[P.P.4F

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 B: Agency audit reports

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

2015

General enquiries regarding this report should
be directed to:

Auditor-General
Auditor-General's Department
Level 9
State Administration Centre
200 Victoria Square
Adelaide SA 5000

Copies may be obtained from:
Service SA
Government Legislation Outlet
Ground Floor
108 North Terrace
Adelaide SA 5000

Website: www.audit.sa.gov.au

ISSN 0815-9157

Part B - Agency audit reports

Table of contents

Part B - Agency audit reports

Table of contents

Agency audit reports

Introduction

Part B of the Annual Report of the Auditor-General contains commentary on the outcomes of the audit of each agency included in the 2014-15 Annual Report of the Auditor-General. 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. If modified, the key matters causing the qualification are identified. This is followed by comments on financial administration matters that, in my opinion, are of importance to the Government and the Parliament including my assessment of controls for each agency. The individual reports also contain selected financial information, charts and tables that are relevant for assessing financial performance and significant financial transactions of agencies noted during our audits.

Part B comprises public sector agencies that I am required by law to audit and that are defined by the *Public Finance and Finance Act 1987* as 'public authorities'. In previous years, Part B also included the Treasurer's Statements and the financial reports of public sector agencies. Scanned copies of the Treasurer's Statements and of the final public sector agencies' audited financial reports forwarded to me, are now presented in the Appendix to this Annual Report. For the first time, I have included the full suite of health sector financial reports, that is, the Department for Health and Ageing (which includes consolidated financial information), and all the incorporated local health networks and the SA Ambulance Service Inc.

Agencies not included in this Report

Section 36(2) of the *Public Finance and Finance Act 1987* provides the Auditor-General with a discretionary power to choose which agencies are excluded from this Report.

The following factors are considered in determining which agencies are to be included in the Report:

- materiality of financial operations
- significance to the operations and services of the State Government
- materiality of any impact on the public finances
- consolidation of the financial operations in the parent entity's financial report included in this Report
- timeliness of information
- materiality of issues arising from the audit
- public interest
- timely completion of the overall Report to meet the statutory date of 30 September for delivery of the Report to the presiding members of Parliament.

All agencies, including those excluded from the Report, are required to prepare an annual report in accordance with the requirements of the *Public Sector Act 2009*. In addition, Treasurer's Instruction 19 'Financial Reporting' requires that each chief executive officer must ensure that the annual report, which is required to be submitted to the responsible Minister in accordance with the *Public Sector Act 2009* and Regulations or other legislation, includes the general purpose financial report in the form in which it was presented to the Auditor-General, together with a copy of the Auditor-General's Independent Auditor's Report on the financial report.

Modified Independent Auditor's Reports

The expression of an opinion on an organisation's annual financial report by an independent professional auditor adds credibility to that financial report and ensures that an appropriate level of financial disclosure was exercised.

For those agencies that I am required to audit, I issue an Independent Auditor's Report on the financial report in accordance with professional requirements and standards. The opinion expressed in that Report is usually unmodified but where, in my opinion, circumstances so warrant, a modified opinion is expressed. In extreme cases it may be necessary to decline to express an opinion.

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. These opinions and explanatory paragraphs are included in the commentary on the operations of those public sector agencies in Part B of this Report.

Modified opinions were expressed on the financial reports of the following agencies included in this Report:

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

Whilst not expressing a modified opinion on the financial report of the:

- Lifetime Support Authority of South Australia, I drew attention to the significant inherent uncertainty associated with the provision for participants' treatment, care and support services

- Return to Work Corporation of South Australia, I drew attention to the inherent uncertainty associated with that entity's outstanding claims liability and funding ratio.

Copies of all the Independent Auditor's Reports for each agency included in Part B of this Report are presented with their financial report in the Appendix to this Annual Report.

Assessment of controls

Section 36(1)(a)(iii) of the *Public Finance and Finance Act 1987* requires the Auditor-General to advise Parliament whether, in his opinion, the controls exercised by the Treasurer and by public authorities in relation to the receipt, expenditure and investment of money, the acquisition and disposal of property and the incurring of liabilities are sufficient to provide reasonable assurance that the financial transactions of the Treasurer and public authorities have been conducted properly and in accordance with law.

A controls opinion has been expressed for each agency included in Part B of this Report.

Audit of the Auditor-General's Department

The *Public Finance and Finance Act 1987* requires that the accounts of the Auditor-General's Department be audited by an auditor appointed by the Governor. The audit for the financial year ended 30 June 2015 was conducted by Edwards Marshall, Chartered Accountants, who has issued an unmodified Independent Auditor's Report on the Department's financial report.

Adelaide Convention Centre Corporation

Functional responsibility	The Adelaide Convention Centre Corporation (the Corporation), a subsidiary to the Minister for Tourism, was established pursuant to Regulations under the *Public Corporations Act 1993*. The main function of the Corporation is to manage the Adelaide Convention Centre.
Financial statistics	Profit from trading activities: $7 million Loss from property management activities: $6 million Dividend and income tax equivalent payment to State Government: $1.5 million Capital work in progress: $262 million Borrowings: $260 million Net assets: $158 million Number of FTEs: 337 (including 207 casuals)
Significant events and transactions	— The Adelaide Convention Centre is currently being redeveloped. In 2015, Cabinet approved a budget increase for the redevelopment bringing the total budget to $396.8 million of which $382.3 million will be funded from borrowings and $14.5 million from the Corporation's Future Asset Replacement account. — Changes to legislation resulted in the 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.
Financial statement opinion	**Unmodified**
Financial controls opinion	**Unmodified**

Scope of the audit

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

During 2014-15 specific areas of audit attention included:

- revenue from events, restaurant, bars and car parks
- salaries and wages
- procurement and expenditure on supplies and services
- inventory
- capital work in progress.

Audit findings and comments

Assessment of controls

In my opinion, the controls exercised by the Adelaide Convention Centre Corporation in relation to the receipt, expenditure and investment of money, the acquisition and disposal of property and the incurring of liabilities are sufficient to provide reasonable assurance that the financial transactions of the Adelaide Convention Centre Corporation have been conducted properly and in accordance with law.

Communication of audit matters

Matters arising during the course of the audit were detailed in a management letter to the Chief Executive. The main matters related to the Corporation's policies not being reviewed regularly to ensure its functions continued to be performed in the most efficient and effective manner. Some of the policies, such as the policy for managing inventory, were in draft form or did not reflect the Corporation's current processes and controls.

The Corporation responded that the matters we raised will be addressed.

Interpretation and analysis of the financial report

The Corporation presents its Statement of Comprehensive Income on an activity basis. The following analysis summarises expenses and income by classification.

Highlights of the financial report

	2015 $'million	2014 $'million
Expenses		
Employee benefits expenses	18	16
Supplies and services	16	15
Borrowing costs	13	10
Other expenses	5	5
Total expenses	52	46
Income		
Facility charges revenues	33	32
Revenues from SA Government	18	15
Other income	2	1
Total income	53	48

	2015 $'million	2014 $'million
Profit (Loss) from trading activities	7	7
Profit (Loss) from property management activities	(6)	(5)
Profit (Loss) before income tax equivalents	1	2
Net cash provided by (used in) operating activities	21	17
Net cash provided by (used in) investing activities	(77)	(80)
Net cash provided by (used in) financing activities	60	67
Assets		
Current assets	23	22
Non-current assets	405	331
Total assets	428	353
Liabilities		
Current liabilities	9	9
Non-current liabilities	261	186
Total liabilities	270	195
Equity		
Contributed capital	78	78
Retained earnings	80	80
Total equity	158	158

Statement of Comprehensive Income

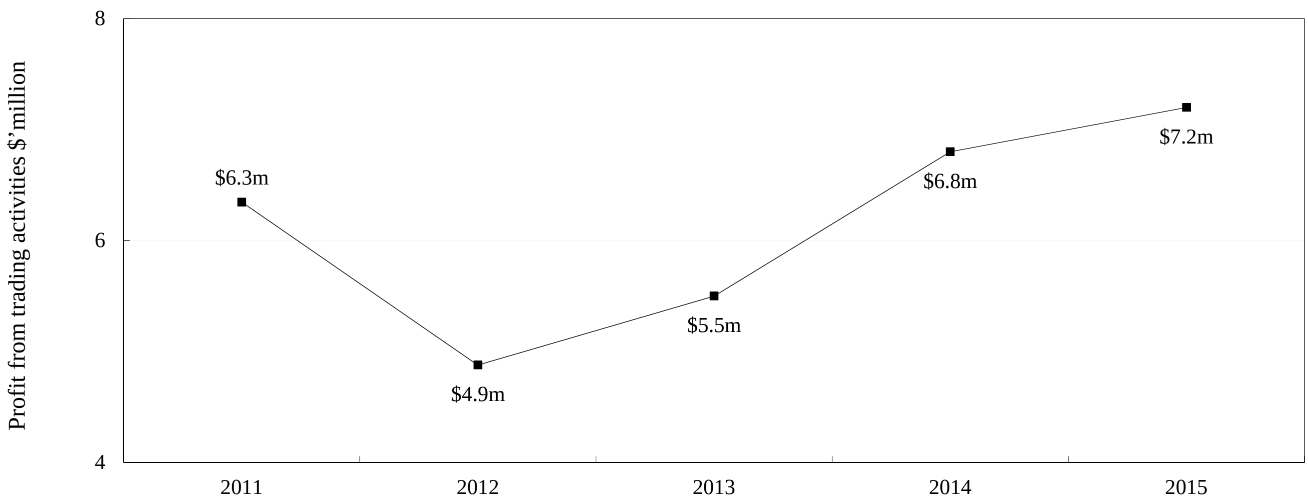
Trading activities

Income from trading activities increased by $1.6 million to $34.4 million due to more facility charge revenue from catering, room hire and technical services, offset by less car park revenue resulting from reduced spaces due to construction work on the redevelopment of the Adelaide Convention Centre.

Expenses from trading activities increased by $1.2 million to $27.2 million due mainly to higher salaries and wages resulting from higher pay rates and the employment of more casual staff.

The profit from trading activities was $7.2 million, an increase of $433 000 from the previous year.

The chart below shows the profit from trading activities for the last five years.



Property management activities

The loss on property management activities increased by $986 000 to $5.7 million.

The Corporation is fully compensated for borrowing costs. The loss is due to other property management expenses again exceeding the revenue received from the State Government.

Revenue from the State Government increased by $3.3 million to $18.1 million comprising:

- $4.7 million ($4.6 million) for the management and maintenance of the common areas of the Adelaide Convention Centre and surrounds
- $13.4 million ($10.2 million) for reimbursement of borrowing costs.

Expenses from property management activities (excluding borrowing costs) increased by $1.1 million to $11 million due mainly to an increase in supplies and services expenses of $870 000.

In 2012-13 Cabinet approved the Corporation borrowing up to $350.3 million from the South Australian Government Financing Authority for the redevelopment of the Adelaide Convention Centre. Under these arrangements the Corporation receives a community service obligation payment from the State Government equivalent to the required interest repayments and guarantee fee on the borrowings. In 2014-15 Cabinet approved an increase to the budget for the redevelopment bringing the total budget to $396.8 million, of which $382.3 million will be funded from borrowings and $14.5 million from the Corporation's Future Asset Replacement account.

Overall profit

The Corporation reported an overall profit after income tax equivalents of $1 million ($1.4 million). The decrease in total profit mainly reflects the increase in loss from property management activities.

Statement of Financial Position

The Corporation's net assets increased by $123 000 to $158.2 million. This net increase is mainly the result of an increase in building, plant and equipment of $72.4 million and an increase in cash and specific purpose deposits of $4 million, offset by an increase in borrowings of $75 million to fund the redevelopment of the Adelaide Convention Centre.

The value of building, plant and equipment as at 30 June 2014 was $378.8 million and included $262.2 million of work in progress, of which $257.6 million related to the redevelopment.

Statement of Cash Flows

Cash held by the Corporation was $45.9 million ($41.9 million) and includes $26.4 million ($24.3 million) in specific purpose deposits, of which $23.8 million ($21.8 million) is earmarked for future asset replacement. The Corporation spent $77.1 million on the purchase of building, plant and equipment and received borrowings of $75 million.

In 2015 the Corporation also paid a dividend and income tax equivalent amount of $1.5 million ($2.5 million) to the State Government.

Further commentary on operations

Redevelopment of the Adelaide Convention Centre

The redevelopment of the Adelaide Convention Centre is a five year project that commenced in 2010-11 and is expected to cost $396.8 million. The Corporation is partnering with the Department of Planning, Transport and Infrastructure (DPTI) to deliver the project. DPTI has responsibility for managing and delivering the project on time and within budget including the procurement of the design and construction work. The Corporation makes progress payments to DPTI for work completed. As at 30 June 2015 expenditure on the redevelopment totalled $257.6 million ($183.7 million). A major portion of this expenditure relates to the construction of the West Building, stage one of the Centre's expansion, which was officially opened in March 2015. The West Building includes facilities that can be configured as a ballroom or subdivided into smaller meeting spaces and provides a high definition video and audio media network. The Corporation considered certain defects prevented the building from being used in the manner intended by management and consequently did not depreciate the building during the reporting period. Defect rectification work is being coordinated with relevant parties. The Board of the Adelaide Venue Management Corporation was notified by management that the West Building will be depreciated from September 2015.

Dissolution of the Adelaide Convention Centre Corporation

Changes to legislation resulted in the Corporation being dissolved on 1 August 2015 and all its assets, rights, liabilities and employees (other than the Chief Executive) transferred to the Adelaide Venue Management Corporation, previously known as the Adelaide Entertainments Corporation. The Adelaide Convention Centre Corporation will prepare a final financial report for the period ending 31 July 2015. For more information about the dissolution of the Corporation refer note 3(f) of the financial report.

Adelaide Entertainments Corporation

Functional responsibility	The Adelaide Entertainments Corporation (the Corporation) was established on 4 February 1999 pursuant to Regulations under the *Public Corporations Act 1993*. The Corporation is responsible to the Minister for Tourism. The main function of the Corporation is to manage and operate the Adelaide Entertainment Centre and Coopers Stadium. For details of the Corporation's functions refer note 1 of the financial report.

Financial statistics

Income from trading activities:	$20.2 million
Profit from trading activities:	$4.9 million
Loss from property management activities:	$6.6 million
Net loss:	$1.7 million

The following information on the number of events held and patrons attending these events was provided by the Corporation and is unaudited.

	2015	2014
Adelaide Entertainment Centre:	Number	Number
Events	78	91
Patrons	306 000	403 000
Coopers Stadium:		
Events	22	22
Patrons	227 000	163 000

Significant events and transactions

- On 1 August 2015 the Corporation became the Adelaide Venue Management Corporation and commenced management of the Adelaide Convention Centre. The assets, rights, liabilities and all employees (other than the Chief Executive) of the Adelaide Convention Centre Corporation transferred to the Corporation on this date.
- $5 million dividend payment to the SA Government pursuant to section 22(4) of the Public Corporations (Adelaide Entertainments Corporation) Regulations 2013.

Financial statement opinion — **Unmodified**

Financial controls opinion — **Unmodified**

Scope of the audit

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

During 2014-15 specific areas of audit attention included:

- expenditure and procurement
- payroll
- revenue
- fixed assets
- cash and term deposits
- inventory
- general ledger and financial accounting.

Audit findings and comments

Assessment of controls

In my opinion, the controls exercised by the Adelaide Entertainments Corporation in relation to the receipt, expenditure and investment of money, the acquisition and disposal of property and the incurring of liabilities are sufficient to provide reasonable assurance that the financial transactions of the Adelaide Entertainments Corporation have been conducted properly and in accordance with law.

Communication of audit matters

Matters arising during the course of the audit were detailed in a management letter to the Chief Executive Officer of the Corporation.

We recommended measures to improve certain financial and control processes, notably:

- all tender evaluation panel members sign a declaration of conflicts of interest in a timely manner
- ensuring the Corporation's contract register includes details of all executed contracts.

The Corporation's response advised implementation of measures that effectively address the matters raised.

Interpretation and analysis of the financial report

Highlights of the financial report

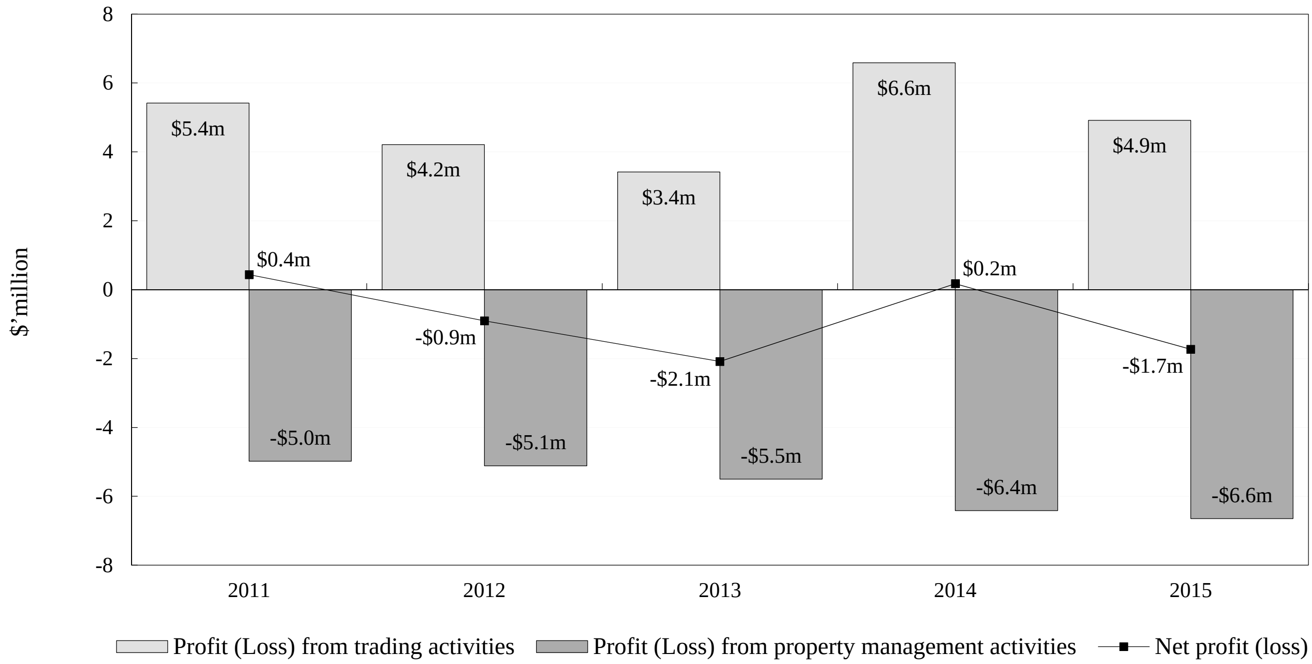
	2015 $'million	2014 $'million
Trading activities		
Expenses	15	16
Income	20	22
Profit (Loss) from trading activities	5	6
Property management activities		
Expenses	8	7
Income	1	1
Profit (Loss) from property management activities	(7)	(6)
Net profit (loss)	(2)	-

	2015 $'million	2014 $'million
Net cash provided by (used in) operating activities	5	6
Net cash provided by (used in) investing activities	(4)	(3)
Net cash provided by (used in) financing activities	(5)	-
Assets		
Current assets	10	15
Non-current assets	137	138
Total assets	147	153
Liabilities		
Current liabilities	5	4
Non-current liabilities	6	6
Total liabilities	11	10
Total equity	136	143

Statement of Comprehensive Income

The Corporation recorded a net loss of $1.7 million for 2015 compared to a net profit of $173 000 in 2014.

The following chart shows the profits (losses) from trading and property management activities and the Corporation's profits (losses) for the five years to 2015.



For the five years represented, profits from trading activities have generally been exceeded or offset by losses on property management activities. The dominant cost item for property management activities is depreciation and amortisation expense, $5 million (63%) in 2015.

The Corporation's income decreased by $1.6 million, principally reflecting decreases in revenues from venue hire ($1.2 million), food and beverage sales ($203 000) and merchandise revenues ($109 000). Decreased revenues are attributable to a decreased number of end stage events held in 2015 compared to 2014 and a decreased number of patrons attending events at the Adelaide Entertainment Centre, partially offset by an increased number of patrons attending events at Coopers Stadium.

Expenses increased by $265 000, primarily reflecting an increase in depreciation and amortisation expense ($420 000) due to asset additions and transfers from work in progress of $4.9 million in 2015. These increases were offset by a decrease in sales and marketing expense ($167 000) and employee benefit expenses ($136 000) directly attributable to the decrease in event activity outlined above.

Statement of Financial Position

As at 30 June 2015 total assets have decreased by $6 million. This results from decreases in cash and cash equivalents ($4.5 million) and property, plant and equipment ($1.5 million).

Cash and cash equivalents decreased by $4.5 million to $9.3 million due mainly to the Corporation making a $5 million dividend payment to the SA Government in 2015. In October 2014, the Treasurer determined that the Corporation pay an interim dividend of $5 million in 2014-15 pursuant to the Public Corporations (Adelaide Entertainments Corporation) Regulations 2013.

The main item in the Corporation's Statement of Financial Position is property, plant and equipment, representing 93% of total assets. The carrying value of property, plant and equipment decreased by $1.5 million to $137 million mainly due to $6.1 million in depreciation and amortisation charges offset by asset additions of $4.7 million.

The Corporation's main asset is the Adelaide Entertainment Centre building. Capital improvements and revaluations of the Centre along with Coopers Stadium leasehold improvements in recent years have resulted in an increase in the Corporation's annual depreciation and amortisation expense. Property improvements in 2014-15 primarily related to replacing and upgrading the Adelaide Entertainment Centre Arena air conditioning system and Coopers Stadium leasehold improvements.

Liabilities as at 30 June 2015 have increased by $685 000, principally reflecting an increase in payables ($446 000) due to creditors associated with Coopers Stadium capital works projects and an increase in employee benefit liabilities ($269 000).

Statement of Cash Flows

Cash held by the Corporation decreased by $4.5 million in 2015 primarily due to the dividend paid to the SA Government.

Administered items

The Corporation administers, but does not control, gross box office receipts from its ticketing agency. These receipts are held in separate event funds bank accounts. Settlement occurs after each event through payment of funds held to promoters, the Corporation and other service providers. Total administered revenues for the year were $35 million and administered expenses were $30 million. The balance of funds held in trust as at 30 June 2015 was $12 million.

Adelaide Festival Centre Trust

Functional responsibility	The Adelaide Festival Centre Trust (the Trust) is a body corporate established by the *Adelaide Festival Centre Trust Act 1971*. The Trust is under the general control and direction of the Minister for the Arts. The Trust is responsible for encouraging and facilitating artistic, cultural and performing arts activities throughout the State and managing and maintaining the Adelaide Festival Centre and Her Majesty's Theatre, both leased from Arts SA. Further information on the Trust's objectives is provided in note 1 of the financial report. The Trust also operates the BASS ticketing system to sell tickets primarily for artistic performances held at the Adelaide Festival Centre and Her Majesty's Theatre.
Financial statistics	Net cost of providing services: $17 million Revenues from SA Government: $18 million Revenues from fees and charges: $26 million Net assets: $10 million Number of FTEs: 240 (including 86 casuals) Ticketed attendances: 478 997 Total attendances: 828 475
Significant events and transactions	The Trust borrowed $1.7 million from the South Australian Government Financing Authority to purchase $1.9 million in land and buildings adjacent to Her Majesty's Theatre.
Financial statement opinion	**Unmodified**
Financial controls opinion	**Unmodified**

Scope of the audit

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

During 2014-15 areas of audit attention included:

- revenues from theatre services, box office, car park and catering
- construction and sale of theatre sets
- BASS ticketing system
- salaries and wages
- procurement and expenditure on supplies and services
- inventory
- fixed assets.

Audit findings and comments

Assessment of controls

In my opinion, the controls exercised by the Adelaide Festival Centre Trust in relation to the receipt, expenditure and investment of money, the acquisition and disposal of property and the incurring of liabilities are sufficient to provide reasonable assurance that the financial transactions of the Adelaide Festival Centre Trust have been conducted properly and in accordance with law.

Communication of audit matters

Matters arising during the course of the audit were detailed in a management letter to the Chief Executive Officer. The main matters related to improving policies to ensure the Trust’s functions are performed in the most efficient and effective manner. We recommended:

- a policy register be implemented to track the review of policies
- a policy be established for the regular review and approval of non-financial policies
- all revised policies still in draft form such as the procurement policy be finalised.

The Trust responded that the matters raised will be addressed.

Interpretation and analysis of the financial report

Highlights of the financial report

	2015 $’million	2014 $’million
Expenses		
Staff benefits expenses	18	17
Other expenses	25	23
Total expenses	43	40
Income		
User charges and interest	26	23
Net cost of providing services	17	17
Revenues from SA Government	18	17
Net result	1	-

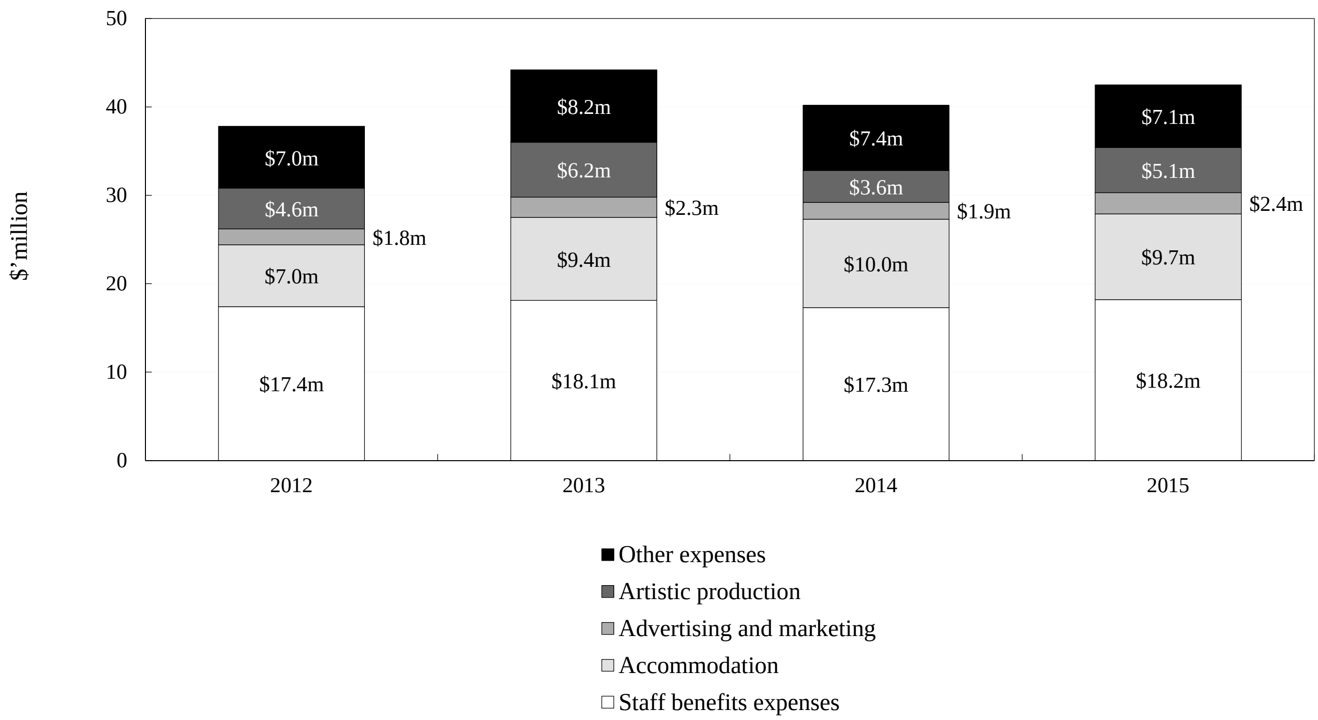
	2015 $'million	2014 $'million
Net cash provided by (used in) operating activities	-	5
Assets		
Current assets	16	16
Non-current assets	11	9
Total assets	27	25
Liabilities		
Current liabilities	12	13
Non-current liabilities	5	3
Total liabilities	17	16
Total equity	10	9

Statement of Comprehensive Income

The Trust is reliant on SA Government funding to support its operations. That is, the net cost of services is met through funding provided by the SA Government. The Trust's activities are largely dependent on the level of external demand for theatre services and the extent of Trust programmed activities. Depending on the level and timing of these activities, the nature and amount of revenues and expenses will vary from year to year.

Expenses

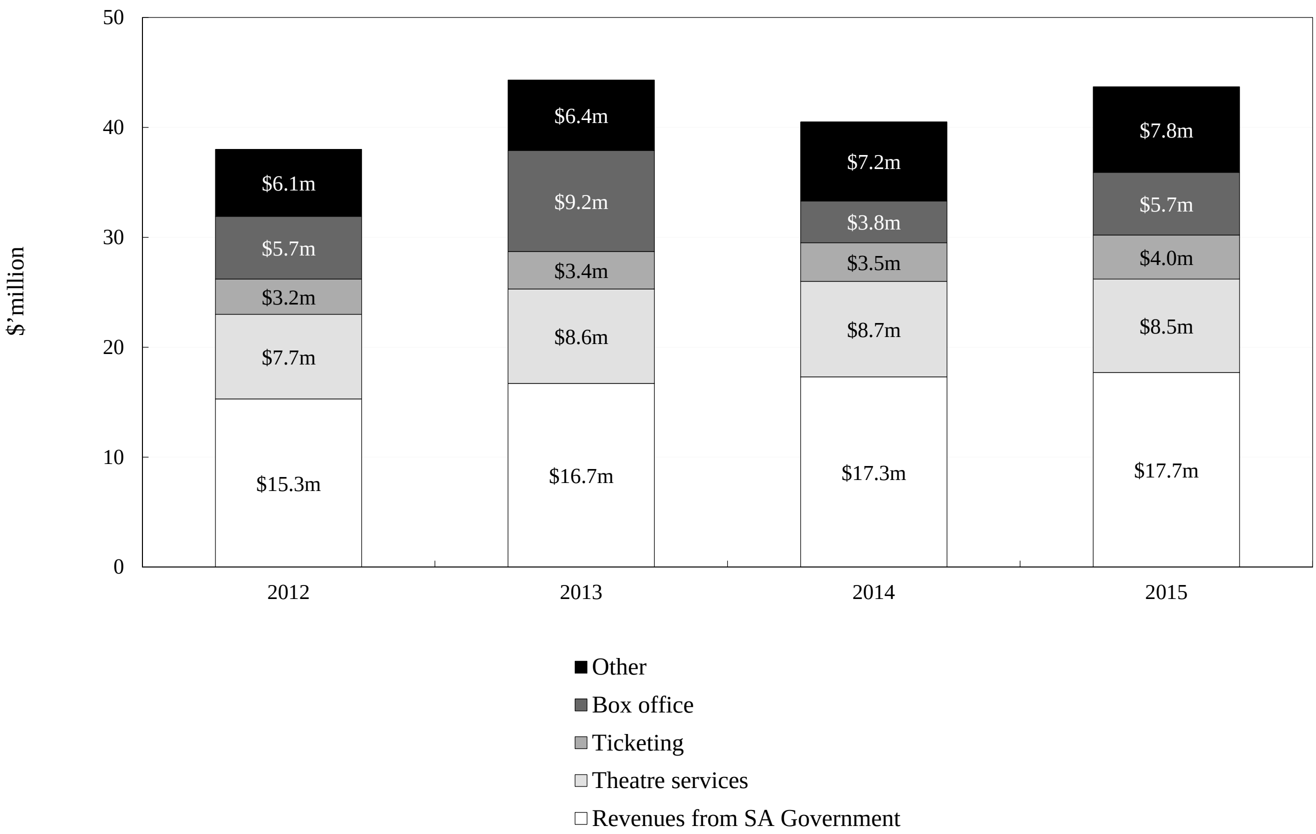
An analysis of expenses for the Trust for the four years to 2015 is presented in the following chart.



In 2015 the Trust's expenses increased by $2.3 million to $42.5 million due mainly to the cost of holding the biennial Adelaide International Guitar Festival and staging a higher number of commercial musicals, increasing artistic production expenses by $1.5 million to $5.1 million, and advertising and marketing expenses by $488 000 to $2.4 million.

Income

An analysis of income for the Trust for the four years to 2015 is presented in the following chart. Revenues from SA Government have been included in income for the purpose of this analysis.



In 2015 the Trust's income increased by $3.2 million to $43.7 million due mainly to:

- revenues from SA Government increasing by $346 000 to $17.7 million, which included assets of $334 000 donated by Arts SA
- ticketing income increasing by $564 000 to $4 million due mainly to the introduction of a BASS transaction fee charged to ticket buyers from 1 July 2014
- box office income increasing from $3.8 million to $5.7 million due to staging a higher number of commercial musicals and holding the biennial Adelaide International Guitar Festival.

Statement of Financial Position

Current assets

The Trust's current assets of $15.8 million ($16.1 million) include cash of $13.6 million ($14 million) of which $6.2 million ($6.8 million) is proceeds from ticket sales through BASS held in trust until distributed to promoters.

Non-current assets

The Trust's non-current assets of $11.2 million ($9.1 million) comprise:

- works of art of $5.5 million ($5.5 million)

- property, plant, equipment and intangible assets of $5.7 million ($3.6 million). The increase in assets was due mainly to purchases of land and buildings of $1.9 million to augment its operations at Her Majesty's Theatre and $514 000 for upgrading the car park system, rostering system and radio equipment. The purchase of land and buildings was funded through borrowings and donations.

Liabilities

The Trust's liabilities increased by $312 000 to $16.9 million due mainly to:

- borrowings of $1.7 million from the South Australian Government Financing Authority
- staff benefits increasing by $603 000 to $5.1 million due mainly to more days of accrued salaries compared to last year, reflecting the timing of the final pay run for the year
- creditors reducing by $2.2 million to $556 000 due mainly to less unpaid rentals at year end for buildings leased from Arts SA
- accrued expenses increasing by $679 000 to $1.6 million due mainly to amounts owed to a production company
- cash held in trust for promoters reducing by $639 000 to $6.2 million.

In December 2014 the Treasurer approved the Trust to borrow up to $2 million from the South Australian Government Financing Authority to purchase land and a building adjacent to Her Majesty's Theatre. In 2015, the Trust borrowed $1.7 million for this purpose. The purchased property is currently being used as an art gallery and will allow the Trust to augment its operations at Her Majesty's Theatre.

Adelaide Festival Corporation

Functional responsibility	The Adelaide Festival Corporation (the Corporation) is a body corporate established pursuant to the *Adelaide Festival Corporation Act 1998* (AFC Act). The Corporation is an instrumentality of the Crown. The Board of the Corporation is responsible to the Minister for the Arts. The main function of the Corporation is to conduct the Adelaide Festival of Arts. For details of the Corporation's functions refer note 1 of the financial report.
Financial statistics	Net cost of services: $8.6 million Total appropriation: $8.3 million Number of FTEs: 24.2* * Base level of staff as at 30 June 2015 as the Corporation is only in the preparatory stage for the 2016 Adelaide Festival of Arts.
Financial statement opinion	**Unmodified**
Financial controls opinion	**Modified** Key issue: — Bank account reconciliations not always regularly performed and independently reviewed

Scope of the audit

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

During 2014-15 specific areas of audit attention included:

- revenue
- expenditure
- salaries and wages
- receipting and banking
- cash
- general ledger.

Audit findings and comments

Assessment of controls

In my opinion, the controls exercised by the Adelaide Festival Corporation in relation to the receipt, expenditure and investment of money, the acquisition and disposal of property and the incurring of liabilities, except for the matters outlined under 'Communication of audit matters', are sufficient to provide reasonable assurance that the financial transactions of the Adelaide Festival Corporation have been conducted properly and in accordance with law.

Communication of audit matters

Matters arising during the course of the audit were detailed in a management letter to the Chief Executive. Major matters raised with the Corporation and the related responses are detailed below.

Bank account reconciliations not always regularly performed and independently reviewed

The audit of the Corporation's bank reconciliation processes found:

- the July 2014 to April 2015 Donations Account and SAFA Cash Management Account reconciliations did not contain evidence of independent review

- foreign currency bank accounts were only reconciled for July to September 2014 and did not contain evidence of independent review.

The risk associated with these control breakdowns is that errors may not be detected and corrected in a timely manner.

In response the Corporation advised all reconciliations will be performed on a regular basis and be subject to independent review.

Interpretation and analysis of the financial report

Highlights of the financial report	2015 $'million	2014 $'million
Expenses		
Staff benefits expenses	3.6	3.7
Supplies and services	9.2	9.8
Depreciation expense	0.1	0.1
Total expenses	12.9	13.6

	2015 $'million	2014 $'million
Income		
Grants from non-SA Government	0.1	0.2
Box office sales	1.8	1.8
Sponsorship	1.6	1.5
Other	0.8	1.2
Total income	4.3	4.7
Net cost of providing services	8.6	8.9
Revenues from (Payments to) SA Government	8.3	8.4
Net result and total comprehensive result	(0.3)	(0.5)
Net cash provided by (used in) operating activities	(0.1)	(0.6)
Assets		
Current assets	0.4	0.8
Non-current assets	0.2	0.2
Total assets	0.6	1.0
Liabilities		
Current liabilities	0.4	0.6
Non-current liabilities	0.1	0.1
Total liabilities	0.5	0.7
Total equity	0.1	0.3

Statement of Comprehensive Income

Expenses

Expenses decreased in 2015 by $675 000 to $12.9 million. The decrease was due mainly to:

- supplies and services decreasing by $536 000, resulting mainly from a $377 000 decrease in artist fees and payments, $189 000 decrease in artist travel and accommodation, offset by a $349 000 increase in event staging and contracts (refer note 5 of the financial report). Expenditure fluctuates as the shows, artists and venues change for each festival

- staff benefits expenses decreasing by $142 000, resulting mainly from a $67 000 decrease in annual leave, $34 000 decrease in salaries and wages and $32 000 decrease in workers compensation (refer note 4 of the financial report).

Income

Income decreased in 2015 by $354 000 to $4.3 million. The decrease was due mainly to:

- grants from non-SA Government falling by $164 000 (refer note 7 of the financial report)
- other income falling by $342 000 (refer note 9 of the financial report)
- other sales rising by $120 000.

In 2015 the Corporation assumed responsibility for some aspects of the festival club's operations which were previously outsourced. These changed arrangements resulted in a decrease in other income and increase in other sales of $174 000.

Other income also decreased by $193 000 as a result of a lower level of recoveries being sought and received from other arts festival agencies relating to co-presented productions. The number and mix of co-presented productions will change with each successive festival and the arrangements with co-presenters.

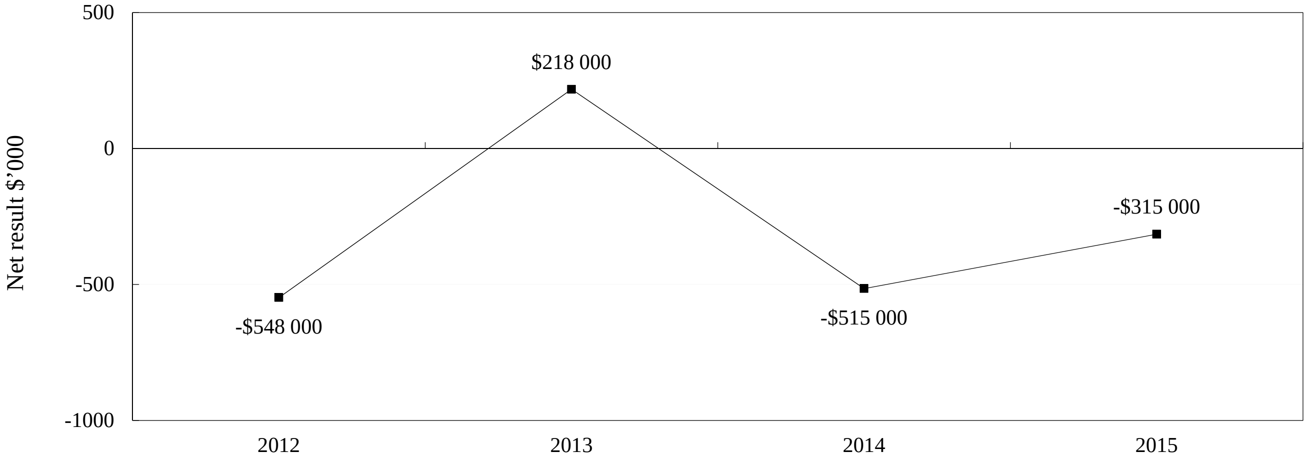
Revenues from SA Government

Revenues from SA Government decreased in 2015 by $121 000 to $8.3 million.

The Corporation is reliant on the State Government to fund its operations and government grants represent 66% (64%) of total revenue.

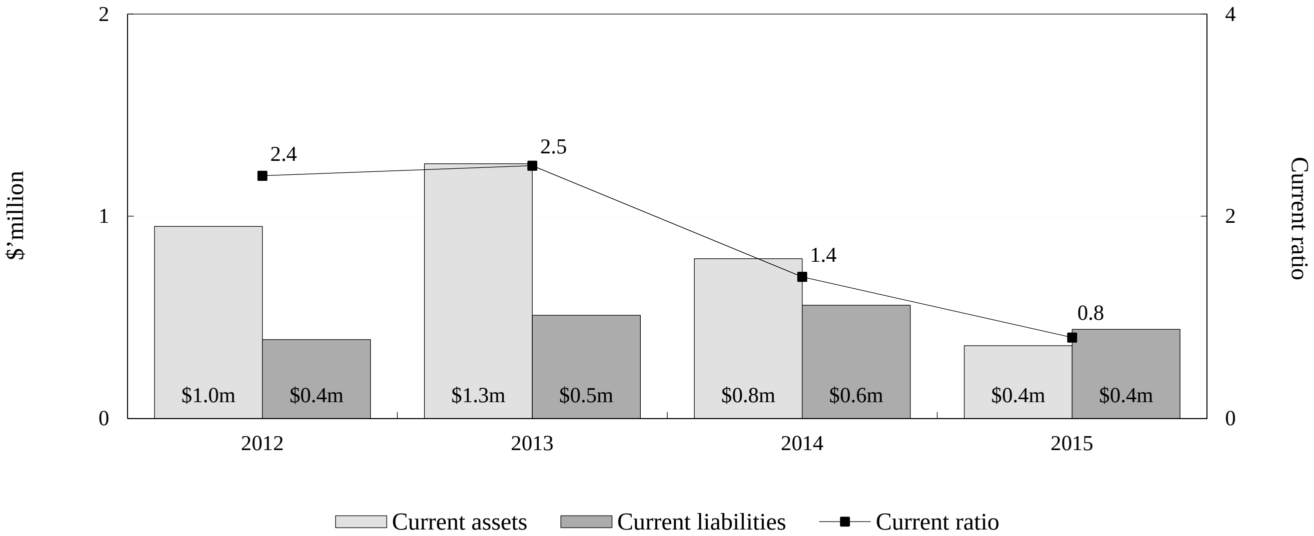
Net result

The net result for the year was a deficit of $315 000 (deficit of $515 000). The following chart shows the fluctuation in the net result for the four years to 2015.



Statement of Financial Position

The following chart shows that current assets decreased 54% to $364 000 as at 30 June 2015. Cash reduced by $184 000 to $285 000 at 30 June 2015. Current liabilities exceeded current assets by $79 000 as at 30 June 2015.



Statement of Cash Flows

Net operating cash flows improved by $524 000 due mainly to a $529 000 decrease in payments for supplies and services and a $310 000 increase in GST recovered from the Australian Taxation Office, offset by a $121 000 decrease in receipts from the SA Government and a $111 000 decrease in receipts from the Commonwealth Government.

The net cash flows used in investing activities were consistent with the last two years.

Adelaide Oval SMA Limited

Functional responsibility	The Adelaide Oval SMA Limited (AOSMA) is a company whose directors and members are appointed equally by the South Australian National Football League (SANFL) and the South Australian Cricket Association (SACA). AOSMA is not a public authority. It was created in December 2009 as a non-profit public company limited by guarantee. AOSMA manages, operates and maintains the redeveloped Adelaide Oval stadium owned by the State Government and also the area closely surrounding the stadium (the precinct). AOSMA also provides various services as agent on behalf of the SANFL, SACA and promoters in return for a fee.

Financial statistics

Net assets:	$3.9 million
Loss from trading activities:	$2 million
Net contributions to the SANFL and SACA from trading activities:	$1.7 million
Monies collected as agent on behalf of the SANFL and SACA:	$15.2 million
Monies collected as agent on behalf of parties other than the SANFL and SACA:	$23 million

Significant events and transactions	AOSMA commenced full-scale operations upon practical completion of the redeveloped Adelaide Oval stadium.
Financial statement opinion	**Modified** AOSMA recognised reimbursements totalling $1.8 million from the State Government that we could not substantiate would be paid.
Financial controls opinion	**Not applicable** A financial controls opinion is not required as AOSMA is not a public authority. Key issues with financial controls: — AOSMA had not commenced independent internal auditing of its controls — Controls that ensure effective contract management required strengthening

Scope of the audit

The audit program covered financial accounting records and processes and was directed primarily to obtaining sufficient evidence to enable an opinion to be formed with respect to the financial report.

During the year ended 31 October 2014 specific areas of audit attention included:

- revenue from car parks, sponsorships, service fees, sales of food and beverages and contributions from the SANFL, SACA and State Government
- distribution of monies collected as agent on behalf of the SANFL, SACA and promoters including receipts from the sale of tickets to events, supply rights, Adelaide Oval football memberships, Stadium Club corporate seats and corporate suites
- controls for managing contracts and agreements with the SANFL, SACA, State Government, Australian Football League (AFL), Cricket Australia (CA), promoters, ticketing agent, car park operator, suppliers and various other parties
- procurement and expenditure on plant, equipment, supplies and services
- employee benefit expenses.

Audit findings and comments

Auditor's report on the financial report

The following is an extract from the Independent Auditor's Report which details the qualification to AOSMA's financial report for the 12 months ended 31 October 2014:

> ***Basis for Qualified Opinion***
>
> *Adelaide Oval SMA Limited has recognised amounts receivable from the South Australian Government for reimbursement of costs incurred by Adelaide Oval SMA Limited for the installation of perimeter ribbon boards (electronic advertising boards) and costs associated with installation of cabling and fitting out of food and beverage outlets at the Adelaide Oval. These amounts total $1 778 000. I have not identified appropriate evidence to substantiate that the South Australian Government will pay these amounts to the Adelaide Oval SMA Limited.*
>
> *As the recognition criteria for assets and revenue has not been met, the $1 778 000 receivable and associated income should not be recognised in the financial report.*
>
> *As a result, each of the following lines in the financial report are overstated by $1 778 000:*
>
> - *Statement of Comprehensive Income:*
>   - *State Government grants and other contributions*
>   - *Profit/(Loss) from Government related items*
>   - *Total comprehensive result.*

- *Statement of Financial Position:*
  - *Trade and other receivables*
  - *Total current assets*
  - *Total assets*
  - *Net assets*
  - *Retained earnings*
  - *Total equity.*
- *Statement of Changes in Equity:*
  - *Total comprehensive result*
  - *Balance at 31 October 2014.*

Qualified Opinion

In my opinion, except for the effect of the matter described in the 'Basis for Qualified Opinion' paragraphs, the financial report of Adelaide Oval SMA Limited is in accordance with the Corporations Act 2001, *including:*

(a) giving a true and fair view of the company's financial position as at 31 October 2014 and its performance for the 12 months ended on that date; and

(b) complies with Australian Accounting Standards and the Corporations Regulations 2001.

Communication of audit matters

Matters arising during the course of the audit were detailed in a management letter to the Chief Executive Officer. The main matters and responses are detailed below.

Establishment of internal audit function

We became aware that risks within AOSMA's operating environment would increase significantly upon commencing full-scale operations whilst using new financial systems. An added risk was the complexity of the agreements with various parties underpinning AOSMA's operations. These parties included the SANFL, SACA, AFL, CA and various promoters.

We considered it important that AOSMA establish effective controls to mitigate the increased risks of fraud or error going undetected during the transition to full-scale operations. We recommended to AOSMA in June 2014 that it should establish as soon as possible, a process to internally audit the effectiveness of its controls. In response, AOSMA advised in July 2014 that it had commenced documenting its financial management framework, including documenting its policies, processes and controls, and upon completion would commence an internal audit program.

In conducting the audit of the financial report for the year ended 31 October 2014, we followed up progress made by AOSMA in this area and noted that it had completed documenting corporate governance, risk management and financial management frameworks and policies and procedures related to major activities. However, independent internal auditing of its controls had not commenced. We recommended again that AOSMA should establish independent internal audits of the effectiveness of its internal controls as soon as possible. In response, AOSMA advised that it will commence these audits in the 2014-15 financial year.

Verification of compliance with contract terms and conditions

AOSMA's operations are underpinned by a number of significant contracts and agreements with the State Government, SANFL, SACA, AFL, CA, promoters, ticketing agent, car park operator, suppliers and various other parties. Any non-compliance with the terms and conditions of these contracts could result in expensive disputes with contracting parties. AOSMA agreed to strengthen its contract management controls by improving the completeness of its contract compliance checklist and including more details of checking processes in its procedure documents.

Other audit matters raised with AOSMA

AOSMA agreed to improve its processes and policy documentation for a range of areas including: calculating and settling the payment of monies collected on behalf of other parties; delegations for pricing goods and services; checking of general ledger journals and obtaining assurance from its ticketing agent and car park operator about the completeness of transactions recorded. These recommended improvements will ensure AOSMA's functions continue to be performed in the most efficient and effective manner.

Interpretation and analysis of the financial report

Highlights of the financial report	12 months ended 31.10.14 $'000	*4 months ended 31.10.13 $'000
Trading activities		
Income	53 948	1 190
Expense	55 958	4 353
Profit (Loss) from trading activities	(2 010)	(3 163)
Stakeholder contributions		
Contributions from the SANFL and SACA	3 965	-
Contributions to the SANFL and SACA	(5 642)	-
Net contributions to stakeholders	(1 677)	-
Trading result after net contributions to stakeholders	(3 687)	(3 163)
State Government related items		
State Government grants and other contributions	15 719	7 197
Acquisition of capital assets for the State Government	(8 801)	(1 862)
Total comprehensive result	3 231	2 172
Net cash provided by (used in) operating activities	(3 308)	(2 463)
Assets		
Current assets	11 584	12 606
Non-current assets	14 849	5 707
Total assets	26 433	18 313
Liabilities		
Current liabilities	11 375	14 084
Non-current liabilities	11 148	3 550
Total liabilities	22 523	17 634
Total equity	3 910	679

* AOSMA changed its reporting period to end on 31 October which resulted in a transitional reporting period of four months.

AOSMA operates under a complex set of arrangements with the SANFL and SACA which dictate the accounting treatment of certain financial transactions and their presentation in the financial report.

Statement of Comprehensive Income

The Statement of Comprehensive Income includes only the income and expenses that AOSMA controls. It does not include monies that AOSMA collects as agent on behalf of the SANFL, SACA, AFL, CA, football clubs or promoters.

Trading activities

AOSMA commenced full-scale operations during the reporting period which resulted in significant increases in trading income and expenses.

Although AOSMA commenced full-scale operations, its trading income was less than its trading expenses resulting in a trading loss of $2 million in the 12 months to 31 October 2014. AOSMA's trading income of $53.9 million was mainly generated from catering activities and service fees charged to the SANFL, SACA and promoters pursuant to various agreements. Trading expenses of $56 million were mainly due to employee benefit expenses, food and beverage purchases, stadium cleaning costs, security expenses and utility costs.

Stakeholder contributions

Net contributions by AOSMA to the SANFL and SACA were $1.7 million. Pursuant to various agreements, AOSMA contributed $5.7 million of its trading income to the SANFL and SACA whilst the SANFL and SACA contributed $4 million to AOSMA to support its operations. The $5.7 million contributed to the SANFL and SACA was in addition to $15.2 million collected and distributed by AOSMA to the SANFL and SACA as their agent. These distributions replace the funds formerly generated directly by SACA when it held the lease over the Adelaide Oval, and for the SANFL when AFL football was played at AAMI Stadium.

State Government related items

State Government grants and other contributions of $15.7 million ($7.2 million) comprise:

- $9.1 million of grant income earned by AOSMA upon spending the remaining balance of the $18 million provided by the State Government under a funding deed

- $6.6 million of other contributions from the State Government to procure assets, which includes $1.8 million recognised as amounts receivable from the State Government for reimbursement of costs incurred by AOSMA for the installation of perimeter ribbon boards (electronic advertising boards) and costs associated with installation of cabling and fitting out of food and beverage outlets. We had not identified appropriate evidence at the time of issuing the Independent Auditor's Report on AOSMA's financial report to substantiate that the State Government would pay the $1.8 million to AOSMA.

The State Government grants and other contributions were used to acquire $8.8 million of assets for the State Government and $6.9 million of assets for AOSMA.

Statement of Financial Position

AOSMA's equity increased by $3.2 million in the 12 months to 31 October 2014 resulting in net assets of $3.9 million.

The major movements in assets and liabilities were:

- an $8.6 million increase in property, plant and equipment due mainly to assets purchased by AOSMA from State Government grants and other contributions
- a $7.2 million increase in trade and other receivables reflecting increased trading activities. Included in the receivable balance of $8.8 million was $2.3 million owed by the SANFL and SACA for service fees and $2.8 million owed by the State Government for the purchase of assets on its behalf. We had not identified appropriate evidence at the time of issuing the Independent Auditor's Report on AOSMA's financial report to substantiate that the State Government would pay $1.8 million of this amount to AOSMA
- a $6.2 million decrease in the deferred income liability due to AOSMA earning $9.1 million of grant income earned upon spending the remaining balance of the $18 million provided by the State Government under a funding deed. This was offset by an increase in unearned income from supply right contracts and customer deposits for catering events
- an $887 000 increase in inventory reflecting increased trading activities. Inventory held at 31 October 2014 was worth $1.1 million whilst inventory consumed during the year was $13.1 million
- a $9.1 million reduction in the balance of cash due mainly to the purchase of assets from the unspent cash at 31 October 2013 received under the $18 million funding deed. Included in the cash balance of $1.5 million was $767 000 of monies collected by AOSMA as agent on behalf of the SANFL and SACA awaiting distribution
- a $5.4 million increase in trade and other payables reflecting increased trading activities. Included in the payables balance of $7.6 million was $1.9 million owed to the SANFL and SACA, including $767 000 of monies received on their behalf as agent awaiting distribution
- a $4.8 million increase in loans and borrowings to fund operations. Included in the loans balance of $8.5 million was a finance lease of $1.2 million mainly for an LED advertising board.

$18 million funding deed

In August 2012 Cabinet approved that $18 million of Commonwealth funding be passed onto AOSMA under a funding deed to procure certain items and works for the Adelaide Oval redevelopment. The Cabinet submission advised that AOSMA was well placed to procure the works as they related to items concerning the playing surface, oval operations and equipment with which the SANFL and SACA have previous operational experience.

The $18 million was received by AOSMA in 2012-13 in four tranches upon AOSMA providing procurement plans to the Minister. The State Government anticipated that certain items and works procured would be treated as expenses or assets of AOSMA with the balance treated as assets of the Department of Planning, Transport and Infrastructure.

AOSMA recognised the $18 million as a liability (deferred income) which was reduced when spent. The amount spent was recognised as revenue with a corresponding amount recognised as either capital works in progress (AOSMA assets) or expensed. The amount expensed included items treated as assets of the Department of Planning, Transport and Infrastructure. AOSMA spent the remaining balance of the $18 million during the year ended 31 October 2014. Over the years, $12.6 million has been recognised as assets of AOSMA and the remaining $5.4 million expensed.

Monies collected on behalf of other parties

AOSMA collects monies as agent on behalf of the SANFL, SACA, AFL, CA, football clubs and various promoters. The collection of these monies involves selling, on their behalf, tickets to events, supply rights, Adelaide Oval football memberships, Stadium Club corporate seats and corporate suites.

For the year ended 31 October 2014, AOSMA collected $15.2 million on behalf of the SANFL and SACA. This amount is disclosed as related party transactions in note 17 to the financial report. AOSMA also collected $23 million during the same period on behalf of the AFL, CA, football clubs and promoters. These collections are not disclosed in the financial report, apart from the balance awaiting distribution at 31 October 2014. Most of these collections related to tickets sold through AOSMA's ticketing agent on behalf of CA, the Port Adelaide Football Club, the Adelaide Football Club and promoters.

The financial report does not include the considerable revenue generated at the Adelaide Oval that is not collected through AOSMA but directly by the SANFL, SACA, AFL, CA, football clubs or promoters.

Further commentary on operations

State legislative requirements

The operations of AOSMA are subject to the requirements of the *Adelaide Oval Redevelopment and Management Act 2011* which specifies the following matters:

- leasing and licensing requirements for the management of the Adelaide Oval. These requirements involve the Corporation of the City of Adelaide (the Adelaide City Council), the responsible Minister, the SANFL, SACA and AOSMA
- financial and audit reporting requirements of AOSMA and the redevelopment in general
- that AOSMA be audited by the Auditor-General effective 1 July 2011. As a consequence, this is the fourth year that AOSMA has been reported on in the Auditor-General's Annual Report to Parliament
- the establishment of a sinking fund to be managed by AOSMA to pay for non-recurrent expenditure of the Adelaide Oval in the years after its completion. After consulting AOSMA the Treasurer must determine annually the amount payable by AOSMA into the sinking fund. A report on monies paid into and out of the fund must be provided to the Minister by 1 September of each year.

  AOSMA has established a bank account to hold sinking fund monies. AOSMA obtained a report from a project consultant that provides an estimate of the forecast non-recurrent expenditure of the Adelaide Oval over a 20 year period and the required annual sinking fund contribution.

  Formal communication in 2013-14 between the Minister and the Treasurer on the sinking fund arrangements:

  - notes that AOSMA proposes to make its first contribution of approximately $2.7 million to the sinking fund in 2016-17 and AOSMA will notify the Treasurer of this proposed contribution for approval prior to 1 September 2016
  - indicates that the Treasurer will approve or make a determination of the amount to be paid into the sinking fund at that time.

Leasing and licensing arrangements

AOSMA leases from the State Government the Adelaide Oval Core Area which includes the stadium. The rent payable by AOSMA to the State Government over the 80 year term of the lease is expected to be $74.3 million before indexation. Rent is not payable for the lease period before 1 July 2015. The land situated in the Adelaide Core Area is leased by the State Government from the Adelaide City Council for an equal term at $1 p.a.

AOSMA has licensed the SANFL the exclusive right to play football at the oval during the football season from 15 March to 7 October for a term of 20 years, with a right of renewal for three further 20 year terms. The licence enables the SANFL to enter into arrangements with the AFL and football clubs for the use of the oval. Likewise, AOSMA has licensed the SACA the exclusive right to play cricket at the oval during the cricket season from 8 October to 14 March for a term of 80 years. The licence enables the SACA to enter arrangements with CA for the use of the oval. The licences preserve AOSMA's right to hold ad hoc events, such as concerts, at the oval at any time provided sufficient notice is given to the SANFL and SACA.

The Adelaide City Council has also licensed the State Government to use the area closely surrounding the stadium for a 20 year term for no fee, with a right of renewal for three further 20 year terms. The State Government has sublicensed the use of this area to the SANFL, SACA and AOSMA for an equivalent term for a fee of $10 each p.a.

Insurance

AOSMA is required by the leasing and licensing requirements for the management of the Adelaide Oval to maintain certain insurance policies including public risk liability insurance and property insurance against material damage to the stadium.

Art Gallery Board

Functional responsibility	The Art Gallery Board (the Board) is established pursuant to the *Art Gallery Act 1939*. The Board is responsible for the management of the Art Gallery of South Australia (the Art Gallery). For details of the Board's objectives refer note 1 of the financial report.
Financial statistics	Net cost of providing services: $5.6 million Revenues from SA Government: $11 million Value of heritage collections: $609 million Number of FTEs: 64.05 Number of visitors: 779 670
Significant events and transactions	— Unveiling of the $4.6 million artwork by Camille Pissarro titled 'Prairie à Èragny' in August 2014. — Major exhibition 'Fashion Icons: Masterpieces from the Collection of the Musée des Arts Décoratifs, Paris' held between October 2014 and February 2015, attracting approximately 60 000 visitors to the Art Gallery. — From 1 July 2014 the functions of Arts SA (including those impacting the Board) transferred from the Department of the Premier and Cabinet to the Department of State Development.
Financial statement opinion	**Unmodified**
Financial controls opinion	**Modified** Key issues: — The Board's financial management compliance program was not implemented in 2014-15 — The fraud and corruption control policy is out of date and was not reviewed annually in accordance with Treasurer's Instruction 2 'Financial Management' — Bona fide and leave reports were not reviewed in a timely manner — Controls for the Shared Services SA main payroll system did not meet a generally satisfactory standard

Scope of the audit

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

During 2014-15 specific areas of audit attention included:

- follow-up of 2013-14 audit findings
- legal compliance
- compliance with Treasurer's Instructions
- revenue
- expenditure
- payroll
- property, plant and equipment
- heritage collections
- cash and investments
- general ledger.

Audit findings and comments

Assessment of controls

In my opinion, the controls exercised by the Art Gallery Board in relation to the receipt, expenditure and investment of money, the acquisition and disposal of property and the incurring of liabilities, except for all matters outlined under 'Communication of audit matters', are sufficient to provide reasonable assurance that the financial transactions of the Art Gallery Board have been conducted properly and in accordance with law.

Communication of audit matters

Issues identified during the course of the audit were detailed in a management letter to the Director. A response to the letter was received outlining planned actions to address the identified issues. The significant matters raised with the Board and the responses are detailed below.

In addition, matters relating to Shared Services SA (SSSA) as a service provider to the Board are also described below.

Legal compliance and governance

No service level agreement finalised between the Board and the Department of State Development

The functions of Arts SA transferred from the Department of the Premier and Cabinet (DPC) to the newly created Department of State Development (DSD) from 1 July 2014.

Our review in 2014-15 identified that although DSD has provided the Board with a service design and operating level responsibilities document, this document appears to be in draft form as the Board has not been provided with an opportunity to sign the document confirming acceptance of its contents. Our testing also identified aspects of the relationship that were not defined in this document, including the services to be provided by SSSA, and therefore it was unclear which agency had responsibility for performing certain tasks.

As a result, the Board may be at risk of not meeting its statutory responsibilities.

We recommended that the Board liaise with DSD to formalise and sign a service level agreement that clearly defines the roles and responsibilities of each party, including the services provided by SSSA.

The Board responded that although a draft service level agreement was sent to the Board by DSD in April 2015, and feedback on this document was provided by the Board shortly after, DSD is yet to distribute the final copy of this document for signing.

No financial management compliance program implemented in 2014-15

We have previously reported and recommended that the Board update its financial management compliance program (FMCP) to ensure all documentation is complete and achieves compliance with the requirements of Treasurer's Instruction 28 'Financial Management Compliance Program' (TI 28).

Follow-up in 2014-15 identified that although a draft FMCP was now finalised, the following are yet to occur to ensure compliance with all requirements of TI 28:

- the FMCP was not approved by the Board and was not formally rolled out across the entity
- formal policies and procedures are yet to be developed outlining responsibilities, reporting requirements and how compliance failures are to be dealt with.

In the absence of a robust and complete FMCP, the Board may not detect non-compliance with its financial management obligations and requirements. The Board also continues to not comply with the requirements of TI 28.

The Board responded that the completed draft FMCP was presented to the Board at its June 2015 meeting. The Board resolved to approve the FMCP and that it be operationalised with immediate effect, on the condition that it be discussed in full at the next Audit Committee meeting.

Incomplete risk management policy and risk register

Treasurer's Instruction 2 'Financial Management' (TI 2) requires agencies to establish and maintain effective policies, procedures and systems for the identification, assessment, monitoring, management and annual review of financial and tax risks.

Our review in prior years identified that the Board's established risk management policy did not address key elements of effective risk management. We also noted that the Board had not established a risk management procedure.

Follow-up in 2014-15 identified that a risk management procedure was not completed to address our past recommendations. We were advised that although significant work was performed on risk management in 2014-15, this procedure, along with the risk register, is still in the process of being reviewed and updated.

As a result, Art Gallery staff may be unclear regarding required risk management practices and all risks may not be identified and managed in a consistent and effective manner.

The Board responded that it agreed that risk management controls would be improved by drafting and implementing a risk management procedure detailing the Board's comprehensive approach to risk management. The Board also advised that management is currently working closely with the Audit Committee to redesign, update and review the risk register. Significant progress has been made on this and it is anticipated that it will be finalised by early 2015-16.

Out-of-date fraud and corruption control policy

TI 2 requires that the fraud policy of an agency must be reviewed at least on an annual basis. Our review in 2014-15 identified that the Board's fraud and corruption control policy was last updated in January 2013 and therefore has not been updated and reviewed annually in accordance with the requirements of TI 2.

Our review of the content of the Board's fraud and corruption control policy also identified that key information was not included or was not current, eg the policy does not outline individual staff obligations and responsibilities under the *Independent Commission Against Corruption Act 2012* (ICAC Act) and the actions to be taken by staff to meet their obligations.

As a result, the Board does not comply with the requirements of TI 2. Art Gallery staff may also not be complying with obligations and responsibilities under the ICAC Act.

We recommended that the Board review and update its fraud and corruption control policy annually in accordance with TI 2. This should include updating the policy to outline obligations and responsibilities of Art Gallery staff under the ICAC Act and providing details of the officer responsible for ensuring the policy is reviewed annually.

The Board responded that it acknowledged that the Board's fraud and corruption control policy has not been updated in the past 12 months and certain details of the policy require updating, particularly with the introduction of the ICAC Act. The policy will be updated to address our concerns and will be reviewed annually.

No central electronic register of Board policies and procedures

As the functions of Arts SA transferred from DPC to the newly created DSD from 1 July 2014, Art Gallery staff were required to follow Board-specific and DSD-wide policies and procedures in 2014-15. Staff were also required to follow previous DPC-wide policies and procedures where no DSD-wide policy or procedure had yet been developed.

Review of the Board's policies and procedures framework in prior years indicated there was no central electronic register of all policies and procedures applicable to Art Gallery staff readily accessible to staff. We advised that the establishment of a central electronic register would ensure that staff are aware of all applicable policies and procedures and can easily access the policies and procedures relevant to the work they perform. It would also facilitate the monitoring of policies and procedures to ensure they are kept up to date in accordance with TI 2.

We also recognised in the prior year that the Board would need to liaise with DSD in 2014-15 in order to determine which of DSD's policies and procedures are relevant to the operations of the Art Gallery and whether it is appropriate for the Board to adopt these.

Our follow-up in 2014-15 identified that the Board is still determining which DSD policies and procedures are relevant to the Board and whether it is appropriate for the Board to adopt these. As a result, no central electronic register of policies and procedures was established and made readily available to staff in 2014-15.

Art Gallery staff may not be aware of all of the policies and procedures that apply to them and may be unclear about their roles and responsibilities in the conduct of their work. As a result, inconsistent, non-compliant or ineffective practices may be adopted.

We recommended that the Board continue to liaise with DSD in order to adopt DSD policies and procedures or develop a Board-specific policy or procedure. We also recommended the Board establish a central electronic register of all applicable Board and DSD policies and procedures and make this readily accessible to staff.

The Board advised that when Arts SA first transferred to DSD from DPC, DSD was rapidly developing policies and procedures to take into account DSD's new scope of operations. The Board therefore took the view that there was little point in creating an electronic register of all policies and procedures while the rate of change in DSD's policy environment was so substantial. With the rate of policy and procedure change having now slowed, the Board advised that this new centralised electronic register of policies and procedures will be established and made available to staff as soon as resources allow.

Revenue

Non-compliance with the bequests and donations guideline

The bequests and donations guideline requires a monthly reconciliation be performed between the Board's Raiser's Edge system and the SSSA Masterpiece general ledger system to ensure that all bequests and donations received by the Board are accurately recorded in the general ledger.

In 2014-15 we found this monthly reconciliation was only performed up until January 2015. Art Gallery staff indicated this was due to resourcing issues in the benefaction and membership team.

If regular reconciliations are not performed, details of bequests and donations may not be accurately recorded and this may not be identified.

The Board advised that immediate steps have been taken to reinstate the monthly reconciliation between Raiser's Edge and the Masterpiece general ledger. This issue arose due to temporary staff shortages in the benefaction and membership team, which have since been rectified.

Variances in daily Gallery Shop and Front of House sales reconciliations

Staff at both the Gallery Shop and Front of House (when a paid exhibition is being held) are required to reconcile daily total sales to total amounts received from customers.

In our 2014-15 sample, none of the total sales to total amounts received for the day reconciled. In the majority of instances there was no supporting documentation attached to the reconciliations to fully explain the variances. We also identified instances of the reconciliations not being independently reviewed by a second staff member.

There is a risk that cash received at the Gallery Shop and by Front of House may be misappropriated without detection and/or the Board may not receive all monies to which it is entitled. This risk is increased when there is no independent review of reconciliations.

We recommended that the Board reiterate to Gallery Shop and Front of House staff the need for all sales to be processed correctly through the sales system. If errors are made throughout the day and cannot be corrected, a record of this should be kept by staff members and this should be reviewed by the Gallery Shop Manager or Front of House Coordinator for appropriateness and provided to the person performing the end-of-day reconciliation.

We also recommended that the Gallery Shop Manager and Front of House Coordinator ensure that all reconciliations are independently reviewed, reasons for variances are detailed on the reconciliation and any supporting documentation for the variances attached. Any large unexplained variances, or a large number of small but regular variances, should be reported to management so that additional follow-up work can be performed.

The Board responded that relevant staff have been advised of the importance of processing sales accurately and documenting precisely any errors or system issues that are encountered. New processes have also been implemented for tracking any errors or system issues encountered that may impact the reconciliation process. Any significant discrepancies, or regular small discrepancies, are to be reported to the Management Accountant and/or the Deputy Director immediately.

Payroll

Untimely review of bona fide and leave reports

Our review in prior years identified instances where bona fide and leave reports were not reviewed in a timely manner.

We recommended that the Board formally advise managers to review and return all bona fide and leave reports in a timely manner. We also recommended that the Board establish policies and procedures outlining bona fide and leave report review processes, including timeframes for review.

Our follow-up in 2014-15 identified instances where bona fide and leave reports were not reviewed in a timely manner. The Board did not establish formal policies and procedures outlining bona fide and leave return report review processes. We were advised that although a bona fide report certification policy and a leave taken report certification policy were developed, as at June 2015 these policies were only in draft form.

There is a risk that invalid and inaccurate payroll payments may not be detected and it may become more time consuming and difficult to resolve pay errors and anomalies.

The Board responded that all pay point managers have again been advised of the importance of the timely review of all bona fide and leave reports. The bona fide report certification policy and leave taken report certification policy were approved at the June 2015 Board meeting and have been operationalised. Compliance with these policies will be closely monitored and corrective action taken if breaches identified.

Expenditure

Lack of clarity in responsibility for review of delegations and manual payments

Discussions with both Art Gallery staff and DSD employees in 2014-15 identified that a lack of clarity existed regarding whether DSD or the Board had responsibility for performing the following control activities relating to expenditure:

- periodically reviewing that the financial delegations contained in Basware for Art Gallery staff agree to the delegations formally approved by DSD
- periodically reviewing that purchase card limits for Art Gallery staff are in accordance with the delegations formally approved by DSD
- reviewing monthly the listing of all manual payments processed by SSSA to ensure payments were approved in accordance with delegations.

Our review identified that the above control activities were not being performed by either DSD or the Board throughout the year.

As a result, payments made in Basware or manual payments may not be authorised in accordance with the delegations formally approved by DSD. This may result in inappropriate payments being made by the Board. Credit card payments may also not be in accordance with the credit card limits formally approved by DSD. This may result in inappropriate credit card purchases being made by Art Gallery staff.

We recommended that the Board liaise with DSD to determine which agency will be responsible for performing the above control activities. Once agreed upon, responsibility for these areas should be formally defined in the service level agreement between DSD and the Board.

The Board responded that DSD will be formally approached to seek its advice on which agency is responsible for performing the control activities we identified. Once this has been established, Art Gallery finance staff will ensure that the control activities are either being performed locally, or check that they are being appropriately performed centrally by DSD.

Shared Services SA – financial systems and transaction processing environments

SSSA processes financial transactions on behalf of the Board under service level determinations. The main systems and control environments include accounts payable, payroll and general ledger financial functions.

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

As discussed in the commentary under 'Department of the Premier and Cabinet' elsewhere in Part B of this Report, our review and evaluation of controls for the SSSA main payroll systems concluded that controls did not meet a generally satisfactory standard for 2014-15. A number of specific matters were raised with SSSA for corrective action and review for process and procedural improvement. Our review and evaluation of controls for the SSSA main accounts payable systems and environment concluded that controls met a generally satisfactory standard for 2014-15.

The matters do not relate to the Board's transaction processing.

Interpretation and analysis of the financial report

Highlights of the financial report

	2015 $'million	2014 $'million
Expenses		
Staff benefits	6	5
Other expenses	15	11
Total expenses	21	16
Income		
Revenues from SA Government	11	9
Other income	15	13
Total income	26	22
Net result	5	6
Net cash provided by (used in) operating activities	3	3
Net cash provided by (used in) investing activities	(3)	(7)
Assets		
Current assets	5	4
Non-current assets	657	652
Total assets	662	656
Total liabilities	3	2
Total equity	659	654

Statement of Comprehensive Income

Income

Total income increased by $4 million to $26 million in 2014-15 mainly due to:

- a $1 million increase in fees and charges, largely resulting from admissions to the major exhibition 'Fashion Icons: Masterpieces from the Collection of the Musée des Arts Décoratifs, Paris' held between October 2014 and February 2015

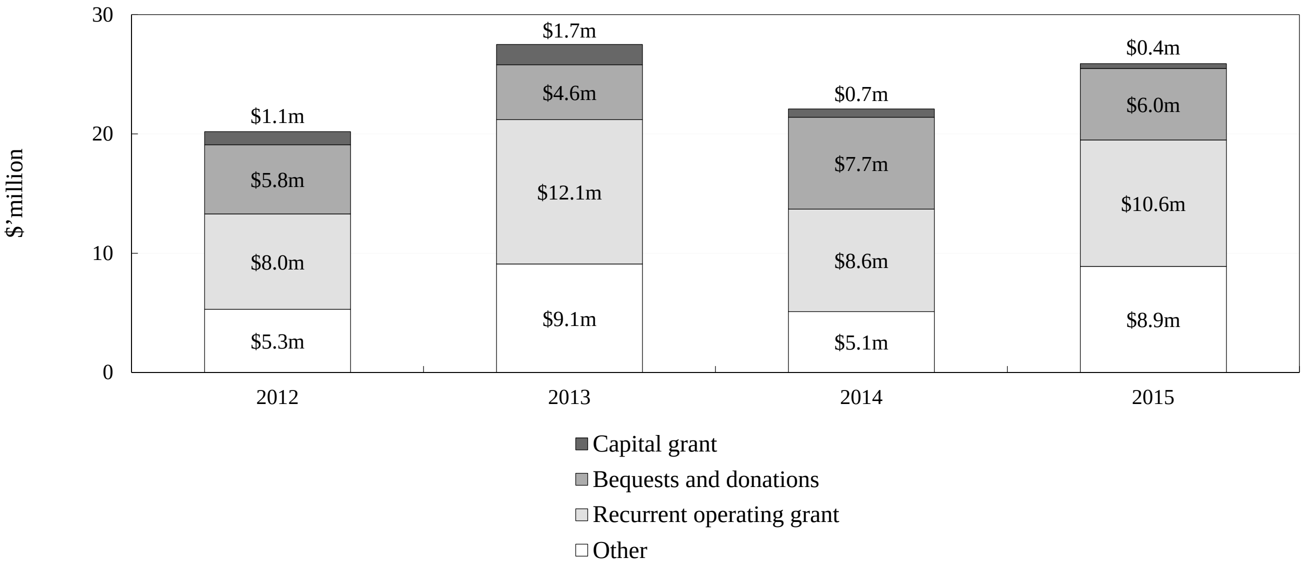
- a $1 million increase in grants, resulting from an increase of $1 million in funding received in 2014-15 for the BHP Billiton Aboriginal and Torres Strait Islander Visual Arts Festival to be held in 2015-16

- a $1.3 million increase in sponsorships, primarily due to a $1.2 million increase in in-kind sponsorships associated with the Fashion Icons exhibition. In-kind sponsorships include the value of advertising ($1.6 million) and publicity and promotion ($200 000).

- a $1.7 million increase in revenues from the SA Government, largely attributable to a $1.7 million increase in funding received for the Fashion Icons exhibition.

These increases were offset by a $1.6 million decrease in bequests and donations largely resulting from the 2013-14 masterwork appeal associated with the purchase of a significant artwork for $4.6 million.

For the four years to 2015, a structural analysis of the major income items for the Board is shown in the following chart.

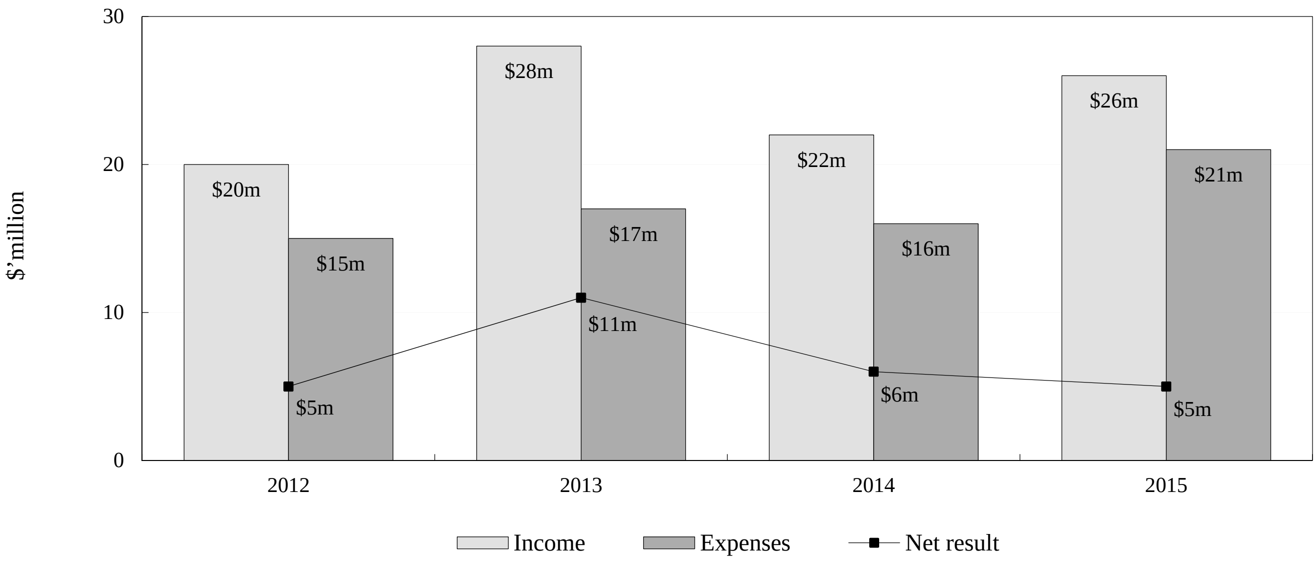


As can be seen, the Board continues to be reliant on the recurrent operating grant received from the SA Government to fund the operations of the Art Gallery, which represents 41% of total income received in 2014-15.

Net result

The net result for the year was a surplus of $5 million ($6 million).

The following chart shows the income, expenses and net results for the four years to 2015.



The net result of the Board is largely influenced by specific activities undertaken at the Art Gallery during the year. For example, major exhibitions were held in both 2013 and 2015. The 2014 net result was impacted by significant bequests and donations received for a masterwork appeal associated with the purchase of a significant artwork.

Statement of Financial Position

Total assets at 30 June 2015 were $662 million ($656 million), of which $609 million (92%) relates to the Board's heritage collections.

The increase in the value of the heritage collections in 2014-15 is a result of purchases and donations totalling $5.9 million. Donations of heritage assets in 2014-15 totalled $4.1 million and represent 69% of the Board's total additions to heritage collections throughout the year.

Attorney-General's Department

Functional responsibility	The Attorney-General's Department (the Department or AGD) is an administrative unit established pursuant to the *Public Sector Act 2009*. The functions of the Department are to help create an inclusive, safe and fair South Australia. The Department promotes justice through protecting rights and holding people to account according to the law, improving safety and contributing to an efficient and fair justice system. Refer notes 1, 2(c), 4 and A1 of the financial report for further information on the Department.
Financial statistics	Net cost of providing services: $106 million Total appropriation: $106 million Number of FTEs: 1450.7 Administered: Taxation revenue $291 million Fines and related fees $79 million
Significant events and transactions	— SafeWork SA, previously part of the Department of the Premier and Cabinet, joined the Department from 1 July 2014. — The South Australian Civil and Administrative Tribunal was established from 30 March 2015. — A new contract for the replacement and maintenance of the Government Radio Network service was executed with Motorola Solutions Australia.
Financial statement opinion	**Unmodified**
Financial controls opinion	**Modified** Key issues: — No comprehensive legal compliance framework — No Department-wide risk register — No regular review, or no evidence of review, of user access to a number of systems — Controls for the Shared Services SA main payroll environment did not meet a generally satisfactory standard

Scope of the audit

The audit program covered major financial systems and was directed primarily to obtaining sufficient evidence to enable an opinion to be formed with respect to the financial report and internal controls.

During 2014-15 specific areas of audit attention included:

- cash, debtors and investments
- non-current assets
- payroll and employee entitlements
- expenditure including grants and subsidies
- revenue
- taxation receipts
- statutory funds including the Crown Solicitor's Trust Account
- fines revenue and collection
- SafeWork SA revenue and expenditure
- financial accounting and reporting
- governance arrangements
- financial management compliance program.

Internal audit activities were reviewed to assess the risks of material misstatement of the financial report and to design and perform audit procedures.

Audit findings and comments

Assessment of controls

In my opinion, the controls exercised by the Attorney-General's Department in relation to the receipt, expenditure and investment of money, the acquisition and disposal of property and the incurring of liabilities, except for all matters outlined under 'Communication of audit matters', are sufficient to provide reasonable assurance that the financial transactions of the Attorney-General's Department have been conducted properly and in accordance with law.

Communication of audit matters

Matters arising during the course of the audit were detailed in management letters to the Chief Executive and other officers responsible for the governance of controlled and administered activities of the Department. Major matters raised with the Department and the related responses are detailed below.

In addition, matters relating to Shared Services SA (SSSA) as a service provider to the Department are also described below.

Governance

No comprehensive legal compliance framework

The Department has undertaken a process to review and update its approach to managing legal compliance for the past two years, in response to issues regarding its completeness and lack of timely updates. In 2015 we identified that the process to create a comprehensive legal compliance framework was continuing, but was not yet completed, and would involve implementing a software database to capture legislative compliance requirements. We also noted that progress is being reported to the Department's Audit and Risk Management Committee on a regular basis.

A formal legal compliance framework, which contains an up-to-date register of relevant legislative requirements, is a useful reference for staff monitoring legislative compliance and assists in minimising the risk of non-compliance with requirements.

The Department advised that it administers a significant volume of legislation and that work to prepare a framework appropriate to the scope and breadth of legislation administered has taken time. The Department expects this to be finalised by the end of 2015.

No Department-wide risk register

The Department has in place processes to capture risks at the business unit level, with risks being recorded on a number of business unit risk management plans. In 2014 we noted the absence of a strategic risk register for the Department as a whole. While the Department had commenced a process to capture this information it was not completed in 2014.

Our 2015 audit confirmed that the Department's internal auditors and the executive management group had undertaken further work to identify risks, document mitigation strategies and assess residual risk levels. This process, which included development of a process for the escalation of risks from individual business units to the strategic risk register, was originally due to be finalised and presented to the Audit and Risk Management Committee in July 2015.

At the time of finalisation of the audit, an enterprise risk report capturing strategic risks was in the process of being finalised.

The absence of a strategic risk register may result in risks not being identified and managed appropriately or consistently across the Department, which has the potential to impact on the Department's ability to meet its objectives.

The Department advised that once the enterprise risk report had been finalised it would be endorsed by the executive management group and the Audit and Risk Management Committee. The Department would then implement a process to continue to review, update and monitor agency-wide risks.

Fraud and corruption plan and fraud register

Our 2013-14 audit highlighted the need for the Department to review and update its fraud and corruption framework and associated plan, to reflect legislative changes and comply with the requirement in Treasurer's Instruction 2 'Financial Management' (TI 2) for an annual review to occur. Our 2015 review identified the Department had issued a Fraud and Corruption Control policy and associated procedure. However, the Department had not yet finalised a fraud and corruption control plan and no longer maintained a fraud register.

We also noted the Department would be amending its Fraud and Corruption Control policy once the whole-of-government policy from the Commissioner for Public Sector Employment was finalised.

In the absence of a fraud and corruption control plan there is an increased risk of the Department not effectively managing the prevention and risk of fraud. The absence of a fraud register gives rise to the possibility that previously detected fraud instances may not be fully considered in developing the Department's response to fraud risk.

The Department advised internal audit would review the fraud and corruption control plan and update the fraud and misconduct risk assessment in 2015-16, with this work also reviewing the need to maintain a fraud register.

Conflicts of interest register

Department staff are bound by the Code of Ethics for the South Australian Public Sector and the Department requires officers to declare potential conflicts of interest as an agenda item for regular meetings. The Department also reinforces the requirements to declare conflicts and disclose outside employment arrangements through internal communications. However, we identified that the Department did not have a central register of conflicts of interest that have been declared by staff.

Without a central register of declared conflicts of interest, there is a greater risk that actual or perceived conflicts of interest, which have the potential to impact on an employee's duties, may not be managed appropriately or consistently across the Department.

Following the completion of the audit, the Department advised it had finalised a Professional and Ethical Conduct policy which provides for central registers to be maintained by the Office of the Chief Executive and for a supporting monitoring process to be undertaken. It is expected that this will be operational by the end of 2015.

Payroll

Our 2015 audit of the Department's payroll controls identified that, consistent with issues identified in previous years, bona fide reports and leave return reports were not always reviewed in a timely manner, or dated to evidence timely review by the relevant manager. We also identified a number of instances where the documentation requested could not be located. The timely review of these reports provides assurance that:

- payments to employees are valid and authorised
- leave taken by employees is completely and accurately recorded.

The Department responded that bona fide reports and leave return reports are sent electronically to responsible officers with notes that outline the responsibilities of the reviewers. The Chief Executive will remind business units of their responsibilities with regard to bona fide reports and leave returns.

Expenditure

Purchasing and receiving goods and services

In response to previous audits that identified instances where goods were purchased and then recorded as having been received by the same officer, the Department revised its Payment of Creditors Accounts policy. This policy has required, since July 2014, goods to be receipted by an officer independent of the person who ordered or approved the purchase order.

Our 2015 audit identified a number of instances, from those sampled, where goods were receipted by the officer responsible for approving the purchase order.

Having the same officer receipt goods and perform other functions in the purchasing process increases the risk of inappropriate transactions occurring.

The Department advised that all staff would be reminded of the need to segregate the receipting and ordering functions for the purchase of goods.

Purchase cards

The 2015 audit included a review of purchase cards. This review noted two instances where purchase cards assigned to former employees were not cancelled in a timely manner. We understand these cards were not used following the employees dates of separation from the Department. We noted that the Department's policies did not specify a time frame for cards to be cancelled when employees separate from the Department.

The failure to cancel cards assigned to former staff on a timely basis may lead to inappropriate or invalid transactions being incurred.

The Department advised the Purchase Card policy would be updated to address the return and cancellation of purchase cards, including appropriate time frames, and the transfer and separation guidelines would be updated to include reference to the return of assets, including purchase cards, on the exit checklist.

Online banking access

The Department has a quarterly review process in place for online access to the Department's bank accounts. Our review noted, however, the CommBiz user access report sent out to business units did not include details regarding the access level for each user.

We identified 27 users who had administrator level access within CommBiz, which allows these users to change other user access levels. This level of access appeared excessive and inconsistent with the requirement in TI 2 to restrict access to assets, including cash. Discussions with Department officers identified the cause of this issue was an incorrect setting being used when establishing users within CommBiz.

The Department confirmed, through reviewing all maintenance requests processed, that only appropriate changes to user access levels had been made, and they had only been made by the system administrator.

Following the audit, the Department advised that user access had been amended so only those users with a need for administrator level access continued to hold it. The quarterly review would also be amended in 2015-16 to report user access levels, allowing reviewers to identify instances of excessive access levels.

SafeWork SA

SafeWork SA became part of the Department from 1 July 2014. Accordingly, the 2015 audit encompassed the operations of SafeWork SA.

Access to InfoNet and Bizgate

SafeWork SA uses InfoNet to record details of licence holders and to generate invoices for licences. SafeWork SA policy requires a six monthly review of InfoNet user access to be performed. There is also a requirement that the 'Audit Checklist for Managing InfoNet users', which is used in the review, is retained. Documentation supporting the November 2014 user access review was not, however, able to be provided – meaning there was no documentation to evidence the review had occurred.

In addition, our review of SafeWork SA staff access to Bizgate identified two former employees retained access to Bizgate. Bizgate is an SA Government internet payment facility used by SafeWork SA to receipt licence fees.

Inappropriate user access to InfoNet or Bizgate may lead to the processing of inappropriate and unauthorised transactions, potentially resulting in financial loss and/or errors in system data.

The Department advised that Bizgate access for former staff had been removed, a quarterly review of Bizgate access would be performed and documentation would be retained for all future InfoNet user access reviews. The Department also advised that the procedures governing the InfoNet user access review would be updated prior to the February 2016 review and that exit checklists would be updated to ensure staff access to Bizgate was removed on separation.

Overdue licence fee recovery and delays in processing adjustments to licence fees

SafeWork SA procedures require actions taken to recover overdue amounts to be noted on an Overdue Process checklist which must be attached at the front of each overdue licence invoice. Our review of action taken for overdue invoices identified:

- many instances where the checklist was not filled out or attached, meaning there was no record of follow-up action taken
- a number of instances where follow-up had occurred but required adjustments were not recorded on the appropriate register, meaning no adjustment was recorded in InfoNet, with amounts continuing to be recorded as overdue.

Where the established processes are not followed for overdue licences there is a risk delays in the initiation of follow-up action will make follow-up more difficult. Additionally, where adjustments are not processed in a timely manner, follow-up may not be focussed appropriately on those items that still require action.

The Department advised that it would remind staff of the need to follow current procedures, noting processes would likely change over the next six months. SafeWork SA has also recently implemented a new online system for high risk work licence holders to renew their licence that will assist in reducing the volume of adjustments required. The Department also noted that there is a process in place to automatically cancel, and adjust InfoNet, for licences that are more than 61 days overdue.

Health and Safety Workplace Partnership Program progress reports

The Health and Safety Workplace Partnership Program has been in place for a number of years and was extended for a further year – commencing October 2014. The grant agreements for the program require the eight recipients, which are all unions, to provide SafeWork SA with a progress report at the end of five months.

Of the eight grant recipients, our audit identified that four recipients did not submit progress reports to SafeWork SA by the due date and, for the remaining four recipients, that the progress reports had not been submitted to SafeWork SA at the time of the audit in July 2015.

Timely reporting allows for appropriate monitoring to ensure grant funds are achieving their purpose. The absence of timely reporting does not allow for a timely assessment to occur.

We also noted the Work Health Safety policy and procedure did not provide guidance for the follow-up of overdue acquittals and reports, include the process for assessing acquittals or include processes for follow-up where documentation was not received.

The Department responded it would update the policy and procedures by 30 September 2015 and undertake appropriate follow-up action in future to ensure progress reports/acquittals are received on time.

Consumer and Business Services (CBS)

Our audit of CBS identified:

- the monthly reconciliation between the gaming taxation revenue system and the Department's general ledger was not undertaken in a timely manner and reconciling items were not addressed appropriately
- the need to revisit the existing LOGIC journal reconciliation process to ensure it includes the balances in the Department's general ledger and to implement an independent review process of the reconciliation on a monthly basis.

Reconciliations are an important detective control to identify data processing errors or invalid transactions. Delays in performing key reconciliations increase the likelihood that errors will not be detected and corrected in a timely manner.

In response to these matters the Department acknowledged the issues and advised:

- all longstanding reconciliation issues between the gaming taxation revenue system and the general ledger had been addressed and responsible officers would be reminded of the requirement to complete the monthly reconciliations in a timely manner and perform independent reviews

- CBS would amend the LOGIC Journal Summary reconciliation process to include the relevant balances in the Department's general ledger and ensure evidence of independent review is implemented.

An internal audit review of the Occupational Licensing processes was performed during 2014-15. Opportunities to improve the Occupational Licensing processes carried out within CBS were identified through that review, however at the time of publishing this Report the internal audit report had not yet been finalised.

Residential Tenancies Fund (RTF)

EFT file access

The Bond Management System (BMS) is used to manage RTF transactions and a daily EFT file is created from transactions that occur, to be loaded into the online banking application (CommBiz). The audit identified access to the payment file was not appropriately restricted on a network drive, potentially allowing payee details to be manually altered.

Following the audit, the Department advised that CBS had restricted access to the network drive to Senior Bond Officers only and would investigate measures to further restrict access through password protection or making the file read-only.

Unclaimed monies

We identified a balance of $6.198 million, as at 1 June 2015, in unclaimed monies relating to security bond lodgements. Our review noted some amounts dated back to 1998. There is no established process within the RTF to investigate these amounts and items remain in BMS until a valid claim is lodged and monies are refunded.

Unclaimed amounts that have been outstanding for an extended period and for which an appropriate payee has not been located, should not continue to be recorded as security bond liabilities as they do not relate to current bond arrangements.

The Department indicated discussions with SSSA regarding the accounting treatment for long outstanding unclaimed monies had commenced and appropriate processes would be implemented to follow up unclaimed monies.

Bond lodgement and refund audits

Our 2014 report identified issues with monthly bond lodgement and refund audits that are performed by the RTF. The 2015 audit identified audits of security bond lodgements and refunds were not:

- completed for the period March to May 2015
- dated or not performed in a timely manner for the period August 2014 to February 2015.

We understand increased use of the Residential Bonds Online system will reduce the need for these monthly audits as data is entered directly into the system by landlords/agents and tenants. However, the reviews remain an important detective control to ensure manual bond lodgements and refund details are entered correctly into BMS and to identify processing errors in a timely manner.

The Department responded that the increased use of Residential Bonds Online would remove the need for bond lodgement and refund audits. However, in the interim, CBS will remind officers to complete the audits within 30 days of the month end.

Bond lodgements and refunds

Our review of bond lodgements and refunds noted instances where:

- the bond lodgement forms were not processed in BMS in a timely manner. Our sample testing of manual bond lodgement forms noted that 83% of forms were not processed into BMS within the benchmark time frame of 15 working days, with delays due to limited staff availability
- the compliance section of CBS had not followed up a security bond lodgement form that had not been lodged within the time frame prescribed by the *Residential Tenancies Act 1995*
- the security bond refunds in a number of cases were approved within BMS by officers who did not have the appropriate delegation.

Delays in processing may result in bond lodgements not being recognised in BMS in the correct period, impacting security bond liability balances in the financial report. Additionally, in the absence of appropriate follow-up action, landlords/agents may not place as much focus on compliance with their requirement to lodge bonds within the legislative time frame.

The failure to enforce the established delegations for bond refunds through providing inappropriate systems access, or through daily business practice, increases the risk that refunds provided may be inappropriate or inaccurate.

The Department advised that CBS had experienced a considerable backlog in bond processing in 2014-15, but that the benchmark of 15 working days was met in the latter part of the year and was being maintained. Further, the Department would remind staff of the need to follow up late lodgements and would, through quarterly user access reviews, ensure only officers who require access to approve refunds in BMS have that access.

Bond Management System user access review

Our audit included a review of quarterly user access reviews for BMS. The August 2014, February 2015 and May 2015 reports did not contain evidence of review and the November 2014 quarterly review could not be located. We also noted the user access report utilised did not include the access level of officers, meaning an assessment of the level of access granted could not be made. Our review found instances where officers had inappropriate access to approve bond refunds, as noted above. This type of inappropriate access to BMS could result in unauthorised changes being made to system data.

The Department advised that CBS had initiated, from late 2014-15, a quarterly access review for all their systems taking into account access levels for officers, including start and end dates.

Crown Solicitor's Office (CSO)

Victims of Crime (VOC) payments/claims internal reviews

The CSO's Business Services section conducts internal reviews of VOC matters to review compliance with the 'Procedure for assessment and payment of claims under the *Criminal Injuries Compensation Act 1978* and *Victims of Crime Act 2001*' (the Procedure), implemented in April 2014.

The internal reviews involve randomly selecting 10 VOC claim files and reviewing compliance with key processes outlined in the Procedure. This particularly focuses on segregation of duties between assessment and payment of claims. On completion, a memorandum is prepared and findings and recommendations to address issues found are reported to the Crown Solicitor.

Internal reviews had been performed in October 2014, November 2014 and January 2015.

The key findings from the October 2014 and January 2015 internal reviews were:

- instances where the signatures of delegates could not be identified
- instances where the first or second delegate checklist were not signed. These checklists evidence the delegate's review of the file and other matters prior to approving assessments and payment for compensation
- instances where the fields on the second delegate checklist were not completed
- an instance where fields on the first delegate checklist were not completed and not signed.

No instances of failure to comply with the Procedure were noted in the November 2014 internal review.

Where checklists are not signed, there is inadequate evidence of appropriate segregation of duties. An absence of appropriate segregation of duties could lead to inappropriate assessment and approval of payments from the fund.

The Department advised that the CSO would implement recommendations arising from the reviews, and remind delegates to clearly sign and write their names, or use name stamps, and that quarterly reviews would continue to be performed.

Lawmaster

Lawmaster is a system used by the CSO to support the administration of the CSO's legal practice. It incorporates functions to monitor progress with individual matters, billing clients, other financial transactions relevant to matters and follow-up of fees due. Our 2014-15 audit identified two instances where 'Request for Write-Off' forms were not completed, meaning there was no evidence of appropriate authorisation for the write-offs. Write-offs are to be authorised by the Crown Solicitor, Deputy Crown Solicitor, Manager Outposted Solicitors or Assistant Crown Solicitor responsible for the matter.

