCP and its performance outcomes/operations was documented and assigned to appropriate senior officers.

Processes were in place for chief executives to be informed on all relevant financial management compliance and governance matters. Commentary on particular FMCP matters is included under 'Department of Planning, Transport and Infrastructure', 'Art Gallery Board' and 'Museum Board' in Part B of this Report.

90 day change projects

Change@SouthAustralia is an Office for the Public Sector program. A key strategy is to support agencies through a series of 90 day change projects. A further aim was to involve multiple agencies as relevant to a project. The stated goal of the 90 day change projects is to build the capacity of agency teams to design, implement and evaluate all change projects in a robust way, using sound planning, evidence and analysis and to learn how to manage change more effectively over time.

We found 12 of the agencies reviewed had established 90 day projects in line with Change@SouthAustralia aims and guidelines and worked with the Office for the Public Sector.

Of these, all but one resulted in the project recommendations being implemented and the projects assessed as a success in line with project aims. A South Australian Housing Trust project ceased due to a restructure of responsibilities.

4.2.5 Areas for improvement in governance practices

The following provides commentary on areas we considered governance practices could be improved.

Legal compliance

We sought to identify if agencies were using an effective framework to ensure compliance with relevant legislation, giving consideration to the size of the agency and their particular operations.

Agencies undertake a wide range of activities and as such are generally subject to a number of regulatory obligations. A legal compliance framework helps ensure that an agency's operations are conducted in accordance with legal and internal policy requirements.

We consider that an effective compliance framework would include the following:

- a central corporate role which supports identifying relevant legislation, documenting the requirements of key provisions and assigning responsibility to designated officers

- formal processes for confirming that key provisions of legislation are assigned to officers and confirmation that this remains current

- documented policies and procedures that record action required to be taken with respect to specific provisions of legislation, including reporting to the chief executive on action taken.

Almost half of reviewed agencies had not implemented a structured or formal legal compliance framework or program to ensure compliance with legislative requirements. Several of these agencies had also not allocated legal compliance to an appropriate area of management.

An ineffective compliance framework increases the risk of non-compliance with relevant agency legislation and related consequences, including litigation and subsequent loss.

Commentary on particular instances is included under ‘Attorney-General’s Department’, ‘Department of Environment, Water and Natural Resources’, ‘Department for Health and Ageing’, ‘Department of Planning, Transport and Infrastructure’, ‘South Australian Housing Trust’ and ‘TAFE SA’ in Part B of this Report.

Risk management

We reviewed whether agencies had endorsed, assessed, monitored and regularly reported on a risk management plan.

TI 2.6 requires chief executives to establish and maintain effective policies, procedures and systems for the identification, assessment, monitoring, management and annual review of financial and tax risks.

Risk management is an integral part of an agency’s operations. A risk management plan should summarise the proposed risk management approach for an agency. An effective risk management plan assists in establishing a structured process to identify, evaluate, monitor and report key risks. It also helps estimate impacts, and define responses to risks. We consider that a sound risk management plan should also:

- be developed with reference to AS/NZS ISO 31000:2009 Risk Management – Principles and Guidelines

- focus on key and strategic organisational risks

- be effective in managing risks to a satisfactory level

- be clear who is responsible for managing each risk

- ensure inter-agency risks are addressed and the agency contributes to the management of shared risks across government as appropriate

- contributes to the identification and management of State significant risks, as appropriate

- be incorporated in the agency’s corporate and business planning processes

- ensure adequate resources are assigned to risk management

- be regularly reviewed.

We found some agencies had not implemented a robust risk management framework, or endorsed a current risk management plan that is assessed, monitored and reported on regularly.

Commentary on particular instances concerning risk management findings for agencies including ‘Department of Planning, Transport and Infrastructure’, ‘Attorney-General’s Department’, ‘Department of Environment, Water and Natural Resources’, ‘Department of Primary Industries and Regions’ and ‘Department for Correctional Services’ is included in Part B of this Report.

Fraud and corruption control

The Government has stated it is committed to the prevention, detection and control of fraud, corruption and other criminal conduct, maladministration and misconduct in connection with the activities of public sector agencies.

Fraud prevention strategies provide the most cost-effective method of controlling fraud within an agency. To be effective, fraud prevention requires a number of elements, including an ethical organisational culture, a strong awareness of fraud among employees, suppliers and clients, and an effective internal control framework.

Key elements of effective fraud prevention include:

- a comprehensive fraud and corruption control plan
- a robust fraud policy and code of conduct
- sound fraud risk management processes
- prudent employee and third party due diligence
- regular fraud awareness training
- fraud-related controls for activities with a high fraud risk exposure.

An effective fraud and corruption control plan will provide detailed guidance for staff to better manage the prevention, detection, reporting and handling of fraud. Australian Standard AS 8001-2008 Fraud and Corruption Control provides guidance to agencies on the development of a fraud control plan.

TI 2.6.2 formerly required chief executives to establish fraud policies and review them at least annually.

Practices adopted by agencies for fraud and corruption control were discussed earlier.

We also found a number of agencies did not have a fraud and corruption control plan that was monitored and reported on or a fraud control officer with clearly defined roles and responsibilities. A small number did not maintain a fraud register.

TI 2 was reissued in April 2015. It now provides that the Commissioner for Public Sector Employment must issue and review on an annual basis, an all-purpose policy with respect to the prevention, detection and control of fraud, corruption and other criminal conduct, maladministration and misconduct in connection with the activities of public authorities.

Chief executives must either adopt any policy issued by the Commissioner for Public Sector Employment or, if they choose to issue an agency-specific policy with respect to the prevention, detection and control of fraud, corruption and other criminal conduct, maladministration and misconduct in connection with the activities of the public authority, any such policy must be at least equivalent to the policy issued by the Commissioner for Public Sector Employment. Any agency-specific policy must be reviewed on at least an annual basis, taking account of any review of the policy issued by the Commissioner for Public Sector Employment.

The Commissioner for Public Sector Employment circulated agencies on 7 August 2015 seeking feedback on the proposed whole-of-government policy on Fraud and Corruption.

In responding to issues raised, agencies generally acknowledged they would resolve the matter when the Commissioner for Public Sector Employment's policy was available.

Commentary on particular instances of fraud control is included under 'Art Gallery Board', 'Attorney-General's Department', 'Department for Communities and Social Inclusion', 'Department for Health and Ageing', 'Department of Planning, Transport and Infrastructure', 'Department of Primary Industries and Regions' and 'TAFE SA' in Part B of this Report.

Register of interests

A register of interests is a record kept of financial interests of key agency officers. A register documents interests that may potentially unethically or unlawfully influence officers' official duties and provides information that can be readily accessed to assess any conflicts. The need for a register is highest where officers are engaged in activities where inappropriate influences are a high risk to the activity. A register of interests increases transparency and is a mechanism to enforce ethical behaviour and professional integrity.

We sought to determine if agencies had established policies and procedures for conflicts of interest (including appropriate protocols for the disclosure and management of potential or actual conflicts of interest or duty), outside employment and gifts and benefits (including a register).