The inappropriate approval of adjustments and write-offs may lead to a loss of revenue.

In response, the Department advised that the CSO would remind staff that write-offs must be processed and authorised in accordance with CSO and AGD policy requirements. The review of write-offs across the CSO identified that the exception to the process was limited to one section and CSO's Business Services section were working with that area to improve compliance with the relevant policy.

Crown Solicitor's Trust Account (CSTA) holding reports

Monthly reviews of the CSTA holdings are performed to ensure matters listed in the holding reports are valid and appropriate funds are lodged in the CSTA, the matters are relevant to the business and are accurate and the balance accurately reflects file records. We identified that the December 2014 holding reports were not reviewed in a timely manner. Additionally, the August 2014 holding reports were not produced in a timely manner and did not reflect the balance of the CSTA in Lawmaster at the end of the period. The lack of timely review of holding balances could result in inappropriate funds being held in the CSTA but not identified, therefore overstating/understating funds held in the CSTA and also cash and liability balances.

The Department advised holding reports would be run on the last day of the business month and follow-up processes would be undertaken where responses had not been provided within one week.

Fines Enforcement and Recovery Unit (FERU)

Policies and procedures

Following establishment of the FERU in February 2014, the Department's internal auditors performed a review of the operations of the FERU and identified that a number of policy and procedure documents relating to the FERU's operations had not been finalised and approved. The FERU indicated that a list of required policies and procedures would be established, with responsibility and actions assigned.

Our review in 2014-15 identified that, while the FERU was actively managing the creation and approval of policies and procedures, and progress had been made, there remained a number of policies and procedures that were still in progress or in use but not yet approved, with further resources being assigned to address this issue.

In the absence of documented and approved policies and procedures, controls and processes may not be performed consistently or as intended by management.

The Department responded that the FERU would continue to work on appropriate policies and procedures in 2015-16.

Daily close-off processes

FERU finance staff perform a daily close-off process for the fines system to ensure amounts received match the amounts recorded in the fines systems and the amounts to be banked. This process also ensures amounts are promptly recognised and allocated against the correct outstanding amount and receipts are banked promptly.

Our review of daily close-off processes noted instances where the:

- independent review was not performed in a timely manner
- independent reviewer did not include the date of their review, meaning timeliness could not be assessed.

The timely independent review of daily close-off processes ensures amounts processed through the fines systems are appropriate and minimises opportunities for the misappropriation of funds.

The Department responded that the FERU would work to address the completion of independent reviews of daily close-offs in a timely manner and ensure independent reviewers record the date of review.

Shared Services SA – financial systems and transaction processing environments

SSSA processes financial transactions on behalf of the Department under service level determinations. The main systems and control environments include accounts payable, payroll and general ledger financial functions.

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

As discussed in the commentary under 'Department of the Premier and Cabinet' elsewhere in Part B of this Report, our review and evaluation of controls for the SSSA main payroll systems concluded that controls did not meet a generally satisfactory standard for 2014-15. A number of specific matters were raised with SSSA for corrective action and review for process and procedural improvement. Our review and evaluation of controls for the SSSA main accounts payable systems and environment concluded that controls met a generally satisfactory standard for 2014-15.

The matters do not relate to the Department's transaction processing.

Information and communications technology and control

Fines management (FATE) system

We performed a review of certain aspects of the general IT control environment of the FATE system with a focus on the FERU last year.

The Department responded positively to our findings and recommendations and expected that all remediation activities would be actioned by the end of February 2015.

In 2014-15 we sought an update on progress against these findings, which identified matters that remain outstanding, including:

- a lack of segregation of duties applied to developer accounts
- delay in the timely documentation and endorsement of the FATE system user access management and change management procedures.

The Department responded positively to our recommendations and advised all matters would be addressed accordingly.

Fines management system replacement status update

During our 2014-15 review of FATE, we also sought to understand the current status of developments regarding the proposed replacement of the FATE system.

In November 2014 Cabinet approved a submission in relation to a business improvement program for the FERU. This program aims to increase FERU efficiency and capacity for debt collection, enabling it to more effectively address the level of outstanding fines in South Australia.

As part of the FERU business improvement program, Cabinet approved approximately $4 million for the replacement of the existing fines management system.

The system replacement project is being managed by the AGD Strategic Projects section. The Department advised that planning commenced in June 2015, with a project initiation document (including benefits realisation) and an acquisition plan approved in July 2015.

The FERU expects a commercial off-the-shelf system to be procured and implemented by the end of the 2016-17 financial year.

Forensic Science SA (FSSA) – Forensic Laboratory Information Management System (LIMS) project

As reported in last year's Report, FSSA is implementing a new system (LIMS) to replace FSSA's three main existing legacy systems.

In January 2013, the Minister and Labware Australia Pty Ltd entered into a contractual arrangement for the software licensing, configuration, maintenance and support of this new system over a 20 year term, amounting to $4.712 million (GST exclusive).

The implementation of LIMS is through a phased approach:

- Phase 1 – focus on the case management capabilities across all FSSA sectors and replacement of the current Biology DNA system
- Phase 2 – extend the common FSSA LIMS system to the remaining FSSA laboratory processes.

In 2014-15, a number of project developments occurred, including:

- finalisation of the Phase 1 functional specifications
- continued configuration of FSSA's LIMS
- development of user acceptance testing scripts and progression of user acceptance testing.

Whilst the project is progressing, it has been the subject of a number of delays, resulting in the implementation of LIMS being deferred from October 2015 to February 2016.

FSSA LIMS project implementation delays and associated cost pressures were due to increased functional specification developments and the upgrading of technical specifications which required additional configuration work and the revisiting of certain system testing.

We also note that a number of matters raised as part of our 2013-14 review remain outstanding and have not yet been remediated. These include updating the IT strategic plan, business continuity plan and disaster recovery plan, and the updating of IT security documentation.

Also the timely development of a proposed memorandum of understanding with the South Australia Police, to allow the effective exchange of forensic data based upon and aligned with the new LIMS system, is still being assessed.

FSSA has responded positively and will continue to regularly monitor the project's progress. A formal report on the project's status and developments will be submitted to AGD senior executive every six weeks.

FSSA anticipated the completion of previously raised matters would be finalised by mid-2016.

LOGIC system

The LOGIC system (LGS) has been primarily used by CBS to process liquor and gaming tax. CBS is in the process of implementing additional functionality into LGS as part of its National, State Based Licencing and Liquor Legislation Program.

In 2014-15 we commenced a review of certain aspects of the general IT control environment of LGS and outcomes from Stage 2 of the program, completed in October 2014. Stage 2 included the implementation of an Occupational Licencing System, Investigation File Register and Consumer Complaints System.

Despite some positive controls, the review identified shortcomings requiring remediation. These included:

- lack of formal system change management procedures
- weaknesses in user access management
- weaknesses in information security management
- weaknesses in disaster recovery and backup procedures

- weaknesses in password settings used to access LGS.

The Department responded positively to our recommendations and advised all remediation would be completed by 30 September 2015.

Interpretation and analysis of the financial report

Highlights of the financial report – controlled items

	2015 $'million	2014 $'million
Expenses		
Employee benefits expenses	146	133
Supplies and services	68	53
Other expenses	22	14
Total expenses	236	200
Income		
Revenues from fees and charges	91	76
Recoveries	16	16
Other	23	10
Total income	130	102
Net cost of providing services	106	98
Revenues from SA Government	106	99
Net result	-	1
Other comprehensive income	5	-
Total comprehensive result	5	1
Net cash provided by (used in) operating activities	12	-
Assets		
Current assets	43	36
Non-current assets	33	15
Total assets	76	51
Liabilities		
Current liabilities	29	24
Non-current liabilities	36	27
Total liabilities	65	51
Total equity	11	-

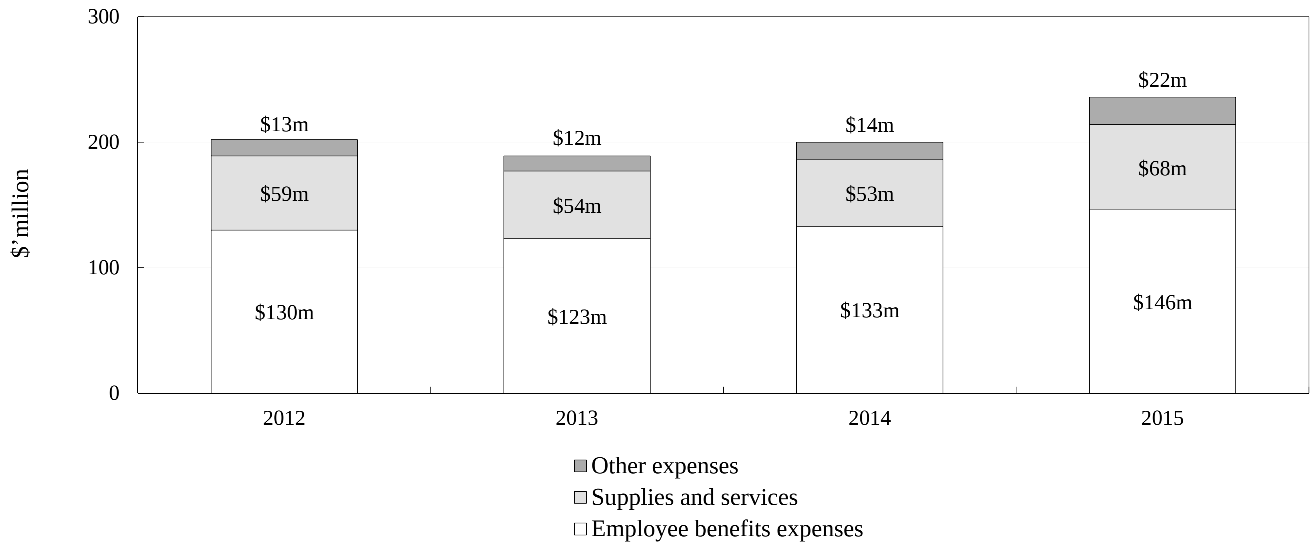
Statement of Comprehensive Income

Many of the movements in income and expenditure in 2014-15, when compared to 2013-14, are the result of the inclusion of SafeWork SA as part of the Department's operations for the first time in 2014-15, as explained further below.

Expenses

During 2014-15 total expenses increased by $36 million to $236 million. This included increases in employee benefits expenses of $13 million, supplies and services of $14.8 million and grants and subsidies expenses of $3.4 million.

The following chart analyses the main expense items for the Department for the four years to 2015.



Employee benefits expenses represent 62% (66%) of total expenditure (refer note 5 of the financial report for details).

The increase in employee benefits expenses reflects additional staff associated with the transfer of SafeWork SA to the Department from 1 July 2014 and the full year impact of salaries and wages for the FERU.

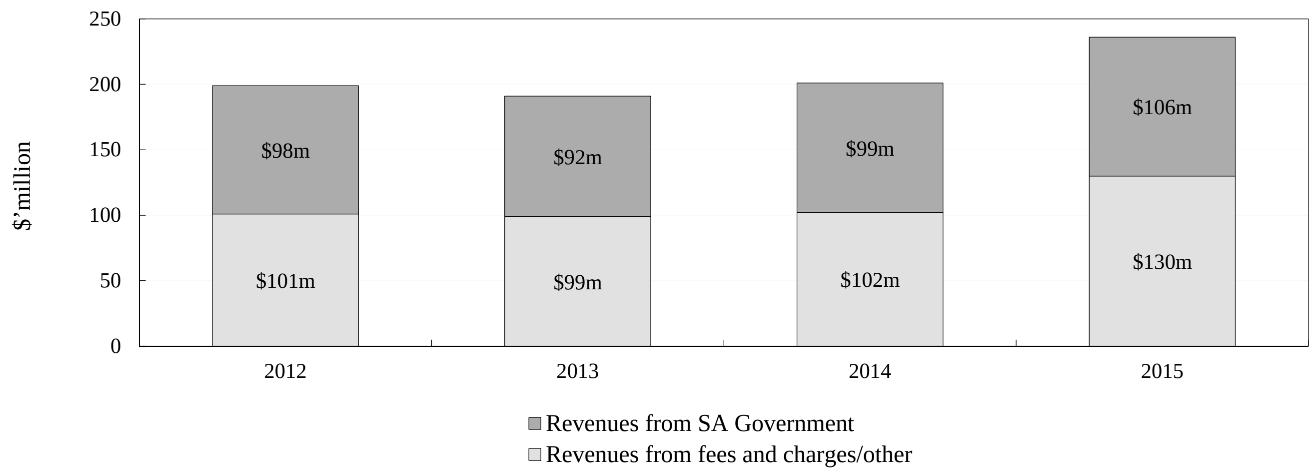
The increase in expenditure for supplies and services principally reflects the inclusion of costs associated with SafeWork SA, the full year costs for the FERU and costs associated with the establishment of the South Australian Civil and Administrative Tribunal during 2014-15.

Accommodation expenses of $20.6 million, information and communications technology expenses of $16.9 million and grants and subsidies expenses of $14 million represent 22% of total expenses (refer notes 6 and 7 of the financial report for details).

Grants and subsidies expenses increased by $3.4 million in 2014-15. This increase reflects the inclusion of SafeWork SA grants totalling $3.8 million for the first time.

Income

The following chart analyses the main sources of income, excluding donated resources, for the Department for the four years to 2015.



The Department collected $91 million in fees and charges which represents 70% of total income. The amount collected from fees and charges during 2014-15, outlined in note 11 of the financial report, increased by $15.4 million. This increase reflects the inclusion of $11.4 million for SafeWork SA licence and regulatory fees and an increase of $3.6 million in legal services fees, representing the full year impact of the new CSO billing model.

In 2014-15 revenues from the SA Government increased by $7 million to $106 million due to a $9.8 million increase in funding for SafeWork SA and an $8.9 million increase in funding for the FERU. These increases were offset by a decrease of $8.7 million for budget savings and a decrease of $3.2 million due to the full year impact of the new CSO billing model.

Statement of Financial Position

In 2014-15 total assets increased by $25 million to $76 million. This increase is predominantly the result of an increase in property, plant and equipment of $15 million and an increase in intangible assets of $3.7 million.

The increase in property, plant and equipment is principally the result of the transfer of $12.9 million in property plant and equipment for SafeWork SA from the Department of the Premier and Cabinet. Intangible assets increased principally due to capitalisation of additional expenditure for a number of IT systems: LIMS ($1.6 million), CBS systems ($1 million) and the establishment of the case management system for the South Australian Civil and Administrative Tribunal ($1.3 million).

Total liabilities have increased by $14 million to $65 million due mainly to an increase in payables of $3.8 million and an increase in employee benefits of $10 million. The increase in payables relates to a higher level of accrued expenses as at 30 June 2015. The increase in the liability for employee benefits of $10 million is principally due to the inclusion of $6 million in liabilities for SafeWork SA staff and a $1.2 million increase in the long service leave liability as a result of the reduction in interest rates on bonds used in the calculation of the liability compared to the prior year.

Statement of Cash Flows

Cash from operating activities increased by $12.5 million in 2015 as a result of increased fees and charges receipts associated with SafeWork SA and the full year impact of the CSO billing model introduced in February 2014. Grants and subsidies received also increased due to the inclusion of SafeWork SA.

These increases were offset by increases in cash outflows for employee benefits payments of $9.4 million, payments for supplies and services of $23.7 million and grants and subsidies of $4 million. These increases reflect payments associated with SafeWork SA.

The increase in cash used in investing activities of $3.8 million is mainly a result of increased purchases of property, plant and equipment and intangible assets.

Highlights of the financial statements – administered items

The administered items of the Department are identified in note A1 to the administered financial statements.

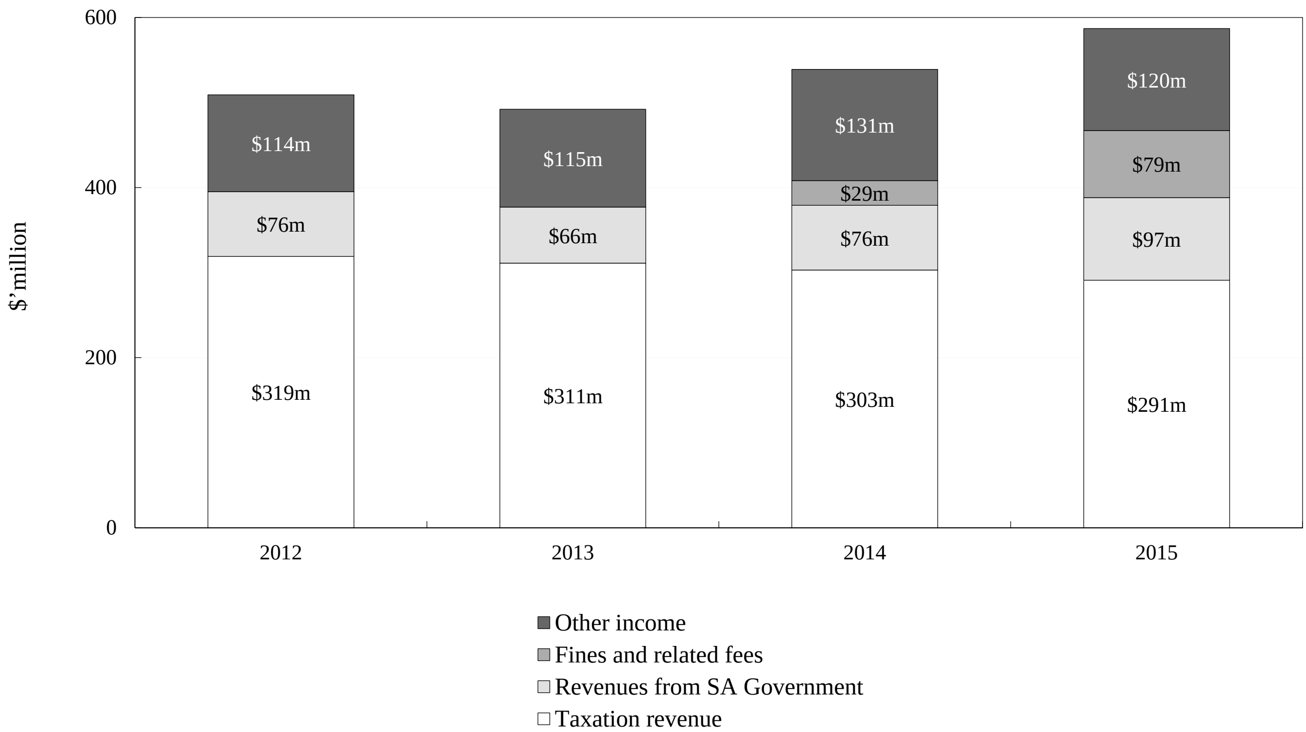
	2015 $'million	2014 $'million
Expenses		
Payments to Consolidated Account	358	350
Grants and subsidies	43	44
Other expenses	130	96
Total expenses	531	490

	2015 $'million	2014 $'million
Income		
Taxation revenue	291	303
Revenues from SA Government	97	76
Fines and related fees	79	29
Other income	120	131
Total income	587	539
Net revenue from providing services	56	49
Other comprehensive income	3	8
Total comprehensive result	59	57
Net cash provided by (used in) operating activities	56	81
Assets		
Current assets	553	507
Non-current assets	200	193
Total assets	753	700
Liabilities		
Current liabilities	127	135
Non-current liabilities	92	90
Total liabilities	219	225
Total equity	534	475

Statement of Administered Comprehensive Income

Income

The following chart analyses the main sources of income administered by the Department for the four years to 2015.



Total administered income increased by $48 million to $587 million ($539 million) principally due to increased revenue received for fines and related fees of $50 million, an increase in VOC levies of $5 million and an increase in revenues from the SA Government of $21 million. The increase in revenues from the SA Government reflects additional funding for Native Title matters, funding for Royal Commissions for Child Protection Systems and the Nuclear Fuel Cycle, funding for the SA Government Radio Network and increased funding for the Independent Commissioner Against Corruption.

Income administered by the Department includes taxation receipts collected on behalf of government. Taxation receipts mainly comprise gaming tax collected pursuant to the *Gaming Machines Act 1992* (GM Act).

The Department collected $291 million in administered taxation revenue which represents 50% of total administered income for 2014-15. The Department also collected $79 million from fines and related fees and $43 million in VOC levies, accounting for a further 21% of administered income.

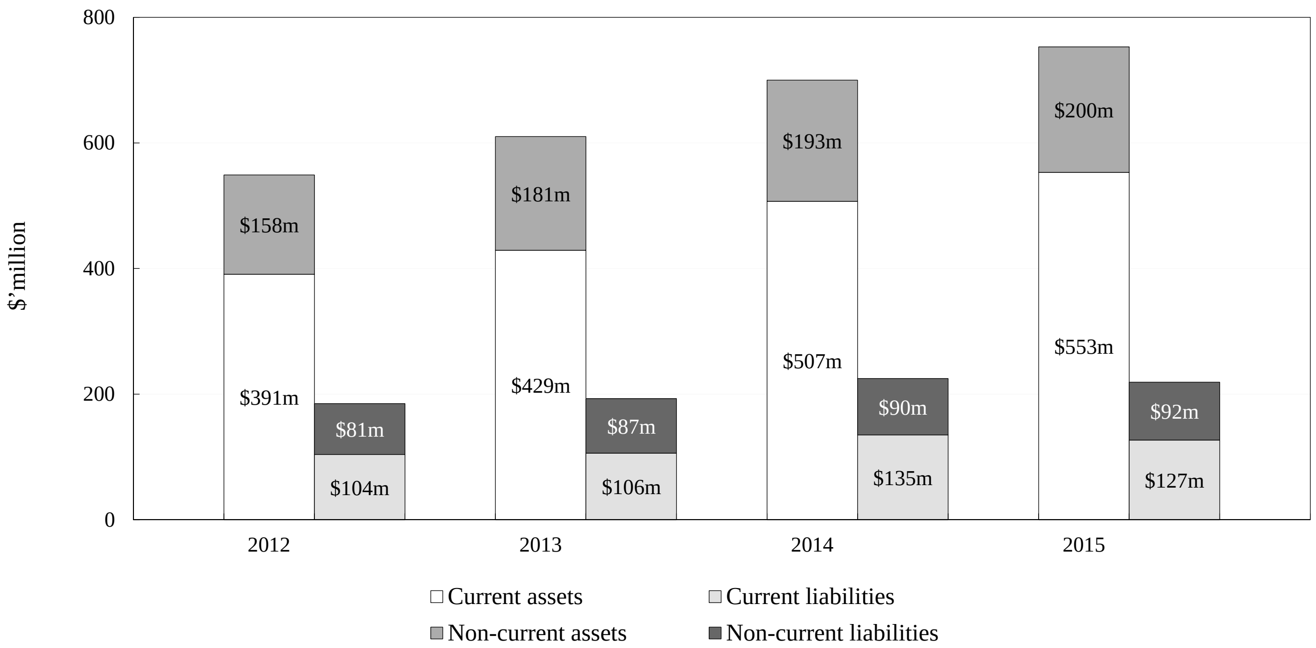
Expenses

Total administered expenses increased by $41 million to $531 million. Payments to the Consolidated Account of $358 million (mainly for gaming taxation) and grants and subsidies of $43 million, principally paid to the Legal Services Commission, are the Department's largest administered expenses and represent 76% of total expenditure.

The increase in total expenses is mainly due to an $8.7 million increase in payments to the Consolidated Account as a result of increased collections from outstanding fines and related fees, offset by reduced taxation revenue and an increase of $25.4 million in other expenses, which mainly relates to increases in suitor payments of $8.1 million and claim payments of $13 million mainly relating to payments for Native Title matters of $7.8 million and compensation payments of $5.2 million from the Agents Indemnity Fund.

Statement of Administered Financial Position

The following chart analyses the administered assets and liabilities of the Department for the four years to 2015.



In 2014-15 total assets increased by $53.8 million to $753 million. This is mainly a result of increases in cash and cash equivalents of $38.7 million and an increase in investments of $18.8 million. These increases were offset by a decrease in property, plant and equipment of $3.5 million.

The cash position at 30 June 2015 is principally attributable to the increase in receipts of $53.6 million for fines and related fees resulting from the FERU being in place for the full year, an increase in receipts from the SA Government of $21.2 million, increased VOC levies of $3.6 million and an increase in bond lodgements of $4.1 million. These increases were offset by a decrease in other receipts of $22.8 million and an increase in the payment for investments of $7.8 million.

The Department also administers investments totalling $253.8 million in common funds operated by the Public Trustee which are exposed to movements in the value of the underlying common fund assets. Investments increased by $18.8 million during 2014-15.

Total liabilities have decreased by $5.7 million to $219 million due mainly to a decrease of $14.9 million in relation to gaming, fines and other receipts payable to the Consolidated Account as at 30 June 2015. This decrease was offset by an increase in security bonds lodged of $6.4 million (refer note A22 to the administered financial statements for details).

Statement of Administered Cash Flows

The net cash provided by operating activities decreased by $25 million to $56 million, reflecting a higher increase in cash payments compared to cash generated from operations.

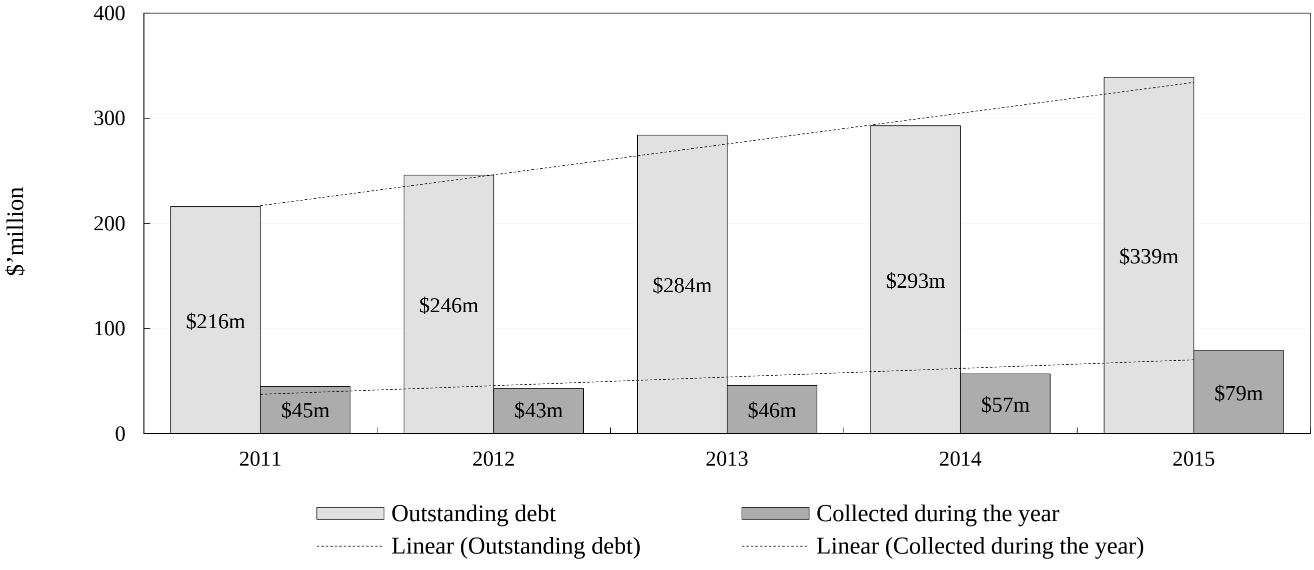
Increases in cash generated from operations were principally a result of increased fines and related fees of $53.6 million, VOC levies of $3.6 million and receipts from the SA Government of $21.2 million. These increases were offset by decreases in taxation receipts of $12 million, mainly reflecting the transfer of casino payments to RevenueSA, and other receipts of $22.8 million. The greatest increase in cash used in operations relates to payments to Consolidated Account of $43.7 million, representing increased fine and related fee receipts, and increases in other payments of $25.4 million.

Further commentary on operations

Fines Enforcement and Recovery Unit

The FERU is responsible for the collection of outstanding fines and related payments (suitor amounts and fees and charges associated with overdue amounts). The FERU performs this function for court fines, expiation fees (including overdue local government amounts referred) and other outstanding amounts, including VOC levies and third party suitor amounts.

The following chart shows the total outstanding debt from fines and related fees (excluding VOC compensation amounts) and total collections over the last five years.



2011-2013 figures represent collections by the Courts Administration Authority (previously responsible for this function), while 2014 collections were undertaken by the Courts Administration Authority until February, after which collections were performed by the FERU.

The chart highlights that, while outstanding debts have continued to increase, the level of collections since the establishment of the FERU has also increased significantly. The increased collections are the result of increased resourcing since the establishment of the FERU and better debt management practices being applied, including the use of additional enforcement powers. Powers available to the FERU allow dealings with the Registrar of Motor Vehicles to be suspended or the suspension of driver's licences (amongst other powers available).

Outstanding amounts are not recorded in the Statement of Administered Financial Position as there is significant uncertainty as to the amount that will be collected. Instead, revenue is recorded in the Statement of Administered Comprehensive Income when monies are received.

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.

The FERU is responsible for the collection of VOC recoveries, which are discussed further below.

An external debt collection agency was used by the FERU to assist in collecting outstanding amounts, particularly those that have been more difficult to recover. From the commencement of the contract until 26 June 2015 the external debt collection agency has collected $1.1 million in outstanding amounts, and entered into payment arrangements for further repayments.

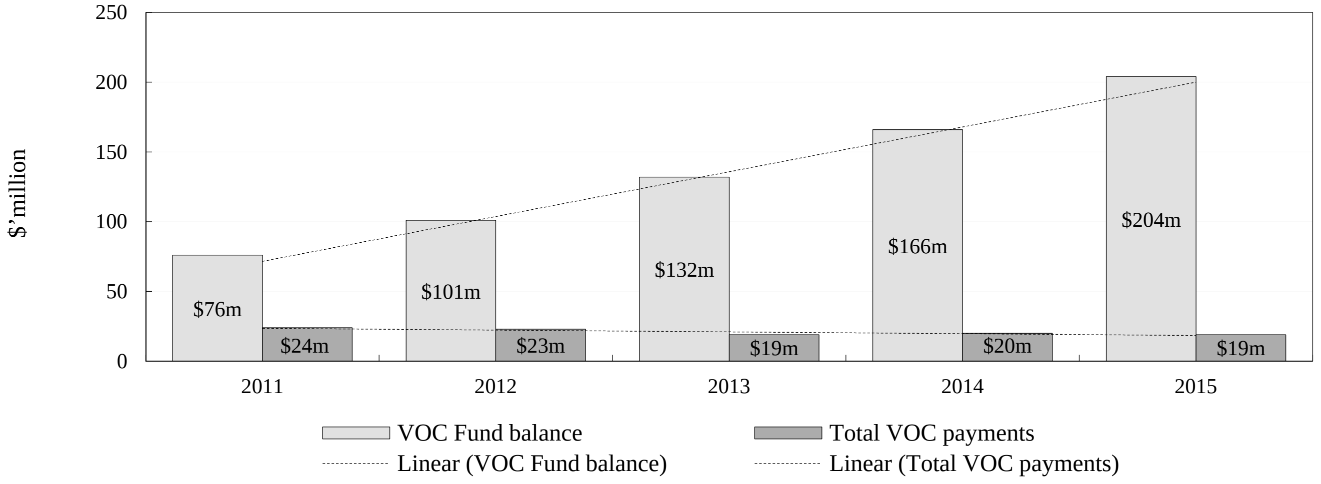
Of the $339 million in total outstanding debt and related payments, $305 million is under active management, with $143 million subject to payment arrangements and $104 million having been referred to the external debt collection agency. $33 million is not under active management.

As discussed earlier, the FERU is currently in the process of replacing the existing fines management system, with implementation expected to commence in 2015-16.

Victims of Crime Fund

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

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



The maximum compensation that may be awarded under the VOC Act is $50 000 in addition to costs and disbursements. A claim can succeed without a known offender.

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

Recoveries from offenders

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

- the amounts recovered directly from offenders during the year totalled $770 000 ($619 000)
- outstanding amounts at 30 June 2015 were $89.6 million ($79.5 million). $35.2 million of this amount is the subject of a judgement and is being actively managed. The remaining $54 million represents amounts paid in compensation for which no judgement has occurred.

A further $1.5 million ($2.1 million) was recovered from offenders pursuant to the *Criminal Asset Confiscation Act 2005.*

In order to supplement these funds a levy is imposed by the VOC Act on all persons convicted of offences and on expiation notices. Total VOC income for 2014-15 was $58 million ($51 million) and included VOC levies totalling $43 million ($38 million) and revenues from the SA Government of $8 million ($8 million). Total VOC expenses for 2014-15 were $19 million ($20 million) and included compensation payments of $13 million ($12 million), grants of $4 million ($3 million) and legal and other costs incurred in the administration of the VOC Fund of $3 million ($4 million).

The net result for the VOC Fund was a surplus of $39 million. Total cash and cash equivalents increased by $38 million to $204 million ($166 million).

Taxation

Taxation revenue for 2014-15 totalled $291 million ($303 million). Taxation revenue principally comprises gaming machine taxes totalling $287 million ($288 million). The reduction in taxation revenue in 2014-15 is a result of payments from the Adelaide Casino being made directly to RevenueSA for the first full year in 2014-15.

Gaming machine administration

Section 5 of the GM Act provides that the Liquor and Gambling Commissioner is responsible to the Independent Gambling Authority for the scrutiny of the operations of all licensees under the GM Act.

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

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

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

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

The following table summarises gaming machine activity for four years to 2015.

	2015 Number	2014 Number	2013 Number	2012 Number
Machines (installed as at 30 June)	12 377	12 561	12 613	12 688

	2015 $'million	2014 $'million	2013 $'million	2012 $'million
Turnover	8 055	7 966	7 911	7 996
Amount won	7 329	7 265	7 180	7 253
Net gambling revenue	726	731	731	743
Tax	287	288	286	291

Independent Gaming Corporation Limited (IGC)

Pursuant to section 25 of the GM Act, the Liquor and Gambling Commissioner granted the Gaming Machine Monitor licence to the IGC. The IGC is, under this licence, responsible for monitoring the operations of gaming machine licensees.

Section 75 of the GM Act specifically provides for the accounts and operations of the IGC to be audited by the Auditor-General.

With respect to the 2014-15 operations, the audit of the IGC is complete and an unmodified Independent Auditor's Report was issued for the 2014-15 financial report of the IGC.

Residential Tenancies Fund (RTF)

The *Residential Tenancies Act 1995* is administered by the Commissioner for Consumer Affairs and included as an administered activity of the Department. The RTF consists of amounts received by the Commissioner by way of security bonds and other amounts paid into the RTF under the *Residential Tenancies Act 1995* . The Commissioner will make repayments in respect of security bonds from the RTF under the *Residential Tenancies Act 1995*.

Income derived from investment of the RTF is applied towards the costs of administering and enforcing the RT Act, education of landlords and tenants about their statutory and contractual rights and obligations, and certain functions of the South Australian Civil and Administrative Tribunal (which undertakes the functions previously performed by the Residential Tenancies Tribunal).

Security bonds received by the Commissioner during 2014-15 increased by $4.1 million to $88 million ($84 million). Security bonds refunded for 2014-15 increased by $4.9 million to $82 million ($77 million).

Investments of fund monies totalling $195 million are held by the Public Trustee in common funds. These are exposed to movements in the value of the underlying common fund assets. Investments increased by $16 million during 2014-15.

Public Trustee

Functional responsibility	Public Trustee is a body corporate established pursuant to the provisions of the *Public Trustee Act 1995*. The powers and functions of the Public Trustee are established by the *Public Trustee Act 1995*. Public Trustee administers the estates of deceased and protected people who require asset management assistance, prepares wills, provides investment services and arranges legal representation and advice. For information about Public Trustee's objectives refer note 1 of the corporate financial report.
Financial statistics	Profit before income tax equivalents: $1.156 million Fees and charges revenue: $21 million Number of FTEs: 160.32 Number of estates under administration: 7626 Total value of trust funds under administration: $1379 million
Financial statement opinion	**Unmodified**
Financial controls opinion	**Modified** Key issues: — Control self-assessment process weaknesses — Supporting documentation for client transactions not always adequately maintained — Segregation of duties for the estates financial system can be enhanced — Estates expenditure not always reviewed for appropriate authorisation prior to payment — Controls for the Shared Services SA main payroll system did not meet a generally satisfactory standard

Scope of the audit

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

The 2014-15 audit covered the corporate, trust and common fund operations of Public Trustee.

Specific areas of audit attention included:

- corporate governance
- expenditure
- payroll
- revenue
- cash and investments
- client assets
- fund manager reporting
- general ledger.

Audit findings and comments

Assessment of controls

In my opinion, the controls exercised by Public Trustee in relation to the receipt, expenditure and investment of money, the acquisition and disposal of property and the incurring of liabilities, except for all matters outlined under 'Communication of audit matters', are sufficient to provide reasonable assurance that the financial transactions of Public Trustee have been conducted properly and in accordance with law.

Communication of audit matters

Matters arising during the course of the audit were detailed in a management letter to Public Trustee. The main matters raised with the Public Trustee and the responses received are detailed below.

In addition, matters relating to Shared Services SA (SSSA) as a service provider to Public Trustee, as part of arrangements for the Attorney-General's Department, are also described below.

Control self-assessment process weaknesses

Public Trustee uses a system of control self-assessments to document and assess the effectiveness of controls every six months. This process forms the basis of reporting to the Public Trustee and the Audit and Risk Management Committee regarding the effectiveness of the internal control environment. This process also fulfils the requirements of Treasurer's Instruction 28 'Financial Management Compliance Program', which requires a financial management compliance program to be undertaken each year.

Public Trustee uses an online system to document control self-assessments, with the process consisting of a self-assessment that is then validated by a reviewer through sample testing.

Our review of the control self-assessment process noted:

- results reported to management and the Audit and Risk Management Committee were based on inconsistent approaches to applying ratings/scores about the effectiveness of controls in some cases

- action plan logs, which list previously identified issues and associated action plans, were not up to date at the time of the audit, limiting management's ability to review the current status of actions to address identified weaknesses

- sampling processes used to complete the control self-assessments were not always in line with established procedures. This could lead to biased and/or incomplete populations being tested which may result in unrepresentative results.

These issues increase the risk that management may not be making decisions based on accurate, up-to-date or directly comparable information. As a result of the variation in approaches to sampling in support of the control self-assessment, there is also a risk of testing incomplete or non-representative populations, consequently reporting results that are not an accurate representation.

In response Public Trustee has agreed to review ratings applied, the controls tested and the sampling methodology. Public Trustee will also update the related policies and procedures and undertake quarterly reviews of the action plan logs.

Trust operations

Supporting documentation for client transactions not always adequately maintained

Client files are maintained for each estate under administration by Public Trustee, with each client file being allocated to an estate officer.

The 2014-15 audit identified some instances where the estate file did not:

- include documentation to support transactions
- include documentation of key agreements with the client
- contain evidence of checks performed to assess pension eligibility
- include data to support calculations performed
- have tax records opened within established timeframes.

Where client file information is incomplete there is an increased risk that client matters will not be dealt with in a manner consistent with the client's intentions or those of other stakeholders. Additionally, should disagreements around the management of an estate arise, the absence of clearly documented arrangements makes resolution of the dispute more difficult, particularly in the event of legal action being undertaken.

The Public Trustee acknowledged the findings and has agreed to put in place appropriate measures to mitigate the risks identified.

Segregation of duties for the estates financial system can be enhanced

In 2013-14 we noted access profiles within the estates financial system did not support an appropriate level of segregation between employee roles, with some users undertaking key reconciliations also having access to the accounts payable, accounts receivable and general ledger modules within the financial system.

Public Trustee made some amendments to these arrangements in 2014-15. However, there remained officers who have access to the accounts payable, accounts receivable and general ledger profiles. Additionally, documentation of the exact access levels associated with each profile could not be provided.

In order to ensure appropriate segregation of duties exists within the estates financial system, user profiles need to be understood and allocated on the basis of business needs. Where profiles are not fully understood, or are allocated inappropriately, there is potential for employees to have access levels that are incompatible with appropriate segregation of roles and responsibilities.

Public Trustee has agreed to review the profiles and roles allocated to users to ensure appropriate access permissions are maintained.

Estates expenditure not always reviewed for appropriate authorisation prior to payment

We have previously identified that payments for invoices with a value of less than $25 000 were not being reviewed to ensure appropriate authorisation was provided prior to processing. While evidence of approval was reviewed, no assessment was made regarding whether the approving officer had the appropriate delegation for that payment type or amount.

Public Trustee implemented a register of signatures to assist estates finance staff to identify the approving officer for transactions during 2014-15. The audit, however, confirmed that while this register was a useful tool for identifying the employee authorising the payment, authorisations were still not being assessed to ensure the person signing had the appropriate delegation for the payment being requested, where the payment was for less than $25 000.

Given the significant volume of transactions undertaken by Public Trustee for estates and the large number of payments that are for amounts of less than $25 000, there is a significant risk that inappropriate, unauthorised or invalid transactions could be processed against estate funds.

In response Public Trustee advised that transactions are sampled on a regular basis by the senior estates finance staff to ensure delegations provided were correct. Additionally, Public Trustee undertook to review the current structure of the delegations to make them clearer for both estate officers and finance staff.

While the sampling process that has been introduced will assist in detecting instances where payments occur without being appropriately reviewed, further enhancement of the controls prior to payment, such as the review for appropriate delegation, are likely to be more effective in preventing inappropriate payments occurring.

Shared Services SA – payroll transaction processing environment

SSSA processes payroll transactions for Public Trustee as part of the overall arrangements for the Attorney-General's Department under a service level determination.

Last year's Report made specific comment on the progress being taken by SSSA to remediate key control weaknesses raised in prior years for systems and control environments, in order to achieve a satisfactory ongoing standard of control operation over payroll transaction processing.

As discussed in the commentary under 'Department of the Premier and Cabinet' elsewhere in Part B of this Report, our review and evaluation of controls for the SSSA main payroll systems concluded that controls did not meet a generally satisfactory standard for 2014-15.

The matters do not relate to Public Trustee's transaction processing.

Interpretation and analysis of the financial report

Highlights of the corporate financial report

	2015 $'million	2014 $'million
Income		
Fees and charges	21	21
Other revenues	2	3
Total income	23	24
Expenses		
Employee benefits	15	14
Supplies and services	6	6
Other expenses	1	1
Total expenses	22	21
Profit (Loss) before income tax equivalents	1	3
Income tax equivalents*	-	1
Profit (Loss) after income tax equivalents and total comprehensive result	1	2
Net cash provided by (used in) operating activities	1	1
Assets		
Current assets	8	12
Non-current assets	25	22
Total assets	33	34
Liabilities		
Current liabilities	3	3
Non-current liabilities	6	6
Total liabilities	9	9
Total equity	24	25

* Income tax equivalents expense of $347 000 in 2014-15.

Statement of Comprehensive Income

Income

Public Trustee's main source of income is fees and charges. Fees and charges principally comprise commissions from the management of trusts and management fees for the investment of common funds. Fees and charges income remained relatively stable in 2014-15.

Common fund management fees are set at a 1% p.a. (charged monthly) in accordance with the *Public Trustee Act 1995* based on the level of funds invested. These fees have increased during the year as the overall value of the common funds has increased.

The increase in management fees has been offset by lower collections of commissions and other fees and charges, which relate to asset sales or transfers (realisations) as part of the administration of an estate. Commissions and other fees are directly affected by the types and number of estates being administered and the nature of the assets held.

Deceased estates, which have a greater proportion of assets that need to be sold or realised to make payments to beneficiaries, typically return a higher value of commissions and other fees to Public Trustee. The number of deceased estates declined in 2015.

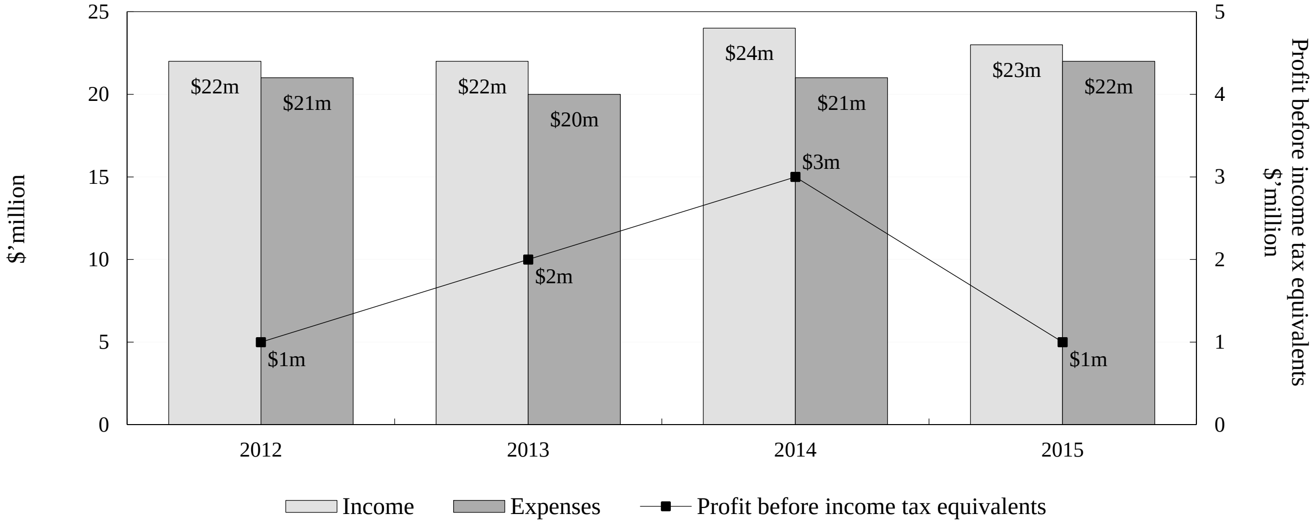
Other revenues decreased by $1 million in 2014-15 mainly as a result of more moderate investment market performance.

Expenses

Employee benefits account for 69% of total expenses and increased by $401 000 to $14.8 million in 2014-15. The main reason for this increase was a 2.5% enterprise agreement wages increase for Public Trustee staff.

Net result

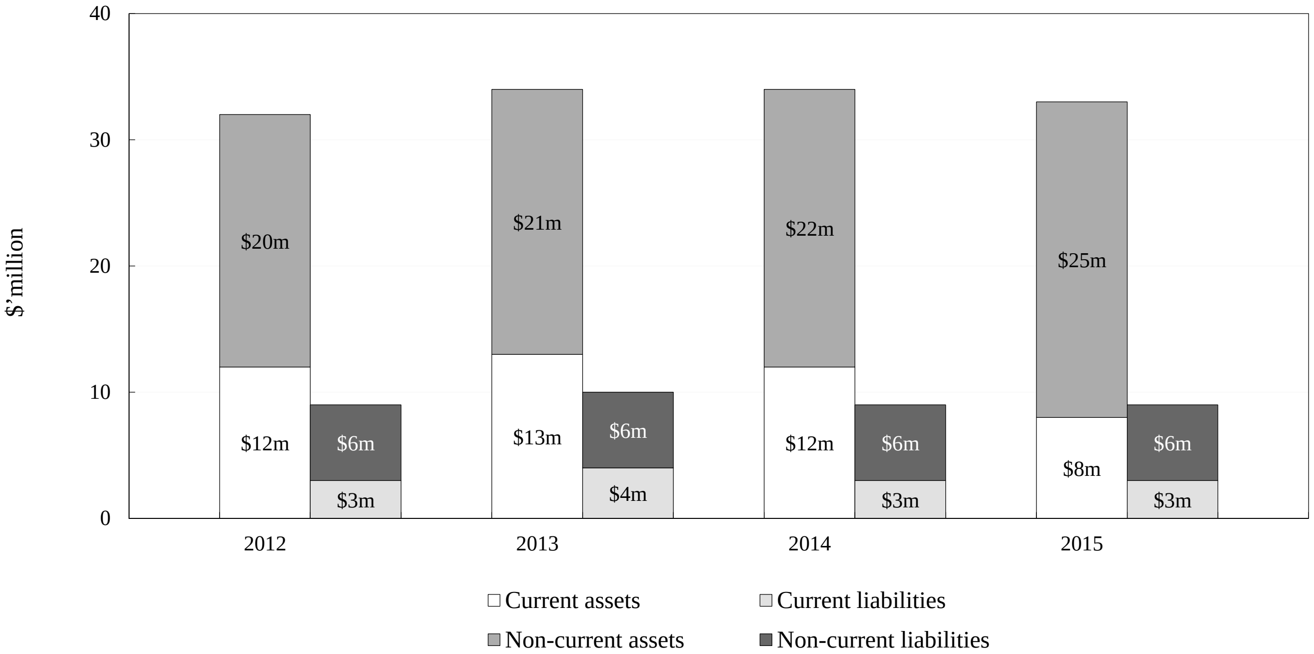
The following chart shows the revenues, expenses and profit before income tax equivalents for the four years to 2015.



Profit before income tax equivalents of $1.2 million ($2.7 million) decreased due to the lower returns on investments and higher employee benefits costs.

Statement of Financial Position

The following chart analyses the assets and liabilities for the four years to 2015.



Assets

Current assets have decreased by $4.2 million to $7.7 million during 2015, largely as a result of the transfer of cash to longer term investments.

Non-current assets have increased by $3.3 million to $25 million in 2015. This due to a $4 million increase in long-term investments held and a net $700 000 decrease in the value of property, plant and equipment and intangible assets as a result of depreciation and amortisation expenses, partially offset by additions.

Liabilities

Current liabilities have decreased by $373 000 to $3 million in 2015 as a result of decreased levels of trade creditors and accrued expenses, partly offset by an increase in employee benefits liabilities.

Total non-current liabilities have remained stable.

Statement of Cash Flows

Cash and cash equivalents decreased by $4.5 million in 2015 mainly as a result of the transfer of $3.5 million to longer term investments now recognised in non-current financial assets and the payment of dividends to government as outlined in note 13 of the financial report.

Interpretation and analysis of Statement of Trusts being Administered

The value of trust funds administered by Public Trustee in 2015 was $1.4 billion.

Detailed below are the number and value of trust funds under administration for the two years to 2015:

	2015 Number	2014 Number	2015 $'million	2014 $'million
Deceased estates	1 234	1 299	161 754	155 059
Trusts	1 313	1 344	123 760	119 829
Administration matters	356	371	40 620	38 978
Court award orders	794	790	398 241	385 965
Protected estates	3 332	3 252	292 454	266 684
Workers compensation awards	3	4	203	200
Powers of Attorney	311	322	60 905	58 877
Investors	283	293	301 116	278 770
	7 626	7 675	1 379 053	1 304 362

Of the total funds being administered, 65% (67%) were invested in the common funds with the remaining 35% (33%) represented by other estate assets.

The two largest categories of estate assets are real estate assets of $311 million ($284 million) and superannuation of $106 million ($84 million).

Further commentary on operations

Common fund financial reports

Public Trustee operates seven common funds through which client funds are invested. These funds are:

- Cash
- Short-term Fixed Interest

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

Analysis of common fund key figures

The following table summarises the annual net operating result and the value of assets held for each common fund at 30 June 2015 and 30 June 2014.

	Net operating result		Assets	
	2015	2014	2015	2014
Common fund	$'000	$'000	$'000	$'000
Cash	10 298	11 782	*429 088	*417 566
Short-term Fixed Interest	1 391	1 592	52 046	52 186
Long-term Fixed Interest	3 671	4 619	94 409	94 960
Overseas Fixed Interest	1 226	1 792	38 969	38 427
Australian Shares	7 742	28 458	167 822	172 220
Overseas Shares	22 297	22 348	146 377	127 289
Property	4 908	7 397	49 089	47 246

* Includes $62 million ($63 million) deposited by other common funds.

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

The table below details the performance of each SIS and its performance against Public Trustee's established benchmarks as at 30 June 2015. These figures have been provided by Public Trustee and are unaudited.

		1 year	3 years	5 years
Standard investment strategy		%	%	%
Cash	Performance	2.72	3.26	4.06
	Benchmark	1.58	1.85	2.65
Capital stable	Performance	4.94	6.88	6.58
	Benchmark	4.46	6.13	5.94
Balanced	Performance	6.99	10.50	8.96
	Benchmark	6.87	9.91	8.43
Growth	Performance	8.47	13.28	10.48
	Benchmark	8.11	12.69	9.72
Equities	Performance	10.99	17.75	12.30
	Benchmark	10.10	17.31	11.34

Net operating result

The net operating results for all common funds have decreased in 2014-15. For the Cash and Fixed Interest common funds this is due to an overall fall in interest rates compared to 2013-14.

The decrease in the net operating result for the Australian Shares and Property common funds are due to less favourable market movements compared to 2013-14. All investments for the common funds are valued at market value, being the market price at the reporting date.

The net operating result for the Overseas Shares common fund has remained stable as a result of less favourable market conditions compared to 2013-14, offset by increased dividends and distributions.

Assets

The common funds' assets in 2014-15 totalled $916 million, which has increased by $29 million from $887 million in 2013-14.

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

Auditor-General's Department

Functional responsibility	The Auditor-General's Department (the Department) operates to assist the Auditor-General in the discharge of his/her statutory audit mandate.
Financial statistics	Net cost of services: $15.1 million Total appropriation: $16.2 million Audit fees raised: $14.1 million Number of FTEs: 122.2
Significant events and transactions	The Department was under budget by $1.1 million primarily due to lower staffing costs resulting from delays in filling vacancies.
Financial statement opinion	**Unmodified**
Financial controls opinion	**Unmodified**

Audit findings and comments

Under section 35(1) of the *Public Finance and Audit Act 1987*, the Governor, on the recommendation of the Treasurer, has appointed Edwards Marshall as auditor of the Department.

Edwards Marshall advised in their audit completion letter dated 18 September 2015 that there were no matters communicated to the Department for it's attention.

Interpretation and analysis of the financial report

Highlights of the financial report

	2015 $'million	2014 $'million
Expenses		
Employee expenses	11.7	11.3
Other expenses	3.6	3.5
Total expenses	15.3	14.8
Revenues from (Payments to) SA Government	16.2	14.5
Total assets	5.3	4.4
Total liabilities	4.4	4.7

Department for Communities and Social Inclusion

Functional responsibility	The Department for Communities and Social Inclusion (DCSI or the Department) is an administrative unit established pursuant to the *Public Sector Act 2009*. DCSI works with all South Australians, particularly the most vulnerable and disadvantaged, to ensure they have access to high quality services that protect and enhance the community's wellbeing and provide support to people when in need. DCSI is also a service provider to the South Australian Housing Trust through its Housing SA division. For more information about DCSI's objectives and functions refer notes 1 and 4 of the financial report.
Financial statistics	Net cost of providing services: $1.1 billion Total appropriation: $1.1 billion Total assets: $373 million Number of FTEs: 4569
Significant events and transactions	— As part of an administrative restructure, 132 employees transferred to the Urban Renewal Authority from 5 February 2015. — Development of the concession payment system, CASIS, discontinued. The total cost written off was $7.4 million.
Financial statement opinion	**Unmodified**
Financial controls opinion	**Modified** Key issues: — Performance management reviews of brokerage service providers need to be improved, consistently assessed and fully undertaken — A significant number of disability client service agreements were executed after the provision of brokerage services — Policies related to cloud computing should be more closely aligned to the Information Security Management Framework — A manual reconciliation process to match concession payments to eligibility requirements was effective for only part of the year — Some bona fide reports are not being certified or are reviewed substantially later than policy requires — Controls for the Shared Services SA main payroll system did not meet a generally satisfactory standard

Scope of the audit

The audit program covered major financial systems and was directed primarily to obtaining sufficient evidence to enable an opinion to be formed with respect to the financial report and internal controls.

During 2014-15 specific areas of audit attention included:

- supplies and services
- brokerage expenditure
- concessions, grants, subsidies and client payments
- payments to non-government organisations (NGOs)
- payroll and employee entitlements
- Commonwealth grants
- revenues from rent, fees and charges
- cash and banking arrangements and accounts receivable
- non-current assets including works in progress
- financial accounting
- client trust accounts
- information technology and communication projects
- financial management compliance programs
- governance and accountability.

The audit also considered the implementation of the National Disability Insurance Scheme and its relationship with the Department.

The audit also considered the nature of the review work undertaken by internal audit.

Audit findings and comments

Assessment of controls

In my opinion, the controls exercised by the Department for Communities and Social Inclusion in relation to the receipt, expenditure and investment of money, the acquisition and disposal of property and the incurring of liabilities, except for the matters raised in relation to brokerage expenditure, concessions, payroll and Shared Services SA as outlined under 'Communication of audit matters', are sufficient to provide reasonable assurance that the financial transactions of the Department for Communities and Social Inclusion have been conducted properly and in accordance with law.

Communication of audit matters

Matters arising during the course of the audit were detailed in management letters to the Chief Executive. The main matters raised with the Department and the related responses are detailed below.

In addition, matters relating to Shared Services SA (SSSA) as a service provider to the Department are also described below.

Brokerage expenditure

The Department purchases (brokers) services from NGOs to meet individual disability and domiciliary care services client needs.

The cost of brokerage expenditure, including domiciliary care, to the Department has increased significantly in recent years, rising from $98 million in 2011-12 to $164 million in 2014-15. Disability SA represents the majority of brokerage expenditure, with $156 million spent for the year ended 30 June 2015 on approximately 3500 clients.

Performance management of service providers

The Department's Disability Services Provider Panel (DSPP) determines which organisations are approved as brokerage service providers. We have raised matters in prior years in relation to the ongoing assessment and performance management of service providers.

The Department has reviewed audit issues and taken action to improve internal controls in priority areas. Our audit of the revised performance review model in 2014-15 revealed the following matters that needed to be further considered by management:

- there were inconsistencies between the test criteria, assessment/evidence collected by management and the recommended conclusion in reviewing service providers
- detailed analysis and conclusions on service provider performance could be better documented
- the DSPP master list had become corrupted and needed to be remediated during the year
- parts of the DSPP listing were not fully reviewed.

These deficiencies in performance reviews may result in the Department using organisations that do not provide an appropriate quality of service in the disability sector. Service providers may also not be financially viable or no longer meet service standard criteria to provide services.

We recommended that management consider revising the performance review model specific to DSPP and brokerage services. Policies and procedures should be updated to ensure performance reviews are performed regularly and the reviewer fully documents their assessments and conclusions about continued use of service providers and funding.

Management should also monitor the progress of performance reviews and ensure that staff are completing the model in accordance with expectations.

In response to the issues raised, the Chief Executive advised that:

- Disability SA has revised its contract performance management procedure which requires all parties to the funding agreement to meet their obligations by ensuring clients receive a quality service and value for money
- the procedure also allows for service providers to improve outcomes where performance outcomes are not met
- project officers received training on the new procedure and commenced performance reviews for service providers for 2014-15. Tests are being performed in accordance with the new procedure.

Client service agreements

Review of a sample of disability client service agreements identified that a significant number of agreements were executed after the actual service was provided. This increases the risk of inappropriate services or charges being made for clients or delivery not in accordance with approved policy.

We recommended that management approve client service agreements in accordance with established policy before services commence, and communicate expectations to staff to minimise the risk of non-compliance.

In response, the Chief Executive advised that:

- the number of service orders processed for 2014-15 increased dramatically due to the ongoing implementation of individualised funding
- the requirement to approve client service agreements before providing services is continually reinforced to applicable managers and will be monitored regularly to ensure service orders/client service agreements are approved prior to the commencement of services where possible
- it is expected that retrospective contracts will reduce significantly in 2015-16 due to ongoing improvements to systems and procedures.

Request contract reconciliation (RCR) system follow-up review

Last year's Report included commentary on the RCR system which enables payments to outsourced service providers for delivery of services to clients, and in some cases facilitates payments directly to clients. The system is a cloud based system and processes in excess of $100 million in payments annually.

The 2013-14 review found that a concise description of various user access profiles was not available for the RCR system and identified the need to assess the reporting capability available for system changes to ensure the system's effectiveness. We also found that there was no internal audit coverage of the system's operation and development, and the system did not have a formal business continuity plan.

In 2014-15 we reviewed progress in remediating these previously identified issues. The review found:

- a concise description of user access profiles for the system had yet to be developed
- a project was planned to source and implement a new service management system for the RCR system
- an internal audit of the RCR system was not completed but was about to commence
- progress was made on the development of a business impact analysis to aid the development of a business continuity plan.

A particular matter concerning the need to more closely align an internal departmental cloud computing policy to the government-mandated Information Security Management Framework was also identified during our review.

The Department responded that:

- a project to upgrade RCR security was due for completion in the last quarter of 2015 and further work relating to the integration of the RCR cloud platform security into an enterprise identity management system would occur in 2016-17
- sourcing of a new service management system covering the RCR system has been included in the information and communications technology capital works program
- the internal cloud computing policy would be reviewed in the first quarter of 2016.

Concessions

Concessions and Seniors Information System (CASIS)

In 2009-10, DCSI commenced developing a system to manage concessions and seniors cards administration. The CASIS was designed to replace the legacy Concessions and Rebate Tracking System to improve the level of validation applied to concessions.

Endpoint Corporation (Endpoint) undertook a proof of concept exercise in 2009, as part of the development of the CASIS business case. The former Department for Families and Communities then sought a waiver of the competitive process to directly engage Endpoint. As Endpoint had previously undertaken the proof of concept for the system, the Department for Families and Communities assessed that its continued engagement was critical to the successful completion of the project.

CASIS was initially intended to be implemented in 2009-10 at a cost of $600 000 (GST exclusive). Due to certain factors, this development timeframe was not achieved.

In 2013, Endpoint held discussions with ac3, then owned by the New South Wales Government, to continue the development of CASIS. In June 2013, Endpoint went into administration and DCSI entered into a contract with ac3 to continue system development.

In late 2014, DCSI commissioned an external consultant to review the CASIS project. The February 2015 report from that review noted that the original CASIS investment decision and business case was not based on a full understanding of business requirements and the complexity of the solution. Additionally, there was limited due diligence performed by DCSI to address vendor risks, and project planning was not effectively undertaken to manage milestones, activities, tasks, effort and acceptance criteria. Weaknesses were also identified with reporting on project status.

The external consultant further noted that a gateway or stage gate approach was not adopted to clearly identify key project milestones as a means for greater governance and control. It also appeared that the project had aspects of systems design, development and testing being performed simultaneously, which increased the likelihood of errors being introduced.

DCSI advised that it halted development work in March 2015 following a series of discussions held with ac3. Additionally, we are aware that certain unpaid invoices remain the subject of dispute between DCSI and ac3.

In August 2015, based on advice provided by the Office for Digital Government, the Minister for Communities and Social Inclusion approved ceasing development of CASIS.

DCSI advised that the full cost of CASIS (which has been discontinued) totalled $7.4 million (excluding GST).

The Office for Digital Government identified that certain aspects of the CASIS project were considered useful regardless of future direction. These included documented business requirements and flexible application of business rules, an understanding of the level of data quality, and automation of certain manual processes not currently in the Concessions and Rebate Tracking System. However, these aspects were not considered by DCSI to have any economic benefit.

DCSI has requested legal advice from the Crown Solicitor's Office regarding options for the recovery of certain costs. However, at the time of preparing this Report, the legal advice was still being finalised.

Significant delays in the system's implementation and operation have resulted in additional costs to the taxpayer. The $7.4 million spent on CASIS has not achieved the goal of improving the effectiveness of the management of concession outlays, nor the implementation of the planned system. This expenditure has not resulted in any economic benefit to DCSI and was expensed in the financial report.

Overpayments to energy retailers

In 2013-14, DCSI reviewed the eligibility of certain concession holders as part of CASIS data migration work. DCSI compared energy retailer records against current customer records held by DCSI and was unable to match 5173 of 206 200 records held in the Concessions and Rebate Tracking System to files provided by energy retailers.

In November 2013, DCSI requested energy retailers to write to the 'unmatched' customers, inviting them to contact DCSI to verify concession eligibility. Where necessary, a second letter was sent in March 2014.

As at June 2015, DCSI advised that the total calculated value of overpayments was $1.39 million (GST exclusive). To date, overpayments totalling $184 506 have been recovered through payments made by energy retailers. DCSI is acting on legal advice regarding the appropriate process for recovery of the overpayments.

DCSI advised that more information and analysis is required to finalise the amount of overpayments to be recovered. However, based on information to date, it believes that the amount recoverable could be up to a further $1.2 million. This would result in a total amount of overpayments to be recovered of up to $2.59 million.

Cost of Living Information (COLIN) system

DCSI has commenced planning the development of an online system for delivery of the Government's new cost of living concession. In August 2015, we requested an update from DCSI regarding the new COLIN system.

DCSI advised that the business case and high-level specifications for the COLIN system are still under development, and the business case including project budget will be finalised in September 2015. At the time of preparing this Report, there had been no expenditure on COLIN to date. A separate business case will be developed to transition existing concessions IT systems and data management tools to COLIN. This includes concessions previously included in the CASIS project.

Reconciling payments to client records

Past audits have raised concerns over the Department's ability to comprehensively reconcile concession payments made with client details maintained on departmental databases. We have recommended that the Department match individual concession payments made to records of eligibility prior to reimbursing the South Australian Water Corporation, RevenueSA and energy retailers for concessions provided.

The Department has previously advised that the CASIS project was expected to eventually address this matter and other deficiencies in management controls. The CASIS project was recently discontinued.

The 2014-15 audit considered the continued use of the Concessions and Rebates Tracking System database for concession payments. During 2014-15 the Department undertook a manual reconciliation process to match payments to eligibility requirements for part of the year.

We will consider the effectiveness of this reconciliation process as part of the 2015-16 audit.

Payroll

The audit identified the following payroll internal controls that could be improved:

- some bona fide reports are not being certified or are reviewed substantially later than policy requires for some business units within the Department
- service level agreements with SSSA have not been recently reviewed or updated.

In response to the payroll issues raised, the Chief Executive advised that:

- bona fide related policies are being reviewed to determine acceptable certification timeframes together with the use of escalation reminder options to remind managers of outstanding requirements. The Department will also consider the use of automated bona fide functions in CHRIS 21 when this system is implemented during 2015-16
- updated service level agreements have been drafted and will be approved after management review.

Other audit findings

The audit also identified other areas where financial and control processes could be improved. These include:

- a number of debts owed to the Department are greater than a year old and further recovery options should be pursued. These are mainly from NGOs and disability clients, and recovery options need to cater for the specific circumstances of each case
- while the Department had a fraud policy and control plan, it did not have a single fraud control officer with clearly defined roles and responsibilities
- the executive leadership team and risk and audit committee’s performance had not been recently reviewed to ensure that it was performing at an optimal level.

In response to the issues raised, the Chief Executive advised that:

- during 2014-15 the Department sought Ministerial approval for updated debt collection processes and updated policies for key staff to follow up debts within their responsible areas. A project is underway to consider and collect long outstanding debtors
- the Department has an established fraud policy and control plan that assigns responsibilities to appropriate officers but will consider whether the allocation of a single fraud control officer is appropriate
- formal, structured assessments of the executive leadership team and audit committee will be undertaken in 2015-16.

Shared Services SA – financial systems and transaction processing environments

SSSA processes financial transactions on behalf of the Department under service level determinations. The main systems and control environments include accounts payable, payroll and general ledger financial functions.

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

As discussed in the commentary under 'Department of the Premier and Cabinet' elsewhere in Part B of this Report, our review and evaluation of controls for the SSSA main payroll systems concluded that controls did not meet a generally satisfactory standard for 2014-15. A number of specific matters were raised with SSSA for corrective action and review for process and procedural improvement. Our review and evaluation of controls for the SSSA main accounts payable systems and environment concluded that controls met a generally satisfactory standard for 2014-15.

The matters do not relate to the Department's transaction processing.

Interpretation and analysis of the financial report

Highlights of the financial report – controlled items

	2015 $'million	2014 $'million
Expenses		
Employee benefit expenses	382	396
Supplies, services and other expenses	300	249
Grants, subsidies and client payments	554	502
Total expenses	1 236	1 147
Income		
Rent, fees and charges	123	132
Commonwealth revenues	41	47
Other revenues	18	15
Total income	182	194
Net cost of providing services	1 054	953
Revenues from (Payments to) SA Government	1 055	974
Net result	1	21
Other comprehensive income	-	(17)
Total comprehensive result	1	4
Net cash provided by (used in) operating activities	39	36
Assets		
Current assets	178	168
Non-current assets	195	217
Total assets	373	385
Liabilities		
Current liabilities	108	119
Non-current liabilities	81	83
Total liabilities	189	202
Total equity	184	183

Statement of Comprehensive Income

Expenses

During 2014-15 total expenses increased by $89 million to $1.2 billion. This included an increase in grants, subsidies and client payments of $52 million and supplies, services and other expenses of $51 million.

This increase in expenditure was offset slightly by a decrease in employee benefit expenses of $14 million to $382 million.

Grants, subsidies and client payments

Grants, subsidies and client payments of $554 million are the Department's largest expenditure category. Note 8 of the financial report discloses a detailed list of grants, subsidies and client payments by program.

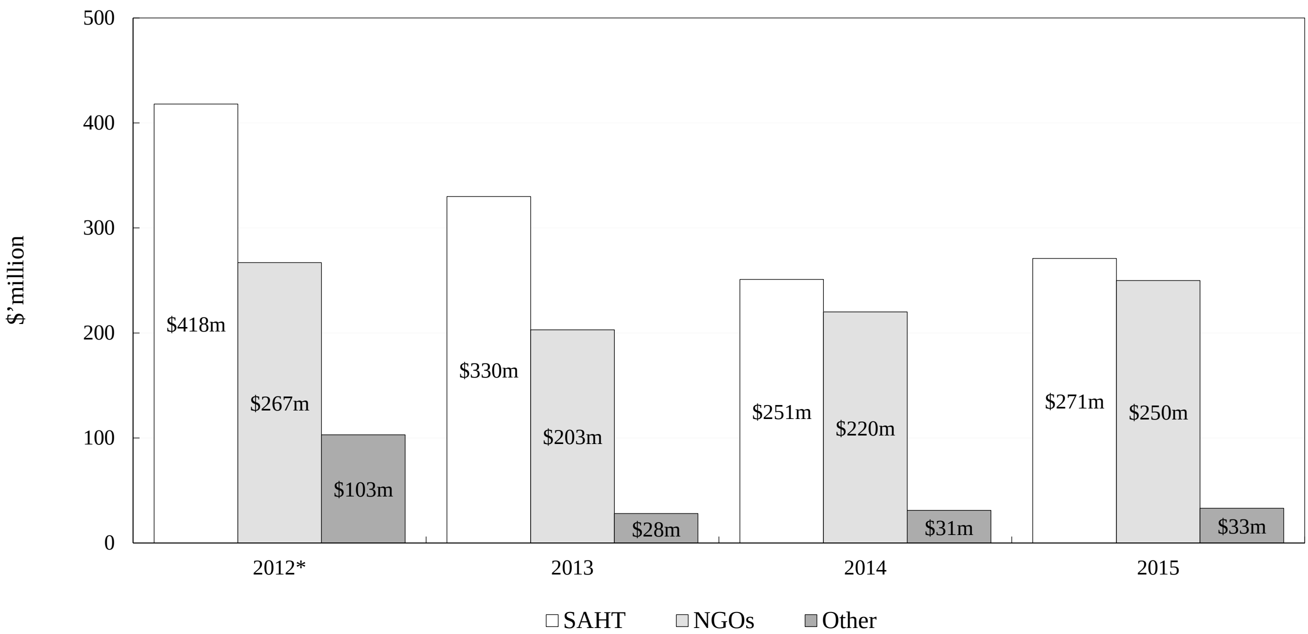
During 2014-15 grants, subsidies and client payments increased by $52 million (10%). This is predominantly due to:

- the continued demand for disability grants which resulted in an increase in expenditure of $31 million to $224 million during the year
- an increase in overall grants to the South Australian Housing Trust (SAHT) of $20 million to $271 million.

The increase in overall grants to the SAHT is attributable to increased contributions by the State, offset by reduced payment of Commonwealth funding for programs such as the National Affordable Housing Agreement and National Partnership Agreement on Homelessness. State contributions, including tax equivalent regime grants, increased by $52 million to $179 million during 2014-15 to maintain programs while payment of Commonwealth contributions reduced by $33 million to $92 million.

Refer note 8.1 of the financial report for a detailed list of NGO grants, subsidies and client payments by organisation.

The following chart highlights grants, subsidies and client payments by recipient type for the past four years to 2014-15.



* Includes grants, subsidies and client payments for Families SA of $62 million in 2012. Families SA was transferred from DCSI to the Department for Education and Child Development on 1 January 2012.

Employee benefit expenses

Employee benefit expenses decreased by $14 million to $382 million.

During 2013-14, $13 million in targeted voluntary separation packages were approved to be paid to 107 employees. In 2014-15 only three targeted voluntary separation packages were approved and paid, totalling $206 000 (refer note 5 of the financial report).

The transfer of 132 employees to the Urban Renewal Authority on 5 February 2015 as part of an administrative restructure also resulted in the reduction of employee benefit expenses, offset by enterprise agreement salary increases (refer notes 1.2 and 32 of the financial report).

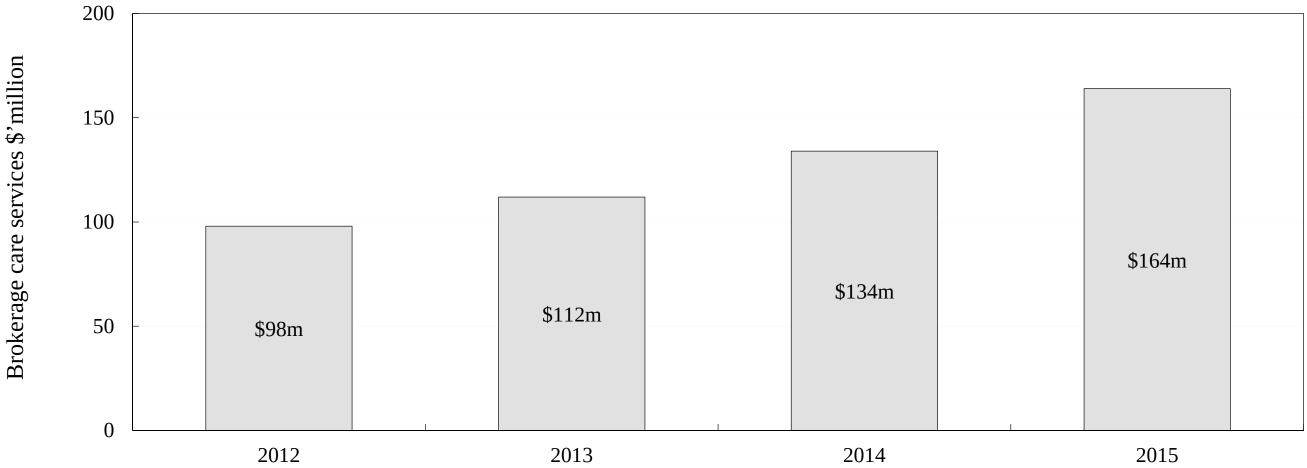
Supplies and services

During 2014-15 supplies and services expenses increased by $32 million to $273 million.

The increase in supplies and services is mainly due to:

- an increase in brokerage care services, including domiciliary care, of $30 million (22%) to $164 million during the year
- an increase in expenses related to the implementation of National Disability Insurance Scheme arrangements of $3 million to $7 million.

The following chart highlights the continued growing demand for brokerage care services and the associated expenses for the past four years to 2014-15.



Income

Commonwealth revenues

During 2014-15 Commonwealth revenues decreased by $6 million to $41 million. This is due mainly to a reduction in National Partnership Payments for Homelessness of $6 million to a total of $9 million during the year (refer to note 11 of the financial report).

The Commonwealth revenues in the financial report only record funding received directly from the Commonwealth Government. The Commonwealth may also provide funding relating to DCSI programs that are received by the Department of Treasury and Finance via its special deposit account or through the Consolidated Account. These revenues are incorporated in SA Government appropriations in the financial report.

Revenues from rent, fees and charges

In 2014-15 revenues from rent, fees and charges decreased by $11 million to $123 million.

This is primarily due to a decrease in employee services revenue of $17 million for the recovery of costs for the provision of employee related services to Housing SA, following the transfer of responsibility for 132 employees from the Department to the Urban Renewal Authority (refer notes 1.2 and 32 of the financial report).

This was offset by an increase in fees, fines and penalties recoveries of $6 million attributable to an increase in fees for national criminal history checks, grant recoups and other goods and services recoveries.

Net result

The net result for 2014-15 was a surplus of $1 million, compared to a surplus of $21 million for 2013-14.

Statement of Financial Position

Assets

Cash and cash equivalents of $142 million and property, plant and equipment of $181 million represent 86% of total departmental assets.

During 2014-15, property, plant and equipment decreased by $8 million to $181 million due mostly to:

- certain land, buildings and improvements for the Parks Community Centre totalling $9 million being transferred for $0 consideration to the Department of Planning, Transport and Infrastructure to develop these assets
- the sale of assets totalling $2 million and depreciation of $7 million

offset by purchases of $2 million and transfers from work in progress of $7 million.

Capital works in progress also decreased by $8 million to $2 million during 2014-15. This was mainly due to the transfer of completed property, plant and equipment of $7 million, completed intangible assets of $1 million and the write-off of $3 million for the concession payments system, CASIS. This was offset by purchases of $4 million.

Liabilities

Total liabilities decreased by $13 million to $189 million. The main reasons for the change were:

- a decrease in general creditors at 30 June 2015 of $13 million to $35 million reflecting the payment of 2013-14 grants payable at 30 June 2014
- a decrease in the total workers compensation provision of $8 million to $31 million as determined by an actuarial assessment (refer note 27 of the financial report)
- an increase in non-current long service leave of $7 million as a result of changes in the bond yield rate, salary inflation rates and leave estimates used by the actuary (refer note 26 of the financial report).

Statement of Cash Flows

The following table summarises the net cash flows for the five years to 2015.

	2015 $'million	2014 $'million	2013 $'million	2012 $'million	2011 $'million
Net cash flows					
Operating	39	36	26	61	(6)
Investing	(5)	(10)	(7)	(49)	(14)
Financing	-	(1)	-	-	30
Change in cash	34	25	19	12	10
Cash at 30 June	142	108	83	64	52

The increases in cash balances over the period reflects the outcome of the accrual budget process. The Department is funded for budgeted expenses which include non-cash items such as long service leave costs. Where the funded amounts exceed the actual amounts paid the balance is recorded as cash and held in the Accrual Appropriation Excess Funds Account with the Department of Treasury and Finance.

Of the Department's cash and cash equivalents balance of $142 million, $114 million is held in the Accrual Appropriation Excess Funds Account, which can only be used in accordance with the Treasurer's/Under Treasurer's approval.

Cash totalling $2 million was also returned to the Department of Treasury and Finance during 2014-15 as a result of asset sales.

Highlights of the financial report – administered items

	2015 $'million	2014 $'million
Expenses		
Grants, subsidies and client payments	191	182
Client trust fund payments	14	14
Other expenses	5	4
Total expenses	210	200
Income		
Grants and contributions	12	11
Client trust fund receipts	14	14
Other income	3	2
Total income	29	27
Net cost of providing services	181	173
Revenues from (Payments to) SA Government	185	174
Net result	4	1
Other comprehensive income	2	-
Total comprehensive result	6	1
Assets		
Current assets	50	44
Non-current assets	31	32
Total assets	81	76

	2015 $'million	2014 $'million
Liabilities		
Current liabilities	8	9
Total liabilities	8	9
Total equity	73	67

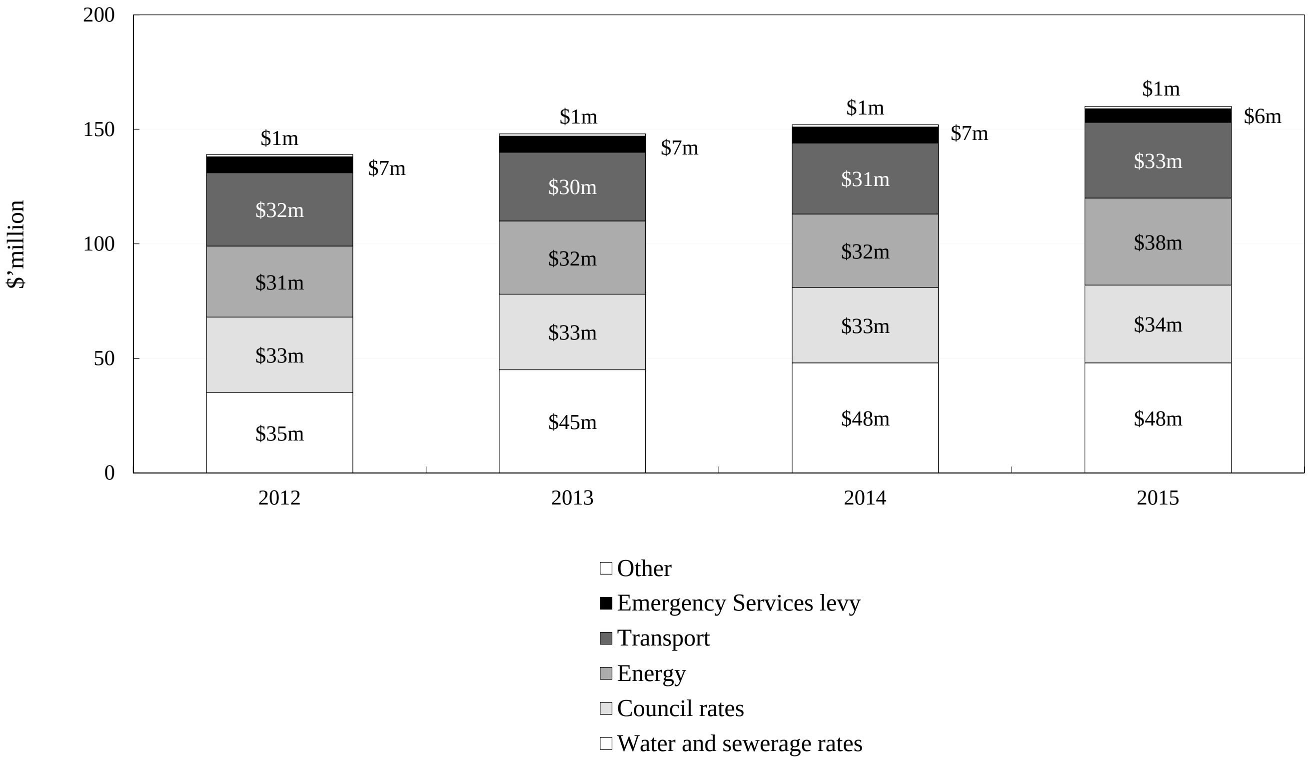
Statement of Administered Comprehensive Income

Administered expenses

Grants, subsidies and client payments of $191 million represent 91% of total administered expenditure.

Concession payments totalling $160 million comprise the majority of grants, subsidies and client payments. Concession payments increased by $8 million (5%) during 2014-15 due mostly to a $6 million increase in energy concession payments. Note A7.1 to the administered financial statements discloses concession payments by type.

The following chart highlights concession payments by type over the past four years to 2014-15.



The Department estimates the following number of people received payments during 2014-15:

Concession type	Number
Transport	666 000
Water and sewerage rates	319 000
Energy	208 000
Council rates	174 000
Emergency Services levy	146 000
Other*	31 000

* Includes medical heating and cooling and residential parks.

Department for Correctional Services

Functional responsibility	The Department for Correctional Services (the Department) is an administrative unit established pursuant to the *Public Sector Act 2009*. The Department is responsible to the Minister for Correctional Services. The primary function of the Department is to contribute to public safety through the safe, secure and humane management of offenders and the provision of opportunities for rehabilitation and reintegration. For details of the Department's functions refer note 1 of the financial report.
Financial statistics	Net cost of providing services: $254.6 million Total appropriation: $257.8 million Total prisoner numbers at 30 June 2015: 2737 Number of FTEs: 1793
Significant events and transactions	The Department progressed capital works at various correctional facilities, which provided an additional 203 beds for prisoner accommodation. The prisoner movement and in-court management contract was extended by 18 months. An equity contribution of $28.3 million was received during 2014-15 to fund capital projects for additional prisoner accommodation.
Financial statement opinion	**Unmodified**
Financial controls opinion	**Modified** Key issues: — Risk management framework – inconsistent use of risk registers across the agency — Inconsistent approach to higher duty increment tracking across divisions — Custodial officer roster system variations were not always independently reviewed — Cartnote register was not independently reviewed — Reconciliation of requested invoice register not independently reviewed — Controls for the Shared Services SA main payroll systems did not meet a generally satisfactory standard

Scope of the audit

The audit program covered major financial systems and was directed primarily to obtaining sufficient evidence to enable an opinion to be formed about the financial report and internal controls. Specific areas of audit attention included:

- payroll
- expenditure
- purchase cards
- cash
- general ledger
- revenue
- fixed assets.

An understanding of internal audit activities has been obtained in order to identify and assess the risks of material misstatement of the financial statements and to design and perform audit procedures.

Audit findings and comments

Assessment of controls

In my opinion, the controls exercised by the Department for Correctional Services in relation to the receipt, expenditure and investment of money, the acquisition and disposal of property and the incurring of liabilities, except for all matters outlined under 'Communication of audit matters', are sufficient to provide reasonable assurance that the financial transactions of the Department for Correctional Services have been conducted properly and in accordance with law.

Communication of audit matters

Matters arising during the course of the audit of the Department were detailed in a management letter to the Chief Executive. The main matters raised with the Department and the related responses are detailed below.

In addition, matters relating to Shared Services SA (SSSA) as a service provider to the Department are also described below.

Risk management framework

The audit of the Department considered the risk management arrangements in place. We identified that risk registers held by different areas of the Department did not use a consistent risk rating system. In a number of instances there was no evidence that risks had been reviewed in the last 12 months. We also noted that there was no summary corporate risk register to overview risks for the whole Department. This could result in the Department being unable to effectively identify and manage significant operational and financial risks.

The Department responded that the risk advisory group will review risk registers to ensure reviews are undertaken at least annually and that a standard template and risk rating system is used. A risk management training program will also be developed and implemented to ensure a consistent approach is adopted across the agency. The Department will also develop a corporate risk register to summarise risks.

Payroll

Correctional officer higher duty increment tracking

The audit of payroll considered procedures in place for processing salary increments for correctional officers. We identified that policies and procedures were not up to date for the tracking of correctional officer higher duty increments and there were instances where there was no evidence of review by an independent officer. We also found inconsistencies in processes across the Department in higher duty increment tracking. This may lead to errors in higher duty increments resulting in payments to employees being inaccurate.

The Department responded that draft guidelines and procedures have been developed and will be trialled across the correctional locations in the first quarter of 2015-16. Once finalised, following a feedback and evaluation process, the Department plans to formalise, approve, implement and communicate the guidelines and procedures.

Custodial officer roster system

The review of payroll considered controls to ensure custodial officers are paid for hours worked. Consistent with past years we noted that payroll payments were based on attendance data maintained on the Department’s roster system. Review of the roster system found there were inconsistent processes across the Department when checking variations made to the roster. There were also no formal policies and procedures over key approvals and processing to the rostering system. This may result in incorrect attendance information, leading to inaccurate payments to custodial officers.

The Department responded that draft guidelines and procedures have been developed and will be trialled across the correctional locations in the first quarter of 2015-16. Once finalised, following a feedback and evaluation process, the Department plans to formalise, approve, implement and communicate the guidelines and procedures.

Expenditure

Receipting evidence of goods received

The review of expenditure considered controls that ensure goods are received prior to invoices being paid. A number of instances were identified where no receipting evidence was recorded prior to payment. This increases the risk that goods and services may not be received in accordance with what had been ordered, or are not received at all.

The Department responded it will remind employees that prior to invoices being paid they are to check if goods have been received. The Department has also said that it will monitor compliance with this requirement.

Revenue

Independent review of cartnote register

As part of the overall revenue audit, a review of prison industries revenue was performed including monitoring of the shipping of goods produced at correctional facilities. Our review of cartnote processes at business centres identified that the cartnote registers were prepared but no independent review was performed to ensure the register is up to date and appropriate follow-up actions were undertaken. This may lead to not all invoices being raised for goods and services provided.

The Department responded that it will update the prison industries manual to include this requirement. The manual will be approved, implemented and communicated to relevant officers.

Reconciliation of the request for invoice register

The review of revenue considered the reconciliation between the request for invoice register and the general ledger. We identified that at some sites there was either no independent review undertaken or no evidence of reconciliations performed. We also found that the Department does not have formal policies or procedures in place for this reconciliation. Without an independent review omissions may not be identified, resulting in not all invoices being raised for goods and services provided.

The Department responded that the finance policy will be amended to include the requirement for a monthly reconciliation to be undertaken which includes evidence of the review. The Department will approve, implement and communicate to relevant officers the updated policy and procedure.

Shared Services SA – financial systems and transaction processing environments

SSSA processes financial transactions on behalf of the Department under service level determinations. The main systems and control environments include accounts payable, payroll and general ledger financial functions.

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

As discussed in the commentary under 'Department of the Premier and Cabinet' elsewhere in Part B of this Report, our review and evaluation of controls for the SSSA main payroll systems concluded that controls did not meet a generally satisfactory standard for 2014-15. A number of specific matters were raised with SSSA for corrective action and review for process and procedural improvement. Our review and evaluation of controls for the SSSA main accounts payable systems and environment concluded that controls met a generally satisfactory standard for 2014-15.

The matters do not relate to the Department's transaction processing.

Interpretation and analysis of the financial report

Highlights of the financial report

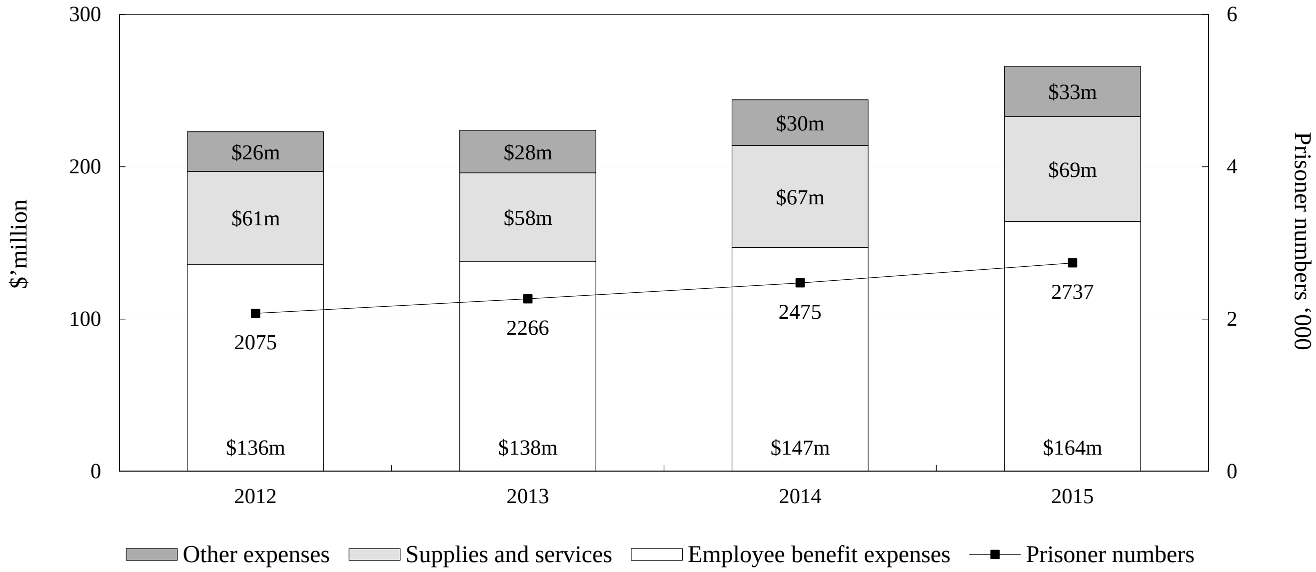
	2015 $'million	2014 $'million
Expenses		
Employee benefit expenses	164	147
Supplies and services	69	67
Other expenses	33	30
Total expenses	266	244
Income		
Income from prison labour and canteen and kitchen sales	5	5
Other income	6	5
Total income	11	10
Net cost of providing services	255	234
Revenues from SA Government	258	228
Payments to SA Government	(3)	(2)
Net result	-	(8)
Total comprehensive result	8	1
Net cash provided by (used in) operating activities	23	11
Net cash provided by (used in) investing activities	(41)	(27)
Net cash provided by (used in) financing activities	28	13

	2015 $'million	2014 $'million
Assets		
Current assets	28	17
Non-current assets	489	458
Total assets	517	475
Liabilities		
Current liabilities	37	31
Non-current liabilities	35	36
Total liabilities	72	67
Total equity	445	408

Statement of Comprehensive Income

Expenses

For the four years to 2015 a structural analysis of the main expense items for the Department and total prisoner numbers is shown in the following chart. During this period total prisoner numbers as at 30 June have increased by 662 (32%) to 2737. Total expenses have increased by $43 million (19%) to $266 million.



Employee benefit expenses

The increase in employee benefit expenses is largely due to additional prisoner monitoring costs as a result of an increase in the prisoner population in 2013-14 and throughout 2014-15. Staffing costs for surge beds increased by $4 million to $7 million and there was an additional $4.3 million for prison operational costs for permanent additional beds.

The Enterprise Bargaining Agreement increase of $4.3 million and increases to long service leave, annual leave and on-costs accounted for $3.6 million of the cost increase.

Supplies and services expenses

Supplies and services expenses increased by $3 million to $69 million mainly due to an increase in contract expenditure of $2.4 million for the operation of the Mount Gambier Prison, as a result of commissioning additional prisoner accommodation and costs associated with the implementation of an additional 200 GPS electronic monitoring units in line with a State Government commitment to increase home detention.

Income

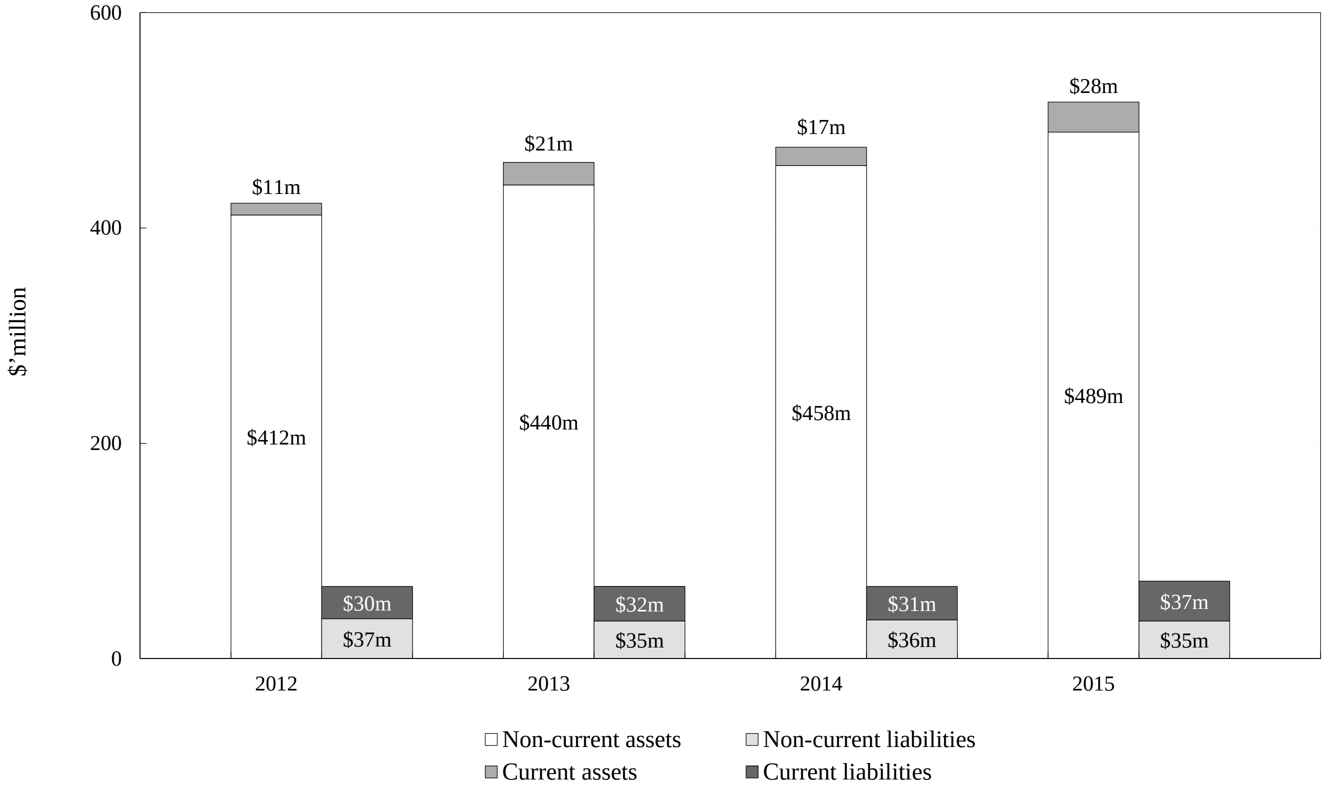
Revenues from the SA Government increased by $30 million to $258 million and are the major source of funding for the Department. $3 million was returned pursuant to the cash alignment policy.

Equity contribution

Contributed capital (or government equity contribution) from the SA Government increased by $28 million to $89 million to fund capital projects.

Statement of Financial Position

For the four years to 2015, a structural analysis of assets and liabilities is shown in the following chart.



Assets

Despite the Department's higher cash balance, current liabilities of $37 million exceed current assets of $28 million. Note 37(e) of the financial report addresses liquidity risk. The Department receives its funding on a fortnightly basis which significantly reduces the risk.