We found that most agencies did not have a current register of interests applicable to agency operations. We noted, however, that many agencies had protocols where conflicts of interests were a permanent feature and interests were declared.

Monitoring of breaches of Treasurer's Instructions

TI 2.16 requires chief executives to advise the Under Treasurer of a breach of any Treasurer's Instruction within 30 days of becoming aware of the respective breach.

We reviewed if audit and risk committees monitor compliance with the TI 2.16 requirement.

For half of the agencies, the audit committee did not have a mechanism to inform the committee about compliance with TI 2.16.

Gifts and benefits

When a public servant receives an offer of a gift or benefit, it is important that consideration is given to the ethical issues involved and that there is an open and transparent process in the agency for addressing such issues. Regular reporting of details of gifts and benefits received by agency officers to the audit and risk committee enables an independent assessment of the appropriateness of gifts.

The main risk of accepting a gift or benefit is that it may result in an actual or perceived conflict of interest. At the extreme, it could be perceived as a bribe, which is an offence under the Criminal Code and a breach of the Code of Ethics.

Our review found that half of the agencies reviewed did not receive reports on gifts and benefits received by agency officers.

Social media policy

Making public comment online is now common in official, professional and private capacities. This leads to an increased risk to the reputation of the public sector. It is important that all staff are aware of their responsibilities in relation to the use social media.

Whether or not staff can be identified on social media, they must always act with integrity, be respectful and never reveal confidential information.

Examples of unreasonable use may include:

- accessing or posting any material that is fraudulent, harassing, threatening, bullying, embarrassing, sexually explicit, profane, obscene, racist, sexist, intimidating, defamatory or otherwise inappropriate or unlawful

- using the agency’s internet, intranet, mobile devices or other computer resources to provide comments to journalists, politicians or lobby groups other than in the course of official duties

- spending an inappropriate amount of time during work hours using social media for purposes not related to employment.

Our review found that a significant number of agencies did not have a social media policy. While there is a Code of Ethics, a specific policy would assist to mitigate risks such as those associated with staff use of social media in their personal capacity.

An absence of a social media policy may lead to staff being unsure of their responsibilities in terms of using social media. This may increase reputational risks arising from inappropriate use of social media by staff.

4.3 Anangu Pitjantjatjara Yankunytjatjara (APY)

Issues relating to the financial management and governance practices of APY, the incorporated body with responsibility for the management of the APY Lands, received public attention in 2014-15.

APY receives funding from the State Government to fund the administration of the *Anangu Pitjantjatjara Yankunytjatjara Land Rights Act 1981*. In 2014-15, total grant funding, excluding GST, provided by DSD for this purpose was $1.8 million.

The State and Commonwealth Governments both suspended grant payments to APY during the year, with both governments seeking improved governance and financial accountability from APY.

We gave specific focus to the administration of grants to APY from the DSD in 2014-15. Our work focussed on the grant administration processes within DSD, recognising DSD had initiated a number of external reviews of APY financial controls and governance arrangements during the year.

It was evident from our review that DSD and the Minister for Aboriginal Affairs and Reconciliation had implemented more stringent conditions on the release of grant funding in the 2014-15 year and had continued to facilitate processes that aim to improve governance and accountability arrangements for APY, including initiating a number of external reviews.

We noted, in the findings from the external reviews completed so far, that there remained further opportunities to improve financial control and governance arrangements within APY, recognising progress has already been made in 2014-15. The third external review, examining the expenditure of both State and Commonwealth grant funds, is still in progress at the date of this Report being finalised.

There is further discussion on our approach to this matter in 2014-15, the grant funding provided by the State to APY and the external reviews that were performed, in the commentary under 'Department of State Development' in Part B of this Report.

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 reports, to the President of the Legislative Council and the Speaker of the House of Assembly by 30 September annually.

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

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 reports for 2014-15

This 2014-15 Report contains the financial reports of all the agencies expected to be included based on our assessment of our publication criteria.

Most agencies provided good quality draft financial reports. SSSA has responsibility to produce financial reports for many agencies. We found the quality SSSA produced was good and at least to the same standard or an improvement over last year.

The nature of the annual financial report process is such that we are likely to have some matters arise during the year end audit that take time and effort to resolve. This occurred for 2014-15 but all matters were resolved. Areas where we will have further discussions with agencies include the:

- timeliness of independent valuation reports. We found instances where these were completed well after 30 June

- quality of leave information supporting employee entitlement liability figures. There remain particular issues around part-time and casual employees.

It is important that the financial reporting implications of key issues agencies face during a year are considered at the earliest reasonable time to mitigate the risk of matters being debated late in the reporting timetable.

We observed that many audit committees were presented with variance explanations and major transactions which was beneficial to discussion. We also noted there remains inconsistency in the financial report review practices adopted by audit committees and the degree of scrutiny given to draft financial reports.

Modifications to independent auditor's reports for 2014-15 were mainly for longstanding matters.

5.4 Changes in accounting standards applicable from 2014-15

Two accounting standard changes applicable for 2014-15 resulted in considerable work throughout public sector agencies.

They were:

- AASB 1055 'Budgetary Reporting'
- accounting standards on control and joint arrangements.

The following discusses their impact.

5.4.1 AASB 1055 'Budgetary Reporting'

AASB 1055 applies to reporting periods beginning on or after 1 July 2014. It applies to financial reports of not-for-profit reporting entities within the general government sector, as well as those of the whole-of-government and the general government sector.

AASB 1049 'Whole of Government and General Government Sector Financial Reporting' has previously required reporting of budgetary information in the financial reports of the general government sector and whole-of-government financial reports. These requirements were relocated to AASB 1055. However, the introduction of AASB 1055 sees the first time inclusion of budgetary information as a requirement of Australian Accounting Standards to entities within the general government sector.

Where these entities have presented budgeted financial statements to Parliament, they are required to disclose in their financial report:

- original budgeted amounts, presented and classified on a basis that is consistent with Australian Accounting Standards
- explanations of major variances between the original budget and actual amounts.

These requirements also apply to budgeted financial information in respect of administered items.

AASB 1055 requires this information to be reported for the budgeted:

- statement of comprehensive income
- statement of financial position
- statement of changes in equity
- statement of cash flows.

For administered financial information, information must be reported on budgeted major classes of administered income, expenses, assets and liabilities.

The presentation of budgeted financial statements to Parliament is through Budget Papers. Budget Paper 4 'Agency Statements' for 2014-15 contains budgeted financial statements for 24 entities within the general government sector.

For each of these 24 entities, the following budgeted statements are presented:

- statement of comprehensive income
- statement of financial position
- statement of cash flows
- where relevant to the agency, separate financial statements as above for administered items.

Of these budgeted financial statements, Accounting Policy Framework II 'General Purpose Financial Statements Framework' restricts the application of the requirements of AASB 1055 to the statement of comprehensive income (and the administered statement of comprehensive income).

Budget information for the statements of financial position and budgeted statements of cash flows, including explanation of major variances from budget, is not required. The budget information included in those statements is not prepared on the same basis as accounting standards. For example revaluations of property, plant and equipment are not budgeted for and cash flow information is prepared on a different basis. Although AASB 1055 requires budget information to be realigned to the presentation and classification basis of financial statements, adjustments to measurements are not permitted. Accordingly, the Treasurer has determined through the Accounting Policy Framework that reporting of budget information for the statements of financial position and cash flows is not required by AASB 1055 and is unlikely to result in useful information for users.

Budget Paper 4 ‘Agency Statements’ also reports on agencies’ budgeted capital investment programs. Although it is not an accounting standard requirement to report on capital investment programs, the Treasurer has determined that this is useful information for users of financial reports. The Treasurer has required entities to present both budget information and actual amounts for all categories of investing expenditure for the first time in 2014-15 financial reports by including this requirement in the Accounting Policy Framework.

The Accounting Policy Framework also provides a definition of what is a ‘major variance’ from budget, and therefore requires explanation in the financial report. Explanations are provided for variances where variances exceed the greater of 10% of the original budgeted amount and 5% of the original budgeted total expenses.

The budget process is not subject to audit.

5.4.2 Accounting standards on control and joint arrangements

Australian Accounting Standards on control and joint arrangements were reissued with effect to for-profit entities for reporting periods beginning on or after 1 January 2013, and not-for-profit entities for reporting periods beginning on or after 1 January 2014.

These standards are:

- AASB 10 ‘Consolidated Financial Statements’
- AASB 11 ‘Joint Arrangements’
- AASB 12 ‘Disclosure of Interests in Other Entities’
- AASB 127 ‘Separate Financial Statements’
- AASB 128 ‘Investments in Associates and Joint Ventures’.

They replace the former AASB 127 ‘Consolidated and Separate Financial Statements’, AASB 128 ‘Investments in Associates’ and AASB 131 ‘Interests in Joint Ventures’.

These new standards include a revised definition of control, which is used to consider when one entity has an interest in an entity or other arrangement. The new definition of control reflects consideration of the power an entity has over another interest, what returns the entity gets from that interest, and whether there is a linkage between the power and returns. This differs from the previous definition of control, which required consideration of whether there was power to govern financial and operating policies so as to obtain benefits from activities.

It is more likely that an entity would conclude it has control under the more substance-based requirements of AASB 10 than under previous accounting standards. We have not identified any circumstances where government entities have determined they no longer have control on the basis of the revised requirements.

Two entities that are included in Part B of this report and have their financial reports in the Appendix, have significantly changed the information in their financial reports due to the new definition of control:

- the Department for Health and Ageing concluded that it controls local health networks
- the Museum Board has concluded that it controls the Museum Foundation Incorporated and the South Australian Museum Foundation Fund.

The new standards also include revised categorisation of arrangements where there is joint control, and a range of disclosure requirements.

5.4.3 Forthcoming changes in accounting standards

AASB 124 'Related Parties'

AASB 124 does not currently apply to not-for-profit public sector entities. However, the Australian Accounting Standards Board has issued a standard to amend AASB 124 that removes this exemption from 1 July 2016.

AASB 124 requires disclosure of transactions between entities and their related parties, and further information about remuneration of key management personnel. AASB 124's definition of related parties includes particular entities, such as parent entities and fellow subsidiaries within a group, and people, such as key management personnel and close members of their families.

The Australian Accounting Standards Board has acknowledged that applying these concepts to the public sector requires interpretation.

Implementing these requirements may require systems to be developed for capturing data about interactions of related parties, including Ministers and their close family members, with all government entities. The Treasurer will need to ensure related parties are defined, and systems in place, before 1 July 2016.

AASB 1056 'Superannuation Entities'

AASB 1056 replaces AAS 25 'Financial Reporting by Superannuation Plans' with effect from 1 July 2016. The presentation of financial reports of superannuation entities will fundamentally change under AASB 1056. Under AAS 25, some SA Government superannuation entities have elected to present their financial reports in the format of a statement of net assets and a statement of changes in net assets. Other SA Government superannuation entities present an operating statement, statement of financial position and statement of cash flows. Next year AASB 1056 will require superannuation entities to present:

- a statement of financial position
- an income statement
- a statement of changes in equity/reserves
- a statement of cash flows and
- a statement of changes in member benefits.

5.5 Reducing the cost of financial reporting for small agencies

The Appendix to this Report is in five volumes and demonstrates the extent of reporting now demanded by accounting standards, together with some specific local disclosure requirements set out in the Accounting Policy Statements.

Section 11 of this Part details those agencies audited and not included in the Report. I explained the criteria applied in determining which agencies are included in the introduction to Part B of this Report. The remaining agencies have varying levels of financial activity, some relatively significant to those that are very small.

In my view, it is timely that the extent and cost of financial reporting, particularly for small agencies, be reconsidered.

The established frameworks and timelines are designed to support readers being provided with quality and timely information.

High quality financial reporting is essential. This does not necessarily require a high level of detail in all circumstances. I have observed that smaller agencies do adopt reasonable approaches to both quality and compliance. I nonetheless also note that review of current practices and requirements may be beneficial in maintaining quality while reducing the effort and cost of financial reporting.

6 Follow-up from 2013-14

6.1 Authorised officers

6.1.1 Background

Previous Reports to Parliament have highlighted issues with the appointment and management of authorised officers. These issues included:

- lack of documented policies and procedures for the appointment and administration of authorised officers
- form and content of identity cards
- inconsistent practices across business units
- a lack of a formal regular review of authorisations.

Specific legislation 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.

In December 2013, the Chief Executive of the Department of the Premier and Cabinet wrote to all agency chief executives to highlight the audit findings and to request that they consider undertaking a review of the appointment and administration of authorised officers within their agencies.

In June 2014, the Auditor-General wrote to all agency chief executives and asked for an understanding of the review undertaken/being undertaken within their agency and its status. A number of agencies were in the process of completing their reviews and advised dates of completion varying from September 2014 to March 2015. Seventeen agencies were reviewed during 2014-15 to confirm the adequacy of the agency reviews and remediation actions implemented as a result of the reviews.

6.1.2 Summary of results

All agencies have responded positively to the Auditor-General's and the Department of the Premier and Cabinet's correspondence and have implemented authorised officer compliance projects and programs. Agencies with the least complex legislation and number of authorised officers have completed their reviews with good results.

Agencies with complex legislation and large numbers of authorised officers that can be sub-delegated to officers outside of their agency, are still working through their compliance projects to determine the most efficient and effective way to control their authorised officer programs. Agencies with reviews ongoing are South Australia Police, Department for Health and Ageing, Department of Primary Industries and Regions, Department of Planning, Transport and Infrastructure, Department for Education and Child Development and AGD.

Additional commentary is included under 'Department of Planning, Transport and Infrastructure' in Part B of this Report .

7 Local government: progress with new role for the Auditor-General

On 1 September 2013 the *Independent Commissioner 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.

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))
- 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))
- 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 Independent Commissioner Against Corruption 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*, including a subsidiary and a regional subsidiary of a council. In effect the statutory remit of the Auditor-General extends to the local government sector.

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 reports 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

The PFAA requires a report to be prepared after making an examination under section 32 and copies of the report delivered to the Parliament.