Cash and cash equivalents

Cash and cash equivalents increased by $10 million to $24 million. The increase in cash is predominantly due to the increase in equity contributions and lower than planned capital cash outflows mainly as a result of capital project underspends totalling $18.8 million, consisting of the following:

- Northfield precinct infrastructure upgrade (includes Yatala Labour Prison, Adelaide Women's Prison and Adelaide Pre-release Centre) – $5.1 million
- Mobilong Prison security system upgrade – $4.9 million
- Adelaide Remand Centre prison security system upgrade – $3.7 million

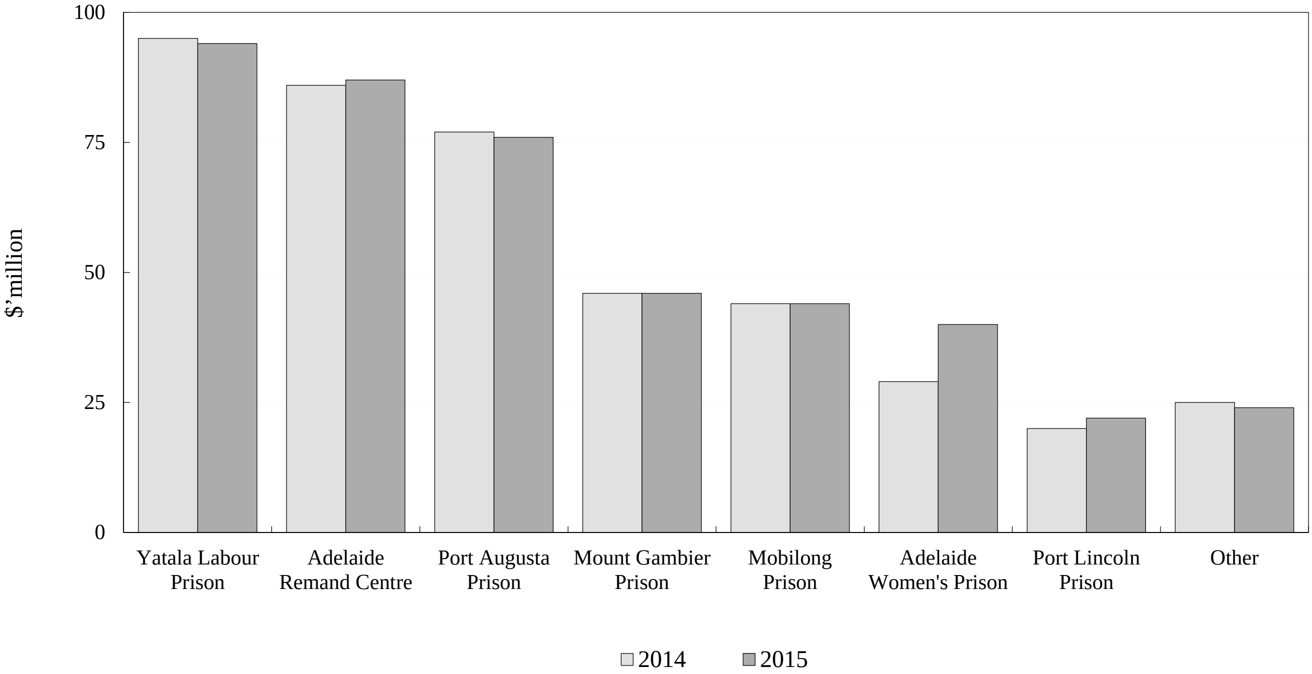
- Yatala Labour Prison additional accommodation – $2.6 million
- additional accommodation at the Port Augusta Prison – $2.5 million (deferred to 2016-17).

The majority of the expenditure is expected to be incurred in 2015-16 with no impact on the overall cost of the projects expected. Expenditure of this amount will bring the Department back below the level of its designated cash of $10.8 million.

Property, plant and equipment

The main item of the Department's Statement of Financial Position is property, plant and equipment, representing 86% of total assets.

Within property, plant and equipment the main category of assets is land and buildings with a value as at 30 June 2015 of $434 million (84% of total assets). The following chart shows asset values for the Department's land and buildings for the last two years.



The carrying value of property, plant and equipment increased by $13 million to $442 million due mainly to:

- a revaluation of land and buildings as at 30 June 2015 resulting in an $8 million increment in value
- $22 million in completed capital works transferred into land and buildings. The main components were for additional accommodation at the Adelaide Women's Prison ($12 million), Port Lincoln Prison ($3 million) and the Adelaide Remand Centre ($2 million)
- depreciation charges of $17 million which offset the above increases to the carrying value.

In 2014-15 there were 203 additional beds from works completed in 2013-14 and 2014-15 for the following correctional facilities:

- Mobilong Prison – 41 beds
- Cadell Training Centre – 20 beds
- Adelaide Remand Centre – 7 beds

- Mount Gambier Prison – 39 beds
- Adelaide Women's prison – 28 beds
- Adelaide Pre-release Centre – 24 beds
- Port Augusta Prison – 12 beds
- Port Lincoln Prison – 32 beds.

Capital works in progress

As at 30 June 2015 capital works in progress totalled $45 million which mainly comprises:

- additional prisoner accommodation at Mount Gambier Prison ($19 million)
- Adelaide Women's Prison ($14 million)
- infrastructure associated with accommodation projects ($5 million)
- upgrade of the security system from analogue to digital at Mobilong Prison ($1 million)
- additional accommodation for Yatala Labour Prison, Port Augusta Prison and Port Lincoln Prison ($753 000).

The capital works in progress equate to the following prisoner accommodation yet to be commissioned:

- Mount Gambier – 84 beds
- Adelaide Women's Prison – 20 beds
- Yatala Labour Prison – 26 beds
- Port Augusta Prison – 124 beds.

Statement of Cash Flows

The following table summarises the net cash flows for the four years to 2015.

	2015 $'million	2014 $'million	2013 $'million	2012 $'million
Net cash flows				
Operating	23	11	17	-
Investing	(41)	(27)	(35)	(24)
Financing	28	13	28	6
Change in cash	10	(3)	10	(18)
Cash at 30 June	24	14	17	7

In 2014-15 cash increased by $10 million to $24 million.

The table shows a history of investing cash outflows which represent the continual capital expenditures over the period relating to additional prisoner accommodation. This expenditure has been funded in part through capital contributions from the SA Government, which are reflected in the financing activities and through the normal government appropriations received through operating cash flows.

The net cash flows from financing activities reflect the equity contribution received from the SA Government of $28 million in 2014-15.

Courts Administration Authority

Functional responsibility	The Courts Administration Authority (the Authority) was established pursuant to the *Courts Administration Act 1993*. The Authority is constituted of the State Courts Administration Council, the State Courts Administrator and other staff of the State Courts Administration Council. The function of the Authority, which is independent of the control of Executive Government, is to provide courts with the administrative facilities and services necessary for the proper administration of justice. For more information about the Authority's objectives and priorities refer note 1 of the financial report.
Financial statistics	Net cost of providing services: $90.4 million Total appropriation: $98.1 million Administered total expenses: $64.4 million Number of FTEs: — Controlled 613.6 — Administered 79.2
Significant events and transactions	Approval obtained to develop/procure a new electronic court management system with a total budget of $23.2 million.
Financial statement opinion	**Unmodified**
Financial controls opinion	**Modified** Key issues: — Review of bona fide reports not performed in a timely manner and in accordance with procedures — Employee engagement approval not approved by appropriate delegate — Management of user access for payroll and revenue systems was inadequate — No evidence of review of timesheets by managers

Scope of the audit

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

During 2014-15 areas of review included:

- payroll
- expenditure
- revenue and receipting
- cash
- financial accounting
- financial management compliance program
- trust accounts
- fixed assets.

Audit findings and comments

Assessment of controls

In my opinion, the controls exercised by the Courts Administration Authority in relation to the receipt, expenditure and investment of money, the acquisition and disposal of property and the incurring of liabilities, except for all matters outlined under 'Communication of audit matters', are sufficient to provide reasonable assurance that the financial transactions of the Courts Administration Authority have been conducted properly and in accordance with law.

Communication of audit matters

Matters arising during the course of the audit were detailed in management letters to the State Courts Administrator. The main matters raised and the related responses are detailed below.

Payroll

Review of bona fide reports

The audit of payroll processes found that the review and certification of bona fide reports by pay point delegates was not performed in a timely manner in accordance with procedures. This could lead to errors in payroll transactions not being identified and corrected in a timely manner.

In response the Authority indicated that it would take action to address these matters.

Employee engagement approval

Our review found instances where the employee engagement approval was not approved by a delegate with the appropriate level of delegation. This may result in the inappropriate appointment of an employee.

In response the Authority stated that it would remind checking officers of the importance of ensuring that verification of the authorising officer to the delegations is performed.

Management of user access

The Authority uses CHRIS 21 to process payroll transactions for its staff. Our review of the user access arrangements relating to the system found that there were no formal documented processes in place to manage user access, and no regular reviews of user access had been performed. This could lead to inappropriate user access to CHRIS 21, which may result in inappropriate or unauthorised transactions being processed.

In response the Authority indicated that it would prepare a policy and procedure relating to user access management, including a regular review of user access levels.

Review of timesheets

Our review identified instances where timesheets had no evidence of review by the manager. We also noted that the requirement for managers to review and sign the timesheet is not stipulated in a policy or procedure document. This may lead to inaccurate payments being made to employees.

In response the Authority indicated that it would update the procedure to reinforce the requirement for the authorising officer to review and sign the timesheet.

Revenue

Management of user access

Our review found that there were no formal documented processes in place to manage user access to the Authority's revenue systems. This could lead to inappropriate user access to revenue systems, which may result in inappropriate or unauthorised transactions being processed.

In response the Authority indicated that the user access management policy is being reviewed to include procedures for granting, removing and reviewing user access.

Interpretation and analysis of the financial report

Highlights of the financial report – controlled items

	2015 $'million	2014 $'million
Expenses		
Employee benefits expenses	50	53
Supplies and services	34	34
Other expenses	11	10
Total expenses	95	97
Income		
Revenues from fees and charges	3	5
Other revenues	2	1
Total income	5	6
Net cost of providing services	90	91
Revenues from SA Government	98	92
Net result	8	1
Changes in revaluation surplus	1	5
Total comprehensive result	9	6
Net cash provided by (used in) operating activities	19	8
Assets		
Current assets	52	39
Non-current assets	209	213
Total assets	261	252

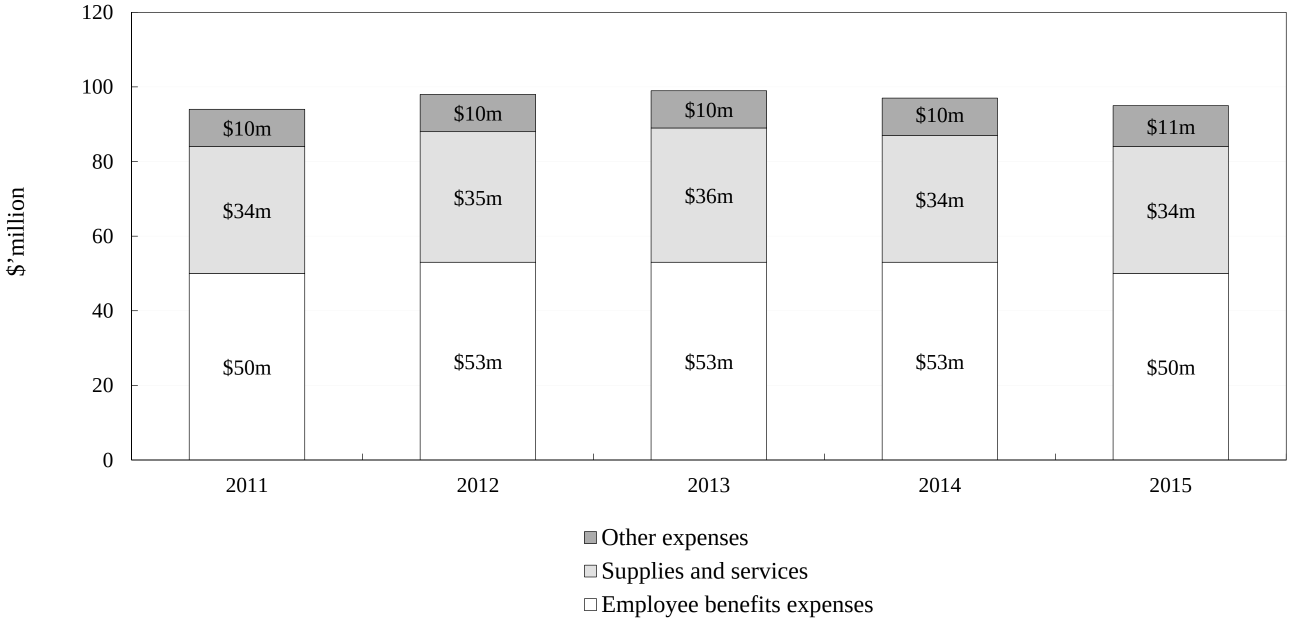
	2015 $'million	2014 $'million
Liabilities		
Current liabilities	10	9
Non-current liabilities	24	24
Total liabilities	34	33
Total equity	227	219

Statement of Comprehensive Income

The Authority's expenses reflect the costs incurred in performing its statutory responsibilities including the collection of administered income such as fines and court fees on behalf of the Government. This income is directly credited to the Consolidated Account and is reported under administered income.

Expenses

The following chart shows a structural analysis of the main expense items for the five years to 2015.



Overall the chart is showing a trend of reduced expenditure since 2013. This overall reduction in expenditure is due to the transfer of the Fines Payment Unit to the Fines Enforcement Recovery Unit (FERU) in the Attorney-General's Department (resulting in a reduction of 76.8 FTEs) as well as reductions in line with budget requirements of the SA Government.

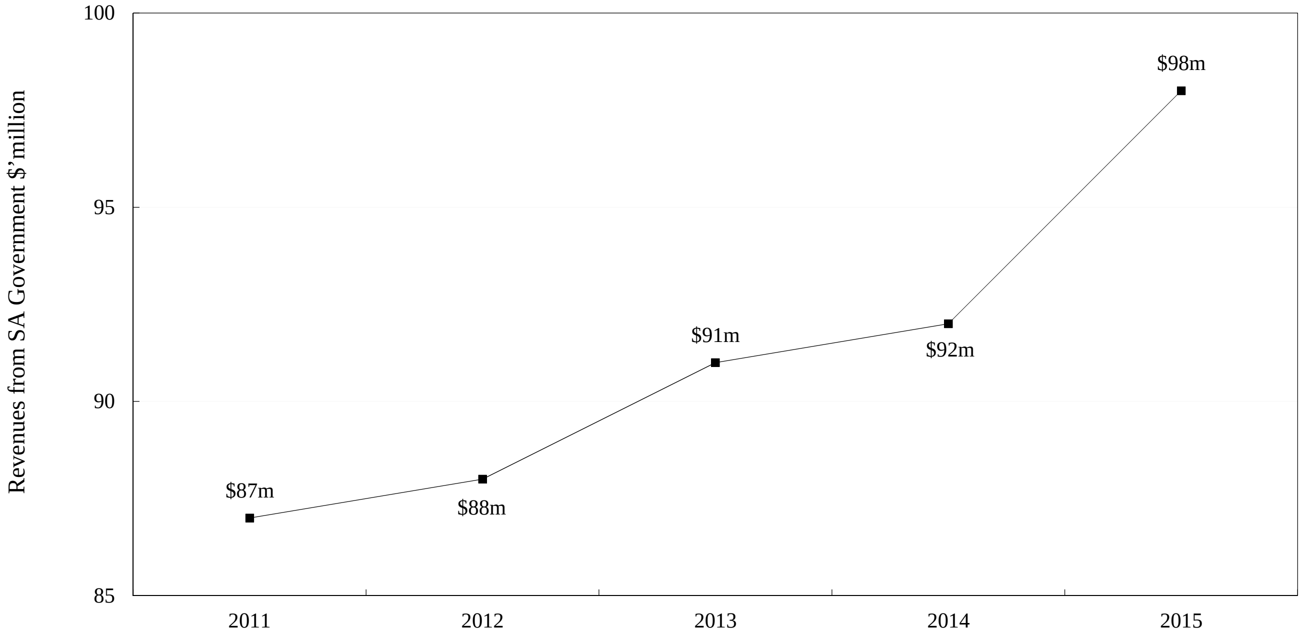
Employee benefits expenses are the major expense category for the Authority, accounting for 53% (54%) of total expenses. Employee benefits expenses decreased by $2.3 million in 2014-15. Note 5 of the financial report shows that salaries and wages decreased by $2.2 million, targeted voluntary separation packages decreased by $481 000 and annual leave decreased by $333 000. These decreases were offset by an increase in long service leave expense of $968 000.

Supplies and services account for 35% (35%) of total expenses and include $14 million ($14 million) in accommodation and services expenses and $6 million ($6 million) in computing and communications expenses.

Income

Revenues from the SA Government are the major source of funding for the Authority, accounting for 95% (94%) of total income.

The following chart shows the level of revenues from the SA Government for the five years to 2015.



Revenues from the SA Government increased by $6 million in 2014-15. This was mainly due to increased funding received from the Governor's Appropriation Fund to fund prior years' cash shortages as explained below.

Statement of Financial Position

Non-current assets mainly comprise land and buildings totalling $185 million ($188 million), which accounts for 89% (88%) of non-current assets.

Current assets mainly comprise cash and cash equivalents totalling $51 million ($37 million), which accounts for 98% (96%) of current assets.

Statement of Cash Flows

Included in cash at 30 June 2015 are deposits with the Treasurer, including $45 million ($37 million) held in the Accrual Appropriation Excess Funds Account. The balance of these funds is not available for general use and can only be used in accordance with the Treasurer's/Under Treasurer's approval. Approved purposes include meeting capital spending and employee leave entitlement payments. As access to these funds is restricted, the Authority required additional operational cash funding in 2014-15 to meet daily cash demands.

Interpretation and analysis of the financial report for administered activities

Highlights of the financial report – administered items

	2015 $'million	2014 $'million
Expenses		
Judicial benefits expenses	37	38
Victims of Crime payments	-	14
Payments to the FERU	10	14
Payments to the Consolidated Account	16	44
Other expenses	1	1
Total expenses	64	111

	2015 $'million	2014 $'million
Income		
Revenues from SA Government	37	38
Fines	-	21
Court fees	15	22
Victims of Crime levies	-	14
Transcript fees	1	1
FERU income	10	14
Other income	1	1
Total income	64	111
Net and total comprehensive result	-	-
Net cash provided by (used in) operating activities	(2)	(3)
Assets		
Current assets	9	11
Total assets	9	11
Liabilities		
Current liabilities	6	8
Non-current liabilities	11	11
Total liabilities	17	19
Total equity	(8)	(8)

Statement of Administered Comprehensive Income

Management of penalties imposed in the criminal jurisdiction transferred from the Authority to the FERU in the Attorney-General's Department, effective 3 February 2014. This encompassed fines and Victims of Crime levies. As a result, overall administered expenditure and income has decreased.

Income is still being collected on behalf of the FERU because the Authority has the capability to receipt fines payments through the court registries. The income is subsequently remitted to the FERU.

Expenses

Payments to the Consolidated Account totalling $16 million comprise mainly court fees and transcript fees.

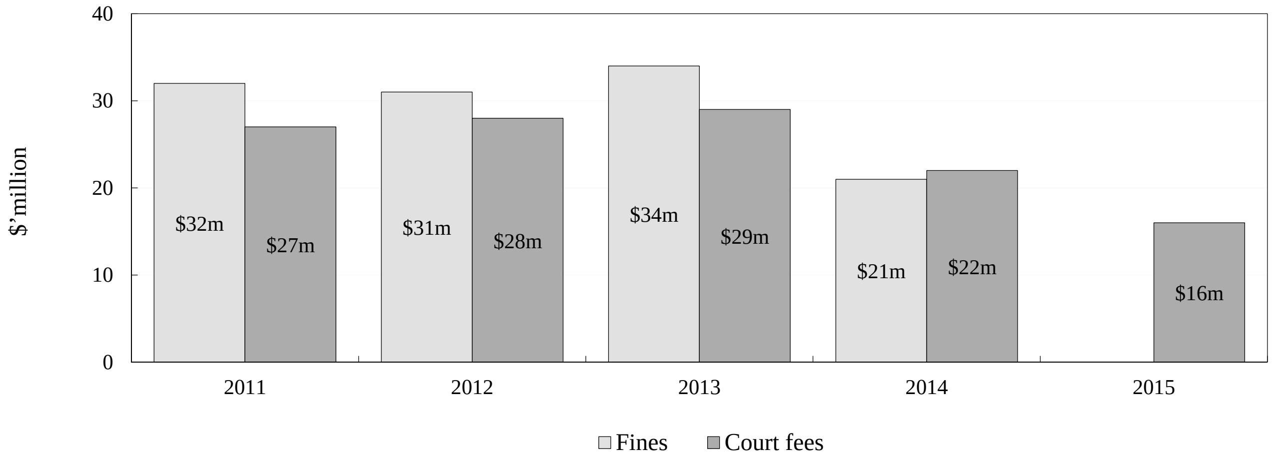
Judicial benefits expenses were $37 million, a decrease of $1 million from the previous year as a result of a number of judicial officers' positions not being filled.

Income

Fines and court fees

Fines and court fees are raised and collected by the Authority and paid directly to the Consolidated Account.

The following chart shows a structural analysis of income from fines and court fees for the five years to 2015.



As reflected in the chart above the decrease is due to the transfer of the Fines Payment Unit from the Authority to the FERU.

Victims of Crime levy

The Authority collects monies associated with the *Victims of Crime Act 2001*, which provides for payment of compensation to persons who suffer injury as a result of criminal acts and recovery of monies from offenders.

The Authority collects the monies and remits them to a special interest bearing deposit account managed by the Attorney-General's Department.

During 2014-15 Victims of Crime levies received were $22 000, compared to $14 million the previous year. Again, this decrease is due to the transfer of the Fines Payment Unit from the Authority to the FERU.

Revenues from SA Government

Revenues from the SA Government are received by the Authority to fund the payment of employment expenses of the Judiciary. During 2014-15 revenues of $37 million ($38 million) were received from the SA Government to pay the recurrent expenditure associated with the Judiciary.

Other observations – Courts Precinct Urban Renewal project procurement

A review of documentation of a Courts Precinct Urban Renewal project procurement was performed during the year. This was a brief and targeted high level review because the procurement was discontinued. The review was not performed to the detail of an audit, for example no transaction testing was conducted. The following sets out the key events of the procurement and some audit observations.

Background

The SA Government was progressing a project to partner with the private sector to develop leased accommodation for the Supreme Court, District Court, Environment, Resources and Development Court, Youth Court, and Coroner's Court. They would be collocated with the Authority, Attorney-General's Department, Industrial Relations Court, and South Australian Civil and Administrative Tribunal, in newly constructed or redeveloped facilities on the current site of the Supreme Court located at Victoria Square, Adelaide. The project would replace existing infrastructure which is regarded as being in a state of disrepair, subject to inefficiencies and no longer meeting contemporary requirements.

The 2013-14 Budget Statement announced $2 million in 2013-14 for the first stage of a formal procurement process for the new courts precinct and commercial development.

Procurement process

Acquisition initiation

In October 2012 Cabinet approved the Department of Planning, Transport and Infrastructure approaching the market seeking private sector interest to provide modern court facilities and office accommodation for the Authority. The market sounding indicated strong market interest, capacity and capability.

Acquisition strategy

Following a preliminary business case, developed by consultants in May 2013, the preferred procurement option was an operating lease strategy for newly constructed court facilities, on the site of the current Supreme Court in Victoria Square. A prime consideration was the likelihood that the State Budget would not accommodate these developments with a traditional capital investment program approach.

In August 2013, Cabinet approved a four stage procurement process for the Courts Precinct Urban Renewal project through an operating lease (off balance sheet) over new facilities financed, designed and constructed by the private sector on the site of the current Supreme Court. The four stages were Expression of Interest (EOI), Request for Proposal (RFP), Early Developer Involvement and Best and Final Offer.

Cabinet also approved procurement objectives, that the final agreement to lease the building(s) fitted out as courts and offices provide:

- effective higher courts accommodation suitable for the medium to long-term
- market-competitive value for money
- fully or acceptably off balance sheet
- flexibility allowing the State to walk away, buy-back or extend the lease at the end of its term
- appropriate adaptive reuse of the affected State Heritage places
- design excellence for this important and historic Victoria Square site.

Cabinet noted that, if at any phase of the procurement process it became apparent that the lease would not be value for money to the State or sufficiently off balance sheet, a recommendation would be made to Cabinet in regard to the next steps, which may include abandoning the procurement process or conducting a financing competition.

Supplier selection

Outcome of Expression of Interest phase

EOI documentation was released to the market in September 2013 and invited responses from respondents who could demonstrate the financial, design, construction and operating capacity and capability to successfully deliver the project. Seven consortia submitted responses to the EOI.

The conditions set out in the EOI documentation included disclosure that the State reserved the right, at any time during the EOI phase, to not proceed with the project, revert to public sector delivery of the project and abandon all or part of the EOI phase whether before or after the receipt of submissions.

Cabinet noted in April 2014, three consortia, judged to have the structure, capability and financial capacity to satisfactorily complete the project, being invited to participate in the RFP phase.

Outcome of Request for Proposal phase

Cabinet was advised the RFP was released in April 2014 and closed in July 2014, with proposals from three respondents received.

Evaluation of the RFPs identified a preferred developer, however all proposals indicated a significantly higher cost for the project than was expected. A present value based estimate of the construction cost of court and office accommodation was expected to be in excess of $500 million. The preferred developer's proposal was the lowest risk proposal received, had a more developed and resolved design and offered the most competitive commercial offer.

The preferred developer's proposal did not satisfy all the threshold procurement objectives. It was assessed, having regard to indicative comparators developed with the assistance of an accounting firm, as not providing a leasing cost representing value for money to the State. The leasing option represented a significant premium compared to the estimated cost of the State Government funding a design, construct and maintain option (DCM).

In December 2014 Cabinet approved a negotiation phase during which there was direct negotiation with the leading proponent on value-for-money alternative proposals for the Higher Courts building.

Cabinet also noted that on conclusion of the negotiation phase, a recommendation would be made to Cabinet on whether there was a value-for-money option for the Higher Courts building and whether an early developer involvement phase should progress.

Outcome of negotiation phase

Negotiations with the preferred developer did not result in an operating lease proposal that demonstrated value for money.

Cabinet was advised the preferred developer proposed a number of value-for-money initiatives and as a result, the gap between the preferred developer's operating lease option and the comparative DCM reduced significantly, although not sufficiently to produce a value-for-money off balance sheet proposal.

In March 2015 Cabinet approved the procurement process discontinue and negotiations be entered into with the preferred developer to acquire a license, within a set financial limit, to the intellectual property rights associated with the design for the Higher Courts building. Legal advice confirmed the State had, in the RFP, reserved broad powers to change or terminate the State's requirements. Acquisition of the intellectual property would enable the State to modify or develop this design and construct a facility as the State considers appropriate.

Audit was advised that the State has subsequently acquired the intellectual property within the Cabinet financial limit.

Cost of project

The Authority has incurred costs of $356 000 for the project which are mainly made up of salary costs of $341 000 for existing staff resources used on the project. Funding of $70 000 was received from the Department of Planning, Transport and Infrastructure with the remainder of the costs funded by the existing budget of the Authority. In addition a number of other internal resources of the Authority were utilised on the project in an ad hoc or short-term manner. These resources included a mix of judicial and operating FTEs and due to their ad hoc and short-term nature are difficult to provide a cost for. These additional resources were funded from the existing budget of the Authority.

The Department of Planning, Transport and Infrastructure also incurred expenses. It received $2.8 million for the procurement process and funding to acquire the intellectual property. The final amount spent was not confirmed at the time of this Report.

Audit observations

The proposed Public Private Partnership to provide modern court facilities and office accommodation for the Authority did not proceed.

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

The procurement process received relevant expert advice including technical advisory, accounting/ financial and legal advice. The State had, in the RFP, reserved broad powers to change or terminate the State's requirements.

The preferred developer's proposal did not satisfy all the Government's threshold procurement objectives. 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 not assessed as value for money.

With the failure of negotiations to achieve the threshold objectives of producing a value-for-money off balance sheet proposal, it was appropriate that the State exercise the reserved rights to reconsider the project.

Defence SA

Functional responsibility	Defence SA is an administrative unit established pursuant to the *Public Sector Act 2009*, and is responsible to the Minister for Defence Industries. The Defence SA Advisory Board provides high-level advice to the Government of South Australia on strategy and policy required to deliver defence industry and facility growth in South Australia. The functions of Defence SA are to: — facilitate the development and growth of a competitive and sustainable defence industry in South Australia in accordance with South Australia's Strategic Plan objectives — deliver the Government of South Australia's commitments to the Air Warfare Destroyer project — maximise Defence presence, including personnel and facilities, in South Australia. Further details of Defence SA's functions are contained in note 1 of the financial report.
Financial statistics	Net cost of providing services: $17 million Revenues from SA Government: $16.5 million Payments to SA Government: $2.2 million Harbour and port facilities: $216.2 million Land and buildings: $27.8 million Number of FTEs: 30.65
Significant events and transactions	In 2014-15 Defence SA finalised further works for the Common User Facility expansion area, resulting in a transfer of $2.9 million from work in progress to site land improvements and harbour and port facilities.
Financial statement opinion	**Unmodified**
Financial controls opinion	**Modified** Key issues: — Controls for the Shared Services SA main payroll system did not meet a generally satisfactory standard — Absence of documentation supporting key contract management decisions

Scope of the audit

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

During 2014-15 specific areas of audit attention included:

- payroll
- expenditure
- revenue and cash
- general ledger
- fixed assets
- governance and financial compliance.

Audit findings and comments

Assessment of controls

In my opinion, the controls exercised by Defence SA in relation to the receipt, expenditure and investment of money, the acquisition and disposal of property and the incurring of liabilities, except for the matters outlined under 'Communication of audit matters' concerning the absence of documentation supporting key contract management decisions and Shared Services SA – financial systems and transaction processing environments, are sufficient to provide reasonable assurance that the financial transactions of Defence SA have been conducted properly and in accordance with law.

Communication of audit matters

Matters arising during the course of the audit were detailed in a management letter to the Acting Chief Executive. Matters raised with Defence SA and the related responses are detailed below.

In addition, matters relating to Shared Services SA (SSSA) as a service provider to Defence SA are also described below.

Absence of documentation supporting key contract management decisions

The audit of Defence SA included a review of a sample of contracts and associated contract management processes. This testing identified an instance where an electrical maintenance contract was extended but no formal documentation was retained to support this decision. Defence SA policy requires key contracting decisions to be documented for major contracts. In the absence of documentation it was not possible to determine whether management had appropriately considered key factors to ensure value for money was achieved through the contract extension.

Defence SA responded that the need to maintain appropriate documentation has been reinforced to staff.

Absence of Department of Planning, Transport and Infrastructure accreditation for construction of a building

Defence SA engaged the services of a company to construct an additional building at Techport Australia. As this was a construction contract, Defence SA needed to comply with government policies regarding construction contracts. In this instance, the Department of Planning, Transport and Infrastructure should have been managing the contract unless Defence SA had been appropriately accredited. Defence SA does not hold the required accreditation, meaning there was a risk of inappropriate oversight of the project. Defence SA had, in this case, been liaising with the Urban Renewal Authority, which undertakes similar projects for the SA Government, regarding the management of the contract, which largely mitigated the potential risks involved.

Defence SA acknowledged the need to comply with government policies for construction and has reinforced the requirements to staff.

Approval of leave resulting in negative leave balances

The audit of Defence SA identified instances where annual leave had been approved when there was an insufficient leave balance available, resulting in negative leave balances. Negative leave balances create a risk that Defence SA will not be able to easily recover overpayments should employees leave the organisation.

Defence SA responded indicating managers have been reminded of their responsibilities to ensure adequate leave is available prior to approving requests for leave.

Shared Services SA – financial systems and transaction processing environments

SSSA processes financial transactions on behalf of Defence SA under service level determinations. The main systems and control environments include accounts payable, payroll and general ledger financial functions.

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

As discussed in the commentary under 'Department of the Premier and Cabinet' elsewhere in Part B of this Report, our review and evaluation of controls for the SSSA main payroll systems concluded that controls did not meet a generally satisfactory standard for 2014-15. A number of specific matters were raised with SSSA for corrective action and review for process and procedural improvement. Our review and evaluation of controls for the SSSA main accounts payable systems and environment concluded that controls met a generally satisfactory standard for 2014-15.

The matters do not relate to Defence SA transaction processing.

Interpretation and analysis of the financial report

Highlights of the financial report	2015 $'million	2014 $'million
Expenses		
Employee benefits expenses	5	5
Supplies and services	7	6
Depreciation and amortisation	7	8
Other expenses	2	1
Total expenses	21	20
Income		
Revenues from fees and charges	4	4
Total income	4	4
Net cost of providing services	17	16
Revenues from (Payments to) SA Government		
Revenues from SA Government	16	16
Payments to SA Government	(2)	(14)
Net result and total comprehensive result	(3)	(14)
Net cash provided by (used in) operating activities	4	(6)

	2015 $'million	2014 $'million
Net cash provided by (used in) investing activities	(3)	(4)
Assets		
Current assets	19	17
Non-current assets	248	252
Total assets	267	269
Liabilities		
Current liabilities	2	1
Non-current liabilities	-	1
Total liabilities	2	2
Total equity	265	267

Statement of Financial Position

Defence SA's main assets are the Techport Australia harbour and port facilities, $216.2 million ($220 million) and land, $22.4 million ($21.9 million).

The harbour and port facilities balance of $216.2 million relates to the Common User Facility. This asset, which includes the wharf, docking area, shiplift and supporting infrastructure, is classified as a specialised asset. This is because it has been designed and built specifically for the purpose of supporting the construction and maintenance of large maritime vessels such as those being constructed under the Royal Australian Navy Air Warfare Destroyer program, and was designed and built as a fully integrated facility. In February 2014 the Treasurer approved the asset not be subject to independent revaluation until 2024 (refer note 2(l) of the financial report).

The land comprises $16.3 million ($18.1 million) of vacant land at fair value and $2.7 million ($3 million) of improvements recognised at cost, and relates to land reserved for future naval shipbuilding purposes. The vacant land has direct access to the Common User Facility as a result of infrastructure works undertaken as part of the broader construction project for Techport. As a result, this land would be suitable for any expanded large-scale naval construction activity and could be integrated with operations at the existing Common User Facility. The land was last revalued in 2012.

The remaining $3.4 million of site land recognised by Defence SA is principally land associated with the current Common User Facility.

Capital work in progress of $2.7 million ($3.3 million) includes $1.8 million for a cathodic protection project, to prevent corrosion of wharf and shiplift infrastructure, and $700 000 for the construction of a maintenance administration building at Techport Australia. Capital work in progress projects completed during the year totalled $3.2 million ($1 million) and were transferred from capital work in progress to site land, plant and equipment and harbour and port facilities. This transfer primarily related to infrastructure works of $2.9 million for the Common User Facility expansion area.

Statement of Cash Flows

Defence SA's cash at 30 June 2015 comprises a Defence SA operating account of $905 000 ($4.3 million) and an accrual appropriation excess fund balance of $17.5 million ($12.3 million). The accrual appropriation excess fund is not available for general use and can only be used in accordance with the Treasurer's or Under Treasurer's approval.

Net cash provided by operating activities improved in 2014-15 by $10.2 million as a result of a significant reduction in the amount returned as surplus cash during the year, $2.2 million, compared with a return of $13.7 million in 2013-14. These payments were made pursuant to the cash alignment policy and are payments directly to the Consolidated Account.

Department for Education and Child Development

Functional responsibility	The Department for Education and Child Development (the Department) is an administrative unit established pursuant to the *Public Sector Act 2009*, and is responsible to the Minister for Education and Child Development (the Minister). The Department administers certain activities on behalf of the Minister, including making payments of State and Commonwealth Government contributions to non-government schools. Details of the Department's functions are contained in note 1 of the financial report.

Financial statistics	Net assets:	$3719 million
	Net cost of providing services:	$2542 million
	Total revenues from SA Government:	$2610 million
	Total comprehensive result:	$86 million
	Number of FTEs:	23 551
	Number of school and pre-school sites:	933

Financial statement opinion

Unmodified

Financial controls opinion

Modified

Key issues:

- Ineffective review of key payroll reports and absence of appropriate documentation to support some payroll payments
- Vendor creation/amendment forms not reviewed for expenditure
- Control weaknesses for Families SA expenditure regarding carer payments, care and protection grant payments and alternative care payments
- Weaknesses in online banking controls for Family Day Care expenditure and ineffective review of changes to Family Day Care vendor files
- Controls for the main Shared Services SA payroll systems did not meet a generally satisfactory standard

Scope of audit

The audit program covered major financial systems and was directed primarily to obtaining sufficient evidence to enable an opinion to be formed with respect to the financial report and internal controls.

During 2014-15 specific areas of audit attention included:

- revenue
- accounts payable
- maintenance of school buildings
- payroll
- grants to non-government schools
- family day care expenditure
- Families SA carer, alternative care and care and protection grant expenditure.

An understanding of internal audit activities was obtained in order to identify and assess the risks of material misstatement in the financial report and to design and perform audit procedures. Use was made of the work performed by internal audit in the following areas:

- the audit of school enrolment data used to determine the amount of funding provided to each government school
- the audit of government schools performed by contractors appointed, managed and monitored by the Department's internal audit team.

Audit findings and comments

Assessment of controls

In my opinion, the controls exercised by the Department for Education and Child Development in relation to the receipt, expenditure and investment of money, the acquisition and disposal of property and the incurring of liabilities, except for all matters outlined under 'Communication of audit matters', are sufficient to provide reasonable assurance that the financial transactions of the Department for Education and Child Development have been conducted properly and in accordance with law.

Communication of audit matters

Matters arising during the course of the audit were detailed in management letters to the Chief Executive. Major matters raised with the Department and the related responses are detailed below.

In addition, matters relating to Shared Services SA (SSSA) as a service provider to the Department are also described below.

State grants to non-government schools

Total State per capita funding to non-government schools for 2014-15 was $185 million. Each non-government school signs a funding deed with the Minister prior to receiving State grant funds.

Prior to the 2014 school year, State per capita funding was calculated by the State using school census information certified by the school's auditor, a requirement of the funding deed with the Minister.

Following the introduction of the National Education Reform Agreement from 1 January 2014, State per capita funding to non-government schools is calculated by the Commonwealth using August school census information electronically submitted by schools to the Commonwealth. As a result of these changes, the Minister waived the requirement for non-government schools to participate in the February and August 2014 State school censuses.

Last year the Department sought our feedback regarding the waiver of the requirement to participate in the school census process. We advised that the abandonment of the State enrolment census assurance process would result in total reliance on the Commonwealth assurance process, which has no established mechanism for State input and no requirement for independent audits of census data.

In 2014-15, we recommended the Department consider the reintroduction of a direct assurance process for all non-government schools, covering the data that has been submitted as part of the Commonwealth census process. Any identified variances arising from this assurance process could then be communicated to the Commonwealth to recalculate State grant funding amounts.

In response, the Department advised that a new clause has been added to the funding deed for South Australian non-government schools requiring an independent audit of the August 2015 enrolment data provided by the school to the Commonwealth.

Payroll

CHRIS payroll – Families SA

Families SA staff continue to be paid through the CHRIS payroll system, along with staff from the Department for Communities and Social Inclusion (DCSI). A memorandum of administrative arrangement (MoAA), which covers the provision of payroll services, exists between the Department and DCSI and has been executed each year since Families SA employees were transferred to the Department.

The Families SA payroll function is also supported by services provided by SSSA.

Ineffective review of bona fide reports (BFRs)

DCSI loads fortnightly CHRIS BFRs into a database and forwards emails to Families SA managers requesting they access the database to review and certify the completeness and accuracy of the BFR. Managers are to identify any errors, note them on the report and forward any required paperwork to SSSA to correct identified errors.

Fortnightly emails to Families SA managers also list details of all outstanding BFRs.

In 2013-14 we noted that 7% of 2013-14 BFRs were outstanding as at 23 June 2014.

In 2014-15 we noted that:

- 12% of 2014-15 BFRs remained outstanding as at 4 August 2015
- Families SA received regular high level reports from DCSI, but these did not provide details of locations with outstanding BFRs to facilitate follow-up with Families SA managers. We were advised that DCSI has developed more detailed reports but these had not been run for Families SA.

If BFR information is not checked the Department has no assurance that only valid employees are paid or that employees are paid correctly. Accordingly we recommended the Department seek more detailed reports from DCSI for Families SA outstanding BFRs and follow up outstanding reports with Families SA managers, seeking to understand why they have not been certified.

The Department advised it would request detailed monthly reports of outstanding BFRs from DCSI and use them to follow up with Families SA managers with outstanding reports.

The Department also advised DCSI would no longer need to provide BFRs following the transition to the CHRIS 21 payroll system in December 2015.

Verifying CHRIS leave data

In a process similar to that followed for BFRs, DCSI also coordinates monthly leave reports from the CHRIS system, with Families SA managers accessing the reports in a similar manner.

We previously noted that the Department had not established a policy or procedure for the certification of monthly leave reports. While the Department previously advised that policy and procedure documents would be completed and approved by 30 September 2014, our review in 2014-15 noted they had not yet been established.

The lack of a policy or procedure for the review of CHRIS leave information against attendance records has resulted in inconsistent checking practices.

We noted a lack of evidence that CHRIS leave details had been checked against attendance records and the absence of any central monitoring of the extent CHRIS leave information had been checked.

Where CHRIS leave information is not checked, errors in payroll processing may not be identified and corrected, potentially leading to incorrect leave payments or balances.

We recommended the Department establish policy and procedure documentation to support this process, require leave information to be verified against attendance records and implement a central monitoring process.

In response, the Department advised it would request a detailed monthly report of outstanding monthly leave reports from DCSI and use the report to follow up with Families SA managers who have not certified their monthly leave reports.

The Department also advised it will develop a policy or procedure on the checking of leave data against attendance records and that Families SA managers would be advised of their responsibility to ensure leave data is checked and certified in a timely manner.

Memorandum of administrative arrangements not executed in a timely manner

As noted above, an annual MoAA is executed between the Department and DCSI. We noted the 2014-15 MoAA was signed by the Department's Chief Executive on 6 July 2015 and had not been signed by the DCSI Chief Executive at the time of the audit.

We recommended future MoAAs be executed in a timely manner.

In response the Department advised that the 2014-15 MoAA was signed by the DCSI Chief Executive on 4 August 2015.

Valeo payroll

Valeo payroll is used for all non-Families SA Department employees.

Ineffective review of bona fide certificates and monthly leave returns

Department site managers are required to review and certify the completeness and accuracy of fortnightly bona fide certificates (BFCs) via the online BFC system. Similarly, they are required to review and certify monthly leave returns (MLRs) via on online MLR system. These certifications provide the Department with assurance only valid employees are paid, employees are paid correctly and leave balances are accurate, and provide a reference for managers in approving future leave requests.

Both online systems provide automated escalation reminders for all site managers and nominated site administration staff each month regarding their responsibilities to certify reports within their sites.

In 2013-14 we noted 3% of BFCs and 6% of MLRs were outstanding in early July 2014.

In 2014-15 we noted 2% of BFCs and 4% of MLRs were outstanding in late July 2015.

While there has been an overall improvement in certification rates compared to last year, we concluded that the statistics supported a view that it was appropriate for the Department to supplement the automated reminders generated by the systems with focused follow-up of non-compliance.

In response the Department advised it recognises the importance of ensuring that BFCs and MLRs are checked and certified and that Human Resources consultants will follow up BFCs and MLRs not certified in a timely manner with site leaders.

Salary overpayments

Recovery of salary overpayments to Department staff is a shared responsibility between the Department and SSSA.

Last year we noted that unrecovered salary overpayments totalled $2 million, an increase of $1.15 million (136%) since June 2010.

In 2014-15 we noted the balance of unrecovered salary overpayments per the Valeo Recover Debts Report as at 16 June 2015 was $1.97 million, a decrease of $24 000 (1%) since June 2014. The following table analyses unrecovered salary overpayments for the last five years.

	Unrecovered salary overpayments			
Year to	Balance managed by the Department $'000	Balance managed by SSSA $'000	Total $'000	Increase $'000
June 2011	284	742	1 026	179
June 2012	362	932	1 294	268
June 2013	408	2 287	2 695	1 401
June 2014	1 000	996	1 996	(699)
June 2015	903	1 069	1 972	(24)

Our review of the Valeo Recover Debts Report for debts managed by the Department and SSSA as at 16 June 2015 revealed high numbers of overpayments continued to occur in 2014-15, with large numbers continuing to be referred to the Department by SSSA. We also noted a significant number of overpayments have repayment plans that will result in the overpayment being repaid more than 12 months after the overpayment was made.

We understand that where the overpayment recipient is still a departmental employee the ATO treats the salary overpayment as an interest free loan, and where repayment does not occur prior to the end of the financial year, there is an additional cost of FBT to the Department.

Where the cause of overpayments is not addressed, salary overpayments will continue to occur requiring Department and SSSA resources to manage recovery.

We recommended the Department and SSSA continue to work to investigate and address the causes of salary overpayments and work to recover outstanding overpayments.

In response the Department and SSSA advised:

- SSSA had implemented the new Commissioner for Public Sector Employment Determination 6 'Recovery of Overpayments', which will improve the salary overpayment recovery process through a more streamlined recovery process, and the Department is working with SSSA to develop specific overpayments procedures
- SSSA and the Department would continue to work closely to investigate and address the causes of salary overpayments, with the Department noting the online leave and change in time initiatives are expected to reduce the number of overpayments
- the Department would analyse information on overpayments by site and provide specific training to sites where a recurring issue is highlighted.

Appointment letters not always issued

We noted that the Department's hiring policies and procedures for teaching and ancillary staff do not require an appointment letter to be issued.

However, we were advised the Department's Human Resources unit processes employment offers in the Vacancy Selection and Placement system, generates letters of appointment from the system, signs the letters off electronically and sends them to the successful applicant.

Our 2014-15 testing of a sample of payroll transactions identified seven instances where no appointment letters were issued to school staff covering the pay period selected for testing. While we were advised extensions of contracts often do not result in new appointment letters being issued, this did not appear to be the case for all the instances identified.

Not providing signed appointment letters for all new, extended or modified appointments may result in disputes regarding the terms of appointment or pay classification.

We recommended that the Department consider updating its hiring policies and procedures for teaching and ancillary staff to require an appointment letter to be issued for all new, extended or modified appointments.

In response the Department:

- confirmed that appointment letters are only sent out for new appointments
- advised our recommendation to send appointment letters for all appointment changes, including modified appointments, will need further investigation as it will have an impact on system capability and resources within the Human Resources unit.

No authority for salary loading paid to emergency relief teachers in lieu of long service leave

Rates of pay for school teachers are contained in the Teachers (DECS) Award and the South Australian School and Preschool Education Staff Enterprise Agreement 2012.

Our payroll testing in 2014-15 identified the payment of a 2.5% salary loading in lieu of long service leave to an emergency relief teacher.

While this loading was consistent with information on the wages and salaries page of the Department's website, it was not outlined in the Teachers (DECS) Award or the South Australian School and Preschool Education Staff Enterprise Agreement 2012.

In the absence of an appropriate authority supporting the 2.5% salary loading in lieu of long service leave, these payments are inappropriate. We asked the Department to provide the authority for these payments.

The Department advised there is currently no applicable industrial instrument for the 2.5% salary loading payment to emergency relief teachers in lieu of long service leave and the matter will be reviewed by the Department's Human Resources unit.

Accounts payable

No independent review of vendor creation/amendment forms

SSSA is responsible for ensuring requests to create new vendors or amend existing vendors are processed completely and accurately. It is the Department's responsibility to ensure requests to create new vendors or amend existing vendors are accurate and valid. Our 2014-15 audit found there was currently no process to ensure vendor creation or amendment requests have been checked prior to their submission to SSSA.

Further, the Department's policies only require the SSSA vendor creation or amendment form, or an email request, in order to create or change vendor details.

The absence of an independent check of vendor addition or change requests increases the risk of invalid or inaccurate vendor information being added to the accounts payable system, which may result in electronic payments to incorrect bank accounts or cheques being forwarded to incorrect payees and addresses. This risk, which could result in financial loss to the Department, may occur as a result of either fraud or error.

We recommended the Department relate with SSSA to amend the SSSA form to allow for the signature of an independent departmental checking officer and that SSSA then only process forms with evidence of two signatures. We also recommended the Department amend its policies to reflect these requirements and communicate the changes to staff.

In response the Department advised:

- the SSSA form had been altered to allow for the signature of an independent checking officer certifying that details on the form are accurate. The form would be available for use in September 2015
- SSSA has been advised to only process a vendor creation/amendment request on submission of an SSSA form that is certified by both the departmental requesting and independent checking officer
- it will amend its Accounts Payable policy to reflect the above changes. Once the policy has been approved the new requirements will be communicated to departmental officers and SSSA.

Purchase cards

Last year we reviewed the Department's use of purchase cards and the established controls, including consideration of controls implemented by SSSA. In response to issues identified through that review the Department advised, among other things, it would provide training to cardholders on requirements of Treasurer's Instruction 12 'Government Purchase Cards and Stored Value Cards' (TI 12) and the Department's Purchase Card policy and procedure, Domestic Travel policy and Corporate Entertainment policy.

In 2014-15 we noted the Department had provided training to a large number of purchase card holders, as well as providing additional online resources for reference.

Missing agreement and acknowledgement by cardholder forms

TI 12 requires each authorised purchase card holder to sign an ‘agreement and acknowledgment by cardholder’ which details appropriate responsibilities and limits on the use of the purchase card. The signed document must be approved by the Chief Executive (or delegate) prior to the purchase card being issued to the cardholder. These requirements are echoed in the Department’s own Purchase Card policy, with completed forms being forwarded to SSSA.

Our 2014-15 testing revealed instances where signed agreements could not be located.

We were advised that the cardholders were issued purchase cards more than seven years ago and forms were not retained for these officers. Similar instances were noted last year for Families SA cardholders.

The absence of a signed agreement may indicate that cardholders do not understand, or have not acknowledged, the terms and conditions of use for State Government purchase cards as documented in TI 12 and the Department’s Purchase Card policy. This may result in inappropriate use of purchase cards.

We recommended that the Department, together with SSSA, identify cardholders where no agreement is held and ensure a new agreement is completed.

In response the Department advised it would liaise with SSSA to review retained agreements against the cardholder register and identify cardholders where no agreement is currently held. SSSA, on behalf of the Department, would facilitate completion of the documentation where required.

Intrastate travel expensed on purchase cards approved subsequent to travel

The Department’s Domestic Travel procedure requires that, prior to travel being undertaken, approval must be sought from the relevant Executive Director, Deputy Chief Executive or the Chief Executive via the completion of an Application for Permission to Travel Interstate/Intrastate on Duty form (travel application form).

Our testing of cardholder expenditure revealed instances where the travel application form was approved subsequent to travel.

Approving expenditure subsequent to travel raises the risk that the travel may not be for appropriate departmental purposes.

We recommended that the Department remind staff that travel application forms must be completed and approved prior to travel being undertaken.

In response the Department advised it would continue to reinforce the requirements of the Domestic Travel procedure through dedicated sample checking of transactions and ongoing education.

Entertainment costs expensed on purchase cards approved subsequent to entertainment expenditure

The Department’s Corporate Entertainment policy requires that, prior to entertainment expenditure being undertaken, written approval must be sought from the appropriate delegate on a Request for Approval form or alternative written approval (including emails).

The Department’s Purchase Card policy prohibits purchase card holders from using their cards for entertainment expenditure unless an approved delegate has granted prior approval in accordance with the Department’s Corporate Entertainment policy.

Our testing of cardholder expenditure in 2014-15 revealed an instance were the Request for Approval form was approved subsequent to the entertainment expenditure being incurred.

Using purchase cards for entertainment expenditure prior to approval may result in inappropriate expenditure. Accordingly, we recommended the Department remind purchase card holders that written approval is required for entertainment expenditure prior to expensing any such amounts on their card.

In response the Department advised it undertakes monthly random checking to identify non-compliance with the Purchase Card policy requirements. It would continue to review purchase card expenditure for compliance and provide education when required.

School maintenance

School maintenance charges not being certified and warranty log registers not maintained

Over a number of years, we have reported that schools have not been approving the validity of charges associated with breakdown maintenance undertaken, nor have they been consistently maintaining registers of warranties for school equipment.

Breakdown maintenance is performed by contracted facilities managers organised through the Department of Planning, Transport and Infrastructure (DPTI), and recorded in DPTI's Facilities Management Information System (FAMIS). If charges recorded in FAMIS are not approved or disputed by school sites within 30 days, they are automatically paid.

In response to our previous findings, the Department has reminded schools of their obligations to approve these payments and has worked with DPTI to investigate whether reminder emails could be generated from FAMIS. DPTI advised that future FAMIS functionality may allow reminder emails to be sent to school sites, but this feature is not currently available.

Our 2014-15 audit revealed the proportion of maintenance charges automatically paid by the facilities managers has increased further in 2014-15. Details for the last five audits are provided in the table below.

	Maintenance charges reviewed and approved by schools		Maintenance charges automatically paid by facilities managers	
Year to	$'million	%	$'million	%
30 June 2011	23.56	51	23.77	49
30 June 2012*	25.48	45	30.97	55
31 March 2013	17.17	44	21.88	56
31 May 2014	22.27	35	41.15	65
30 June 2015	23.39	33	46.57	67

* Rollout of FAMIS to non-metropolitan sites commenced during 2011-12.

Similarly, in relation to the maintenance of warranty log registers by schools, our 2014-15 audit of a sample of schools revealed not all schools maintained separate warranty log registers. Warranty information was also not recorded in the asset register module of the Department's school administration system, despite the Department having issued term-by-term reminders.

In respect of both of these matters, there is a risk the Department is either not being charged the correct amount (including actual hours worked and materials used) for maintenance work performed, or is paying for work that could have been performed under warranty.

We recommended the Department reinforce the requirements to approve maintenance expenditure and record warranty information to schools.

In response to the issue of certification of maintenance charges, the Department advised the contract conditions of the across-government facilities management arrangements, the engagement by DPTI of an independent accounting firm to review maintenance charges and ensure works are actioned in accordance with agreed rates, and the departmental activities support its view that the likelihood of work being undertaken and charged outside the agreed contract rates is minimal and poses low risk to the Department.

However, as a measure to reduce the number of automatically approved transactions the Department is investigating options to expand the use of Business Manager, a computer software package designed to help site managers successfully manage their work health and safety requirements, to include notification to approve maintenance charges in FAMIS. This would provide the Department with a record of sites actioning acceptance and approval processes and enable accurate reporting on compliance.

For the warranty log register issue, the Department confirmed it would continue to remind schools of their obligations but would also investigate options to expand the use of Business Manager to include notification that warranty log registers are maintained. This would provide the Department with a record of sites maintaining warranty log registers and enable accurate reporting on compliance.

Families SA expenditure

Carer payments

Delays in performing annual carer reviews

The *Family and Community Services Act 1972* and the Department's policies require regular assessments of caregivers.

In prior years we have identified that Families SA had not confirmed that registered caregivers were reviewed by the relevant non-government organisations (NGOs) within the time frames required by legislation and departmental policy. The Department has previously advised it had made a number of requests to the NGOs regarding the outstanding reviews and would be pursuing this matter with the respective agencies.

We noted, in 2014-15, the annual reviews of 68 registered caregivers were past due as at 16 July 2015, with some of the reviews being outstanding for a number of years.

Where assessment is delayed, carers who do not meet suitability criteria may not be detected. Ultimately, there may be an increased risk to children under the care of the Minister.

In response the Department advised:

- its Carer Registration Team will advise NGOs of carer review dates and outstanding reviews on a quarterly basis
- carer review dates can be subject to change as they can be brought forward due to carer concerns, training or support requirements. Consequently some carers may be subject to three or six monthly reviews if requested by the Carer Registration Team.

Education and Child Development

Policies and procedures not finalised and approved

Last year we noted the following policies and procedures were in draft and unapproved:

- Placement Services Unit Manual of Practice 2012
- Carer Approval and Registration Manual 2012.

In response the Department advised that the scope of activity associated with the redesign of Families SA and the introduction of Solution Based Casework included the complete redrafting of all operational and practice procedures and guides.

In 2014-15 we found:

- the Placement Services Unit Manual of Practice 2012 was still in draft, was not reviewed and updated and was not approved

- the Carer Approval and Registration Manual 2012 was replaced by the draft Carer Registration procedures.

The absence of approved policy and procedure documentation that is available for staff reference may result in inconsistent practices, the breakdown of internal controls and processing errors.

In response the Department advised the Carer Registration procedures will be finalised by 30 December 2015.

Alternative care payments

Insufficient evidence of verification of invoiced rates

Families SA engages contractors to provide care to children who are in emergency accommodation, and receives fortnightly invoices and carers' sheets from the contractors detailing hours worked.

Families SA relies on:

- supervisors of case workers confirming services reflected on contractor invoices were provided by the contractor

- district office business managers confirming invoice rates to the agreed price schedule.

In prior years we noted the extent of review of emergency care invoices varies across Families SA offices. In particular, there was a lack of evidence that rates invoiced were verified against the agreed price schedule.

In response to these matters, the Department has previously committed to reinforcing requirements to relevant staff and amending the coversheet to specifically require certification that the services invoiced were provided and rates charged were agreed to the price schedule.

In 2014-15 we confirmed the payment coversheet was amended, consistent with the Department's previous response.

However, our review of a sample of invoices in 2014-15 revealed the extent of review of emergency care invoices continues to vary across Families SA offices. We noted:

- only one instance in our sample where an amended coversheet was signed to certify the services invoiced were provided and rates charged were agreed to the price schedule

- some instances where invoices were stamped and signed to certify the services invoiced were provided and rates charged were agreed to the price schedule
- many instances where there was no evidence services invoiced were provided and rates charged were agreed to the price schedule.

In response the Department advised the Financial Accounting and Compliance Unit and the Service Accountability Unit would review the emergency care payment processes.

Insufficient supporting documentation particularly where there are variations to agreed rates

Our testing of emergency care payments in 2014-15 included a contractor's invoice for $15 688.

We noted:

- the majority of the rates charged on the invoice did not agree with the service agreement and other documentation provided
- there were inconsistencies on the invoice itself with regard to the rates charged across different days, which were not due to agreed rate variations for weekends and public holidays.

The absence of supporting documentation, particularly for variations to agreed rates, gives rise to the risk that the rates charged were not checked prior to payment and that the amount paid was not accurate or valid.

In response the Department advised the Financial Accounting and Compliance Unit and the Service Accountability Unit will introduce new processes to ensure invoices are checked against contracted rates before payments are made.

Care and protection grant payments

Payments made prior to execution of agreements

In prior years we have reported the matter of care and protection service agreements not being executed prior to grant payment.

In 2014-15 we noted that 30 care and protection service agreements with NGOs expired on 30 June 2014.

The Minister was advised on 16 June 2014 that six new agreements may not be in place by 1 July 2014. To ensure continuity of services the Minister approved emergency payments totalling $667 574 to the NGOs affected, with payments made in July 2014.

We noted three new service agreements were executed in June 2014 and the remaining three in July 2014.

Making payments prior to the execution of agreements gives rise to the risk the Department may not be able to recover part payments made where services provided do not meet the Department's expectations.

In response the Department advised the Service Accountability Unit will, in future, work with the Procurement Unit to ensure agreements are executed three months prior to expiration.

Policies and procedures not finalised and approved

Last year we noted the following policies and procedures were in draft and unapproved:

- DECD Not-For-Profit Grants Management Framework
- Service Agreement Financial Management procedure.

In response the Department advised resources were being assigned to update policies and procedures, with an expected completion date of 1 January 2015.

In 2014-15 we found a new Grants Management policy and Contract Management procedures were developed but were in draft and had yet to be reviewed and approved.

The absence of documented and approved policies and procedures may result in inconsistent practices, the breakdown of internal controls and processing errors.

In response the Department advised the Grants Management policy and Contract Management procedures would be finalised by 30 December 2015.

Family day care expenditure

Excessive CommBiz online banking system limit for the Family Day Care (FDC) bank account

We have previously reported that the Department had not set a limit within the CommBiz online banking system for daily payment transactions for the FDC bank account, leaving the limit at the default amount of $99 999 999.

In response the Department advised a daily payment limit lower than the default limit had been approved and established for the account.

In 2014-15 we found a $5 million daily payment transaction limit was set for the account. Our review of 2014-15 weekly payments identified that the highest weekly payment for the year to date was $610 000.

If the CommBiz dual payment authorisation control is circumvented, the high daily payment transaction limit could expose the Department to a high value incorrect or fraudulent transaction.

In response to this matter, the Department advised a limit of $650 000 would be set for the FDC account.

CommBiz online banking system user access for a former Family Day Care officer not deactivated in a timely manner

We found that access to the CommBiz online banking system for an FDC officer who ceased employment on 4 February 2015 was not deactivated. As a result there was a potential risk, if an officer was able to gain access to the former officer’s account in addition to their own, that invalid payments could occur; noting this would require knowledge of the former officer’s password and access to their security token.

In response the Department advised the former officer’s access had been deactivated and that it had reminded staff of the need to ensure access is revoked in a timely manner when staff leave and implemented monthly, rather than quarterly, CommBiz user access reviews.

Access to the bulk payment file is not restricted or secured

In order to process FDC payments the CommBiz online banking system imports a Harmony system bulk electronic payment file from a shared network drive.

The 2014-15 audit found:

- the payment files were not secured by encryption
- access to the shared network drive was not restricted only to CommBiz system payment authorisers, as all Harmony system users had access to the bulk payment file.

Staff with access to the shared network drive have the ability to manipulate Harmony payment file details prior to payment through the CommBiz online banking system. This increases the risk of invalid and fraudulent transactions.

In response the Department advised access to the shared drive would be restricted to CommBiz online banking payment authorisers only.

No evidence of review of Harmony system payment files imported into CommBiz, prior to payment authorisation and disbursement

Each week between five and seven Harmony system bulk payment files are generated to pay FDC educators through the CommBiz online banking system.

Prior to approving payment, the CommBiz authorisers check the value and number of transactions imported into CommBiz against the Harmony system reports.

In 2014-15 we found instances where there was no evidence that the data imported into CommBiz from Harmony was reviewed against the Harmony system reports prior to approval of the payments in CommBiz.

Not checking the completeness and accuracy of payment files imported into CommBiz may result in inappropriate payments and undetected fraudulent transactions. This risk is heightened as access to the Harmony bulk payment file was not appropriately restricted (as discussed above).

In response the Department advised it would undertake a review of current practices with a view to implementing a new process whereby CommBiz authorisers perform weekly checks of Harmony system reports to bank advices.

No review of vendor master file changes

The FDC vendor master file includes the educators' personal details such as address, bank account, fee schedules and the expiry dates of training qualifications, including first aid.

Vendor master file changes are requested by FDC educators through a signed form.

In 2014-15 we found that, while the 'Educator Update' reports from the Harmony system list the educator and the date changes are made, the reports do not provide specific details of changes made.

We also found there was no check of vendor master file changes to source documentation.

Not reviewing changes to educator bank account details and fee schedules may result in non-detection of invalid or erroneous changes, which increases the risk of inappropriate payments.

In response the Department advised it will develop a process to independently check educator changes.

No procedures are documented for some key Family Day Care activities

We identified the Department did not have documented procedures for the following key FDC activities:

- performance of FDC processing checklist
- review and authorisation of bulk payment files in the CommBiz online banking system
- update of vendor master file details.

Although the CommBiz online banking system has generic user guides for authorising payments, these do not cover all the procedures required by FDC officers to authorise FDC bulk payment files.

The lack of documented procedures may result in inconsistent processes, which increases the risk of errors.

In response the Department advised procedures would be developed by November 2015.

Shared Services SA – financial systems and transaction processing environments

SSSA processes financial transactions on behalf of the Department under service level determinations. The main systems and control environments include accounts payable, payroll and general ledger financial functions.

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

As discussed in the commentary under 'Department of the Premier and Cabinet' elsewhere in Part B of this Report, our review and evaluation of controls for the SSSA main payroll systems concluded that controls did not meet a generally satisfactory standard for 2014-15. A number of specific matters were raised with SSSA for corrective action and review for process and procedural improvement. Our review and evaluation of controls for the SSSA main accounts payable systems and environment concluded that controls met a generally satisfactory standard for 2014-15.

The matters do not relate to the Department's transaction processing.

Information and communications technology and control

2014-15 Families SA information and communications technology audit program

During 2014-15 we completed a review of certain aspects of information and communications technology management and control arrangements at Families SA. This included the Connected Client and Case Management System (C3MS) and an assessment of the outcomes of recent internal audit coverage.

Our review noted certain positive controls, including a consistent process for administering C3MS user access, documenting approvals and granting user access based on job roles. However, the review also identified certain shortcomings.

To address these findings and strengthen the overall information and communications technology environment, we raised a number of recommendations, including:

- development of a formal IT strategic plan

- implementation of a business continuity plan for Families SA
- finalisation of disaster recovery documentation
- testing of business continuity and disaster recovery plans on a regular basis
- review and endorsement of the C3MS change management procedure
- formal assessment of IT risks within Families SA Information Management Services
- consideration of the review of C3MS or Families SA Information Management Services in the 2015-16 Department internal audit plan
- implementation of a formal process for the periodic review of C3MS user access
- development of a formal process for the timely notification of employee terminations to the User Support team.

The Department responded positively to our review findings and recommendations with details of planned remediation. It advised that remediation would be completed by the end of June 2015. Additionally, testing of the Families SA Information Management Services business continuity plan/disaster recovery plan would be scheduled to occur during December 2015.

Interpretation and analysis of the financial report

Highlights of the financial report (Consolidated)

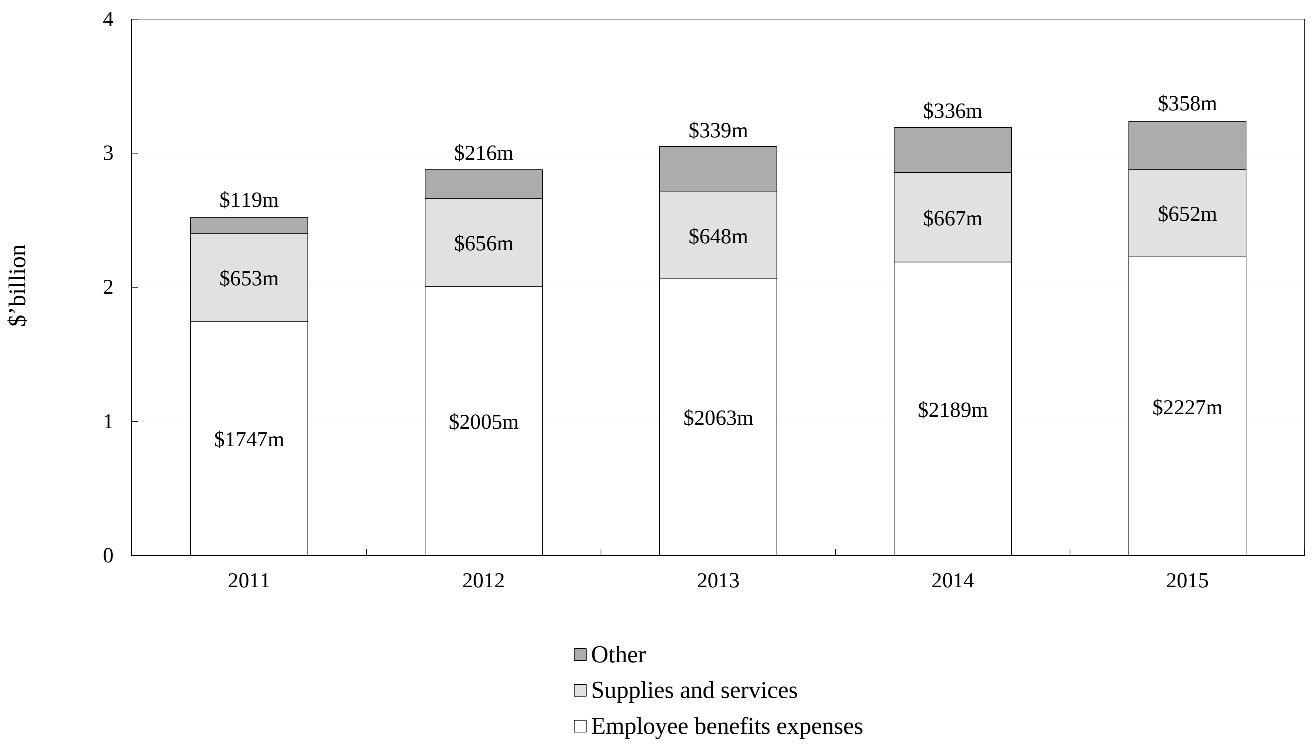
	2015 $'million	2014 $'million
Expenses		
Employee benefits expenses	2 227	2 189
Supplies and services	652	667
Other	358	336
Total expenses	3 237	3 192
Income		
Commonwealth revenues	455	120
Student and other fees and charges	144	144
Other	96	103
Total income	695	367
Net cost of providing services	2 542	2 825
Revenues from (Payments to) SA Government		
Revenues from SA Government	2 610	2 841
Payments to SA Government	(17)	(45)
Net result	51	(29)
Other comprehensive income		
Changes in revaluation surplus	35	(43)
Total comprehensive result	86	(72)
Net cash provided by (used in) operating activities	225	107

	2015 $'million	2014 $'million
Assets		
Current assets	922	768
Non-current assets	4 038	4 052
Total assets	4 960	4 820
Liabilities		
Current liabilities	454	393
Non-current liabilities	787	794
Total liabilities	1 241	1 187
Total equity	3 719	3 633

Statement of Comprehensive Income

Expenses

A structural analysis of the main expense items for the Department for the five years to 2015 is shown in the following chart.



Total expenses increased by $45 million (1.4%) to $3.2 billion. This comprised:

- a $38 million increase in employee benefits expenses reflecting:
  - a $64 million increase in salaries and wages (including annual leave) due mainly to enterprise bargaining increases during 2014-15, FTE increases and an increase in annual leave liability
  - a $20 million decrease in workers compensation due principally to a reduction in the provision for workers compensation arising mainly from lower expected claim payments resulting from changes to the *Return to Work Act 2014*

— a $12 million decrease in superannuation on-costs resulting mainly from changes in the percentage of long service leave to which superannuation on-costs are calculated (26% in 2012-13, 64% in 2013-14 and 63% in 2014-15), offset by increases in salaries and wages and employee benefits liabilities

— a $9 million increase in long service leave expense due mainly to the changes in the methodology and actuarial assumptions used to value the long service leave liability (refer note 28 of the financial report) and salary and wage increases resulting from enterprise bargaining increases

— a $9 million decrease in targeted voluntary separation packages (TVSPs) reflecting a TVSP scheme with lower entitlements and a reduction in the number of employees paid TVSPs to 49 from 71 in 2014 (refer note 5 of the financial report)

- a $15 million decrease in supplies and services reflecting a $5.9 million decrease in minor works and maintenance expenditure, a $3.7 million decrease in management fees and charges, a $3.1 million decrease in printing, postage and consumables expenditure, a $2.8 million decrease in computer communications expenditure and a $2.4 million decrease in student learning materials expenditure (refer note 6 of the financial report)

- a $22 million increase in the remaining expense categories comprising:

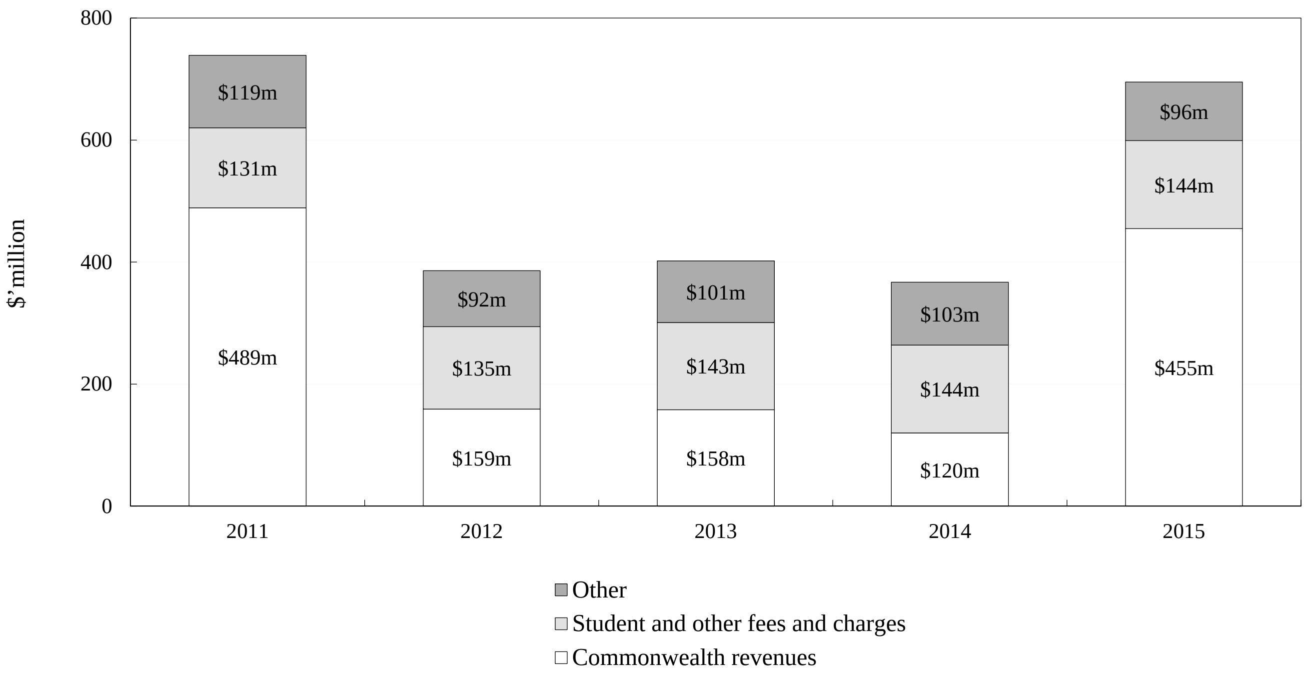
— a $16 million increase in grants and subsidies (refer note 7 of the financial report)

— a $4 million increase in depreciation and amortisation expenses (refer note 8 of the financial report)

— a $3 million increase in other expenses due mainly to a $6.6 million increase in non-current assets written off, offset by a $4.2 million decrease in the decrement arising from the revaluation of buildings under finance lease and leasehold improvements (refer notes 10 and 23 of the financial report).

Income

A structural analysis of the main income items for the Department for the five years to 2015 is shown in the following chart.



The high level of income in 2011 reflects funding received from the Commonwealth under the Building the Education Revolution economic stimulus package.

Total income in 2015 increased by $328 million (89%) to $695 million. This comprised:

- a $335 million (279%) increase in Commonwealth revenue due mainly to:
  - a $372 million increase arising from National Education Reform Agenda funding, reflecting new Commonwealth funding arrangements commencing in 2014-15. Commonwealth funding was classified as revenues from SA Government in previous years because of the nature of the previous arrangements
  - an $11 million decrease in Communities Making a Difference funding. Funding for this national partnership was rolled into the new National Education Reform Agenda funding arrangements
  - a $5.6 million decrease in Trade Training Centres funding
  - a $5.5 million decrease in Literacy and Numeracy funding, with this national partnership ceasing on 31 December 2014
  - a $4.7 million decrease in Digital Education Revolution funding, with 2013-14 being the final year of the Digital Education Revolution program
- a $7 million decrease in other income due mainly to an $8.7 million decrease in other revenues, offset by a $3.3 million increase in net gain from disposal of non-current assets.

Revenues from SA Government

Revenues from the SA Government decreased by $231 million (8%) to $2.61 billion principally due to reclassification of Commonwealth funding previously reported as appropriation, offset by additional funding for long service leave liability increases, National Education Reform Agreement outcomes, funding for major works and enterprise bargaining increases.

Statement of Financial Position

Current assets increased by $154 million to $922 million due mainly to:

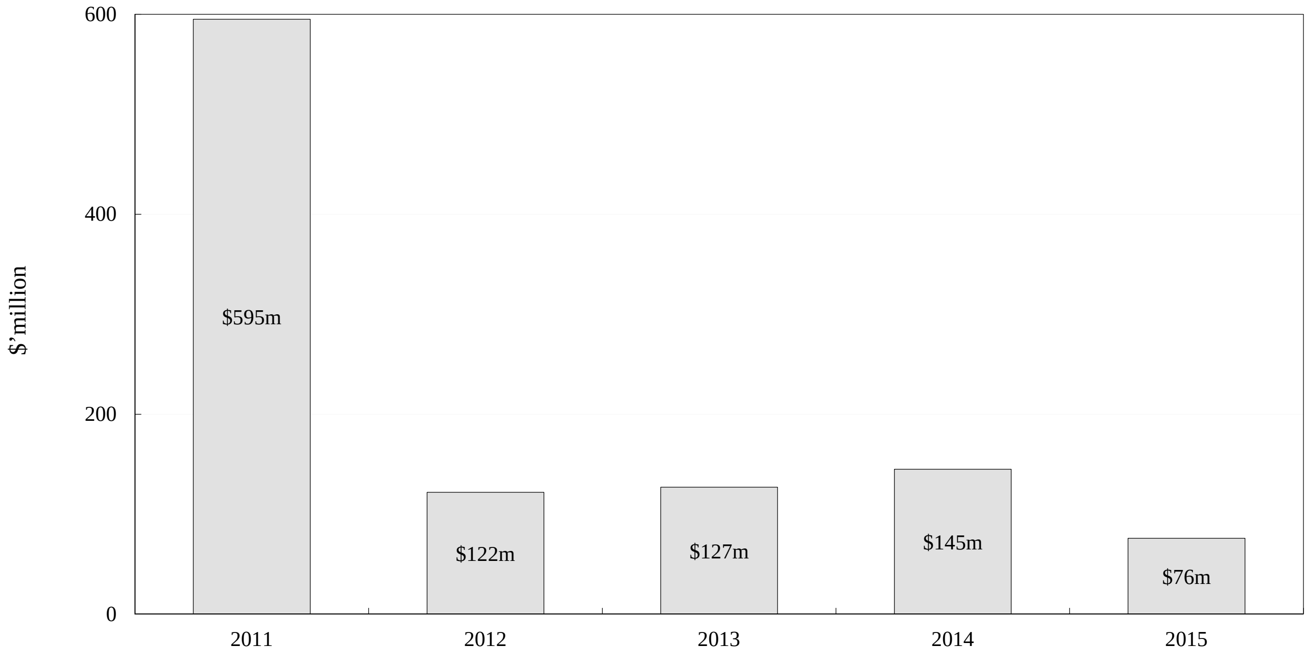
- a $147 million increase in cash and cash equivalents due mainly to a $167 million increase in the Department’s deposits with the Treasurer, offset by an $18 million decrease in cash held by schools in SA School Investment Fund accounts (refer note 18 of the financial report)
- a $6.5 million increase in receivables, due mainly to an $8.3 million increase in fees, charges and other receivables and a $1.2 million increase in prepayments, offset by a $1.7 million decrease in GST receivable from the ATO and a $1.2 million decrease in accrued revenues (refer note 19 of the financial report).

Non-current assets at 30 June 2015 were steady at $4 billion. The major movements within this asset category for the year were:

- asset additions of $88 million (including assets recognised for the first time of $5 million)
- a $35 million net increment on revaluation of land, swimming pools (within buildings and improvements), residential accommodation housing and buses/motor vehicles

- annual depreciation and amortisation charges of $109 million
- derecognised assets of $15 million
- asset disposals of $12 million.

The following chart shows capital expenditure on land, buildings and construction works in progress (corporate department only) for the five years to 2015.



The high level in 2011 reflects capital expenditure funded by the Commonwealth Government's Building the Education Revolution economic stimulus package and the recognition in 2011 of buildings under finance lease of $177 million.

As at 30 June 2015 the employee benefits and related on-cost liability of $834 million ($785 million) comprised 67% (66%) of total liabilities. Borrowings of $172 million ($174 million) relating to obligations under the finance lease for the schools' facilities Public Private Partnership agreement comprise 14% (15%) of total liabilities. The provision of $101 million ($117 million) for workers compensation claims accounts for a further 8% (10%) of total liabilities.

Statement of Cash Flows

The Department's cash position increased by $147 million in 2014-15 due to:

- a $118 million improvement in net operating cash flows, resulting mainly from a $335 million increase in receipts from the Commonwealth and a $77 million decrease in payments for supplies and services, offset by a $231 million decrease in receipts from the SA Government and a $49 million increase in employee benefit payments
- a $61 million decrease in net cash flows used in investing activities, resulting mainly from a $56 million decrease in property, plant and equipment purchases, offset by a $4 million increase in proceeds from the sale of property, plant and equipment.

During 2014-15 the Department returned $17 million ($46 million) of surplus cash to the SA Government, pursuant to the cash alignment policy.

Cash at 30 June 2015 includes deposits with the Treasurer of $499 million (including $354 million in the Accrual Appropriation Excess Funds Account, which may only be used as approved by the Treasurer/Under Treasurer) and $335 million in cash held by schools in SA School Investment Funds accounts.

Administered items

The Department administers certain funds on behalf of the Minister for Education and Child Development. The funds are received from the Commonwealth and SA Governments and used mainly to pay:

- grants to non-government schools of $962 million ($929 million)
- subsidies of $16 million ($16 million) to the Public Transport Division of DPTI for student travel concessions on metropolitan and country transport services
- an operating grant to the SACE Board of South Australia of $19 million ($19 million).

Grants to non-government schools included $185 million ($174 million) in State grants. The grants were based principally on the average annual enrolment of the schools and the needs of the schools and their students.

Further commentary on operations

Staffing

As at 30 June the Department employed the following FTE employees by category for the past three years.

	2015 FTE	2014 FTE	2013 FTE
Department			
Education Act 1972	14 310	14 216	14 118
Schools Services Officers Award	4 520	4 347	4 255
Children's Services Act 1985	1 213	1 162	1 174
Public Sector Act 2009	2 918	2 824	2 787
Weekly paid	293	297	293
Other	284	290	284
Total	23 538	23 136	22 911
Administered activities			
Public Sector Act 2009	12	13	14
Education Act 1972	1	1	4
Total	13	14	18

Environment Protection Authority

Functional responsibility	The Environment Protection Authority (EPA) is South Australia's primary environmental regulator for the control and minimisation of pollution and waste. It is responsible for the protection and enhancement of air and water quality, and control of pollution, waste and environmental noise. The EPA financial reporting entity, comprises the following: — a statutory authority with an appointed board established by the *Environment Protection Act 1993* (the EP Act) — an administrative unit also named the EPA established under the *Public Sector Act 2009* — the Environment Protection Fund as established under the EP Act. The EP Act permits the statutory authority to make use of the services of the administrative unit's employees and its facilities. The administrative unit also has responsibility for radiation protection functions under the *Radiation Protection and Control Act 1982*. Under the EP Act, the Chief Executive of the administrative unit is also taken to be the Chief Executive of the statutory authority. The Chief Executive is subject to the control and direction of the Minister in relation to the activities of the administrative unit, and is subject to the control and direction of the Board in giving effect to its policies and decisions under the EP Act.
Financial statistics and significant events and transactions	Net revenue from providing services: $6.1 million Revenue from fees and charges: $57 million Payment to Waste to Resources Fund: $20 million Return of surplus cash to SA Government pursuant to cash alignment policy: $7.3 million Number of FTEs: 214.1
Financial statement opinion	**Unmodified**
Financial controls opinion	**Modified** Key risks: — Review of licence management plans — Monitoring of payroll bona fide reports

Scope of the audit

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

During 2014-15 areas of review included:

- waste levies revenue
- licence fee revenue
- accounts payable
- payroll
- purchase cards
- general ledger
- Licensing Administration Modernisation Project (LAMP) implementation update and capitalisation.

Audit findings and comments

Assessment of controls

In my opinion, the controls exercised by the Environment Protection Authority in relation to the receipt, expenditure and investment of money, the acquisition and disposal of property and the incurring of liabilities, except for all matters outlined under 'Communication of audit matters', are sufficient to provide reasonable assurance that the financial transactions of the Environment Protection Authority have been conducted properly and in accordance with law.

Communication of audit matters

Matters arising during the course of the audit were detailed in management letters to the Chief Executive. The EPA's responses indicated that appropriate actions would be taken to address the matters raised. The following outlines the notable matters that were raised with the EPA.

In addition, matters relating to Shared Services SA (SSSA) as a service provider to the EPA are also described below.

Licence compliance

Under the EP Act, the EPA provides environment authorisations in the form of licence or works approval for an individual or a corporation, to regulate the undertaking of prescribed activities of environmental significance. The EPA has developed licence management plans as a tool to manage site risks.

In previous audits it was identified that:

- there was no procedure or specific guidance about how and when to review a licence management plan

- the approach to maintaining and evidencing the review of licence management plans was not consistent

- management plans selected for review could not be provided at the time of audit.

These matters are not yet resolved. The EPA is moving towards standardising the management and recording of licence management plans through the LAMP project. LAMP will provide an enhanced database for management monitoring and reporting across the EPA on a variety of licence related information. As part of its functionality LAMP will standardise reporting on licence management plans.

We will review the implementation of LAMP once it is in place to ensure it addresses the matters raised by us in previous years. We noted that the LAMP project did not meet its revised implementation date of April 2015. The status of LAMP is discussed below under 'Further commentary on operations'. The EPA has advised that key modules of LAMP were operational on 4 August 2015.

Monitoring of payroll bona fide reports

In the 2014-15 financial year the EPA's Human Resources section implemented the central bona fide register to identify, monitor and follow up outstanding bona fide reports. Bona fide reports certified by managers are recorded in the central bona fide register. Areas where EPA policy was not followed were:

- some bona fide reports were not certified by managers within seven days
- some bona fide reports were certified by managers but not returned to the Human Resources section within seven days of receipt.

The EPA responded that it will reinforce the EPA bona fide policy and procedure to all employees. The EPA will consult with managers to determine a strategy to develop improved compliance with the bona fide policy.

Shared Services SA – financial systems and transaction processing environments

SSSA processes financial transactions on behalf of the EPA under service level determinations. The main systems and control environments include accounts payable, payroll and general ledger financial functions.

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

As discussed in the commentary under 'Department of the Premier and Cabinet' elsewhere in Part B of this Report, our review and evaluation of controls for the SSSA main payroll systems concluded that controls did not meet a generally satisfactory standard for 2014-15. A number of specific matters were raised with SSSA for corrective action and review for process and procedural improvement. Our review and evaluation of controls for the SSSA main accounts payable systems and environment concluded that controls met a generally satisfactory standard for 2014-15.

Interpretation and analysis of the financial report

Highlights of the financial report	2015 $'million	2014 $'million
Expenses		
Employee benefits expenses	22	22
Supplies and services	9	7
Grants and subsidies	21	20
Other expenses	1	2
Total expenses	53	51
Income		
Fees and charges	57	55
Other revenues	2	2
Total income	59	57
Net revenue from providing services	6	6

	2015 $’million	2014 $’million
Net payment to SA Government	7	5
Net result	(1)	1
Net cash provided by (used in) operating activities	0	2
Assets		
Current assets	24	23
Non-current assets	7	8
Total assets	31	31
Liabilities		
Current liabilities	4	4
Non-current liabilities	6	5
Total liabilities	10	9
Total equity	21	22

Statement of Comprehensive Income

Expenses

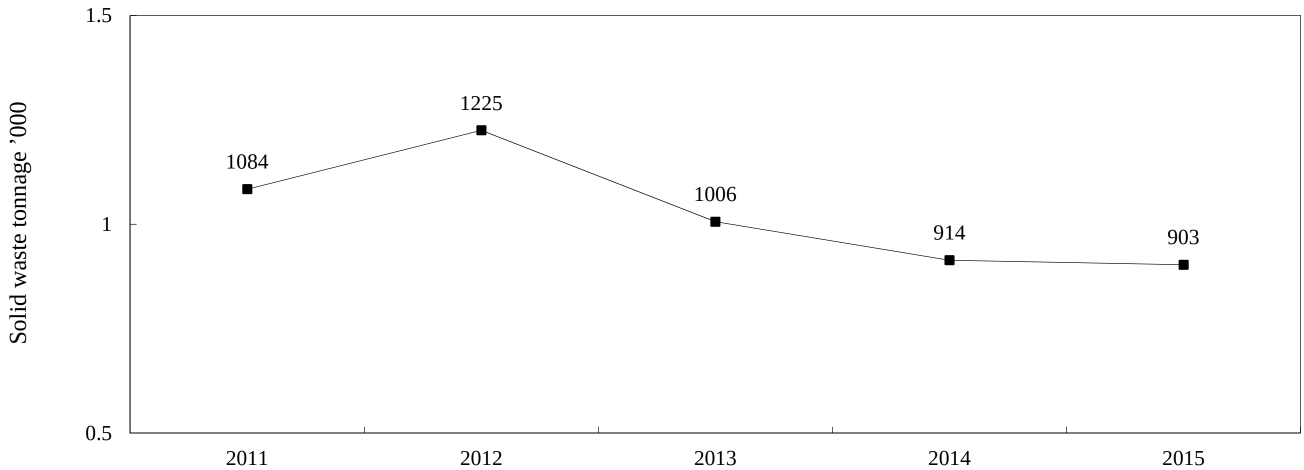
Total expenses increased slightly in 2014-15. Grants and subsidies rose due to an increase in waste levies collected. Section 113 of the EP Act requires the EPA to raise and collect waste levies, however 50% of those levies are subsequently transferred to Zero Waste SA (renamed Green Industries SA from 1 July 2015) under section 17 of the *Zero Waste SA Act 2004* (refer note 8 of the financial report). A rise in site contamination works increased fee for service and general administration expenses within the supplies and services line (refer note 6 of the financial report).

Income

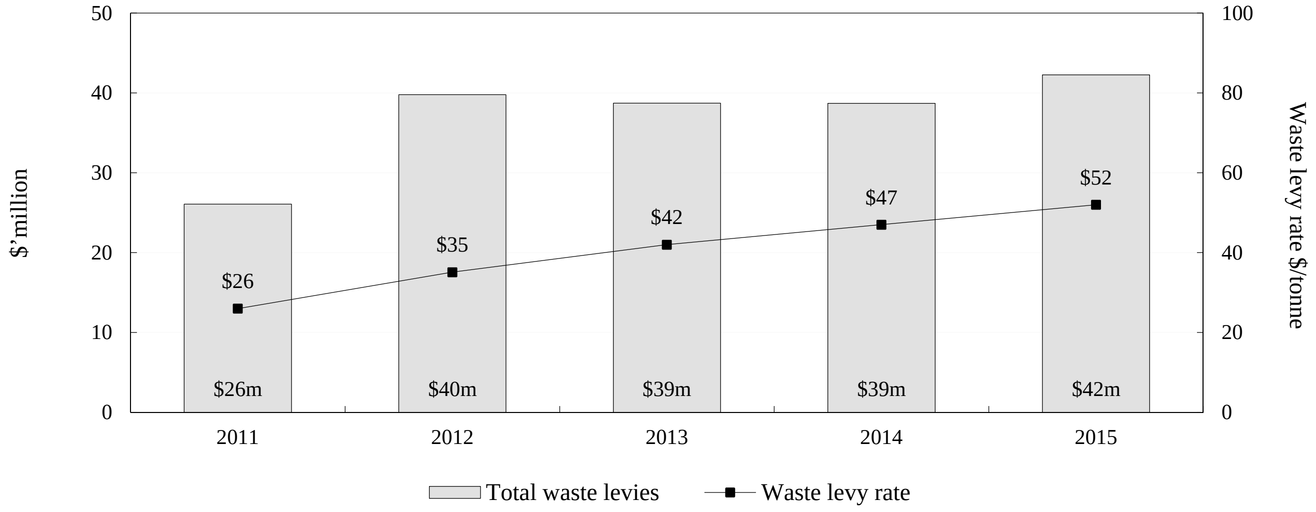
Total income also increased slightly. This was primarily due to an increase in waste levies within the fees and charges line.

In 2014-15 the collection of solid waste levies increased to $42.2 million ($38.7 million). There has been a decreasing trend in the solid waste tonnage that has been offset by an increase in solid waste levy rates.

As advised by the EPA, the following chart shows the decrease in solid waste tonnage from 2011 to 2015. The increase in solid waste in 2012 was due to the new Royal Adelaide Hospital site development.



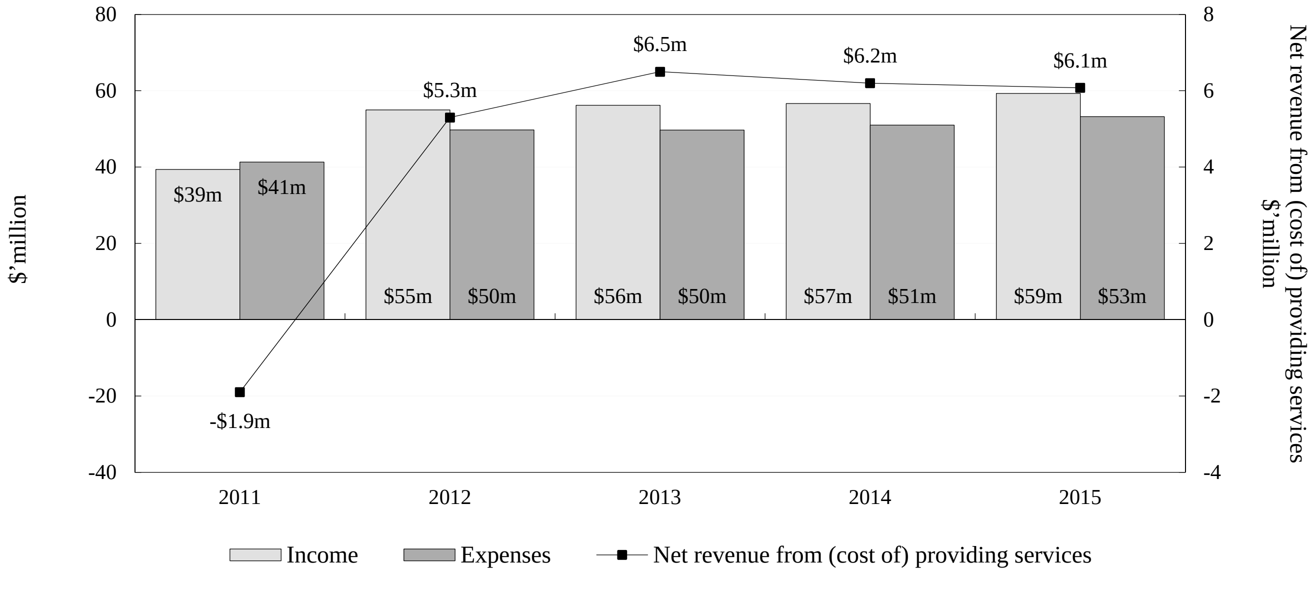
The following chart shows the amounts collected from waste levies over the five years to 2015.



Net benefit of providing services

The following chart shows the income, expenses and net revenue from (cost of) providing services for the five years to 2015. The consistent level of net revenue from providing services since 2013 is mainly due to increases in waste levy rates since that date. Over the same period expenses have remained at constant levels.

Since 2014, the EPA has funded its operations through raising fees and charges and has not required any appropriation funding from the Consolidated Account. In addition, under the cash alignment policy it has returned $13.7 million in surplus cash directly to the Consolidated Account ($7.3 million in 2014-15, $5.4 million in 2013-14 and $1 million in 2012-13).



Statement of Financial Position

Current assets – cash and cash equivalents

This item, $16 million ($16 million), represents 67% (71%) of total current assets and 51% (53%) of total assets. Cash and cash equivalents include the Environment Protection Fund deposit account of $7 million.

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

Non-current assets – property, plant and equipment

In 2014-15 this item makes up 22% (23%) of total assets. Furniture and fittings is the dominant item of property, plant and equipment. Furniture and fittings include leasehold improvements made to EPA premises in Victoria Square, Adelaide. Property, plant and equipment decreased by $338 000 due to depreciation expense of $702 000 and transfer of capital works in progress to intangibles of $98 000, offset by asset additions of $462 000. The $2.2 million balance in capital works in progress relates to the LAMP project, which became operational in August 2015, and will be transferred to intangibles in 2015-16 when all expenditure has been finalised.

Notes 19 and 20 of the financial report provide further details on these items and amounts.

Further commentary on operations

Transfer of solid waste levies to the Waste to Resources Fund

The EPA receives solid waste levies from waste depots under section 113 of the EP Act. These amounts are included within fees and charges. There was an increase in solid waste levy rates of 11% (12%) from 1 July 2014. Section 17 of the *Zero Waste SA Act 2004* requires the EPA to transfer 50% of these levies to the Waste to Resources Fund. This fund may be applied by Zero Waste SA (now Green Industries SA) in accordance with the approved Zero Waste SA business plan or in any other manner authorised by the responsible Minister for the purposes of the *Zero Waste SA Act 2004*.

The EPA transferred $20 million ($19 million) to the Waste to Resources Fund during the year. This transfer is reflected within the grants and subsidies expense line.

The balance of the Waste to Resources Fund at 30 June 2015 was $68.3 million ($53.7 million).

LAMP

As mentioned above, the LAMP project involves the development of a suite of six new and existing IT systems. Improving these IT systems is expected to result in savings for the EPA and business, since many tasks that were performed manually will be automated.

The original implementation date for LAMP was 1 July 2013 but this was delayed and postponed a number of times. As at August 2015, five out of six components are operational with only the Public Register module to be completed. The major reasons for delay in the LAMP project are:

- rework of the financial interface due to the change in the whole-of-government banking contract
- the integration of e-ELF (online applications and payments) and the licensing system taking longer than initially estimated
- the EPA’s requirements for application fees changing following the introduction of new regulations for charging of licence assessment fees
- a number of outstanding critical and major issues and defects that need to be remediated, prior to going live
- the whole-of-government change in the service provider of network services
- third parties involved in the project experiencing technical and resources difficulties.

Whilst the implementation and operation of the LAMP project has been delayed, the costs associated with the project have not increased due to the EPA entering into fixed price contracts with software vendors. The LAMP project budget is $2.5 million and as at 30 June 2015 the total amount spent was $2.3 million.