All completed examinations for the local government sector will accordingly be separately reported.

In September 2015 I presented our first local government sector report, 'Examination of the local government indemnity schemes: September 2015'.

Work is presently continuing on another examination.

8 Supplementary reporting 2014-15

I intend to table a number of Supplementary Reports relating to matters required to be dealt with in an Annual Report. This will enable me to give appropriate attention and time to those matters consistent with Parliament's expectations of the Auditor-General.

Specific and general matters for supplementary reporting include:

- the State finances and related matters
- the new RAH
- various public sector information and communications technology systems
- various public sector infrastructure and other projects
- government advertising.

9 Summary of selected financial disclosures from the Appendix to this Report

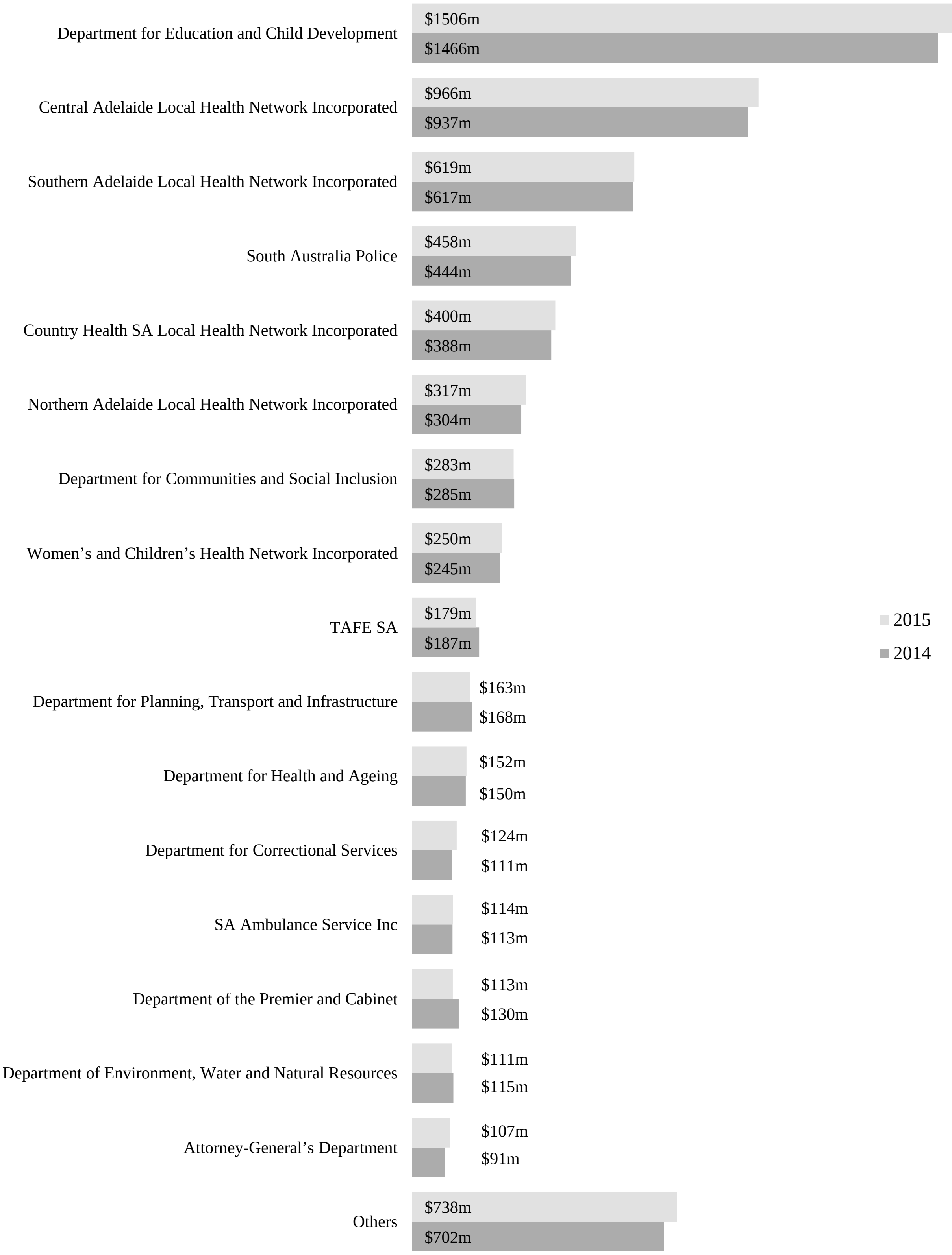
The following selected financial disclosures are taken from the published financial reports in the Appendix to this Report. Readers are referred to the Appendix to this Report for the details for individual agencies. The data does not encompass all public sector agencies.

The information is provided to give an overview of the level of financial activity for each area. They represent the more material balances in financial reports or items that are typically of public interest.

While audited, audits of financial reports provide assurance that there is not material error. An audit does not ensure complete consistency in the transactions that agencies include in these items.

Salaries and wages expense

Salaries and wages expense in 2014-15 was $6.6 billion ($6.5 billion) and is a major proportional expense of public sector operations.



Remuneration of employees disclosures

APF II 'General Purpose Financial Statements Framework', APS 4.8 requires an explanatory note disclosure for employees whose normal remuneration is equal to or greater than the base executive remuneration level for the year.

Disclosure includes the number of employees whose total remuneration paid or payable exceeds the benchmark, within $10 000 bands, and the aggregate of the remuneration paid or payable for those employees.