Department of Environment, Water and Natural Resources

Functional responsibility	The Department of Environment, Water and Natural Resources (DEWNR) is an administrative unit established under the *Public Sector Act 2009*, and is responsible to the Minister for Sustainability, Environment and Conservation and the Minister for Water and the River Murray. DEWNR leads the management of South Australia's natural resources to ensure the protection of the environment and that healthy and productive natural resources sustain wellbeing and the economy.
Financial statistics	Net cost of providing services: $141.6 million Total appropriation: $141.7 million Employee benefits expense: $147.7 million Property, plant and equipment: $512 million Number of FTEs: 1580.4
Significant events and transactions	Transfer of assets to Botanic Gardens: $10.3 million
Financial statement opinion	**Modified** Key issue: — Qualification of administered financial statements – valuation of unallotted Crown land
Financial controls opinion	**Modified** Key issues: — Age and large number of reconciling items on the bank reconciliation — Absence of review and certification of payroll bona fide reports — Ineffective review of expenditure financial authorisations and vendor masterfile — Split purchase card transactions and lack of supporting documentation — Controls for the Shared Services SA main payroll system did not meet a generally satisfactory standard

Scope of the audit

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

During 2014-15 areas of review included:

- payroll
- accounts payable
- revenue
- fixed assets
- receipting and banking
- purchase cards
- financial accounting – general ledger.

Audit findings and comments

Auditor's report on the financial report

The following is an extract from the 2014-15 Independent Auditor's Report, which details the qualification to DEWNR's financial report.

> ***Basis for Qualified Opinion***
>
> *Property, plant and equipment reported in the Statement of Administered Financial Position excludes unallotted Crown land, as the Department of Environment, Water and Natural Resources has not been able to formulate a suitable methodology for determining a reliable measure of the value of these holdings.*
>
> *In addition, limitations exist on the reliability of the base information used to determine the valuation of Crown land included in property, plant and equipment recognised in the Statement of Administered Financial Position.*
>
> *Disclosure of property, plant and equipment is contained in note A3 to the administered financial statements.*
>
> *It is not practicable to quantify the financial effect of the excluded Crown land or the unreliable base information used to determine the valuation of Crown land included in property, plant and equipment recognised in the administered financial statements.*
>
> *As the integrity of Crown land holdings and values administered by the Department of Environment, Water and Natural Resources has not been established, I am unable to form an opinion on the reasonableness of the values of property, plant and equipment relating to Crown lands, brought to account in the Statement of Administered Financial Position.*
>
> ***Qualified Opinion***
>
> *In my opinion, except for the effect of the matters described in the Basis for Qualified Opinion paragraphs, the financial report gives a true and fair view of the financial position of the Department of Environment, Water and Natural Resources as at 30 June 2015, its financial performance and its cash flows for the year then ended in accordance with the Treasurer's Instructions promulgated under the provisions of the* Public Finance and Audit Act 1987 *and Australian Accounting Standards.*

2014-15 Independent Auditor's Report – Crown land

Over a number of years, we have commented on the accounting treatment of Crown land and the completeness and accuracy of Crown land base information. Last year's Report includes a summary of developments up to 2013-14 about this matter.

The position for 2014-15 remains unchanged from previous years. Unallotted Crown land is not yet reflected in the administered financial statements. Limitations on the base information used to value leased and licensed Crown land included in the administered financial statements also remain. In addition, DEWNR has not finalised an appropriate valuation methodology for all Crown land.

As a result, the Independent Auditor's Report on the financial report again qualifies the completeness and valuation of Crown land included in the Statement of Administered Financial Position.

DEWNR commenced a Crown lands identification and valuation project to establish an auditable fixed asset register for Crown land. This project will include confirmation of the completeness and accuracy of administered land information in the Tenancies and Billing System (TABS) and correct any errors identified within existing records. The project was not finalised in 2014-15 and is anticipated to be completed for audit review in 2015-16.

Assessment of controls

In my opinion, the controls exercised by the Department of Environment, Water and Natural Resources in relation to the receipt, expenditure and investment of money, the acquisition and disposal of property and the incurring of liabilities, except for all matters outlined under 'Communication of audit matters', are sufficient to provide reasonable assurance that the financial transactions of the Department of Environment, Water and Natural Resources have been conducted properly and in accordance with law.

Communication of audit matters

Matters identified during the course of the audit were detailed in management letters to the Chief Executive. The main matters raised with DEWNR and the related responses are detailed below.

In addition, matters relating to Shared Services SA (SSSA) as a service provider to DEWNR are also described below.

Cash

The DEWNR bank reconciliation is complex in nature due to the use of a single bank account to maintain, transact and secure the transactions of 16 separate entities and 22 funds established to support specific SA Government and Commonwealth programs.

The bank reconciliation is a key control in DEWNR's operating environment. Unidentified transactions may indicate the bank reconciliation is not working and increases the risk of errors and fraud. During 2014-15, and consistent with prior years, revenue related reconciling items on the bank reconciliation were not cleared in a timely manner. Relevant reconciling items were corrected in the 30 June 2015 bank reconciliation.

DEWNR responded that in early June it implemented the use of SSSA's in-house banking support system which has led to a material reduction in the volume of reconciling items. This system is now being used on a daily basis allowing for more timely and accurate transactional matching on the bank reconciliation. Furthermore, during the 2014-15 reporting period an additional resource investigated longstanding reconciling items in conjunction with SSSA, resulting in further reduction of these items. The remaining longstanding reconciling items require further review and due diligence prior to removal during 2015-16.

Payroll

As noted in prior years, DEWNR is not reviewing and certifying bona fide reports in accordance with DEWNR policies and procedures. Whilst individual errors in payments may be small, errors in salaries and leave taken could be significant. Inappropriate payments that may be made to employees as a result of payroll processing errors may not be identified and corrected timely. We also noted that DEWNR has increased the time frame for bona fides reports to be reviewed and returned from seven days to one month.

DEWNR responded that it will continue to monitor the bona fide register and will remind managers of their responsibilities to comply with the bona fide policy. DEWNR will review the change in policy for bona fide return rates in 2015-16.

Purchase cards

Our review of purchase card transactions noted a number of instances where DEWNR purchase card policies were not followed. These instances included:

- splitting transactions to comply with authorised transaction limits
- lack of supporting documentation for entertainment expenses
- purchase cards issued to non-DEWNR employees.

Similar instances of non-compliance with policy requirements were identified and raised with DEWNR in 2013-14. The non-DEWNR employees who were issued purchase cards were SA Government employees working with DEWNR on a specific project.

DEWNR responded that the instances of split transactions and lack of supporting documentation for transactions will be investigated and a written notification sent to each cardholder, and each respective supervisor, reminding them of the requirements and consequences under DEWNR policy.

DEWNR has agreed that the intention of Treasurer's Instruction 8 'Financial Authorisations' and Treasurer's Instruction 12 'Government Purchase Cards and Stored Value Cards' is that purchase cards are not to be used for cross-agency staff. This is not a common occurrence and a formal notification of the breach of the Treasurer's Instructions will be provided to the Under Treasurer.

Revenue – Tenancies and Billing System

TABS is designed to handle all leases, licences and other land related tenements administered by DEWNR. Control improvements identified included:

- reconciliation of TABS data to the general ledger was not performed consistently
- fee information uploaded into TABS is not evidenced as independently reviewed.

DEWNR responded that it has implemented a reconciliation to ensure that all batch information generated by TABS is uploaded and processed correctly and independently reviewed. Fees uploaded into TABS will be independently reviewed.

Expenditure

Basware

DEWNR's documented financial authorisations are uploaded into the Basware expenditure system which is used as a control to ensure that users do not exceed their delegated authority or approve their own expenditure. We observed that the reviews of Basware users' expenditure limits performed by DEWNR were not regular or effective to identify and correct all the inconsistencies between the delegations of authority and Basware.

Basware system controls provide a sound control environment to ensure that all expenditure is compliant with Treasurer's Instruction 8. The control can only be effective if the financial delegations in Basware are accurate when entered and are regularly reviewed to ensure their continued accuracy. A lack of regular review increases the risk that financial delegations are not accurate or users have left DEWNR and unauthorised transactions may occur.

DEWNR responded that administration of the Basware user listing was devolved to business managers across DEWNR to ensure the most accurate information is maintained within Basware. In 2015-16 DEWNR will introduce the requirement for business managers to formally sign off on active Basware users on a quarterly basis.

Vendor masterfile

DEWNR's accounts payable vendor masterfile contains the vendor details and customer details for all vendors who receive payments from DEWNR and its associated entities. The file contains many fields including the vendor name, ABN, payment details and address. The Masterpiece accounts payable system has a control to prevent duplicate payment of invoices by comparing invoice numbers to vendor ID prior to payment, and excludes duplicates from the payment run.

SSSA maintains the vendor masterfile but DEWNR is responsible for regularly reviewing and vetting its vendor file for unused vendor name files in a predefined biennial schedule, and purging the vendor masterfiles every two years.

DEWNR has not reviewed/purged the vendor masterfiles for more than four years due to concerns that links with the fixed assets systems will be lost.

Duplicate vendors within the vendor masterfile increase the risk that a duplicate payment will be made. The Masterpiece accounts payable system control is an effective control but requires the vendor details to be unique and regularly reviewed.

DEWNR responded that it has completed an initial assessment of the requirements to complete a vendor purge and has identified that both SSSA and external vendors will need to be engaged to accomplish this successfully. In addition, SSSA has begun implementing an across-government common vendor masterfile, which will assist DEWNR to identify duplicate vendors for removal.

Monitoring of capital works in progress (CWIP) projects

Expenditure for CWIP projects and assets is recorded in the general ledger to ensure that accurate values for assets can be capitalised on completion. Completed assets are transferred to the fixed assets register and at this point depreciation of the asset can commence.

Our review noted that the monthly project report, which provides information on opening and closing expenditure balances against each CWIP project to identify completed CWIP projects, was not generated and reviewed on a regular basis during 2014-15. Reconciliation of CWIP expenditure codes in the general ledger to this report is required to be performed quarterly. This had not occurred consistently through the year. This issue was also raised in 2013-14.

Assets not being capitalised in a timely manner after projects are completed may result in depreciation and accumulated depreciation being misstated in the financial statements. Revaluations performed on classes of assets may be impacted by completed assets not being transferred from CWIP.

DEWNR responded that it has been communicated to project managers to complete appropriate capitalisation journals as part of CWIP project acquittals, which includes appropriate reconciliation. DEWNR will continue to monitor the status of CWIP through the Capital Investment Committee.

Service level agreements (SLAs) not signed timely – Natural Resources Management Boards (NRMBs)

DEWNR is a service provider to a number of entities including the eight NRMBs. Services provided include accounting functions (general ledger, accounts payable, receipting), human resources, accommodation and information and communications technology. The SLAs detailing the responsibilities and associated costs for 2014-15 were not authorised by DEWNR until late May and June 2015.

It is good practice to have signed agreements prior to the commencement of any service or program to ensure that all responsibilities and provision of goods and services are clearly understood by all parties. DEWNR may be providing services not included in the SLA for no charge or, conversely, may be charging for services that are not provided.

DEWNR responded that the time frame for signing SLAs was delayed by ongoing negotiations with the NRMBs regarding on-cost recovery processes. The SLAs are closely aligned with the DEWNR and NRMB annual budget cycle and DEWNR intends to sign off the revised SLAs for 2015-16 at the conclusion of negotiations with the NRMBs in October 2015.

Legal compliance program

DEWNR undertakes a wide range of activities and as such is often subject to a number of regulatory obligations. A legal compliance framework helps ensure that DEWNR operations are conducted in accordance with legal and internal policy requirements.

We noted that while responsibility for certain legislation was assigned to individual officers, we did not identify a formal, structured and robust compliance framework used by DEWNR to ensure compliance with relevant legislation. Non-compliance with relevant legislation could lead to litigation and subsequent losses by not effectively applying resources to meet legislative responsibilities.

DEWNR responded that a legislative compliance register and legislative compliance policy and procedure has been developed and recently been approved in July 2015. This information is available to staff on iShare (the local network) with future upgrades to automate work process for responsible officers. Staff have commenced using the register and will be providing reports to DEWNR Executive.

Risk management plan

Management of risk 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 have noted that risk management has been a work in progress due to the machinery of government integrations with the former Department for Water and the NRMBs.

The current risk register is a combination of operational and financial risks. While improvements have been made to the risk register, there are still areas where the risk register needs improvement including reducing the number of entries, reassessing the risk to DEWNR and reporting of key critical risks to DEWNR management.

Risks that are not satisfactorily identified and managed may impact the ability of DEWNR to meet its objectives. This could also lead to an inconsistent approach to risk throughout DEWNR.

DEWNR responded that it has initiated a number of strategies to improve risk management across the Department that will be implemented over the next 12 months. Facilitated sessions with DEWNR Executive and leadership groups will be held to identify key risks. The intended result of these strategies is an improved risk register with fewer but more accurately defined and assessed risks that are being managed appropriately.

Natural resources management regional integration

In May 2010, as part of machinery of government changes, the eight regional NRMBs and DEWNR commenced transition to a single delivery model. The transition has occurred over a number of years, with key milestones including transition of all NRMB staff to DEWNR and integration of all NRMB financial systems into DEWNR during the 2013-14 financial year.

While the NRMBs continue to operate as separate statutory authorities, the administrative arrangements introduced as part of integration make them reliant on DEWNR to meet their obligations under the *Natural Resources Management Act 2004* (NRMA). The relationship between each NRMB and DEWNR is described in four governance documents, a letter of direction, a memorandum of understanding, an SLA and a service schedule (annual implementation plan).

We reviewed aspects of the integration process and the ongoing governance arrangements between DEWNR and the NRMBs. The review identified certain areas for improvement and these were reported to DEWNR in September 2014:

- SLAs for 2012-13 and 2013-14 were not executed at the start of the applicable financial year
- the SLAs did not address some aspects of good governance in sufficient detail
- there was no evidence, in some instances, that changes made to individual NRMB budgets were advised to DEWNR or updated into the service schedules
- there was inconsistent reporting of DEWNR's delivery output against the service schedules across the NRMBs
- an evaluation of whether the objectives of natural resources management regional integration were achieved had not been undertaken at the time of the audit review.

DEWNR responded positively to the issues in October 2014 and specified a number of actions to be implemented to achieve improvements. Concerning evaluation, DEWNR advised that a project closure report was prepared at the time of the closeout of the Regional Integration project, which proposed a method of evaluating the success of regional integration with internal and external stakeholders. DEWNR also commented that it required sufficient time to pass before conducting this evaluation to accurately measure the realisation of the longer term benefits.

Shared Services SA – financial systems and transaction processing environments

SSSA processes financial transactions on behalf of DEWNR under service level determinations. The main systems and control environments include accounts payable, payroll and general ledger financial functions.

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

As discussed in the commentary under 'Department of the Premier and Cabinet' elsewhere in Part B of this Report, our review and evaluation of controls for the SSSA main payroll systems concluded that controls did not meet a generally satisfactory standard for 2014-15. A number of specific matters were raised with SSSA for corrective action and review for process and procedural improvement. Our review and evaluation of controls for the SSSA main accounts payable systems and environment concluded that controls met a generally satisfactory standard for 2014-15.

The matters do not relate to DEWNR's transaction processing.

Interpretation and analysis of the financial report

Highlights of the financial report

	2015 $'million	2014 $'million
Expenses		
Employee benefits expenses	148	171
Supplies and services	93	90
Grants and subsidies	32	47
Depreciation and amortisation expense	21	22
Other expenses	14	14
Total expenses	308	344
Income		
Fees and charges	76	73
Grants revenues	56	75
Other income	34	32
Total income	166	180
Net cost of providing services	142	164
Revenues from (Payments to) SA Government	141	182
Net result	(1)	18
Other comprehensive income	12	4
Total comprehensive result	11	22
Net cash provided by (used in) operating activities	58	4
Assets		
Current assets	151	142
Non-current assets	517	511
Total assets	668	653
Liabilities		
Current liabilities	39	38
Non-current liabilities	36	34
Total liabilities	75	72
Total equity	592	581

Statement of Comprehensive Income

Expenses

Total expenses decreased by $36 million (10%). The major items causing this change were:

- employee benefits expenses decreased by $23 million (13%) due to 172 staff accepting targeted voluntary separation package payments in the prior year, of which a material number were management positions. This decrease was offset by an increase in employee FTEs of 67.56 to 1580.4 (1512.84) due to an increase in seasonal positions (fire crews) and Commonwealth funded project positions

- supplies and services increased slightly by $2 million due mainly to an increase in non-building repairs and maintenance and legal fees of $6 million, offset by a decrease in fee for service and temporary staff of $4 million

- grants and subsidies – the decrease primarily relates to a reduction in the annual contribution to the Murray-Darling Basin Authority (MDBA)

- the abovementioned decreases in expenses were offset by an increase of $13 million for net loss on disposal of non-current assets. DEWNR transferred assets of $10 million to the Board of the Botanic Gardens and State Herbarium. Assets were transferred at no charge and relate primarily to the Aquifer Storage and Redraw – First Creek Woodlands project.

Income

Total income decreased by $14 million (7%). The major items causing this change were:

- grant revenues decreased by $19 million (25%) primarily due to the timing of milestone achievements funding and activity associated with the Commonwealth programs, Coorong, Lower Lakes and Murray Mouth Recovery ($6 million) and Murray Futures – Riverine Recovery ($10 million)

- fees and charges increased slightly by $2 million due to increases in service recoveries. DEWNR performs on the ground works for other entities, primarily the South Australian Water Corporation, and then recoups the costs associated with these works

- other income increased by $3 million due mainly to service level arrangements with other SA Government entities. Fees are charged to recover the costs of providing these administrative and corporate services.

Statement of Financial Position

DEWNR's assets comprise two main items: property, plant and equipment and cash.

Non-current assets – property, plant and equipment

Property, plant and equipment increased by $6 million to $512 million and represents 77% of total assets. Land comprises $218 million of property, plant and equipment and represents national, conservation and recreation parks and wilderness protection areas and reserves. In addition, related park infrastructure amounts to $29.4 million and roads, tracks and trails total $23.5 million. Refer note 23 of the financial report for analysis of this significant disclosure item.

CWIP amounts to $36.2 million and currently includes projects for Riverine Recovery – Katfish Floodplain and the Water Resources Capital Investment program.

Current assets – cash

This item, $134 million ($105 million), represents 89% (74%) of total current assets and 20% (16%) of total assets. The increase in cash of $29 million reflects unspent project grant funding (Coorong, Lower Lakes, Murray Mouth Recovery project) and an increase in the DEWNR operating account, offset by a reduction in unspent Murray Futures funding. DEWNR's cash at 30 June 2015 comprises operating deposit accounts of $83 million ($56 million) and an Accrual Appropriation Excess Funds Account of $51 million ($49 million). Access to the Accrual Appropriation Excess Funds Account is subject to the Treasurer/Under Treasurer's approval.

Liabilities

Total liabilities increased by $4 million (5%) to $75 million. The major item causing this change was total employee benefits which increased by $3 million (8%) due to the effects of the decrease in the bond yield that is used to calculate the liability.

Administered items

DEWNR has responsibility for the administration of a number of funds and grant programs including:

- the Natural Resources Management Fund
- the Caring for our Country grant program.

The Schedule of Administered Expenses and Income attributable to Administered Activities provides further details on these items and amounts.

A significant change in the administered statements reporting is that the Botanic Gardens and State Herbarium, the Coast Protection Board, the Dog and Cat Management Board and the Native Vegetation Fund have been removed from the aggregated administered financial statements. An amendment to Accounting Policy Framework II 'General Purpose Financial Statements Framework' means that these entities are no longer considered to be administered items of DEWNR. All of these entities prepare separate financial report that are audited by the Auditor-General.

Murray-Darling Basin Authority

The MDBA is established under the *Water Act 2007* (Cwlth). The MDBA assumed all functions of the former Murray-Darling Basin Commission in December 2008.

The MDBA's functions are to:

- prepare, implement, monitor and enforce the Basin Plan
- implement the decisions of the Ministerial Council and Basin Officials Committee.

DEWNR has recognised in the administered financial statements the State's joint interest in the MDBA infrastructure assets and water rights as an interest in a joint operation. The State of South Australia's interest in the arrangement is 26.67%.

The recognition of MDBA infrastructure assets and water rights is in accordance with the following agreements signed by the Commonwealth, states of NSW, Vic and SA, ACT and the MDBA on 12 June 2009:

- asset agreement for River Murray operations assets

- further agreement on addressing water over allocation and achieving environmental objectives in the Murray-Darling Basin – control and management of Living Murray assets.

For further information refer note A12 to the administered financial statements.

Natural Resources Management Boards and Natural Resources Management Fund

Since 1 July 2010 DEWNR has had primary responsibility for assisting the Minister in the administration of the NRMA. The main purpose of the NRMA is to promote sustainable and integrated management of the State's natural resources and to make provision for the protection of the State's natural resources.

The NRMA provides for a range of entities with specific responsibilities including eight regional NRMBs.

Water levies are collected by DEWNR for prescribed water resources within specific natural resources management regions under section 101 of the NRMA. The levies are subsequently paid to the regional NRMBs pursuant to section 116(1)(a)(ii)(A).

In 2014-15, $17.3 million ($13.8 million) in water levies, penalties and expiation fees was transferred to the NRMBs from DEWNR. DEWNR also received $2.9 million ($3.9 million) in appropriation funding for the NRMBs.

Payments to NRMBs from the Natural Resources Management Fund during the year were $16.6 million ($18.4 million).

Administered grant programs

DEWNR administers a number of grant programs. A notable program is Caring for our Country.

The Caring for our Country program is administered by the Commonwealth and State Governments pursuant to section 19(2) of the *Natural Heritage Trust of Australia Act 1997* (Cwlth) and section 5 of the *Natural Resources Management (Financial Assistance) Act 1992* (Cwlth).

The goal of Caring for our Country is to provide an environment that is healthy, better protected, well managed, resilient and provides essential ecosystem services in a changing climate.

The Caring for our Country items administered by DEWNR include grant revenues from the Commonwealth Government of $17.2 million ($17.2 million), grant expenses of $17 million ($17 million) and a cash balance of $660 000 ($490 000).

Flinders University of South Australia

Functional responsibility	The Flinders University of South Australia (the University) is established by *The Flinders University of South Australia Act 1966*. The functions of the University include establishing and providing educational facilities and courses of study at a university standard, and generally disseminating knowledge and promoting scholarship.
Financial statistics	Net result: $12 million Australian Government financial assistance: $317 million Number of FTEs: 2 071 Number of students (EFTSLs): 16 455
Significant events and transactions	— In late 2014 the University completed construction of a $112 million building at its Tonsley Park campus. — In November 2014 the University commenced construction of a $63 million New Plaza Redevelopment and Student Hub, due to be opened in semester 1, 2016.
Financial statement opinion	**Unmodified**
Financial controls opinion	**Modified** Key issues: — No probity plan for major infrastructure projects — Procedural improvements necessary for conflicts of interest declarations — Missing leave forms may result in overpayments of leave — Supervisor review of payroll payments not sufficiently regular — Inadequate review of casual academic pay information — Documentation demonstrating review of international recruitment agents requires improvement — Criteria for granting and approving fee waivers not formalised — Inadequate review over student system access

Scope of the audit

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

During 2014 specific areas of audit attention included:

- corporate governance
- payroll
- expenditure
- major infrastructure projects
- Commonwealth financial assistance
- student fees revenue
- research grant revenue
- accounts receivable and other revenue
- cash and investments
- property, plant and equipment
- general ledger and reporting
- information and communications technology.

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

The audits of the controlled entities for the year ended 31 December 2014 were carried out by private accounting firms.

Audit findings and comments

Assessment of controls

In my opinion, the controls exercised by the Flinders University of South Australia in relation to the receipt, expenditure and investment of money, the acquisition and disposal of property and the incurring of liabilities, except for all matters outlined under ‘Communication of audit matters’, are sufficient to provide reasonable assurance that the financial transactions of the Flinders University of South Australia have been conducted properly and in accordance with law.

Communication of audit matters

Matters arising during the course of the audit were detailed in a management letter to the Vice-Chancellor. The main matters raised with the University are detailed below. Some of these matters are similar to issues reported to the University in previous years. The University has responded to all matters raised in the management letter.

Governance

Legislative compliance framework

While the University had performed regular legal compliance reviews and reporting, it had not documented a legislative compliance framework as required by its policy. We recommended that the University establish a structured and formal methodology for monitoring compliance with important legislation.

The University agreed and responded that it would develop a legislative compliance framework.

Major projects

No probity plan for major infrastructure projects

The University's Major Project Governance Framework describes the types of projects for which the appointment of a probity auditor is required. These instances include where the project is of significant size or complexity. Our review found that while probity arrangements were briefly discussed in the University's Flinders Governance Acquisition Evaluation Plan, an assessment against the University's Major Project Governance Framework was not documented, nor was a probity plan established. Given the size and nature of recent projects, we consider the University should have prepared a probity plan and formally assessed the need for a probity auditor or adviser. A probity plan would have allowed the University to better demonstrate how it managed impartiality, accountability and transparency and attained value-for-money.

In its response, the University noted its oversight in not fully documenting its discussion and decision on the management of probity. The University's response also expressed the view that its appointment of independent external advisers, the nature of the contracting process and other internal governance arrangements effectively replaced the need for a probity auditor.

Procedural improvements necessary for conflicts of interest declarations – Flinders at Tonsley

Our review of the Flinders at Tonsley project considered the University's controls to identify and manage potential conflicts of interest in the tender evaluation process. The University's policy requires tender evaluation panel members to complete declaration of interest and confidentiality statements. While all members completed a declaration, the audit identified:

- instances where the witnessing of tender evaluation panel declarations were not recorded as expected
- an instance where a declaration did not include information that could be perceived as relevant for University consideration.

Declarations that are not executed as expected may compromise the University's capacity to manage potential conflicts of interest.

The University's response noted that there were some procedural oversights, but that it considered these did not detract from the declaration of conflicts. It indicated it was reviewing its conflict of interest policy and will make refinements in light of our recommendations.

Defect management – Flinders at Tonsley

The audit of the Flinders at Tonsley project considered the University's defect management controls. Our review found improvements were necessary to the University's defect reporting to the project steering committee. Consequently defects may not be satisfactorily remedied.

The University's response discussed the controls it considered were in place to mitigate the risk highlighted by the audit.

Payroll

Missing leave forms may result in overpayments of leave (non-academic staff)

Consistent with matters raised in last year's Report, we found inconsistency in the application of processes to identify and follow up non-academic staff who fail to submit leave forms. Consequently, there is a risk that employee liability balances will remain unadjusted, resulting in overpayment to employees. We recommended the University implement processes to detect and follow up missing leave forms. The University indicated it would revise its policy to provide clarity of responsibility in this area.

Supervisor review of payroll payments not sufficiently regular

The audit of payroll considered the effectiveness of supervisors' review of payroll reports to provide assurance that only bona fide employees are paid for work performed and at the correct rates. We consider that the University's requirement for twice yearly positive confirmation was not sufficiently regular to identify invalid, inaccurate or incomplete processing of payments through the payroll system. The University indicated that the matter had been carefully considered following receipt of an internal report, and that given other controls in place the monthly reporting and twice yearly confirmation was sufficient to manage the risks.

High level access to the payroll system may allow unauthorised processing

Audit review of access to the University's payroll system, Talent2, revealed that a number of human resources staff had master system access giving the user all system privileges and access to all tables, menus and programs. This level of access was not consistent with the officer's responsibility and may allow processing of unauthorised transactions, potentially resulting in financial loss.

We recommended a regular review to ensure system access is limited to the functionality required to meet each user's responsibilities and to ensure that incompatible duties are segregated. The University advised that it immediately removed the unnecessary access and that it would introduce a quarterly review of access profiles.

Inadequate review of the accuracy and completeness of casual academic pay information

We considered the University's processes to ensure payments are only made to casual academics for actual hours worked. During 2014 the University implemented a scheduling system, Appian, which records the roster for casual academic employees. Casual academics no longer complete timesheets. Payments are now based on the expected (rostered) times recorded in Appian, rather than actual recorded and approved times. Where the employee does not work the scheduled times they are required to submit a variation form. The audit found that while supervisors are expected to follow up exceptions to the roster to ensure the appropriate forms are submitted, they are not provided with a fortnightly record of hours to be paid to promote follow-up of missing variations. Consequently, missing variations to rostered hours such as an absence may be missed, causing over payment. We recommended the University implement policies and procedures requiring management to regularly review the accuracy and completeness of casual academic pay information.

The University's response discussed the employee's and supervisor's responsibilities and indicated it was developing a fortnightly report to topic coordinators for their consideration and action as necessary.

Other payroll matters

The audit also identified other matters where controls over payroll processes could be improved including:

- instances identified where timesheets were not completed by employees or signed by supervisors as required by the University's enterprise agreement

- the independent review of all new employees on the payroll system being compromised by weaknesses in systems access controls
- academic employees who cancelled their default block booked leave did not always reschedule that leave for an alternative date as required by University policy
- management not reviewing the accuracy and completeness of scholarships paid through the Talent2 payroll system
- for periods during the year those responsible for the reconciliation of the salaries and wages clearing account also had access to the payroll system, Talent2, causing potential segregation of duties concerns.

The University responded to the specific audit findings and provided details of actions to address the matters raised.

Expenditure

Delayed acquittal of purchase cards

The University's purchase card policy requires cardholders to confirm each purchase card transaction each month. This acquittal process confirms transactions are for business purchases and are supported by compliant documentation. Timeliness of review is particularly important for purchase card transactions as the payment has occurred earlier regardless of the acquittal. Our audit found that acquittals were often delayed beyond 30 days.

The University responded that it suspends cards when the acquittal is not completed within three months. It stated it would review its reminder process to staff and the period after which cards are suspended.

Documentation demonstrating review of international recruitment agents requires improvement

The University's use of international recruitment agents has increased significantly in recent years. The code of conduct under the *Education Services Overseas Student Act 2000* requires the University to monitor activity of its agents, including where collective action may be required. We recommended improvements to recordkeeping including maintaining a central record, register or database and improved documentation that demonstrates how each agent has met standards.

The University agreed with the recommendations and indicated it would implement a central database and ensure the evidentiary documentation enables the University to monitor compliance with the Act.

Student revenue

Formalise criteria for granting and approving fee waivers

For a number of years our Report has recommended that the University establish formal criteria that describe the circumstances in which a waiver of tuition fees is appropriate. We have also recommended that the University establish Vice-Chancellor's authorisations for the approval of fee waivers.

The University had previously accepted these findings and indicated its intent to address the matters raised. A follow-up of the progress made by the University found it had not implemented the recommendations. Consequently, there remains a risk that improper factors may influence fee waivers.

The University responded that it had made substantial progress towards developing a policy on fee waivers.

Inadequate review of student system access levels

Audit review of access to the University's student revenue system, Student Two, revealed that the University had not assessed its Student Two business processes to identify and document incompatible tasks and access. We also found that the University did not monitor access levels of all system users, preventing detection of users with system privileges in excess of their responsibilities and resulting in an increased risk of unauthorised adjustments. We recommended the University identify incompatible tasks and mitigate any associated risk through systems access controls. The University responded that it closely managed high risk areas and detailed the actions it intends to take to identify and manage segregation of duties risks.

Reconciliation of investments

Our audit review found the reconciliation of investment assets to general ledger records was performed by an officer who had a significant role in the day-to-day management and recording of investments at the University. While it was independently reviewed, to improve the University's capacity to identify error we recommended that the reconciliation be performed by an officer independent from those with responsibilities to manage and record investments. The University's response detailed controls that it considered mitigated the risk identified by the audit, however indicated that the responsibility to perform the reconciliation will be transferred to an independent person.

Information and communications technology and control (ICT)

In recent years the University has embarked upon a University-wide remediation program to address ICT control deficiencies identified by an internal audit review in 2012. Our audit in 2014 included a review of the University's progress including a review of overall ICT governance, security and control arrangements at the University. The review found that despite significant effort in remediating deficiencies there was still work to be undertaken before the control environment could be considered satisfactory. Examples of where the University had made substantial improvements in overall ICT governance and operations arrangements include developing policy and procedures, operation of ICT governance groups, and improvements to infrastructure.

The audit identified a number of areas where ICT controls could be improved including:

- instances where user access to the main financial system could not be matched to personnel data provided by the University
- an updated set of overarching draft information security policies were not yet formally approved
- internal audit recommendations that were not addressed as scheduled.

The University responded to the specific audit findings and provided details of actions to address the matters raised. In particular it indicated that it would review user access to its main finance system, complete planned network security enhancements and formalise the remediation activities as part of its continuous improvement program during 2015.

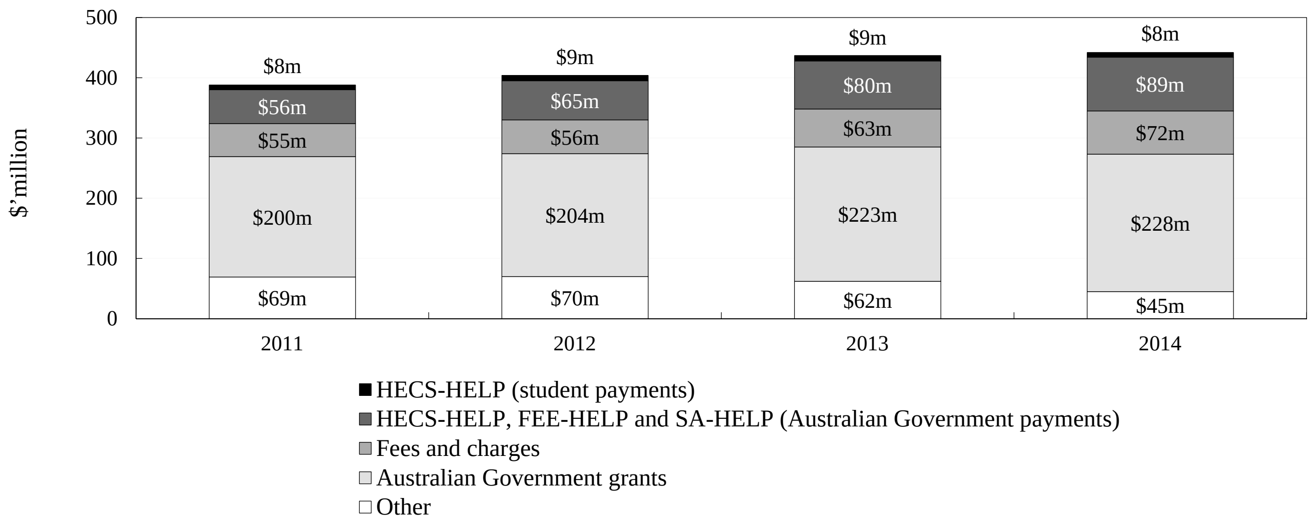
Interpretation and analysis of the financial report

Highlights of the financial report	2014 $'million	2013 $'million
Income		
Australian Government grants	228	223
HECS-HELP, FEE-HELP and SA-HELP (Australian Government payments)	89	80
HECS-HELP (student payments)	8	9
Fees and charges	72	63
Other	45	62
Total income	442	437
Expenses		
Employee related expenses	290	269
Other expenses	140	133
Total expenses	430	402
Operating result	12	34
Net cash provided by (used in) operating activities	40	53
Net cash provided by (used in) investing activities	(36)	(68)
Assets		
Current assets	110	209
Non-current assets	676	552
Total assets	786	761
Liabilities		
Current liabilities	57	59
Non-current liabilities	89	73
Total liabilities	146	132
Total equity	640	629

Income Statement

Income

A structural analysis of operating income for the University for the four years to 2014 is presented in the following chart.

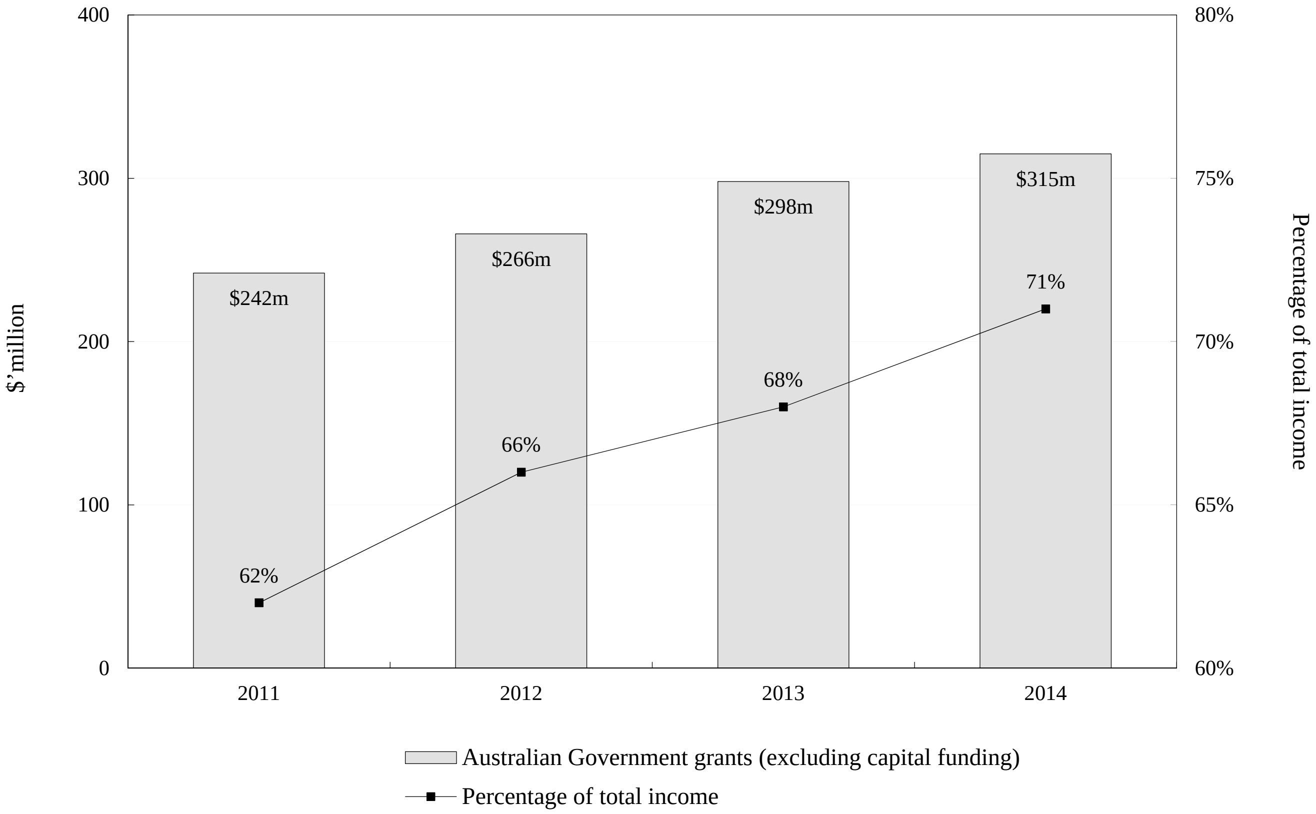


The chart shows that the University is largely dependent on financial assistance from the Australian Government.

Australian Government grants and payments

The total Australian Government financial assistance received by the University during 2014 increased by $14 million to $317 million.

The following chart shows Australian Government grants and payments, excluding capital funding as this is not necessarily comparable from year to year. It shows that in the last four years the proportion of non-capital Australian Government grants and payments to total income has grown.



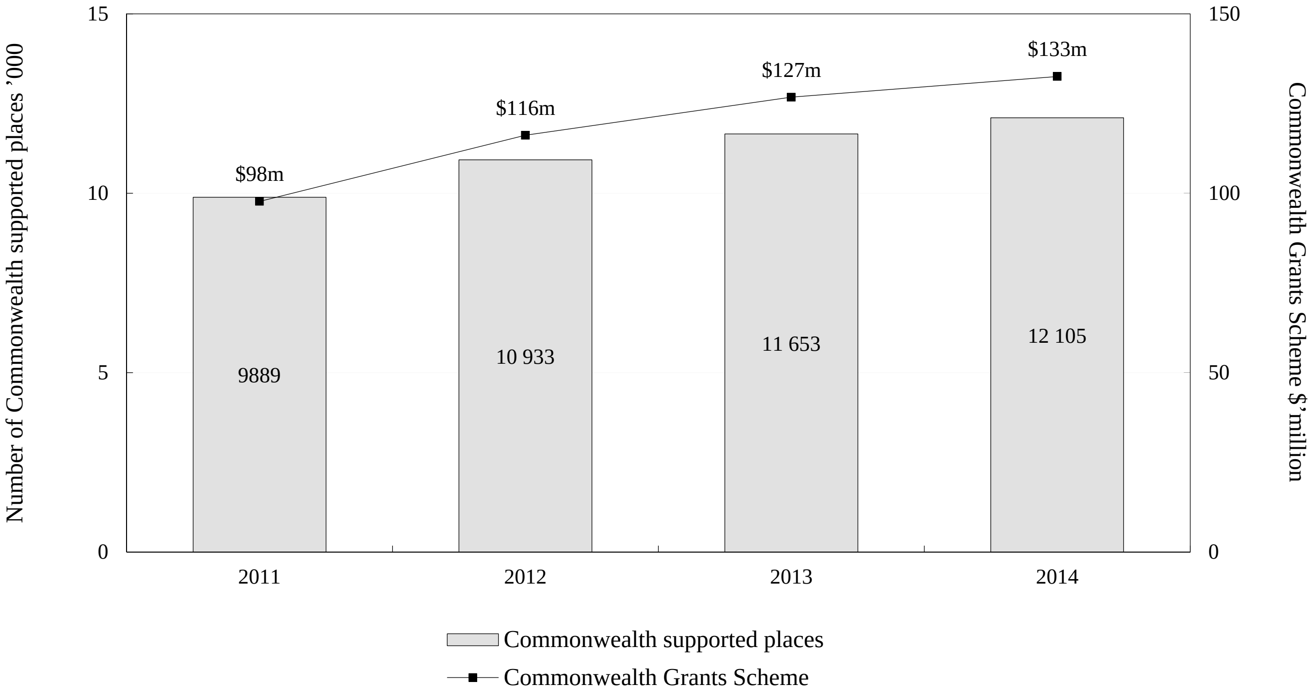
Australian Government grants and payments include the following major items:

- $89 million Higher Education Loan Program (HELP) funding including for HECS-HELP. In 2014 HECS-HELP funding increased $9 million (13%) to $81 million, which is primarily due to growth in Commonwealth supported places (4%), price indexation and growth in the proportion of students opting to defer their contribution through the HELP program

- $63 million Australian Government funding for research activities including competitive research grant programs and research infrastructure grants. This funding decreased by $2 million in 2014 mainly due to decreased grants from the Australian Research Council and other competitive grant programs

- $133 million Commonwealth Grants Scheme funding for Commonwealth supported student places. Commonwealth Grants Scheme funding increased $6 million (4.5%) primarily due to a 4% increase in the number of Commonwealth supported students.

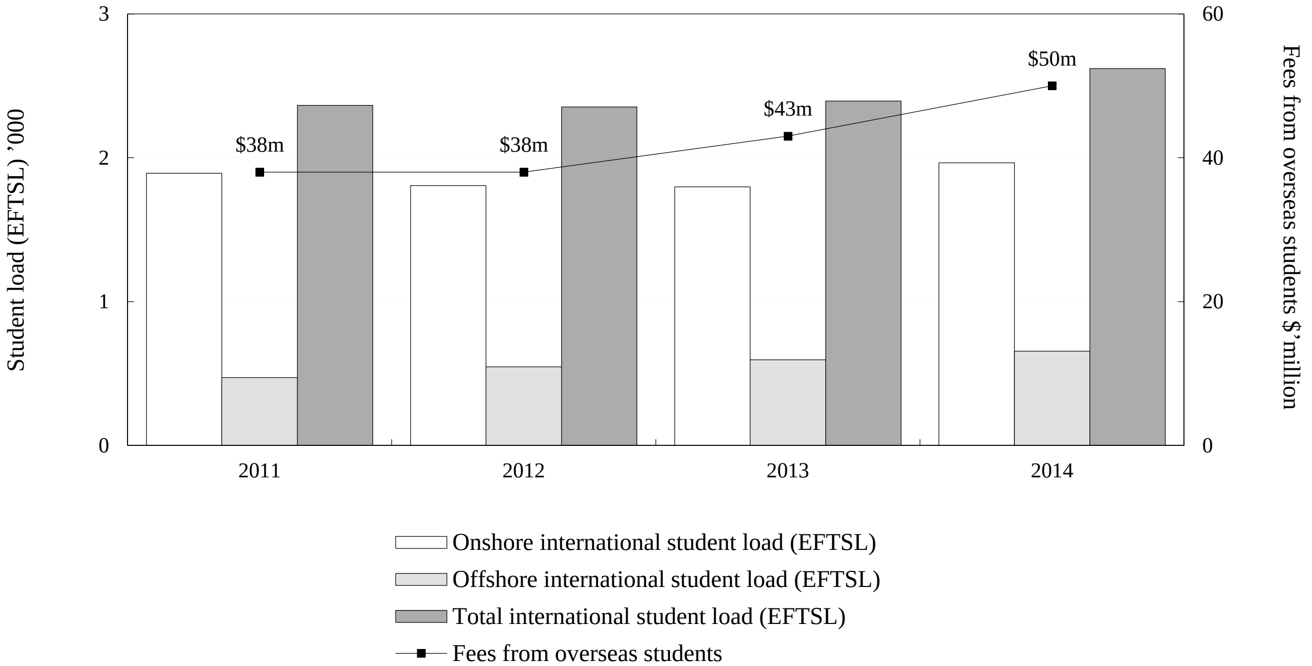
The following chart highlights the upward trend in Commonwealth Grants Scheme funding and supported places.



Source: Student numbers, which are based on equivalent full-time student load (EFTSL), were obtained from the Department for Education and Training statistics website (uCube) and are unaudited figures.

Fees and charges

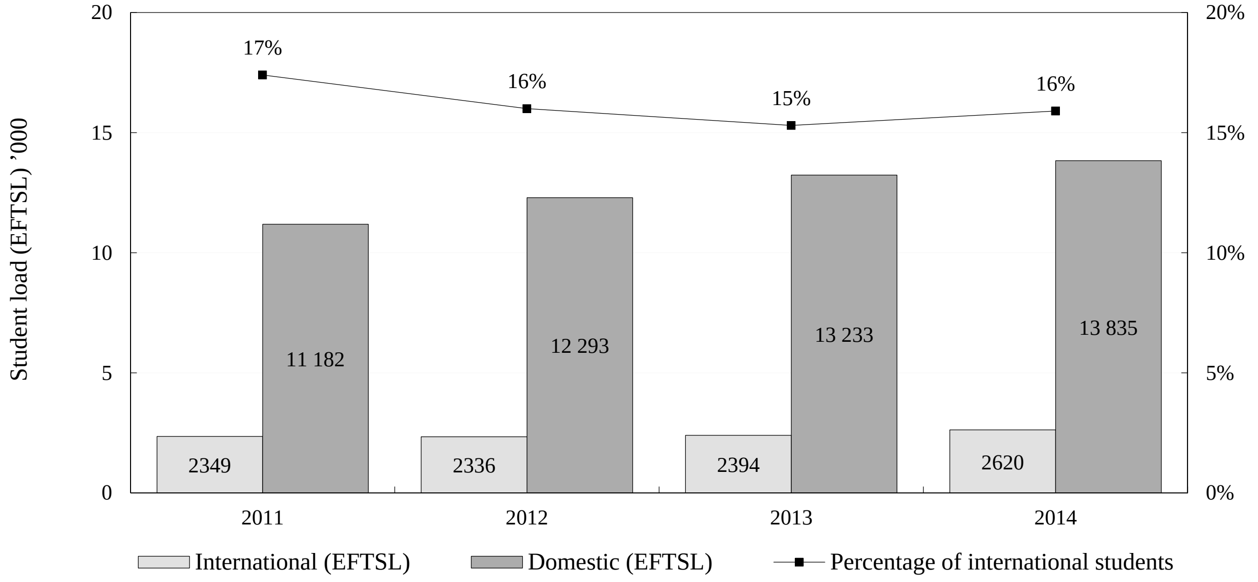
The following chart shows fees from overseas students together with international student numbers.



Source: Student numbers, which are based on EFTSL, were obtained from the University and are unaudited figures.

Fees from overseas students increased $7 million (16%) to $50 million primarily due to a 9% growth in international student numbers together with price increases.

The following chart illustrates that international students as a percentage of total students has remained relatively consistent in recent years.



Source: Student numbers, which are based on EFTSL, were obtained from the University and the Department for Education and Training statistics website (uCube) and are unaudited figures.

Investment revenue and income

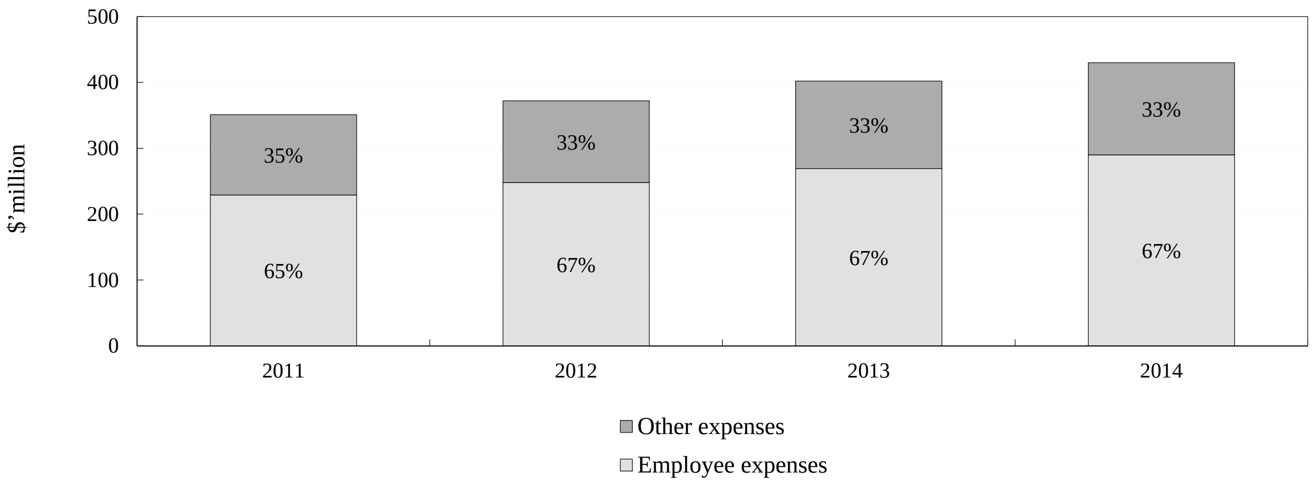
Investment revenue and income (net of losses) decreased by $13 million (66%) to $6 million due primarily to:

- a $9 million net decrease in other investment returns. In 2014 the University recognised an investment loss of $3 million compared to a gain of $6 million in 2013
- a $3.4 million decrease in interest revenue primarily due to reduced cash and short-term deposit balances which were used to fund major infrastructure projects during 2014.

Expenses

Total expenses increased by $28 million (7%). This was primarily due to a $21 million (8%) increase in employee related expenses together with a $7 million (5%) increase in other expenses.

The following chart shows the proportion of employee and other expenses to total expenditure over the four years to 2014.



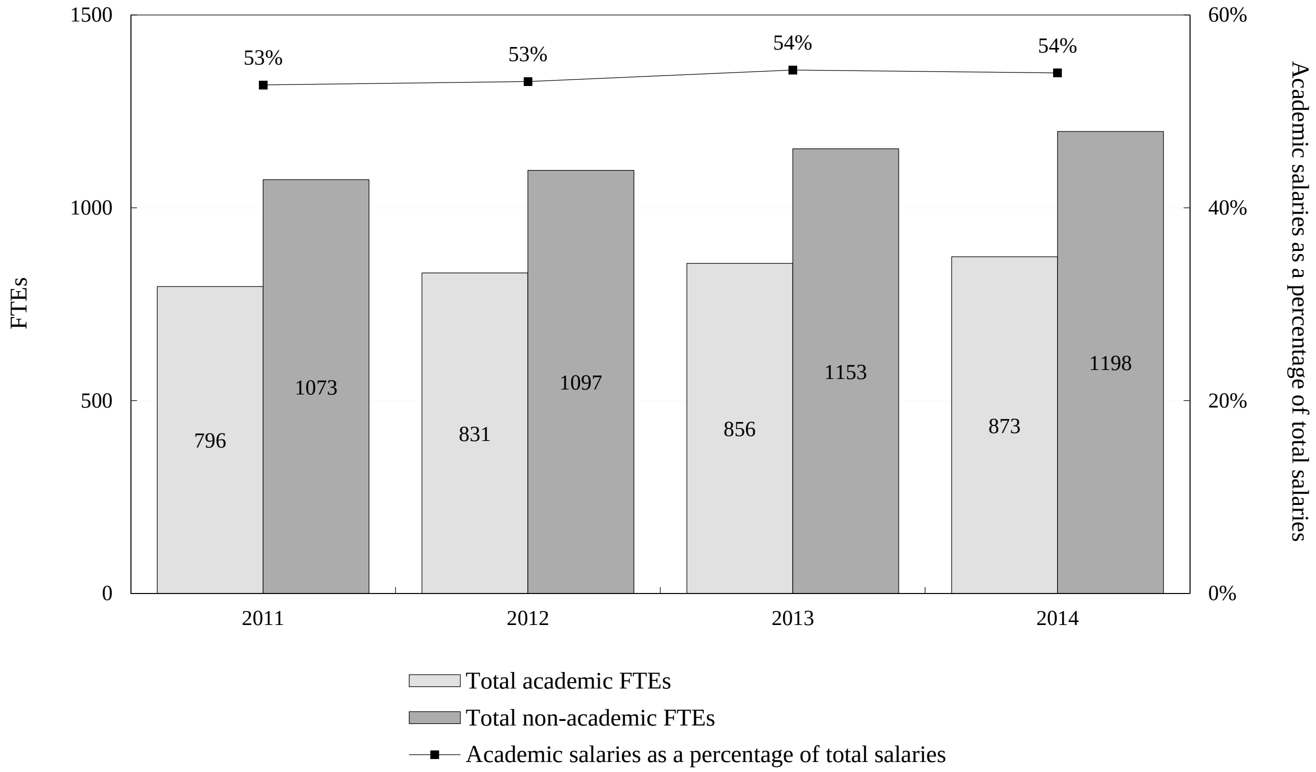
Employee related expenses

The increase in employee related expenses mainly related to:

- a 3% pay increase associated with the University's enterprise agreement
- a 2% increase in academic staff numbers and a 4% increase in professional staff numbers.

The University had 873 academic employees and 1198 non-academic employees in 2014 (FTEs). Academic employees comprised 54% of total salaries and related expenses in 2014.

The following chart shows that the proportion of academic staff salaries as a percentage of total salaries has remained relatively constant over the four years to 2014.



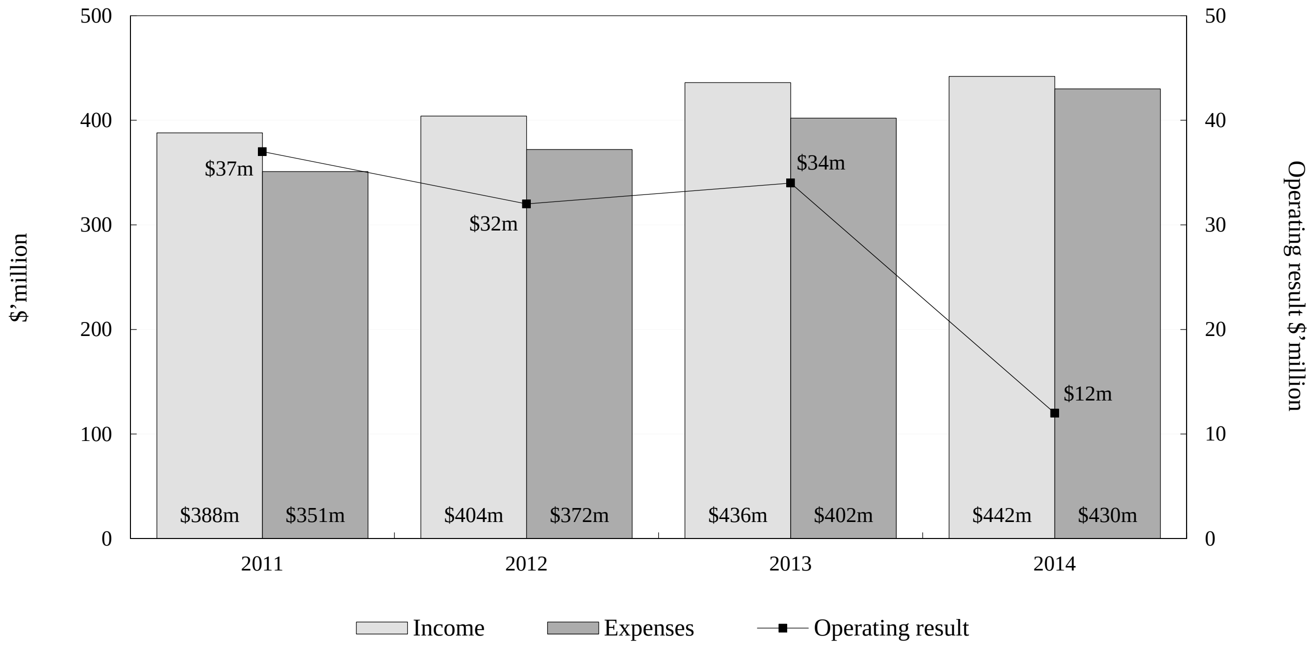
Source: Staff numbers, which are based on FTEs were obtained from the University's published statistics and are unaudited figures.

Operating result

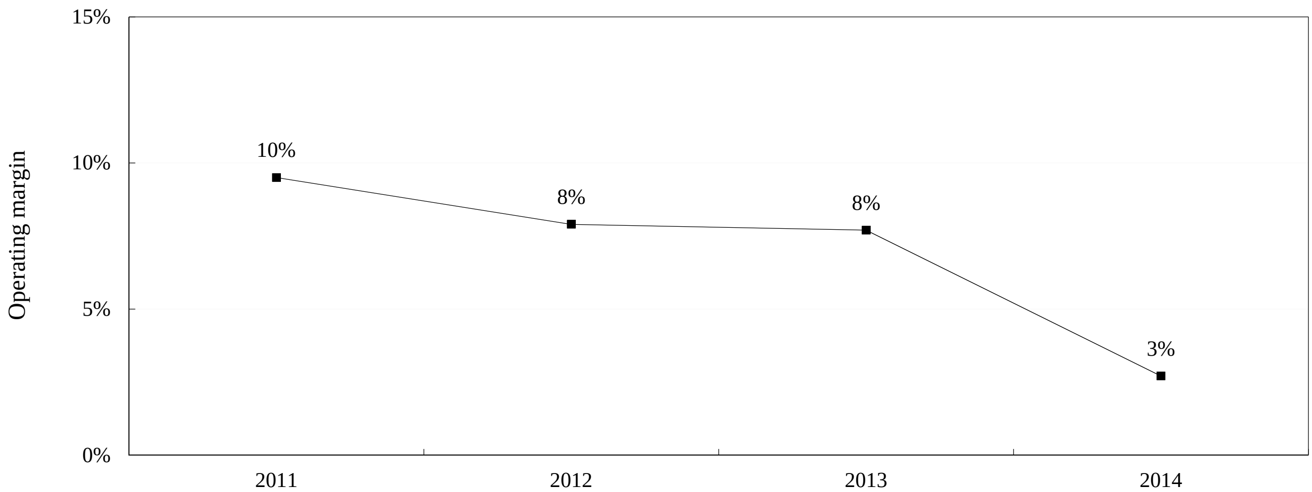
The operating surplus decreased $22 million to $12 million. Contributing to the decreased surplus was:

- a $13 million decrease in net investment revenue. Refer to commentary under 'Investment revenue and income' and note 6 of the financial report.
- a $3 million decrease in Australian Government capital funding
- a $2 million decrease in Australian Government competitive research grants
- a $2 million increase in depreciation and amortisation.

The following chart shows the operating income, operating expenses and operating result for the four years to 2014.



The chart below shows the University's operating margin (the operating result for the year divided by total income) over the four years to 2014.



The chart shows the operating margin reduced significantly in 2014.

Statement of Financial Position

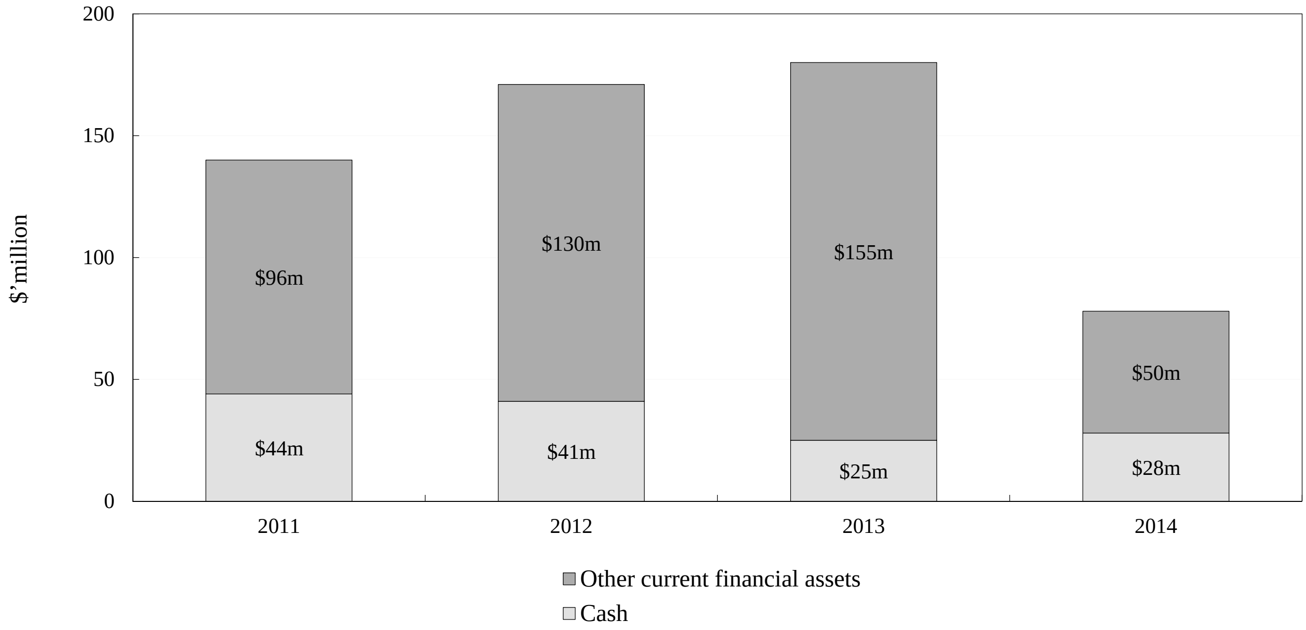
The University's consolidated net assets as at 31 December 2014 totalled $640 million ($629 million), an increase of $11 million.

Assets

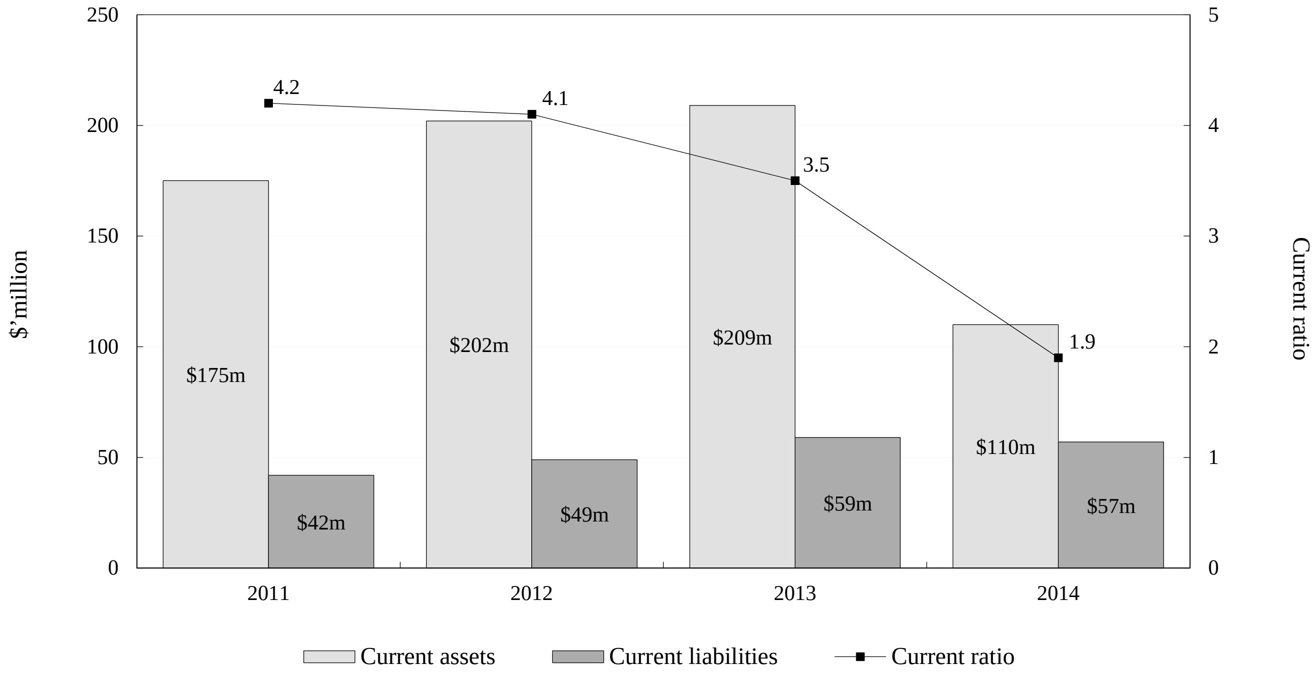
Current assets

The University's cash and current financial assets (term deposits) decreased by $102 million to $78 million primarily due to payments for major infrastructure projects.

The following chart shows cash and term deposits over the four years to 2014.



The following chart shows the University's current assets and liabilities. The chart shows a large decline in the University's current ratio reflecting significant investment in infrastructure projects during 2014. The University's current assets exceeded current liabilities by $53 million.



Non-current assets

The main item of the University's Statement of Financial Position is property, plant and equipment, representing 69% of total assets. The carrying value of property, plant and equipment increased by $109 million to $546 million due mainly to:

- $111 million expenditure on capital infrastructure, including construction work associated with the Flinders at Tonsley and the New Plaza Redevelopment and Student Hub major infrastructure projects

- other asset additions of $22 million.

These increases were offset by $22 million in depreciation charges.

Major capital works at Tonsley Park

During 2014 the University constructed a new six-storey 16 000 square metre building to house 150 staff and 2000 students. The building exists in a new campus at Tonsley Park situated in the revitalised former Mitsubishi Motors manufacturing site.

The $112 million teaching and research facility co-locates its School of Computer Science, Engineering and Mathematics with the Medical Device Research Institute, Centre for Nanoscale Science and Technology, Flinders' commercialisation agent, Flinders Partners and the New Venture Institute.

Practical completion and capitalisation of the Tonsley Park campus building occurred in late December 2014 and it was opened as planned in March 2015, in time for the new student year.

As at 31 December 2014 the University's financial report recognises a $104 million building asset for the Tonsley Park redevelopment.

Major capital works – new plaza redevelopment and student hub

In July 2014, the University Council approved the construction of a New Plaza Redevelopment and Student Hub. The redevelopment, situated at its Bedford Park campus, will include over 11 000 square metres of new facilities, as well as a new terraced plaza space featuring an amphitheatre. The project includes a new four-storey administration building, a new three-storey enclosed mall, and refurbishment of the existing Union building and one level of the library.

The New Plaza Redevelopment and Student Hub project has a total budgeted cost of $63 million. Construction commenced in November 2014 and is scheduled for completion in semester 1, 2016. As at 31 December 2014 the University's financial report recognises a $7.13 million construction in progress asset for the project.

Liabilities

The University's liabilities increased by $14 million to $146 million. The major items causing this change were:

- a $5 million increase in the long service and annual leave liability due partly to a decrease in discount rates
- an $8 million increase in defined benefits obligation (superannuation), mainly due to a decrease in discount rates used to calculate the liability
- new borrowings of $7 million reflecting a finance lease for ICT network infrastructure,

partly offset by a $5 million decrease in trade and other payables.

Statement of Cash Flows

Cash flows from investing activities include $140 million payments for property, plant and equipment. For further information regarding payments for property, plant and equipment refer to commentary under 'Non-current assets'.

Health sector activities

The Department for Health and Ageing

The Department for Health and Ageing (the Department) is an administrative unit established pursuant to the *Public Sector Act 2009*.

The Department is a funder or service purchaser, policy setter and strategic planner and provider of services.

The Department is charged with broad ranging policy and administrative responsibilities associated with health. One of the functions delegated to the Chief Executive of the Department under the *Health Care Act 2008* is to ensure that there is proper allocation and use of resources between health regions and health services incorporated under the *Health Care Act 2008*.

Local health networks

In August 2011 the Commonwealth, State and Territory Governments entered into the National Health Reform Agreement (NHRA). The NHRA establishes governance, funding and financial management arrangements for the delivery of public hospital services and other health services.

The NHRA required the States to establish local health networks (LHNs) that operate under governing councils to directly manage the delivery of public hospital and other health services. An LHN can contain one or more hospitals, and is usually defined as a business group, geographical area or community. Every Australian public hospital is part of an LHN. These requirements are to place responsibility and accountability for health service delivery to local health areas.

In response to the NHRA reform agenda five LHNs were established in South Australia from 1 July 2011 as follows:

- Central Adelaide Local Health Network Incorporated
- Southern Adelaide Local Health Network Incorporated
- Northern Adelaide Local Health Network Incorporated
- Women's and Children's Health Network Incorporated
- Country Health SA Local Health Network Incorporated.

The SA Ambulance Service Inc (SAAS) has operated since 1992 and was not affected by the requirements for change under the NHRA.

Incorporated hospitals and health services

The incorporated hospitals and health services (the health services) are body corporates established pursuant to the *Health Care Act 2008*.

The health services are responsible to the Minister for Health and the Chief Executive of the Department for Health and Ageing.

During 2014-15, the health services comprised:

- Central Adelaide Local Health Network Incorporated (CALHN)

The principal units within CALHN were Royal Adelaide Hospital, Queen Elizabeth Hospital, Hampstead Rehabilitation Centre, GP Plus Health Care Centres and primary, subacute and mental health services located in the local area. CALHN also includes state-wide clinical support services covering pharmacy, medical imaging and pathology.

- Southern Adelaide Local Health Network Incorporated (SALHN)

  The principal units within SALHN were Flinders Medical Centre, Repatriation General Hospital, Noarlunga Hospital, GP Plus Health Care Centres and primary, subacute and mental health services located in the local area and drug and alcohol services.

- Northern Adelaide Local Health Network Incorporated (NALHN)

  The principal units within NALHN were Lyell McEwin Hospital, Modbury Hospital, GP Plus Health Care Centres and primary, subacute and mental health services located in the local area.

- Country Health SA Local Health Network Incorporated (CHSALHN)

  CHSALHN provided a network of hospitals and health services located throughout regional South Australia.

- Women's and Children's Health Network Incorporated (WCHN)

  The principal unit within WCHN was the Women's and Children's Hospital.

- SA Ambulance Service Inc (SAAS).

The incorporated hospitals are charged with establishing, providing, maintaining and enhancing hospital, medical and allied health services in their local area.

SAAS is the principal provider of emergency ambulance services in South Australia.

Consolidated financial statements

In accordance with Australian Accounting Standard AASB 10 'Consolidated Financial Statements', consolidated financial statements have been prepared for the consolidated entity. The consolidated entity comprises the Department, LHNs and SAAS.

Structure of this section of the Report

This section of the Report includes commentary and/or financial information for the following matters:

- comment on some health sector challenges
- health sector staffing and patient activity data – unaudited
- audit commentary and findings arising from audits of the Department, incorporated LHNs and health services.

Health sector challenges

Previous Reports have included certain observations on some important changes and challenges facing the health sector and its administration. Certain matters are again commented on below in consideration of their importance, recent developments and our observations and findings associated with the 2014-15 audit of the Department and associated health services.

National health reforms

The *National Health Funding Pool Administration (South Australia) Act 2012* (NHFPA Act) operated from 1 October 2012. This Act gives effect to the funding and financial accountability requirements of the NHRA, with implications for South Australian health sector administration and audit responsibilities for the Auditor-General.

Pursuant to the requirements of the NHRA and the NHFPA Act, from 1 October 2012 the Commonwealth and State Governments provided three types of funding into a State Pool account established with the Reserve Bank of Australia. The three types of funding are as follows:

- activity based funding (Commonwealth and State) – represents acute admitted public, acute admitted private, non-admitted and emergency department categories of service
- block funding (Commonwealth) – represents mental health, small rural and metropolitan hospitals, subacute, teaching, training and research and other categories
- public health funding – other amounts transacted through the State Pool account and subsequently paid to the Department.

The NHFPA Act also requires the Administrator of the National Health Funding Pool to prepare an annual financial statement for the State Pool account and for the Auditor-General to audit this financial statement and express an audit opinion on the statement.

A financial statement of the State Pool account has been prepared by the Administrator for the period 1 July 2014 to 30 June 2015. An audit of this financial statement has been carried out and an unmodified Independent Auditor's Report issued.

The audited financial statement will form part of the Administrator's annual report to the responsible Commonwealth Minister pursuant to the NHFPA Act.

Information technology and system change

Over a number of years, the Department has progressed the replacement of a range of health and financial management information systems. Two of the most important systems, the Enterprise Patient Administration System (EPAS) and the Oracle Corporate System (OCS), were subject to audit reporting in past Reports.

The Department's successful implementation of these systems is fundamental to it achieving improved health service delivery performance and the financial management and control and accountability requirements under the health reform agenda.

There were delays and remediation issues with the rollout of the Procure to Pay component of the OCS and with EPAS. This means that legacy systems remain in operation in most health services, resulting in additional costs and inefficiencies in patient health care administration and financial services administration across the health sector.

The management of the implementation of major IT developments and systems and the audit of their operations has continued to be an area of audit focus during 2014-15. In particular, we reported in the Supplementary Report 'Health ICT systems and the Camden Park distribution centre: June 2015'.

Further commentary regarding other IT reviews will be made in future Supplementary Reports.

The new Royal Adelaide Hospital project

A Public Private Partnership project, the new Royal Adelaide Hospital, is in progress and is scheduled for delivery in 2016. The estimated total value of the contractual arrangement provides for a capital cost for design and construction of $1.85 billion (nominal) and State works of $417 million. In October 2014, Cabinet approved a $176.6 million increase in State works funding which includes transition support costs.

We have reviewed aspects of the project and contract arrangements through to project delivery. Summary comments are included in the section of Part B of this Report titled 'Central Adelaide Local Health Network Incorporated'. Specific comments on this project development will be contained in a Supplementary 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 Department is in the process of implementing the governance and reporting structures necessary to support this program.

We will give focus to the developments with the Transforming Health program in 2015-16.

Governance and financial control

The Department and the LHNs need to have strong systems of governance and control to adequately respond to risks associated with fundamental change that is occurring to administration and financial arrangements and systems.

Annual audits of the Department and associated health services continue to raise many matters relating to governance and control. They represent deficiencies in practices or the requirement for improvement in practices. Over 20 audit management letter communications raising issues for consideration by health sector management were forwarded to the Department in respect of the 2014-15 financial year. Over 20 letters were forwarded for the 2013-14 financial year. In addition, management letters communicating issues arising from the audit of functions and processes performed by Shared Services SA (SSSA) on behalf of the Department were forwarded during the year to SSSA.

Commentaries on communications of audit findings to the Department, health services and SSSA for 2014-15 are provided in the sections following this section of Part B of this Report.

Health sector staffing and patient activity data – unaudited

The following staffing and patient activity information was provided by the Department in response to our request and is unaudited.

Health sector staffing statistics

The following table details the staffing levels as at 30 June in the health sector, excluding staff of the Department and SAAS, over the past three years.

Health sector FTE mix (unaudited)

	2015	2014	2013
	Number	Number	Number
Staff categories:			
Nurses	12 598	12 609	12 591
Medical staff	3 001	3 028	2 933
Scientific and technical	1 121	1 165	1 154
Administrative and clerical	4 249	4 232	4 211
Allied health, hotel and other staff	6 705	6 623	6 795
Total staff	27 674	27 657	27 684
Increase (Decrease)	17	(27)	201
Percentage increase (decrease)	0.06%	(0.1%)	0.7%

Department staffing statistics

The following table details the staffing levels of the Department as at 30 June over the past three years.

Department for Health and Ageing FTE (unaudited)

	2015	2014	2013
	Number	Number	Number
Total staff	2 096	2 175	2 018

The decrease in the Department's FTEs is mainly attributable to reductions in eHealth systems, Public Health and Clinical systems staff pursuant to a organisational review.

SA Ambulance Service Inc staffing statistics

The following table details the staffing levels of SAAS as at 30 June over the past three years.

SA Ambulance Service Inc FTE (unaudited)

	2015	2014	2013
	Number	Number	Number
Total staff	1 219	1 213	1 221

Hospital activity statistics

The tables below indicate the trends over past years in respect of inpatient activity (unweighted), length of hospital stay, and casualty and outpatient activity (unweighted). The data in the tables below has been sourced from the reporting systems of the Department and has not been audited.

Inpatient activity (unaudited)

	2015 Number	2014 Number	2013 Number
Metropolitan hospitals:			
Overnight stay	170 559	169 092	170 665
Same day	144 935	142 499	140 868
Total	315 494	311 591	311 553
Country hospitals:			
Overnight stay	52 036	51 393	51 900
Same day	54 543	52 794	50 381
Total	106 579	104 187	102 281

Average length of overnight hospital stay (unaudited)

	2015 Days	2014 Days	2013 Days
Metropolitan hospitals	6.3	6.4	6.6
Country hospitals	4.7	4.7	6.1

Outpatient activity (unaudited)

	2015 Number	2014 Number	2013 Number
Metropolitan hospitals:			
Emergency Department attendances	384 315	382 823	375 704
Outpatient occasions of service	1 037 222	1 068 455	1 080 257
Country hospitals:			
Emergency Department attendances	173 946	170 784	171 251
Outpatient occasions of service	154 450	140 656	131 195

Department for Health and Ageing

Functional responsibility	The Department for Health and Ageing (the Department) is an administrative unit established pursuant to the *Public Sector Act 2009*. The Department is a funder or service purchaser of health services, policy setter and strategic planner and provider of services. Note 1 of the financial report provides details regarding the Department's objectives. The Department is charged with broad ranging policy and administrative responsibilities associated with health. One of the functions delegated to the Chief Executive of the Department under the *Health Care Act 2008* is to ensure that there is proper allocation and use of resources between health regions and health services incorporated under the *Health Care Act 2008*.
Financial statistics	Total expenses: $4741 million Net cost of providing services: $3132 million Total appropriation: $3191 million Employee benefits liability and related on-costs: $60 million Workers compensation liability: $2.6 million Number of FTEs: 2096
Significant events and transactions	— Consolidated financial statements prepared for the Department, local health networks (LHNs) and the SA Ambulance Service Inc (SAAS) in accordance with Australian Accounting Standards. — 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 LHNs and SAAS effective 1 June 2015. — During the year the rollout of the One Procurement Solution was finalised across all LHNs and SAAS resulting in all accounts payable transactions now being processed to a single payable platform (Basware).
Financial statement opinion	**Unmodified**
Financial controls opinion	**Modified** Key issues: — Review of Basware system access (including delegations) requires improvement — Lack of clarity regarding responsibility for maintenance of the supplier masterfile — Controls for the Shared Services SA main payroll systems did not meet a generally satisfactory standard

Scope of the audit

The audit program covered major financial systems and was directed primarily to obtaining sufficient evidence to enable an opinion to be formed with respect to the financial report and internal controls.

During 2014-15 specific areas of audit attention included:

- payroll
- accounts payable
- accounts receivable
- cash
- general ledger
- funding to health services
- grants to non-profit organisations
- interstate patient transfers
- non-current assets
- inventory management
- revenues received from the Commonwealth
- insurance services
- financial management and compliance
- information and communications technology developments.

Audit findings and comments

Assessment of controls

In my opinion, the controls exercised by the Department for Health and Ageing in relation to the receipt, expenditure and investment of money, the acquisition and disposal of property and the incurring of liabilities, except for all matters outlined under 'Communication of audit matters', are sufficient to provide reasonable assurance that the financial transactions of the Department for Health and Ageing have been conducted properly and in accordance with law.

Communication of audit matters

Matters arising during the course of the audit were detailed in management letters to the Chief Executive of the Department. The main matters raised and the related responses are outlined below.

In addition, matters relating to Shared Services SA (SSSA) as a service provider to the Department are also described below.

Governance and accountability review

Our review of governance and accountability identified a number of areas where governance practices could be improved in the Department.

Legal compliance

A legislative compliance internal audit report was finalised by internal audit in April 2015. This report identified a number of weaknesses in the management of legislative compliance processes across SA Health, including:

- no coordinated approach to identifying and managing legislative obligations
- a lack of coordinated approach to education of legislative requirements
- a lack of coordinated approach to monitoring compliance

- a lack of key performance indicators related to compliance
- no coordinated approach for reporting breaches in legislation.

These weaknesses in legislative compliance processes may result in non-compliance with relevant legislation which could lead to litigation and subsequent losses for the Department.

We recommended that the Department implement the recommendations arising from the legislative compliance internal audit report as soon as possible, including the development of an overarching legislative framework for application across SA Health.

The Department responded that it has agreed an approach to respond to the recommendations of the internal audit report, including the development of a legal compliance framework. A scoping exercise will soon commence to identify resources required to develop an overarching legal compliance framework, the information to be included in the framework, and an appropriate framework owner.

Register of interests

A register of interests is a record kept by an agency of financial interests of its key officers. The 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.

We noted that the Department does not maintain a register of all interests. The Department also does not have a specific conflicts of interest policy detailing how conflicts of interest are to be monitored and reported on by the Department. As a result, the risk of perceived or actual conflicts of interest is not adequately mitigated and could negatively impact on Department operations, including procurement activities.

The Department responded that it is committed to establishing a conflicts of interest policy and developing an associated register of interests.

Gifts and benefits register

Our review in 2014-15 identified that the Department's gifts and benefits policies do not specify that a register of all gifts and benefits received by employees should be maintained. We also found no regular reporting to the Risk Management and Audit Committee of details of gifts and benefits received by Department employees. Such reporting allows for an independent assessment of the appropriateness of gifts and benefits received.

As a result, inappropriate gifts may be received affecting the impartiality of Department employees. At the extreme, an inappropriate gift or benefit could be perceived as a bribe, which is an offence under the Criminal Code and a breach of the Code of Ethics for the South Australian Public Sector.

We recommended that the Department maintain a gifts and benefits register and make this register regularly available to the Risk Management and Audit Committee for independent review. These requirements should be included in a specific gifts and benefits policy which, once approved, should be made available to all employees.

The Department responded that it has already commenced the drafting of a specific gifts and benefits policy, which will include a requirement to maintain a register of all gifts and benefits received by employees.

Fraud and corruption control plan

Our review found that the Department did not have a current fraud and corruption control plan in place. From discussions with Department officers, we understand that a fraud and corruption control plan is being developed and should be finalised by September 2015.

The absence of a fraud and corruption control plan may lead to the Department not effectively managing the prevention and risk of fraud, which may result in financial loss.

The Department responded that it is in the process of finalising the fraud and corruption control plan. Implementation of the plan will be dependent on the updates required to the Department's fraud and corruption control policy once the across-government fraud and corruption policy is issued.

Shared Services SA – financial systems and transaction processing environments

SSSA processes financial transactions on behalf of the Department, Central Adelaide Local Health Network Incorporated (CALHN), Southern Adelaide Local Health Network Incorporated (SALHN), Northern Adelaide Local Health Network Incorporated (NALHN), Women's and Children's Health Network Incorporated (WCHN), Country Health SA Local Health Network Incorporated (CHSALHN) and SA Ambulance Service Inc (SAAS) under service level determinations. The main systems and control environments include accounts payable, payroll, sundry revenue and general ledger financial functions.

Findings from our review of processes undertaken by SSSA are outlined below under the respective areas of payroll, accounts payable and sundry revenue.

Payroll

Employee benefits expenses are a significant cost of the Department, totalling $212 million in 2014-15. It is therefore critical that payroll controls and processes are appropriately established and operating effectively, to minimise the risk of unauthorised or incorrect payments to employees. Confirming that payments are valid and made to bona fide employees is a significant component of an effective payroll control environment.

Payroll controls and processes for the Department are performed at both the Department and at SSSA. The majority of these payroll activities are performed for the Department, LHNs and SAAS.

Our audit of payroll controls and processes at both the Department and SSSA in 2014-15 identified a number of areas where there are opportunities to enhance payroll controls and related processes.

Bona fide certificate management

Bona fide certificates are distributed to managers fortnightly for review. Managers are responsible for checking that the information on the bona fide certificate is complete and accurate, and that all employees paid are bona fide employees, and then signing the certificate as evidence of this review. Reviewed bona fides should then be returned within seven days to the HR data input unit, which is responsible for recording the return in the bona fide returns register and ensuring that any discrepancies identified on the certificate are followed up and actioned accordingly.

We have previously reported a number of issues around bona fide certificate management in the Department. Our follow-up in 2014-15 identified that although there was improvement in this area in 2014-15, the following issues remain:

- From our review of the bona fide returns register, we identified that a number of bona fide certificates were outstanding. For example as at March 2015, a number of bona fide certificates from as far back as September 2014 remained unreturned.
- From our review of the bona fide certificate generation processes at SSSA, we identified that certificates are being manually modified prior to being forwarded to managers for review. SSSA was requested to do this by the Department to remove executive salary amounts from the certificates.

If bona fide certificates are not reviewed in a timely manner, or manual modifications are made to information on the certificates, inaccuracies in payments made to employees and leave recorded may not be appropriately detected and corrected.

The Department responded that managers will ensure that bona fide certificates are reviewed and returned to the HR data input unit within seven days in accordance with Department policy. The bona fide returns register will be reviewed fortnightly so that any overdue bona fide certificates can be followed up.

SSSA also responded that it has created a new bona fide certificate process which excludes the salary amounts for all employees. SSSA has forwarded this new process to the Department and is awaiting feedback and approval.

Negative recreation leave balances

Our review identified that a number of employees have significant negative recreation leave balances. At the time of our review, the highest negative recreation leave balance totalled 290 hours. We noted that the Department does not regularly report on or monitor negative recreation leave balances. As a result, monies owed to the Department may not be recouped if an employee with a negative leave balance leaves the Department.

It was recommended that the Department develop a process that requires availability of leave to be determined prior to the approval of leave. We also recommended that the Department develop processes for monitoring, reviewing and reducing negative recreation leave balances.

The Department responded that standard payroll reports, which show leave balances, are being developed by Workforce Reporting and will be implemented by the Department following a consultation process. These reports will clearly show both positive and negative leave balances for all employees.

A review of all current negative leave balances will also be undertaken, and managers consulted regarding future management of individuals’ leave. A leave management administrative instruction will also be developed to include the management of both standard and excess leave.

Service level agreement with Shared Services SA

In 2013-14 we raised an issue that the Department did not have a current Service Summary and Operating Level Responsibility document in place with SSSA for payroll. Follow-up in 2014-15 identified that this document was not finalised and approved. As a result, uncertainty may exist around the responsibilities of Department and SSSA employees when performing payroll related tasks, resulting in the breakdown of key payroll controls.

The Department and SSSA responded that negotiations are continuing and that a document should be finalised and approved by September 2015.

Shared Services SA payroll – CALHN, SALHN, NALHN

Changes resulting from exception reporting are not subject to review

Exception reports run as part of the pay run processes identify unusual occurrences which are sent to data input officers to review and action. Changes are made where errors are identified and explanations are provided where the exceptions are valid. Our review of the process found the changes made and explanations provided by data input officers were not reviewed and/or verified to supporting documents.

The current procedure does not cover this process. Without sufficient checks, there is an increased risk of changes not being processed and that unauthorised or inaccurate changes may not be corrected.

SSSA advised that its current processes are sufficient and that the findings can be closed off as controls are in place. This will be followed up as part of the 2015-16 review of SSSA's LHN payroll controls.

No reconciliation of the ProAct file uploaded to CHRIS - SALHN

The ProAct system is used to record time worked for nurses. A ProAct data file is obtained from the LHNs and uploaded to CHRIS by pay run officers each fortnight. Our review found that for SALHN there was no process to ensure all time worked was completely and accurately uploaded to CHRIS.

The procedure for loading ProAct data had no guidance for reconciling the ProAct file uploaded to CHRIS or for verifying completeness and accuracy. We also noted inconsistencies in the processes between all three sites, ie SALHN, NALHN and CALHN.

The lack of a reconciliation between ProAct and CHRIS may result in data manipulation not being detected, potentially resulting in incorrect payments to employees.

In response, SSSA advised that upon the upload of ProAct data into CHRIS the system produces an error or warning message and identifies any employee not uploaded into CHRIS or if there is an issue with part of the load. This report is reviewed and if a warning/error is identified it is also reviewed. SSSA believe the risk is mitigated through this validation report.

No review of amendments to ProAct data file

The time recorded in the ProAct system by roster managers each fortnight gets uploaded into the payroll system. There are a range of reasons for which certain changes may be required to be made to the authorised ProAct file.

Our review for the past two years found that adjustments processed by SSSA to ProAct data were not independently reviewed for accuracy and validity. This could potentially result in unauthorised and inaccurate payments being made to LHN employees.

In response, SSSA advised that as part of the CHRIS 21 transition, SSSA has been in discussion with SA Health regarding the ProAct data file. A draft procedure has been created outlining roles and responsibilities between both parties, including the delegated authority for making changes. This procedure will be implemented when agencies move to CHRIS 21.

Timesheets and/or leave forms not provided

As part of the audit we requested documentation to support a sample of transactions for LHNs. There were a number of transactions where appropriate documentation (eg timesheets, leave forms) was not provided. As a result we were unable to verify that the transactions processed were valid and accurate.

SSSA advised that it accepts the finding and that:

- currently all documentation including timesheets and leave forms more than three months old are stored offsite
- it will reinforce the archiving process with the payroll teams
- it will be undertaking a restructure of filing for all SA Health employees using a filing system from A to Z.

Accounts payable

Accounts payable services are provided to the Department by SSSA under a service level determination (SLD).

Service level agreement with SSSA

In 2013-14 we raised an issue that the Department did not have a current Service Summary and Operating Level Responsibility document in place with SSSA for accounts payable. Follow-up in 2014-15 identified that this document was not finalised and approved. As a result, uncertainty may exist around the responsibilities of Department and SSSA employees when performing accounts payable related tasks, resulting in the breakdown of key accounts payable controls.

The Department and SSSA responded that negotiations are continuing and that a document should be finalised and approved by September 2015.

Oracle delegations

Our review identified that delegations in Oracle are not agreed back to approved delegations in the Department's Governance and Delegation System (GADS). This may result in payment authorisation outside of formally approved delegations, which may lead to inappropriate expenditure being incurred. The Department responded that an authorised delegates framework has been developed to establish quarterly Oracle user reviews between Oracle and GADS.

Maintenance of supplier masterfile

We noted a lack of clarity relating to the responsibility for maintenance of the supplier masterfile between SSSA and the Department. The absence of a formally approved SLD increases the risk of inappropriate changes being made to the masterfile. We recommended that the Department formally document which agency is responsible for the maintenance of the supplier masterfile. The Department advised that the responsibilities will be documented in the abovementioned SLD.

Banking access

We identified that CommBiz user access for the Department is reviewed on an annual basis. Due to the size of the Department and the frequency of employee movements we recommended that SSSA consider a more periodic review of the CommBiz user access. SSSA responded that the frequency of CommBiz user access review is currently under consideration by SSSA.

Reconciliation of purchase cards statements

The Department's policy requires cardholders to certify the correctness of all transactions, provide all supporting receipts/invoices and the relevant general ledger codes. If a receipt/invoice is missing the appropriate forms are required to be completed and authorised. We identified a number of instances of non-compliance with the policy. The Department responded that it would remind purchase card holders and authorising delegates of the requirements in the policy.

SA Health Distribution Centre

Approval of inventory adjustments

The Inventory Adjustment policy states that when a scheduled cycle count requires an adjustment greater than the predetermined variance tolerance, these will remain pending in the system until approval to process is granted. We were advised that due to the volume of inventory adjustments this is not practical. The current process is for adjustment approval to be provided after the fact through the weekly review process. Further we identified instances where this review did not occur in a timely manner. The Department responded that the policy will be amended to reflect improved control processes and the adjustment process has been tightened with signoff in a timely manner.

Procurement and Contract Management System

System access and delegations

The SA Health Procurement and Contract Management System (PCMS) Policy Directive requires that PCMS user access levels are reviewed twice a year. We noted that no formal review over user access was performed during the year. As payments are released through PCMS in accordance with the delegations in the system, a lack of review may result in payments approved outside of delegation. The Department responded that a process for PCMS user access review has been established to occur twice a year.

Data entry into PCMS

In accordance with the Framework for the Management of SA Health Grants and Service Agreements with Non-Government Organisations Policy Directive, program management units are responsible for creating and maintaining contract files in PCMS. Contract terms and payment details are manually entered into the system by the responsible program management units. We identified that while an independent review of the data entered into the system occurred, no evidence of this review was retained. The Department responded that a process for recording the independent review will be examined as a part of the review of the PCMS Policy Directive.

PCMS to Oracle interface

Once payments are approved within PCMS they are released for payment in Oracle via a systems interface. We noted that there is no reconciliation performed over the interface to ensure completeness of the data transfer. Without a formal review the data transfer from PCMS to Oracle may be incomplete resulting in payments not being made in accordance with contract terms. The Department responded that the PCMS interface will be reviewed to determine if a reconciliation report can be generated following each interface.

Non-compliance with Department of the Premier and Cabinet Circular PC027

Department of the Premier and Cabinet Circular PC027 ‘Disclosure of Government Contracts’ requires that both ‘eligible’ and ‘significant’ contracts be disclosed on the SA Government’s Tenders and Contracts website. We identified that a number of eligible contracts were not disclosed on the website, resulting in non-compliance with the disclosure requirements of PC027. The Department responded that it will review the process for checking disclosure requirements in accordance with PC027.

Accounts receivable

Review of financial delegations for income recognition

The Accounts Receivable Service Design and Operating Level Responsibilities document between SSSA and the Department states that SSSA is responsible for validating revenue delegations on invoice request forms prior to processing.

Our review in 2014-15 identified that no review of delegations is performed by SSSA on invoice request forms, customer maintenance forms and credit adjustment forms prior to processing. As a result, no review of delegations on these forms is being performed by either SSSA or the Department. This may result in errors going undetected and misstatement of revenue balances.

SSSA and the Department advised that they are working together to develop an appropriate solution to address our finding.

Independent review of invoices raised

Our review of the invoicing process undertaken at SSSA noted that there is no segregation of duties between the raising of invoices and the review of invoices to ensure invoice details input are complete and accurate. As a result, a person who raised an invoice might also be responsible for reviewing the completeness and accuracy of the invoice details. This may result in processing errors going undetected and the misstatement of revenue balances.

SSSA responded that all invoices are printed overnight. The following day an allocated staff member is responsible for matching printed invoices to invoice request forms. This is only a high level check however, and not a formal quality assurance check and therefore does not specifically review for completeness and accuracy of the input invoice information.

Review of the completeness and accuracy of input invoice information is undertaken by the Process Master team which does not process invoices. As such, sufficient segregation exists between the raising of invoices and the review of input invoice information.

Special purpose funds

The various LHNs administer significant monies in special purpose funds (SPFs). These funds currently include private practice funds, specific research grants, and funds received through fund raising activities undertaken by hospitals or voluntary organisations closely affiliated with the hospitals.

Since 2011 we have communicated issues to the Department about SPF policies, procedures and reporting.

Last year's Report indicated the anticipated implementation by the Department of a policy framework in 2013-14 together with a significant review of SPFs across LHNs. We indicated that the review should address the issues previously raised, notably the adequacy of documentation underpinning the operations of SPFs, the usefulness of SPF reports for monitoring purposes, and the significance and implications of and reasons for overdrawn SPFs.

A fully endorsed policy and procedure framework commenced implementation in April 2015.

In 2015-16, we will evaluate aspects of the review and assessment of SPFs undertaken by the Department and the financial accountability arrangements to apply to the SPFs authorised for operation.

Private Practice

SA Health Private Practice is responsible for disbursing specialist private practice receipts in line with specialist private practice arrangements/agreements. Our review of the controls for processing and disbursing private practice receipts identified the following control issues.

Statutory declarations not received from specialists

Specialist Private Practice Agreements allow specialists to undertake private practice outside of the hospital as long as the specialist has written approval from the Chief Executive of the Department.

For private practice undertaken outside of the hospital the specialist may:

- authorise the hospital to raise accounts
- raise their own accounts

- have a party other than the hospital raise accounts.

Under the terms of the Private Practice Agreement, the specialist is required to transfer to the hospital all fees collected from the provision of private practice outside of the hospital. Consequently, a key risk associated with these offsite billing arrangements is that specialists undertake and invoice for private practice outside of the hospital and do not transfer all the private practice receipts to the hospital.

In response to this risk SA Health implemented a statutory declaration process for specialists with rights of private practice to confirm their compliance with the Private Practice Agreement. Specialists were required to provide a signed declaration by 11 April 2015.

Our review of this process found:

- statutory declarations were yet to be received from 351 out of the 1032 applicable specialists (at 23 July 2015)
- details of specialists who had not returned a signed statutory declaration were yet to be provided to senior management of the LHN for consideration of action to be taken, including whether targeted reviews/audits are required.

In response the Department advised:

- SA Health Private Practice will continue to provide administrative support to each LHN to collect outstanding statutory declarations
- a statutory declaration procedure will be developed and implemented outlining escalation processes for reporting compliance issues to LHN management
- the respective LHNs will be required to investigate compliance issues through the Department's Risk and Assurance Services division.

Reconciliation of the Private Practice Common Disbursement System (PPCDS) and Oracle not timely

Our review found that monthly reconciliations between the PPCDS and the Oracle general ledger were not prepared and reviewed in a timely manner. Specifically, we found reconciliations were signed off as prepared and reviewed up to nine months after the period being reconciled.

The Department's response indicated that the PPCDS to Oracle reconciliation process will be reviewed to incorporate independent review and timely certification.

Private Practice Agreement variations not signed

The review found that variations to Private Practice Agreement schedules are not signed by the specialist, a representative of the employing authority and the hospital to evidence authorisation.

Where variations are not signed by the respective parties the Private Practice team cannot be certain that the proposed variation has been agreed to by all parties to the Private Practice Agreement. This may result in private practice receipts not being disbursed in accordance with the wishes of the specialist and the understanding of the employing authority and hospital.

In response the Department advised that it will consult with relevant rights of Private Practice Agreement participants to review the current authorisation standards for Private Practice Agreement variations.

Information and communications technology and control

Review of the Oracle Corporate System (OCS) at various operating sites

We have reviewed the SA Health OCS on an ongoing basis, in addition to the associated One Procurement Solution program.

During 2014-15, we reviewed certain operational control aspects relating to OCS. This included examining the operational effectiveness of key business processes associated with the procurement, supply chain and investment management (One Procurement Solution modules) of OCS at an individual health site (Flinders Medical Centre). Aspects of information security applied to OCS at an SA Health corporate level were also reviewed.

In addition, the review took into consideration remediation follow-up and validation of certain aspects raised in previous audits. These previous audits included Phase 1 (financials of OCS at an SA Health corporate level) and Phase 2 (procurement and supply chain and certain financial controls of OCS at the Modbury Hospital) reported in the December 2014 Supplementary Report.

The review identified certain shortcoming requiring remediation, including:

- IT general controls:
  - excessive privileged access granted to OCS users
  - inconsistencies between OCS responsibilities and business functional requirements
  - obsolete OCS user access identified
  - no formal documentation of segregation of duties in OCS
  - potential segregation of duties conflicts identified.
- IT control testing of specific business processes:
  - insufficient system controls over purchase requisitioning approval
  - periodic user access reviews not performed
  - excessive privileged access to vendor creation/modification
  - excessive privileged access to payment processing
  - excessive privileged access to inventory item creation.

SA Health responded positively to our recommendations and advised remediation activity would be completed by 31 December 2015.

Further audit commentary

Recurrent funding to health services

In 2014-15 $3.8 billion of recurrent funding was provided to health services, a major component of departmental expenditure. The control framework implemented by the Department to support this function is significant and centres on the execution and performance obligations of health service agreements.

The 2014-15 audit included review of the following matters:

- performance agreements with health services are appropriately executed on a timely basis

- processes are in place to monitor compliance requirements of the performance agreements
- cash call payments are appropriately approved and are accurately processed into accounts payable
- budget variations are appropriately approved and supported
- key reconciliations of funding are regularly performed and independently reviewed
- progress status of the performance of casemix audits.

The findings of the 2014-15 audit were generally satisfactory.

Capital funding to health services

Capital funding provided to health services in 2014-15 was $170 million.

Costs associated with major projects undertaken across SA Health are funded and paid for by the Department. The Department advises the relevant health service monthly of all costs incurred. Each health service recognises costs incurred on its behalf as capital funding (revenue) received from the Department and, depending on the nature of the payment, a corresponding expense or asset (work in progress) in its ledger.

In 2014-15 the scope of the audit included an assessment of controls for the following matters:

- purchasing/initiating projects – all projects have the appropriate approval
- project management – all projects are monitored on an ongoing basis
- update to general ledger – projects module is reconciled to the general ledger.

The findings of the 2014-15 audit were generally satisfactory.

South Australian Health and Medical Research Institute (SAHMRI)

SAHMRI was incorporated in December 2009 as a company limited by guarantee under the *Corporations Act 2001*. The liability of the members is limited to $1 each. At 30 June 2015 the company had five members who were public authorities or prescribed public authorities under the *Public Finance and Audit Act 1987*. They are the:

- South Australian Treasurer
- South Australian Minister for Health
- Department for Further Education, Employment, Science and Technology
- University of Adelaide
- Flinders University of South Australia
- University of South Australia.

SAHMRI's key strategic objectives include the development and subsequent operation of a 'world-class flagship health and medical research facility'.

SAHMRI operates under a grant deed. The grant deed, executed on 24 May 2010, provided seed funding from the Government of South Australia (through the Minister for Health) of $15 million over the period 2009-10 to 2012-13. The State Government has agreed to provide SAHMRI operational grant funding for a further three financial years commencing 1 July 2013 and totalling $16.6 million.

During 2014-15 the Department provided SAHMRI with grant funding totalling $5 million.

SAHMRI does not come within the ambit of the definition of public authority under the *Public Finance and Audit Act 1987*. It is therefore not subject to statutory audit by the Auditor-General pursuant to section 31 of the *Public Finance and Audit Act 1987*. SAHMRI is being subject to annual statutory audit by a major accounting/auditing firm.

Interpretation and analysis of the financial report

Highlights of the financial report – Department for Health and Ageing

	2015 $'million	2014 $'million
Expenses		
Employee benefit expenses	212	211
Supplies, services and other expenses	518	479
Grants, subsidies and client payments	4 011	4 002
Total expenses	4 741	4 692
Income		
Fees and charges	342	302
Grants and contributions	1 220	1 103
Other	48	38
Total income	1 610	1 443
Net cost of providing services	3 131	3 249
Revenues from (Payments to) SA Government		
Revenues from SA Government	3 191	3 187
Payments to SA Government	(27)	(2)
Total revenues from (payments to) SA Government	3 164	3 185
Net result	33	(64)
Other comprehensive income		
Property, plant and equipment revaluation	3	-
Total comprehensive result	36	(64)
Net cash provided by (used in) operating activities	24	(115)
Assets		
Current assets	361	320
Non-current assets	150	136
Total assets	511	456
Liabilities		
Current liabilities	200	186
Non-current liabilities	151	162
Total liabilities	351	348
Total equity	160	108

Statement of Comprehensive Income

Expenses

Total expenses were steady at $4.7 billion and are principally comprised of grants and subsidies of $4 billion ($4 billion). Grants and subsidies include recurrent and capital funding to incorporated health services of $4 billion ($4 billion) and funding to not-for-profit organisations of $16 million ($20 million). A further $114 million ($105 million) was paid to not-for-profit organisations for contract of services (refer note 6 of the financial report).

Employee benefit expenses

The number of employees whose remuneration received/receivable exceeded $141 500 (base executive level) totalled 88 (89), comprising 53 executive, 25 non-medical and 10 medical, nursing and operational employees. Total remuneration for these employees was $19 million.

Supplies and services expenses

Supplies and services expenses amounted to $473 million ($420 million). Significant components of supplies and services were:

- computing costs – $69 million ($66 million)
- insurance – $42 million ($35 million)
- payments to SSSA – $32 million ($30 million)
- contract of services – $114 million ($105 million).

Revenues

Revenues from SA Government

Income for 2014-15 amounted to $1.6 billion ($1.4 billion) and principally comprised Commonwealth Government grants of $1.2 billion ($1.1 billion). The Department receives Commonwealth Government grants paid from the State Pool account under the revised funding agreement pursuant to the National Health Reform Agreement rather than via the Department of Treasury and Finance through State Government appropriation.

Revenues from the SA Government were stable at $3.2 billion.

The payments to the SA Government of $27 million relate to the proceeds from the sale of a property.

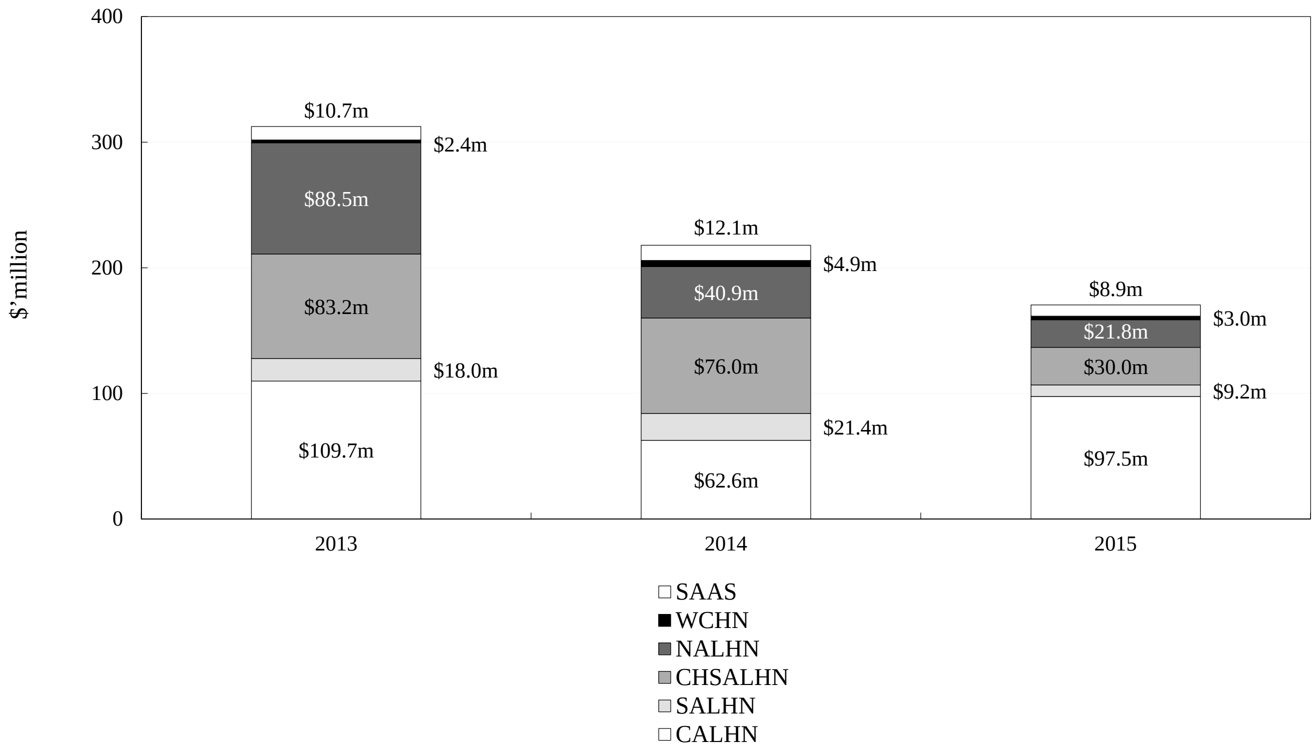
Recurrent funding to incorporated health services

The following chart shows recurrent funding to incorporated health services for the three years to 2015.

The chart shows that total recurrent funding has increased steadily over the three years, increasing from $3.6 billion in 2013 to $3.8 billion in 2015 (refer note 8 of the financial report).

Capital funding to incorporated health services

The following chart shows capital funding to incorporated health services for the three years to 2015.



The chart highlights the fall in total funding in 2015, decreasing to $170 million from $312 million in 2013. The decrease in capital funding is due mainly to the completion of major capital projects at NALHN and CHSALHN (refer note 8 of the financial report).

Statement of Financial Position

Total liabilities of the Department were $351 million. The significant components of liabilities were:

- payables, $176 million ($180 million)
- provision for insurance, $100 million ($88 million)
- employee benefits liabilities and related on-costs, $60 million ($64 million)
- provision for workers compensation, $3 million ($2 million).

The determination of the professional indemnity insurance provision was carried out through an actuarial assessment in accordance with AASB 1023 'General Insurance Contracts' and is determined by taking into account prudential margins, inflation, taxes, claims incurred but not reported and current claim values (refer note 2.33 of the financial report).

As at 30 June 2015, the Department had a net assets position of $160 million ($108 million). During the year the Department received an equity contribution by the SA Government of $6 million ($99 million).

Contingent liabilities

CHIRON software licence

Working Systems Software Pty Ltd has filed legal proceedings against the Crown in right of the State of

South Australia (the State) 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 and/or measured at this point in time (refer note 40 of the financial report.)

Statement of Cash Flows

In 2014-15 the Department recorded a net cash inflow of $37 million compared with a net cash outflow of $36 million during 2013-14. The main contributing factor was that the Department received $34 million from proceeds from the sale of property, plant and equipment in 2014-15 as compared to $2 million in 2013 14.

Highlights of the financial report – the consolidated entity

	2015 $'million	2014 $'million
Expenses		
Employee benefit expenses	3 434	3 395
Supplies, services and other expenses	1 741	1 693
Depreciation and amortisation	178	177
Grants, subsidies and client payments	36	39
Total expenses	5 389	5 304
Income		
Fees and charges	571	541
Grants and contributions	1 502	1 372
Other	89	83
Total income	2 162	1 996
Net cost of providing services	3 227	3 308
Revenues from (Payments to) SA Government		
Revenues from SA Government	3 191	3 187
Payments to SA Government	(27)	(2)
Total revenues from (payments to) SA Government	3 164	3 185
Net result	(63)	(123)
Other comprehensive income	(17)	(20)
Total comprehensive result	(80)	(143)
Net cash provided by (used in) operating activities	175	52
Assets		
Current assets	872	801
Non-current assets	3 121	3 176
Total assets	3 993	3 977
Liabilities		
Current liabilities	919	836
Non-current liabilities	718	711
Total liabilities	1 637	1 547
Total equity	2 356	2 430

Statement of Comprehensive Income

Expenses

Total expenses were steady at $5.4 billion and principally comprised employee benefit expenses of $3.4 billion and supplies and services expenses of $1.6 billion.

Employee benefit expenses

The number of employees whose remuneration received/receivable exceeded $141 500 (base executive level) totalled 2812 (2692), comprising 114 executive, 135 non-medical and 2563 medical, nursing and operational employees. Total remuneration for these employees was $721 million.

Supplies and services expenses

Significant components of supplies and services were:

- fee-for-service payments to medical practitioners – $130 million ($136 million)
- medical, surgical and laboratory supplies – $284 million ($274 million)
- contractors – agency staff – $69 million ($66 million)
- patient transport – $25 million ($23 million)
- drug supplies – $184 million ($176 million).

Revenues

Revenues from SA Government

Income for 2014-15 amounted to $2.2 billion ($2 billion) and principally comprised Commonwealth Government grants of $1.5 billion ($1.3 billion). The Department receives Commonwealth Government grants paid from the State Pool account under the revised funding agreement pursuant to the National Health Reform Agreement rather than via the Department of Treasury and Finance through State Government appropriation.

Revenues from the SA Government were stable at $3.2 billion.

Statement of Financial Position

Employment liabilities make up $1.1 billion of the consolidated entity’s total liabilities at 30 June 2015, comprising:

- employee benefits liabilities and related on-costs, $1 billion ($980 million)
- provision for workers compensation, $97 million ($107 million).

As at 30 June 2015, the consolidated entity had a net assets position of $2.4 billion.

The consolidated entity’s financial position is dominated by non-current property, plant and equipment assets representing 75% of total assets.

Statement of Cash Flows

In 2014-15 the consolidated entity recorded a net cash inflow of $61 million compared with a net cash outflow of $63 million during 2013-14, resulting in a cash balance of $496 million.

Central Adelaide Local Health Network Incorporated

Functional responsibility

The Central Adelaide Local Health Network Incorporated (CALHN) is established pursuant to the *Health Care Act 2008*.

The powers and functions of the CALHN are to establish, provide, maintain and enhance hospital, medical and allied health services in its local area.

Under the *Health Care Act 2008* the Chief Executive, Department for Health and Ageing assumes direct responsibility for the administration of incorporated hospitals. This includes the appointment of the Chief Executive Officer of CALHN. The Chief Executive, Department for Health and Ageing cannot give a direction concerning the clinical treatment of a particular person.

Financial statistics

Total expenses:	$1983 million
Net cost of providing services:	$1571 million
Revenues from SA Government:	$1430 million
Employee benefits liability and related on-costs:	$355 million
Workers compensation liability:	$29 million
Number of FTEs:	10 235

Significant events and transactions

— The new Royal Adelaide Hospital (RAH) Public Private Partnership (PPP) project continued.

— In September 2015 contractual arrangements with the PPP consortium were revised. Commercial settlement of ongoing remediation contamination claims, capital modifications and other disputed matters extended the contractual delivery date by 76 days.

— The new RAH is now expected to open by November 2016.

— In October 2014, Cabinet approved additional funding for State funded works for the new RAH totalling $176.6 million, increasing the estimated nominal construction cost of the project (including State works) to $2.3 billion.

— In 2014-15 Cabinet approved an expression of interest for the development and occupation of the existing RAH site.

Financial statement opinion

Unmodified

Financial controls opinion	**Modified** Key issues: — Inadequate review of employee level payroll information — Systems access (including delegations) not adequately reviewed — Areas where procurement practices could be improved — No records of professional development leave entitlement — iPharmacy access controls require improvement — Improvement necessary to ensure completeness of revenue

The new Royal Adelaide Hospital

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.

The estimated nominal capital construction cost by SAHP and the cost of State funded works is $2.3 billion. Following execution of a Deed of Settlement and Release in 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.

Upon commercial acceptance, 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

Consistent with a Cabinet submission approved on 14 September 2015, the Minister for Health and SAHP executed a Deed of Settlement and Release which revised certain contractual arrangements between the State and SAHP. The Deed, which was executed on 17 September 2015, 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.

In addition, under the Deed the Minister for Health agreed to exercise the State's right to unilaterally extend the date for technical completion and the date for commercial acceptance by 76 days.

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 (ie 50%) of financing costs payable over the period the commercial acceptance date was extended, ie 76 days. Of this, $20 million was recognised in 2014-15 as it realised past contingent liabilities for contamination remediation. The remaining $49 million will be expensed or capitalised as incurred in future periods. Further commentary and analysis of the implications of the Deed of Settlement and Release on the new RAH project will be provided in a Supplementary Report to Parliament.

Scope of the audit

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

Financial services for CALHN are provided through a mix of:

- central services provided by the Department for Health and Ageing (the Department) through an integrated finance service model
- finance services located within CALHN
- services provided by Shared Services SA (SSSA).

CALHN continued to operate some legacy systems concurrent with the Department progressing the implementation of the Oracle Corporate System.

Consequently, the audit included review of new and legacy systems and completing audit work at the Department's central services, at CALHN and at SSSA.

Audit findings across health services fall into the following categories:

- common findings reflecting central services and/or systems
- matters for individual health services
- SSSA matters.

During 2014-15 specific areas of audit attention included:

- payroll
- expenditure
- inventories
- patient billing
- private practice revenue
- grants and contributions revenue
- accounts receivable and other revenue
- property, plant and equipment
- general ledger and reporting
- cash
- SA Pharmacy
- SA Pathology
- information and communications technology.

Review of the financial management compliance program, fixed asset acquisitions and capitalisation of work in progress was addressed through the audit of the Department.

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

Audit findings and comments

Assessment of controls

In my opinion, the controls exercised by the Central Adelaide Local Health Network Incorporated in relation to the receipt, expenditure and investment of money, the acquisition and disposal of property and the incurring of liabilities, except for all matters outlined under 'Communication of audit matters', are sufficient to provide reasonable assurance that the financial transactions of the Central Adelaide Local Health Network Incorporated have been conducted properly and in accordance with law.

Communication of audit matters

Matters arising during the course of the 2014-15 audits of health services were detailed in management letters to the Chief Executive of the Department and copied to the Chief Executive Officer of the individual health services. SSSA matters were reported to the Executive Director, Government Services Group, Department of the Premier and Cabinet.

Audit findings for 2014-15 for CALHN relating to common findings reflecting central services and/or systems and SSSA matters can be found in the commentary under 'Communication of audit matters' in the section of Part B of this Report titled 'Department for Health and Ageing'. Matters arising during our audit at CALHN are detailed below.

Shared Services SA service level determinations (SLDs)

Service level determinations between CALHN and SSSA were out of date

SSSA is responsible for the processing of payroll and accounts payable transactions for CALHN under SLDs between CALHN and SSSA. The SLDs were not up to date for 2014-15. At the time of the audit the documentation was being reviewed at a whole-of-SA Health level and was not finalised.

In the absence of a current service level agreement there is a risk that the documented responsibilities may be out of date and not aligned to the current processing environment. This may lead to key control processes not being undertaken as intended.

In response CALHN advised that the payroll document was in the final stage of consultation and agreement between SA Health and SSSA and was expected to be finalised within the next two to three months. CALHN indicated the accounts payable document was being negotiated between the Department and SSSA.

Payroll

Insufficient review of payroll information by local health networks

Consistent with matters previously reported, we found CALHN supervisors or team leaders did not review payroll reports to ensure the accuracy and completeness of employee payments. For example, CALHN managers do not certify the accuracy of employee payments including their classification and the ongoing relevance of long-term allowances. CALHN's processes are not sufficient to identify invalid, inaccurate or incomplete processing of payments through the payroll system. We recommended that CALHN require its divisions to regularly review the accuracy and completeness of employee-level pay information sourced from the CHRIS payroll system.

CALHN's response acknowledged the recommendation and outlined its requirement for directorates to monitor FTEs and actuals against budget. It also indicated that it was considering a bona fide system and procedures across local health networks.

Inconsistent timesheets and leave form formats

Our payroll audit identified inconsistency in the format and information contained within employee timesheets and leave forms. These inconsistencies potentially cause confusion and difficulty when interpreting, approving and processing employee time records. We recommended CALHN establish uniform timesheets and leave forms.

CALHN acknowledged and supported the recommendation and stated its intention to standardise timesheets and leave forms across SA Health.

Delays in the receipt and processing of employee timesheets

Timesheets are sometimes received by payroll for processing many months after the time was worked. Our review found there are no specific processes in place which ensure timesheets are submitted in a timely manner. We found managers were not informed when employees had not submitted expected timesheets and therefore did not monitor and follow up missing timesheets. Delays in submitting timesheets impact the ability of approvers to accurately verify hours worked and subsequently paid.

CALHN responded that it was considering mechanisms to facilitate the timely follow-up of missing or late timesheets.

A record of each employee's professional development leave entitlement is not maintained

Our audit included a review of CALHN's processes which aim to ensure medical officers' professional development leave is approved and paid only where an entitlement exists. The review found CALHN did not maintain a record of each employee's professional development leave entitlement, impacting the approver's capacity to ensure leave is only granted when entitled. We recommended CALHN establish a running professional development leave entitlement record for each medical officer.

CALHN responded that its current payroll system did not have the capacity to manage professional development leave entitlements and balances. CALHN advised that it was considering these capacities for its planned future payroll system update. It also indicated it would consider developing an interim arrangement to assist in addressing the recommendation.

Control weaknesses around upload of ProAct time recording data (nurses)

Each fortnight a ProAct application file (containing nurse times worked and classification information) is uploaded into the CHRIS payroll system for pay run processing. Our review of processes associated with this upload found:

- improvements are necessary to prevent unauthorised access and manipulation of the ProAct application file. CALHN responded that access to the files is limited to three employees who do not manipulate the files during the transmission process. It considered its current controls were adequate
- no records were maintained to support amendments to time and classification data identified through the upload process. In addition the changes were not independently reviewed to ensure they were authorised and appropriate. CALHN responded that it had since implemented processes to maintain evidence of amendments. It proposed no immediate action to address our independent review concerns, however it indicated it may be reviewed as part of the implementation of its planned payroll system update expected in June 2017
- procedural and policy documents were not up to date, including for HR Link and ProAct. CALHN responded that it had since updated these documents.

Improvements required to ensure payroll system access is restricted

Our review of the CHRIS payroll system and the ProAct rostering system found improvements are necessary to ensure user access is restricted to authorised officers including:

- user access to the CHRIS payroll system and the ProAct rostering system was not regularly reviewed
- no user access procedures for identifying and reviewing CHRIS user profiles
- password management controls for ProAct were not enabled since its last upgrade in September 2014.

CALHN's response provided details of actions to address the matters raised.

Expenditure

System based expenditure approval profiles not regularly reviewed

Our review of the Oracle and Basware expenditure systems considered controls that ensure systems financial authority profiles are consistent with approved financial delegations. The review found financial delegations assigned to users within the systems were not regularly reviewed. Consequently, management may not detect employees with approval capacity outside of their job responsibilities, resulting in the potential for invalid or unauthorised payments.

CALHN's response acknowledged the audit finding and indicated it would introduce regular reviews.

Instances where high level expenditure approval profiles on Basware did not match formal delegations

The audit of systems financial authorisation profiles considered the use of high level (super and special) delegations for approving expenditure.

Our review of financial authorisation profiles found instances where the super/special delegate approval limits did not match the Chief Executive Officer's approved financial delegations. Consequently, there is a risk invoices may be inappropriately authorised for payment, potentially leading to inappropriate payments being made.

CALHN responded with its intention to regularly review super and special delegations against the Chief Executive Officer's approved financial delegations.

Nursing agency contracts did not cover the financial year

Last year we reported that contracts with agency nurse providers expired during 2013. Our follow-up in 2015 noted that the Department had not finalised new arrangements and formal extensions did not cover the complete intervening period. Consequently, CALHN's ability to manage contractual obligations and conditions is potentially impacted.

CALHN's response indicated that in the event of further delays the existing contracts would be extended to cover the intervening period.

Locum services arrangements not specified in contracts or purchase order (PO)

The audit of expenditure included a review of payments for locum services. The review found that locum services were not contracted. We also found that POs or requisitions were not used in procuring these services. Where arrangements are not agreed in a contract or PO, CALHN's capacity to manage rights, obligations and conditions including price may be impacted. We recommended CALHN develop a strategic procurement plan for these services.

CALHN acknowledged the recommendation and indicated its intention to review the arrangements.

Consider alternative procurement approval processes for purchase of medical devices

The audit of expenditure included a review of procurement of medical devices by the cardiology department. We found procurement approvals were often performed retrospectively. Procurement arrangements that are completed retrospectively may impact CALHN's ability to manage rights, obligations and conditions including price. Given the timing and nature of such purchases, we considered that an alternative procurement method may be more appropriate, for example, a panel contract. We recommended CALHN review procurement arrangements associated with the purchase of cardiology medical devices.

CALHN acknowledged the recommendation and advised its intention to review its procurement practices.

Invoices received are not always matched to purchase orders

When goods/services initiated by a PO are received they are required to be receipted in the Oracle purchasing module against the corresponding PO. The receipting of the goods/services in Oracle enables the recognition of a goods received not invoiced (GRNI) liability and corresponding expense in the general ledger.

Our review of payments noted instances where goods received were not matched to the receipted purchase prior to payment. Where this occurs there is an increased risk that payments may be made for goods/services not received or at the agreed price. In addition the GRNI liability and associated expenses may be overstated.

We recommended that CALHN regularly analyse longstanding GRNI balances to identify and follow up problem areas and trends.

CALHN's response acknowledged the audit findings.

Other expenditure matters

The audit also identified other matters where controls over expenditure processes could be improved including:

- instances where invoices were paid twice during the transition between legacy and Oracle expenditure systems
- the management of food POs and invoice approval differed significantly across hospital sites. We recommended CALHN review its food procurement arrangements and invoice approval processes
- improvements are necessary to ensure all payments for undisputed invoices or claims are made within 30 days of the receipt of the invoice.

CALHN responded to the specific audit findings and provided details of actions to address the matters raised.

SA Pharmacy

Improvements required to ensure iPharmacy access is restricted to authorised officers

SA Pharmacy uses an information system, iPharmacy, to manage the purchase, dispensing and inventory across hospital sites. Our review found improvements are necessary to ensure user access to iPharmacy is restricted to authorised officers and permissions are only provided where necessary to meet each user's responsibility, and to segregate incompatible duties. The review found:

- password control settings for iPharmacy were inconsistent with SA Health's User Access Specification. CALHN's response indicated it would implement the SA Health specifications
- instances where users' access compromised important segregation of duty controls. CALHN responded it would continue to monitor compliance with the state-wide pharmacy inventory management policy, which requires each site to segregate employees' duties

- SA Pharmacy's review of user access did not consider each employee's specific access permissions. CALHN responded it would continue to monitor compliance with its state-wide pharmacy inventory management policy
- generic user IDs existed which may prevent knowing whether a system transaction or process originated from a specific person. CALHN responded that it would decommission all generic IDs
- amendments to iPharmacy user access are not supported by the use of official user access request and amendment forms. CALHN responded that it would establish a standard user access request/amendment form.

Inventory adjustments and write-offs require delegated authority

From time to time system stock records are adjusted for damaged/obsolete/expired pharmaceuticals. We found that while senior SA Pharmacy employees review stock adjustments, these officers did not have the authority to write off stock under the Chief Executive Officer's delegations as required by Treasurer's Instructions.

CALHN indicated it would review delegations associated with pharmaceuticals.

Monitoring access to pharmacies requires improvement

Our review considered security over pharmaceuticals including restricting pharmacy access to ensure stock is appropriately safeguarded. The review recommended improved monitoring of:

- swipe card access
- after-hours access to the main and after hours pharmacies.

CALHN agreed with the recommendations and indicated it would review its processes.

Stock received not matched to purchase orders

Audit testing of pharmaceutical purchases found instances where:

- price and quantity of goods received were not matched to the original PO
- POs could not be located.

CALHN responded to the specific audit findings and provided details of actions to address the matters raised.

Instances identified where expenditure was not appropriately approved

A review of a sample of expenditure transactions found instances where pharmaceutical payments were not evidenced as authorised and where payments were authorised in excess of delegation. In these circumstances there is an increased risk of incorrect/invalid payments.

CALHN indicated it would undertake an education program for employees responsible for purchases and expenditure authorisation.

Pharmaceutical Benefits Scheme (PBS) claims logged were not reconciled to receipts

Last year we reported that local health networks did not reconcile PBS subsidy claims to receipts from the Commonwealth Government (Medicare). Our follow-up review found that pharmacy systems reporting errors continued to prevent the performance of a reconciliation with receipts from Medicare. Consequently, local health networks cannot be certain they have received their entitled PBS subsidy.

CALHN responded that it was actively working towards system upgrades to rectify the problem.

Other matters

Other matters identified in the SA Pharmacy audit included:

- changes processed to the supplier masterfile in iPharmacy are not independently reviewed for validity, accuracy and completeness

- instances where important control activities were not covered by a procedure or policy.

CALHN responded to the specific audit findings and provided details of actions to address the matters raised.

SA Pathology

Improvements are necessary to ensure completeness of billing

Improvements are necessary to ensure billing is complete and accurate. Specifically our review found that management do not:

- monitor or follow up pathology services completed that have yet to be invoiced

- reconcile records on its laboratory system, Ultra, to billing performed on its finance system, Homer.

Unbilled pathology charges that are not followed up may result in delayed or lost revenue.

CALHN responded that limitations in its existing Ultra laboratory information system do not allow for a reconciliation. It indicated that the matter would be addressed once its new Enterprise Pathology Laboratory Information System is implemented. It also indicated it had updated its internal processes to ensure outstanding lists are reviewed each week.

Systems access

For a number of years, we have raised concerns regarding SA Pathology's review of user access to Ultra. Consistent with last year, we found that access profiles and changes to profiles were not monitored. Failures in controls surrounding user access increase the risk of invalid or unauthorised transactions.

CALHN responded that it had procedures that require the review of user access.

Patient billing

Completeness of billing

Improvements are necessary to ensure billing is complete and accurate. Specifically the review found improvements were necessary to ensure:

- timely billing for prostheses
- outpatient revenue was raised.

CALHN advised that it had caught up on all implant prosthesis billing prior to the finalisation of the 2014-15 financial report. It also advised that it would review its revenue processes to address these matters.

Inadequate review of revenue system access levels

For a number of years, we have raised concerns regarding CALHN's review of user access to its revenue systems. Consistent with last year, we found that access profiles and changes to profiles in the FIMS and Homer revenue systems were not monitored. Inappropriate user access may allow processing of invalid or unauthorised transactions, potentially resulting in financial loss.

CALHN advised its intention to review systems user access levels by December 2015.

Private practice billing

Private practice revenues are billed on behalf of salaried medical officers and subsequently distributed to the local health networks, the Department and salaried medical officers according to private practice agreements.

Our review of controls at CALHN for raising private practice invoices found the following control weaknesses.

Review of a sample of fees raised

Last year's audit found that the independent review of private practice invoices did not ensure that the private practice invoices raised in Homer agreed to the source documentation submitted by the consultant/doctor.

To address this control weakness in 2015, CALHN commenced a monthly review of five randomly selected invoices issued in the previous month to ensure the completeness and accuracy of the invoices raised.

Our review of this control activity found the following weaknesses:

- the review is performed after the invoices are issued to external parties
- the sample size of five was not based on any specific risk assessment (ie invoices with higher instances of manual processing) or on a statistical sampling basis.

In response CALHN advised that it would review its processes for invoicing practice invoices.

Interpretation and analysis of financial report

Highlights of the financial report	2015		2014	
	Consolidated $'million	Parent $'million	Consolidated $'million	Parent $'million
Expenses				
Employee benefit expenses	1 191	1 185	1 178	1 173
Supplies and services	595	592	579	577
Depreciation and amortisation	61	60	61	61
Other expenses	136	137	53	51
Total expenses	1 983	1 974	1 871	1 862
Income				
Revenue from fees and services	283	275	272	265
Grants and contributions	92	92	91	91
Other income	37	36	31	29
Total income	412	403	394	385
Net cost of providing services	1 571	1 571	1 477	1 477

	2015		2014	
	Consolidated $'million	Parent $'million	Consolidated $'million	Parent $'million
Revenues from SA Government	1 430	1 430	1 429	1 429
Total revenues from SA Government	1 430	1 430	1 429	1 429
Net result	(141)	(141)	(48)	(48)
Other comprehensive income	(43)	(43)	(4)	(5)
Total comprehensive result for the year	(184)	(184)	(52)	(53)
Assets				
Current assets	206	196	230	220
Non-current assets	736	730	874	868
Total assets	942	926	1 104	1 088
Liabilities				
Current liabilities	267	266	237	236
Non-current liabilities	211	211	216	216
Total liabilities	478	477	453	452
Net assets	464	449	651	636

Statement of Comprehensive Income

Expenses

During 2014-15 total expenses increased by $112 million to $2 billion (6%) with the main items being:

- other expenses, up $83 million to $136 million
- supplies and services, up $16 million to $595 million
- employee benefits, up $13 million to $1.2 billion.

Employee benefit expenses

Employee benefit expenses, $1.2 billion, represent 60% of CALHN's total expenses.

During 2014-15 targeted voluntary separation packages of $3 million ($11 million) were paid to 46 (97) employees.

The number of employees whose remuneration received/receivable exceeded $141 500 (base executive level) totalled 1046, comprising 894 medical, 76 non-medical, 49 nursing and 27 executive employees. Total remuneration for these employees was $285 million.

Supplies and services expenses

Supplies and services expenses increased by $16 million (3%) to $595 million. Significant components of supplies and services expenses were:

- drug supplies, which increased by $4 million (4%) to $98 million
- medical surgical and laboratory supplies, which decreased by $2 million (1%) to $150 million.

Other expenses

Other expenses increased by $83 million to $136 million. Significant components of other expenses were:

- loss on revaluation of building assets at the existing RAH of $54 million (refer commentary under 'Valuation of assets – existing Royal Adelaide Hospital' below)

- accrued expenses totalling $20 million associated with the commercial settlement of soil contamination remediation claims relating to infrastructure work at the new RAH site
- surplus property assets transferred to the Department, $22 million
- loss on disposal of plant and equipment, $5 million.

Revenues

CALHN is dependent to a large extent on revenue from the SA and Commonwealth Governments.

CALHN received $1.33 billion recurrent funding from the SA Government. Capital funding received from the SA Government increased by $35 million (56%) to $97 million. These revenues are received from the Department.

Commonwealth grants and contributions received directly by CALHN increased by $4 million to $78 million, due mainly to an increase of $6 million in the PBS Commonwealth subsidies to $70 million.

Statement of Financial Position

Property, plant and equipment

Property, plant and equipment represents 74% of total assets.

The carrying value of property, plant and equipment decreased $141 million to $702 million due mainly to:

- revaluation decrement of building assets at the existing RAH of $78 million (discussed below)
- revaluation decrement of $21 million for non-RAH land and buildings
- surplus property assets transferred to the Department of $23 million
- depreciation and amortisation expense of $58 million
- capital work in progress write-offs of $4 million.

These items were partly offset by:

- $33 million expenditure on capital work in progress, including costs associated with the new RAH
- revaluation increment of $2 million associated with an independent valuation of medical/surgical/dental/biomedical equipment on a fair value basis as at 1 June 2015. For information regarding the basis of the valuation refer notes 2 and 22 of the financial report.

Valuation of assets – existing 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.

When assessing the fair value of assets, the accounting standards require entities to consider how a market may obtain the most value from the assets. In applying these requirements to assets of the public sector, regard must be given to restrictions that may be imposed by the government, even if they are not set out in legislation.

At 30 June 2015 it is highly uncertain that RAH land and buildings will continue to be used for hospital purposes in the long term. In 2014-15 Cabinet approved the Urban Renewal Authority to proceed with an expression of interest (EOI) process for the development and occupation of the RAH site. This EOI identified certain redundant hospital buildings that could be adapted for reuse or demolished. The EOI closed in September 2015. The EOI expresses the State Government's intention to deliver a mixed use precinct at the site. It states that, at the EOI stage, the State Government is 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 the time of preparation of the financial report, the restrictions affecting the future use of the RAH site were unknown. 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 or restrictions that will, in time, relate to the RAH site. Given the inability to reliably measure the value of buildings identified for reuse or demolition, CALHN has recorded these buildings at no value. 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 previous valuation of $78 million was established on the basis of depreciated replacement cost of the existing buildings with remaining useful lives in the range of 8-54 years. As noted, it is highly uncertain that this underlying assumption was correct at 30 June 2015. Accordingly, the adopted valuation is considered consistent with the accounting framework.

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.

For more information refer to notes 2.21 and 22 of the financial report.

New Royal Adelaide Hospital State works

In addition to the works and services provided by the SAHP under the PPP arrangement, the State is required to deliver and finance important elements of the project including core clinical equipment, information and communications technology hospital enterprise systems, precinct works, project and contract management costs, and transition costs. The budget for State funded works is $417 million, of which $114 million has been expended as at 30 June 2015. Cabinet approved the budget for State funded works to increase by $176.6 million in October 2014 and also a decrease of $7.3 million for an information and communications technology adjustment in the 2015-16 Budget. Refer note 33.3 of the financial report for further details regarding the nature of the expenditure of State funded works incurred to date.

Liabilities

Current liabilities increased by $30 million to $267 million during the year and exceeded current assets of $206 million at balance date. Cash and cash equivalents of $124 million are sufficient to meet current payables of $90 million. Employee benefits are the largest element of current liabilities, totalling $162 million at 30 June 2015. They mainly comprise leave entitlements expected to be taken within 12 months. Total liabilities increased by $25 million to $478 million mainly due to an increase in employee benefits liabilities of $17 million and an increase in payables of $12 million.

Employee liabilities make up $384 million of CALHN's total liabilities at 30 June 2015, comprising:

- employee benefits liabilities and related on-costs, $355 million ($334 million)
- provision for workers compensation, $29 million ($36 million).

The movement in employee liabilities principally relates to increases in salary rates, and the impact of salary inflation rates and discount rates used in the calculation of outstanding liabilities at 30 June 2015.

Country Health SA Local Health Network Incorporated

Functional responsibility	Country Health SA Local Health Network Incorporated (CHSALHN) is an incorporated hospital. CHSALHN is established by the *Health Care Act 2008.* The powers and functions of CHSALHN are to provide health services in rural areas of South Australia. Under the *Health Care Act 2008* the Chief Executive, Department for Health and Ageing assumes direct responsibility for the administration of incorporated hospitals. This includes the appointment of the Chief Executive Officer of CHSALHN. The Chief Executive, Department for Health and Ageing cannot give a direction concerning the clinical treatment of a particular person.
Financial statistics	Total expenses: $854 million Net cost of providing services: $633 million Revenues from SA Government: $616 million Employee benefits liability and related on-costs: $151 million Workers compensation liability: $22 million Number of FTEs: 5675
Significant events and transactions	— The Chief Executive, Department for Health and Ageing approved the transfer of 61 Financial Business Advisory and Hospital Based Revenue Services employees within finance to CHSALHN effective 1 June 2015. — During the year the rollout of the One Procurement Solution was finalised resulting in all accounts payable transactions now being processed to a single payable platform (Basware).
Financial statement opinion	**Unmodified**
Financial controls opinion	**Modified** Key issues: — Lack of clarity regarding responsibility for maintenance of the supplier masterfile — Sundry invoices raised not independently reviewed — Need for a review of access to online banking

Scope of the audit

The audit program covered major financial systems and was directed primarily to obtaining sufficient evidence to enable an opinion to be formed with respect to the financial report and internal controls.

Financial services for CHSALHN are provided through a mix of:

- central services provided by the Department for Health and Ageing (the Department) through an integrated finance service model
- finance services located within CHSALHN
- services provided by Shared Services SA (SSSA).

CHSALHN continued to operate some legacy systems concurrent with the Department progressing the implementation of the Oracle Corporate System.

Consequently, the audit included review of new and legacy systems and completing audit work at the Department's central services, at CHSALHN and at SSSA.

Audit findings across health services fall into the following categories:

- common findings reflecting central services and/or systems
- matters for individual health services
- SSSA matters.

A Chartered Accounting firm assisted the Auditor-General in carrying out the audit of CHSALHN.

During 2014-15 specific areas of audit attention included:

- payroll
- accounts payable
- property, plant and equipment
- management of bank and investment accounts
- inventory
- patient revenue including accounts receivable
- grants management
- Enterprise Patient Administration System (EPAS) implementation
- payments to doctors – fee for service.

Review of the financial management compliance program, fixed asset acquisitions and capitalisation of work in progress was addressed through the audit of the Department.

Audit findings and comments

Assessment of controls

In my opinion, the controls exercised by the Country Health SA Local Health Network Incorporated in relation to the receipt, expenditure and investment of money, the acquisition and disposal of property and the incurring of liabilities, except for all matters outlined under 'Communication of audit matters', are sufficient to provide reasonable assurance that the financial transactions of the Country Health SA Local Health Network Incorporated have been conducted properly and in accordance with law.

Communication of audit matters

Matters arising during the course of the 2014-15 audits of health services were detailed in management letters to the Chief Executive of the Department and copied to the Chief Executive Officers of the individual health services. SSSA matters were reported to the Executive Director, Government Services Group, Department of the Premier and Cabinet.

Audit findings for 2014-15 for CHSALHN for common findings reflecting central services and/or systems and SSSA matters can be found under 'Communication of audit matters' in the section of Part B of this Report titled 'Department for Health and Ageing'. Matters arising during our audit at CHSALHN are detailed below.

Cash and financial assets

Our review noted instances where employees listed as having administrator, authoriser or creator access to online banking should require read-only access only. Inappropriate access increases the risk of misappropriation of funds.

CHSALHN responded that a review of access levels of employees will be undertaken to ensure that read-only access is provided where relevant.

Our review also noted a number of bank accounts were still in operation and their interaction with the legacy general ledgers required manual intervention in what should be a highly automated process. These processes increase the risk of misappropriation of funds.

CHSALHN responded that the One Procurement Solution project has now been fully implemented within CHSALHN whereby all accounts payable transactions are now processed to a single payable platform (Basware), a single general ledger solution (Oracle) and a single bank solution. A banking migration strategy has been underway for some time and has already taken opportunities to rationalise a significant number of legacy bank accounts. This will continue in 2015-16.

Grant management

Our review noted that CHSALHN had not completed the process of entering all grant agreements into the Procurement Contract Management System register and adopted it as the primary register for managing grants. We also noted that CHSALHN should perform a reconciliation of data transferred from the manual register to reduce the risk of error in data transfer between registers.

CHSALHN responded that work to transfer all grants to the Procurement Contract Management System is continuing and will be completed in 2015-16. A reconciliation will be undertaken to ensure that all data has been transferred.

Revenue

Our review noted that CHSALHN should define, document, communicate and monitor policies and procedures related to the follow-up and collection of patient, aged care resident and sundry invoicing processes.

CHSALHN responded that, in relation to:

- patient invoicing: with the de-integration of hospital revenue services back into CHSALHN it will have the ability to review current processes and implement consistent processes and develop relevant procedures during 2015-16
- aged care resident processes: CHSALHN is implementing a country residential aged care software solution during 2015-16, which includes residential billing. Invoicing processes will be documented as part of the system implementation during 2015-16.

Enterprise Patient Administration System implementation (Port Augusta Hospital)

Last year's audit of EPAS identified the Department should investigate the completeness of accident and emergency patient billing, delays in clinical coding, completeness of patient invoicing, long stay nursing home patient invoicing and outstanding issues in the EPAS job register.

The Department responded it was aware of the audit issues and remediation action was included within the scope of the EPAS program's stabilisation work and/or actions to mitigate the issues such as the delays experienced in clinical coding. A number of these issues increase the risk that patient activity is not invoiced, resulting in revenue loss to CHSALHN.

We followed up the status of the issues raised last year and found that while some had been addressed others still remained outstanding. We reported these to CHSALHN who advised that remedial action was progressing on the issues raised.

Interpretation and analysis of financial report

Highlights of the financial report

	2015		2014	
	Consolidated $'million	Parent $'million	Consolidated $'million	Parent $'million
Expenses				
Employee benefit expenses	498	498	492	492
Supplies and services	318	318	304	304
Depreciation and amortisation	29	17	27	16
Other expenses	9	13	16	55
Total expenses	854	846	839	867
Income				
Revenue from fees and services	83	83	81	81
Grants and contributions	132	133	125	126
Other income	6	5	5	4
Total income	221	221	211	211
Net cost of providing services	633	625	628	656
Revenues from SA Government	616	616	639	639
Net result	(17)	(9)	11	(17)
Other comprehensive income	91	27	(1)	(1)
Total comprehensive result for the year	74	18	10	(18)
Assets				
Current assets	147	134	148	136
Non-current assets	886	456	801	427
Total assets	1 033	590	949	563
Liabilities				
Current liabilities	166	166	150	150
Non-current liabilities	110	110	113	113
Total liabilities	276	276	263	263
Net assets	757	314	686	300

Statement of Comprehensive Income – Consolidated

Expenses

During 2014-15 total expenses increased by $15 million to $854 million. This was due mainly to a $6 million increase in employee related expenses.

Employee benefit expenses

Employee benefit expenses, $498 million, represent 58% of CHSALHN's total expenses. The number of employees whose remuneration received/receivable exceeded $141 500 (base executive level) totalled 99 (82), comprising 56 medical, 24 nursing, 13 executive and six non-medical employees. Total remuneration for these employees was $26 million.

Supplies and services expenses

Supplies and services expenses increased by $14 million to $318 million. Significant components of supplies and services were:

- fee-for-service payments to medical practitioners – $79 million
- medical, surgical and laboratory supplies – $36 million
- contractors – agency staff – $16 million
- patient transport – $17 million
- drug supplies – $13 million.

Revenues

Revenues from SA Government

CHSALHN is principally funded through the provision of recurrent and capital funding from the Department. In 2014-15, CHSALHN received funding of $616 million, which comprised recurrent funding of $586 million and capital funding of $30 million.

Total funding decreased by $23 million to $616 million due to decreases in capital funding of $46 million and targeted voluntary separation package funding of $6 million, offset by an increase in recurrent funding of $29 million.

Statement of Financial Position - Consolidated

Property, plant and equipment

Property, plant and equipment represents 85% of CHSALHN's total assets. The carrying value of property, plant and equipment increased by $89 million to $879 million. This increase is due mainly to:

- $26 million of depreciation and amortisation expense
- $91 million of revaluation increments
- $27 million of additions.

Liabilities

Current liabilities increased by $16 million to $166 million during the year and exceeded current assets of $147 million at balance date. Cash and cash equivalents of $56 million are sufficient to meet current payables of $37 million. Employee benefits are the largest element of current liabilities, totalling $85 million at 30 June 2015. They mainly comprise leave entitlements expected to be taken within 12 months. Total liabilities increased by $13 million to $276 million mainly due to an increase in employee benefits liabilities for long service leave.

Employee liabilities make up $173 million of CHSALHN's total liabilities at 30 June 2015, comprising:

- employee benefits liabilities and related on-costs, $151 million ($139 million)
- provision for workers compensation, $22 million ($26 million).

The movement in employee liabilities principally relates to increases in salary rates and a decrease in the discount rates applied, offset by a decrease in the salary inflation rates used in the calculation of outstanding liabilities at 30 June 2015.

Northern Adelaide Local Health Network Incorporated

Functional responsibility

The Northern Adelaide Local Health Network Incorporated (NALHN) is an incorporated hospital. NALHN is established by the *Health Care Act 2008.*

The powers and functions of NALHN are to establish, provide, maintain and enhance hospital, medical and allied health services in its local area.

Under the *Health Care Act 2008* the Chief Executive, Department for Health and Ageing assumes direct responsibility for the administration of incorporated hospitals. This includes the appointment of the Chief Executive Officer of NALHN. The Chief Executive, Department for Health and Ageing cannot give a direction concerning the clinical treatment of a particular person.

Financial statistics

Total expenses:	$602 million
Net cost of providing services:	$550 million
Revenues from SA Government:	$556 million
Employee benefits liability and related on-costs:	$105 million
Workers compensation liability:	$12 million
Number of FTEs:	3282

Significant events and transactions

- The Chief Executive, Department for Health and Ageing approved the transfer of 14 Financial Business Advisory Services and Hospital based Revenue Services employees within finance to NALHN effective 1 June 2015.
- During the year the rollout of the One Procurement Solution was finalised resulting in all accounts payable and inventory transactions now being processed to a single payable platform (Basware).

Financial statement opinion

Unmodified

Financial controls opinion

Modified

Key issues:

- Inadequate review of employee level payroll information by NALHN
- Timesheets were not always approved prior to submission to Shared Services SA for processing
- No record maintained of employee professional development leave entitlements
- Review of Basware system access (including delegations) requires improvement
- No review of user access to Homer revenue system

Scope of the audit

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

Financial services for NALHN are provided through a mix of:

- central services provided by the Department for Health and Ageing (the Department) through an integrated finance service model
- finance services located within NALHN
- services provided by Shared Services SA (SSSA).

NALHN continued to operate some legacy systems concurrent with the Department progressing the implementation of the Oracle Corporate System.

Consequently, the audit included review of new and legacy systems and completing audit work at the Department's central services, at NALHN and at SSSA.

Audit findings across health services fall into the following categories:

- common findings reflecting central services and/or systems
- matters for individual health services
- SSSA matters.

During 2014-15 specific areas of audit attention included:

- governance
- payroll
- accounts payable
- property, plant and equipment
- patient billing and sundry revenue
- cash and online banking
- inventory
- general ledger.

Review of the financial management compliance program, fixed asset acquisitions and capitalisation of work in progress was addressed through the audit of the Department.

Internal audit activities were also reviewed in order to assess the risks of material misstatement in the financial report and to inform the design of audit procedures.

Audit findings and comments

Assessment of controls

In my opinion, the controls exercised by the Northern Adelaide Local Health Network Incorporated in relation to the receipt, expenditure and investment of money, the acquisition and disposal of property and the incurring of liabilities, except for all matters outlined under 'Communication of audit matters', are sufficient to provide reasonable assurance that the financial transactions of the Northern Adelaide Local Health Network Incorporated have been conducted properly and in accordance with law.

Communication of audit matters

Matters arising during the course of the 2014-15 audits of health services were detailed in management letters to the Chief Executive of the Department and copied to the Chief Executive Officers of the individual health services. SSSA matters were reported to the Executive Director, Government Services Group, Department of the Premier and Cabinet.

Audit findings for 2014-15 for NALHN for common findings reflecting central services and/or systems and SSSA matters can be found under 'Communication of audit matters' in the section of Part B of this Report titled 'Department for Health and Ageing'. Matters arising during our audit at NALHN are detailed below.

Shared Services SA service level determinations (SLDs)

SSSA is responsible for the processing of payroll and accounts payable transactions for NALHN under SLDs between NALHN and SSSA. The SLDs were not up to date for 2014-15. We understand the documentation was undergoing a review process at an SA Health level and was not finalised at the time of the audit.

In the absence of a current service level agreement there is a risk that the documented responsibilities may be out of date and not aligned to the current processing environment. This may lead to key control processes not being undertaken as intended.

In response NALHN advised that it will comply with the responsibilities outlined in the SLD, service summary and operating level responsibilities as negotiated between SSSA and the Department.

Payroll

Inadequate review of employee-level payroll information

Last year we recommended NALHN implement processes requiring business unit managers or team leaders to regularly review the accuracy and completeness of employee-level pay information sourced from the CHRIS payroll system. NALHN responded by advising that the staff establishment report is generated from CHRIS data and includes employee-level pay information. The report is distributed on a monthly basis to managers and business consultants to review.

Our 2014-15 review found the staff establishment report is not a report that can be used to review payroll data, but rather is a report used to facilitate monitoring of FTEs and employee vacancies. Consequently, and consistent with previous years, we found business unit managers or team leaders did not review the accuracy of employee pay information. For example, there is no certification of the accuracy of the employees who have been paid, no review of employee classification level and no review of the ongoing relevance of long-term allowances.

In response NALHN advised that requiring business unit managers or team leaders to regularly review the accuracy and completeness of employee pay information is labour intensive. Therefore NALHN will undertake a risk assessment prior to determining whether to implement reviews of employee pay information.

Control weaknesses around the ProAct time recording system used by nurses

The ProAct rostering and time recording system is used to initiate payroll payments to nurses across the various areas of NALHN. Our review of controls for ProAct found the following areas required improvement:

- certain password control settings within ProAct were not consistent with SA Health's User Access Specification and accepted best practice. The failure to maintain adequate password controls may result in inappropriate access to ProAct and its data

- the monthly review of user access within ProAct was not documented. Consequently, there is no objective evidence that the control activity has operated
- ProAct timesheets were not always approved prior to submission to SSSA for processing into the CHRIS payroll system. Processing unauthorised timesheets into the CHRIS payroll system increases the risk that employees may not be paid for actual hours worked
- the reconciliation of daily allocation sheets to ProAct rosters to ensure ProAct reflects actual time worked was not always performed.

In response NALHN advised:

- it will explore the possibility of strengthening password controls to ensure compliance with SA Health's User Access Specification
- it will review existing policies and processes to ensure that our recommendations for monthly review of user access are incorporated
- it requires all timesheets to be approved prior to generation of the ProAct file sent to SSSA for processing.

For the reconciliation of daily allocation sheets to ProAct, NALHN indicated that roster managers undertake a reconciliation between the ProAct roster and daily allocation sheets to ensure compliance between the two systems. We will follow up this matter in 2015-16.

No record maintained of employee professional development leave entitlements

Our review found that the CHRIS payroll system does not maintain a record of each employee's professional development leave entitlement balance. This impacts on the approving officer's capacity to ensure professional development leave is only granted and paid where a current entitlement exists.

In response NALHN advised that this issue is not unique to NALHN and the matter should be raised with the Department for a whole-of-health solution.

No mechanism to ensure all CHRIS masterfile changes are reviewed

Consistent with last year, employee masterfile changes made at the SA Health Human Resources Hub are checked based on the review of input forms and not based on a complete listing of the changes made in the system. As a result, there is a risk unauthorised changes could be made to the CHRIS masterfile without detection. This may result in inappropriate and/or unauthorised payments being made to employees.

NALHN's response indicated that this should be referred to the Department to consider action required to address the control weakness identified.

Accounts payable

Invoice receipts not always matched to purchase orders

When goods/services initiated by a purchase order are received they are required to be receipted in the Oracle purchasing module against their corresponding purchase order. The receipting of the goods/services in Oracle confirms the goods/services received and enables the recognition of a goods received not invoiced (GRNI) liability and corresponding expense in the general ledger.

Our review found there were a number of goods/services received that had not been matched to purchase order receipts prior to the invoice being paid. This non-matching:

- results in an overstatement of the GRNI liability and expenses
- increases the risk that payments may be made for goods/services not received or at a price that is inconsistent with the purchase order price.

An automatic sweep process for long outstanding GRNIs was implemented during the year.

NALHN's response acknowledged the audit findings.

Review of Basware system access (including delegations) requires improvement

Basware is SSSA's online invoice approval system. Invoices are approved in Basware by users based on established access and delegation profiles.

SSSA forwards quarterly a Basware User Access Listing report that details all users with the NALHN Basware paygroup, including their profiles and delegations. SSSA requires agencies to review the Basware User Access Listing report to ensure user access, including delegation profiles, is correct.

Our review of this control activity found it did not operate as intended throughout the year. Specifically:

- the July 2014 Basware User Access Listing report was not reviewed by NALHN
- the review performed by NALHN did not involve reviewing each user's Basware access levels (including delegations) as detailed on the Basware User Access Listing report to NALHN's financial delegations and/or other reports (ie payroll reports detailing position changes/ terminated employees).

In addition, 22 employees were identified for whom their Basware delegations differed to the NALHN financial delegations.

The ineffective review of Basware user access increases the risk that invoices may be inappropriately authorised for payment, potentially leading to inappropriate payments being made.

NALHN's response advised that delegations in Basware will be regularly reviewed against the Chief Executive Officer's financial delegations. A record of the review and actions taken will be kept.

Transactions approved using super and special delegations not reviewed

A small number of users have special and super delegations in Basware that, in addition to their standard delegation, enables them to authorise payments up to $110 million (super delegates) and $1.1 million (special delegates). A key risk is that super and special delegations allow users to process transactions without another officer being involved.

To ensure super and special delegations are appropriately applied, SSSA provides SA Health with monthly reports listing all transactions where a super/special delegation has been applied.

Our review found:

- NALHN did not review reports detailing super/special delegations transactions for three months of the year
- no evidence transactions approved using special delegations for four months of the year had been reviewed.

NALHN responded advising that a review of super and special delegate transactions will be performed on a monthly basis and that a record of this review will be kept.

Ineffective review of transactions that bypass electronic approval controls in Basware

There are some transactions that bypass the electronic invoice approval controls in Basware, such as urgent payments. SSSA provides SA Health with a monthly report detailing all NALHN transactions processed by SSSA that were not electronically certified and approved through Basware.

Our review found:

- NALHN did not review reports detailing transactions that bypass electronic approval controls in Basware for three months of the year
- there was no documented evidence that payment transactions for two months of the year were reviewed
- for the other months, a significant number of transactions had no evidence of review.

NALHN's response detailed that it will verify each month the transactions processed by SSSA that are not electronically certified and approved through Basware. Evidence of these checks will be recorded.

Review of variations in user information within the Basware and Oracle accounts payable (Oracle AP) systems requires improvement

The Procurement and Supply Change Management e-business team within the Department performs a quarterly comparison of user information (including delegations) within the Basware and Oracle AP systems. Any variations in user information between the two systems are forwarded to NALHN to investigate and identify which system's user information requires correction.

Our review of this control activity found:

- the comparison of user information in Basware and Oracle AP was not performed for the first quarter of the 2014-15 year
- there was no check to ensure that all variations identified are investigated and actioned timely and we found a number of variations had not been investigated and actioned timely.

Where differences between Basware and Oracle AP user information is not actioned timely there is an increased risk of invalid/inappropriate payments.

NALHN responded advising that it will ensure differences in user information between Basware and Oracle AP are investigated and actioned in a timely manner.

Agency nursing contracts not current

Our review of agency nursing contracts found that they expired in July 2013. We were advised that the Department advertised a tender for such services in February 2014 and that, subject to Cabinet approval, new agency nursing contracts will commence on 1 October 2015.

The Department formally notified providers of the delay in July 2013 and sought an extension of the contract terms and conditions until September 2013. Providers were required to confirm they agreed with the extension. While the providers continue to be informed of delays, no formal extensions exist since September 2013.

In response NALHN advised it would comply with the agreement negotiated by the Department.

Patient billing

No review of Homer revenue system user access

The audit identified that there was no review by management of user access to the Homer revenue system in 2014-15. Failure to regularly review user access to financial systems increases the risk of users making invalid or unauthorised changes to data.

In response NALHN advised it will develop a policy and procedure for the review of user access to the Homer revenue system.

Compensable inpatient invoices not raised timely

The audit found there were a significant number of compensable accident and emergency billable instances that were not invoiced.

In response NALHN advised that it will ensure that invoices are raised in timely manner.

Private practice billing

Private practice revenues are billed on behalf of salaried medical officers and subsequently distributed to the local health networks, the Department and salaried medical officers according to private practice agreements.

Our review of controls at NALHN for raising private practice invoices found the following weaknesses.

Review of a sample of fees raised

Last year we found that the independent review of private practice invoices did not ensure that the private practice invoices raised in Homer agreed to the source documentation submitted by the consultant/doctor.

To address this control weakness, in January 2015 NALHN commenced a monthly review of five invoices issued in the previous month to ensure the completeness and accuracy of the invoices raised.

Our review of this control activity found the following weaknesses:

- the review is performed after the invoices are issued to external parties
- the sample size of five was not based on any specific risk assessment (ie invoices with higher instances of manual processing) or on a statistical sampling basis.

In response NALHN advised that it will develop and implement procedures to ensure invoice are checked prior to being issued to external parties.

Scope to improve the identification, investigation and resolution of rejected Medicare claims

A revenue officer from the Private Practice and Hospital Billing division is responsible for identifying, investigating and resolving rejected Medicare claims. Our review of this process found:

- no review/follow-up is undertaken by senior officers to ensure that all rejections for the period have been identified, investigated and resolved
- no evidence is retained that documents the investigation of rejected Medicare claims.

In response NALHN advised that it will ensure that evidence of these investigations and resolutions are recorded.

Interpretation and analysis of financial report

Highlights of the financial report	2015 $'million	2014 $'million
Expenses		
Employee benefit expenses	395	382
Supplies and services	180	180
Depreciation and amortisation expense	24	24
Other expenses	3	3
Total expenses	602	589
Income		
Revenue from fees and charges	32	29
Grants and contributions	15	15
Other income	5	4
Total income	52	48
Net cost of providing services	550	541
Revenues from SA Government	556	549
Total revenues from SA Government	556	549
Net result	6	8
Other comprehensive income	(21)	(12)
Total comprehensive result for the year	(15)	(4)
Assets		
Current assets	31	21
Non-current assets	430	446
Total assets	461	467
Liabilities		
Current liabilities	69	61
Non-current liabilities	59	57
Total liabilities	128	118
Net assets	333	349

Statement of Comprehensive Income

Expenses

During 2014-15 total expenses increased by $13 million to $602 million (2%). This was due to an increase in employee related expenses.

Employee benefit expenses

Employee benefit expenses of $395 million represent 66% of NALHN's total expenses. These costs have increased by $13 million (3%) which is primarily attributable to wage rises associated with enterprise agreements.

The number of employees whose remuneration received/receivable exceeded $141 500 (base executive level) totalled 332, comprising 307 medical, four executive, 18 nursing and three non-medical employees. Total remuneration of these employees was $92 million.

Supplies and services expenses

Supplies and services expenses in 2014-15 were consistent with the prior year at $180 million. Significant components of supplies and services were:

- medical, surgical and laboratory supplies – $43 million
- drug supplies – $17 million
- contractors – agency staff – $19 million.

Revenues

Revenues from SA Government

NALHN is principally funded through the provision of recurrent and capital funding from the Department. In 2014-15, NALHN received recurrent funding of $534 million and capital funding of $22 million.

Revenues from the SA Government decreased by $7 million due to decreased capital funding of $19 million as a result of major redevelopment projects being undertaken in 2013-14 compared to 2014-15.

Recurrent funding increased by $26 million.

Grants and contributions

Commonwealth grants and contributions received directly to NALHN ($15 million) principally related to the Pharmaceutical Benefits Scheme Commonwealth subsidies ($12 million) and Commonwealth aged care subsidies ($2 million).

Statement of Financial Position

Property, plant and equipment

Property, plant and equipment assets represent 93% of total assets.

The carrying value of property, plant and equipment decreased by $15 million to $428 million. The major movements in property, plant and equipment during 2014-15 were asset additions ($30 million), depreciation ($24 million), revaluation decrement ($21 million) and asset write-offs ($1 million).

Liabilities

Current liabilities increased by $8 million to $69 million during the year and exceeded current assets of $31 million. Cash and cash equivalent of $22 million are sufficient to meet current payables of $16 million. Employee benefits are the largest element of current liabilities, totalling $49 million at 30 June 2015. They mainly comprise leave entitlements expected to be taken within 12 months. Total liabilities increased by $10 million to $128 million mainly due to an increase in employee benefits liabilities.

Employee liabilities make up $117 million of NALHN's total liabilities of $128 million at 30 June 2015, comprising:

- employee benefits liabilities and related on-costs, $105 million ($96 million)
- provision for workers compensation, $12 million ($13 million).

The movement in employee liabilities principally relates to increases in salary rates and a decrease in the discount rates applied, offset by a decrease in salary inflation rates used in the calculation of outstanding liabilities at 30 June 2015.

SA Ambulance Service Inc

Functional responsibility

The SA Ambulance Service Inc (SAAS) is an incorporated association under the *Health Care Act 2008.*

SAAS is the principal provider of ambulance services in South Australia. SAAS delivers:

- out of hospital emergency care and transport
- non-emergency patient care and transport
- emergency and major event management
- medical retrieval services.

Under the *Health Care Act 2008* the Chief Executive, Department for Health and Ageing assumes direct responsibility for the administration of incorporated hospitals. This includes the appointment of the Chief Executive Officer of SAAS. The Chief Executive, Department for Health and Ageing cannot give a direction concerning the clinical treatment of a particular person.

Financial statistics

Total expenses:	$242 million
Net cost of providing services:	$125 million
Revenues from SA Government:	$127 million
Employee benefits liability and related on-costs:	$74.9 million
Workers compensation liability:	$7.4 million
Number of FTEs:	1219

Significant events and transactions

The Chief Executive, Department for Health and Ageing approved the transfer of four Financial Business Advisory and Hospital Based Revenue Services employees within finance to SAAS effective 1 June 2015.

Financial statement opinion

Unmodified

Financial controls opinion

Modified

Key issues:

— Review of Basware system access (including delegations) requires improvement

— Lack of clarity regarding responsibility for the maintenance of the supplier masterfile

— Sundry invoices raised not independently reviewed

Scope of the audit

The audit program covered major financial systems and was directed primarily to obtaining sufficient evidence to enable an opinion to be formed with respect to the financial report and internal controls.

Financial services for SAAS are provided through a mix of:

- central services provided by the Department for Health and Ageing (the Department) through an integrated finance service model
- finance services located within SAAS
- services provided by Shared Services SA (SSSA).

SAAS continued to operate some legacy systems concurrent with the Department progressing the implementation of the Oracle Corporate System.

Consequently, the audit included review of new and legacy systems and completing audit work at the Department's central services, at SAAS and at SSSA.

Audit findings across health services fall into the following categories:

- common findings reflecting central services and/or systems
- matters for individual health services
- SSSA matters.

A Chartered Accounting firm assisted the Auditor-General in carrying out the audit of SAAS.

During 2014-15 specific areas of audit attention included:

- payroll
- accounts payable
- property, plant and equipment
- management of bank accounts
- inventory
- transport revenue including accounts receivable.

Review of the financial management compliance program, fixed asset acquisitions and capitalisation of work in progress was addressed through the audit of the Department.

Audit findings and comments

Assessment of controls

In my opinion, the controls exercised by the SA Ambulance Service Inc in relation to the receipt, expenditure and investment of money, the acquisition and disposal of property and the incurring of liabilities, except for all matters outlined under 'Communication of audit matters', are sufficient to provide reasonable assurance that the financial transactions of the SA Ambulance Service Inc have been conducted properly and in accordance with law.

Communication of audit matters

Matters arising during the course of the 2014-15 audits of health services were detailed in management letters to the Chief Executive of the Department and copied to the Chief Executive Officers of the individual health services. SSSA matters were reported to the Executive Director, Government Services Group, Department of the Premier and Cabinet.

Audit findings for 2014-15 for SAAS related principally to common findings reflecting central services and/or systems and SSSA matters. Commentary regarding these can be found under 'Communication of audit matters' in the section of Part B of this Report titled 'Department for Health and Ageing'.

Interpretation and analysis of financial report

Highlights of the financial report

	2015 $'million	2014 $'million
Expenses		
Employee benefit expenses	154	150
Supplies and services	63	63
Depreciation and amortisation expense	9	9
Other expenses	16	15
Total expenses	242	237
Income		
Revenue from fees and charges	114	107
Other income	3	3
Total income	117	110
Net cost of providing services	125	127
Revenues from SA Government	127	126
Net result	2	(1)
Other comprehensive income	(1)	5
Total comprehensive result for the year	1	4
Assets		
Current assets	36	32
Non-current assets	80	80
Total assets	116	112
Liabilities		
Current liabilities	44	44
Non-current liabilities	44	41
Total liabilities	88	85
Net assets	28	27

Statement of Comprehensive Income

Expenses

During 2014-15 total expenses increased by $5 million to $242 million. This was due mainly to a $4 million increase in employee related expenses.

Employee benefit expenses

Employee benefit expenses of $154 million represented 64% of SAAS's total expenses.

The number of employees whose remuneration received/receivable exceeded $141 500 (base executive level) totalled 304 (263), comprising 295 operational, five executive and four non-medical employees. Total remuneration for these employees was $51 million.

Supplies and services expenses

Significant components of supplies and services were:

- contractors – agency staff – $13 million
- patient transport – $13 million
- motor vehicles – $4 million
- medical, surgical and laboratory supplies – $4 million.

Revenues

Revenues from SA Government

SAAS is principally funded through the provision of recurrent and capital funding from the Department. In 2014-15, SAAS received total funding of $127 million which comprised recurrent funding of $118 million and capital funding of $9 million.

Total funding increased by $1 million due to increased recurrent funding of $4 million, offset by decreased capital funding of $3 million.

Statement of Financial Position

Property, plant and equipment

Property, plant and equipment represents 65% of SAAS's total assets. The carrying value of property, plant and equipment increased by $2 million to $75 million. This increase is due mainly to:

- $9 million of depreciation and amortisation expense
- $8 million of additions
- $3 million revaluation increment.

Liabilities

Current liabilities were steady at $44 million and exceeded current assets of $36 million at balance date. Cash and cash equivalents of $20 million are sufficient to meet current payables of $7 million. Employee benefits are the largest element of current liabilities, totalling $39 million at 30 June 2015. They mainly comprise leave entitlements expected to be taken within 12 months. Total liabilities increased by $3 million to $88 million mainly due to an increase in employee benefits liabilities for long service leave.

Employee liabilities make up $82 million of SAAS's total liabilities at 30 June 2015, comprising:

- employee benefits liabilities and related on-costs, $46 million ($46 million)
- provision for workers compensation, $7 million ($8 million)
- superannuation – defined benefit scheme, $29 million ($22 million).

The movement in employee liabilities principally relates to increases in salary rates and a decrease in the discount rates applied, offset by a decrease in the salary inflation rates used in the calculation of outstanding liabilities at 30 June 2015.

Southern Adelaide Local Health Network Incorporated

Functional responsibility	The Southern Adelaide Local Health Network Incorporated (SALHN) is established pursuant to the *Health Care Act 2008*. The powers and functions of SALHN are to establish, provide, maintain and enhance hospital, medical and allied health services in its local area. Under the *Health Care Act 2008* the Chief Executive, Department for Health and Ageing assumes direct responsibility for the administration of incorporated hospitals. This includes the appointment of the Chief Executive Officer of SALHN. The Chief Executive, Department for Health and Ageing cannot give a direction concerning the clinical treatment of a particular person.
Financial statistics	Total expenses: $1014 million Net cost of providing services: $879 million Revenues from SA Government: $873 million Employee benefits liability and related on-costs $205 million Workers compensation liability: $18 million Number of FTEs: 5829
Significant events and transactions	— The Chief Executive, Department for Health and Ageing approved the transfer of 29 Financial Business Advisory and Hospital Based Revenue Services employees within finance to SALHN effective 1 June 2015. — The rollout of the One Procurement Solution was finalised during the year, resulting in all accounts payable transactions now being processed to a single payable platform (Basware).
Financial statement opinion	**Unmodified**
Financial controls opinion	**Modified** Key issues: — Inadequate review of key payroll reports — Inadequate review of leave management reports — No review of delegations established in key financial systems or key exception reports — A number of weaknesses in the Enterprise Patient Administration System (EPAS) billing processes and an inability to explain a variance between EPAS and Oracle billing totals — No review of user access to EPAS — Inadequate review of user access to Homer

Scope of the audit

The audit program covered major financial systems and was directed primarily to obtaining sufficient evidence to enable an opinion to be formed with respect to the financial report and internal controls.

Financial services for SALHN are provided through a mix of:

- central services provided by the Department for Health and Ageing (the Department) through an integrated finance service model
- finance services located within SALHN
- services provided by Shared Services SA (SSSA).

SALHN continued to operate some legacy systems concurrent with the Department progressing the implementation of the Oracle Corporate System and EPAS.

Consequently, the audit included review of new and legacy systems and completing audit work at the Department's central services, at SALHN and at SSSA.

Audit findings across health services fall into the following categories:

- common findings reflecting central services and/or systems
- matters for individual health services
- SSSA matters.

During 2014-15 specific areas of audit attention included:

- governance
- payroll
- accounts payable
- property, plant and equipment
- patient billing and sundry revenue
- cash and online banking
- inventory
- general ledger.

Review of the financial management compliance program, fixed asset acquisitions and capitalisation of work in progress was addressed through the audit of the Department.

Internal audit activities were also reviewed in order to assess the risks of material misstatement in the financial report and to inform the design of audit procedures.

Audit findings and comments

Assessment of controls

In my opinion, the controls exercised by the Southern Adelaide Local Health Network Incorporated in relation to the receipt, expenditure and investment of money, the acquisition and disposal of property and the incurring of liabilities, except for all matters outlined under 'Communication of audit matters', are sufficient to provide reasonable assurance that the financial transactions of the Southern Adelaide Local Health Network Incorporated have been conducted properly and in accordance with law.

Communication of audit matters

Matters arising during the course of the 2014-15 audits of health services were detailed in management letters to the Chief Executive of the Department and copied to the Chief Executive Officers of the individual health services. SSSA matters were reported to the Executive Director, Government Services Group, Department of the Premier and Cabinet.

Audit findings for 2014-15 for SALHN relating to common findings reflecting central services and/or systems and SSSA matters can be found under 'Communication of audit matters' in the section of Part B of this Report titled 'Department for Health and Ageing'. Matters arising during our audit at SALHN are detailed below.

Shared Services SA service level determinations (SLDs)

Service level determinations between SALHN and Shared Services SA were out of date

SSSA is responsible for the processing of payroll and accounts payable transactions for SALHN under SLDs between SALHN and SSSA. The SLDs were not up to date for 2014-15. We understand the documentation was undergoing a review process at an SA Health level and was not finalised at the time of the audit.

In the absence of a current service level agreement there is a risk that the documented responsibilities may be out of date and not aligned to the current processing environment. This may lead to key control processes not being undertaken as intended.

In response SALHN advised that the payroll document was in the final stage of consultation and agreement between SA Health and SSSA, and was expected to be finalised by 30 November 2015. SALHN indicated the accounts payable document was being negotiated between the Department and SSSA.

Payroll

Inadequate review of payroll information

Last year we recommended SALHN implement policies and procedures to require business unit managers or team leaders to regularly review the accuracy and completeness of employee-level payroll information, with the process and actions taken being documented. In response, SALHN advised that workforce reports were posted and available on the SALHN intranet on a monthly basis and that local managers had access to them. SALHN indicated workforce reports were made available to managers to assist them in managing and monitoring a suite of employee-level payroll information. SALHN advised the provision of these reports was considered to be adequate and further checks were not planned.

Our 2014-15 review identified that, while workforce reports were available on the SALHN intranet for each month and managers had access to them:

- the reports were not always reviewed by local managers
- there was no central mechanism to ensure the reports were actually reviewed.

As a result, there was no consistent process to certify payments to employees were accurate (ie paid to valid employees for the correct amount), no review of employee classification levels and no review of the ongoing relevance of long-term allowances paid by SALHN.

In response, SALHN indicated that workforce reports would continue to be provided on a monthly basis for use by managers and supervisors with line management responsibilities for employees. SALHN also advised that Workforce staff would liaise with managers regarding their obligation to review employee-level pay information and that training will continue to be offered to managers.

No mechanism to ensure all CHRIS masterfile changes are reviewed

Consistent with last year, CHRIS employee masterfile changes made at the SA Health Human Resources Hub (HR Hub) are checked based on batches of changes made, rather than being based on a complete report of the changes made in CHRIS. As a result, there is a risk unauthorised changes could be made to the CHRIS masterfile without detection, potentially resulting in inappropriate or unauthorised payments to employees.

In response, SALHN advised that all paperwork received by the HR Hub is processed and independently checked. The risk of changes made by officers outside of the HR Hub not being detected had been addressed through a new user security profile being designed by SA Health to ensure users outside of the HR Hub only have access to view (rather than change) payroll data.

SALHN also responded that it would investigate whether there are system reports available to list all changes made or whether consultation with the software provider is needed to design a suitable report.

Inadequate review of leave management reports

SALHN does not have a consistent process to ensure leave management reports are reviewed and action taken where necessary. In particular, we noted the lack of a central mechanism to ensure timely review of these reports was occurring and the absence of evidence being maintained to support reviews that have occurred.

We also noted there were a number of SALHN employees with negative leave balances.

SALHN advised that the requirement for managers to review the leave management reports in line with documented policies and procedures would be reiterated.

Control weaknesses around the ProAct time recording system used for nurses

Salaries and wages for nurses account for over 40% of the total salaries and wages expense. The ProAct rostering and time recording system is the mechanism through which payments to nurses are initiated across SALHN. Our review of controls over the ProAct rostering and time recording system noted a number of areas requiring improvement:

- ProAct users all have the same functionality therefore access restrictions are limited and evidence of user access reviews for ProAct was not maintained. Inadequate controls over user access may lead to unauthorised access and incorrect or unauthorised payments being made.
- ProAct timesheets are not always approved prior to submission to SSSA for processing. Without monitoring to ensure appropriate approval was given for time worked, invalid or unauthorised payments may be made to employees.
- There are currently no reviews of changes made to the ProAct employee masterfile data. ProAct data overrides the information present in CHRIS for payments to an employee, therefore there is a risk that employee information may be inaccurate, resulting in unauthorised or inaccurate payments to employees.

In response to the above findings SALHN advised that:

- access levels are set to the minimum level possible to enable work to be performed and that pre-existing policies and procedures for user access management and reviews had been reviewed and implemented across all SALHN sites

- ProAct timesheets are reviewed and authorised on Fridays prior to the Monday pay run. The main issue in achieving 100% approval is the time frame
- employee masterfile changes are checked in ProAct for accuracy and errors as part of the timesheet signoff.

Accounts payable

Invoices received are not always matched to purchase orders (POs)

When goods/services initiated by a PO are received, they are required to be receipted in the Oracle purchasing module against the corresponding PO. The receipting of the goods/services in Oracle enables the recognition of a goods received not invoiced (GRNI) liability and corresponding expense in the general ledger.

We were advised there were a number of goods/services received that had not been matched to the receipted PO prior to the invoice being paid. Not matching invoices against the corresponding PO prior to the invoice being paid results in an overstatement of the GRNI liability and associated expenses. This increases the risk that payments may be made for goods/services not received or at a price that is inconsistent with that agreed through the PO process.

We understand an automatic sweep process for longstanding GRNIs was implemented during the year.

SALHN advised that invoices are required to be matched to PO receipts (where they exist) prior to payment and where invoices are sent to SALHN employees they are to be manually matched to POs in Oracle. SALHN also advised steps would be taken to raise awareness of the compliance requirements.

No review of delegations established in Oracle and Basware electronic approval systems

A feature of the Oracle One Procurement Solution and Basware systems is that employees can approve purchases or invoices electronically. The approval is based on access and delegation profiles established in both Oracle and Basware. Our review of the delegations established in these systems identified:

- there were three employees with payment approval limits of $110 million and 20 users with special delegate status in Basware with approval limits of $11 000 to $7.7 million, whose delegations were not listed on the SALHN Financial, Contract and Procurement Authorisations
- Oracle user access reviews did not include the requirement for the delegations in the system to be reviewed
- there was no review of the delegation limits established in Basware to ensure they agreed to the SALHN Financial, Contract and Procurement Authorisations; there were a number of instances identified where the delegation limits did not agree.

Where established delegations in online systems are not adequately reviewed, or do not agree to the approved Financial, Contract and Procurement Authorisations, there is a risk invoices may not be appropriately authorised for payment, potentially leading to inappropriate payments being made.

In response to these findings SALHN advised that:

- a work instruction would be developed that required super and special delegations to be approved by the Chief Executive Officer of SALHN and that SALHN Financial, Contract and Procurement Authorisations would be updated to include a listing of approved super and special delegations

- a request would be made for the Basware access listing to be provided on a bi-monthly basis and that a review of user access, delegations and authorisations will be conducted and actions will be recorded and retained
- a policy and procedure requiring quarterly review of the Oracle user access and delegations would be documented and a record of the review will be maintained.

No review of Basware online approval exception reports

A small number of users have special delegations established in Basware, which provide a delegation higher than the individual's normal delegation, meant to be applied for certain types of transactions only. SSSA provides monthly reports listing the transactions for which the special delegations were used.

There was no evidence these transactions were reviewed by SALHN. Where the use of super and special delegations is not reviewed, the use of the delegation for inappropriate payments may go undetected.

In response SALHN agreed to ensure the transactions are evidenced by signing and recording its review of the reports from SSSA.

There are some transactions that bypass the electronic invoice approval controls in Basware, such as urgent payments. SSSA provides SA Health with a monthly report detailing all SALHN transactions processed by SSSA that were not electronically certified and approved through Basware. Our audit revealed that there was no evidence SALHN had reviewed these monthly reports.

SALHN responded that it will ensure the Transferred without Delegation Check report is evidenced by signing and recording the appropriate documentation. A random sample would be validated each month from across the invoice type categories.

Contracts were not established with suppliers where significant amounts are spent

Our review of a sample of transactions revealed there were no formal agreements in place with two suppliers with whom transactions totalling over $700 000, per supplier, had occurred in 2014-15. Formal agreements provide clarity around the provision of services and agreed pricing.

SALHN advised it would issue advice to all officers regarding their responsibility and the requirements associated with procurement, and that a six-monthly review of Oracle spend by supplier will be undertaken to identify opportunities for contracts.

Agency nursing contracts not current

Our review of agency nursing contracts found that they expired in July 2013. We were advised that the Department advertised a tender for such services in February 2014 and that, subject to Cabinet approval, new agency nursing contracts would commence on 1 October 2015.

The Department formally notified providers of the delay in July 2013 and sought an extension of the contract terms and conditions until September 2013. Providers were required to confirm they agreed the extension. While the providers continue to be informed of delays, no formal extensions have been documented since September 2013.

SALHN advised it would comply with the agreements negotiated by the Department.

Management of goods on consignment is inconsistent

Our review of inventory items held on consignment across various locations in SALHN hospitals noted that management of these goods and checking of items invoiced are inconsistent between locations and sites, potentially resulting in incorrect payments.

In response SALHN advised a policy and procedure would be established dealing with consignment stock and the reconciliation process to be used.

Patient billing - Enterprise Patient Administration System

Our audit covered the major financial functions for hospital billing (including administered private practice). Currently EPAS is used for billing at the Repatriation General Hospital and Noarlunga Hospital and Homer is used for patient billing at the Flinders Medical Centre.

No review of EPAS user access

Our review of EPAS patient billing processes identified that an EPAS user access report listing all EPAS users, their user profiles and profile functionalities was not yet established. We identified that there had not been a review of user access since the implementation of EPAS at the Noarlunga Hospital and Repatriation General Hospital. We also noted there was no documented policy or procedure outlining the review process for EPAS user access.

These findings were also discussed in the eHealth Systems internal audit report, Identity and Access Management dated 7 July 2015, where it was identified that there were no formal reviews over user access. It was also found that out of the total 6673 active users of EPAS:

- 108 users had left SA Health
- 1545 users had never logged into EPAS
- 392 users had not logged into EPAS in the last 12 months.

Audit was advised by clinical analysts from eHealth Systems that an audit of EPAS user access profiles was planned for July 2015, where all EPAS user profiles were to be reviewed in order to clearly identify the functionality available to each user profile and to ensure that all users had appropriate access relevant to their position.

Without an established EPAS system user access report it is difficult to identify, prevent and manage segregation of duties conflicts. Further, without a regular review of user access to EPAS, inappropriate access could result in inaccurate or unauthorised changes being made to data.

The Department responded that the EPAS Program group:

- had a process for establishing new EPAS user accounts that is reliant on the underlying network account unique to each computer user

- will develop specifications for user audit reports and a process whereby EPAS sites can access the report to manage staff who are no longer employees or require access to EPAS for their facility

- will develop a procedure that can be incorporated into site policies around managing user access to their systems.

EPAS detailed transaction data did not agree to the general ledger

The Department could not provide us with a detailed EPAS transaction listing that agreed to the EPAS summary report and the Oracle general ledger. The total of the EPAS transactional data extract differed from the Oracle general ledger by $589 955. Neither eHealth Systems or Finance and Corporate Services were able to provide an explanation for this variance.

Without a detailed listing of EPAS transactional data that can be reconciled to the general ledger, we were unable to verify that all EPAS transactions were completely and accurately transferred to the general ledger and ultimately the financial report.

While we noted the existence of daily reconciliations undertaken by Finance and Corporate Services, they do not mitigate this risk as the identified discrepancy was not detected through this process.

The Department advised it would continue to investigate this variance.

Billing charges not always correctly reflected in EPAS invoices

Our review of EPAS invoicing processes revealed:

- some invoices automatically generated by EPAS included incorrect charges. These invoices then require manual charges to be raised which could result in inaccurate charges being billed to patients
- charges are not generated for compensable and non-Medicare outpatients or when changes to patient visits that trigger invoicing are backdated in the system. This results in lost revenue to SALHN. Where this error can be addressed there will be significant delays in the recognition of the associated revenue.

Management agreed with the recommended actions. SALHN advised that tasks were logged with the Clinical Systems Support Centre for review and action.

EPAS billing validation reports not followed up

Billing teams run four different validation reports on a weekly basis to identify billing exceptions. These reports list any billing orders in EPAS that have failed to generate charges. These reports are reviewed by billing employees on a weekly basis, however there is no follow-up to ensure the exceptions are actioned by the relevant hospital department.

We noted that the validation reports were run for a set period, meaning exceptions not previously actioned would not be captured again in subsequent reports. We understand there are also validation reports available to the hospital departments, however these are not currently generated or actioned.

Where billing order exceptions and data entry errors are not followed up and actioned in a timely manner there may be a delay in charges being raised or, in some cases, charges being missed, with a consequent financial loss for SALHN or private practice doctors.

Management agreed with the recommendation and advised a review was being undertaken by EPAS Billing to quantify the volume of validation errors/rejections not actioned by the relevant hospital departments. An escalation process is to be agreed to and a procedure developed.

EPAS private practice billing rejection report not actioned

The Universal Billing Rejection report is run on a weekly basis and lists items rejected for payment by Medicare, and the reasons why the claim(s) were rejected. We found the report was not routinely actioned since EPAS was implemented. We were advised that the primary reason action had not been taken on the report was a lack of available resources.

Where timely action is not taken to review and action the Medicare rejections listed, there is a risk the transfer of cash will be delayed if claims require resubmission. Where the rejections are valid and resubmission is not possible, these amounts can result in an overstatement of receivables balances.

Management agreed with the recommended corrective action.

Patient billing – Homer

Inadequate review of Homer user access

For the past two years we have raised with SALHN that there was no regular review of user access to the Homer revenue system undertaken by management. In response to this issue in 2013-14, SALHN advised that Hospital Revenue Services had documented a methodology/procedure for a regular review of revenue systems access, which also addressed the processes for identification of user access issues. Further, a review of Homer revenue system access for the Flinders Medical Centre, Repatriation General Hospital and Noarlunga Hospital would be performed and the review recommendations actioned.

In 2014-15 we noted the methodology document had been developed and results from the most recent user access review were finalised in August 2014. Our review of this noted:

- Homer security system documentation could not be sourced from the Department or the system vendor
- some users access was no longer required
- there was a duplicate account
- conflicts were identified in the access granted
- some findings advised that further analysis was required.

Without a regular review of access to the Homer revenue system, inaccurate or unauthorised changes to data may occur. If the information required to perform an adequate review of user access is not available there is a risk that segregation of duties may not be managed appropriately.

The Department's management has agreed to review user access in conjunction with the local health networks.

Interpretation and analysis of financial report

Highlights of the financial report	2015 $'million	2014 $'million
Expenses		
Employee benefit expenses	684	684
Supplies and services	284	273
Depreciation and amortisation	31	30
Other expenses	15	15
Total expenses	1 014	1 002
Income		
Revenue from fees and charges	81	75
Grants and contributions	36	32
Other income	18	9
Total income	135	116
Net cost of providing services	879	886

	2015 $'million	2014 $'million
Revenues from SA Government	873	870
Total revenues from SA Government	873	870
Net result	(6)	(16)
Other comprehensive income	7	(1)
Total comprehensive result for the year	1	(17)
Assets		
Current assets	74	51
Non-current assets	611	622
Total assets	685	673
Liabilities		
Current liabilities	133	123
Non-current liabilities	124	121
Total liabilities	257	244
Net assets	428	429

Statement of Comprehensive Income

Expenses

During 2014-15 total expenses were steady at $1 billion.

Employee benefit expenses

Employee benefit expenses of $684 million represent 67% of SALHN's total expenses. These costs have remained constant in 2014-15 which is primarily attributable to wage rises associated with enterprise agreements, offset by a decrease in the expense for the movement in employee benefit liabilities in 2014-15.

The number of employees whose remuneration received/receivable exceeded the base executive level ($141 500) totalled 560, comprising 530 medical, 19 nursing, seven non-medical and four executive employees. Total remuneration for these employees was $148 million.

Supplies and services expenses

Supplies and services expenses increased by $11 million (4%) to $284 million in 2014-15. Significant components of supplies and services were:

- medical surgical and laboratory expenses, which increased by $2.2 million (3%) to $72.8 million
- drug supplies, which increased by $1.7 million (4%) to $41.6 million
- fee-for-service, which increased by $2 million (8%) to $29 million
- repairs and maintenance, which increased by $2.3 million (14%) to $18.5 million
- contractors – agency staff, which increased by $1.3 million (9%) to $15.3 million.

Revenue

SALHN is dependent to a large extent on revenue from the SA and Commonwealth Governments.

Revenues from the SA Government remained relatively stable in 2014-15. This was due to a $24 million increase in recurrent funding, offset by a $12 million decrease in capital funding due to the receipt of once-off funding in 2013-14 for the health and ageing teaching and research facility at the Repatriation General Hospital, and an $8.7 million decrease in targeted voluntary separation package recoveries from 2013-14.

Commonwealth grants and contributions received directly by SALHN increased by $3.4 million (13%) to $28.9 million, due mainly to a $2.3 million increase in the Pharmaceutical Benefits Scheme Commonwealth subsidies.

Statement of Financial Position

Property, plant and equipment

Property, plant and equipment represents 88% of SALHN's total assets. The carrying value of property, plant and equipment decreased by $12 million to $603 million. This decrease is due mainly to:

- $31.2 million of depreciation and amortisation expense
- $12.7 million of revaluation increments
- $7.5 million of additions.

Liabilities

Current liabilities increased by $10 million to $133 million during the year and exceeded current assets of $74 million at balance date. Cash and cash equivalents of $38.4 million are sufficient to meet current payables of $27 million. Employee benefits are the largest element of current liabilities, totalling $97 million at 30 June 2015. They mainly comprise leave entitlements expected to be taken within 12 months. Total liabilities increased by $13 million to $257 million, mainly due to an increase in employee benefits liabilities for long service leave.

Employee liabilities make up $223 million of SALHN's total liabilities at 30 June 2015, comprising:

- employee benefits liabilities and related on-costs, $205 million ($191 million)
- provision for workers compensation, $18 million ($16 million).

The movement in employee liabilities principally relates to increases in salary rates and a decrease in the discount rates applied, offset by a decrease in the salary inflation rates used in the calculation of outstanding liabilities at 30 June 2015.

Women's and Children's Health Network Incorporated

Functional responsibility	The Women's and Children's Health Network Incorporated (WCHN) is an incorporated hospital established by the *Health Care Act 2008*. The functions of WCHN include the provision of health services to women and children. The principal unit within WCHN is the Women's and Children's Hospital. Under the *Health Care Act 2008* the Chief Executive, Department for Health and Ageing assumes direct responsibility for the administration of incorporated hospitals. This includes the appointment of the Chief Executive Officer of WCHN. The Chief Executive, Department for Health and Ageing cannot give a direction concerning the clinical treatment of a particular person.
Financial statistics	Total expenses: $431 million Net cost of providing services: $378 million Revenues from SA Government: $384 million Employee benefits liability and related on-costs: $92 million Workers compensation liability: $5 million Number of FTEs: 2654
Significant events and transactions	The Chief Executive, Department for Health and Ageing approved the transfer of 15 Financial Business Advisory and Hospital Based Revenue Services employees within finance to WCHN effective 1 June 2015.
Financial statement opinion	**Unmodified**
Financial controls opinion	**Modified** Key issues: — Review of Basware system access (including delegations) requires improvement — Lack of clarity regarding responsibility for maintenance of the supplier masterfile — Sundry invoices raised not independently reviewed

Scope of the audit

The audit program covered major financial systems and was directed primarily to obtaining sufficient evidence to enable an opinion to be formed with respect to the financial report and internal controls.

Financial services for WCHN are provided through a mix of:

- central services provided by the Department for Health and Ageing (the Department) through an integrated finance service model
- finance services located within the WCHN
- services provided by Shared Services SA (SSSA).

WCHN continued to operate some legacy systems concurrent with the Department progressing the implementation of the Oracle Corporate System.

Consequently, the audit included review of new and legacy systems and completing audit work at the Department's central services, at WCHN and at SSSA.

Audit findings across health services fall into the following categories:

- common findings reflecting central services and/or systems
- matters for individual health services
- SSSA matters.

A Chartered Accounting firm assisted the Auditor-General in carrying out the audit of WCHN.

During 2014-15 specific areas of audit attention included:

- payroll
- accounts payable
- property, plant and equipment
- management of bank accounts
- inventory
- patient revenue including accounts receivable.

Review of the financial management compliance program, fixed asset acquisitions and capitalisation of work in progress was addressed through the audit of the Department.

Audit findings and comments

Assessment of controls

In my opinion, the controls exercised by the Women's and Children's Health Network Incorporated in relation to the receipt, expenditure and investment of money, the acquisition and disposal of property and the incurring of liabilities, except for all matters outlined under 'Communication of audit matters', are sufficient to provide reasonable assurance that the financial transactions of the Women's and Children's Health Network Incorporated have been conducted properly and in accordance with law.

Communication of audit matters

Matters arising during the course of the 2014-15 audits of health services were detailed in management letters to the Chief Executive of the Department and copied to the Chief Executive Officers of the individual health services. SSSA matters were reported to the Executive Director, Government Services Group, Department of the Premier and Cabinet.

Audit findings for 2014-15 for WCHN for common findings reflecting central services and/or systems and SSSA matters can be found under 'Communication of audit matters' in the section of Part B of this Report titled 'Department for Health and Ageing'.

Interpretation and analysis of financial report

Highlights of the financial report

	2015 $'million	2014 $'million
Expenses		
Employee benefit expenses	311	308
Supplies and services	110	105
Depreciation and amortisation expense	8	8
Other expenses	2	3
Total expenses	431	424
Income		
Revenue from fees and charges	37	36
Grants and contributions	11	9
Other income	5	6
Total income	53	51
Net cost of providing services	378	373
Revenues from SA Government	384	361
Net result	6	(12)
Other comprehensive income	1	(7)
Total comprehensive result for the year	7	(19)
Assets		
Current assets	32	16
Non-current assets	262	266
Total assets	294	282
Liabilities		
Current liabilities	55	51
Non-current liabilities	52	51
Total liabilities	107	102
Net assets	187	180

Statement of Comprehensive Income

Expenses

During 2014-15 total expenses increased by $7 million to $431 million (2%). This was due mainly to a $5 million (5%) increase in supplies and services expenses.

Employee benefit expenses

Employee benefit expenses, $311 million, represent 72% of WCHN's total expenses. The number of employees whose remuneration received/receivable exceeded $141 500 (base executive level) totalled 241 (227), comprising 216 medical, 13 non-medical, five executive and seven nursing employees. Total remuneration for these employees was $64 million.

Supplies and services expenses

Supplies and services expenses increased by $5 million to $110 million. Significant components of supplies and services were:

- medical, surgical and laboratory supplies – $21 million
- drug supplies – $13 million
- contractors – agency staff – $8 million
- housekeeping – $11 million.

Revenues

Revenues from SA Government

WCHN is principally funded through the provision of recurrent and capital funding from the Department. In 2014-15, WCHN received funding of $384 million which mainly comprised recurrent funding of $380 million and capital funding of $3 million. Total funding increased by $23 million due to a $25 million increase in recurrent funding, offset by reduced capital and targeted voluntary separation package funding.

Statement of Financial Position

Property, plant and equipment

Property, plant and equipment represents 84% of WCHN's total assets. The carrying value of property, plant and equipment decreased by $3 million to $245 million. This decrease is due mainly to:

- $8 million of depreciation and amortisation expense
- $1 million of revaluation increments
- $4 million of additions.

Liabilities

Current liabilities increased by $4 million to $55 million during the year and exceeded current assets of $32 million at balance date. Cash and cash equivalents of $23 million are sufficient to meet current payables of $12 million. Employee benefits are the largest element of current liabilities, totalling $46 million at 30 June 2015. They mainly comprise leave entitlements expected to be taken within 12 months. Total liabilities increased by $5 million to $107 million mainly due to an increase in employee benefits liabilities for long service leave.

Employee liabilities make up $97 million of WCHN's total liabilities at 30 June 2015, comprising:

- employee benefits liabilities and related on-costs, $92 million ($87 million)
- provision for workers compensation, $5 million ($7 million).

The movement in employee liabilities principally relates to increases in salary rates and a decrease in the discount rates applied, offset by a decrease in the salary inflation rates used in the calculation of outstanding liabilities at 30 June 2015.