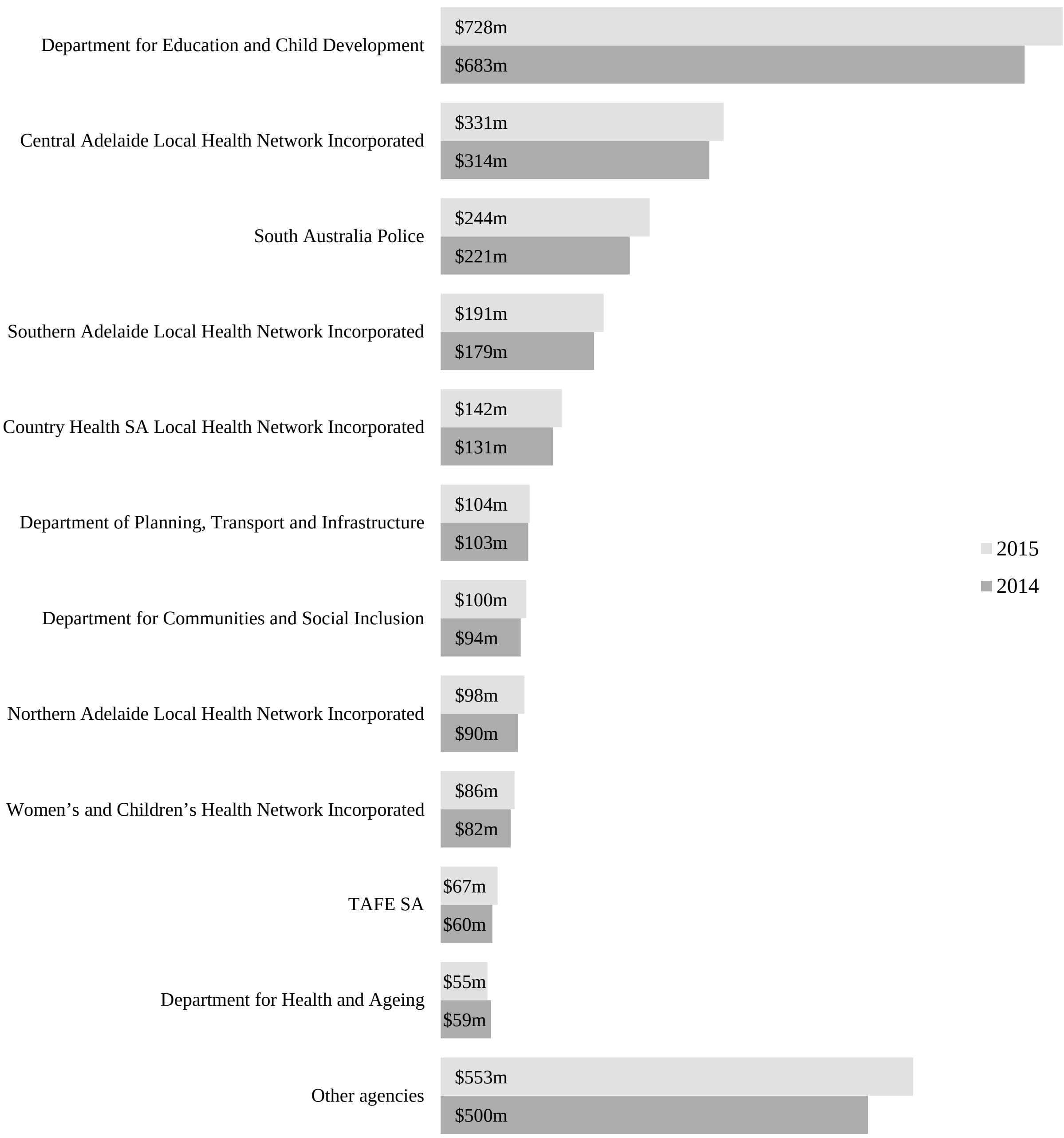
Agency	Employee remuneration 2014-15 $'000	Employee remuneration 2014-15 Number	Employee remuneration 2013-14 $'000	Employee remuneration 2013-14 Number
Central Adelaide Local Health Network Incorporated	283 836	1 042	267 319	983
Southern Adelaide Local Health Network Incorporated	148 376	560	151 704	563
Northern Adelaide Local Health Network Incorporated	91 884	332	85 318	309
South Australian Police	76 700	471	64 500	399
Women's and Children's Health Network Incorporated	64 051	241	60 978	227
Department for Education and Child Development	61 500	388	60 000	369
SA Ambulance Service Inc	51 420	304	44 187	263
Department of Planning, Transport and Infrastructure	43 000	172	25 800	125
Attorney-General's Department	34 000	160	36 700	161
Country Health SA Local Health Network Incorporated	25 611	99	23 146	82
South Australian Water Corporation	24 700	136	30 100	140
Department of the Premier and Cabinet	21 500	80	20 700	91
Department for Health and Ageing	18 887	88	19 264	89
Department of State Development	18 757	90	12 265	58
Other	95 824	494	195 938	580
Total	1 060 046	4 657	1 097 919	4 439

Employee benefits liabilities

Employee benefits liabilities comprise annual and long service leave entitlements accrued by employees.

The annual leave (AL) liability is mainly a short-term employee benefit measured at nominal value. Long service leave (LSL) is a long-term employee benefit estimate measured as the present value of expected future payments for services provided by employees up to the end of the reporting period. The present value will change from year to year if market yields or other significant assumptions change.

Total employee benefits liabilities in 2014-15 were $2.699 billion ($2.516 billion).



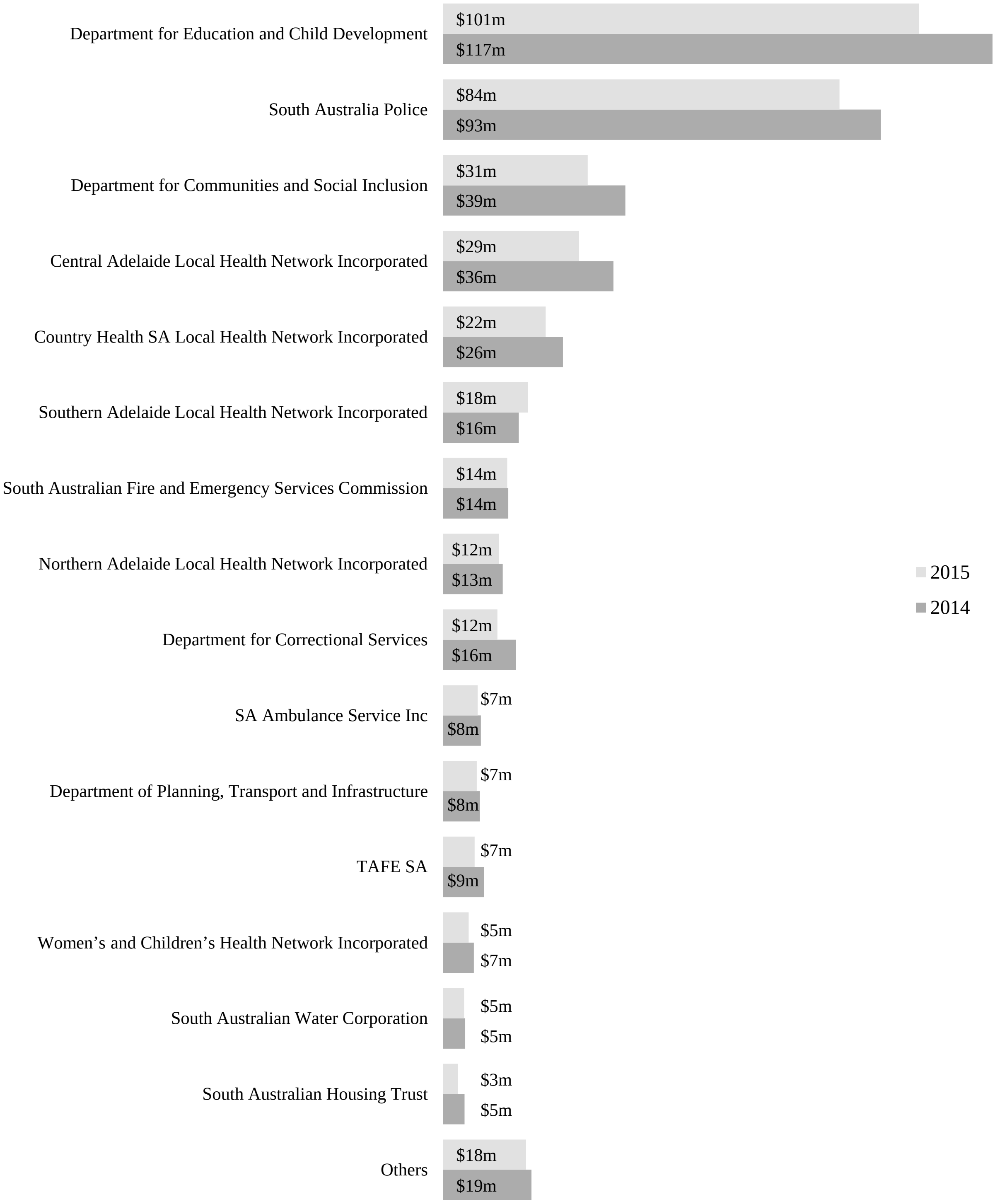
The following table provides a breakdown of the significant components of that liability.