Health Services Charitable Gifts Board

Functional responsibility	The Health Services Charitable Gifts Board (the Board) is established pursuant to the *Health Services Charitable Gifts Act 2011* (the HSCG Act). The HSCG Act was proclaimed on 30 June 2011 for commencement on 1 July 2011. The *Public Charities Funds Act 1935* was consequently repealed, however the operations of the Commissioners of Charitable Funds have continued in existence as the Health Services Charitable Gifts Board. The functions of the Board are to prudently manage the charitable assets vested in the Board and apply these assets for the benefit of public health entities or otherwise in accordance with the HSCG Act. Note 1 of the financial report provides further explanation regarding the Board's functions and responsibilities. In addition, note 19 of the financial report discloses details of funds held on behalf of public health entities at 30 June 2015.
Financial statistics	Total income: $24 million Total assets: $113 million Total trust assets: $19 million
Significant events and transactions	— During 2014-15, the Board invested with the Superannuation Funds Management Corporation of South Australia (Funds SA) in unlisted unit trusts. Previously the Board self-managed cash and cash equivalents, shares and other term investments with various third parties. As at 30 June 2015, $61 million is held with Funds SA. The Board continues to hold significant investment properties. — As part of the investment strategy, the Board disposed of shares totalling $27 million in listed companies and realised $7 million in gains.
Financial statement opinion	**Unmodified**
Financial controls opinion	**Unmodified**

Scope of the audit

The audit program covered major financial systems and was directed primarily to obtaining sufficient evidence to enable an opinion to be formed with respect of the financial report and internal controls.

During 2014-15 specific areas of audit attention included:

- gifts to public health entities vesting in the Board
- investment revenues
- rental revenue
- trust income
- administrative expenses and payables
- employee benefits and liabilities
- funds distributed to public health entities and prescribed bodies
- cash and cash equivalents
- investments and investment properties
- financial management compliance programs
- governance, accountability and reporting.

Audit findings and comments

Assessment of controls

In my opinion, the controls exercised by the Health Services Charitable Gifts Board in relation to the receipt, expenditure and investment of money, the acquisition and disposal of property and the incurring of liabilities are sufficient to provide reasonable assurance that the financial transactions of the Health Services Charitable Gifts Board have been conducted properly and in accordance with law.

Communication of audit matters

The audit was completed at the time of preparation of this Report. No significant matters were identified from the audit.

Interpretation and analysis of the financial report

Highlights of the financial report

	2015 $'million	2014 $'million
Income		
Gifts to public health entities vesting in the Board	12	7
Investment revenue	9	2
Rental and other revenue	3	3
Total income	24	12
Expenses		
Funds distributed to public health entities	10	9
Other expenses	1	-
Total expenses	11	9

	2015 $'million	2014 $'million
Other comprehensive income	(6)	3
Total comprehensive result	7	6
Net cash provided by (used in) operating activities	8	3
Net cash provided by (used in) investing activities	(30)	(16)
Assets		
Current assets	7	32
Non-current assets	106	73
Total assets	113	105
Liabilities		
Current liabilities	1	-
Total liabilities	1	-
Total equity	112	105

Statement of Comprehensive Income

The Board recorded a net profit of $13 million ($3 million) and a total comprehensive result of $7 million ($6 million) during 2014-15.

The net profit reflects an increase in gifts to public health entities vesting in the Board of $5 million to $12 million. Gift revenue varies from year to year depending on the nature and value of amounts provided by third parties. Funds distributed to health units are impacted by total gifts, funds held and approved claims for application of the funds.

The net profit also reflects an increase in investment income during 2014-15 of $7 million to $9 million. This is mainly due to the Board realising $7 million from the gain on the disposal of shares in listed companies and investing funds in unlisted unit trusts.

Statement of Financial Position

Assets and liabilities

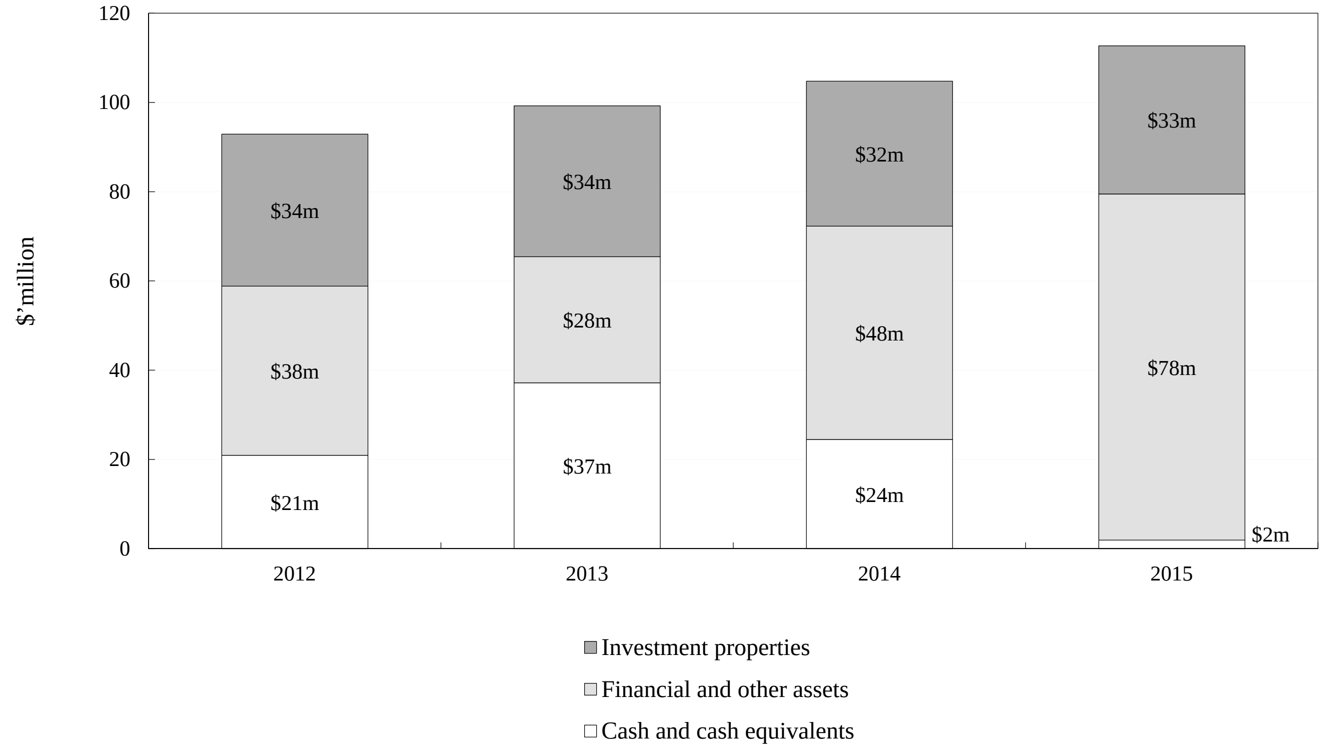
The Board's main assets consist of units in unlisted trusts totalling $61 million ($0), investment properties of $29 million ($32 million), a long-term loan of $15 million ($15 million) and short-term deposits of $2 million ($30 million). There are no material liabilities recognised by the Board.

During 2014-15, as part of a revised investment strategy, the Board invested in unlisted unit trusts managed by Funds SA which totalled $61 million at 30 June 2015. Previously the Board self-managed cash and cash equivalents, shares in listed companies and term investments with various third parties. As part of this investment decision, shares in listed companies totalling $27 million and short-term deposits of less than three months of $24 million were redeemed to invest in unit based funds.

During 2013-14 the Board provided a loan of $15 million to the South Australian Health and Medical Research Institute to establish a cyclotron facility in South Australia. The loan is for a period of 15 years and interest only is repayable for the first five years (refer note 11 of the financial report).

The Board continues to hold significant investment properties for return.

A structural analysis of assets and funds held for the four years to 30 June 2015 is shown in the chart below.



Over the four years net assets have increased by $20 million to $113 million.

In addition to these assets, the Board as trustee holds $19 million in other trust funds.

Statement of Cash Flows

During 2014-15, cash and cash equivalents decreased by $23 million to $2 million.

As mentioned under the heading 'Assets and liabilities' above, the Board redeemed significant shares and short-term deposits during the year, which were reinvested in unit trusts through Funds SA. The net decrease in cash is due to the purchase of investments totalling $54 million, offset by the proceeds from the sale of shares and short-term investments ($24 million) and net cash provided by operating activities ($8 million).

Further commentary on operations

Section 21 of the HSCG Act enables the Board to act as a trustee or co-trustee. Financial reports for the trustee arrangements are included at the end of the Board's financial report.

South Australian Health and Medical Research Institute Charitable Health Trust (the Trust)

During 2013-14 the Board was appointed trustee of the Trust. The Trust was established by Ministerial direction and an initial sum was provided to the Board by the Minister for Health. The funds are to be used for health and medical research and infrastructure.

The balance of the trust funds at 30 June 2015 was $12.3 million. In accordance with a spending policy approved by the Board, the approximate income of the fund together with an agreed capital amount totalling $1.7 million were paid from the Trust to the South Australian Health and Medical Research Institute during 2014-15 (refer note 5 of the Trust's financial report).

Dorothy E Brown Charitable Trust

The Dorothy E Brown Charitable Trust was established by Deed Poll during 2014-15 as the result of monies left in a will for health related treatment. The Supreme Court determined that the residual monies in this estate, previously held by the Department for Health and Ageing, be managed by the Board as trustee.

Monies were paid to the Board in December 2014. The balance of the trust funds at 30 June 2015 was $292 000.

HomeStart Finance

Functional responsibility	HomeStart Finance (HomeStart) is a statutory corporation established by Regulation pursuant to the *Urban Renewal Act 1995*. It has a Board of Management appointed by the Minister for Housing and Urban Development and is subject to the control and direction of the Minister. HomeStart's functions include: — lending money or providing other financial assistance to facilitate home ownership to persons of low to moderate income — providing, marketing and managing home finance products — providing, managing or facilitating finance for housing schemes or housing associations and for mortgage relief schemes within South Australia — providing, managing or facilitating finance for the development, ownership or operation of aged care residential accommodation or facilities.
Financial statistics	Loans and advances: $1.7 billion Short-term borrowings: $694 million Long-term borrowings: $972 million Profit before income tax: $15.6 million Dividend paid: $7.1 million Number of FTEs: 96.9
Financial statement opinion	**Unmodified**
Financial controls opinion	**Unmodified**

Scope of the audit

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

During 2014-15 specific areas of audit attention included:

- lending, including arrears management and allowance for impairment
- investments
- purchases and payments
- payroll
- treasury
- regulatory framework
- general IT controls.

The audit included consideration of the work undertaken by HomeStart's internal audit function. Internal audit activities have been reviewed to assess the risks of material misstatement in the financial report and to design and perform audit procedures.

Audit findings and comments

Assessment of controls

In my opinion, the controls exercised by HomeStart Finance in relation to the receipt, expenditure and investment of money, the acquisition and disposal of property and the incurring of liabilities are sufficient to provide reasonable assurance that the financial transactions of HomeStart Finance have been conducted properly and in accordance with law.

Communication of audit matters

Matters noted during the course of the audit were outlined in a management letter to the Chair of the HomeStart Audit Committee. The matters related to opportunities for improvement in the general control environment and were responded to by HomeStart.

The matters raised were opportunities to enhance the security settings for aspects of the Front End Loans and payroll systems.

HomeStart advised that it was working with the software providers of the systems to address the matters raised.

Interpretation and analysis of the financial report

Highlights of the financial report	2015 $'million	2014 $'million
Interest income	106	113
Interest expense	(50)	(54)
Net interest income	56	59
Other income	13	15
Other expenses	(26)	(29)
Government guarantee fee	(27)	(28)
Profit (Loss) before income tax equivalents	16	17
Income tax equivalents expense	(5)	(5)
Profit (Loss) after income tax equivalents expense	11	12
Other comprehensive income	-	-
Total comprehensive result	11	12

	2015 $'million	2014 $'million
Assets		
Loans and advances	1 734	1 798
Other assets	126	130
Total assets	1 860	1 928
Liabilities		
Borrowings	1 666	1 737
Other liabilities	21	22
Total liabilities	1 687	1 759
Total equity	173	169

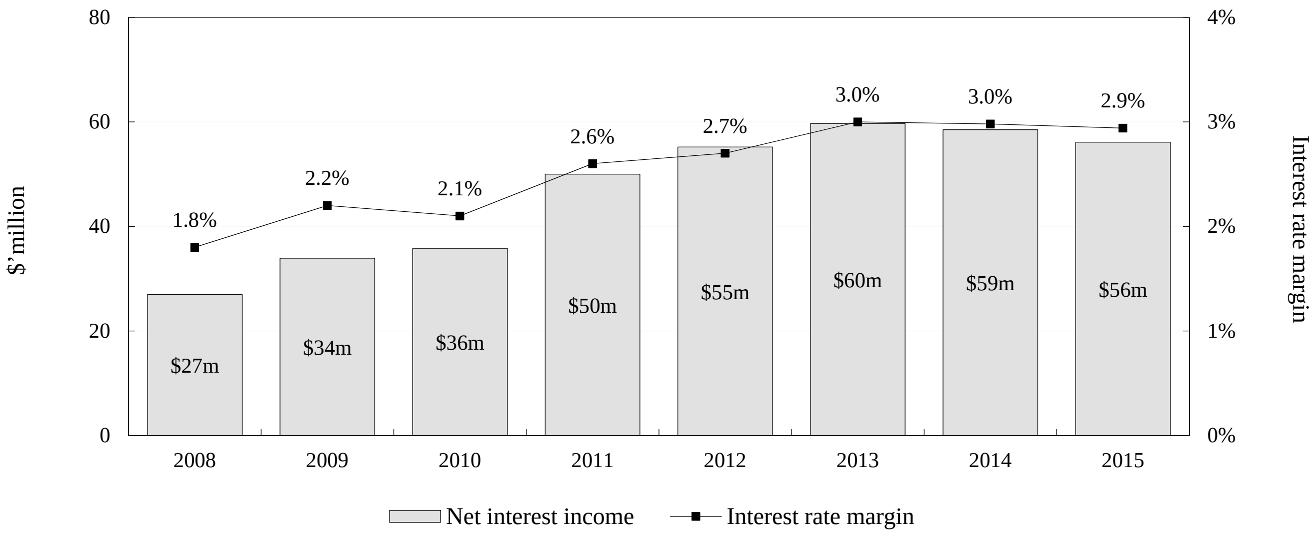
Statement of Profit or Loss and Other Comprehensive Income

Profit for the year

Profit before income tax equivalents decreased by $1.4 million to $15.6 million ($17 million). The analysis below outlines the main factors contributing to this result.

Net interest income

The following chart compares the net interest income to the interest rate margin between loans and cost of funds.



Net interest income decreased by $2.4 million (4%) to $56.1 million. The decrease mainly reflects a 3.5% decrease in net loans and advances during the year.

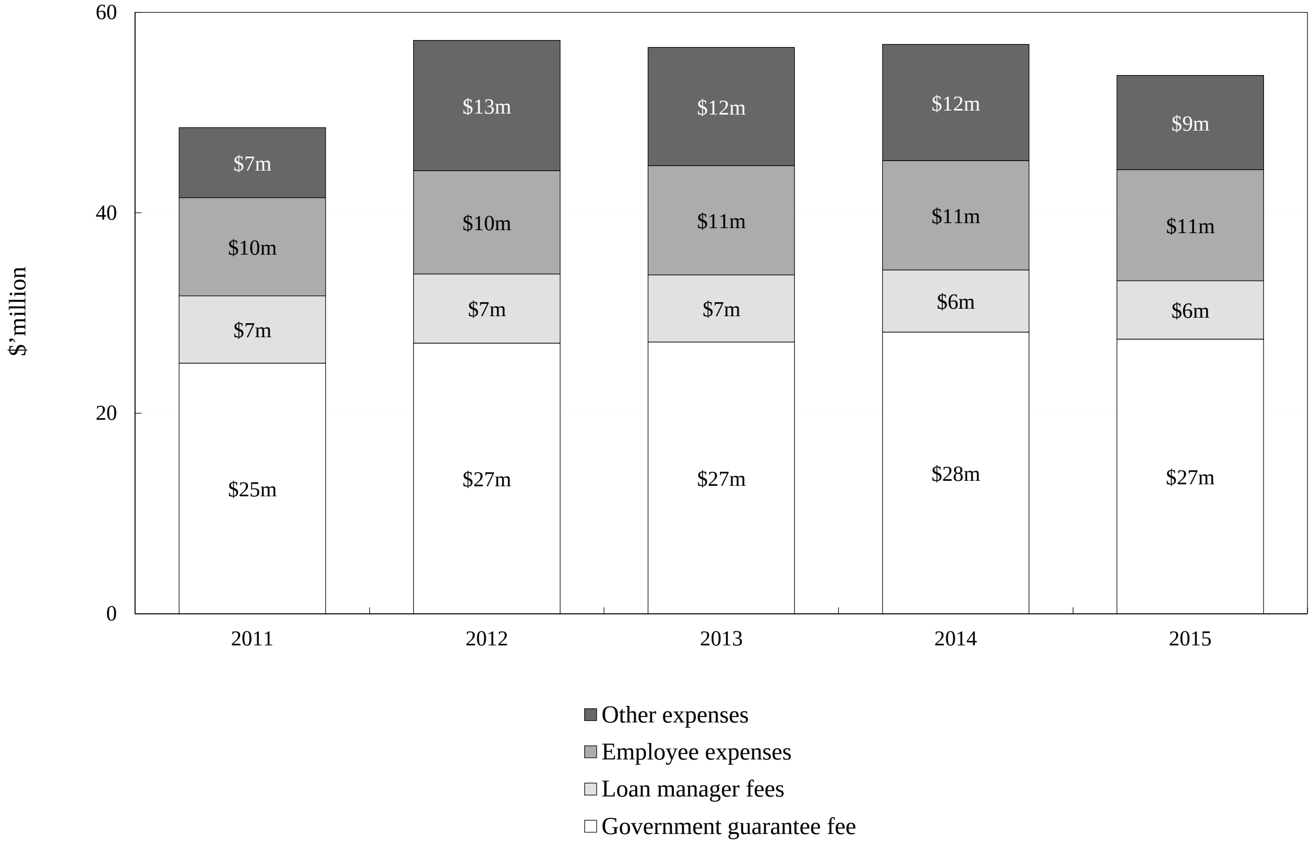
The chart shows the interest rate margin between loans and cost of funds increased significantly between 2010 and 2013, and has remained stable in 2014 and 2015. The large increase in the margin in 2011 was necessary to cover the increase in the Government guarantee fee rate that occurred in that year.

Other income

Other income decreased by $2.1 million to $13.2 million due mainly to a lower level of income being recognised for the change in the fair value of the shared appreciation component of breakthrough loans. Income of $565 000 was recognised in 2015, compared to income of $2.4 million reported in 2014. The lower level of income reflects the slower growth in general housing values in 2015. Further analysis on the breakthrough loans is provided below.

Expenses other than interest

The movement in expenses other than interest over the last five years is illustrated in the following chart.



Expenses have generally remained stable since 2012. The main movement in 2015 was a reduction of $2.1 million in other expenses, principally as a result of:

- a $2.2 million reduction in the expense associated with the movement in the provision for impairment
- a $538 000 reduction in the bad and impaired loans expense
- an increase in the depreciation and amortisation expense of $905 000 due to the decommissioning of HomeStart's old office accommodation and amortisation of the Front End Loans system for the full year.

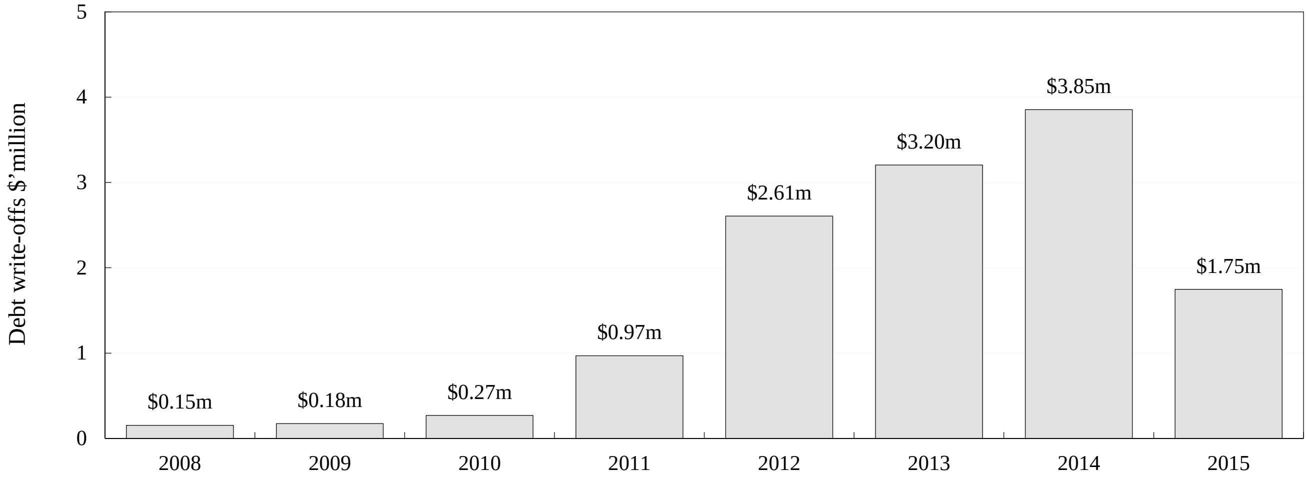
Further analysis on the movements in the bad and impaired loans expense is provided below.

The Government guarantee fee rate remained unchanged between 2011 and 2013 at 1.5%, with the increase in expense during 2013 a result of a higher level of borrowings. In 2014 the Government guarantee fee increased by $1 million due to an increase in the Government guarantee fee rate to 1.6%, equating to $1.8 million, which was offset by reduced borrowings. In 2015 the Government guarantee fee rate remained at 1.6%, with the expense decreasing by $719 000 due to a further reduction in borrowings.

Bad and impaired loans expense

The bad and impaired loans expense for the year was $1.5 million ($4.2 million).

The total provision for impairment as at 30 June 2015 was $18 million ($18.3 million). The following chart shows the actual debt write-offs through the provision and the Statement of Comprehensive Income for the last eight years.



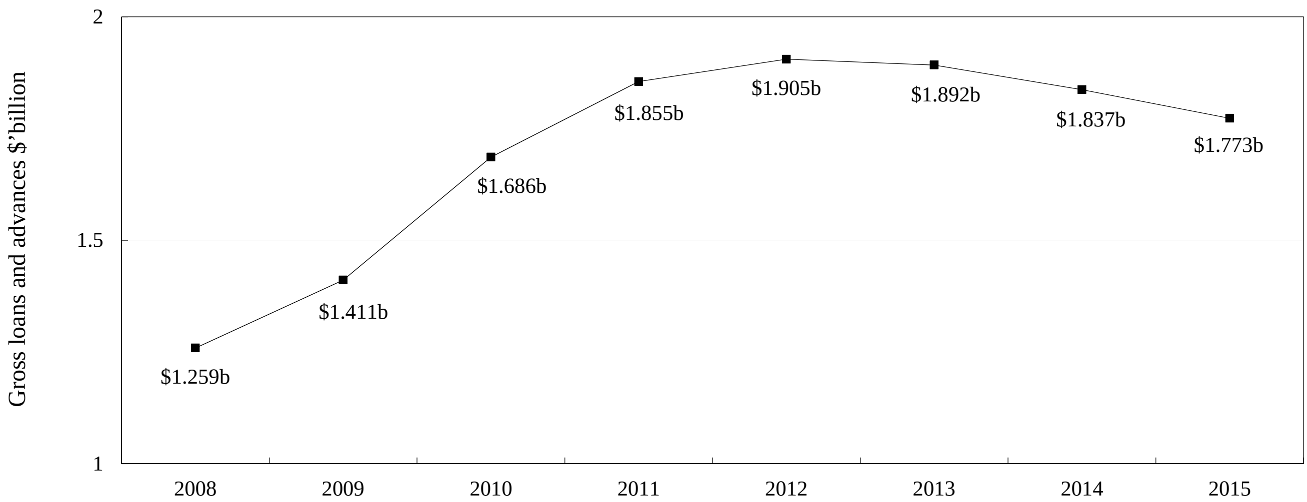
The chart shows that for the period to 2010 actual debt write-offs were at low levels due to positive economic conditions, particularly the strong property market. The years from 2011 to 2014 show an increasing level of actual bad debts, reflecting the softer property market and increasing loan portfolio. The reduction in bad and impaired loans expense and bad debts written off in 2015 is partly attributable to a change in the approach to the recognition of unearned income for impaired loans. The change in provisioning is discussed further under 'Statement of Financial Position' below.

Statement of Financial Position

Loans and advances

As at 30 June 2015 gross loans and advances amounted to $1.8 billion, a decrease of $64 million from the previous year.

The following chart shows the value of gross loans and advances over the past eight years.



HomeStart had a significant increase in the value of lending over the period to 2012, which reflects a range of factors including:

- approval from the State Government for HomeStart to grow its asset base
- market acceptance of new products

- the increase in the average value of loans settled in line with the general increase in property values
- additional first home owner incentive grants from the Commonwealth and State Governments from 2009 to 2011
- a reduction in the number of non-bank lenders and tighter lending practices by other financial institutions.

The decrease in gross loans since 2012 is a result of a number of factors:

- higher levels of loan discharges through refinancing, driven by lower market interest rates from other lenders, particularly for fixed rate loans
- higher levels of loan repayments and discharges as lower interest rates allow faster repayment of outstanding principal amounts
- uncertain economic conditions.

Breakthrough loans

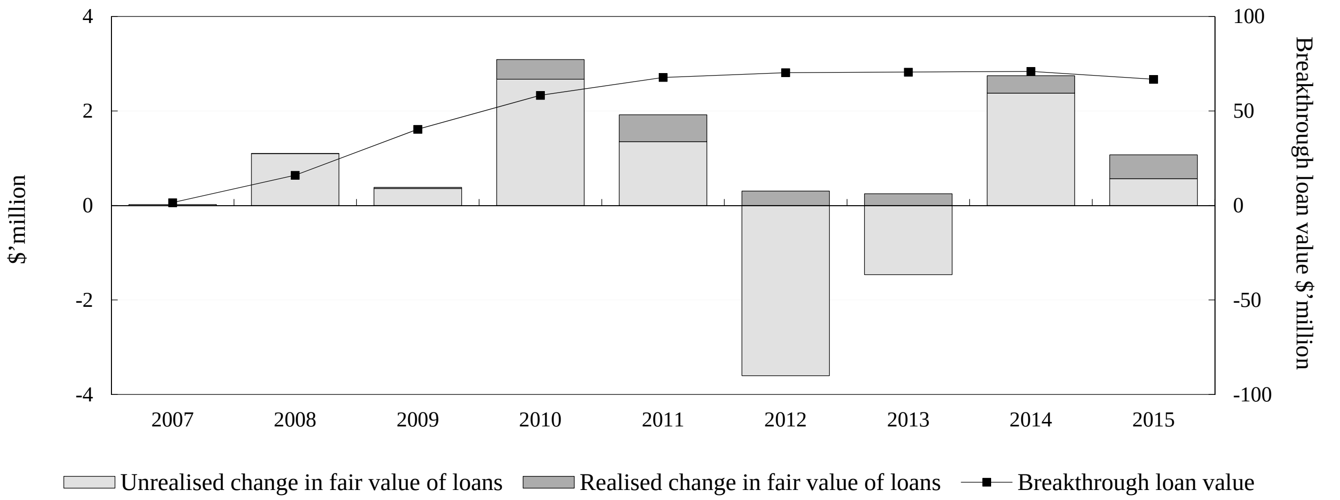
HomeStart offers a breakthrough loan facility to customers, which consists of two components:

- a standard loan component with standard interest rates and repayments. This portion is included within normal loans and advances
- a shared appreciation component where the loan is repaid along with a percentage of the increase in property value when the property is sold (refer note 2.10.4.1 of the financial report).

The value of the shared appreciation component of breakthrough loans was $66.7 million ($70.9 million) at 30 June 2015. HomeStart recognises this component at market value in the Statement of Financial Position based on valuations of the properties concerned (refer note 14 of the financial report). Refer to further commentary under ‘Investments’ below.

In 2015 a net $1.1 million gain ($2.7 million gain) was recognised for this product comprising a $565 000 gain ($2.4 million gain) recognised from revaluation and a $507 000 gain ($372 000 gain) recognised on discharge of breakthrough loans. The movement in the value of the shared appreciation component, and the impact of these loans on the operating result, follows general property market movements for the areas in which the properties are located.

The chart below shows the impact of the breakthrough loans on the operating result of HomeStart and the total value of loans since their introduction in 2007.



HomeStart has specific risk management strategies in place for breakthrough loans, recognising the impact that the shared appreciation component has on the operating result. One of those strategies is placing a cap on the total value of breakthrough loans that will be written or outstanding at any given time.

Provisions for impairment

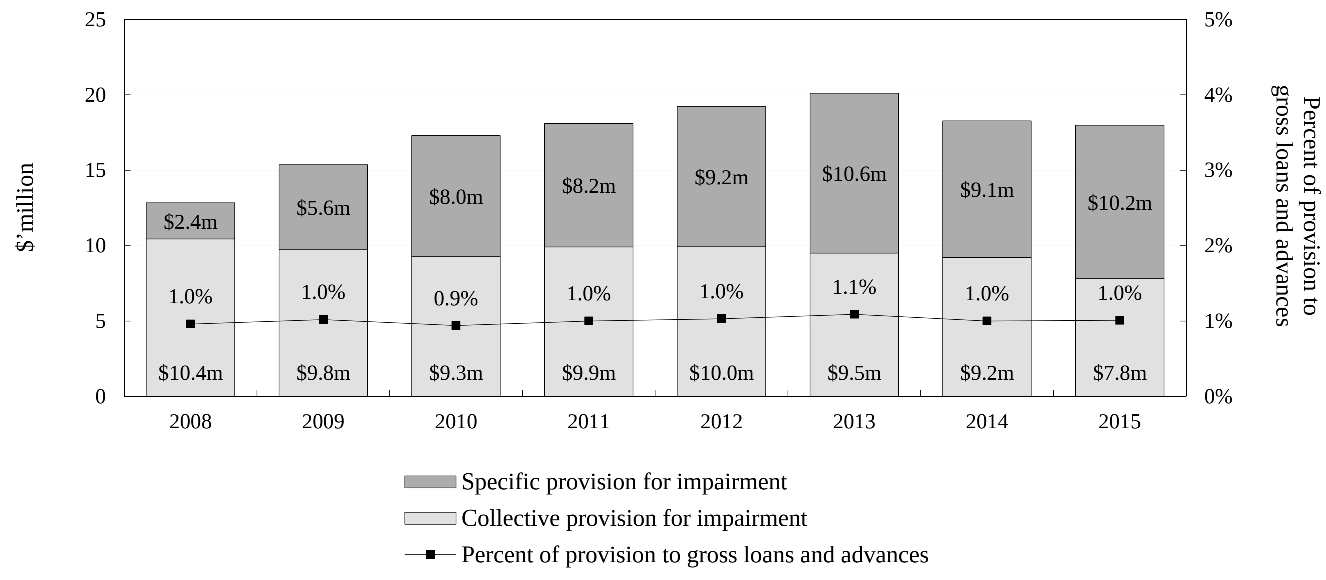
HomeStart assesses at each balance date whether there is objective evidence that a financial asset or a portfolio of financial assets is impaired. Note 2.10.3 of the financial report details HomeStart's policies for determining the provision for impairment.

The total provision for impairment has decreased by $287 000 to $18 million. The total provision for impairment has two components:

- The specific provision – representing loans and advances that are individually assessed as impaired. As at 30 June 2015 this was $10.2 million ($9.1 million).
- The collective provision – this arises where HomeStart determines that no objective evidence of impairment exists for an individually assessed financial asset. As at 30 June 2015 this was $7.8 million ($9.2 million). To calculate this provision, assets are included in a group of financial assets with similar credit risk characteristics and collectively assessed for impairment.

The specific provision for 2014 has been restated for a change in accounting treatment. HomeStart no longer recognises income from interest earned on individual loans that are assessed as impaired. This has decreased the previously reported specific provision for 2014 by $2.1 million from $11.2 million to $9.1 million. HomeStart made this change following analysis of past experience in recovering interest earned on impaired loans. It is consistent with general industry practice.

The following chart shows the level of the total provisions and their composition over the past eight years.



The chart shows the overall level of provisioning has remained at a similar proportional level to the total loans and advances across the years.

The chart also shows that over the period up to 2013 the biggest component of the total provision was the collective provision. In 2015, while the overall provision has only reduced marginally, the proportions have changed with the collective provision decreasing and the specific provision increasing.

While there has been a decrease in arrears levels for loans with less than three instalments outstanding, driving the reduction in the collective provision, there was an increase in arrears levels exceeding three instalments during 2015. Increased arrears levels of over three instalments and an increase in loans being subject to collection action during the year have resulted in the increased specific provision at 30 June 2015.

General reserve for credit losses

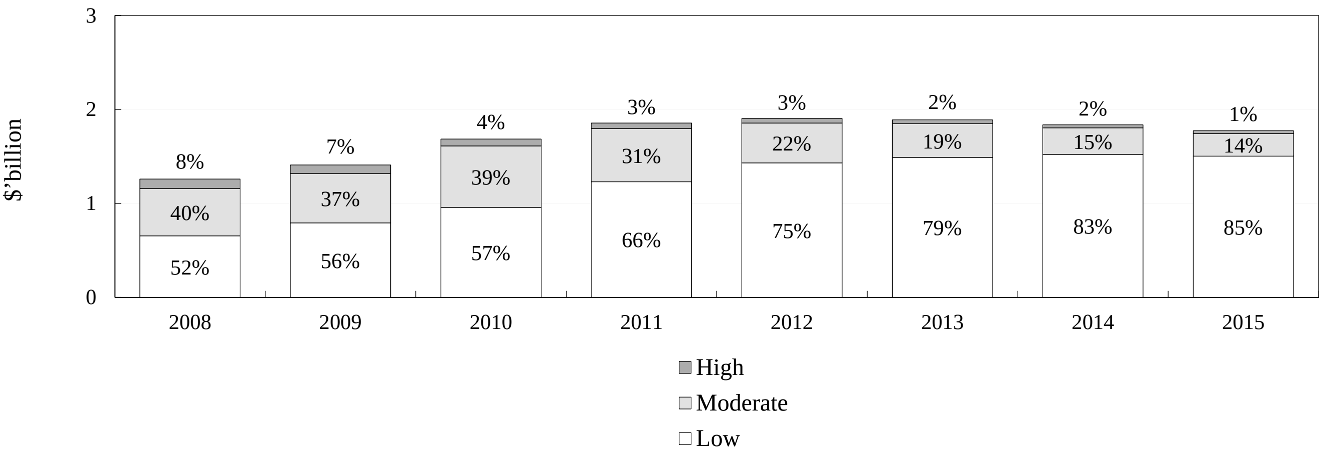
The general reserve for credit losses is used to set aside additional funds in excess of the specific and collective provisions determined under AASB 139 'Financial Instruments: Recognition and Measurement'. The maintenance of this reserve is consistent with the Australian Prudential Regulation Authority prudential risk management requirement of retaining sufficient retained earnings for capital adequacy purposes.

The balance of the reserve at 30 June 2015 was $7.5 million ($7.8 million).

The combined provisions for impairment and general reserve for credit losses take the total amount set aside for potential losses to $25.5 million ($26 million), representing 1.4% (1.4%) of gross loans and advances.

Loan quality

HomeStart has assessed the gross value of loans and advances to customers by credit risk grading (refer note 33.2.1(d) of the financial report). The following chart summarises that assessment.



The chart shows the proportion of high and moderate credit risk category loans has reduced over time, with the majority of loans written now assessed as low credit risk.

Investments

HomeStart's financial investments amounted to $117 million ($120 million).

The shared appreciation component of the breakthrough loan product amounted to $66.7 million ($70.9 million) or 57% (59%) of total financial investments. The discharge of the breakthrough loans is at the discretion of the property owner through refinancing or sale. Consequently, HomeStart cannot liquidate these investments to meet any future potential funding requirements.

The remaining financial investments include term deposits $28.5 million ($18 million), unit trusts $7 million ($13.6 million), bonds $12 million ($12 million) and an investment in the South Australian Government Financing Authority cash management fund of $2.5 million ($5.4 million).

Liabilities

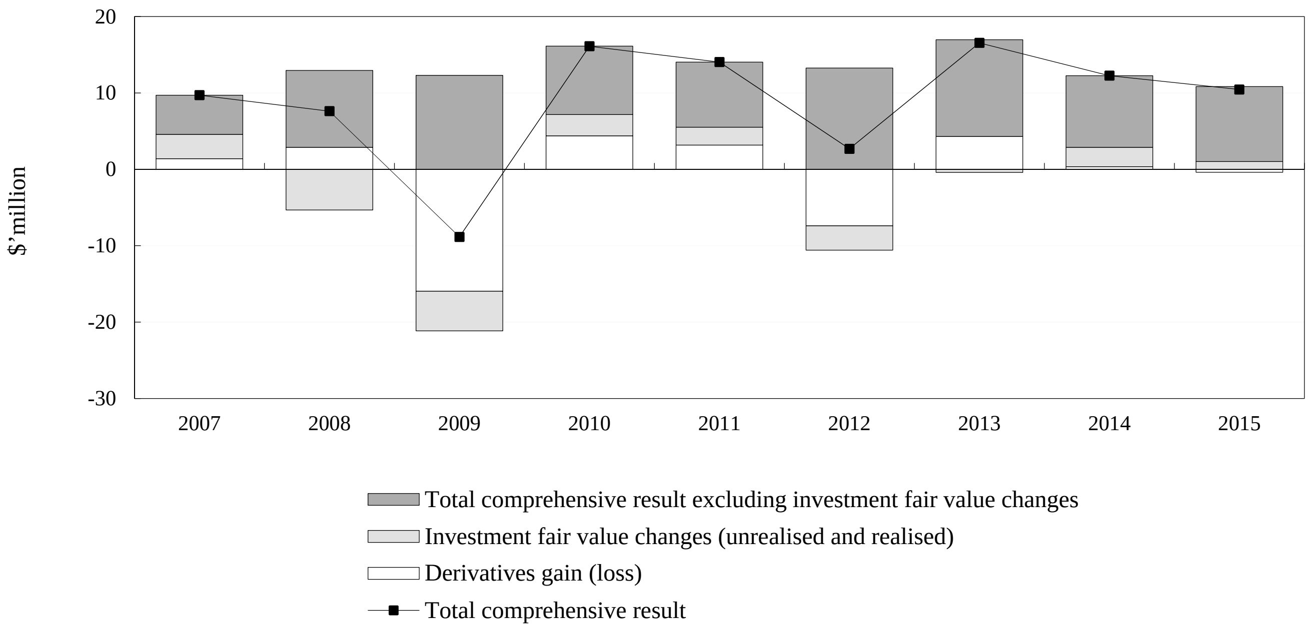
Borrowings at 30 June 2015 were $1.7 billion ($1.7 billion) and represent 99% (99%) of HomeStart's liabilities. HomeStart is required to use the South Australian Government Financing Authority as its sole counterparty for all funding transactions. At 30 June 2015, HomeStart was restricted by a current approved borrowing limit of $2.1 billion ($2.1 billion). Note 33.3 of the financial report provides information on HomeStart's exposure to liquidity risk.

Fair value and comprehensive result

HomeStart recognises derivatives and certain investments, including the breakthrough loan product, at fair value. The changes in market value of these items can significantly impact HomeStart's Statement of Financial Position and Statement of Comprehensive Income.

Derivatives are used to hedge changes in interest rate risks. Whilst these hedges remain effective (as defined by the accounting standards), changes in the fair value of hedges do not affect profit as they are recognised in the derivatives valuation reserve within equity. However, the realised and unrealised changes in investments at fair value are recorded in other expenses or income in the Statement of Comprehensive Income.

The impact of all these changes is included in the total comprehensive result reported in the Statement of Comprehensive Income. HomeStart's total comprehensive result decreased by $1.8 million to $10.5 million. The table below shows the impact of the changes in the fair value of derivatives and investments on HomeStart's total comprehensive result since 2007.



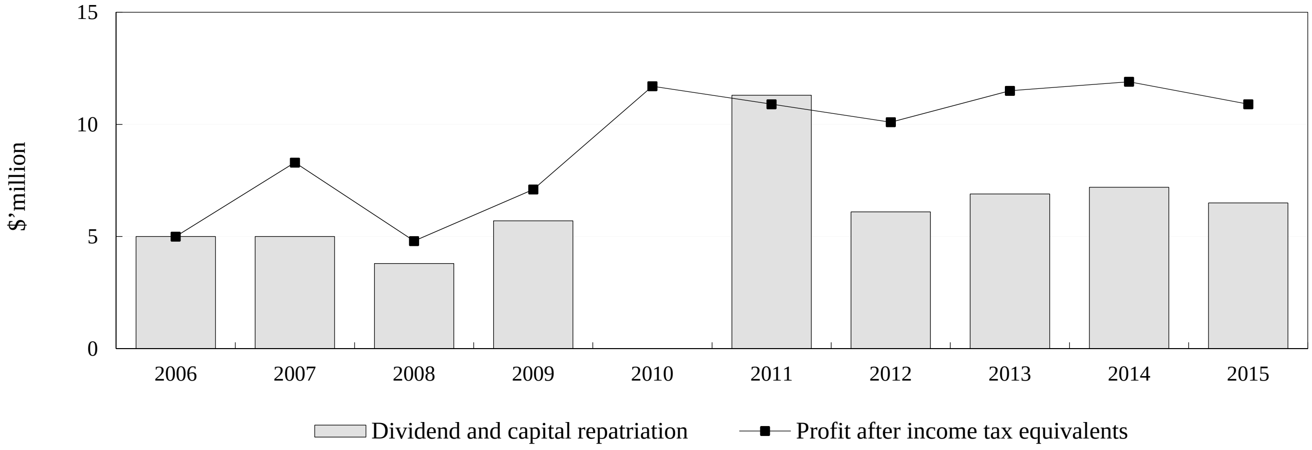
The total comprehensive results for 2008 and 2009 principally reflect the global financial crisis and the resultant downturn in interest rates and equities markets.

The total comprehensive result in 2012 reflects the fair value loss for the breakthrough loans.

It is important to appreciate that the financial report combines the financial assets and financial liabilities measured at either fair value or at cost. Note 34.1 of the financial report shows the fair value of net financial assets is $171.8 million ($163.1 million), while the carrying value of net financial assets is $171.9 million ($169.3 million). The reduction in the margin between fair value and carrying value is mainly due to a general reduction in interest rates and the volume of fixed rate interest loans.

Distributions to government

The following chart shows profit after income tax equivalents and distributions made for the past 10 years, highlighting the sustained profit performance of HomeStart over that period.



In 2015 HomeStart's dividend was $6.5 million ($7.2 million). HomeStart recommended the dividend based on 60% of after tax profit. The 2011 dividend effectively comprised the dividends for 2010 and 2011. The dividend for 2010 was $0 because the appropriate approvals to declare a dividend had not been given as at 30 June 2010.

The payment of dividends and the repatriation of capital, as occurred prior to 2007, reduces the level of interest free capital available to HomeStart. HomeStart's retained earnings as at 30 June 2015 increased to $171.3 million ($166.7 million).

In addition to dividends HomeStart also pays guarantee fees and income tax equivalents.

In return for providing certain categories of loans, HomeStart also receives community service obligation (CSO) funding.

The following table summarises these transactions with the Government for the four years to 2015.

	2015 $'million	2014 $'million	2013 $'million	2012 $'million
Government				
Dividend	7	7	7	6
Tax	5	5	5	4
Government guarantee fee	27	28	27	27
Total to Government	39	40	39	37
CSO income	(6)	(5)	(5)	(9)
Net amount provided to Government	33	35	34	28

The table shows the net amount provided to the Government has remained consistent over the past three years. In 2012 HomeStart received additional CSO funding to meet its operating target level of return on capital. This is further discussed under 'HomeStart operating parameters' below.

On 24 July 2015 the Minister for Housing and Urban Development wrote to the Chair of the HomeStart Board asking the Board to recommend whether an interim dividend of $20 million should be paid. The $20 million figure was determined by the Government based on HomeStart having sufficient capital to meet all agreed operating and gearing targets. Accordingly, at its August 2015 meeting, the Board recommended payment of the dividend to the Minister as discussed in note 35 of the financial report. This will, once approved by the Minister, be paid out of retained earnings in the 2015-16 financial year.

Statement of Cash Flows

Net cash flows

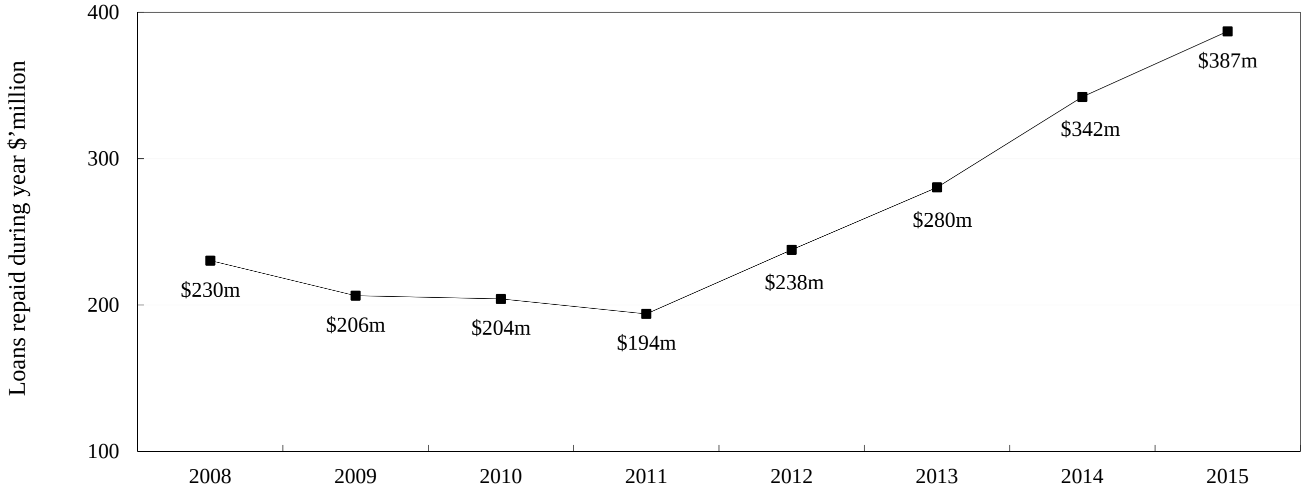
The following table summarises the net cash flows for the four years to 2015.

	2015 $'million	2014 $'million	2013 $'million	2012 $'million
Net cash flows				
Operating	6	8	9	10
Investing	71	61	11	(56)
Financing	(78)	(70)	(19)	45
Change in cash	(1)	(1)	1	(1)
Cash at 30 June	2	3	4	3

Investing activities relate primarily to the provision of loans to customers. In 2015 there was a net $67.5 million cash inflow ($56.6 million cash inflow) for customer loans, and this corresponded to the decrease in gross loans and advances. The decrease in investing activities resulted in a lower financing requirement, with financing cash flows reflecting a $70.7 million decrease ($62.4 million decrease) in net borrowings.

Customer loans repaid

The repayment of customer loans is shown in the chart below.



Customer repayments have increased substantially from 2012 to 2015. The increase is due largely to the reduction in interest rates resulting in:

- customers choosing to repay more debt or refinance with other institutions to take advantage of more suitable loan arrangements
- fixed repayment loan products repaying proportionately more principal.

HomeStart operating parameters

Cabinet approved revised operating parameters for HomeStart in April 2012. The purpose of reviewing the parameters was to enable a higher degree of certainty in HomeStart's business operations and delivery of home ownership opportunities.

Cabinet also approved HomeStart preparing a charter and performance statement, to be approved annually by the Treasurer and the Minister for Housing and Urban Development. The charter and performance statement for 2014-15 were approved in June 2014.

Performance targets

HomeStart's performance targets compared to actual results are detailed below.

	Cabinet approved operating parameters	Performance statement target for 2015	2015 result	2014 result
Operating profit before tax	n/a	$17.6 million	$15.6 million	$17 million
Return on equity	9%	10.3%	9.09%	10.2%
Cost to income ratio	55% by 2015-16	52.9%	59.3%	53.3%
Capital adequacy ratio	12%	14%	16.9%	15%

To enable HomeStart to meet the return on equity target of 9%, the April 2012 Cabinet approval included a new CSO payment which is to phase out over time. No CSO receipts of this type have occurred since $4.4 million was received in 2012.

The cost of income ratio for 2015 includes the impact of relocation costs.

Significant factors contributing to HomeStart's above-parameter return on equity in 2014 and 2015 were the strong net interest income and the continuing gains in the fair value of the breakthrough loan product, as previously discussed.

Dividend payout ratio

Cabinet approved a dividend payout ratio of 60%, based on after tax profit. The Treasurer approved a dividend based on this ratio in June 2015 (refer note 25 of the financial report).

Borrowing limit

In April 2012 Cabinet approved increased borrowing limits for HomeStart, to a maximum of $2.5 billion in 2016, subject to the Treasurer's approval. These increases were to reflect the projected long-term house price growth rate.

The borrowing limit approved by the Treasurer was increased to $2.105 billion from 1 July 2012 and has not changed since then.

Further commentary on operations

Financial risks

Note 33 of the financial report provides information on HomeStart's financial risk management activities including detailed information on credit, liquidity and market risk exposures.

The nature of HomeStart's business is such that it carries a higher inherent risk in its loan portfolio than is typically found in home loan portfolios. Some factors contributing to this risk are:

- generally customers have lower incomes and borrow a greater percentage of their home value
- a significant concentration of lending in regional South Australia and outer metropolitan suburbs
- customers are not required to take out mortgage insurance because HomeStart self-insures losses incurred.

In recognition of these circumstances, HomeStart:

- makes a provision for impairment where there is doubt about the recoverability of loans
- retains capital in the event of significant losses arising from loan defaults.

Independent Commissioner Against Corruption

Functional responsibility	The Independent Commissioner Against Corruption (the Commissioner) and the Office for Public Integrity (the OPI) are established pursuant to the *Independent Commissioner Against Corruption Act 2012*. The activities of both the Commissioner and the OPI are included in the financial report as they constitute a single entity (the Independent Commissioner Against Corruption (ICAC)) for financial reporting purposes. The primary functions of the Commissioner are to identify and investigate corruption in public administration and prevent or minimise corruption, misconduct and maladministration in public administration through referral of potential issues, education and evaluation of practices, policies and procedures. The primary function of the OPI is to receive and assess complaints and reports about public administration, corruption, misconduct and maladministration and to make recommendations for the action to be taken on those complaints and reports. Note 1 of the financial report further explains the objectives and functions of the Commissioner and the OPI.
Financial statistics	Net cost of providing services: $8 million Total appropriation: $11 million Number of FTEs: 40
Financial statement opinion	**Unmodified**
Financial controls opinion	**Unmodified**

Scope of the audit

The audit program covered major financial systems and was directed primarily to obtaining sufficient evidence to enable an opinion to be formed with respect to the financial report and internal controls.

During 2014-15 specific areas of audit attention included:

- governance
- legislative compliance
- expenditure
- payroll
- revenue
- cash
- general ledger journal processing.

Audit findings and comments

Assessment of controls

In my opinion, the controls exercised by the Independent Commissioner Against Corruption in relation to the receipt, expenditure and investment of money, the acquisition and disposal of property and the incurring of liabilities are sufficient to provide reasonable assurance that the financial transactions of the Independent Commissioner Against Corruption have been conducted properly and in accordance with law.

Communication of audit matters

A management letter to the Commissioner indicated the results of the audit were satisfactory, however scope for improvement was noted in one area.

We identified that some policies with annual review dates were not reviewed and updated within the established timeframe, while some procedures did not have identified dates for review.

The Commissioner's response indicated that rolling reviews will be performed to ensure review dates for policies and procedures align with guidance in the Financial Management Toolkit issued by the Department of Treasury and Finance. A review of polices with review dates that have passed had been undertaken and administrative procedures have been updated to include review dates.

Shared Services SA – financial systems and transaction processing environments

Shared Services SA (SSSA) processes financial transactions on behalf of ICAC under service level determinations. The main systems and control environments include accounts payable, payroll and general ledger financial functions.

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

As discussed in the commentary under 'Department of the Premier and Cabinet' elsewhere in Part B of this Report, our review and evaluation of controls for the SSSA main payroll systems concluded that controls did not meet a generally satisfactory standard for 2014-15. A number of specific matters were raised with SSSA for corrective action and review for process and procedural improvement. Our review and evaluation of controls for the SSSA main accounts payable systems and environment concluded that controls met a generally satisfactory standard for 2014-15.

These matters do not relate to ICAC's transaction processing.

Interpretation and analysis of the financial report

Highlights of the financial report

	2015 $'million	01.09.13 to 30.06.14 $'million
Expenses		
Employee benefits expenses	5.0	3.7
Supplies and services	2.7	1.8
Other expenses	0.6	0.3
Total expenses	8.3	5.8
Income		
Donated assets	-	3.9
Total income	-	3.9
Net cost of providing services	8.3	1.9
Revenues from SA Government	10.6	8.2
Net result and total comprehensive result	2.3	6.3
Net cash provided by (used in) operating activities	2.6	7.4
Assets		
Current assets	5.5	4.4
Non-current assets	5.2	3.9
Total assets	10.7	8.3
Liabilities		
Current liabilities	1.0	1.1
Non-current liabilities	1.1	0.9
Total liabilities	2.1	2.0
Total equity	8.6	6.3

Statement of Comprehensive Income

The variances between the current and prior year are primarily attributable to the 2014 figures only representing a 10 month reporting period, commencing from the establishment of ICAC on 1 September 2013.

Expenses

The expenses of ICAC primarily relate to employee benefits expenses ($5 million) and supplies and services expenses ($2.7 million).

Employee benefits expenses of $5 million represent 60% of total expenses and comprise salaries and wages, employee on-costs and leave expenses (refer note 6 of the financial report). Employee benefits expenses have increased by $1.3 million in the current year. This increase is primarily due to the partial reporting period in the prior year and the engagement of additional employees for specific investigations during 2014-15.

Supplies and services expenses of $2.7 million represent 33% of total expenses and primarily relate to accommodation, information and communications technology and outsourced services expenses (refer note 7 of the financial report). Supplies and services expenses for the year increased by $904 000. This increase is mainly attributable to increases in accommodation costs ($218 000), contract staff ($167 000), outsourced services ($125 000) and legal fees ($149 000). The increase in accommodation costs is attributable to ICAC leasing additional floor space to accommodate new employees and facilities. The increase in contract staff is attributable to resources engaged for information and communications technology project management and support services. The increase in outsourced services and legal fees is associated with increased investigation activity compared to the prior year. Outsourced services expenses include professional fees for forensic analysis services.

Depreciation expenses have increased by $328 000 to $572 000 in the current year. This increase is primarily due to increases in depreciation on IT assets ($221 000), arising from significant IT asset additions and work in progress transfers during 2014-15. This included the establishment of a new ICAC network and a new e-crime lab. There was also an increase in leasehold improvements amortisation ($92 000) attributable to ICAC's expansion into new accommodation during 2014-15.

Income

The income of ICAC in the current year is solely comprised of sundry recoveries and appropriations from the SA Government.

Appropriations from the SA Government have increased by $2.4 million to $10.6 million. This increase is primarily attributable to the partial reporting period in the prior year.

The donated assets in the prior year relate to cash and property, plant and equipment transferred from the Attorney-General's Department to ICAC upon establishment of the agency on 1 September 2013.

Net result

The net result for the current year is $2.3 million, which is a $4 million decrease from the prior year ($6.3 million). The decrease in the net result is primarily due to the revenue reflected on the one-off transfer of donated assets from the Attorney-General's Department in 2013-14 ($3.9 million).

Statement of Financial Position

Assets

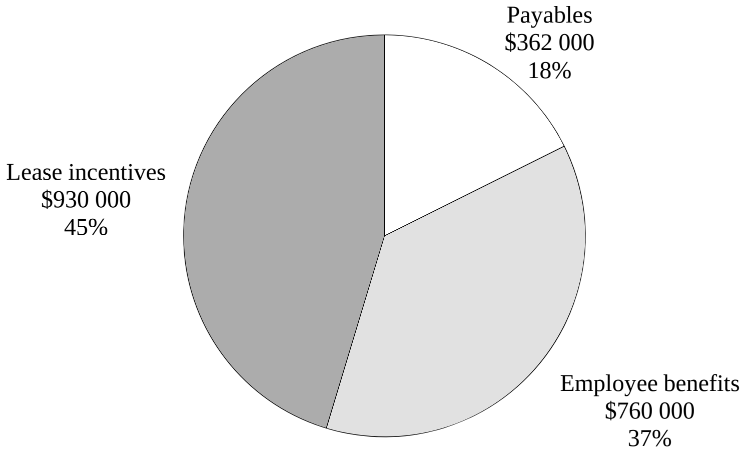
The assets of ICAC primarily relate to cash and cash equivalents ($5 million) and property, plant and equipment ($5.1 million). Cash and cash equivalents represent 47% of total assets and solely consist of deposits with the Treasurer. Property, plant and equipment represents 48% of total assets and primarily consists of leasehold improvements and IT assets.

Property, plant and equipment has increased by $1.3 million to $5.1 million in the current year. This increase is primarily attributable to leasehold improvement additions for additional office space ($1.4 million) and IT asset additions ($329 000), partly offset by depreciation for these asset categories ($304 000 and $224 000 respectively).

Additional IT assets of $1.1 million were also completed and transferred from capital work in progress during the year. This transfer consisted of the completed separate ICAC network and the new e-crime lab facilities.

Liabilities

The liabilities of ICAC are comprised of payables, employee benefits and other liabilities. The graph below highlights the percentage composition of ICAC's liabilities.



The other liabilities relate entirely to lease incentives for ICAC's accommodation. Total lease incentives have increased by $278 000 in the current year, owing to ICAC leasing additional space during 2014-15.

Statement of Cash Flows

Net cash provided by operating activities decreased by $4.8 million primarily due to the inclusion of $3.8 million of donated cash received in the prior year figure.

Net cash used in investing activities decreased by $1.2 million, which is principally attributable to a reduction in payments made for the purchase of property, plant and equipment ($1.9 million), partly offset by a reduction in cash received for lease incentives ($724 000).

Judges' Pensions Scheme

Functional responsibility	The Judges' Pensions Scheme (the Scheme) is a compulsory superannuation scheme established by the *Judges' Pensions Act 1971*. The Minister for Finance is responsible for administering the Scheme. The Department of Treasury and Finance – State Superannuation Office provides services to administer the Scheme. Note 1 of the financial report provides further details of the Scheme's administration and funding arrangements.
Financial statistics	Liability for accrued benefits: $206.1 million Excess of net assets over liabilities: $20.3 million Pensions paid: $9.9 million Number of pensioners: 60 Number of active members: 42
Financial statement opinion	**Unmodified**
Financial controls opinion	**Unmodified**

Scope of the audit

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

During 2014-15 areas of review included:

- receipting and banking of contributions
- pension payments
- liability for accrued benefits.

The investment and management of the Scheme assets is reviewed as part of the Superannuation Funds Management Corporation of South Australia audit.

Audit findings and comments

Assessment of controls

In my opinion, the controls exercised by the Judges' Pensions Scheme in relation to the receipt, expenditure and investment of money, the acquisition and disposal of property and the incurring of liabilities, are sufficient to provide reasonable assurance that the financial transactions of the Judges' Pensions Scheme have been conducted properly and in accordance with law.

Communication of audit matters

The audit did not identify any notable matters requiring formal communication.

Interpretation and analysis of the financial report

Highlights of the financial report

	2015 $'million	2014 $'million
Revenue		
Employer contributions	5.2	5.2
Investment revenue	22.4	28.9
Total revenue	27.6	34.1
Expenses		
Benefits	17.9	14.9
Other expenses	1.7	1.5
Total expenses	19.6	16.4
Operating result for the period	8.0	17.7
Net cash provided by (used in) operating activities	(5.1)	(4.2)
Assets		
Investments	226.0	210.2
Other assets	0.5	0.3
Total assets	226.5	210.5

	2015 $'million	2014 $'million
Liabilities		
Benefits and other payables	0.1	0.1
Total liabilities	0.1	0.1
Net assets available to pay benefits	226.4	210.4
Liability for accrued benefits	(206.1)	(198.1)
Excess of net assets over liabilities	20.3	12.3

Operating Statement

The operating result for the year was a surplus of $8 million ($17.7 million). The year's result took into account:

- returns on investments of $22.4 million ($28.9 million). Investment returns are further discussed in the audit commentary for 'Superannuation Funds Management Corporation of South Australia' elsewhere in Part B of this Report
- benefit expenses of $17.9 million ($14.9 million). Benefit expenses has increased as a result of the increase in the number of retired judges qualifying for benefit entitlements during the year.

Statement of Financial Position

As at 30 June 2015 there was an excess of assets over liabilities of $20.3 million ($12.3 million). The estimated liability for accrued benefits increased by $8 million to $206.1 million, for which assets of $226.4 million ($210.4 million) were available to pay benefits. Note 7 of the financial report explains how the liability for accrued benefits is calculated.

In comparison, vested benefits as at 30 June 2015 were $170.7 million ($144.1 million). Vested benefits represent benefits that members are entitled to receive had their membership been terminated at the reporting date. Vested benefits are less than accrued benefits as members are only entitled to a pension if they resign having attained the age of 60 with more than 10 years service or have attained the age of retirement with more than five years of service.

Further commentary on operations

Pensioners

The number of pensioners and pensions paid for the past four years were:

	2015	2014	2013	2012
Pensioners	60	59	61	58
Pensions paid ($'million)	9.9	9.3	8.5	7.9

Contributions by employers

The number of members and contributions received from employers for the past four years were:

	2015	2014	2013	2012
Active members	42	45	45	49
Contributions received ($'million)	5.2	5.2	5.2	5.1

Legal Services Commission

Functional responsibility	The Legal Services Commission (the Commission) is a body corporate established pursuant to section 6(1) of the *Legal Services Commission Act 1977* (the LSC Act). Section 6(3) of the LSC Act states the Commission is not an instrumentality of the Crown and is independent of the Government. The functions and principles of the Commission are detailed in sections 10 and 11 of the LSC Act. Core functions and principles include: — providing or arranging for the provision of legal assistance and determining the criteria under which that assistance is granted — ensuring legal assistance is provided in the most efficient and economical manner, and making the best endeavours to make legal assistance available to persons throughout the State.
Financial statistics	Net cost of providing services: $38.4 million SA Government grant: $18.2 million Commonwealth grant: $16.2 million Number of FTEs: 194.18 Number of in-house cases: 4912
Financial statement opinion	**Unmodified**
Financial controls opinion	**Modified** Key issues: — Strategic plan and risk treatments need updating — Rationale behind allocation of unclaimed work needs to be enhanced — Private practitioner invoicing and payment tasks are not segregated — LAW office system does not enforce delegations — Follow-up of outstanding employee attendance records and the bona fide review need improvement — Previously reported information and communications technology management and control matters unresolved

Scope of the audit

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

During 2014-15 areas of review included:

- revenue and receivables
- expenditure and accounts payable
- private practitioner services
- property, plant and equipment
- cash and cash equivalents
- employee benefits
- financial accounting
- governance
- information and communications technology (ICT).

Audit findings and comments

Assessment of controls

In my opinion, the controls exercised by the Legal Services Commission in relation to the receipt, expenditure and investment of money, the acquisition and disposal of property and the incurring of liabilities, except for all matters outlined under 'Communication of audit matters', are sufficient to provide reasonable assurance that the financial transactions of the Legal Services Commission have been conducted properly and in accordance with law.

Communication of audit matters

Matters arising from the course of the audit were detailed in a management letter to the Chairman. The main matters raised are detailed below.

Governance

Strategic plan needs updating

A strategic plan sets out the goals an agency wishes to achieve and allows it to benchmark its progress. The Commission's current strategic plan ended on 30 June 2013 and a new strategic plan was not finalised.

The Commission responded that the strategic plan has undergone an extensive review involving the staff, management and Commissioners of the Commission throughout 2014-15. The final version of the plan will be put before the Commissioners at the September 2015 meeting for resolution.

Risk treatments need updating

Our review of the Commission's risk register noted there were a number of risk treatments that needed updating. If risk treatments are not up to date then the identified risk may not be effectively monitored and mitigated.

The Commission believes the risk register is up-to-date and no further work is required.

Private practitioner services

Rationale behind allocation of unclaimed work needs to be enhanced

The Commission developed an 'Assigning Unclaimed Files' checklist to document key matters to be considered when determining which practitioner is allocated unclaimed files. We noted the checklist did not document reasons why one private practitioner is selected over another, if several private practitioners are suitable based on the key considerations on the checklist. If the reasoning is not documented there may be a perceived or actual bias in the allocation of work to private practitioners.

The Commission will develop a protocol to complement the checklist for assigning unclaimed files.

Private practitioner invoicing and payment needs to be segregated

We noted there were a number of tasks related to invoicing, payment and write-offs for private practitioners that should be segregated. If these tasks are not segregated there is a risk of incorrect or invalid payments or transactions being processed.

The Commission stated the current processes will be reviewed, but its ability to perform the tasks as requested is limited by staff numbers.

LAW Office system does not enforce delegations

LAW Office is used to raise commitment certificates, certify payments and waive/write-off debt for legal expenses. LAW Office contains financial limits for users that correspond to the Commission's Instrument of Financial Delegations. However, the system cannot enforce the delegations. Our review found there was no control to ensure that where delegations are exceeded, appropriate written authorisation was obtained. Therefore commitments, payments and waivers/write-offs may be processed without the appropriate approval increasing the risk of incorrect or invalid payments or transactions.

The Commission responded that it has investigated the possibility of changes to LAW Office and concluded it is too expensive to design an enhancement for this purpose. The Manager Assignments has instructed staff to always seek prior authorisation if a system message provides a warning of insufficient delegation.

Employee benefits

Follow-up of outstanding attendance records and the bona fide review need improvement

We noted the follow-up of outstanding employee attendance records and performance of the bona fide review could be improved. If these areas are not addressed there is a risk that invalid or inaccurate payroll payments may not be detected and corrected in a timely manner.

The Commission has considered our recommendations and, taking into account the management structure at the Commission and the lack of office managers at Commission sites, decided it will continue with its current processes.

Information and communications technology and control

As reported in last year's Report, the Commission has relocated to new premises and is transitioning its associated systems onto a new externally hosted ICT platform. The Commission is also continuing to address outstanding ICT management and control matters previously reported. These included updating the 2012-13 ICT strategic plan, IT security policies and procedures, and finalisation of business continuity and disaster recovery plans.

In 2014-15, the Commission continued to improve processes and the management of information security controls. It initiated a number of reviews regarding user access profiles, virtualisation of the Commission's IT infrastructure and the transition to an externally hosted ICT platform.

Matters that required remediation include:

- continuing the development of the information security management system
- initiating an appropriate data classification
- developing a post implementation contract management strategy
- strengthening contract management to ensure that service provider security environments surrounding the Commission's data are robust
- ensuring that service providers security coverage is International Organization for Standization compliant
- progressing development of business continuity and disaster recovery plans and processes
- continuing to update previously identified IT security matters including the IT strategic plan, and security policies and procedures.

The Commission has responded positively and anticipates the completion of remediation actions for matters identified above by 30 June 2016.

Interpretation and analysis of the financial report

Highlights of the financial report

	2015 $'million	2014 $'million
Expenses		
Employee benefits expenses	18.4	18.0
Private practitioner services (including expensive cases)	18.4	18.3
Other expenses	7.4	8.1
Total expenses	44.2	44.4
Income		
Legal Practitioners Act 1981 revenue	2.9	2.6
Other income	2.9	3.0
Total income	5.8	5.6
Net cost of providing services	38.4	38.8
Revenues from governments		
Commonwealth Government	16.2	17.3
State Government	18.2	20.6
Total revenues from governments	34.4	37.9
Net result and total comprehensive result	(4.0)	(0.9)
Net cash provided by (used in) operating activities	(3.7)	3.5
Assets		
Current assets	14.3	18.2
Non-current assets	11.8	12.3
Total assets	26.1	30.5

	2015 $'million	2014 $'million
Liabilities		
Current liabilities	2.8	3.1
Non-current liabilities	6.5	6.6
Total liabilities	9.3	9.7
Total equity	16.8	20.8

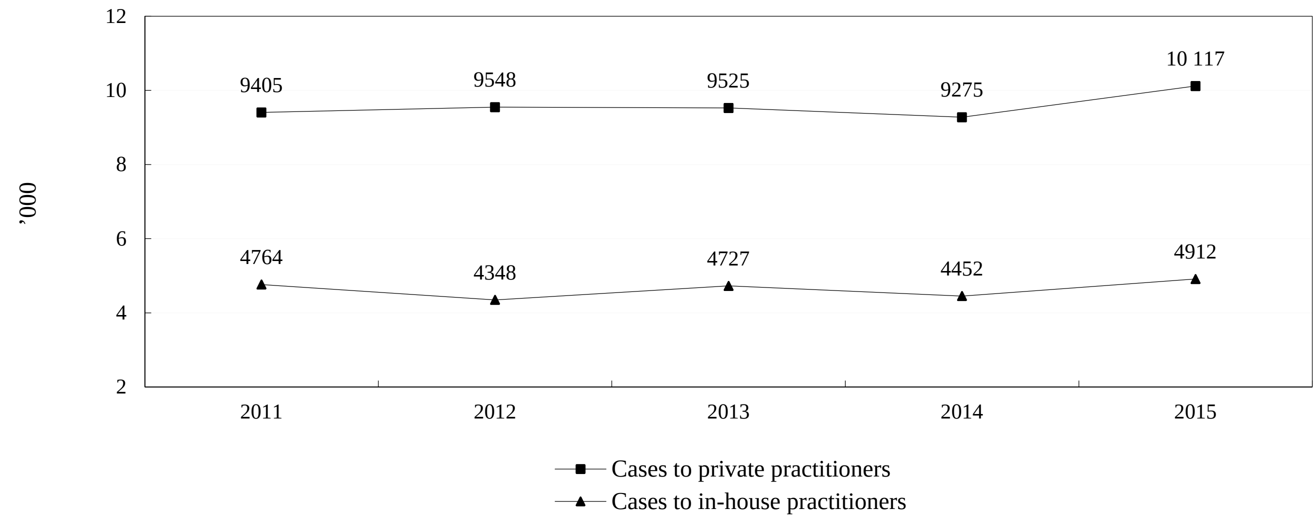
Statement of Comprehensive Income

Operating expenses

Referrals to private and in-house practitioners

Legal aid is provided by either the Commission's practitioners or by private practitioners.

The following chart details the split between approved cases assigned to private and in-house practitioners over the past five years. This data was provided by the Commission and is unaudited.



Applications assigned to in-house practitioners totalled 4912 (4452) cases or 33% (32%) of new case applications approved. Private practitioner assigned cases totalled 10 117 (9275) or 67% (68%) of new case applications approved. Fees to private practitioners for these cases (private practitioner services) amounted to $18 million ($17.8 million) and comprised 41% (40%) of total Commission expenditure.

In interpreting the relationship between case numbers and the cost of representation, the Commission has advised that a grant of legal aid for serious crime matters has a significant time lag, generally in excess of one year, before actual costs are incurred. Therefore, timing differences between the case numbers reported and the reporting of the costs associated with those cases may occur.

Note 22(a) of the Commission's financial report sets out legal expense commitments on legal cases referred to private practitioners.

Income

Commonwealth and State Government funding

Commonwealth and State Government grant payments to the Commission form part of the administered activities of the Attorney-General's Department. The Attorney-General's Department initially receives the annual grant funding from the Commonwealth which, together with the State Government component, is paid to the Commission.

Commonwealth Government grants

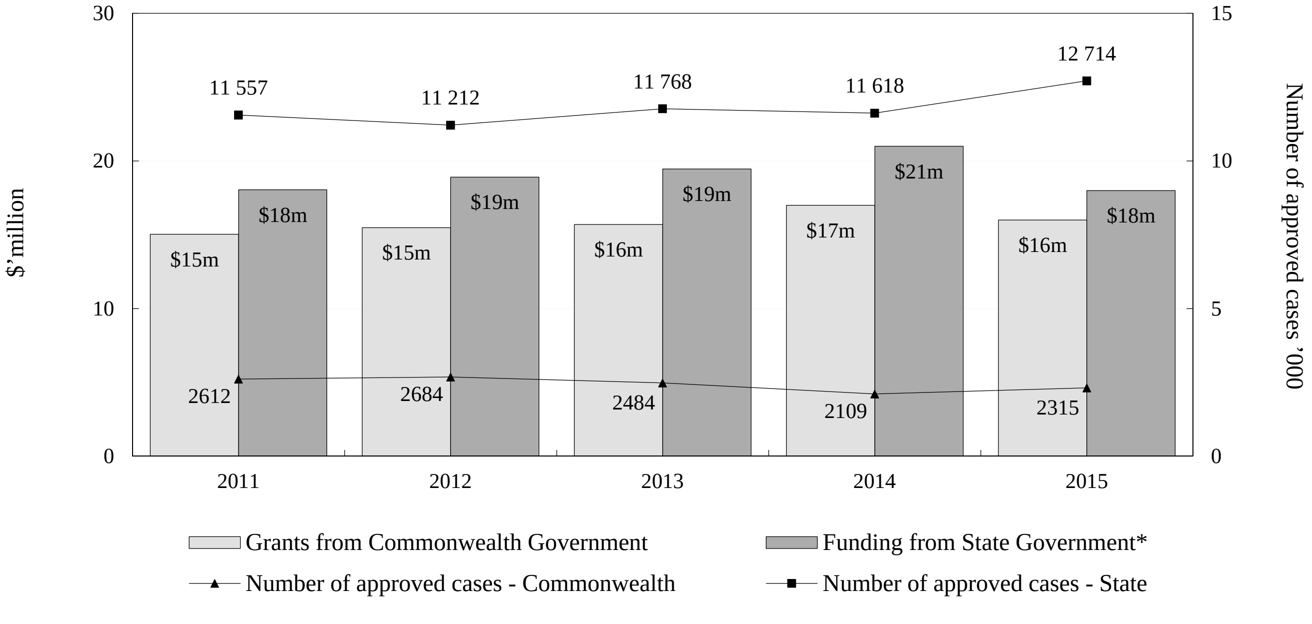
Legal assistance is provided in South Australia for matters arising under Commonwealth law. The matters are predominantly in the area of family law and, to a lesser extent, criminal and specific civil matters. In meeting the cost of providing this legal aid, the Commission receives funding from the Commonwealth Government under an agreement between the Commonwealth and State Governments. Grants received must be expended in accordance with the agreement.

Grants from the Commonwealth Government totalled $16.2 million ($17.3 million) and comprised 40% (40%) of total Commission revenue. In 2013-14 additional funding of $1.2 million was received under a separate grant agreement entered into by the Commission with the Commonwealth in July 2013 (refer note 13 of the financial report).

State Government funding

The amount of State Government funding provided is determined through the budgetary processes of the SA Government. The State Government funding received by the Commission is expended on State law matters which are predominantly criminal cases. Funding from the State Government totalled $18.2 million ($20.6 million) and comprised 45% (47%) of total Commission revenue.

The following chart illustrates, for the past five years, the amount of State and Commonwealth Government funding (not including expensive case funding) provided to the Commission. It also illustrates the number of approved cases that relate to Commonwealth and State funding.



* Excluding expensive case grants

Net result

The net result for 2014-15 was a deficit of $4 million compared with a deficit of $944 000 in 2013-14. The deficit is mainly attributable to decreased State Government funding ($2.4 million).

Statement of Cash Flows

The reduction in cash held by the Commission of $3.8 million reflects the decreased cash flows from the State and Commonwealth funding and other cash generated by operations while cash used in operations has remained steady.

The Legislature

Functional responsibility

The Legislature, for the purposes of this Report, comprises the:

- House of Assembly established under the *Constitution Act 1934*
- Legislative Council established under the *Constitution Act 1934*
- Joint Parliamentary Service (JPS) established under the *Parliament (Joint Services) Act 1985*.

The House of Assembly and the Legislative Council constitute the Parliament of South Australia. The main purpose of Parliament is to legislate for peace, order and responsible governance of South Australia.

The JPS provides services to Parliament including Hansard reporting, library facilities, catering, financial administration and building accommodation. The JPS is administered by the Joint Parliamentary Service Committee comprising the Speaker and two Members of the House of Assembly and the President and two Members of the Legislative Council.

Financial statistics

	House of Assembly $'million	Legislative Council $'million	Joint Parliamentary Service $'million
Net cost of services	13.9	8.6	11.1
Total appropriation	14.0	8.6	10.9
Members' salaries and allowances	8.4	4.8	n/a

	House of Assembly Number	Legislative Council Number	Joint Parliamentary Service Number
Members	47	22	n/a
Employees (FTEs)	26	18	68

Financial statement opinion

Modified

The Auditor-General has issued a disclaimer of opinion on the JPS's financial statements since we were not provided with unrestricted access to the following information:

- minutes of the Joint Parliamentary Service Committee meetings
- catering division financial information.

Unmodified

The Auditor-General has issued unmodified opinions on the financial statements of the House of Assembly and the Legislative Council.

Scope of the audit

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

During 2014-15 specific areas of audit attention included:

- Members' salaries and allowances
- employees' salaries
- accounts payable and procurement
- general ledger
- asset register.

Audit findings and comments

Auditor's report on the financial reports

Joint Parliamentary Service

The following is an extract of the Auditor-General's Independent Auditor's Report, which expresses a disclaimer opinion over the financial report of the JPS.

> ***Basis for Disclaimer of Opinion***
>
> *The Members of the Joint Parliamentary Service Committee are responsible for the management of the Joint Parliamentary Service. The Members have not provided unrestricted access to the minutes of their meetings. As a result, I cannot assess whether matters deliberated and decided by the Members that have financial consequences have been recognised or disclosed in the financial report.*
>
> *The Members of the Joint Parliamentary Service Committee are responsible for the control and management of the dining and refreshment services of Parliament House. Certain income from the provision of these services and certain associated expenditure has been omitted from the financial report. The Members have not provided access to this financial information to enable the effect of the omission on the financial report to be quantified.*
>
> ***Disclaimer of Opinion***
>
> *Because of the significance of the matters described in the Basis for Disclaimer of Opinion paragraphs, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an opinion. Accordingly, I do not express an opinion on the financial report.*

We also issued a disclaimer on the JPS's general purpose financial statements in 2013-14. Our disclaimer results from a limitation of scope of audit (granting of access to service records, including catering records) and the limitation in the completeness of disclosures in the financial report relating to the dining and refreshment services of Parliament House.

Our inability to perform a complete audit of the functions and financial activity of the JPS as a result of this restriction was again raised with the Joint Parliamentary Service Committee. We have been advised that there is no change in the Committee's position of not providing us access to the Committee's minutes of meetings and to the records and accounts relating to the catering division trading account activities.

In our opinion, the financial accountability and auditability of the JPS falls short of that adopted and applied to the public accounts and the financial operations and accounts of public authorities.

Communication of audit matters

Matters arising during the course of the audit were provided in a management letter to the Secretary, Joint Parliamentary Service Committee. The matters raised with the Secretary included the need to ensure that purchases for goods and services are authorised in accordance with internal policy. The JPS responded indicating appropriate action will be taken to address these matters.

Interpretation and analysis of the financial reports

Highlights of the financial report

House of Assembly	2015 $'million	2014 $'million
Expenses		
Employee benefits	2.5	2.5
Members' salaries and allowances	8.4	9.0
Other expenses	3.0	3.4
Total expenses/Net cost of services	13.9	14.9
Revenues from SA Government	14.0	14.5
Net result	0.1	(0.4)
Total assets	3.6	3.3
Total liabilities	1.6	1.4

Legislative Council	2015 $'million	2014 $'million
Expenses		
Employee benefits	2.1	1.9
Members' salaries and allowances	4.8	4.9
Other expenses	1.7	1.8
Total expenses/Net cost of services	8.6	8.6
Revenues from SA Government	8.6	8.5
Net result	-	(0.1)
Total assets	2.7	2.5
Total liabilities	1.8	1.6

Joint Parliamentary Service	2015 $'million	2014 $'million
Expenses		
Employee benefits	6.2	5.9
Other expenses	5.2	4.4
Total expenses	11.4	10.3
Total income	0.3	0.6
Net cost of services	11.1	9.7
Revenues from SA Government	10.9	13.1
Net result	(0.2)	3.4
Total assets	96.7	96.6
Total liabilities	3.1	2.7

House of Assembly

The decrease in Members' salaries and allowances of $600 000 was driven by the appointment of additional Members into the Ministry. Only the salaries and allowances of Members who are not Ministers are recorded in the House of Assembly's financial report. Ministers' salaries and allowances are paid for and are recorded in the relevant Department's financial report.

Legislative Council

The balances presented in the financial report of the Legislative Council remained relatively stable compared to the previous year. The minimal increase in employee benefits is in line with the increased level of activity within the Legislative Council during the year.

Joint Parliamentary Service

The highlights of the financial report and the detailed financial report for the JPS needs to be viewed in the context of the Disclaimer of Opinion that has been issued on the financial report.

The increase in total expenses for the JPS of $1.1 million was driven by the following factors:

- an overall increase in activity level within Parliament during the year. Total sitting days for both Houses (including estimates committees) for 2014-15 was 58, while 2013-14 was 37
- the implementation of a new Hansard production system
- additional costs for maintaining the Old Parliament House.

Libraries Board of South Australia

Functional responsibility	The Libraries Board of South Australia (the Board) is established pursuant to the *Libraries Act 1982* and is responsible for the administration of the State Library of South Australia and Public Library Services. For details of the Board's functions refer note 1 of the financial report.
Financial statistics	Net cost of providing services: $34 million Revenues from SA Government: $33.9 million Subsidies to public libraries: $11.1 million Staff benefit expenses: $13 million Research and heritage collections: $111.8 million Property, plant and equipment: $64.9 million Number of FTEs: 143.4
Significant events and transactions	From 1 July 2014 the functions of Arts SA (including those impacting the Board) transferred from the Department of the Premier and Cabinet to the Department of State Development.
Financial statement opinion	**Unmodified**
Financial controls opinion	**Modified** Key issues: — No service level agreement between the Board and the Department of State Development — No central register of policies and procedures — Out-of-date financial authorisations for income — No detailed procedure for allocating library subsidy carryovers — Controls for the Shared Services SA main payroll system did not meet a generally satisfactory standard

Scope of the audit

The audit program covered major financial systems and was directed primarily to obtaining sufficient evidence to enable an opinion to be formed on the financial report and internal controls.

During 2014-15 specific areas of audit attention included:

- payroll
- accounts payable
- revenue and cash
- general ledger
- fixed assets
- governance and financial compliance.

Audit findings and comments

Assessment of controls

In my opinion, the controls exercised by the Libraries Board of South Australia in relation to the receipt, expenditure and investment of money, the acquisition and disposal of property and the incurring of liabilities, except for all matters outlined under ‘Communication of audit matters’, are sufficient to provide reasonable assurance that the financial transactions of the Libraries Board of South Australia have been conducted properly and in accordance with law.

Communication of audit matters

Matters arising during the course of the audit were detailed in a management letter to the Director of the State Library. Major matters raised with the Board and the related responses are detailed below.

In addition, matters relating to Shared Services SA (SSSA) as a service provider to the Board are also described below.

No service level agreement between the Board and the Department of State Development

The audit of the Board identified there was no service level agreement in place between the Board and the Department of State Development (DSD) for 2014-15. The SLA should address all areas where DSD provides support to the Board, including services provided by SSSA as part of overall arrangements for DSD. It should also outline roles and responsibilities for each party.

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

- validity and accuracy of all manual payments processed for the Board
- appropriateness of financial delegations established in Basware for Board staff
- appropriateness of access to the Masterpiece system by Board staff.

Lack of clarity for these areas increases the risk that the Board may not meet its statutory responsibilities and of key controls not occurring resulting in potential invalid, inaccurate or incomplete processing of transactions through the general ledger, potentially impacting the accuracy of the financial report.

The Board responded that it agreed that the service level agreement should clearly define the relationship and detail the roles and responsibilities of the parties, including those instances noted above. It advised an agreement is being finalised.

No central register of policies and procedures

The audit of the Board identified a number of different policies and procedures from a variety of different sources currently being applied by Board staff including:

- policies and procedures issued by DSD
- policies and procedures issued by the Department of the Premier and Cabinet
- specific policies and procedures for Public Library Services
- specific policies and procedures for the State Library of South Australia.

The Public Library Services area, for example, applied the fraud and risk management policies of the Department of the Premier and Cabinet throughout 2014-15, whilst the State Library of South Australia applied the fraud and risk management policies of DSD.

There was no central register of policies and procedures that management expect staff of the Board to apply. This increases the risk that staff are not clear on their roles and responsibilities when performing their work and may result in inconsistent, non-compliant or ineffective practices being adopted.

The Board responded that the 2014-15 financial year was an anomaly due to the transition to DSD. The Board will incorporate, within the financial management compliance programs, a central listing of applicable policies and procedures.

Out-of-date financial authorisations for income

The audit of the Board found that financial authorisations for the approval of revenue transactions had not been updated for several years. Treasurer's Instruction 2 'Financial Management' requires that the chief executive establish authorisations that empower authorised persons to approve income recognition and derecognition. Due to the out-of-date authorisations there was an increased risk that income transactions would not be appropriately authorised.

The Board responded that it acknowledges the revenue authorisation listing is out of date and will liaise with DSD in order to obtain the necessary delegated authorisations.

No detailed procedure for allocating library subsidy carryovers

The Board is responsible for determining the allocation of funds provided by the State Government to each public library from the overall funding approved by the Minister. Two different types of grants are allocated to the libraries: operating (subsidy payments) and material grants (purchase of books). The allocation of funds across the public libraries is calculated by Public Library Services. The percentages applied to different categories of materials to be purchased are researched and approved by the Board. The total allocation for each public library is entered into the purchasing system, allowing the purchase of materials by the public libraries.

Carryover funds from previous financial years can be applied as part of the allocation of current year funding. In 2014-15 carryover funds were applied from the 2013-14 year. There was no policy or procedure outlining the method by which the application of carryover funds should occur. This lack of detailed guidance increased the risk that carryovers may not be applied as intended by the Board or management.

The Board responded that it has a procedure outlining the annual calculation of library subsidies, however this document will be enhanced to include application of carryover funds. This procedure will be approved by the Board and communicated to relevant staff.

No evidence of independent review of P2 procurement system and the general ledger reconciliation

The P2 procurement system is used to purchase materials for public libraries. A reconciliation should occur each month between the P2 system and the Board's general ledger. This reconciliation occurred each month in 2014-15, but was not independently reviewed to ensure accuracy, completeness and validity. As a result there was a risk the reconciliation was not performed appropriately or that variances were not followed up and corrected in a timely manner.

The Board responded that it agreed the reconciliation should be reviewed by an independent officer and that this process has been reinstated.

Shared Services SA – financial systems and transaction processing environments

SSSA processes financial transactions on behalf of the Board under service level determinations. The main systems and control environments include accounts payable, payroll and general ledger financial functions.

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

As discussed in the commentary under 'Department of the Premier and Cabinet' elsewhere in Part B of this Report, our review and evaluation of controls for the SSSA main payroll systems concluded that controls did not meet a generally satisfactory standard for 2014-15. A number of specific matters were raised with SSSA for corrective action and review for process and procedural improvement. Our review and evaluation of controls for the SSSA main accounts payable systems and environment concluded that controls met a generally satisfactory standard for 2014-15.

The matters do not relate to Board transaction processing.

Interpretation and analysis of the financial report

Highlights of the financial report

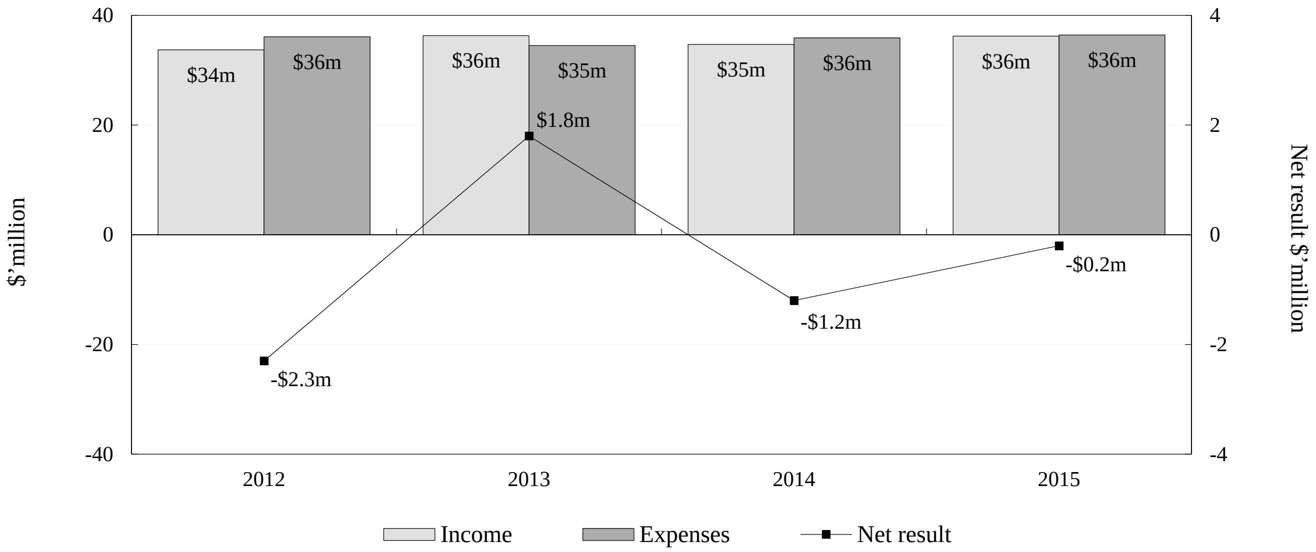
	2015 $'million	2014 $'million
Expenses		
Staff benefits	13	13
Subsidies to public libraries	11	12
Other expenses	12	11
Total expenses	36	36
Income		
State Government grants	34	33
Other income	2	2
Total income	36	35
Net result	-	(1)
Other comprehensive income	-	1
Total comprehensive result	-	-
Net cash provided by (used in) operating activities	2	1
Net cash provided by (used in) investing activities	(2)	(2)

	2015 $’million	2014 $’million
Assets		
Current assets	7	7
Non-current assets	185	185
Total assets	192	192
Liabilities		
Current liabilities	2	2
Non-current liabilities	3	3
Total liabilities	5	5
Total equity	187	187

Statement of Comprehensive Income

Net result

The following chart shows the income, expenses and net result for the four years to 2015.



The chart shows that the level of activity has remained consistent over the four year period. In 2012 a $2.3 million loss on disposal of land and buildings transferred to the Minister for the Arts was recorded, which was the main factor in the deficit for that year.

The main expenses are for staff benefits of $13 million ($12.9 million) and subsidies to public libraries of $11.1 million ($11.7 million). These expenses have remained relatively stable over the past four years.

The Board is dependent on revenues from the SA Government which amounted to $33.9 million ($32.6 million) and represent 93% (94%) of total income.

Statement of Financial Position

Current assets

The Board’s main current asset is cash deposits with the Treasurer of $6.3 million ($6.4 million), representing 87% (88%) of current assets.

Non-current assets

Total non-current assets of the Board amounted to $184.7 million ($184.6 million) comprising mainly research and heritage collections of $111.8 million ($111.4 million) and land, buildings and improvements of $62.2 million ($62.7 million).

The principal components of the research and heritage collections of $111.8 million are private archives of $65.5 million ($65.5 million) and rare books and named collections of $20.7 million ($20.6 million). The collections are revalued on a regular basis, with the next valuation due to occur in 2015-16.

Lifetime Support Authority of South Australia

Functional responsibility	The Lifetime Support Authority of South Australia (the Authority) is established pursuant to the *Motor Vehicle Accidents (Lifetime Support Scheme) Act 2013* (the LSS Act). The Authority administers the Lifetime Support Scheme (LSS or the Scheme) and the LSS Fund established by the LSS Act to support people who suffer serious lifelong disabilities in motor vehicle accidents in South Australia regardless of fault. A person can be accepted as an interim or lifetime Scheme participant depending on their eligibility under the LSS Rules.
Financial statistics	Provision for future costs of current participants: $93 million LSS Fund levy net of duty: $127 million Investments: $165 million Net assets: $75 million Number of FTEs: 12.8 Number of interim participants: 38 Number of lifetime participants: 1
Significant events and transactions	— LSS commenced on 1 July 2014. — $93 million provision created for the future cost of caring for current participants. — Average levy rate increased from $98.50 per vehicle in 2014-15 to $102.49 in 2015-16.
Financial statement opinion	**Unmodified** An emphasis of matter was included in the financial report opinion relating to significant inherent uncertainty surrounding the estimate of the provision for participants' treatment, care and support services because of the long-term nature of the provision and limited participants' experience to date.
Financial controls opinion	**Unmodified**

Establishment of the Lifetime Support Authority of South Australia

The Board of the Authority was appointed on 8 October 2013 following the establishment of the Authority on 1 July 2013. The Authority administers the Scheme.

The Scheme provides treatment, care and support for participants (adults and children) who have a serious spinal cord injury, brain injury, amputations, burns or blindness (eligible injury) from a motor vehicle accident in South Australia occurring on or after 1 July 2014, or for persons injured before that date who buy into the Scheme based on a contribution amount determined by the Authority.

In 2013-14 the Authority focused on developing service delivery, corporate governance and financial frameworks in readiness for the Scheme's commencement on 1 July 2014. This included the development of the LSS Rules which set out the eligibility criteria for acceptance of applicants into the Scheme (including how severely injured the person must be), the assessment tools and the scope of treatment, care and support for Scheme participants. The LSS Rules also include eligibility criteria for transitioning from an interim participant to a lifetime participant once the person's injury stabilises, or it becomes apparent that the person meets the eligibility criteria before their injury stabilises.

On 1 July 2014 the Authority began operating the Scheme, including assessing applications from individuals to participate in the Scheme and providing participants with treatment, care and support.

Because the Scheme provides lifetime care to participants, the number of participants will grow year by year, as participants entering the Scheme will usually exceed participant deaths.

Lifetime Support Scheme Fund

Levies on motor vehicle registrations collected by the Registrar of Motor Vehicles are paid into the LSS Fund. The Authority invests the levies with the Superannuation Funds Management Corporation of South Australia (Funds SA) until needed to pay for the treatment, care and support of participants and other costs of operating the Scheme.

Scope of the audit

The audit program covered major financial systems and was directed primarily to obtaining sufficient evidence to enable an opinion to be formed with respect to the financial report and internal controls.

During 2014-15 specific areas of audit attention included:

- processing of applications from people wanting to participate in the Scheme
- procurement of service providers
- payment of service providers according to service plans tailored to the needs of each participant
- salaries and other administrative expenses
- investments
- service level agreements with other State Government agencies.

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

Audit findings and comments

Auditor's report on the financial report

The following is an extract from the Independent Auditor's Report on the Authority's 2014-15 financial report, which is unmodified however includes a comment on the significant inherent uncertainty of the provision for participants' treatment, care and support services.

> ***Opinion***
>
> *In my opinion, the financial report gives a true and fair view of the financial position of the Lifetime Support Authority of South Australia as at 30 June 2015, its financial performance and its cash flows for the year then ended in accordance with the Treasurer's Instructions promulgated under the provisions of the* Public Finance and Audit Act 1987 *and Australian Accounting Standards.*
>
> ***Significant inherent uncertainty – provision for participants' treatment, care and support services***
>
> *Without qualification to the opinion expressed above, attention is drawn to notes 2.11 and 21 to the financial report.*
>
> *There is significant inherent 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. This uncertainty will remain until sufficient participants' experience is available.*

Assessment of controls

In my opinion, the controls exercised by the Lifetime Support Authority of South Australia in relation to the receipt, expenditure and investment of money, the acquisition and disposal of property and the incurring of liabilities are sufficient to provide reasonable assurance that the financial transactions of the Lifetime Support Authority of South Australia have been conducted properly and in accordance with law.

Communication of audit matters

There was one matter arising during the course of the audit that was detailed in a management letter to the Chief Executive. The matter related to investigating the possibility of the Authority transacting its business through a separate bank account rather than through a bank account shared with two other agencies and, in the meantime, obtaining bank reconciliations from the Department of Treasury and Finance for its share of the bank account. This would provide more assurance over the completeness of transactions recorded in the Authority's general ledger. The Authority advised it had previously sought to address this matter but was advised by relevant agencies that the cost of reconfiguring systems to conduct the Authority's business through a separate bank account would outweigh the benefits, and that a monthly reconciliation of its share of the bank account was unavailable. The Authority advised it would investigate these matters again with the relevant agencies.

In addition, matters relating to Shared Services SA (SSSA) as a service provider to the Authority are described below.

Shared Services SA – financial systems and transaction processing environments

SSSA processes financial transactions on behalf of the Authority under service level determinations. The main systems and control environments include accounts payable, payroll and general ledger financial functions.

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

As discussed in the commentary under 'Department of the Premier and Cabinet' elsewhere in Part B of this Report, our review and evaluation of controls for the SSSA main payroll systems concluded that controls did not meet a generally satisfactory standard for 2014-15. A number of specific matters were raised with SSSA for corrective action and review for process and procedural improvement. Our review and evaluation of controls for the SSSA main accounts payable systems and environment concluded that controls met a generally satisfactory standard for 2014-15.

The matters do not relate to the Authority's transaction processing.

Interpretation and analysis of the financial report

Highlights of the financial report

	2015 $'million	2014 $'million
Expenses		
Participant treatment, care and support expenses	95	-
Duty on LSS Fund levy	14	-
Other	6	1
Total expenses	115	1
Income		
LSS Fund levy	141	2
Investment revenue	5	-
Other	-	1
Total income	146	3
Net cost of providing services	31	2
Revenues from (Payments to) SA Government		
Transitional contribution	-	42
Net result	31	44
Total comprehensive result	31	44
Net cash provided by operating activities	120	43
Assets		
Current assets	4	44
Non-current assets	166	-
Total assets	170	44

	2015 $'million	2014 $'million
Liabilities		
Current liabilities	9	-
Non-current liabilities	86	-
Total liabilities	95	-
Total equity	75	44

Statement of Comprehensive Income

This is the second year of operation of the Authority and the first year of operation of the Scheme. As a result the financial activities of the Authority increased significantly.

Net result

The Authority's net result depends significantly on the interdependence between the LSS Fund levy set before the start of the year and the movement in the provision for the cost of participants' treatment, care and support services determined at the end of the year. Both the levy and the provision are determined using reports prepared by an independent actuary appointed by the Authority.

Setting levies at an appropriate level is critical to the Scheme. If break-even levies are charged each year and if all underlying assumptions used to set the levy eventuate, then the Scheme will always be fully funded. If the levy is set too low, liabilities will eventually exceed assets causing the Scheme to become under-funded.

The LSS Act requires the LSS Fund levy to be determined by the Minister and to be sufficient to meet the liabilities of the Scheme. In determining the levy, the LSS Act requires the Minister to consider a report by an independent actuary on the levy needed to ensure sufficient contributions are received. For the 2014-15 levy, the actuary based their report, delivered before the start of the year, on a number of significant uncertainties. These included likely investment revenue and likely number of participants entering the Scheme over the next year, their injury severity and estimated cost of long-term treatment, care and support services. In the report the actuary estimated a levy of $137 million including duty was required to cover the costs of operating the Scheme in 2014-15 and probable liability at 30 June 2015.

Actual outcomes during 2014-15 were better than estimated by the actuary in the following areas:

- LSS Fund levy received was $4.1 million over the $137 million estimate
- actual Scheme costs were $21.8 million below the $137 million estimate.

These favourable outcomes contributed to the net result of $31.3 million.

The actuary's estimates used to set the levy before the start of the year and to estimate the liability at the end of the year are most sensitive to the number of Scheme participants and the severity of their injuries. Small changes in these numbers can impact significantly on the estimates. A factor that contributed to the over-estimation of expenses used to determine the levy was that the number of participants entering the Scheme was below the actuary's prediction. They were also older in age and had lower injury severity than expected. In estimating the liability at the end of the year (30 June 2015) the actuary commented in their report that the Scheme is in its infancy and that limited experience exists to assess the reasonableness of initial Scheme costings.

The Minister for Health approved an increase in the levy from $137 million in 2014-15 to $143 million in 2015-16, equating to an average increase of $3.99 per vehicle. The increase was based on an actuarial estimate at 31 December 2014 when the Scheme was only six months old, with limited claims experience creating significant inherent uncertainty when estimating the costs of the Scheme for 2015-16.

The actuary commented in their reports that, due to the very long-term nature of the Scheme, the actual experience in the period since 1 July 2014 tells us very little about the Scheme and, in particular, is far from sufficient on which to base long-term future assumptions.

Expenses

The Authority's expenses of $115.2 million ($752 000) comprised:

- $95.1 million for participant treatment, care and support expenses, of which $92.8 million related to the initial recognition of the actuary's estimate of future expenses for participants injured in motor vehicle accidents between 1 July 2014 and 30 June 2015
- $14 million ($249 000) paid to the SA Government representing the 11% duty on the LSS Fund levy payable under the *Stamp Duties Act 1923*
- $2.6 million for premiums paid to reinsurers who provide cover for large liabilities arising from single events
- $3.5 million for general operating expenses including $2.2 million ($411 000) for employee benefits.

Income

The Authority's income of $146.6 million ($2.8 million) comprised:

- $141.1 million of LSS Fund levy on South Australian motor vehicle registrations. No GST is payable on the levy
- $5.5 million ($127 000) of investment revenue that includes $8 million of net realised gains in 2015 when the Authority switched from the Funds SA Conservative Fund to the Funds SA Untaxed Moderate Fund on 1 April 2015. A subsequent downturn in investment markets resulted in an unrealised loss of $2.6 million. These Funds are unit trusts where income is derived through movement in the value of unit holdings.

Revenues from SA Government

In 2015 no revenues were received from the SA Government. In 2014 a once-off contribution of $41.5 million was received from the Motor Accident Commission's Compulsory Third Party Fund to fully fund the Scheme from its commencement.

Statement of Financial Position

The Authority's financial position depends significantly on the value of its investments exceeding the provision for the treatment, care and support services for participants. The net assets of the Authority increased by $31.4 million to $74.9 million and reflect the net result from operations previously explained in this Report.

Assets

The Authority's assets of $170 million consist mainly of cash and investments. Cash reduced from $42.9 million to $2.5 million due mainly to monies being invested with Funds SA. At 30 June 2015 the Authority had $165.4 million invested in the Funds SA Untaxed Moderate Fund.

Liabilities

The Authority's liabilities of $95.1 million consist mainly of a $92.8 million provision for the treatment, care and support services for participants.

The Board of the Authority determined the value of the provision after considering a report from an independent actuary. The Authority appointed the actuary to estimate the liabilities of the Scheme, measured as the present value of the expected future payments for claims incurred up to 30 June 2015, including claims incurred but not yet reported. Information relating to the actuarial estimation is provided in notes 2.11 and 21 of the financial report. The sensitivity analysis in note 21 illustrates that relatively small changes to key assumptions in the estimate can result in changes in the order of millions of dollars.

The financial report refers to the significant inherent uncertainty surrounding the actuarial estimation and the sensitivities of the estimation to changes in key assumptions, and comments on the long-term nature of the liabilities and the volatility around the number of participants and their injury severity. The independent actuary referred in their report to the significant inherent uncertainty in the projected outcomes of future claim costs for long-term claims, which is exacerbated in the start-up phase of any scheme. The main areas of uncertainty identified by the independent actuary were the:

- adequacy of benchmarks for defining the lifetime care and support needs of participants, including models of expected cash flows for an individual of a specific age with a specific injury
- future inflation levels for services, especially increases in attendant care hourly rates. Changes in best practice treatment also mean liabilities could increase significantly
- final stable severity for each participant's injury. The current assessment for each participant is at very early duration since injury.

The Authority had the actuarial estimate confirmed by an independent reviewing actuary who noted the valuation results were not unreasonable in the circumstances and early development of the Scheme.

The Scheme is not an insurance scheme. Consequently, the provision has been determined by the Authority in accordance with AASB 137 'Provisions, Contingent Liabilities and Contingent Assets' and not AASB 1023 'General Insurance Contracts'. The latter is more prescriptive in the permitted choice of the rate of investment return (discount rate) to be adopted in deriving the present value of liabilities. It also requires risk margins be added to the central estimate of the liability, increasing the liability. Consistent with similar interstate schemes, the Authority has determined the provision in accordance with AASB 137 and has not applied a risk margin to its central estimate.

Statement of Cash Flows

The Statement of Cash flows reflects the investment of $160 million with Funds SA using the LSS Fund levy of $140.9 million and previous year's receipts from the SA Government of $41.5 million. The Authority will use these investments to meet the costs of treatment, care and support services over the life of the participants.

Local Government Finance Authority of South Australia

Functional responsibility	The Local Government Finance Authority of South Australia (the Authority), a body corporate, was established under the *Local Government Finance Authority Act 1983* (the LGFA Act). It is managed and administered by a Board of Trustees. The main functions of the Authority are to develop and implement borrowing and investment programs for the benefit of councils and prescribed local government bodies. For more information about the Authority's functions refer note 1 of the financial report. Liabilities incurred or assumed by the Authority in pursuance of the LGFA Act are guaranteed by the Treasurer under section 24(1) of the LGFA Act. As a result of this guarantee the Authority pays an annual guarantee fee to the Treasurer.
Financial statistics	Net loans and advances: $696 million Profit before income tax equivalents: $5.6 million Income tax equivalents: $1.7 million Number of FTEs: 6
Financial statement opinion	**Unmodified**
Financial controls opinion	**Unmodified**

Scope of the audit

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

During 2014-15 areas of review included:

- investments
- borrowings
- deposits
- derivatives
- payroll
- bonus payments to councils and local government bodies.

To comply with Treasurer's Instruction 2 'Financial Management' and Treasurer's Instruction 28 'Financial Management Compliance Program' the Authority engages an external party to execute a financial management compliance program (FMCP). The FMCP checks compliance with documented policies, procedures and internal controls.

The 2014-15 FMCP was considered and reviewed to assist in the planning, conduct and assessment of specific areas of the review of the Authority's operations.

Audit findings and comments

Assessment of controls

In my opinion, the controls exercised by the Local Government Finance Authority of South Australia in relation to the receipt, expenditure and investment of money, the acquisition and disposal of property and the incurring of liabilities are sufficient to provide reasonable assurance that the financial transactions of the Local Government Finance Authority of South Australia have been conducted properly and in accordance with law.

Communication of audit matters

A matter arising during the course of the audit was detailed in a management letter to the Chief Executive. The matter raised and the related response is detailed below.

Financial guarantee register

The audit of the Authority's financial guarantee register found it did not contain all information required by Treasurer's Instruction 20 'Guarantees and Indemnities' and some of the information had not been updated.

The Authority indicated it would undertake a review of the financial guarantees register to ensure it was updated and contained all required information. Related procedures would also be reviewed and updated where required.

Interpretation and analysis of the financial report

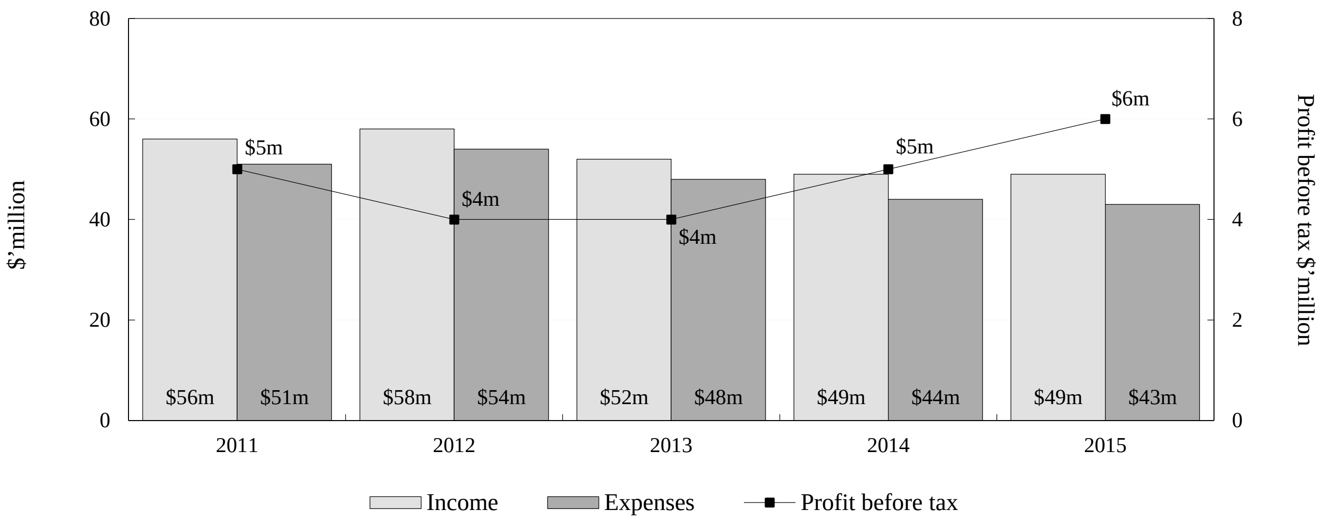
Highlights of the financial report

	2015 $'million	2014 $'million
Income		
Interest and other income	49	49

	2015 $'million	2014 $'million
Expenses		
Interest expense	40	41
Guarantee fee and administration expenses	3	3
Total expenses	43	44
Profit before income tax equivalents	6	5
Income tax equivalents	2	1
Total comprehensive result	4	4
Net cash provided by (used in) operating activities	4	3
Assets		
Net loans and advances	696	669
Other assets	57	68
Total assets	753	737
Liabilities		
Deposits and borrowings	651	640
Other liabilities	42	39
Total liabilities	693	679
Total equity	60	58

Statement of Comprehensive Income

The following chart shows the income, expenses and profit before income tax expense for the five years to 2015.



Income

As the Authority is a financial institution servicing local government, its main operating revenue is interest income, with other income being insignificant.

Interest income from loans and advances increased by $816 000 from the previous year mainly reflecting a $903 000 increase in cash advance interest due to higher average daily cash advances offset by lower interest rates.

Interest income from investments decreased by $559 000 to $2.3 million due to lower average daily investment balances and interest rates.

Expenses

The Authority's main operating expense is interest expense, with guarantee fees and administration expenses being less significant.

Interest expense decreased by $477 000 from the previous year predominantly due to:

- a $654 000 decrease in deposit interest due to lower average daily deposits and interest rates
- a $359 000 decrease in interest rate swap interest due to lower interest rates offset by higher average daily swaps
- a $561 000 increase in short-term borrowing interest due to higher average daily borrowings offset by lower interest rates.

Profit before tax

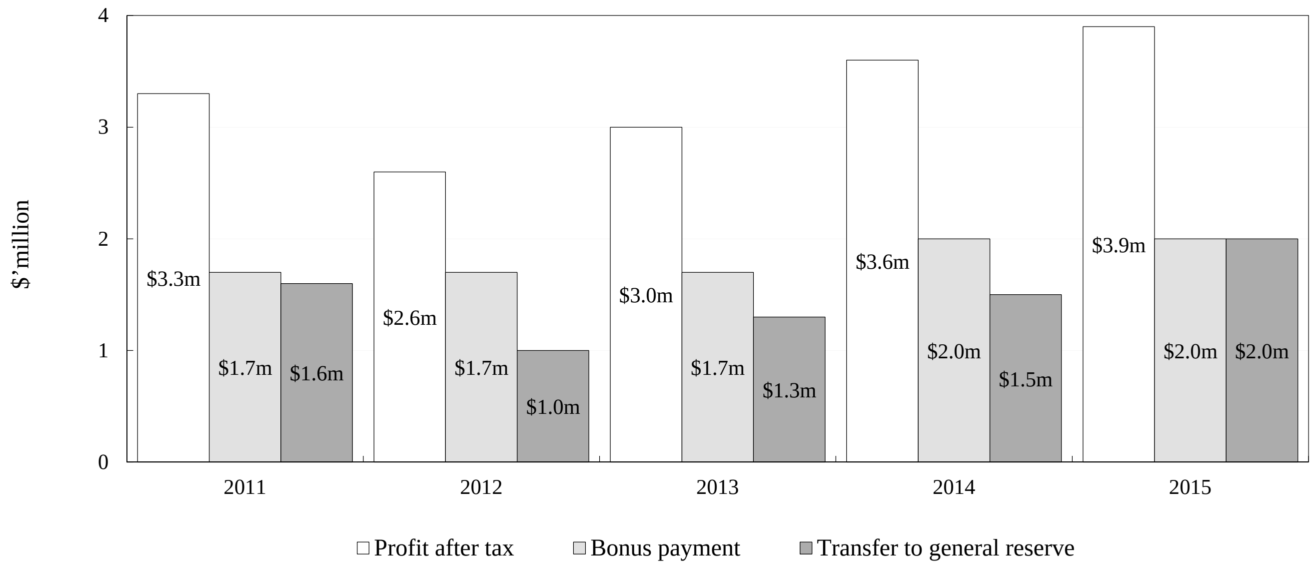
Profit before tax increased by $504 000 to $5.6 million. The improvement results from a $73 000 increase in income and a $431 000 decrease in expenses, as previously discussed.

Tax equivalent payments

The Authority is required to make payments equivalent to company income tax under the taxation equivalent payments system. The amounts are paid into an account established with the State Treasurer titled 'Local Government Taxation Equivalents Fund'. The funds are available for local government development purposes as recommended by the Local Government Association of South Australia and agreed by the Minister for Finance in accordance with section 31A of the LGFA Act. For this financial year, the amount payable for income tax equivalent was $1.7 million.

Net profit and distributions

In 2015 the Authority achieved a profit after tax of $3.9 million ($3.6 million) which was available for distribution or transfer to a general reserve. The profit and principal distributions for the past five years are presented in the following chart.



Under section 22(2) of the LGFA Act, the Authority has discretion to make distributions from the surplus for the year to councils and local government bodies. These distributions are recorded as bonus payments in the financial report. In 2015 the Authority provided $2 million ($2 million) for bonus payments.

The Authority also made a transfer to a general reserve of $2 million ($1.5 million).

Statement of Financial Position

Assets and liabilities

The Statement of Financial Position shows net assets of $60.3 million ($58.4 million).

Total assets increased by $16.7 million from the previous year, predominantly due to:

- a $26.9 million increase in net loans and advances, comprising an increase of $28 million in advances and a net movement in the fair value adjustment for certain hedged loan assets of $3.6 million, offset by a $4.7 million decrease in term loans (refer note 10 of the financial report)
- a $10.1 million decrease in investment securities.

Total liabilities increased by $14.8 million from the previous year, principally due to:

- a $68.2 million increase in deposits from customers
- a $4 million increase in derivatives, due mainly to a net movement in the fair value adjustment for derivative liabilities of $3.5 million (refer note 15 of the financial report)
- a $57.1 million decrease in borrowings.

Equity

Total equity of $60.3 million is essentially comprised of the balance of the General Reserve ($59.8 million). The General Reserve, which was increased by $2 million in 2014-15, has accumulated from appropriated profits earned by the Authority, providing a strong financial position and safeguard against the risk of future adverse conditions (refer note 2(m) of the financial report).

Asset quality

The Authority predominantly lends to councils and local government bodies on a secured basis. The security is by debentures providing a charge over the council's general revenue. Notes 2(g) and 23(c) of the financial report explain the details.

The Authority has not experienced defaults or losses associated with those loans. Consequently there is no provision for doubtful debts against the assets.

Liabilities of the Authority

The Authority funds loans to customers via customer deposits, borrowings or from its own accumulated reserves.

To mitigate interest rate risk the Authority hedges its interest rate exposures using interest rate swap agreements and futures contracts. Note 23(b)(i) of the financial report refers to interest rate risk management of the Authority.

Lotteries Commission of South Australia

Functional responsibility	The Lotteries Commission of South Australia (the Commission) is a statutory authority established pursuant to the *State Lotteries Act 1966* (the Lotteries Act) with the principal function of promoting and conducting lotteries for South Australia. The Commission, in conjunction with the Master Agent (Tatts Lotteries SA Pty Ltd), administers and promotes the following lotteries in South Australia: — Saturday X Lotto — Keno — Powerball — Oz Lotto — Monday and Wednesday X Lotto — Instant Scratch-Its tickets — Super 66 — The Pools.
Financial statistics	Sales revenue: $442 million Prizes: $268 million Master Agent fee: $53 million Gambling tax: $71 million Number of FTEs: 9
Significant events and transactions	— The Commission was reclassified from a 'for-profit' entity to a 'not-for-profit' entity for financial reporting purposes during 2014-15. This has resulted in presentation changes to the financial report, with the Statement of Comprehensive Income now presented on a net cost of services basis. — The Commission's defined benefit superannuation plan was terminated effective 30 September 2014, with all defined benefit liabilities in the plan crystallised at this date and entitlements transferred to accumulation funds nominated by each employee. — Commission members' terms expired on 30 June 2015. Changes to the Lotteries Act, as a result of the *Statutes Amendment (Boards and Committees – Abolition and Reform) Act 2015*, resulted in the appointment of a single Commissioner from 23 July 2015.
Financial statement opinion	**Unmodified**
Financial controls opinion	**Unmodified**

Appointment of Tatts Lotteries SA Pty Ltd (Tatts) as exclusive Master Agent of the Commission

On 26 November 2012 the State appointed Tatts as the exclusive Master Agent to operate the Commission's brands and products for a term of 40 years in return for an upfront payment of $427 million. The Master Agent arrangements commenced on 11 December 2012 with the transition period for full implementation ending on 10 June 2014. The terms and conditions of the appointment and its ongoing operation are governed by a number of transaction documents.

As exclusive Master Agent, Tatts has responsibility:

- for the sale of entries into all lottery games operated by the Commission and payment of prizes associated with those entries
- to appoint retail agents
- to authorise the premises at which retail agents may sell tickets.

Tatts receives a Master Agent fee in accordance with the transaction documents. The calculation basis for this fee is outlined in note 7 of the financial report.

The Commission has control of the Lotteries Fund established under section 16(1) of the Lotteries Act. As a result, the Commission has responsibility for reporting all activity through the Lotteries Fund in the Commission's financial report. The Lotteries Fund reflects all activity related to gaming operations.

The transaction documents require Tatts to hold and operate the Lotteries Fund for and on behalf of the Commission.

The Commission has an ongoing responsibility to monitor whether the Master Agent's operations are conducted in compliance with all applicable laws, regulations, codes of practice, contractual agreements and policies in order to ensure the Commission's compliance with the Lotteries Act and the transaction documents. The Commission must also maintain necessary processes to ensure the effectiveness of Tatts internal controls over financial reporting of gaming activity and the Lotteries Fund.

Scope of the audit

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

During 2014-15 areas of review included:

- transaction documents compliance
- transaction documents contract management arrangements
- status of Tatts compliance plan and associated reporting requirements
- information and communications technology (IT)
- gaming revenue
- prize payments
- expenditure
- payroll
- general ledger
- cash.

Internal audit activities and reports were also reviewed to assess the risks of material misstatement in the financial report and to design and perform audit procedures.

Audit findings and comments

Assessment of controls

In my opinion, the controls exercised by the Lotteries Commission of South Australia in relation to the receipt, expenditure and investment of money, the acquisition and disposal of property and the incurring of liabilities are sufficient to provide reasonable assurance that the financial transactions of the Lotteries Commission of South Australia have been conducted properly and in accordance with law.

Communication of audit matters

Matters identified during the course of the audit were detailed in a management letter to the Commissioner. The Commission's response to the letter indicated that appropriate action would be taken to address the control matters raised. The main matter raised with the Commission and the related response is provided below.

Expenditure

Our review indicated that all payments processed through the Commission's CommBiz banking system must be approved by two officers with appropriate authority under the financial delegations prior to disbursement. However, no system limit had been set in order to cap daily payments made through the CommBiz banking system. We recommended the Commission review its expenditure profile and implement a system limit to further reduce the risk of invalid or inaccurate payments occurring.

The Commission responded that it has performed a review of its current expenditure profile and would set an appropriate daily payment limit that will allow for the payment of the Commission's largest invoices.

Information and communications technology and control

On 7 April 2014 the TattsTech system was implemented to process all South Australian gaming transactions. The TattsTech system was internally developed by Tatts and is used in other Australian jurisdictions where Tatts has gaming operations.

In 2014-15 the Commission's internal audit function reviewed the Tatts IT control environment and TattsTech system. We subsequently reviewed the internal audit report and performed some focused high level testing on Tatts IT operations.

Internal audit identified the need for the Commission to seek evidence of certain remediation activities undertaken by Tatts. We noted this evidence was provided to the Commission as part of our review.

Our high level review of Tatts IT operations indicated the overall control environment was effective. In particular, we noted Tatts has a formal security management regime based on internationally accepted security standards that is subject to ongoing independent review by an external party. The most recent independent review highlighted a number of issues including opportunities for improving controls but noted corrective action was either underway or completed, or compensating controls were in place.

Interpretation and analysis of the financial report

Highlights of the financial report

	2015 $'million	2014 $'million
Expenses		
Master Agent fee	53	54
Supplies and services	1	4
Employee benefits expenses	2	7
Other expenses	-	6
Total expenses	56	71
Income		
Sales revenue	442	429
Cost of sales	(388)	(375)
Other revenues	-	8
Total income	54	62
Net cost of providing services	2	9
Revenues from SA Government	3	4
Net result	1	(5)
Net cash provided by (used in) operating activities	5	-
Assets		
Current assets	57	51
Non-current assets	-	-
Total assets	57	51
Liabilities		
Current liabilities	43	38
Non-current liabilities	12	12
Total liabilities	55	50
Total equity	2	1

Statement of Comprehensive Income

2014-15 is the first year that reflects the full impact of the completed transition to the Tatts Master Agent arrangements on the Commission's operations. Specific areas impacted by this change are further analysed below.

Expenses

Total expenses decreased by $15 million to $56 million. This is mainly due to decreases in other expenses ($6 million), employee benefits expenses ($5 million) and supplies and services ($3 million).

The decrease in other expenses is attributable to decreases in depreciation and amortisation expense ($3 million) and the net loss from the disposal of non-current assets ($3 million). These decreases are primarily attributable to the GTECH online lotteries system. Depreciation expense of $2 million was incurred on the GTECH online lotteries system during 2013-14, prior to the system being transferred to Tatts. The system was transferred on 18 November 2013 for a loss on disposal of $3 million. There were no disposals of non-current assets in 2014-15.

The decrease in employee benefits expenses is mainly due a decrease in salaries ($2 million) and targeted voluntary separation packages (TVSPs) ($3 million). The decrease in salaries is attributable to reduced employee numbers following completion of the transition period under the transaction documents. During the transition period Tatts engaged Commission employees to render services outlined in the Transitional Services Agreement and Tatts was recharged by the Commission for these services. The transition period concluded on 10 June 2014.

Following completion of the transition period the Commission no longer directly performs any gaming, agent management or marketing operations. As a result the Commission’s workforce significantly reduced during 2013-14 from 71 employees to 11 employees. As part of the reduction, 35 Commission employees accepted TVSPs. The total cost of the TVSPs paid to these employees was $3 million (refer note 4 of the financial report).

The Commission had 9 FTE employees as at 30 June 2015 and no TVSP payments were made during 2014-15.

The decrease in supplies and services is principally a result of a decrease in computer operations expenses ($2 million) and operating leases expenses ($1 million). Computer operations expenditure in the prior year primarily related to support for the GTECH online lotteries system during the transition period. This support was only required until Tatts implemented their own gaming system in April 2014 (TattsTech). Operating leases expenses have decreased owing to the expiration of leases on the Wayville office building and Stepney warehouse during 2013-14.

Master Agent fee

The Master Agent fee is payable to Tatts as the Commission’s exclusive Master Agent for operating the Commission’s brands and products (refer note 7 of the financial report). Under clause 8.3 of the Master Agent agreement, the Master Agent remits the amount of the Master Agent fee less agents’ commissions to an account nominated by the Master Agent.

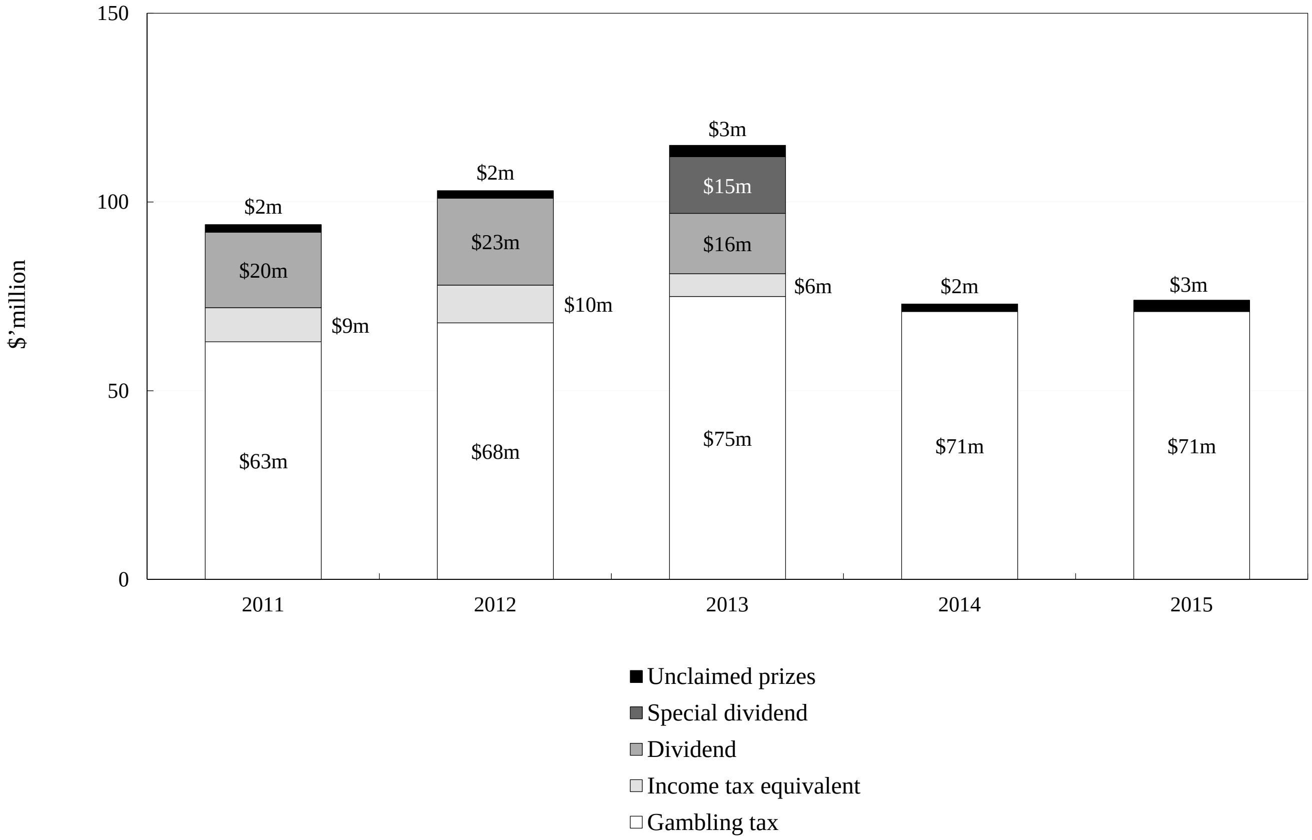
There was a $302 000 decrease in the Master Agent fee despite total sales revenue increasing by $13 million. This is mainly due to changes in the split of gross sales and prizes between games. Games that pay out a higher proportion of gross sales in prizes (eg Keno) represented a higher proportion of total sales in 2014-15 compared to 2013-14. As a result, prize expenses were higher in relation to gross sales which consequently reduced the Master Agent fee. There were also additional Keno Spot 10 jackpot prize amounts paid in 2014-15 compared to 2013-14, which further increased prize expenses in relation to gross sales.

Distributions to government

The Commission made payments to the State Government in accordance with the requirements of the Lotteries Act which are detailed in notes 2(k) and 23 of the financial report.

The amount provided for distribution to government during 2014-15 was $74 million, an increase of $1 million from the previous year. This marginal increase is mainly due to small increases in gambling tax and unclaimed prizes distributions. Gambling tax is calculated as 41% of net gambling revenue (ie gross sales less total prizes paid). Net gambling revenue was $2 million higher in 2014-15 compared to 2013-14 (refer note 7 of the financial report for gross sales and total prizes paid).

The following chart details the distributions provided to government for the five years to 2015.



The chart highlights that, following commencement of the Master Agent arrangements with Tatts on 11 December 2012, distributions to government have been solely comprised of gambling tax payments and payments of 50% of unclaimed prizes.

Income

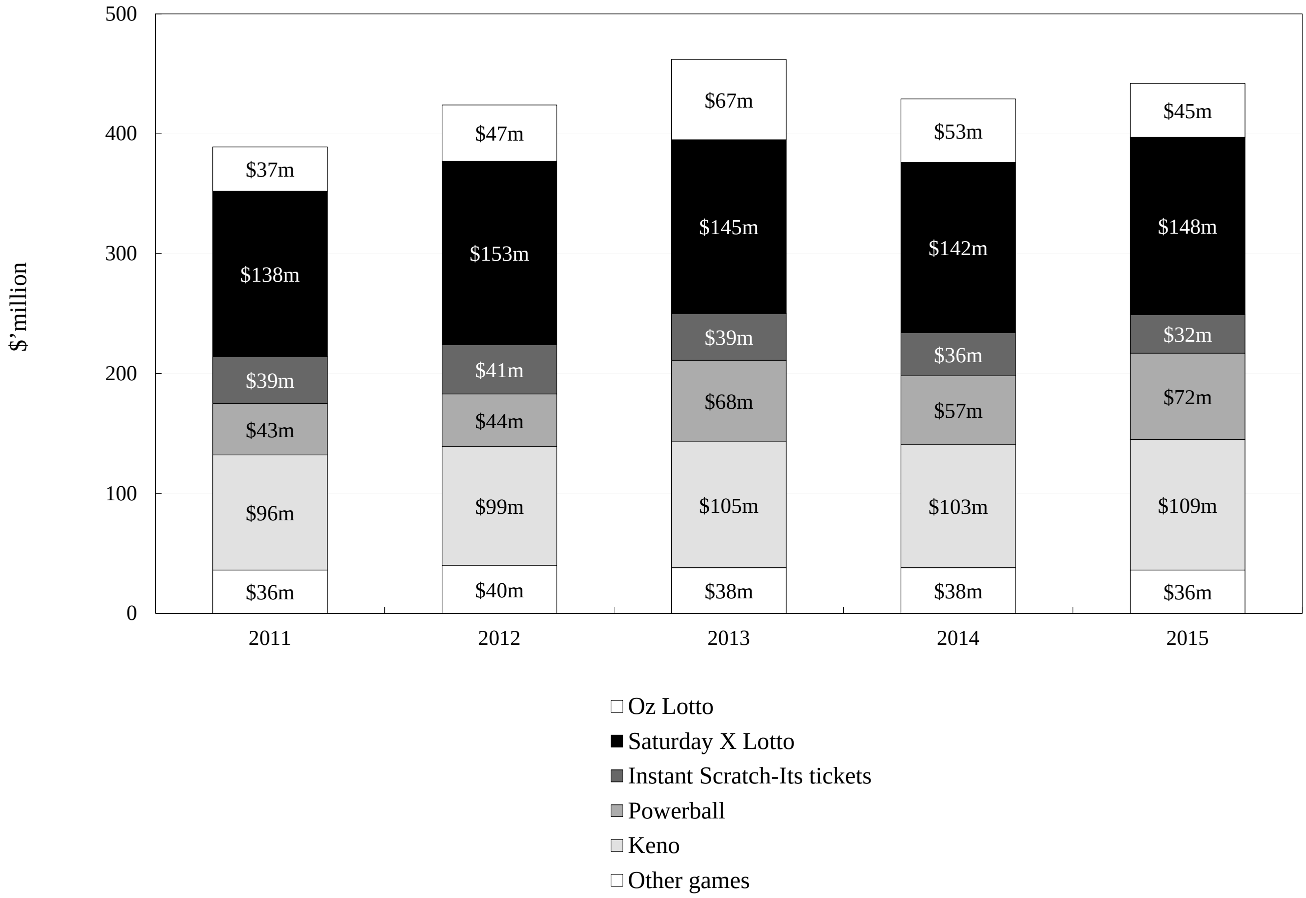
Total income for the year was $54 million, a decrease of $8 million from the previous year. This decrease is primarily attributable to an $8 million reduction in other revenue.

The reduction in other revenue is mainly due to a decrease in reimbursements from the Master Agent ($5 million) and TVSPs recovered from the Department of Treasury and Finance ($3 million). The reimbursements from the Master Agent in the prior year related to the transitional services provided by the Commission under the transaction documents for employee and other support services as discussed above. Following the conclusion of the transition period on 10 June 2014 these reimbursements ceased.

As mentioned earlier, the Commission's workforce significantly reduced in 2013-14 and 35 TVSPs were paid out and recovered. The Commission had 9 FTE employees as at 30 June 2015 and no TVSPs were paid out or recovered during 2014-15.

Sales revenue

A structural analysis of sales revenue generated by the Commission's lottery products in the five years to 2015 is presented in the following chart.



The games that constitute the largest proportion of sales are Saturday X Lotto (33%), Keno (25%), Powerball (16%) and Oz Lotto (10%).

Total sales revenue has increased by $13 million (3%) since the prior year. Sales activity for the various games is primarily driven by the frequency and amount of high value jackpots.

The following table sets out key changes in sales and jackpot activity and amounts between the current and prior year.

Game	Sales increase (decrease)	Key changes in jackpot activity
Saturday X Lotto	$6 million	Additional $20 million and $30 million superdraws
Keno	$6 million	Higher Keno Spot 10 jackpot amounts
Powerball	$15 million	One $70 million jackpot and three $50 million jackpots during 2014-15 compared to one jackpot for $50 million during 2013-14
Oz Lotto	($8 million)	One $40 million jackpot during 2014-15 compared to one $70 million jackpot and two $50 million jackpots during 2013-14

There were also decreases in sales in Monday and Wednesday X Lotto ($2 million) and Instant Scratch-Its tickets ($4 million).

Statement of Financial Position

Assets

Total assets increased by $6 million to $57 million. This is mainly due to a $5 million increase in funds held by the Master Agent. These funds represent the Lotteries Fund bank account which is managed by Tatts on behalf of the Commission. Variations in the Lotteries Fund balance are primarily attributable to differences in the timing and amount of agent bank account sweeps, Bloc receipts and payments and prize payments.

There was also a $1 million increase in receivables. This increase is primarily attributable to an increase in prize settlements receivable from Blocs ($3 million), offset partly by a decrease in agent debtors ($2 million). Prize settlements receivable from Blocs have increased as there were higher prize amounts won by South Australian customers in draws towards the end of 2014-15 compared to 2013-14. Agent debtors were lower due to the timing of agent bank account sweeps (ie the final agent bank account sweep was closer to 30 June in the current year).

Liabilities

Total liabilities increased by $5 million to $55 million primarily as a result of an increase in current payables ($5 million). The increase in current payables is primarily due to an increase in prizes payable ($7 million), partly offset by a decrease in undistributed funds ($1 million). The increase in prizes payable is mainly due to a higher amount of Division 1 prizes being payable to South Australian prize winners in the current year. Undistributed funds have decreased primarily as a result of lower gambling tax being payable as at 30 June 2015 compared to the prior year.

Statement of Cash Flows

Net cash provided by operating activities increased by $5 million primarily due to the decrease in payments to suppliers and employees ($11 million), partly offset by an increase in prizes paid ($8 million).

Motor Accident Commission

Functional responsibility	The Motor Accident Commission (the Commission) is established pursuant to the *Motor Accident Commission Act 1992* (the MAC Act). The main function of the Commission is to provide compulsory third party (CTP) insurance to motor vehicle users in South Australia. The principal objectives of the Commission in providing CTP insurance are to: — achieve and maintain a sufficient level of solvency in the Compulsory Third Party Fund (the CTP Fund) — minimise premium charges having regard to the Commission's objective of achieving and maintaining a sufficient level of solvency in the CTP Fund — deal with claims for compensation in accordance with law as expeditiously as possible. The Commission's charter, pursuant to section 18 of the MAC Act, empowers the Commission to undertake CTP insurance and financial risk insurance.
Financial statistics	Outstanding claims liability: $1878 million Total investments: $2822 million Net result $425 million Number of FTEs: 38.7 CTP Fund assets represented 121% of the target solvency level.
Significant events and transactions	— Return of capital of $852.9 million by a payment to the Highways Fund. — Reduction in outstanding claims liability of $205 million. — Third party premiums were approved to reduce 9.3%.
Financial statement opinion	**Unmodified**
Financial controls opinion	**Modified** Key issue: — Controls for the Shared Services SA main payroll system did not meet a generally satisfactory standard

Scheme reform

On 20 June 2013 the *Motor Vehicle Accidents (Lifetime Support Scheme) Act 2013* was proclaimed. The proclamation required certain sections of this Act to come into operation from 1 July 2013 and other sections to come into operation from 1 July 2014.

The sections that came into operation on 1 July 2013 introduced thresholds for compensation for economic and non-economic loss and placed caps on legal fees. Compensation for non-economic loss is now based on a severity of injury scale ranging from one to 100. If the injury scale value of an injured person is assessed as 79 or more then the damages are set at $300 000 (indexed).

Other sections that came into operation on 1 July 2013 provided for the establishment of the Lifetime Support Authority of South Australia (the Lifetime Support Authority) which is responsible for the Lifetime Support Scheme Fund.

The sections that came into operation on 1 July 2014 enable catastrophically injured persons to begin participating in the Lifetime Support Scheme and obtaining benefits. Details of the new scheme arrangements are discussed in the commentary under 'Lifetime Support Authority of South Australia' elsewhere in Part B of this Report.

The estimate of the Commission's outstanding claims liability recognised in the 2014-15 financial report reflects the impact of scheme reform from 1 July 2013.

Changing future role of the Commission

As part of the 2014-15 State Budget the SA Government announced it would open the provision of CTP insurance to the private sector in South Australia from July 2016. As part of this initiative the Commission will end its role as the sole provider of CTP insurance in South Australia, and this will allow the Commission to cease writing new CTP insurance policies and run off its claims against policies issued up to and including 30 June 2016. The Commission will continue its role as nominal defendant and the promoter of road safety awareness (refer note 1 of the financial report).

Return of capital – payment to the Highways Fund

The 2014-15 State Budget identified that, following ceasing to be the sole provider of CTP insurance for the State, the Commission would be able to return surplus net assets to the Highways Fund to improve road safety.

The 2014-15 mid-year budget review outlined that, due to strong investment returns, the Commission was able to pay $852.9 million to the Highways Fund in December 2014. This amount was larger and earlier than the projected amount of $500 million that was originally included in the 2014-15 State Budget. This payment was made out of the net assets above the level required for sufficient solvency of the Commission, according to a formula approved by the Treasurer, to be maintained.

This payment was made consistent with section 26(2) of the MAC Act which provides for payments to the Treasurer, or as the Treasurer directs, to be made where a surplus exists in the CTP Fund. In this instance, the Treasurer directed that the payment be made to the Highways Fund, which is administered by the Department of Planning, Transport and Infrastructure. Note 23 of the financial report outlines this payment.

As the payment has been made from surplus net assets of the Commission as directed by the Treasurer, the payment has been treated as a return of capital in the financial report and is recorded as a reduction in the assets of the Commission and a reduction in total equity. Accordingly, this payment is not reflected in the net result or total comprehensive result of the Commission for 2014-15.

Scope of the audit

The audit program covered major financial systems and was directed primarily to obtaining sufficient evidence to enable an opinion to be formed with respect to the financial report and internal controls.

During 2014-15 specific areas of audit attention included:

- investment assets
- investment income
- claim payments
- outstanding claim liabilities
- premiums
- return of capital.

Audit findings and comments

Assessment of controls

In my opinion, the controls exercised by the Motor Accident Commission in relation to the receipt, expenditure and investment of money, the acquisition and disposal of property and the incurring of liabilities, except for the matters outlined under ‘Communication of audit matters’, are sufficient to provide reasonable assurance that the financial transactions of the Motor Accident Commission have been conducted properly and in accordance with law.

Communication of audit matters

The review of the auditable areas (including financial report verification) indicated that the financial controls of the Commission were satisfactory. No matters arose during the audit that required management letter communication to the Commission.

In addition, matters relating to Shared Services SA (SSSA) as a service provider to the Commission are also described below.

Shared Services SA – financial systems and transaction processing environments

SSSA processes financial transactions on behalf of the Commission under service level determinations. The main systems and control environments include accounts payable, payroll and accounts receivable functions.

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

As discussed in the commentary under ‘Department of the Premier and Cabinet’ elsewhere in Part B of this Report, our review and evaluation of controls for the SSSA main payroll systems concluded that controls did not meet a generally satisfactory standard for 2014-15. A number of specific matters were raised with SSSA for corrective action and review for process and procedural improvement. Our review and evaluation of controls for the SSSA main accounts payable systems and environment concluded that controls met a generally satisfactory standard for 2014-15.

The matters do not relate to the Commission's transaction processing.

Interpretation and analysis of the financial report

Highlights of the Commission's consolidated financial report*	2015 $'million	2014 $'million
Underwriting result		
Net premium	430	508
Net claims	(121)	(114)
Underwriting expenses	(104)	(148)
Contributions	-	(122)
Underwriting profit (loss)	204	124
Investment result		
Net investment revenue	47	47
Investment market value movements	173	312
Revenue from investment activities	220	359
Total comprehensive result	425	483
Net cash inflows (outflows) from operating activities	760	(36)
Assets		
Current assets	240	326
Non-current assets	2 644	3 187
Total assets	2 884	3 513
Liabilities		
Current liabilities	528	601
Non-current liabilities	1 533	1 660
Total liabilities	2 061	2 261
Equity	823	1 252

* Table may not add due to rounding

The Commission's financial performance is significantly influenced by two interrelated aspects of its business as outlined below:

- Underwriting result – underwriting operations are influenced by premium income, the number of claims and the estimated costs of settling those claims. The underwriting result is determined as premium revenue less claims expense (after the cost and recoveries associated with reinsuring a portion of the insurance portfolio's risk with third parties), other underwriting costs and contributions.

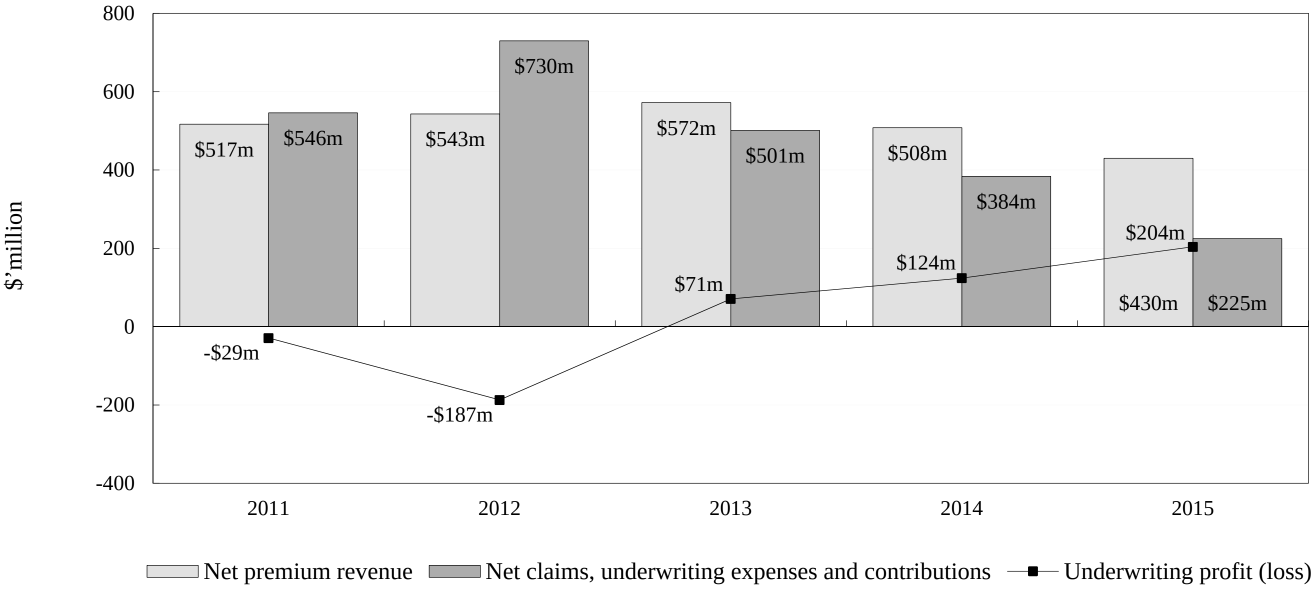
- Investment result – investment operations are an integral part of any insurance business as the estimated return on invested funds is a significant component of the pricing strategy employed by the business.

  AASB 1023 'General Insurance Contracts' requires that market value accounting be adopted in the accounting for and valuation of investments. This means that the investment result includes not only interest and related income received, but also changes in the market values of investments held at balance date. Changes in the market values of investments can be subject to wide fluctuations and it is important to emphasise that investment market value movements recognised in the Commission's financial report are unrealised. That is, until such time as the investments are sold, no gain or loss is actually received or incurred by the Commission.

Statement of Comprehensive Income

Underwriting result

An analysis of the underwriting result for the Commission for the five years to 2015 is presented in the following chart.



The underwriting result for 2015 was a profit of $204 million compared with a profit of $124 million in 2014 and is the best result for the five years shown. The main components of this result are outlined below.

The main reason for the improved result was that no contributions were paid in 2014-15. During 2014 the Commission contributed $100 million towards a dedicated fund for road safety initiatives with a particular focus on the treatment of Black Spots and $22 million transitional funding to the Lifetime Support Authority to fund their no fault claim costs (refer note 8 of the financial report).

Net premium revenue decreased by $78 million to $430 million. The decrease is principally due to:

- a 9.3% decrease in premiums, explained further under the heading ‘Third party insurance premiums’, which amounted to $40.3 million
- a $40.4 million decrease in the unearned premium movement within premium revenue. Of this amount $19.2 million relates to the payment of transitional funding to the Lifetime Support Authority by the Commission in 2014 (refer note 8 of the financial report).

The unexpired risk expense improved $34 million in 2014-15. Insurers are obliged to ensure that net unearned premium reserves are sufficient to cover future claim expenses. Adjustments are made to either increase or decrease the estimated liability at balance date. In 2014-15 the estimated liability was less than the existing provision resulting in a write-back to profit of the difference, $9 million ($25 million expense) (refer note 10 of the financial report).

Claims expense is a combination of actual claim payments and the movement in the outstanding claims provision. The claims expense for 2015 was $122 million ($113 million) and comprised gross claim payments of $327 million ($360 million), offset by the decrease in the outstanding claims provision of $205 million ($247 million decrease) which is explained further under the heading ‘Outstanding claims’.

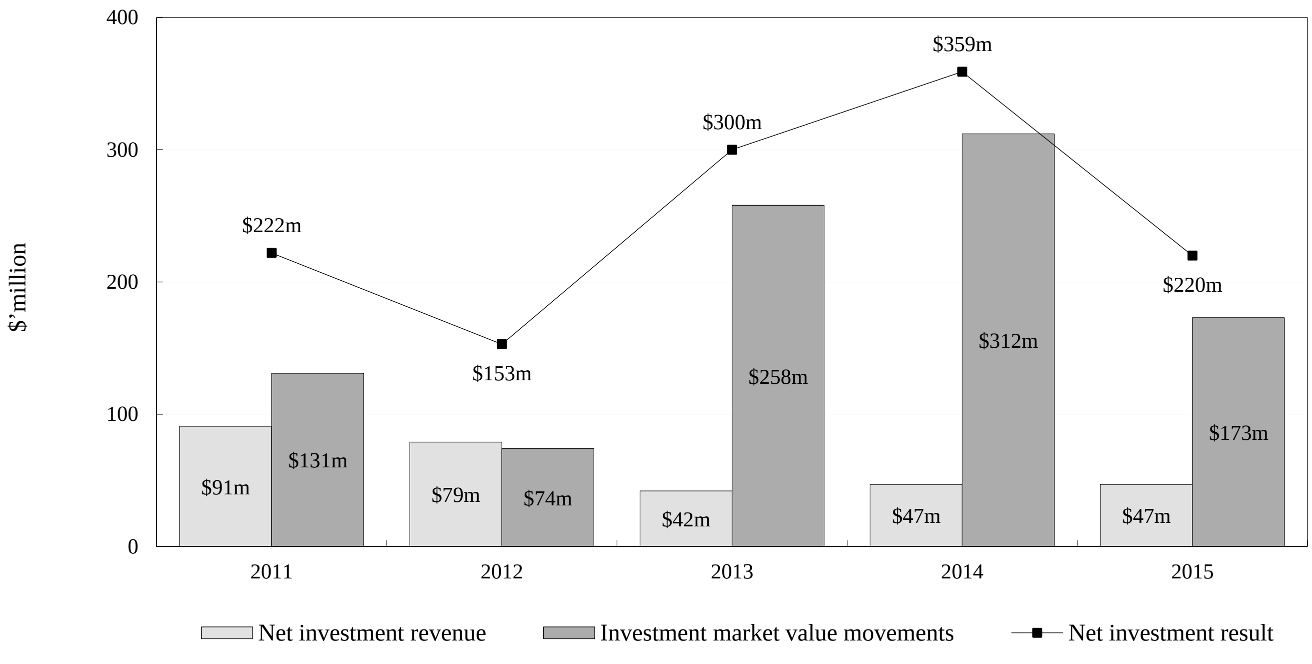
Other underwriting expenses decreased by $10 million primarily as a result of a reduction in levies and charges paid to other SA Government entities reflecting decreased premiums, down $7 million, and management expenses, down $3 million.

Investment result

The net investment result this financial year was a surplus of $220 million compared with $359 million the previous year. The net investment result is a combination of net investment revenue and investment market value movements. The reduced result reflected a decline in investment markets and reduced investment pool resulting from the return of capital totalling $852.9 million during the year. Net investment revenue remained steady at $47 million and the market value movement for the year was $173 million, down $139 million.

Since 2008-09 the Commission has used the Superannuation Funds Management Corporation of South Australia (Funds SA), the State Government investment body, to manage the majority of its investment portfolio. The Commission holds investments in unit trusts within Funds SA where the majority of income is derived through movement in the value of unit holdings rather than through direct receipt of interest and dividend income. In addition to investing with Funds SA the Commission, over recent years, has purchased more investment properties interstate increasing rental income to $46 million in 2015, up from $42 million in 2014. The market value of its properties increased by $2 million in 2015.

An analysis of the investment result for the Commission for the five years to 2015 is shown in the following chart.

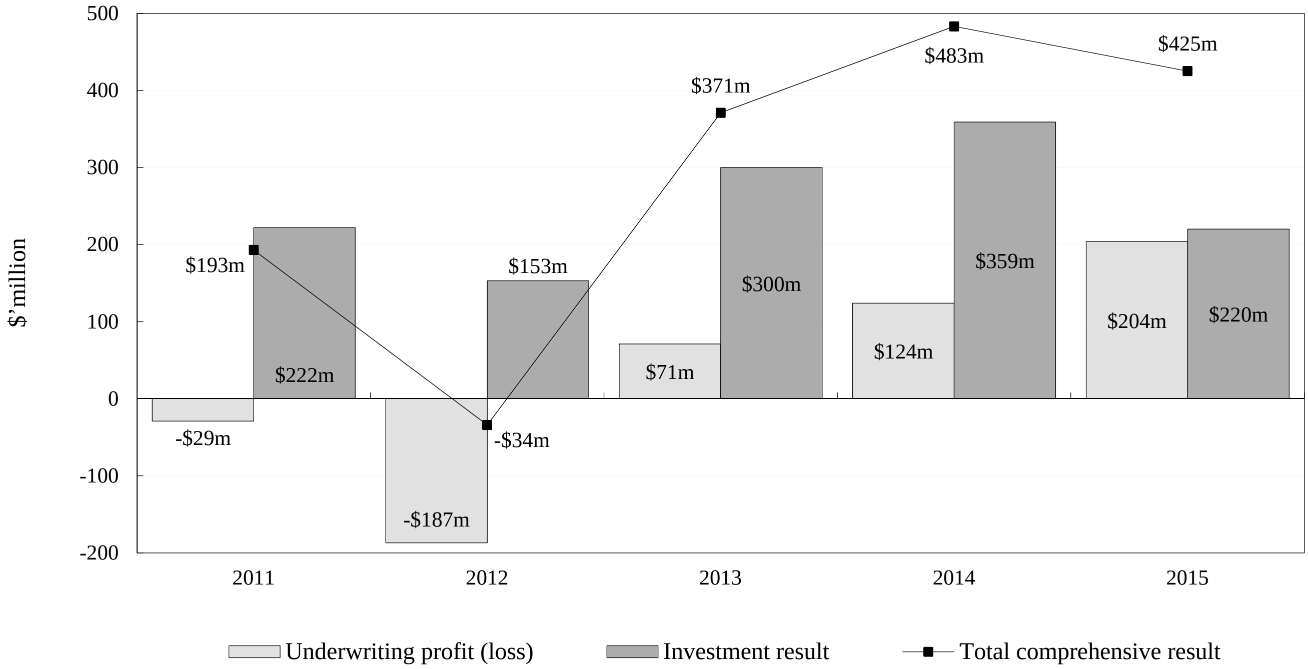


The chart highlights the volatility of investment markets in recent years. Note 21(6) of the financial report explains market risk and illustrates the effect of market movements.

Total comprehensive result

The Commission's total comprehensive result for 2015 was a profit of $425 million compared to a $483 million profit in the previous year. The $58 million decrease is a result of a number of factors including scheme reform from 1 July 2013, investment market performance, a reduced investment pool resulting from the return of capital of $852.9 million and significant reduction in claims expense, as previously discussed.

The following chart provides a breakdown of the contribution of the underwriting and investment results to the total comprehensive result.

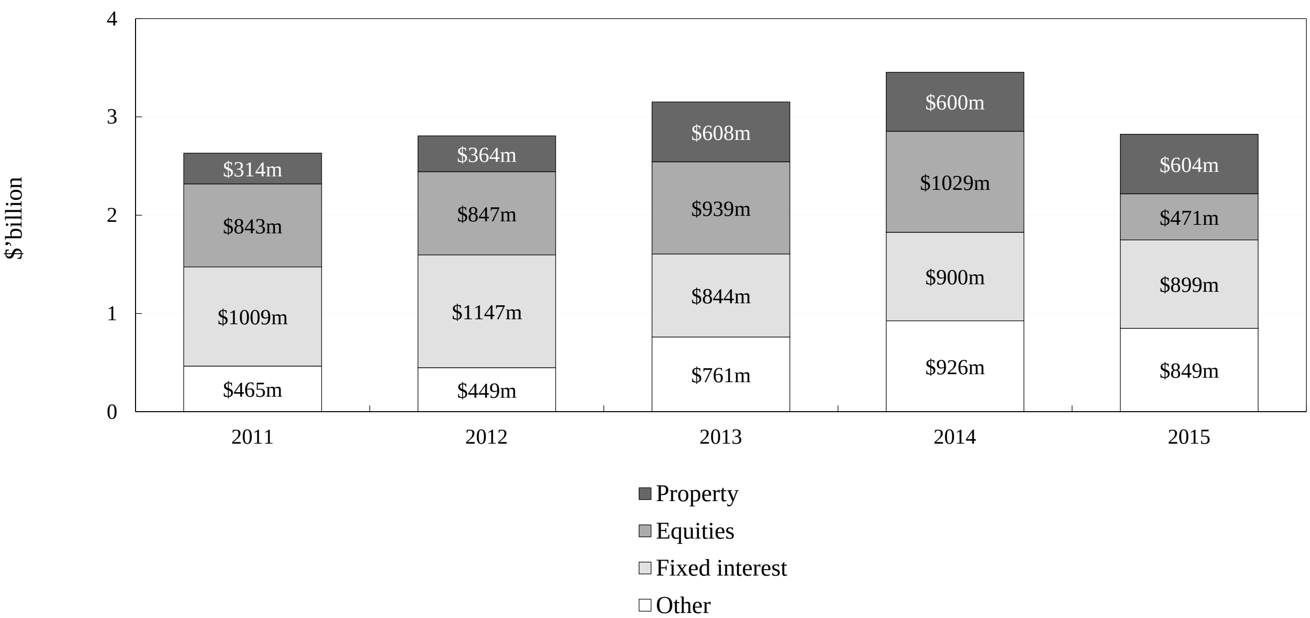


Statement of Financial Position

Investments

The Commission does not directly hold investments such as equities but rather has interests in Funds SA's pooled investment portfolios. The Commission is responsible for setting the investment objectives and strategic asset allocation for the various investment sectors. Funds SA is responsible for managing the investment portfolios in accordance with the agreed asset allocations and reporting investment performance to the Commission on a monthly basis.

For the five years to 2015 a structural analysis of investment assets (excluding cash) is shown in the following chart.



The chart shows the steady increase in total investment assets excluding cash to a high of $3.5 billion in 2014 before falling to $2.8 billion in 2015. The decrease of $633 million in 2015 was principally due to the return of capital of $852.9 million (refer note 23 of the financial report) offset by investment market value increases totalling $173 million (refer note 5 of the financial report).

Outstanding claims

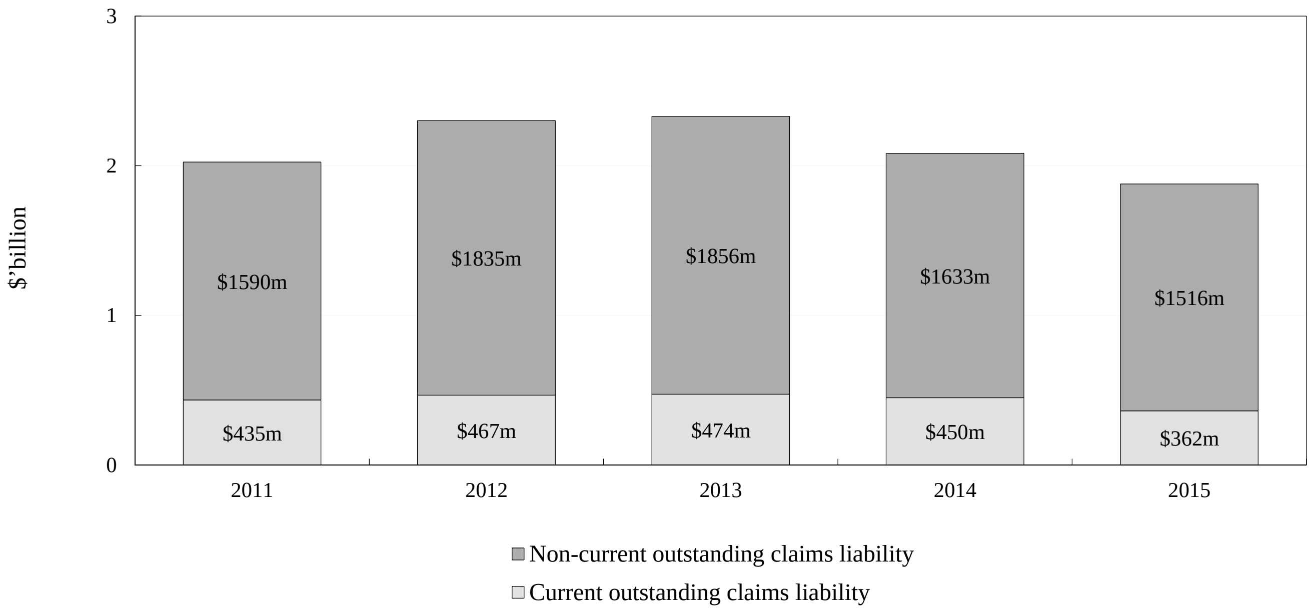
The primary liability of the Commission is for outstanding claims. The liability covers claims reported but not yet paid, claims incurred but not yet reported, the anticipated direct and indirect costs of settling those claims and estimated reinsurance and other insurance costs.

Calculation of the liability is an estimation process and a range of factors, including economic assumptions, affect the calculation. There is therefore a need for professional actuaries to undertake the calculation and, for reporting purposes, that detailed disclosure of a range of the assumptions made in the calculation be included in the notes of the financial report.

The liability is calculated and reviewed by independent actuaries for the Commission. For 2014-15 the Commission's primary independent actuary was Finity Consulting Pty Ltd (Finity). Details of the calculation are provided in notes 2(e) and 18 of the financial report.

In 2015 the liability decreased by $205 million ($247 million decrease) to $1.9 billion. The movement in the liability is a combination of the estimated cost of settling claims incurred in 2015, any changes in the estimated cost of settling claims incurred in previous years and any payments made to settle claims.

The following chart sets out details of the outstanding claims liability for the five years to 2015.



Factors considered by the actuary that impact the estimate of amounts required to settle claims include the:

- number of claims incurred
- length of time taken to settle the claim
- average amount of claim payments
- inflation and discount rates used.

Also impacting on the calculation of the outstanding claims liability are the solvency requirements promulgated by the Treasurer pursuant to the MAC Act that require a risk margin to be included in the provision to achieve an 80% probability that the provision is adequate. This requirement exceeds the Australian Prudential Regulation Authority nominated target of 75% probability of sufficiency, as set out in Prudential Standard GPS 320 ‘Actuarial and Related Matters’. Refer to further commentary provided under the heading ‘Solvency level’ below.

The $205 million decrease in the liability at 30 June 2015 was predominantly due to:

- a change in the claims methodology used for estimates of large claims that gives more credibility to recent experience, taking 85% of above cap case estimates instead of 100%. This has resulted in a $137 million fall in the liability and reflects continued settlements for amounts below the case estimates for large claims

- a decrease in the superimposed inflation rate from 3% to 2%, which has resulted in a $58 million fall in the liability, reflecting the relatively stable claims environment that has prevailed in recent years

- a change in the methodology used for smaller claims and assumptions, which has resulted in a $48 million fall in the liability

- a decrease in the discount rate from 3.1% to 2.5%, which has resulted in a $39 million increase in the liability, reflecting falls in market interest rates.

An element within the decrease has been the increasing proportion of outstanding claims that relates to the ‘new scheme’ – CTP claims from 1 July 2013. As at 30 June 2015, CTP claims under the new scheme represent 38% (19%) of the outstanding claims liability. Claim numbers and values have been lower under the new scheme than expected so far and the calculation of the outstanding claims liability has therefore been adjusted to reflect this experience to date.

While the higher proportion of new scheme claims has a role in the reduction of the outstanding claims liability, as expected from the introduction of scheme reform, there is a higher level of uncertainty regarding these claims due to the limited claims experience so far. Accordingly, the Commission has included a higher risk margin, increasing the estimated liability, for the new scheme, when compared to the risk margin applied to the older claims, in the calculation of the outstanding claims liability.

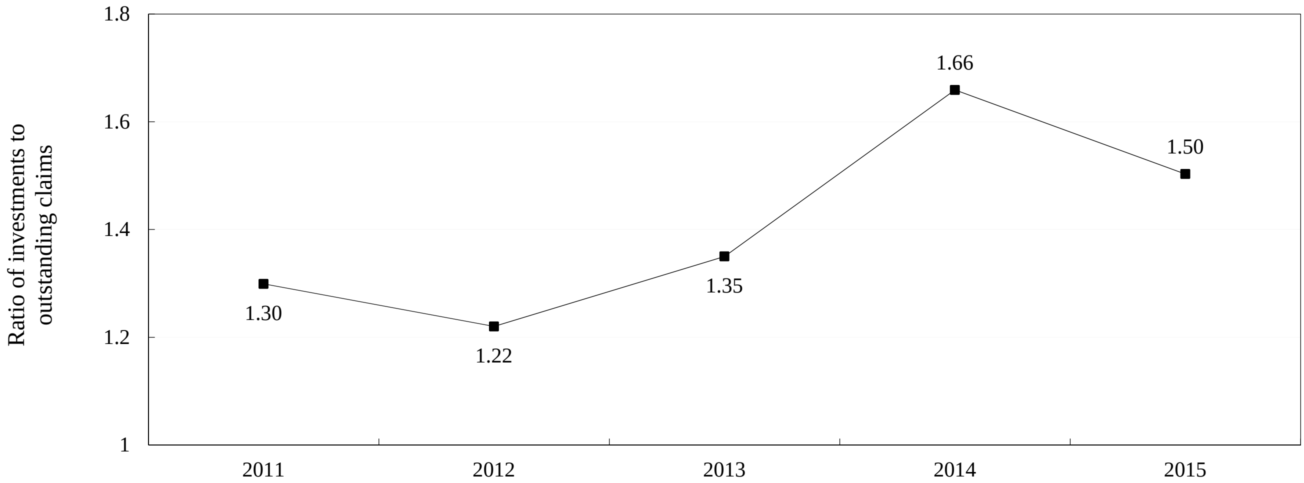
As was the case in 2014, the calculation of the claims liability in 2015 was subject to external peer review by Taylor Fry Consulting Actuaries. The independent reviewing actuary reported that:

- nothing had come to their attention that would lead them to believe that the actuarial assessment conducted by Finity was unreasonable

- they consider the methodology and analysis undertaken by Finity to be reasonable and noted that some of the recommendations from their previous peer review had been addressed by Finity

- Finity placed significant reliance on case estimates of large claims and recommended that a more detailed review of the development of case estimates over time be undertaken.

The ratio of investments excluding cash to outstanding claims liability is shown in the following chart. The ratio shows that the value of the Commission’s investments is sufficient to cover the value of its outstanding claims. The decrease in the ratio in 2015 reflects the $633 million decrease in the value of investments relative to the smaller $205 million reduction in outstanding claims liability.



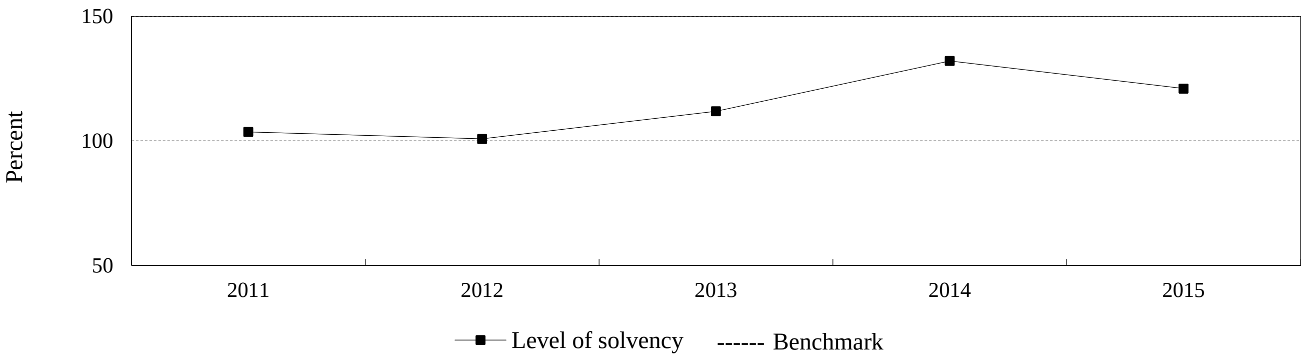
Solvency level

Section 14(3) of the MAC Act requires the Commission to seek to achieve and maintain a sufficient level of solvency for the CTP Fund in accordance with a formula determined by the Treasurer. Note 27 to the financial report provides further details on the formula and target rate.

As at 30 June 2015 the target level of assets, as determined by application of the formula, was $2383 million. The assets of the CTP Fund as at that date were $2883 million or 121% (132.1%) of the target level of solvency.

The reduction in the level of solvency in 2015 is principally due to the $852.9 return of capital, offset by the $205 million reduction in outstanding claims liability, as previously discussed.

The following chart shows the level of solvency achieved over the past five years.



Third party insurance premiums

The recent history regarding the implementation of premium changes recommended by the Third Party Premiums Committee (TPPC) is outlined below.

	2015 %	2014 %	2013 %	2012 %	2011 %
TPPC:					
Recommended rise (effective for the year ending 30 June)	(9.3)	2.0	4.63	2.4	7.3
Actual rise	(9.3)	(20.3)	4.63	2.4	7.3
Difference	-	22.3	-	-	-

As can be seen from the table, the Treasurer/Minister for Finance has approved the premium increases recommended by the TPPC in all years, except for 2014. On 20 May 2013 the Minister for Finance approved a decrease in premiums for 2014 to reflect the impact of scheme reform brought about by the *Motor Vehicle Accidents (Lifetime Support Scheme) Act 2013*. The TPPC had not considered scheme reform when it finalised its recommendation for premium increases on 18 April 2013.

The 9.3% reduction in premiums for 2014-15 reflects the continued impact of reforms to CTP insurance. Premiums are set with reference to expected claims and the need to maintain the solvency of the CTP Fund. The 2014-15 premium reflects lower expected claims payments, and associated outstanding claims liabilities, as a result of changes to the CTP insurance arrangements introduced from 1 July 2013. The impact of these changes, which limit payments for some claims, was factored in as a result of modelling of the impact of the changes and the claims experience in 2013-14.

Section 25(3a) of the MAC Act requires that, subject to any direction of the Treasurer to the contrary, the Commission must not, while there is a less than sufficient level of solvency in the CTP Fund, fix its third party insurance premiums at amounts less than those determined by the TPPC. Application of this section since its promulgation in 2002 has contributed to the solvency level being achieved.

The risk of decreasing premiums or implementing a less than recommended increase is that it places additional reliance on achieving good investment returns. If this is not achieved, or indeed when there is a significant downturn in investment performance, there may be little margin in the solvency position to absorb the impact of the downturn.

Under the provisions of the MAC Act, two of the principal objectives of the Commission in providing CTP insurance are to achieve and maintain a sufficient level of solvency in the CTP Fund and to minimise premium charges having regard to the Commission's objective of achieving and maintaining a sufficient level of solvency in the CTP Fund. The TPPC considers these two objectives when making its premium recommendation which is determined based on the circumstances prevailing at the time in relation to expected premium income, projected claim costs and investment returns.

Statement of Cash Flows

The Commission's cash position decreased by $94 million in 2015 due to:

- a $796 million improvement in net operating cash flows, resulting mainly from a $674 million increase in interest and other investment income (predominantly relating to redemption of Funds SA investments to fund the $852.9 million return of capital – refer note 23 of the financial report) and the absence of one-off contributions such as the $100 million payment towards road safety and $41.5 million payment to the Lifetime Support Scheme (refer note 8 of the financial report) in 2014

- a $852.9 million increase in net cash flows used in financing activities, relating to the return of capital (refer note 23 of the financial report).

Cash at 30 June 2015 includes deposits at call of $159 million.

Museum Board

Functional responsibility	The Museum Board (the Board) is established pursuant to the *South Australian Museum Act 1976*. The Board is responsible for the management of the South Australian Museum (the Museum). For details of the Board's functions refer note 1 of the financial report.

Financial statistics

Net cost of providing services:	$10.4 million
Total revenues from SA Government:	$11.1 million
Value of heritage collections:	$364 million
Number of FTEs:	72
Number of visitors:	733 926

Significant events and transactions

— The Waterhouse Natural Science Art Prize, the Australian Geographic ANZANG Nature Photographer of the Year and Iridescence major exhibitions were held in 2014-15.

— The South Australian Museum Foundation Incorporated and the South Australian Museum Foundation Fund were consolidated into the Board statements for the first time in 2014-15. The activities did not require a full consolidated presentation of the Board's financial statements.

— From 1 July 2014 the functions of Arts SA (including those impacting the Board) transferred from the Department of the Premier and Cabinet to the Department of State Development.

Financial statement opinion

Unmodified

Financial controls opinion

Modified

Key issues:

— The service level agreement between the Board and the Department of State Development was not finalised in 2014-15

— The Board's financial management compliance program was not completed and implemented

— Lack of clarity in responsibility for review of delegations and manual payments

— Controls for the Shared Services SA main payroll system did not meet a generally satisfactory standard

Scope of the audit

The audit program covered major financial systems and was directed primarily to obtaining sufficient evidence to enable an opinion to be formed with respect to the financial report and internal controls.

During 2014-15 specific areas of audit attention included:

- follow-up of 2013-14 audit findings
- legal compliance
- compliance with Treasurer's Instructions
- revenue
- expenditure
- payroll
- property, plant and equipment
- heritage collections
- cash and investments
- general ledger.

Audit findings and comments

Assessment of controls

In my opinion, the controls exercised by the Museum Board in relation to the receipt, expenditure and investment of money, the acquisition and disposal of property and the incurring of liabilities, except for all matters outlined under 'Communication of audit matters', are sufficient to provide reasonable assurance that the financial transactions of the Museum Board have been conducted properly and in accordance with law.

Communication of audit matters

Issues identified during the course of the audit were detailed in a management letter to the Director. A response to the letter was received outlining planned actions to address the identified issues. The significant matters raised and the Board's responses are detailed below.

In addition, matters relating to Shared Services SA (SSSA) as a service provider to the Board are also described below.

Legal compliance and governance

No service level agreement finalised between the Board and the Department of State Development in 2014-15

The functions of Arts SA transferred from the Department of the Premier and Cabinet (DPC) to the newly created Department of State Development (DSD) from 1 July 2014.

Our review in 2014-15 identified that although DSD has provided the Board with a service design and operating level responsibilities document, this document appears to be in draft form as the Board has not been provided with an opportunity to sign the document confirming acceptance of its contents. Our testing also identified aspects of the relationship which were not defined in this document, including the services to be provided by SSSA, and therefore it was unclear which agency had responsibility for performing certain tasks.

As a result, the Board may be at risk of not meeting its statutory responsibilities.

We recommended that the Board liaise with DSD to formalise and sign a service level agreement that clearly defines the roles and responsibilities of each party, including the services provided by SSSA.

The Board responded that it will continue to work with Arts SA to finalise a service level agreement with DSD during 2015-16.

No financial management compliance program developed and implemented in 2014-15

We have previously reported and recommended that the Board update its financial management compliance program (FMCP) to ensure all documentation is complete and achieves compliance with the requirements of Treasurer's Instruction 28 'Financial Management Compliance Program' (TI 28).

Follow-up in 2014-15 identified that although a number of discussions were held with DSD about the finalisation of an FMCP for the Board, and a resource was identified to assist the Board to complete this, the Board's FMCP remains incomplete.

In the absence of a robust and complete FMCP, the Board may not detect non-compliance with its financial management obligations and requirements. The Board also continues to not comply with the requirements of TI 28.

The Board responded that the FMCP is considerably advanced and will be finalised and implemented in 2015-16.

No central register of Board policies and procedures

As the functions of Arts SA transferred from DPC to the newly created DSD from 1 July 2014, Museum staff were required to follow Board-specific and DSD-wide policies and procedures in 2014-15. Staff were also required to follow previous DPC-wide policies and procedures where no DSD-wide policy or procedure had yet been developed.

Review of the Board's policies and procedures framework in prior years indicated there was no central register of all policies and procedures applicable to Museum staff readily accessible to staff. We advised that the establishment of a central register would ensure that staff are aware of all applicable policies and procedures and can easily access the policies and procedures relevant to the work they perform. It would also facilitate the monitoring of policies and procedures to ensure they are kept up to date in accordance with Treasurer's Instruction 2 'Financial Management'.

We also recognised in the prior year that the Board would need to liaise with DSD in 2014-15 in order to determine which of DSD's policies and procedures are relevant to the operations of the Museum and whether it is appropriate for the Board to adopt these.

Follow-up in 2014-15 identified that the Board is still determining which DSD policies and procedures are relevant to the Board and whether it is appropriate for the Board to adopt these. As a result, no central register of policies and procedures was established and made readily available to staff in 2014-15.

Museum staff may not be aware of all of the policies and procedures that apply to them and may be unclear regarding their roles and responsibilities in the conduct of their work. As a result, inconsistent, non-compliant or ineffective practices may be adopted.

We recommended that the Board continue to liaise with DSD in order to adopt DSD policies and procedures or develop a Board-specific policy or procedure. We also recommended the Board establish a central register of all applicable Board and DSD policies and procedures and make this readily accessible to staff.

The Board advised that the new relationship between the Board and DSD during 2014-15 resulted in extensive policy change. DSD has advanced considerably in the development of its policies and the Board is becoming aware of various Board-specific and DSD-specific policies applicable to Museum staff. The development of a Board-wide policy and procedure register will be integrated into the establishment of the FMCP and is expected to be completed in 2015-16.

Expenditure

Lack of clarity in responsibility for review of delegations and manual payments

Discussions with both Board staff and DSD employees in 2014-15 identified that a lack of clarity existed about whether DSD or the Board had responsibility for performing the following control activities relating to expenditure:

- periodically reviewing that the financial delegations contained in Basware for Museum staff agree to the delegations formally approved by DSD
- periodically reviewing that purchase card limits for Museum staff are in accordance with the delegations formally approved by DSD
- reviewing monthly the listing of all manual payments processed by SSSA to ensure payments were approved in accordance with delegations.

Our review identified that the above control activities were not being performed by either DSD or the Board throughout the year.

As a result, payments made in Basware or manual payments may not be authorised in accordance with the delegations formally approved by DSD. This may result in inappropriate payments being made by the Board. Credit card payments may also not be in accordance with the credit card limits formally approved by DSD. This may result in inappropriate credit card purchases being made by Museum staff.

We recommended that the Board liaise with DSD to determine which agency will be responsible for performing the above control activities. Once agreed upon, responsibility for these areas should be formally defined in the service level agreement between DSD and the Board.

The Board responded that as part of the establishment and implementation of the service level agreement between the Board and DSD, the Board will engage with Arts SA to ensure that matters of financial delegation management are considered as part of the agreement.

Shared Services SA – financial systems and transaction processing environments

SSSA processes financial transactions on behalf of the Board under service level determinations. The main systems and control environments include accounts payable, payroll and general ledger financial functions.

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

As discussed in the commentary under ‘Department of the Premier and Cabinet’ elsewhere in Part B of this Report, our review and evaluation of controls for the SSSA main payroll systems concluded that controls did not meet a generally satisfactory standard for 2014-15. A number of specific matters were raised with SSSA for corrective action and review for process and procedural improvement. Our review and evaluation of controls for the SSSA main accounts payable systems and environment concluded that controls met a generally satisfactory standard for 2014-15.

The matters do not relate to the Board’s transaction processing.

Interpretation and analysis of the financial report

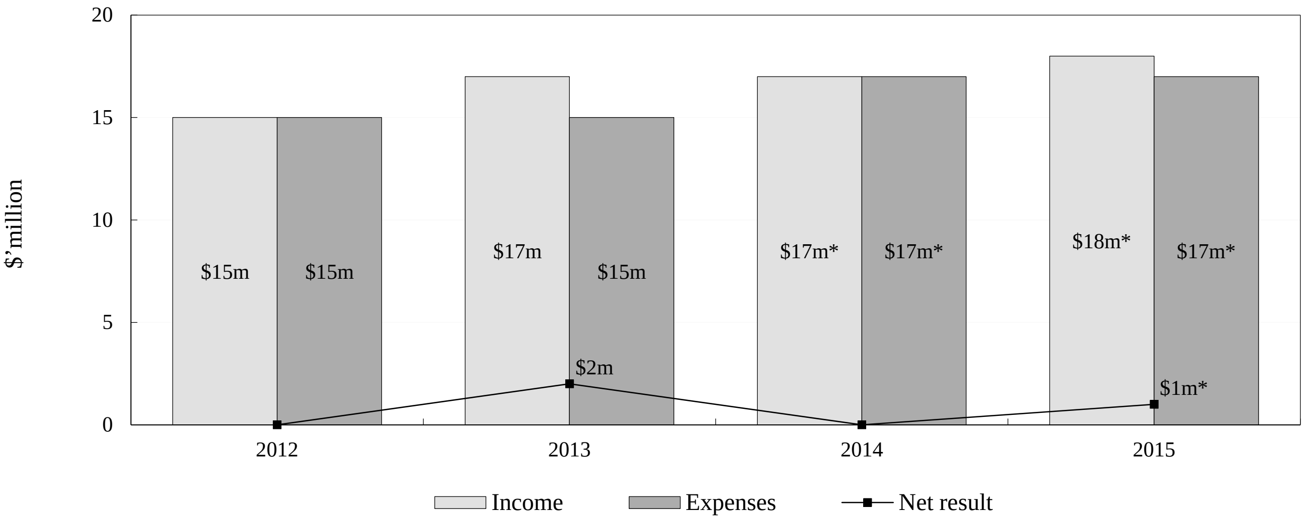
Highlights of the financial report

	2015 $'million	2014 $'million
Expenses		
Staff benefits	8	8
Other expenses	9	9
Total expenses	17	17
Income		
Revenues from SA Government	11	11
Other revenue	7	6
Total income	18	17
Net result	1	-
Net cash provided by (used in) operating activities	1	-
Net cash provided by (used in) investing activities	-	(2)
Net cash provided by (used in) financing activities	-	1
Assets		
Current assets	5	4
Non-current assets	406	406
Total assets	411	410
Liabilities		
Current liabilities	2	1
Non-current liabilities	1	2
Total liabilities	3	3
Total equity	408	407

Statement of Comprehensive Income

Net result

The following chart shows the income, expenses and net result of the Board for the four years to 2015.



* Includes transactions relating to the South Australian Museum Foundation Incorporated and the South Australian Museum Foundation Fund.

The Board's operations are generally consistent across years, unless there are one-off transactions that occur, eg a capital grant of $2.4 million was received in 2013 for the entomology project and security system upgrades. The consistent net result highlights that the Board only spends what it receives, and largely operates on a break-even basis.

Statement of Financial Position

Total assets at 30 June 2015 were $411 million, of which $364 million (89%) relates to the Board's heritage collections. The Board's heritage collections increased by $1.5 million in 2014-15, largely a result of heritage collection donations throughout the year ($1.4 million).

Office of the National Rail Safety Regulator

Functional responsibility	The Office of the National Rail Safety Regulator (ONRSR) is a body corporate established pursuant to the *Rail Safety National Law (South Australia) Act 2012* (RSNL Act). The Schedule to the RSNL Act sets out the Rail Safety National Law (the Law) to apply to a participating jurisdiction (State or Territory). The RSNL Act applies the Law to South Australia. The principal function of the ONRSR is to facilitate the safe operations of rail transport in Australia through regulation of the rail industry in accordance with the Law, supporting regulations and policies and the promotion of safety as a fundamental objective in the delivery of rail transport services. For details of the ONRSR's functions refer note 1 of the financial report.
Financial statistics	Revenues from fees and charges: $30.7 million Service level agreement expenses: $19.6 million Number of FTEs: 52
Significant events and transactions	— Preparation continued for the transition of Western Australia to join the ONRSR. In 2014-15 the ONRSR commenced fitout works for the Western Australian office. — Further development of ONRSR's IT environment occurred with the continued development of the registration and accreditation system at a cost of $1.2 million during 2014-15.
Financial statement opinion	**Unmodified**
Financial controls opinion	**Modified** Key issue: — Lack of, or out-of-date, finance policies and procedures

Scope of the audit

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

Specific areas of audit attention included:

- corporate governance
- payroll
- expenditure
- revenue, receipting and banking
- general ledger.

Audit findings and comments

Assessment of controls

In my opinion, the controls exercised by the Office of the National Rail Safety Regulator in relation to the receipt, expenditure and investment of money, the acquisition and disposal of property and the incurring of liabilities, except for all matters outlined under ‘Communication of audit matters’, are sufficient to provide reasonable assurance that the financial transactions of the Office of the National Rail Safety Regulator have been conducted properly and in accordance with law.

Communication of audit matters

Matters arising during the course of the audit were detailed in a management letter to the Chief Executive. The main matter raised and the related response is detailed below.

Lack of, or out-of-date, finance policies and procedures

The audit of the ONRSR identified a lack of policies or procedures in relation to some of the finance control processes that are currently undertaken. Additionally, a number of policies and procedures for financial processing required updating as they did not reflect current practices.

These issues result in an increased risk that staff may not adequately understand their required roles and responsibilities. This may result in inconsistent or incorrect performance of processes.

The ONRSR responded to this matter indicating a review of finance policies and procedures would be undertaken in the second quarter of 2015-16 and that any changes would be communicated to staff.

Further commentary on operations

The ONRSR was established on 1 July 2012 and commenced regulatory activities on 20 January 2013. As at 30 June 2015, the ONRSR is the rail safety regulator for rail activities under the RSNL Act in the jurisdictions of New South Wales, Victoria, South Australia, Tasmania, the Australian Capital Territory and the Northern Territory. Specific regulatory duties are undertaken in New South Wales and Victoria by the Independent Transport Safety Regulator and Transport Safety Victoria pursuant to service level agreements between those organisations and the ONRSR.

Subject to the finalisation of State law, it is expected that Western Australia will come within the regulatory framework of the ONRSR within six months. There remains a lack of certainty regarding if Queensland will come within the regulatory framework of the ONRSR.

The ONRSR has experienced significant change and challenges since it commenced regulatory activities on 20 January 2013. The ONRSR is still developing its core financial systems and internal control environment, which will continue to evolve over the coming years.

Interpretation and analysis of the financial report

The financial report of the ONRSR reflects the first two full financial years of operations. The financial report will change significantly over the coming years as the ONRSR develops its business, moves towards being fully funded by industry contributions and extends its regulatory role to further jurisdictions in Australia. As more States and Territories come within the regulatory framework of the ONRSR the operations will expand.

Highlights of the financial report

	2015 $'million	2014 $'million
Expenses		
Employee benefits expenses	7	6
Service level agreement	20	13
Supplies and services	3	4
Transition expenses	-	1
Total expenses	30	24
Income		
Revenues from fees and charges	31	24
Total income	31	24
Net result and total comprehensive result	1	-
Net cash provided by (used in) operating activities	4	-
Assets		
Current assets	11	8
Non-current assets	2	1
Total assets	13	9
Liabilities		
Current liabilities	5	2
Total liabilities	5	2
Total equity	8	7

Statement of Comprehensive Income

Expenses

Service level agreement expenses have increased by $7 million to $20 million predominantly due to Transport Safety Victoria providing services to the ONRSR for the first full year in 2014-15.

Income

Revenues from fees and charges have increased by $7 million to $31 million principally due to industry fees and government contributions from Victoria. Victoria only became a participating jurisdiction towards the end of 2013-14 and this year's financial results show the full impact of this change for the first time.

Parliamentary Superannuation Scheme

Functional responsibility	The Parliamentary Superannuation Scheme (the Scheme) was established under the *Parliamentary Superannuation Act 1974*. The Scheme provides for the payment of benefits to persons who have served as members of Parliament and makes provisions for the families of such persons. The South Australian Parliamentary Superannuation Board is responsible for administering the Scheme. The Department of Treasury and Finance – State Superannuation Office provides services to administer the Scheme.
Financial statistics	Liability for accrued benefits: $202.2 million Excess of net assets over liabilities: $29.6 million Benefits paid and payable: $12.7 million Number of pensioners: 120 Number of active members: 69
Financial statement opinion	**Unmodified**
Financial controls opinion	**Unmodified**

Scope of the audit

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

During 2014-15 areas of review included:

- receipting and banking of contributions
- pension payments
- liability for accrued benefits.

The investment and management of the Scheme's assets is reviewed as part of the Superannuation Funds Management Corporation of South Australia audit.

Audit findings and comments

Assessment of controls

In my opinion, the controls exercised by the Parliamentary Superannuation Scheme in relation to the receipt, expenditure and investment of money, the acquisition and disposal of property and the incurring of liabilities are sufficient to provide reasonable assurance that the financial transactions of the Parliamentary Superannuation Scheme have been conducted properly and in accordance with law.

Communication of audit matters

The audit did not identify any notable matters requiring formal communication to the South Australian Parliamentary Superannuation Board.

Interpretation and analysis of the financial report

Highlights of the financial report

	2015 $'million	2014 $'million
Revenue		
Contribution revenue	5.4	5.0
Investment revenue	23.0	30.3
Total revenue	28.4	35.3
Expenses		
Benefit expenses	14.1	12.9
Other expenses	1.8	1.7
Total expenses	15.9	14.6
Operating result for the period	12.5	20.7
Net cash provided by (used in) operating activities	(7.5)	(8.2)
Assets		
Investments	231.2	217.7
Other assets	0.7	0.4
Total assets	231.9	218.1
Liabilities		
Benefits and other payables	0.1	0.2
Total liabilities	0.1	0.2

	2015 $'million	2014 $'million
Net assets available to pay benefits	231.8	217.9
Liability for accrued benefits	202.2	200.8
Excess of net assets over liabilities	29.6	17.1

Operating Statement

The operating result for the year was a surplus of $12.5 million ($20.7 million). The year's result took into account:

- returns on investments of $23 million ($30.3 million). Investment returns are further discussed in the audit commentary under 'Superannuation Funds Management Corporation of South Australia' elsewhere in Part B of this Report

- benefit expenses of $14.1 million ($12.9 million). Benefit expenses have increased as a result of the actuarially determined estimated liability for accrued benefits increasing marginally.

Statement of Financial Position

As at 30 June 2015, there was an excess of net assets over liabilities of $29.6 million ($17.1 million).

The estimated liability for accrued benefits increased by $1.4 million to $202.2 million ($200.8 million) for which net assets of $231.8 million ($217.9 million) were available to pay benefits. The expected future benefit payments were determined using the pensioner mortality assumptions of the 2013 triennial actuarial review of the South Australian Superannuation Scheme (refer note 7 of the financial report).

In comparison, vested benefits as at 30 June 2015 were $213.3 million ($214.8 million). Vested benefits represent benefits that members are entitled to receive had their membership been terminated at the reporting date. Vested benefits are greater than accrued benefits as vested benefits are based on the involuntary expiration of service. As a result members would be entitled to the benefits immediately (refer note 8 of the financial report).

Further commentary on operations

Pensioners

The number of pensioners as at 30 June and benefits paid and payable for the past four years were:

	2015	2014	2013	2012
Pensioners	120	124	119	118
Benefits paid and payable ($'million)	12.7	12.9	11.0	9.7

Contributions by employees

The number of contributors and contributions received from members for the past four years were:

	2015	2014	2013	2012
Contributors	69	69	69	69
Contributions received ($'million)	0.5	0.7	0.8	0.8

Department of Planning, Transport and Infrastructure

Functional responsibility	The Department of Planning, Transport and Infrastructure (the Department) is an administrative unit established pursuant to the *Public Sector Act 2009* and has diverse responsibilities for transport systems and services, infrastructure planning and provision, sporting infrastructure and strategic land use for South Australia.
Financial statistics	**Controlled** Total expenses: $1560 million Net revenue from providing services: $519 million Total appropriation: $369 million Payments to SA Government: $80 million Capital expenditure: $448 million Total non-current assets: $24 billion Number of FTEs (excluding Rail Commissioner): 2518 **Administered** Total income: $1128 million Disbursements to third parties: $918 million Payments to Consolidated Account: $176 million
Significant events and transactions	— Once-off receipt of $853 million into the Highways Fund from the Motor Accident Commission. — Restructuring resulted in the number of FTEs reducing by 301.
Financial statement opinion	**Unmodified**
Financial controls opinion	**Modified** Key issues: — A robust risk management process was not in place for the year — Insufficient processes for management of compliance with legal, financial authorised officer and disclosure obligations — Accounts payable: inadequate controls over system access, manual payments, foreign currency transactions and the vendor master file — Purchase cards: inadequate controls over the management of cardholders and transactions — Payroll: controls did not ensure all payments were bona fide and accurate, and that all leave was recorded — No contract management plans for operational and maintenance agreements for recreational and sporting facilities — Controls for the Shared Services SA main payroll system did not meet a generally satisfactory standard — IT network access rules for the registration and licensing system were insufficient

Scope of the audit

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

During 2014-15 specific areas of audit attention included:

- accounts payable
- management of purchase cards
- payroll
- bus contract payments
- grants and subsidies
- registration and licence fees
- Metrocard revenue
- other revenue
- accounts receivable
- Commonwealth certificates
- bank reconciliations
- governance
- fixed assets including:
  - network assets
  - land, buildings and facilities
  - plant and equipment
  - capital works
  - rental and other properties.

In addition, we considered internal audit activities in order to identify and assess the risks of material misstatement in the financial report and to design and perform audit procedures.

Audit findings and comments

Assessment of controls

In my opinion, the controls exercised by the Department of Planning, Transport and Infrastructure in relation to the receipt, expenditure and investment of money, the acquisition and disposal of property and the incurring of liabilities, except for all matters outlined under 'Communication of audit matters', are sufficient to provide reasonable assurance that the financial transactions of the Department of Planning, Transport and Infrastructure have been conducted properly and in accordance with law.

Communication of audit matters

Matters arising during the course of the audit were detailed in management letters to the Chief Executive. Major matters raised with the Department and the related responses are detailed below.

In addition, matters relating to Shared Services SA (SSSA) as a service provider to the Department are also described below.

Risk management

The Department manages a wide range of complex operations and is required to manage the risks associated with those activities.

In previous years we reported concerns with the Department's risk management framework and risk management system. Last year, this included observations on the progress of the Risk Management Process Development project, including that:

- incomplete and inconsistent information was recorded in the risk management system in areas such as risk commentary, risk assessments, risk classification, review dates, treatment strategies and progress, and risk acceptance by management

- extreme and high level risks, their assessment, and treatment strategies and progress were not formally reported to senior management and the then Audit and Governance Committee

- a significant number of business groups did not have approved risk management process documents.

The Department responded in August 2014 advising that the departmental restructure would require a risk management policy and system review to address these concerns, with the oversight requirements of the risk management system, completeness of data and senior management reporting being determined within this project.

In 2014-15 we found the observations arising from the previous audit were not addressed for the majority of the financial year and were still being implemented. Our audit observed:

- the Department had issued a revised risk management framework and policy in January 2015

- data recorded in the Department's risk management system for the strategic risk profile and the three divisional strategic risk profiles was created in March 2015 and other risk profiles were being reviewed and implemented

- organisational and local risk profiles created under the former departmental structure remained in the risk management system and in some instances former employees of the Department were listed as responsible officers for these profiles. In addition, risk management process documents were not updated to reflect changes from the departmental restructure

- risk reporting from the risk management system to the Executive Audit and Risk Committee started to occur in late 2014-15.

The Department has had a number of structural changes over recent years and as a result its risk management improvements have not advanced to maturity. The risk management system should be sufficiently robust to ensure risks are managed during governmental and organisational restructures, as these restructures are likely to increase the risk profile of the Department.

The Department advised a number of actions to progress risk management including:

- developing a risk management action plan to implement key elements of the revised risk management framework and policy

- continued development and review of strategic risk profiles and material enterprise level risks and reporting of risks to senior executive management monthly and the Executive Audit and Risk Committee

- monitoring and reviewing risk management processes to ensure plans are relevant to current and changing departmental structures

- annual internal audits that assess compliance with, and effectiveness of, the Department's risk management framework and policy
- training for new managers.

Legal compliance

The Department's operations are diverse and cover a wide range of responsibilities. The Department is responsible for administering approximately 80 Acts and is required to comply with numerous other legal requirements.

Our audit noted, while action was taken within the various areas of the Department to address legislative requirements, the Department had no formal legislative compliance framework or program to assist in monitoring compliance with its legal and regulatory obligations. Not having a coordinated legal compliance framework increases the risk of the Department not appropriately identifying and managing legislative and regulatory requirements and risks, potentially causing reputational loss, litigation and/or financial loss to the Department and/or the Government. In addition, the Department may not be effectively applying resources to meet legislative responsibilities.

An effective legal compliance framework includes identifying relevant legislative and regulatory requirements, assigning responsibility for compliance, review processes to ensure legislative and regulatory requirements are complied with, and mechanisms for dealing with non-compliance. This should also include periodic reporting to senior management and the Executive Audit and Risk Committee.

The Department responded that it is undertaking a review of its legal compliance program. This review is working towards establishing mechanisms to ensure compliance with relevant legislation.

Financial management compliance program (FMCP)

The Department has an established FMCP. Our review of the FMCP process available at the time of audit revealed there was:

- no independent and objective review of the validity and accuracy of self-assessment questionnaire responses
- inadequate ongoing documentation to evidence that all FMCP issues identified are appropriately monitored and reported
- instances where management provided inadequate evidence to support self-assessments made in the divisional questionnaires.

The above matters increase the risk of the Department not detecting and remedying issues, gaps and failures in policies, procedures, systems, internal controls, risk management, statutory and other financial reporting.

In response the Department advised:

- the internal audit plan will include testing to independently confirm management's self-assessments, with the results reported to the Executive Audit and Risk Committee and executive management
- the Department considered the existing follow-up process appropriate. However, the policy will be amended to include the respective areas accountable for following up issues identified, as well as ensuring that such issues are addressed

- the need for management to provide sufficient evidence to support the assertions made in self-assessment responses will be reinforced.