Agency	Employee benefit type	Employee benefits 2014-15 $'000	Employee benefits 2013-14 $'000
Department for Education and Child Development	LSL	514 293	501 085
Central Adelaide Local Health Network Incorporated	LSL	197 117	191 603
South Australia Police	LSL	189 161	176 537
Department for Education and Child Development	AL	130 630	112 186
Southern Adelaide Local Health Network Incorporated	LSL	107 182	100 817
Central Adelaide Local Health Network Incorporated	AL	95 208	88 636
Country Health SA Local Health Network Incorporated	LSL	81 422	76 626
Department of Planning, Transport and Infrastructure	LSL	73 013	78 762
Southern Adelaide Local Health Network	AL	62 475	60 436
Department for Communities and Social Inclusion	LSL	61 585	54 493
Department for Education and Child Development	Accrued salaries and wages	61 110	51 806
Northern Adelaide Local Health Network Incorporated	LSL	54 678	50 704
Women's and Children's Health Network Incorporated	LSL	53 491	50 809
TAFE SA	LSL	48 022	43 541
Country Health SA Local Health Network Incorporated	AL	40 083	37 692
Department for Health and Ageing	LSL	36 004	38 636
Others		893 105	802 198
Total		2 698 579	2 516 567

Workers compensation

The workers compensation provision is an actuarial estimate of the outstanding liability as at 30 June 2015 provided by a consulting actuary engaged through the Office for the Public Sector. The provision is the estimated cost of ongoing payments to employees as required under current legislation.

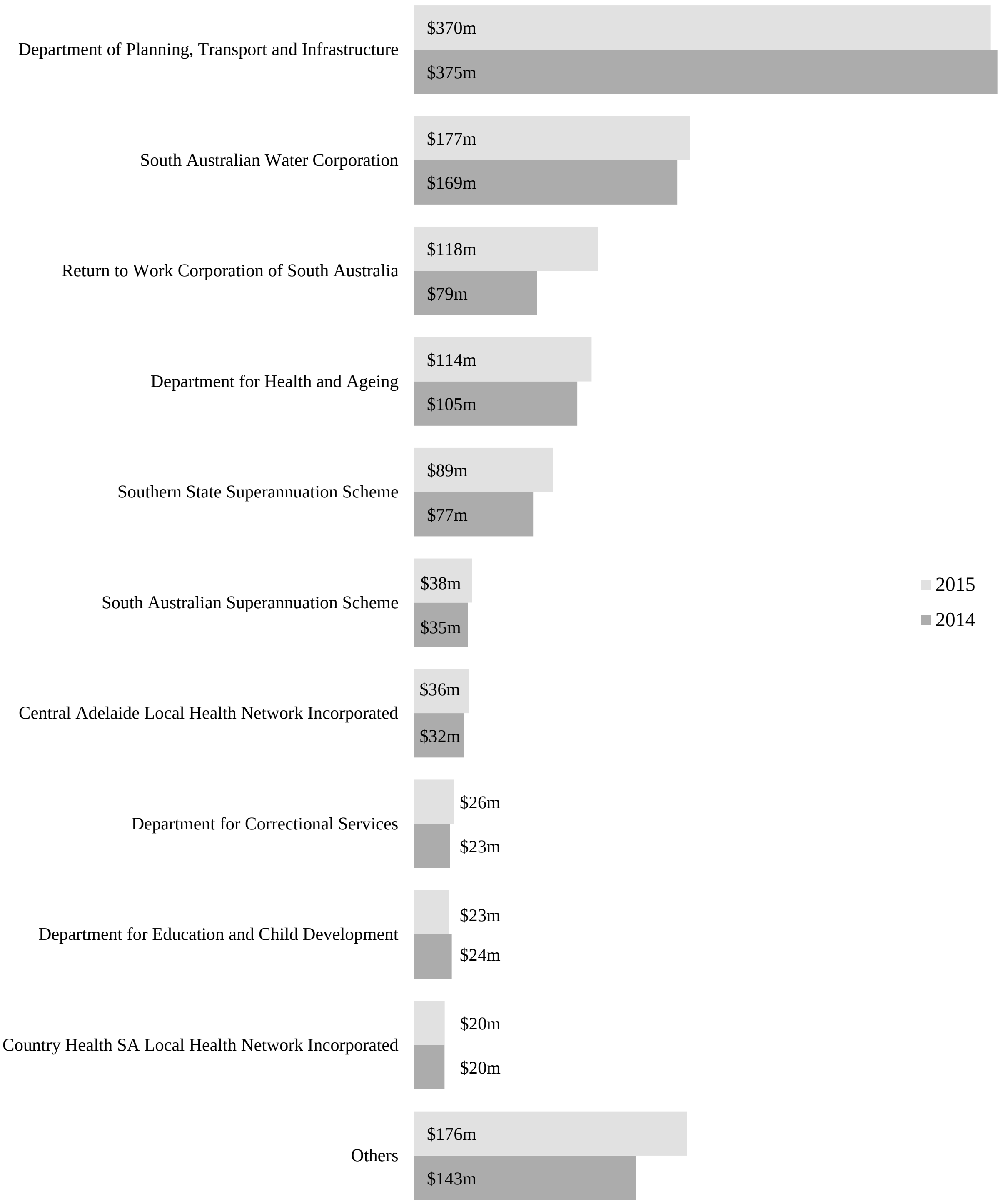
Total workers compensation provisions in 2014-15 were $375 million ($431 million).



Outsourced / Service contracts

Examples of outsourced contracts include: bus service contracts; major infrastructure service contracts; claims management (claim agents); investment and insurance fees; plant operations and maintenance; and internal payments to SSSA.

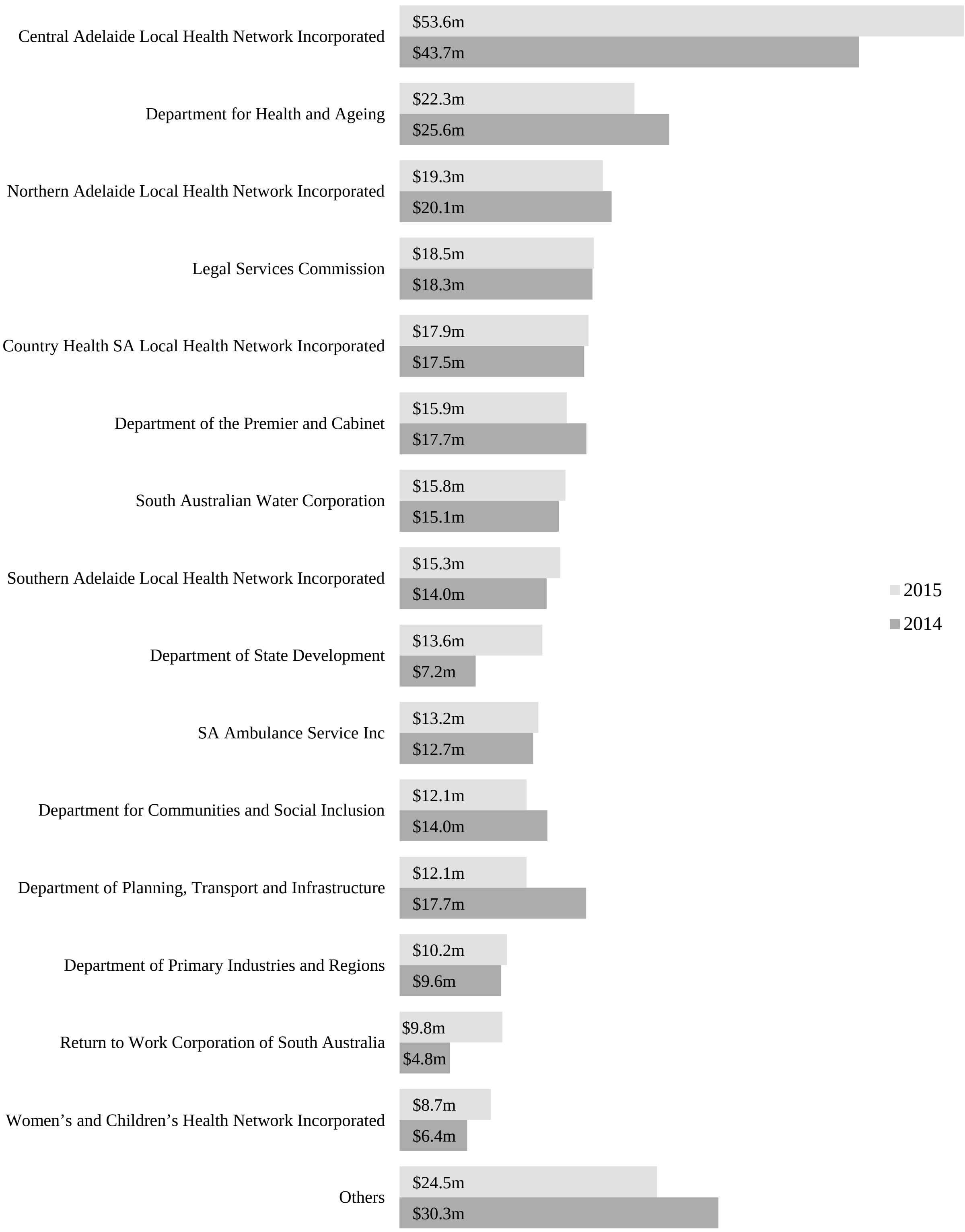
Outsourced contracts expenses in 2014-15 were $1.187 billion ($1.082 billion).



Contractors and temporary staff

Contractors and temporary staff expenses include agency nursing, information technology and private legal practitioners.

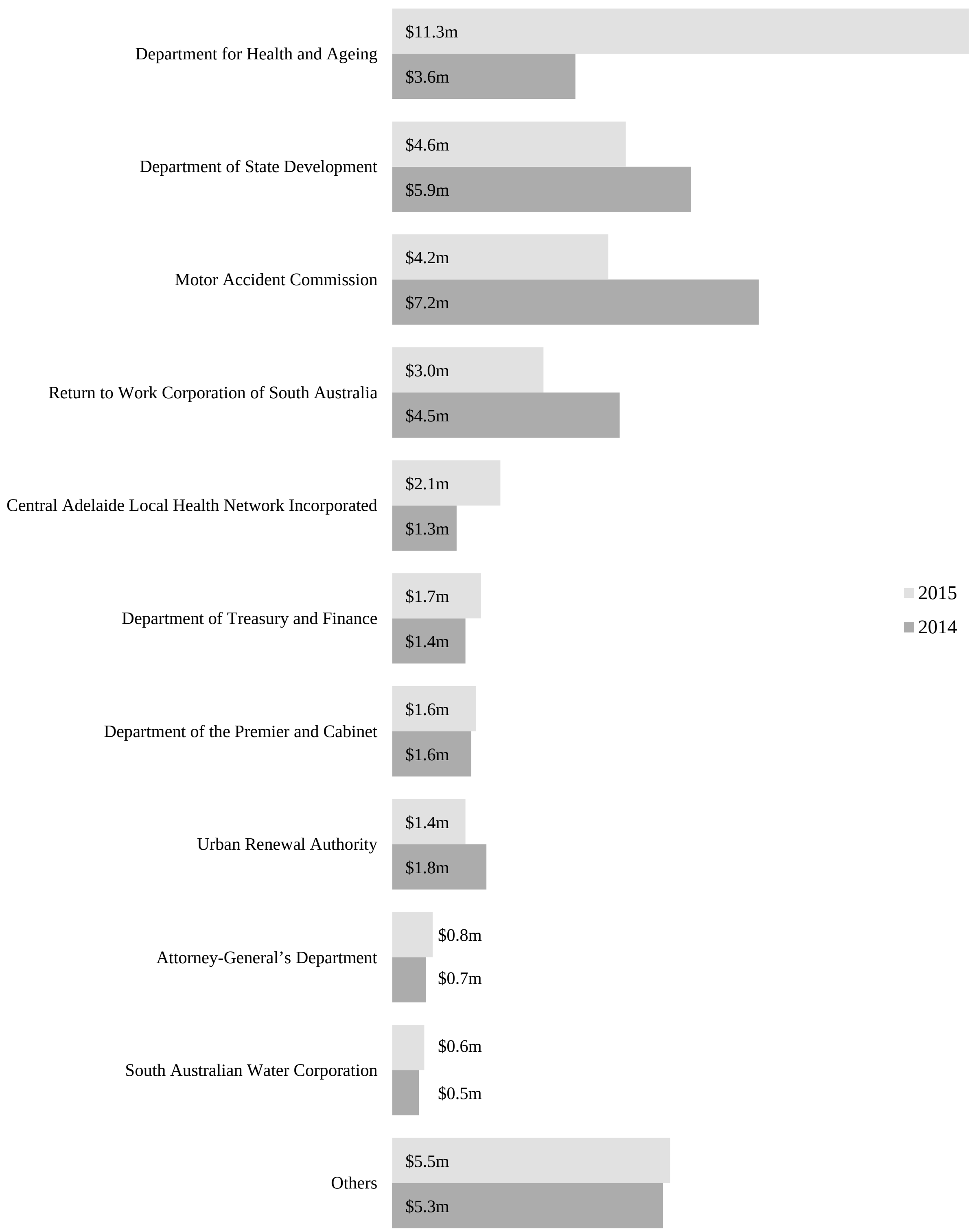
Contractors and temporary staff expenses in 2014-15 were $282.8 million ($274.7 million).



Consultants

APF II, APS 4.5 requires expenses incurred as a result of engaging consultants (as reported in the Statement of Comprehensive Income) will be disclosed in the explanatory notes.

Consultants expenses in 2014-15 were $36.8 million ($33.8 million).



10 Management and team structure of the Auditor-General's Department

Auditor-General
Andrew Richardson

Executive Director of Audits
(Policy, Planning and Standards)
Ian McGlen

Julie Blanche – Manager Corporate Strategy

Silvana Gentilcore – Manager Human Resources

Michelle Harrison – Principal Manager Quality and Standards

Megan Stint – Finance Manager

Matthew Wozniak – Manager Information and Communications Technology

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Executive Director of Audits
(Public Interest and Information Technology Reviews)
Andrew Corrigan

Iolanda Telford – Principal Audit Manager
(Local Government Reviews)

Brenton Borgman, Tyson Hancock and Jamie Thompson – Principal Audit Managers
(Information Technology Audit)

Rodi Bergamaschi, Jodie Fitzgerald, Vasso Gouros and Philip Rossi – Principal Audit Managers
(Public Interest Reviews)

Director of Audits
(Field Operations)
Salv Bianco

Damen Abbott
Department of Environment, Water and Natural Resources

Martin Diegmann
Department of Planning, Transport and Infrastructure

Stephen Gladigau
South Australian Housing Trust
Northern Adelaide Local Health Network Incorporated

Rob Huddy/Greg Kloot
Department of Treasury and Finance
South Australian Government Financing Authority

Re Ouano
South Australia Police
South Australian Superannuation Board

Director of Audits
(Field Operations)
Daniel O'Donohue

Kenneth Anderson
University of Adelaide
Urban Renewal Authority
Lotteries Commission of South Australia

Hayley Carter
South Australian Water Corporation
Defence SA

Robbie Gallomarino
Department of State Development
TAFE SA

Kerri Reed
University of South Australia
Southern Adelaide Local Health Network Incorporated

Iryna Reszitnyk
Attorney-General's Department
Department of Primary Industries and Regions

Bill Sierros
Department for Education and Child Development
Motor Accident Commission

Director of Audits
(Field Operations)
Wendy Haydon

Stephen Jared
The Flinders University of South Australia
Central Adelaide Local Health Network Incorporated

Justin Leckie
Department for Communities and Social Inclusion

Robert Matthews
South Australian Forestry Corporation
Return to Work Corporation of South Australia

Gavin Scaife
South Australian Tourism Commission
Department for Correctional Services
South Australian Fire and Emergency Services Commission

Tanya Sexton
Department for Health and Ageing
Women's and Children's Health Network Incorporated
Country Health SA Local Health Network Incorporated

Stavros Vasilikiotis
Department of the Premier and Cabinet
Courts Administration Authority
Superannuation Funds Management Corporation of South Australia

11 Agencies audited and not included in this Annual Report

Section 36(2) of the PFAA provides the Auditor-General with a discretionary power to choose which agencies are excluded from the Annual Report. Following is a list of those agencies audited but not included in this Report. The criteria applied in determining which agencies are included is explained in the introduction to Part B.

Aboriginal Lands Trust
Adelaide and Mount Lofty Ranges Natural Resources Management Board
Adelaide Cemeteries Authority
Adelaide Dolphin Sanctuary Fund
Adelaide Film Festival
Agents Indemnity Fund
Alinytjara Wilurara Natural Resources Management Board
ANZAC Day Commemoration Fund
Australian Children's Performing Arts Company
Australian Energy Market Commission
Bio Innovation SA
Board of the Botanic Gardens and State Herbarium
Caring for our Country Program (South Australia)
Carrick Hill Trust
Coast Protection Board
Construction Industry Training Board
Dairy Authority of South Australia
Distribution Lessor Corporation
Dog and Cat Management Board
Dog Fence Board
Economic Development Board (Project Coordination Board)
Education Adelaide
Electoral Commission of South Australia
Electricity Industry Superannuation Scheme
Essential Services Commission of South Australia
Eyre Peninsula Natural Resources Management Board
General Reserves Trust
Generation Lessor Corporation
Governors' Pensions Scheme
Health, Community and Disability Services Ministerial Council
History Trust of South Australia
Independent Gambling Authority
Independent Gaming Corporation Ltd
Kangaroo Island Natural Resources Management Board
Maralinga Lands Unnamed Conservation Park Board
Medvet Science Pty Ltd
Minister for Agriculture, Food and Fisheries – Adelaide Hills Wine Industry Fund
Minister for Agriculture, Food and Fisheries – Barossa Wine Industry Fund
Minister for Agriculture, Food and Fisheries – Citrus Growers Fund
Minister for Agriculture, Food and Fisheries – Clare Valley Wine Industry Fund
Minister for Agriculture, Food and Fisheries – Eyre Peninsula Grain Growers Rail Fund
Minister for Agriculture, Food and Fisheries – Grain Industry Fund
Minister for Agriculture, Food and Fisheries – Grain Industry Research and Development Fund

Minister for Agriculture, Food and Fisheries – Langhorne Creek Wine Industry Fund
Minister for Agriculture, Food and Fisheries – McLaren Vale Wine Industry Fund
Minister for Agriculture, Food and Fisheries – Riverland Wine Industry Fund
Minister for Agriculture, Food and Fisheries – Rock Lobster Fishing Industry Fund
Minister for Agriculture, Food and Fisheries – South Australian Apiary Industry Fund
Minister for Agriculture, Food and Fisheries – South Australian Cattle Industry Fund
Minister for Agriculture, Food and Fisheries – South Australian Deer Industry Fund
Minister for Agriculture, Food and Fisheries – South Australian Grape Growers Industry Fund
Minister for Agriculture, Food and Fisheries – South Australian Pig Industry Fund
Minister for Agriculture, Food and Fisheries – South Australian Sheep Industry Fund
National Health Funding Pool – South Australian State Pool Account
Native Vegetation Fund
Northern and Yorke Natural Resources Management Board
Outback Communities Authority
Planning and Development Fund
Professional Standards Council
Rail Commissioner
Residential Tenancies Fund
Retail Shop Leases Fund
Riverbank Authority
Rural Industry Adjustment and Development Fund
SA Metropolitan Fire Service Superannuation Scheme
SACE Board of South Australia
Second-hand Vehicles Compensation Fund
Small Business Commissioner
South Australian Arid Lands Natural Resources Management Board
South Australian Country Arts Trust
South Australian Film Corporation
South Australian Local Government Grants Commission
South Australian Murray-Darling Basin Natural Resources Management Board
South Australian Water Corporation – Regulatory accounts
South East Natural Resources Management Board
South Eastern Water Conservation and Drainage Board
State Opera of South Australia
State Procurement Board
State Theatre Company of South Australia
Stormwater Management Authority
Super SA Select Fund
Teachers Registration Board of South Australia
Transmission Lessor Corporation
West Beach Trust
Zero Waste SA