Authorised officers

In November 2013, we reported on the outcome of a review of processes for the appointment and authorisation of authorised officers across a number of Government agencies, including the Department. The findings for the Department included the appointment of authorised officers not made in accordance with delegations, the lack of documented policies and procedures for the appointment and authorisation for authorised officers, inconsistent practices across the Department and the lack of a formal regular review of authorisations.

Last year the Department advised that all actions to address the audit matters were implemented and that the Department had developed an overarching framework to support legislative compliance, including the determination of legislation, roles and responsibilities. The framework required internal audit to provide annual assurance on compliance with the framework.

The Department completed an internal audit in July 2014 that highlighted partially ineffective controls in the administration of appointments of authorised/prescribed officers. The internal audit observations included:

- there was no regular review or formal revocation processes of authorised/prescribed officers, inspectors and authorised persons, increasing the opportunity for an unauthorised officer to continue exercising powers. This involved the non-return of identity cards, no communication of officers leaving the Department or position and impacted on the currency and integrity of information held

- there was no centralised register for managing authorised/prescribed officers, inspectors and authorised persons, and local procedures either did not exist or were incomplete, resulting in inconsistencies, insufficient details, and duplication and/or multiple registers across the Department

- examples where:

  — documentation was not adequately retained or was not current

  — legislative process gaps for the issue of identity cards existed

  — there was no central responsibility for managing delegations and instruments of appointment and outdated delegation documentation was used.

The internal audit report also indicated a follow-up review to report to the Auditor-General would be undertaken in January 2015. This report did not occur.

Departmental documentation indicated that effort to implement the agreed actions from the internal audit report was deferred due to the organisational restructure, which was considered an opportunity to ensure a cohesive and coordinated approach for administering the appointment of internal and external authorised/prescribed officers. The document also outlined key actions to be undertaken.

The risk of not having a cohesive and coordinated approach to administering the appointment of internal and external authorised/prescribed officers is that individuals may not be properly authorised and therefore can expose the Department to litigation and subsequent losses.

The response advised the Department has finalised the centralisation of responsibility for the management and oversight of authorised/prescribed officers, was in the process of mapping and documenting activities and functions performed by authorised/prescribed officers, and was developing a centralised register for authorised/prescribed officers. In addition the approaches to managing identification cards will be investigated.

Executive management committee

The Department's Executive Group was established in early 2015 as a result of the ongoing departmental restructure, with the first Executive Group meeting held in February 2015. At the time of review, in April 2015, the terms of reference document was not finalised due to the restructure and continuing appointments to senior positions.

We were further informed that the nature and type of information to be forwarded to the Executive Group was also being considered by the Executive Group at the time of our review.

Without establishing terms of reference to guide the operations of the Executive Group, individual members may be uncertain of their roles and responsibilities and the Department may not satisfactorily meet its objectives.

The Department responded that the Executive Group terms of reference have been finalised and provided a copy of the document.

Fraud and corruption control policy and plans

Our review of the Department's fraud and corruption control policy and plans found:

- the policy was not reviewed annually as required by the Treasurer's Instructions
- fraud control and corruption plans for some business areas were not finalised and may need review as part of the departmental restructure to ensure they remain relevant and consistent with changes resulting from the restructure.

Out-of-date and/or incomplete fraud and corruption control policy and plans increase the Department's exposure to fraud and limits the ability to effectively manage the prevention, detection and response to incidents of fraud, corruption and maladministration, which may result in financial loss.

The Department responded that the policy will undergo a substantial review as soon as practical and options to improve and streamline business area fraud control and corruption plans will be investigated. In addition the Department will monitor and review the fraud control and corruption plans to ensure compliance with the policy and to ensure these plans are relevant to current departmental structures.

Accounts payable

Previous years' audits found a number of areas where internal controls were considered ineffective. The current audit noted that while the Department had made progress in addressing some control weaknesses identified, a number were not adequately addressed. The main findings were that:

- control processes over the monthly review of Basware user access may not detect where delegations become inappropriate due to a position classification change, increasing the risk of inappropriate access and inappropriate/invalid purchases

- there continued to be a significant number of urgent manual payments processed through the Department's online banking facility rather than Basware, increasing the risk of duplicate payments
- foreign currency transactions (processed manually by SSSA) were not reviewed to ensure payments were made by officers with the correct delegation, increasing the risk that inappropriate transactions may not be detected
- the vendor master file was not reviewed to ensure that duplicate vendors and inactive vendors were removed, increasing the risk that vendors may be paid more than once
- reconciliation of Basware unprocessed payables continued to contain a large number of long outstanding reconciling items, potentially resulting in financial reporting errors
- requests for granting access to masterpiece were not checked to ensure they were appropriately authorised, increasing the risk of inappropriate access being provided that may result in invalid transactions being processed.

The Department provided a response detailing action being taken or planned to address all matters raised including strengthening the procurement governance function, improving review of Basware user access, developing, maintaining and enforcing guidelines for appropriate use of manual payments, checking of foreign currency payments and regular review of the vendor master file.

Invoice payments review

In 2014-15, we reviewed certain aspects of invoice payments at the Department. This included reviewing datasets relating to invoices, invoice payments and vendors for duplicate payments, duplicate vendors and other unusual or potentially inappropriate activity.

Based on the work performed from data obtained for the sample period, we concluded that a small number of duplicate invoice payments were processed. The amount of duplicate payments identified was immaterial to the accounts payable process. However, these payments were raised for management attention and potential recovery.

Additionally, we identified certain shortcomings in need of management attention, including:

- duplicate vendors identified (including 1819 duplicate vendors by bank account)
- vendors with missing address and bank account details
- payments made to vendors with invalid or cancelled ABNs
- employees identified in the vendor master file
- a large volume of low-value invoices issued by government agencies, leading to inefficiencies with invoice processing.

The Department responded it is investigating the effectiveness of controls and reporting in place together with SSSA Accounts Payable and reviewing internal reporting mechanisms in order to find improvement opportunities. Further, a regular vendor master file review has been initiated.

Management of purchase cards

The Department has about 900 purchase cards and incurred expenditure in the order of $10 million during 2014-15 on these cards. The use of purchase cards can be a cost effective means of procuring a wide range of goods and services. 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.

Last year we reported a number of findings on the management of purchase cards to the Department. This year's audit followed up the progress made from last year and performed some additional testing.

In response to many of the issues raised last year the Department indicated it would review and update the policies and procedures for purchase cards. Our audit found that these had not been updated.

During the course of the audit it became apparent that the departmental restructure had an impact on the control environment for purchase cards and the information available for audit. In particular, some key officers were not clear about the scope of their responsibilities for performing important controls and maintaining information.

Consequently, while some areas had improved, most of the matters raised from last year's review were identified again as part of this year's follow-up. We found:

- the Department's purchase card register did not provide for the effective management of the use of purchase cards and there were instances where the information included in the register was not accurate or current

- instances where there was no evidence that key reports used for the management of cardholders and transactions were being generated and reviewed

- a number of cardholders were issued cards with transaction limits that breached the requirements of the Treasurer's Instructions and/or the Department's policy

- there was no process to effectively manage purchase cards for employees on extended leave

- there was no check to ensure the officer approving the new card had the appropriate delegation

- the timeliness of certification of purchase card charges by cardholders could be improved

- examples where purchase card transactions were not in accordance with the Department's policies and procedures on splitting of invoice payments, using third party transactions (eg PayPal), and purchasing fuel, flowers and printer cartridges

- instances where the description was insufficient to convey the nature or purpose of the purchase

- policy and guidance provided by the Department on the circumstance, nature, approval, limits and documentation requirements for expenditure on entertainment, and staff rewards and recognition, could be improved.

In response, the Department advised a range of actions being taken, including:

- the review and release of policies and procedures by the end of September 2015
- formalising positions and roles from the departmental restructure
- training officers responsible for reviewing and managing credit cards
- reinforcing policy and procedure requirements to cardholders and approving officers
- implementing regular reviews of transactions to ensure compliance with policies and procedures
- reviewing the recognition and rewards policy and the need for an entertainment expenses policy.

Payroll

Prior audits have identified weaknesses in controls over payroll. Our review in 2014-15 found that while the Department implemented action to address some of the matters raised in prior years, there remained a number of control weaknesses. The main issues from the audit were:

- the Department established an interim bona fide process covering approximately 62% of pay points. This interim process did not ensure these employees were bona fide, correctly classified and paid for the correct hours. In addition:
  - procedures and work instructions for the interim bona fide process were not documented
  - audit testing indicated that leave reported under the interim bona fide process was not checked by most areas reviewed
- the Department had issued revised bona fide procedures (applicable to pay points not under the interim bona fide process), however these were not effectively communicated to staff responsible for reviewing the bona fide reports. In addition:
  - testing identified examples where leave recorded in attendance records was either not recorded or incorrectly recorded in the payroll system
  - improvement was needed for controls to ensure all bona fide exceptions were followed up and appropriately actioned
- the Department's controls did not ensure all allowances and overtime were valid, appropriately approved and correctly paid.

The above findings increase the risk that non-bona fide and/or incorrect payments may not be detected.

The Department provided a response addressing the matters raised, including that the Department will schedule the completion of a review of the bona fide processes, update and document instructions, communicate checking requirements to relevant staff and review the control environment for all allowances and overtime.

Project services

The project services function is responsible for delivering major building construction projects for other government agencies and the Department. Our audit found:

- the value and number of projects where expenditure exceeded the project funding approved by the client agency had decreased from last year. However, review of the excess expenditure report indicated the excess project expenditure remained significant and there were a number of items with unresolved expenditure, some exceeding two years. In addition, several items listed had no strategies documented and most items had no expected resolution dates documented. We also noted the report was no longer reviewed by a senior manager for the project services function as the specific position no longer existed due to the Department's restructure.

  If the review of the excess expenditure report is not operating effectively there is an increased risk the Department may incur unnecessary and/or unrecoverable costs arising from problems with projects not being identified and addressed on a timely basis, errors in posting project costs not being identified and addressed, and disputes arising between the Department and client agencies

- information used to calculate revenue earned for projects was not provided by some project managers in a timely manner, increasing the risk of agencies not being charged for services provided on a timely basis
- some policies and procedures required updating to reflect current practices and organisational changes, increasing the risk of processes not being performed consistently and in accordance with management expectations.

The Department responded to the audit findings and provided details of actions to address the matters raised, including reassigning the review of the excess expenditure report, reassessing resources to follow up outstanding client approvals for excess expenditure, managing and escalating action to address missing revenue data and updating outdated procedures.

Government office accommodation

The Department is responsible for managing the SA Government's office accommodation, including leases in privately owned buildings, government owned office buildings and day-to-day property management including payment and collection of rent. Our audit found:

- measures to ensure employee access levels to the system used to manage office accommodation were consistent with their job description were not actioned and instances were identified where officers had inappropriate access to the system. Inappropriate access to the system increases the risk of invalid transactions being processed
- the Department of the Premier and Cabinet (DPC) Circular PC018 'Government Office Accommodation Framework' setting out the policy adopted by Cabinet to govern office accommodation has not been updated since the Government Office Accommodation Committee ceased in October 2014. The Committee was responsible to the Minister and its endorsement of major accommodation proposals was required as part of the approval process. This risks office accommodation not being reviewed and controlled in accordance with Cabinet's requirements
- there were a number of outstanding leasing documents and documentation to support some agreed leasing changes was inadequate. The risk of an absence of appropriately documented and signed agreed terms and conditions is that lease disputes with tenants may be difficult to resolve, potentially resulting in a financial loss
- debtor follow-up was not operating for the full financial year and there were a number of debtor accounts with negative balances, some existing for several years. The ineffective follow-up of debtors may result in difficulties in collecting outstanding debts
- there was no independent checking process and standard calculation spreadsheet for determining the total value of leases used for financial approval purposes, increasing the risk of the incorrect expenditure authority being obtained for leases.

The Department advised it will update the policy and procedure for controlling system access, finalise the review of the DPC Circular PC018, develop a procedure for leasing changes, allocate resources for the regular follow-up of outstanding debtors and standardise and independently check lease calculation spreadsheets.

Government residential properties

The Department is responsible for providing subsidised housing to eligible government employees who take up positions in regional South Australia. Our review found:

- reviews of user access to the system used to manage housing did not consider the appropriateness of access levels provided to existing users and we identified examples where some employees' access was not removed in a timely manner. Inappropriate access to the system increases the risk of invalid transactions being processed

- payments to the Crown Solicitor's Office for the execution and purchase of land were not approved by an appropriate delegate, resulting in non-compliance with the Treasurer's Instructions and the potential of processing invalid or inaccurate payments

- the fixed asset register was not reconciled to the system used to manage housing, increasing the risk that financial records may not be accurate for reporting and operational purposes.

The Department responded that a review of user access levels would be completed and included in the procedures, the appropriate authorisation of payments will occur and a quarterly reconciliation of the fixed asset register to the system used to manage housing will be conducted.

Facilities management

The Department is responsible for the oversight of outsourced facilities management services, which provide government agencies with access to planned and unplanned maintenance, minor works and other services. These services are either undertaken by an outsourced contractor or coordinated directly by the Department.

As part of the control process for managing contractor work, agencies are required to certify that the goods and services are received. In previous years, we reported that an unacceptably high percentage of facilities charges are auto-approved for payment without certification from agencies receiving the service. The Department responded advising of the various processes and internal controls it uses to ensure that private contractors are paid in a timely manner and client agencies are given the opportunity and sufficient time to approve or dispute claims.

Our 2014-15 audit identified that agency compliance with review and certification requirements remains a concern. From July 2014 to April 2015, $22 million was paid to contractors after being auto-approved, representing approximately 36% of total facilities management payments.

We again recommended that the Department develop further mechanisms to ensure agencies certify facility management works before processing payments to contractors.

In response the Department advised it was investigating some further enhancements to existing controls such as including exception reports, expansion of current reporting to clients, providing alerts to designated contacts and raising the matter periodically at the client governance meetings.

Office for Recreation and Sport – Sports Voucher program

The Sports Voucher program (the program) is a State Government initiative to provide a sports voucher to the value of $50 for every primary school student in South Australia. The Department's Office for Recreation and Sport manages the program. The program has set eligibility criteria for both the sports providers, which offer the sporting program, and children who participate in those sporting programs. The Department commenced making payments under the program in March 2015. The value of the program was $7.7 million over four years. Expenditure during 2014-15 amounted to $1.1 million.

We noted that the Department had a tight time frame to set up the program and was well advanced in establishing systems and procedures to manage the program. The Department has established a software application to manage providers and the claims process. Our audit found some areas where the control environment could be improved:

- documented procedures did not include coverage of most control activities for the administration of the program, increasing the risk that processes are not performed in accordance with management expectations

- there were gaps in the controls to ensure that sports providers are meeting certain eligibility criteria and sports vouchers claimed for reimbursement are valid, increasing the risk of program requirements not being met and fraudulent claims being submitted

- changes to key provider information (eg bank details, etc) in the claims system were not independently reviewed to ensure they were valid and accurate, increasing the risk of invalid or fraudulent payments

- certain officers had access to both create providers and process payments against those providers in the claims system, increasing the risk of error and/or fraudulent transactions.

The Department responded to the audit findings with actions proposed to address the matters raised. These included documenting procedures to cover control activities, formalising random audits of sports providers and claims, checking key provider information and investigating solutions to address the risk that some officers can create providers and process claims.

Contract management for recreational and sporting facilities

The Department is responsible for a number of recreational and sporting facilities. Three of these have operation and maintenance agreements with external parties. These facilities are the SA Aquatic and Leisure Centre, Pines Hockey Stadium and Netball SA Stadium.

Our audit of the contract management arrangements for these facilities found there were no contract management plans in place. We also identified weaknesses in the documentation and assignment of responsibility to specific officers and areas of non-compliance with contract requirements.

The Department's response stated that for all future agreements contract management plans would be prepared and that contract management plans are being developed for agreements already in place. For compliance with contract requirements and updating documentation on roles and responsibilities, the response indicated that relevant documents and processes are being reviewed and our recommendations actioned.

Management of the rectification works for the SA Aquatic and Leisure Centre

The Department and private contractors were involved in the construction of the SA Aquatic and Leisure Centre. The project was granted practical completion in March 2011. We reported on the procurement and contract management arrangements for this construction project in the 2012-13 Annual Report.

Following practical completion a number of critical defects emerged that required rectification. The Department engaged the services of a contractor to identify the defects and to manage the rectification works.

In 2014-15 we reviewed the management of remediation works. Our review identified:

- a lack of evidence that adequate monitoring over the rectification tasks was performed to ensure tasks were completed. Consequently, there was an increased risk that the rectification works were not completed to a satisfactory state, which may lead to further works and costs

- payments were made to contractors in excess of the contract limits prior to contract extensions being approved. In the absence of contract extension approvals there is a risk contracts are not managed efficiently and effectively and unauthorised payments may be made.

The Department's response indicated that current policies and procedures include requirements to maintain appropriate evidence of the completion of rectification tasks and adequate monitoring of contract payments and contract extensions. The Department further indicated that the execution of these practices would be reviewed and monitored for future projects.

Disclosure requirements

Our audit included testing the Department's compliance with a sample of mandated disclosure requirements. We found instances of non-compliance with these requirements, namely:

- a number of disclosure reports on activities of the Chief Executive, the Minister for Transport and Infrastructure and Ministerial Staff were not published on the Department's website as required by DPC Circular PC035 'Proactive Disclosure of Regularly Requested Information'

- not all contracts were published on the SA Government's Tenders and Contracts website as required by DPC Circular PC027 'Disclosure of Government Contracts'.

Consequently transparency and accountability requirements for departmental activity were not met.

The Department advised that mandated disclosures have now been published and that the required publishing time frames have been noted.

Shared Services SA – financial systems and transaction processing environments

SSSA processes financial transactions on behalf of the Department under service level determinations. The main systems and control environments include accounts payable, payroll and general ledger financial functions.

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

As discussed in the commentary under 'Department of the Premier and Cabinet' elsewhere in Part B of this Report, our review and evaluation of controls for the SSSA main payroll systems concluded that controls did not meet a generally satisfactory standard for 2014-15. A number of specific matters were raised with SSSA for corrective action and review for process and procedural improvement. Our review and evaluation of controls for the SSSA main accounts payable systems and environment concluded that controls met a generally satisfactory standard for 2014-15.

The matters do not relate to the Department's transaction processing.

Information and communications technology and control

Metrocard system

The Metrocard system is the ticketing system for the public transport system in Adelaide.

Last year we included commentary on a 2013-14 IT control review of the system. The review found that the Metrocard change register needed to be improved to provide an effective audit trail and to facilitate management, and a detailed documented understanding of security profiles within the system needed to be developed. We also identified that all users had administrative access, there was no protocol to control vendor access to the system and a number of test transactions were identified in the production environment. Lastly, we identified that certain improvements were needed to business continuity arrangements, including testing of recovery.

In 2014-15 we sought an update on progress in addressing these audit findings. The Department advised that:

- a new issue tracking system had been implemented to improve the management of change, including providing an effective audit trail
- standard reporting within the system now details user rights and a range of security related information
- a register to record test transactions was implemented in 2014
- documentation for Metrocard business continuity and disaster recovery had been updated and the Metrocard database recovery had been recently tested.

The Department also advised that an internal review of Metrocard controls will be undertaken prior to the end of 2015.

TRUMPS security

TRUMPS is a major government computer system that records and processes revenue in excess of $1 billion p.a. The system allows for payments over the internet for registration and licensing transactions by members of the public. TRUMPS is integral to the operations of Service SA Centres, which provide a shopfront for dealing with the public.

In 2012-13 we reviewed a security product to address TRUMPS security shortcomings that were identified in past audit reviews. The 2012-13 review findings included that certain network access rules needed to be documented and implemented, certain logging data needed to be encrypted and contractual arrangements with the product's provider/maintainer needed improvement. We also identified that functionality to assist detecting potential malicious behaviour in real time needed to be implemented.

The Department's response to the 2012-13 audit stated that remediation on a number of issues was scheduled to be completed by mid-2013. This included the implementation of network access rules, improved contractual arrangements with the product's service provider and encryption of logging data.

In 2014-15 we conducted a further review and found a number of issues were addressed, including the encryption of logging data, improving contractual arrangements with the product's service provider and implementing real time alerting functionality. We also found the following was not addressed:

- The network access rules deployed on the supporting network device did not prevent direct attack from or through the StateNet network.
- There was no clear configuration and threat management policy for the security product and no formal policy for designing and implementing the network segmentation rules for the supporting network device.
- While maintenance was applied to the security product, no maintenance was applied to a network device that supports the operation of the security product.

A number of other issues were identified concerning the security product and the supporting network device that forms part of the overall solution to protect TRUMPS. These included change management improvements, removal of personal accounts, removal of unnecessary network services and improvements to logging for the supporting network device.

The Department responded:

- the network access rules would be improved and documented to ensure adequate controls are in place and an overall policy, and justification for specific access would be undertaken and completed by November 2015. The risks and events to be monitored by the security product would also be documented

- the need to routinely undertake network device vulnerability patching is now documented in the ICT security team's central master activity schedule and an upgrade on the particular network device has been scheduled for August 2015.

For the other issues identified the Department responded that all matters had been addressed with the exception of improvements for logging for the supporting network device. For this matter the Department advised that an evaluation would be undertaken to identify the most appropriate mitigation method.

Other commentary

Adelaide Oval redevelopment

On 29 September 2011 the *Adelaide Oval Redevelopment and Management Act 2011* (the AORM Act) came into operation. The primary purpose of the AORM Act is to facilitate the redevelopment of Adelaide Oval and to provide for the future care, control and management of Adelaide Oval. The Department has the principal construction management role and responsibility for the project development.

The AORM Act also requires financial supervision of the project by the Auditor-General and provides for the Auditor-General to report to Parliament on specific financial matters associated with the redevelopment and the ongoing management of Adelaide Oval. Six-monthly reports are provided to the Parliament in discharge of the requirements of the AORM Act. The first Report was provided to the Parliament on 29 February 2012, and most recently, 31 August 2015.

Interpretation and analysis of the financial report

Highlights of the financial report

	2015 $'million	2014 $'million
Expenses		
Employee benefit expenses	246	246
Supplies and services	813	827
Depreciation and amortisation	376	336
Grants and subsidies	85	94
Other expenses	40	115
Total expenses	1 560	1 618
Income		
Fees and charges	598	580
Commonwealth revenues	134	78
Sale of goods and services	146	145
Rental income	214	212
Other income	987	125
Total income	2 079	1 140
Net revenue from (cost of) providing services	519	(478)

	2015 $'million	2014 $'million
Revenues from (Payments to) SA Government		
Revenues from SA Government	369	336
Payments to SA Government	(80)	(7)
Total revenues from (payments to) SA Government	289	329
Net result	808	(149)
Other comprehensive income		
Changes in revaluation surplus	163	341
Total comprehensive result	971	192
Net cash provided by (used in) operating activities	1 227	325
Assets		
Current assets	1 740	696
Non-current assets	24 126	24 039
Total assets	25 866	24 735
Liabilities		
Current liabilities	213	229
Non-current liabilities	144	155
Total liabilities	357	384
Total equity	25 509	24 351

Statement of Comprehensive Income

Expenses

Expenses for the year totalled $1560 million ($1618 million) and are mainly attributable to:

- employee benefit expenses of $246 million (16%)
- supplies and services expenses of $813 million (52%), of which $195 million (24%) was for bus service contract payments, $156 million (19%) was for operating lease expenses, $136 million (17%) was for operating costs of major infrastructure maintenance and other service contracts and $110 million (14%) was for property expenses
- depreciation and amortisation expense of $376 million (24%), of which $260 million (69%) was for network assets, $59 million (16%) was for plant and equipment and $50 million (13%) was for buildings and facilities.

Total expenses decreased by $58 million (4%) from $1618 million to $1560 million. The more notable variances were:

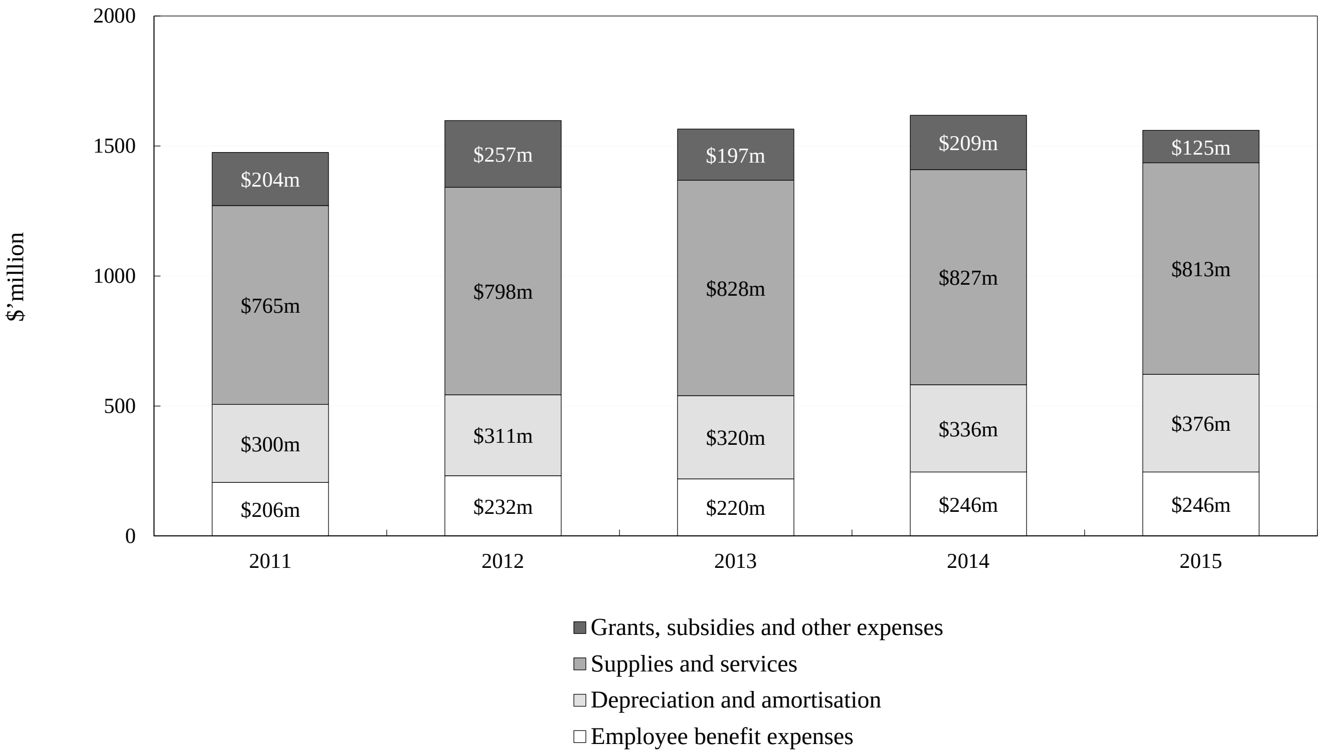
- 2013-14 including a $56 million write-off of expenditure from capital projects for the Gawler Railway Line and Northern Expressway project
- a reduction in donated assets of $14 million
- 2014-15 including the State's contribution payment to the National Heavy Vehicle Regulator of $14 million for the first time
- 2013-14 including $9 million provided for environmental remediation of commercial port land at inner Outer Harbour and Port Pirie, which was previously operated by the South Australian Ports Corporation

- depreciation and amortisation expenses increasing by $40 million, due mainly to the full year effects of depreciation on $2.4 billion of capital works that were completed and capitalised in the latter part of 2013-14, and $855 million during 2014-15
- grants and subsidies decreasing by $9 million due mainly to a reduction of $8 million in payments to local councils.

Employee benefit expenses remained consistent with the prior year at $246 million. However there was a significant restructure of the Department in 2014-15 resulting in:

- targeted voluntary separation packages increasing by $4 million to $15 million ($11 million). The number of packages during the period was 210 (91)
- executive termination payments of $4 million
- a reduction of $11 million in the expense from a reduction in staff. The number of FTEs reduced by 301 or 11% to 2518 at 30 June 2015, compared to 2819 the previous year.

For the five years to 2015, a structural analysis of the major expense items for the Department is shown in the following chart.



Income

Income (excluding revenues from the SA Government and changes in revaluation surpluses) for the year totalled $2079 million ($1140 million) and represents:

- other income of $912 million (44%), which includes a receipt of $853 million from the Motor Accident Commission paid into the Highways Fund. Refer to commentary under 'Motor Accident Commission' elsewhere in Part B of this Report for information on this payment
- fees and charges of $598 million (29%), of which $449 million is for driver and vehicle registration income and $88 million is for Metroticket income
- rental income of $214 million (10%), including $182 million for office accommodation and $27 million for residential accommodation

- sale of goods and services income of $146 million (7%), of which $102 million relates to facilities maintenance services provided to government agencies and $44 million is attributable to sales of other goods and services
- Commonwealth revenues of $134 million (6%), including $55 million for the South Road Upgrade (Torrens Road to River Torrens) project, $23 million for road maintenance programs, $15 million for municipal services on regional and remote aboriginal lands, $12 million for Darlington upgrade, $9 million received pursuant to the *Interstate Road Transport Act 1985* (Cwlth) and $6 million for the South Road planning study
- grants and subsidies of $62 million (3%), of which $60 million is for passenger transport concessions.

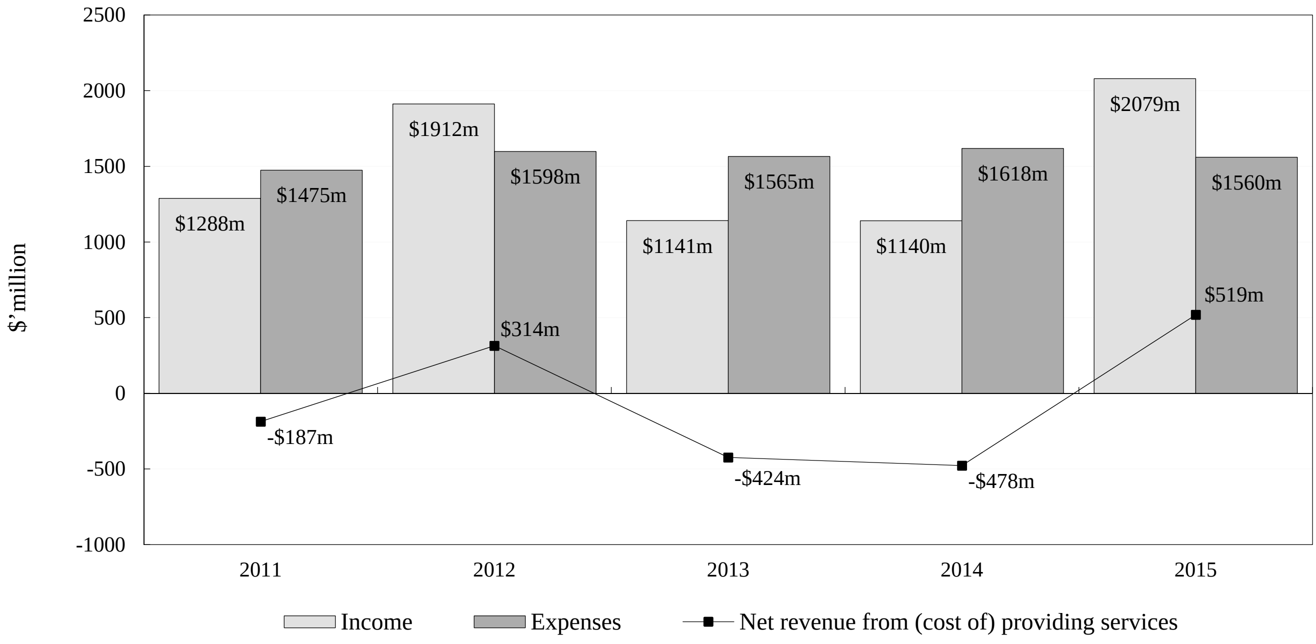
Total income (excluding revenues from the SA Government and changes in revaluation surpluses) for the year increased by $939 million (82%). The increase mainly reflects:

- an $853 million receipt from the Motor Accident Commission in 2014-15
- a $56 million increase in Commonwealth funding, mainly for road projects (refer to comments above)
- a $14 million increase in motor registration income due mainly to changing renewal patterns, increased rates and increased volume
- a $10 million income from the National Heavy Vehicle Safety Regulator for the provision of regulatory services for the first time in 2014-15
- a $7 million increase in Metrotickets due mainly to price increases and increased patronage.

Net revenue from (cost of) providing services

The net revenue from providing services for the year was $519 million compared to a net cost of $478 million the previous year. The main contribution to the surplus was the once-off receipt of $853 million from the Motor Accident Commission. Without this income, the Department would have reported a net cost of providing services of $334 million.

The following chart shows the income, expenses and net revenue from (cost of) providing services for the five years to 2015.



Revenues from (Payments to) SA Government

Revenues the from SA Government increased by $33 million from $336 million to $369 million. The increase mainly reflects a $45 million increase in appropriation received pursuant to the *Appropriation Act* mainly for additional working capital for the Department's operating account.

Payments to the SA Government totalled $80 million ($7 million), comprised mainly of the transfer of proceeds from the disposal of assets of $74 million ($5 million).

In addition, during the year the Department received an equity contribution from the SA Government totalling $188 million ($484 million). Equity contributions are recognised in the Statement of Changes in Equity rather than the Statement of Comprehensive Income.

Statement of Financial Position

Total assets of the Department as at 30 June 2015 were $25.9 billion ($24.7 billion), which includes network assets of $20.1 billion ($19.4 billion), land buildings and facilities of $2.9 billion ($3 billion) and cash of $1.4 billion ($437 million).

The increase in total assets of $1.1 billion mainly reflects:

- an increase of $987 million in cash due mainly to the once-off receipt of $853 million from the Motor Accident Commission
- non-current asset additions of $454 million and net revaluation increments of $163 million, which were offset by depreciation and amortisation of $376 million
- a reduction in receivables of $56 million mainly associated with reduced capital works performed on behalf of other Government agencies.

The Department's liabilities amounted to $357 million ($384 million) and mainly comprised payables of $157 million ($176 million) and employee benefits of $104 million ($103 million).

Network assets

Network assets amounted to $20.1 billion and represented 83% of total non-current assets. Network assets comprise roads with a written down value of $15.8 billion (79%), structures with a written down value of $2.2 billion (11%) and rail and bus track assets with a written down value of $2.1 billion (10%).

The written down value of network assets increased by $622 million to $20.1 billion. The increase is attributable mainly to:

- the capitalisation of a number of projects totalling $630 million, of which $399 million was for the Southern Expressway Duplication project, $56 million of the Dukes Highway Safety Upgrade project and $17 million for the South Road Superway project
- a revaluation increment of $253 million, comprising $189 million for roads and $64 million for structures. The revaluation increment used the Australian Bureau of Statistics' Road and Bridge Construction Price Index for South Australia. For further details of the valuation model and key assumptions for road network assets refer note 31 of the financial report
- depreciation charges of $260 million, comprising $174 million for roads, $42 million for structures and $44 million for rail and bus tracks.

Capital works in progress

The value of capital works in progress decreased by $495 million to $340 million.

The decrease reflects the transfer of completed projects totalling $855 million to the Department's different asset categories, including $630 million to network assets, $165 million to plant and $42 million to buildings and facilities. Refer to commentary under 'Network assets' above and 'Land, buildings, and facilities' below for details of the major projects capitalised during the year.

Major projects recorded in capital works in progress at balance date include the South Road Upgrade (Torrens Road to River Torrens) project for $93 million, the Railcar Replacement project for $16 million, Port Bonython Jetty refurbishment for $15 million and the Darlington Upgrade project for $15 million.

Land, buildings and facilities

The value of land, buildings and facilities decreased slightly from $3 billion to $2.9 billion. The main factors affecting land, buildings and facilities for the year were:

- asset additions from purchases, transfers from capital works in progress and assets received free of charge amounting to $120 million. Major additions included $42 million of land for the South Road (Torrens Road to River Torrens) project, $31 million of land and buildings for the Parks Community Centre, $12 million of buildings for the Adelaide Oval project, $7 million of land for the Darlington Upgrade project and $7 million of buildings for the Riverbank Northern Precinct project
- assets transferred to held for sale, $148 million (refer commentary below)
- depreciation charges of $51 million
- revaluation of assets, $25 million.

Plant and equipment

Plant and equipment amounted to $748 million, an increase of $3 million from the previous year. The main movements for the year were:

- asset additions and transfers from capital works in progress of $179 million, including $155 million for rail rolling stock and $8 million for the bus purchase program
- a revaluation decrement of $114 million, mainly due to the revaluation of railcars acquired in the late 1980s and early 1990s
- depreciation expense of $60 million.

Non-current assets held for sale

The Statement of Financial Position includes separate disclosure for non-current assets held for sale of $142 million ($38 million). The main changes during the year were:

- disposals of $43 million, mainly relating to the sale of 21 Divett Place and 60 Wakefield Street during the year
- additional assets transferred to non-current assets held for sale of $148 million mainly relating to commercial properties.

Intangible assets

Intangible assets increased by $17 million, mainly due the completion of the new South Australian Integrated Land Information system.

Statement of Cash Flows

The net cash flow provided by operating activities increased by $902 million to $1.2 billion. The main contributing factors were:

- the once-off receipt of $853 million from the Motor Accident Commission
- an increase in receipts from the Commonwealth of $56 million
- an increase in the payments to the SA Government of $73 million due mainly to the transfer of the proceeds from assets sales to the Consolidated Account.

The cash outflows used in investing activities decreased by $460 million to $476 million, reflecting a reduction in the Department's capital works program.

The net cash flows from financing activities decreased by $286 million to 184 million, due mainly to a reduction in the equity contribution from the SA Government from $484 million to $188 million.

Administered items

The Department's activities include $1.1 billion of revenue and expenses administered on behalf of others. The main administered activities are for the collection and disbursement of monies to other government entities and the Consolidated Account.

The main administered activity is for:

- Compulsory Third Party insurance collected with motor vehicle registrations on behalf of the Motor Accident Commission of $478 million ($524 million), a decrease of $46 million from the previous year due mainly to the reform of insurance arrangements, which included the introduction of the Lifetime Support Scheme
- the Lifetime Support Scheme levy collected with motor vehicle registrations on behalf of the Lifetime Support Authority of South Australia of $141 million ($2 million). The collections commenced on motor registration renewals from 1 July 2014
- stamp duties charged with motor vehicle transactions and paid to the Department of Treasury and Finance, $156 million ($157 million)
- regulatory land services fees on land transactions paid to the Consolidated Account of $177 million ($151 million). The increase is mainly due to more activity in the property market and an increase in fees
- amounts collected with motor vehicle transactions and paid to the Department of Treasury and Finance for the Hospital Fund of $68 million ($67 million)
- Emergency Services levy charged with motor vehicle transactions and paid to the South Australian Fire and Emergency Services Commission of $41 million ($33 million).

Police Superannuation Scheme

Functional responsibility	The Police Superannuation Scheme (the Scheme) and the Police Superannuation Board (the Board) were established under the *Police Superannuation Act 1990*. The Board is responsible for administering the Scheme which provides for benefit payments to police officers who commenced employment before 1 June 1990. The Scheme comprises a Pension Division which consists of the Police Superannuation Fund and the Police Superannuation Scheme Employer Contribution Account (the Police Employer Account). The Superannuation Funds Management Corporation of South Australia is responsible for the investment and management of the Police Superannuation Fund and the Police Employer Account. Note 1 of the financial report provides further details on the Scheme's administration and funding arrangements.
Financial statistics	Net assets available to pay benefits: $1418 million Total accrued benefits: $2005 million Number of Scheme members and pensioners: 2980
Significant events and transactions	The unfunded liability for accrued benefits decreased by $117 million during the year to $587 million.
Financial statement opinion	**Unmodified**
Financial controls opinion	**Unmodified**

Scope of the audit

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

During 2014-15 areas of review included:

- benefit payments
- contributions
- cash
- general ledger
- administration expenses
- risk management
- compliance with Treasurer's Instruction 2 'Financial Management' and Treasurer's Instruction 28 'Financial Management Compliance Program'.

The audit of the investment and management of the Scheme's assets is reviewed as part of the Superannuation Funds Management Corporation of South Australia audit.

Audit findings and comments

Assessment of controls

In my opinion, the controls exercised by the Police Superannuation Scheme in relation to the receipt, expenditure and investment of money, the acquisition and disposal of property and the incurring of liabilities are sufficient to provide reasonable assurance that the financial transactions of the Police Superannuation Scheme have been conducted properly and in accordance with law.

Communication of audit matters

The audit did not identify any notable matters requiring formal communication to the Board.

Interpretation and analysis of the financial report

Highlights of the financial report

In accordance with AAS 25 'Financial Reporting by Superannuation Plans', the Board has elected to present its financial report in the format of a Statement of Net Assets and a Statement of Changes in Net Assets. Consequently, a Statement of Cash Flows has not been prepared and benefit related liabilities are disclosed in the notes of the financial report.

	2015 $'million	2014 $'million
Revenue		
Contribution revenue	93	100
Investment revenue	139	173
Total revenue	232	273
Expenses		
Benefits paid	81	78
Other expenses	10	8
Total expenses	91	86
Net increase (decrease) in funds	141	187

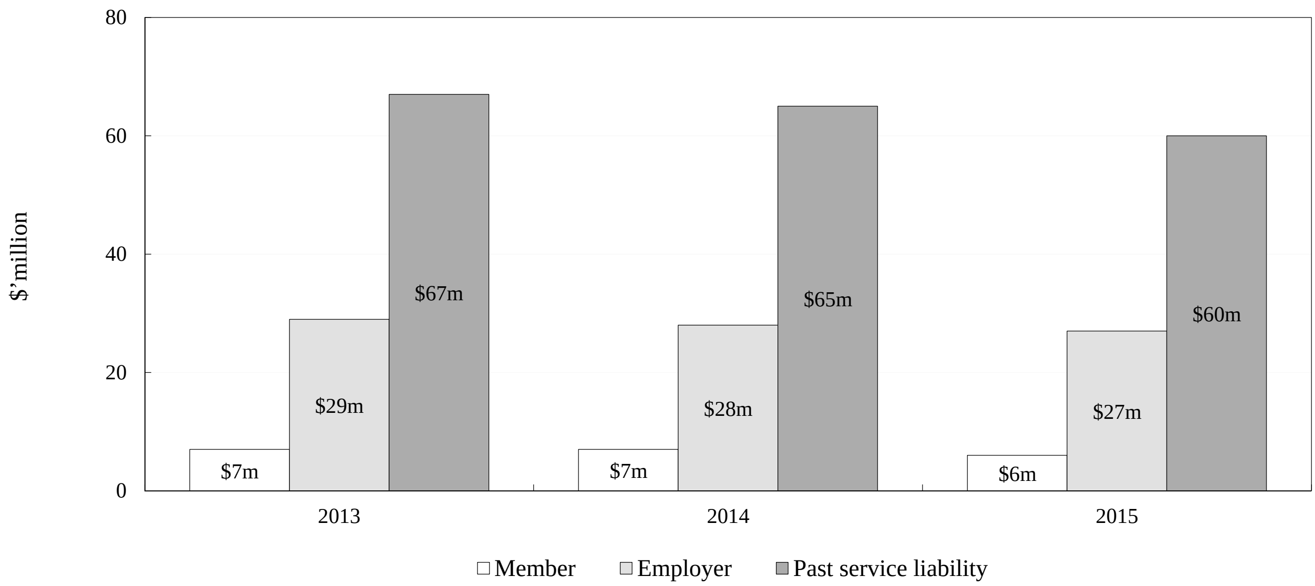
	2015 $'million	2014 $'million
Assets		
Investments	1 418	1 277
Other assets	1	1
Total assets	1 419	1 278
Total liabilities	1	1
Net assets available to pay benefits	1 418	1 277

Statement of Changes in Net Assets

Revenues

Investment activity for the year resulted in a positive return of $139 million ($173 million). The decrease in investment revenue is due to lower returns on funds under management. There were solid financial market returns during 2014-15, however there was increased volatility associated with the Chinese stock market and Greek debt crisis towards the end of the year. Investment returns are discussed further in the commentary under 'Superannuation Funds Management Corporation of South Australia' elsewhere in Part B of this Report.

The following chart shows an analysis of contribution revenue for the three years to 2015.



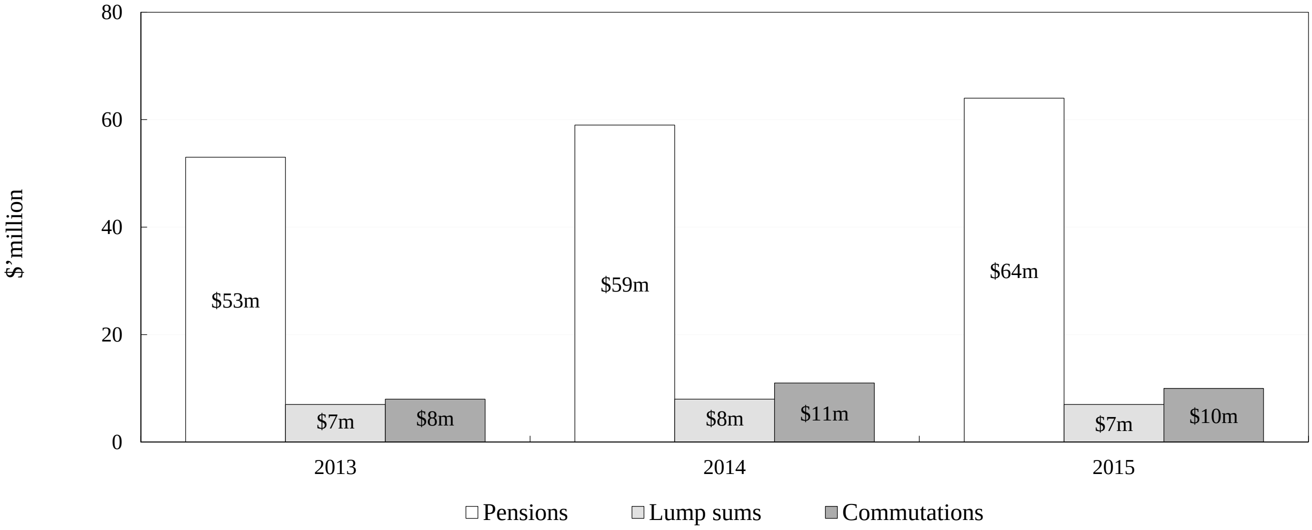
The chart shows there is a slight downward trend in member and employer contributions over the past three years. This is primarily attributable to member retirements and no new members being admitted to the Scheme.

Past service liability payments represent funding from the Government to meet accrued superannuation liabilities. The Government expects to fully fund liabilities by 30 June 2034.

Expenses

Benefits paid totalled $81 million ($78 million). Of this amount, $64 million ($59 million) was taken as pensions and $17 million ($19 million) as lump sum and commutation payments.

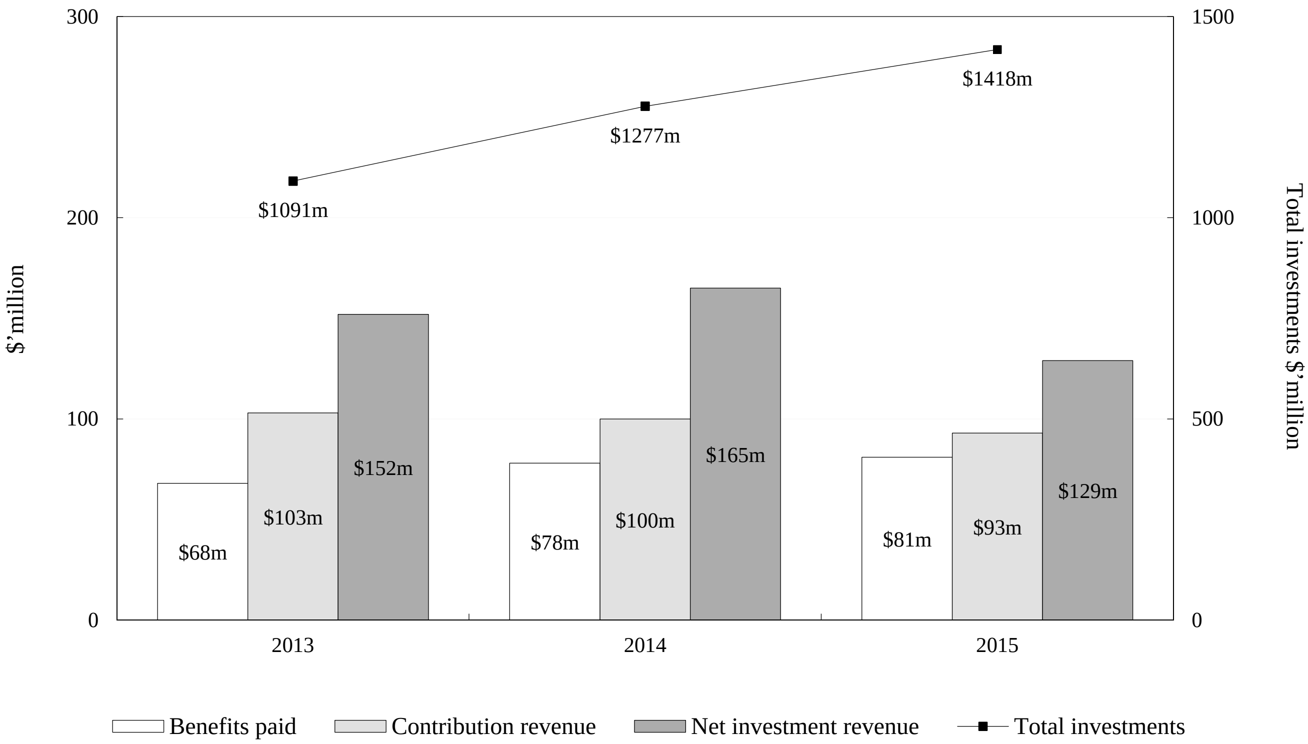
For the three years to 2015, the following chart shows an analysis of benefits paid.



Since 2013 there has been a steady increase in pensions. This is expected as the pensions paid are affected by increases in the number of pensioners, final salaries and inflation adjustments. Note 11 of the financial report provides a breakdown of benefits paid.

Statement of Net Assets

Investments increased by $141 million to $1418 million.



The change in investments is primarily the result of investment revenue, benefits paid and contribution revenue. While benefits and contributions trend relatively consistently from year to year, investment revenue can fluctuate significantly depending on prevailing market conditions. This can significantly impact on the level of total investments held.

Investment returns are discussed further in the commentary under 'Superannuation Funds Management Corporation of South Australia' elsewhere in Part B of this Report.

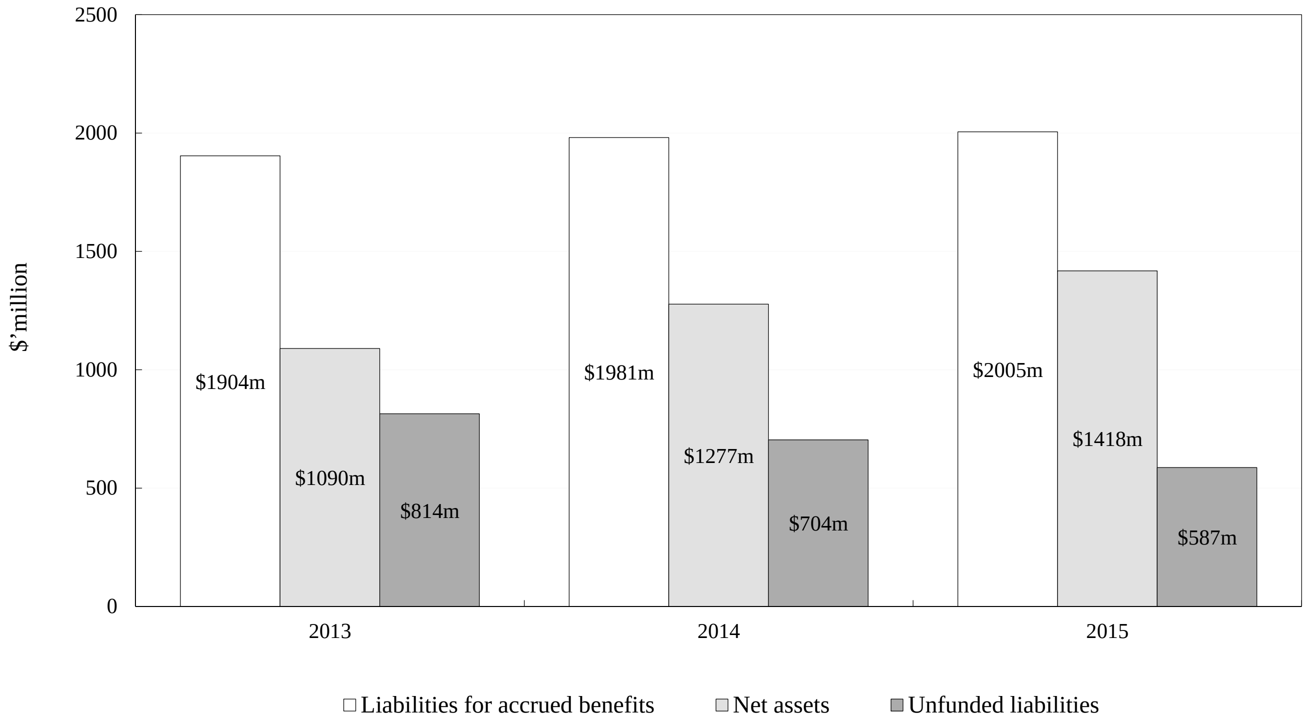
Further commentary on operations

Liability for accrued benefits

The estimated liability for accrued benefits increased by $24 million to $2005 million ($1981 million) for which net assets of $1418 million ($1277 million) were available to pay benefits. This has resulted in an excess of liabilities over net assets of $587 million ($704 million), which represents the unfunded liability at 30 June 2015.

Note 3 of the financial report provides further details on the Scheme's unfunded liability.

For the three years to 2015, the following chart shows an analysis of the liabilities for accrued benefits.



An actuarial review is undertaken every three years with assumptions from this review used to calculate the accrued liability in intervening years. The 2014 triennial actuarial review was completed on 29 June 2015. The review recommended that the funding proportion for the Police Superannuation Fund be increased from 19% to 22%. The Board approved this recommendation effective 11 July 2015. Note 3 of the financial report provides further details.

Net assets available to pay benefits

At 30 June 2015 the unfunded liability of the Scheme was $587 million.

The Police Employer Account has net assets available to pay benefits of $939 million compared to an accrued liability of $1563 million. This represents a shortfall of net assets over accrued liabilities of $624 million. The Government transferred $60 million to the Police Employer Account as funding for the accrued past service liability. Note 3 of the financial report details the unfunded liability.

The Police Superannuation Fund has net assets available to pay benefits of $479 million compared to an accrued liability of $442 million.

Pensioners

The number of pensioners and pensions paid for the past three years were:

	2015	2014	2013
Pensioners	1 625	1 566	1 498
Pensions paid ($’000)	63 932	58 863	53 351

Contributions by members

The number of contributors and contributions received from Pension Division members for the past three years were:

	2015	2014	2013
Contributors (excludes preserved members)	1 260	1 429	1 339
Contributions received ($’000)	6 418	6 648	6 785

Department of the Premier and Cabinet

Functional responsibility	The Department of the Premier and Cabinet (the Department) is an administrative unit established pursuant to the *Public Sector Act 2009*. The Department's responsibilities include providing specialist policy advice, supporting Cabinet, leading implementation of the Government's strategic priorities and providing a range of other government services. Details are contained in notes 1 and 5 of the financial report.
Financial statistics	Net cost of providing services: $92.2 million Total appropriation: $93.4 million Number of FTEs: 1538.64
Significant events and transactions	— The Department is undergoing a significant restructure of its operations. — A number of business units including Arts SA, SafeWork SA and the Aboriginal Affairs and Reconciliation Division transferred out of the Department. — The Agent-General's residence in the United Kingdom was sold and net proceeds of $5.5 million paid to the Consolidated Account.
Financial statement opinion	**Unmodified**
Financial controls opinion	**Modified** Key issues: — Basware user access reviews were not performed in a timely manner — Financial delegations were not updated in Basware — Requested user access changes were not actioned — No policy in place for the review and certification of payroll reports — Review of payroll reports by pay point managers was ineffective — Certification of purchase card purchases by cardholders was not performed in a timely manner — No or inadequate documentation to support purchase card transactions — Purchase cards were used to purchase items not permitted by the Department — No formal legislative compliance framework in place

Scope of the audit

The audit program covered major financial systems and was directed primarily to obtaining sufficient evidence to enable an opinion to be formed with respect to the financial report and internal controls.

During 2014-15 specific areas of audit attention included:

- accounts payable
- purchase cards
- payroll
- revenue
- bank reconciliations
- fixed assets
- financial accounting
- financial management compliance
- Shared Services SA (SSSA) and Service SA
- governance and accountability.

The audit also considered the nature of the review work undertaken by internal audit.

Audit findings and comments

Assessment of controls

In my opinion, the controls exercised by the Department of the Premier and Cabinet in relation to the receipt, expenditure and investment of money, the acquisition and disposal of property and the incurring of liabilities, except for all matters outlined under 'Communication of audit matters', are sufficient to provide reasonable assurance that the financial transactions of the Department of the Premier and Cabinet have been conducted properly and in accordance with law.

Communication of audit matters

Matters arising during the course of the audit were detailed in management letters to the Chief Executive. The significant matters raised and the related responses are detailed below.

Corporate

Accounts payable

A review of the Department's payment control environment found areas where internal controls were considered ineffective, most notably:

- quarterly Basware user access reviews were not performed in a timely manner and there was no central register in place to monitor the status of the reviews, which could lead to an increased risk of inappropriately approved transactions in Basware

- no advice provided to change financial delegations in Basware following the annual review of financial authorisations, which could lead to inappropriately approved payments

- requests for changes from the Masterpiece user access reviews were not being actioned in a timely manner by SSSA, which could lead to an increased risk of inappropriate transactions in Masterpiece.

In response the Department indicated that it would document a procedure for the quarterly user access reviews, that management of financial delegation authorities has moved to the finance business unit and the procedure has been updated to reflect updated communication requirements, and that changes in responsibilities in SSSA will improve internal controls.

Payroll

The review and certification of payroll reports provides assurance that payroll payments are made to bona fide employees, for work actually performed, at the correct rates and that leave is correctly updated to the CHRIS payroll system. Our review found that there was no policy in place that outlines the requirements for the review and certification of payroll reports by pay point managers. As a consequence pay point managers may not be checking payroll reports in line with the Department's expectations. This may result in invalid or inaccurate processing of payments through the payroll system.

Departmental controls require pay point managers to review information recorded in payroll reports for validity and accuracy. Our review found that the review process performed by some managers was not effective, as we noted that some officers:

- were not aware of any time frames for completing the review and certification of payroll reports
- did not check the leave booked report to timesheets or attendance records
- did not certify the additional duties and allowances report as evidence of review as the requirement to do so was unclear.

In addition, our review of the bona fide process found:

- a number of instances where leave was incorrectly recorded in the CHRIS payroll system
- not all business units of the Department monitor the review and certification of payroll reports by pay point managers.

The ineffective review of payroll reports may lead to invalid or inaccurate processing of payments through the payroll system and leave taken not being recorded or being incorrectly recorded in the payroll system.

In response the Department indicated the following:

- With the migration to CHRIS 21 the Department will introduce online certification of bona fide and leave booked reports.
- Instructions provided on the system generated email to responsible officers for the online certification of payroll reports will form the Department's policy statement.
- The Office for the Public Sector is undertaking a program of work to develop whole-of-government policies where they are considered across agencies. Timesheets and bona fide reporting are likely to fall into this category.
- The Department will communicate to delegates to reaffirm their responsibilities and, with the introduction of CHRIS 21 online certification, improved controls will be established for the review of payroll reports including the monitoring of these reports being certified by managers.

Purchase cards

Our review of controls over the use of purchase cards considered the requirements of Treasurer's Instruction 12 'Government Purchase Cards and Stored Value Cards' and departmental policies and procedures. Significant matters and control weaknesses were raised for management attention, notably:

- instances where the certification of credit card purchases by cardholders was not being performed in a timely manner in accordance with departmental policy, increasing the risk of cardholders not being able to substantiate purchases
- the independent review and approval of credit card transactions did not always occur in accordance with departmental policy, increasing the risk of inappropriate purchases by cardholders
- there is no reporting of non-compliant purchase card reconciliations to the Department by SSSA as required by departmental policy, limiting the ability of the Department to act on inappropriate practices by cardholders
- there were a number of instances where the cardholder did not provide any supporting documentation for purchases, increasing the risk of financial reporting errors and non-compliance with taxation legislation
- there were a number of instances where inadequate supporting documentation was provided for the purchase of meals and incidentals (in the case of travelling expenses) and entertainment expenses, limiting the Department's ability to support the nature and validity of meals and entertainment
- purchase cards were used to purchase items that were not permitted by the Department's policy
- there were a number of instances where the account code allocated by the cardholder did not align with the description of the purchase, increasing the risk of financial reporting errors.

In response the Department advised that it was undertaking action to address the matters raised.

Governance and accountability

Our review noted that no formal legislative compliance framework or program has been established to assist in monitoring the agency's compliance with its legal and regulatory obligations. There is an increased risk of non-compliance with relevant legislation, which could lead to litigation and subsequent losses and not effectively applying resources to meet legislative responsibilities.

In response the Department indicated that it will develop and implement a legislative compliance framework to identify relevant legislation, document the key provisions and assign responsibility for compliance to relevant officers.

Office for Digital Government

Revenue

Our review found that a number of procedures were not regularly reviewed or not approved. There is an increased risk that certain processes may not be performed, which may result in a breakdown of internal controls.

In response the Department indicated that it would review, update and approve the procedures.

Our review found that there were no formal documented processes in place to manage user access to the TBS revenue system, and that no regular reviews of user access were performed. This could lead to inappropriate user access to the revenue system, which may result in inappropriate or unauthorised transactions being processed.

In response the Department indicated that it would develop and document policies and procedures for the management of user access, including a regular review of access levels.

Fixed assets

Our review found that there was a lack of documented policies and procedures in place for fixed assets processes. There is an increased risk that processes may not be performed as intended by management, which may result in a lack of control over assets.

In response the Department indicated that it had completed finalising all policies and procedures.

Shared Services SA – financial systems and transaction processing controls

SSSA processes financial transactions on behalf of a large number of government agencies under service level determinations. The main systems and control environments include accounts payable, accounts receivable, payroll and general ledger financial functions.

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

Our review and evaluation of controls for the SSSA main payroll systems concluded that controls did not meet a generally satisfactory standard for 2014-15. A number of specific matters were raised with SSSA for corrective action and review for process and procedural improvement.

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

The specific matters relating to the controls are outlined in more detail below.

Shared Services SA – payroll controls

Introduction

SSSA processes payroll transactions specific to the CHRIS HRMS system on behalf of a large number of government agencies in accordance with service level determinations with SSSA.

The audit of payroll transactions considered the payroll process and internal controls of SSSA and the external bureau provider of the CHRIS HRMS payroll service to SSSA.

The SSSA payroll functions include the following:

- payroll maintenance comprising processing changes to employee master data and changes to employee’s salary
- processing employee pays through CHRIS
- generating relevant payroll data and reports, such as leave balance reports and bona fide reports, (via CHRIS), to be distributed to agencies

- calculation of payroll payments (via CHRIS)
- disbursement of payroll payments (via CommBiz)
- identifying and managing overpayments
- termination of employees, ie calculation of termination payments.

Until September 2014 the teams at SSSA that performed the above functions comprised the following functional streams: work management, payroll data input, quality assurance, customer service, pay run processing and technical specialist. These functional teams were located within each agency payroll group.

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 the implementation of 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.

Audit review

Our review of the payroll functions raised the following control weaknesses with the Department.

Pay run variation checking reports

- Pay run variation checking reports were either not checked or only partly checked. SSSA officers are required to check 100% of these reports.
- Reports highlighting changes made to individual pays in the pay run were not run or could not be located. Changes listed on the reports are required to be checked and reconciled to employee variation registers.
- Employee variation registers were not provided to senior payroll officers. Registers are required by senior payroll officers to reconcile all changes made to individual pays to the pay run variance checking reports.

In response the Department indicated that it would remind pay run officers to ensure pay run variation reports are run and completed on all occasions, and that SSSA has identified an improvement opportunity to enhance current reporting. In addition SSSA has created and implemented central shared file locations to ensure the checking of variation reporting is completed.

Pay run checklist

In order to ensure that all pay run processes are completed prior to the disbursement of pays, a pay run checklist is used by pay run officers. Our review found:

- instances where the checklist was not adequately completed or was independently reviewed after the pays were disbursed
- an additional high level checklist used by pay run officers was independently reviewed after the pays were disbursed.

In response the Department advised that SSSA was in the process of implementing an electronic pay run checklist that covers all critical steps identified. Checklists will not be signed off until all tasks have been completed, including post-pay reporting. Once the new checklist has been developed procedures will be updated to reflect the new process.

Large gross exception reports

- There were instances where all exception reports, which list employees with large payments greater than nominated thresholds, were not included as part of the pay run checklist documents.

In response the Department indicated that it has advised pay run officers to print, sign and date all reports and that the procedure has been updated to reflect this requirement.

Increment progression

- An incorrect change to an employee's increment date was made by a data input officer and was not picked up by the quality assurance process.

- A number of increment reports from the requested sample could not be provided, and a number did not have sufficient evidence of review or were not reviewed within a timely manner.

In response the Department indicated that it has reminded quality assurance officers to be diligent with checking. The Department also advised that increment reports are tracked to allow the ongoing monitoring and management of these reports.

Quality checking procedures

- Quality checking officers do not check that the hard copy source documentation was authorised by the appropriate agency delegate as required by the procedure. The officer will only check that the document was signed.

- Following our review in 2013-14, the Transactional Data Input Checking Requirements procedure was not updated to provide guidelines on how checking levels are undertaken as part of the sampling approach.

In response the Department advised that the procedure would be updated to clarify that the quality checking officer will only check that the documentation has been signed, and also advised that a new procedure is currently being developed in line with the implementation of the new quality reporting tool and revised sampling methodology.

Errors identified by quality assurance

- There was a lack of monitoring of the QA Return log, with the log not being kept up to date and not all errors being actioned.

- There were a large number of entries that were not entered as complete. Our testing of four significant errors recorded on the log without a completion date recorded, found that three of the errors were still to be corrected. These errors were over three months old.

- Policies and procedures do not provide a time frame for the correction of errors.

In response the Department advised that a quality reporting tool (record of errors detected) has been implemented. Reports are extracted from this tool and monitored weekly. The Quality Assurance Sampling procedure is currently under review.

Missing documentation

- The report of masterfile data changes is run daily by the quality assurance officer and checked to source documents for validity. As part of our testing we requested a sample of reports, two of which could not be provided.

- A new starter checklist is used by data input officers to enter details of new employees into CHRIS. The checklists are reviewed by quality assurance officers to ensure all details entered into CHRIS are valid. As part of our testing we requested a sample of new starter checklists to test, two of which could not be provided.

In response the Department advised that all reports are electronically saved in a central location and monitored by the Operational Team Leader Quality Assurance, and that all SSSA employees have been requested to ensure that all documentation is filed appropriately.

IT Audit review

CHRIS HRMS payroll documentation

Our review of the document register noted a delay of certain updates of CHRIS HRMS payroll documentation. We understand that SSSA is undertaking a gap analysis to identify instances where payroll processing documentation does not align with current training documentation, which has a focus on functional scenarios.

In response the Department advised that it is continuing to identify instances where payroll procedures do not align with current training documentation and making the appropriate updates where required. Current procedures are monitored via the procedure register. This register is reviewed monthly at the payroll leadership meetings.

Potential manipulation of the payroll file

The transitioning of data files occurs at both the beginning of the payroll process when a file is uploaded from the agency and at the end when the file is prepared in anticipation of being transmitted to the bank as part of EFT. While we acknowledge the existence of certain mitigating controls surrounding the EFT of data, such as limited logging on the relevant system drives and certain validation of file size and value, there is still the potential for data manipulation.

In response the Department indicated that it had implemented security controls surrounding the upload and download file drives used for the processing of payroll.

Business continuity and disaster recovery plans

Our review found that the upgrade and maintenance of business continuity and disaster recovery plans within SSSA for the CHRIS HRMS payroll system needs to be progressed. We understand SSSA has been waiting on the proposed transition of the CHRIS application from version 5 to 21 before further development of SSSA's business continuity and disaster recovery plans was to occur. More recently, SSSA has made contact with Frontier to determine the adequacy of backup and incident management. The results of that update are still ongoing.

In response the Department indicated that it had engaged Ernst & Young who have performed an awareness session and facilitated a testing consultation. Recommendations are to be supplied to payroll for review and implementation to ensure continued payroll operations.

User access quarterly review

Our review of the quarterly user access reviews performed between February and August 2014 made the following observations:

- Action by HRMS for changes proposed by business unit managers needs to be performed in a more timely manner. Evidence confirmed that instances occurred where managers' observations were not actioned for up to five months after they were first raised.
- SSSA payroll business unit managers continue to request multiple profiles, contrary to established user access business rules.
- User access request forms were being incorrectly completed leading to profiles changes to only one database.
- User access profile changes were being implemented by HRMS, rather than being referred to business unit managers for validation, where requests were contrary to established user access business rules.

In response the Department advised that a user access review is now performed internally on a monthly basis to increase the level of accuracy/appropriateness associated with allocated user access.

Password management

Our review found that whilst SSSA has established a password procedure that stipulates password length and structure, this is not enforced through the CHRIS 5/CHRIS 21 application due to CHRIS application functional limitations. These control deficiencies include ongoing CHRIS application failure to enforce password composition/complexity. We have also confirmed that SSSA staff, as part of initial network logon, are not complying with SSSA corporate password policy which reconfirms password construct as upper/lower case and alphanumeric characters. We understand that these password controls deficiencies should be resolved as part of the transition of the CHRIS application from version 5 to 21.

In response the Department indicated that CHRIS and CHRIS Kiosk password management procedures have been updated to reaffirm with users the preferred password construct.

Change management

Our review of change management processes identified the following areas that could be strengthened:

- testing plans need to be established to assist in identifying the level of cost/budget, resourcing, and complexity of change involved
- key components of change management testing need to be undertaken and listed on the template form to evidence completion
- develop a change testing summary checklist that clearly identifies the status of key change milestones as part of validating change completeness.

In response the Department indicated that SSSA will develop improved change management procedures that incorporate test planning and the development of a change management checklist.

Shared Services SA – accounts payable controls

SSSA processes payments on behalf of government agencies. For this purpose the SSSA accounts payable function employs several systems to make these payments which include the e-Procurement system for ordering, receiving and invoice processing and the Masterpiece system for payment transaction processing through EFT and cheques and general ledger maintenance.

During 2014-15 we reviewed user access and segregation of duties for these two systems. The review found that SSSA had in operation appropriate segregation of duties and user access controls for both the Masterpiece and e-Procurement systems.

Shared Services SA – accounts receivable controls

SSSA processes receipts on behalf of government agencies and the SSSA accounts receivable function uses the Masterpiece system for processing such transactions. During 2014-15 we reviewed these arrangements and found that user access controls and segregation of duties were satisfactory.

Strategic Procurement – across-government contracts

Background

Strategic Procurement, part of the Services and Intergovernmental Relations group, establishes and manages across-government and lead agency contracts for the provision of certain goods and services on behalf of the SA Government. Across-government contracts managed by Strategic Procurement are significant in terms of their monetary value and impact on public sector agencies.

Across-government airline and travel contracts

In November 2014 we completed a review of the procurement processes for the across-government airline and travel contracts.

The scope of the review focussed on aspects of the procurement processes, including:

- procurement initiation
- project management
- tender process
- evaluation
- purchase recommendation.

We identified some matters of procurement procedure and practice that need to be addressed to achieve improvement in future procurements undertaken. These included non-compliance with relevant State Procurement Board and departmental procurement policy guidance. While it was considered that the matters (individually and collectively) did not compromise the overall integrity of the procurement process, these issues needed to be addressed to achieve improvement in future procurements undertaken.

In its response, the Department indicated some recommendations were consistent with those previously raised as part of our procurement review of the across-government stationery contract (AGSC). The Department advised these recommendations were to be actioned for future procurements.

Contract management framework

Strategic Procurement has developed a contract management framework, consisting of the operations framework and accompanying guidance documents, for the management of its portfolio of across-government contracts.

During 2014-15, we completed a review of the contract management framework. The review identified opportunities for improvement in certain aspects of procurement capability and process. Our observations included the requirement for alignment with the State Procurement Board Contract Management guideline and for individual contract management plans to align with the contract management framework.

In its response, the Department indicated that all of our recommendations would be actioned and the contract management framework would be reviewed as part of the process of developing a single policy framework following the recent merger of the Strategic Contracts group with the ICT Strategic Sourcing group, scheduled for completion by August 2015.

Across-government stationery contract

As reported in last year's Report, we completed a review of the procurement arrangements for the AGSC in 2013-14. We also advised the commencement of an examination of the contract management arrangements relating to the AGSC.

Across-government stationery procurement review

The overall integrity of the procurement process was assessed as satisfactory. The review did identify some matters of procurement procedure and practice that need to be addressed to achieve improvement in future procurements undertaken. These include compliance with the requirements stated in the approved procurement policy guidance and approved procurement strategy documents (relating to risk management, evaluation plan and purchase recommendation).

In response the Department indicated that a review of certain procurement strategy documents and templates would be undertaken and audit recommendations would be actioned for future procurements.

Across-government stationery contract management review

We recently completed the contract management review for the AGSC. The scope of the review focussed on the detailed processes and controls over the contract management arrangements, specifically:

- contract management governance framework and reporting structure
- agency and contractor reporting
- risk management
- issues, dispute resolution and contract variation
- contract exemption.

Our review identified some matters of contract management procedure and practice that require attention, including non-compliance with requirements stated in procurement policy guidance relating to risk management. We also identified there was scope to improve processes and controls in some key areas, including managing contractor performance and contract exemptions.

In its response, the Department advised all our recommendations would be actioned during 2015-16. The Department indicated that some recommendations would be actioned concurrently with or following the process of developing a single contract management policy framework.

Information and communications technology and control (ICT) – review of mainframe contract reporting and billing arrangements

Background

Although the use of mainframe services within the SA Government encompasses a relatively low proportion of overall ICT spending, it provides an important platform for processing and storage of critical government data and services.

The provision of mainframe services between the State, its agencies and the service provider is covered by a contract with a service provider. The contract reporting provisions include requirements covering service levels, key performance indicators, problem management and change management reporting. The contract also has particular requirements for the provision of monthly reports by the service provider to the State.

In 2014-15 we conducted a review examining aspects of contractual reporting and billing arrangements for the provision of mainframe services between the State, its agencies and the mainframe service provider. The review also assessed how agencies use the contracted reporting arrangements to facilitate management of the mainframe resource.

The review scope included two selected government agencies that use the mainframe, an analysis of data extracts for billing purposes and an assessment of the accuracy and integrity of invoices issued by the mainframe service provider.

Review findings

In general, we found that the reporting and other information access requirements in the mainframe contract were being met. However, issues were identified in three particular areas and these are summarised below.

Lack of reporting of compliance with International Security Standards

According to the contract, the mainframe service provider must undertake continuous improvement reviews (at least annually) in compliance with the International Security Standards ISO/IEC 27001 and 27002,[1] that the State reasonably considers may relate to matters affecting the security of any of its ICT infrastructure.

The service provider must also provide the State with the results and reports from any continuous improvement reviews.

We found that there was a failure of the State and the service provider to satisfy the contractual obligations against this particular reporting requirement as no reporting on this particular aspect had occurred since 2008.

Minor billing issue for mainframe services

The review sampled some of the invoices and billing reports for both agencies selected and concluded that the invoices accurately reflected the agencies' usage of the unit priced billing elements and their agreed share of the whole-of-government fixed price billing elements.

We did identify an issue with the provider's quotation and charging for a mainframe-related time and materials engagement. While this billing anomaly indicated a breakdown in the contractual processes, the expected financial impact was low compared to the overall mainframe charges because of the relatively few time and materials engagements undertaken.

---

1 AS/NZS ISO/IEC 27001 Information technology – Security techniques – Information security management systems. This International Security Standard specifies the requirements for establishing, implementing, maintaining and continually improving an information security management system within the context of the organisation.

AS/NZS ISO/IEC 27002 Information technology – Security techniques – Code of practice for information security controls. The objective of this International Security Standard is to provide a practical guideline for developing organisational security, standards and effective security management practices and to help build confidence in inter-organisational activities.

Contractual reporting needed to be re-evaluated

It was apparent that different agencies had different degrees of familiarity with the reporting requirements within the mainframe contract and the available reports and operational information sources. One of the agencies was completely unaware of the reporting requirements, while the other knew of the reports available but had no reason to use them. The common observation was that most of the reports mentioned in the contract were not used. Despite this finding the mainframe facility was well managed with the environment considered mature and stable. The comprehensive reporting requirements in the contract were therefore simply no longer needed to effectively manage the environment.

Departmental responses

The agencies involved in the review responded positively with planned action to address our recommendations.

Interpretation and analysis of the financial report

Highlights of the financial report – controlled items

	2015 $'million	2014 $'million
Expenses		
Employee benefits	157	187
Supplies and services	121	144
Grants and subsidies	10	131
Other expenses	10	20
Total expenses	298	482
Income		
Fees and charges	201	222
Grants	2	13
Other	3	6
Total income	206	241
Net cost of providing services	92	241
Revenues from (Payments to) SA Government		
Revenues from SA Government	93	257
Payments to SA Government	(5)	-
Total revenues from (payments to) SA Government	88	257
Net result	(4)	16
Changes in revaluation surplus	-	6
Total comprehensive result	(4)	22
Net cash provided by (used in) operating activities	1	27
Net cash provided by (used in) investing activities	(2)	(15)
Net cash provided by (used in) financing activities	(6)	-
Assets		
Current assets	82	97
Non-current assets	38	216
Total assets	120	313

	2015 $'million	2014 $'million
Liabilities		
Current liabilities	36	45
Non-current liabilities	33	42
Total liabilities	69	87
Total equity	51	226

Statement of Comprehensive Income

Expenses

Total expenses for the year decreased by $184 million (38%). The decrease reflects the transfer out of a number of business units from the Department effective 1 July 2014. Refer note 30 of the financial report for further details.

Employee benefits expense decreased by $30 million (16%). This is due to a decrease in salaries and wages costs of $17 million as a result of lower employee numbers during 2014-15 following the transfer out of business units. The amount of targeted voluntary separation packages also decreased by $6 million as a result of less packages taken.

Supplies and services decreased by $23 million (16%). This was mainly due to a $5 million decrease in accommodation charges as a result of the transfer of the Arts SA and SafeWork SA business units. Intra-government transfers decreased by $12 million due to payment made to the Department of Planning, Transport and Infrastructure in 2013-14 for Service SA commissions. Different arrangements applied in 2014-15.

Grants and subsidies decreased $121 million (92%). This was due to a $128 million decrease in grants paid as a result of the transfer of the Arts SA, SafeWork SA and Aboriginal Affairs and Reconciliation Division business units. This was offset by a $7.5 million grant paid in 2014-15 for the Tailem Bend Motorsport Park.

Depreciation and amortisation expenses decreased by $8 million (43%) as a direct result of the business units that transferred out of the Department.

Income

Total income (excluding revenues from the SA Government) for the year decreased by $35 million (14%). The decrease is primarily due to a decrease in regulatory fees of $15 million and grants of $11 million as a result of the transfer out of the SafeWork SA business unit.

Net revenues from the SA Government decreased by $169 million (66%). Again this is due to the transfer of a number of business units. A payment was made to the SA Government of $5.5 million for the proceeds of sale of the Agent-General's residence in the United Kingdom.

Statement of Financial Position

Net assets decreased by $175 million (77%) as a result of the business units that transferred out of the Department. Refer note 30 of the financial report for further information.

Highlights of the financial report – administered items

	2015 $’million	2014 $’million
Expenses		
Disbursements on behalf of third parties	434	436
Intra-government transfers	-	7
Supplies and services	2	2
Other expenses	1	2
Total expenses	437	447
Income		
Collections on behalf of third parties	434	436
Revenues from SA Government	3	8
Other	-	2
Total income	437	446
Net result	-	(1)
Total comprehensive result	-	(1)
Net cash provided by (used in) operating activities	-	(2)
Net cash provided by (used in) financing activities	(37)	(2)
Assets		
Current assets	8	45
Total assets	8	45
Liabilities		
Current liabilities	2	4
Total liabilities	2	4
Total equity	6	41

Statement of Administered Comprehensive Income

Disbursements and collections on behalf of third parties

The Department, through Service SA, collects various fees on behalf of third parties and then disburses those amounts collected to the responsible recipient agency. The main amounts collected and disbursed related to registrations, licences and other fees collected on behalf of the Department of Planning, Transport and Infrastructure ($370 million) and expiation notices and firearms licences on behalf of South Australia Police ($60 million).

Intra-government transfers

The decrease in intra-government transfers is due to the transfer during 2014-15 of the responsibility for the APY Lands and Aboriginal Affairs administered items to the Department of State Development. Refer note A16 to the administered financial statements for further details.

Current assets

The decrease in current assets is due to the transfer of cash as a result of the transfer of responsibility of the APY Lands and Aboriginal Affairs administered items as mentioned previously. Refer note A16 to the administered financial statements for further details. This transfer is also reflected in the increase in cash used in financing activities.

Department of Primary Industries and Regions

Functional responsibility	The Department of Primary Industries and Regions (the Department or PIRSA) is an administrative unit established under the *Public Sector Act 2009*. The Department's main responsibilities include implementing and coordinating the State's economic priority for premium food and wine. PIRSA also has a lead role coordinating and delivering regional development initiatives across government. For more information about the Department's role and objectives refer note 1 of the financial report.
Financial statistics	Net cost of providing services: $86 million Total appropriation: $94 million Total property, plant and equipment: $98 million Number of FTEs: 877.5
Significant events and transactions	— $48.5 million revenue recognised from the Commonwealth for the South Australian River Murray Sustainability Program (SARMS). — $41.4 million paid in grants in relation to SARMS.
Financial statement opinion	**Unmodified**
Financial controls opinion	**Modified** Key issues: — The need to update divisional risk registers and enhance the strategic risk register — Inconsistent practices in the review of key payroll reports — Inconsistent processes to update operational risk registers — User access to PIRSA systems (SIS and PIIMS) was not reviewed on a regular basis — Controls for the Shared Services SA main payroll system did not meet a generally satisfactory standard

Scope of the audit

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

During 2014-15 specific areas of audit attention included:

- payroll and employee entitlements
- financial accounting and reporting
- expenditure including grants and subsidies
- fisheries licence income
- non-current assets
- cash, debtors and receipting
- advances and grants – including the South Australian Research and Development Institute (SARDI), Rural Solutions SA and SARMS
- governance arrangements.

The audit included consideration of control arrangements implemented by the Department and Shared Services SA (SSSA).

Internal audit activities were reviewed to assess the risks of material misstatement of the financial report and to design and perform audit procedures.

Audit findings and comments

Assessment of controls

In my opinion, the controls exercised by the Department of Primary Industries and Regions in relation to the receipt, expenditure and investment of money, the acquisition and disposal of property and the incurring of liabilities, except for all matters outlined under 'Communication of audit matters', are sufficient to provide reasonable assurance that the financial transactions of the Department of Primary Industries and Regions have been conducted properly and in accordance with law.

Communication of audit matters

Matters arising during the course of the audit were detailed in management letters to the Chief Executive and those responsible for governance within SSSA. Major matters raised with the Department and SSSA and the related responses are detailed below.

Purchase cards

Our 2014-15 audit of expenditure identified two instances where staff who were on extended leave were still in possession of their PIRSA purchase cards. While our review confirmed these cards had not been used while the employees were on leave, we noted that PIRSA procedures for purchase cards did not provide any guidance about the return of purchase cards where employees are on extended leave.

Leaving employees who are on extended leave in possession of PIRSA purchase cards potentially increases the risk of inappropriate or invalid transactions, potentially resulting in financial loss.

The Department advised the PIRSA Purchase Card procedure would be updated to provide guidance regarding the return of purchase cards no longer required.

Payroll

Inconsistent review of key payroll reports

Our review of the Department's payroll controls in 2014-15 identified there were inconsistent practices regarding the review of bona fide certificates and leave return reports. In particular, some certificates and reports were not reviewed in a timely manner and some did not contain a date to evidence the time taken to review them. These findings were consistent with those identified in prior years.

The timely review of these reports provides assurance that payments to employees are valid and authorised and leave records are complete and accurate.

PIRSA advised the managers and Executive Directors of the areas identified through the audit would be contacted to reinforce the requirements for the review processes they perform.

Online training program for managers

The Department has introduced online training for managers regarding the review of key payroll reports. In part, this process was introduced to address audit findings that were raised previously. Our 2014-15 audit identified that, while the majority of managers had undertaken the online training program, 14 out of 129 managers had not yet completed the program. We also noted that, of the 14 managers yet to complete training, six were new to the role.

This finding highlighted that PIRSA did not have a process in place to identify new managers and ensure they had undertaken online training prior to being responsible for reviewing key payroll reports.

The Department responded that the managers identified would be contacted directly and it was expected they would have completed training by the end of July 2015. The Department also advised that a process would be implemented to advise the training team of any changes to the managers who would require this training.

Fisheries licensing revenue

No regular user access review

We previously recommended PIRSA undertake regular review of access to the fisheries system (PIIMS) and develop a policy or procedure document regarding this process. Our 2014-15 audit identified that there remained no policy or procedure in place and that only a single review of user access, undertaken in July 2014, had been performed. No documentation of the review was maintained.

We reviewed the existing users within PIIMS and identified a number of staff with access to make changes to fisheries licence details who did not require this access. The ability to change PIIMS data should be restricted to only those staff who require access in order to minimise the risk of invalid or unauthorised changes being made.

In response to this issue, the Department advised a full review of PIIMS access had been performed and ongoing twice yearly reviews would be scheduled. The Department also advised it had removed access to the system where appropriate and was investigating a new level of access for staff who did not require update access to licence details, but needed to view information in the system.

Timely review of fisheries licence renewal checklist

Fisheries and aquaculture licence fees are invoiced to licence holders annually. PIRSA staff work through a licence renewal checklist for each type of licence to ensure licensee details and licence fees are correct, prior to the invoices being sent to licence holders. A number of the renewal checklists for the 2014-15 licence fees did not have the date of review recorded, meaning it was not possible to determine whether the review was undertaken in a timely manner.

Following the audit, PIRSA advised the process had been amended and a date of review would be recorded to confirm this control process was performed prior to licence invoices being sent to licensees. PIRSA also highlighted compensating controls to assist in ensuring licence accuracy and noted the revised process had been used for the 2015-16 licence renewals.

Financial accounting

Approval of general ledger journals

The Department has established a list of officers who can approve general ledger journals and PIRSA policy requires divisional finance managers to advise SSSA of any changes to the list.

Our review identified the list still contained staff who left PIRSA in January 2013 as part of a restructure and officers who had separated from PIRSA. Further, the policy did not identify who was responsible for maintaining the list, the frequency or timing of reviews or what information is required to be provided to SSSA when there is a change.

We also noted SSSA did not maintain a complete record of changes made to the list and that a number of journals had been approved by officers who were not recorded on the list.

Given these factors, there is a risk that general ledger journals could be inappropriately approved and processed.

PIRSA and SSSA advised they would work together to address these matters, including that SSSA would revise the format of the list and that an email proforma would be created for changes to the list in future. PIRSA also advised it had reminded officers of the need to comply with the requirement that an officer with appropriate authority approves general ledger journals.

Transfer of unclaimed monies to the Department of Treasury and Finance

Our 2013-14 audit identified a number of unclaimed monies amounts that were over six years old. We also noted that many of these amounts related to units that had been transferred out of PIRSA over time to other government agencies. PIRSA had previously advised that it had requested these amounts be transferred by SSSA to the Department of Treasury and Finance in May 2014.

In 2014-15 we noted these amounts had not been transferred and remained recorded in PIRSA's general ledger. In order to accurately reflect PIRSA's liabilities, these amounts should not be recorded in PIRSA's general ledger as they relate to business units that have transferred.

SSSA advised that amounts would be transferred to the Department of Treasury and Finance by 30 June 2015.

Timely resolution of bank reconciliation reconciling items

Our review of the January 2015 bank reconciliation identified a number of unprocessed deposits that had been outstanding for some time, with the oldest item dating back to August 2014. No specific follow-up action by SSSA was taken beyond sending a list of unprocessed deposits to the SSSA accounts receivable team. Not processing deposits on a timely basis can cause inaccuracies in financial reporting and potentially lead to disputes with customers.

SSSA advised unprocessed deposits had been investigated and processed to the general ledger and that the number of long outstanding unprocessed deposits had been reduced. SSSA teams advised that they would continue to work together, and with PIRSA, to identify and process bank deposits to the ledger in a timely manner. Where balances could not be identified, they would be transferred to unclaimed receipts at 15 months.

Grants and advances revenue – South Australian Research and Development Institute

Debtor follow-up

Our 2014-15 audit of SARDI processes noted that there was a delay between the generation of debtor management reports and the distribution of those reports to SARDI divisions. As a result, the reports did not reflect the most up-to-date debtor information. We noted staffing constraints between July and December 2014 and the appointment of a new SARDI finance officer in January 2015 had impacted on the timely delivery of the debtor management reports.

Debtor follow-up actions taken on outdated debtor reports may result in customer complaints in instances where the debt being followed up has been paid since the date of report generation.

The Department advised that a finance services task checklist, to be reviewed by the Finance Manager, had been established and implemented for the finance team to ensure all tasks were completed as scheduled, including debtor follow-up processes.

User access reviews – Standard Invoicing System (SIS)

Procedures governing SIS require six monthly reviews of user access to the system. Our review identified there was a three month delay in performing the user access review for SIS that was originally scheduled for September 2014. We understand this delay was caused by staffing constraints. Not performing regular reviews of user access may result in inappropriate access to the system and the potential for inappropriate invoice creation or approval.

The Department advised that the finance services task checklists would ensure the completion of the SIS review process in accordance with the PIRSA procedure.

Governance

Outdated risk registers and incomplete strategic risk register

PIRSA captures risks on operational risk registers, which are completed at divisional level, and a strategic risk register for the Department as a whole. Our review of these processes noted the process for risk identification, preparation of the divisional registers and risk management plans varied between divisions. We also noted that, at the time of the audit, some divisions had updated their operational risk registers in line with their annual business plans, while others had not updated their risk management plans since November 2013.

In reviewing the strategic risk register we noted the absence of risk treatments to mitigate the identified strategic risks within the register.

Out-of-date or incomplete risk registers may result in risks not being identified and managed appropriately or consistently across the Department, which has the potential to impact on the Department's ability to meet its objectives.

The Department advised a process to update all divisional operational risk registers had commenced in March 2015, for 2015-16. Further, the Department advised the risk treatments for strategic risks would be captured within the operational risk registers, but would be clearly linked to the strategic risk register.

Fraud and corruption plan and fraud register

Our 2014-15 review identified the PIRSA fraud control plan did not include a requirement for a comprehensive assessment of the risk of fraud, corruption or other criminal conduct. We also noted the Department had not established a fraud register and that the Fraud and Corruption Prevention policy was not scheduled for annual review as required by Treasurer's Instruction 2 'Financial Management'.

Further, the Department would need to review the whole-of-government fraud and corruption policy once it had been finalised and issued by the Commissioner for Public Sector Employment.

Gaps in the fraud and corruption control plan result in an increased risk of the Department not effectively managing the prevention and risk of fraud. The absence of a fraud register gives rise to the possibility that previously detected fraud instances may not be fully considered in developing the Department's response to fraud risk.

The Department advised the review of the Fraud and Corruption Prevention policy would be brought forward and would consider the whole-of-government policy once it had been issued, and that a fraud register would be implemented immediately.

Conflicts of interest

Department staff are bound by the Code of Ethics for the South Australian Public Sector, which requires declarations of conflicts of interest. Our review noted the Department requires conflicts of interest to be declared at regular meetings and has captured conflicts of interest for executives in the past, but that there was no Department conflicts of interest register.

Without a central register of declared conflicts of interest, there is a greater risk that actual or perceived conflicts of interests, which have the potential to impact on an employee's duties, may not be managed appropriately or consistently across the Department.

The Department advised a conflicts of interest register had been implemented by the Manager, Risk and Integrity. A register for PIRSA executives had been compiled and submitted to the Chief Executive on 31 August 2015 and executives had been advised by email to implement their own registers while a whole-of-PIRSA online register was investigated.

Shared Services SA – financial systems and transaction processing environments

SSSA processes financial transactions on behalf of the Department under service level determinations. The main systems and control environments include accounts payable, payroll and general ledger financial functions.

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

As discussed in the commentary under 'Department of the Premier and Cabinet' elsewhere in Part B of this Report, our review and evaluation of controls for the SSSA main payroll systems concluded that controls did not meet a generally satisfactory standard for 2014-15. A number of specific matters were raised with SSSA for corrective action and review for process and procedural improvement. Our review and evaluation of controls for the SSSA main accounts payable systems and environment concluded that controls met a generally satisfactory standard for 2014-15.

The matters do not relate to the Department's transaction processing.

Interpretation and analysis of the financial report

Highlights of the financial report – controlled items

	2015 $'million	2014 $'million
Expenses		
Employee benefit expenses	89	89
Supplies and services	52	51
Grants and subsidies	66	31
Other expenses	7	7
Total expenses	214	178
Income		
Fees and charges	16	18
Advances and grants	54	55
Commonwealth revenues	49	24
Other income	9	10
Total income	128	107
Net cost of providing services	86	71
Revenues from (Payments to) SA Government		
Revenues from SA Government	94	98
Payments to SA Government	(1)	-
Net result	7	27
Other comprehensive income	1	-
Total comprehensive result	8	27
Net cash provided by (used in) operating activities	25	23
Assets		
Current assets	173	143
Non-current assets	111	121
Total assets	284	264
Liabilities		
Current liabilities	61	46
Non-current liabilities	29	33
Total liabilities	90	79
Total equity	194	185

Statement of Comprehensive Income

Employee benefit expenses

Employee benefit expenses remained at $89 million. There was an increase in salaries and wages of $2.7 million and an increase in long service leave of $1.6 million. These increases were offset by a decrease of $5.2 million in targeted voluntary separation package payments during 2014-15.

Supplies and services

Supplies and services increased by $896 000 to $52 million due to increases in professional and technical services of $1.1 million and utility and property costs of $1.1 million. These increases were offset by decreases to administrative and operating costs of $453 000, and $745 000 in computing and communication costs.

Grants and subsidies expense

Total grants and subsidies increased by $35 million to $66 million in 2014-15 mainly due to $41.4 million paid to grant recipients for SARMS, $2.8 million paid for the Regional Development Australia program, $2.2 million paid from the Regional Development Fund and $1.8 million paid from the Save the River Murray Fund. These increases were offset by decreases in payments for the Marine Parks Commercial Fisheries Voluntary Catch/Effort Reduction program of $12.4 million.

Revenues from fees and charges

Fees and charges decreased by $1.7 million to $16 million in 2014-15, mainly attributable to reductions in consultancies and service fees from Rural Solutions SA, SARDI and Agriculture and Fisheries.

Commonwealth grants

Commonwealth revenue increased by $25 million principally due to $48.5 million ($23.5 million) received for SARMS. In August 2013 a National Partnership Agreement between the State and Commonwealth Governments was signed, allocating $265 million to SARMS over six years, with the aim of returning 40 gigalitres of water to the River Murray. Of the $265 million total, $240 million has been allocated to the Irrigation Industry Improvement program and $25 million has been allocated to regional economic development. These components are designed to combine in order to provide a comprehensive set of programs supporting regional research, economic diversification and development in River Murray communities.

During 2014-15 the Department approved the following grant funding:

- Irrigation Industry Improvement program:
  - Round 1 – 108 projects worth $102 million of grant funding were approved returning 19.8 gigalitres of water to the River Murray
  - Round 2 – 60 projects approved worth $66 million of grant funding were approved returning 14.2 gigalitres of water to the River Murray
- Round 1 of the Regional Economic Development program:
  - five projects worth $1.8 million were approved for the Industry-led Regional subprogram
  - six projects worth $4.8 million were approved for the Regional Development and Innovation Fund.

While these projects have been approved, total payments for the year were $41.4 million as funds are not paid on approval, but are paid over time as projects are delivered.

Statement of Financial Position

Assets

Assets increased by $20 million to $284 million. The increase mainly relates to an increase in cash of $33 million due to the additional Commonwealth funds held for the SARMS program, the Farm Finance Concessional Loan Scheme and the Drought Concessional Loan Scheme. This increase was offset by a decrease in receivables of $13 million.

Liabilities

Liabilities increased by $11 million to $90 million. This increase is principally associated with increased borrowings/financial liabilities of $5.5 million, due to additional borrowings of $20 million for Commonwealth Farm Finance Concessional Loan Scheme and Drought Concessional Loans Scheme funds, offset by the repayment of loans of $14.5 million. Employee benefits increased by $3.5 million mainly due to the increase in long service leave as a result of the reduction in Commonwealth Government bond rates used in the calculation of the liability.

Statement of Cash Flows

Cash provided by operating activities increased by $2 million due mainly to the increased funds received from the Commonwealth being higher than the increased payments of grants and subsidies.

Cash provided by investing activities increased by $2.1 million due mainly to an increase in proceeds from the sale of property, plant and equipment, offset by a decrease in loans advanced to the rural sector and industry.

Administered items

The Department administers a large number of funds that are reported in the administered financial statements. The principal administered activities consist of the collection of industry contributions and amounts collected through aquaculture and fishing licences and the payment of those contributions as grants and subsidies to support promotion, research and development and other activities to benefit the different groups from whom the funds are received.

Total fees and charges revenue, including industry contributions and aquaculture and fishing licences, was $26 million ($27 million) and total grants and subsidies were $30 million ($30 million).

The administered activities also receive $5 million ($4 million) in revenues from the SA Government.

Cash holdings of $24 million ($22 million) represent the major asset for the administered activities.

Return to Work Corporation of South Australia

Functional responsibility	The Return to Work Corporation of South Australia (the Corporation) was established under the *Return to Work Corporation of South Australia Act 1994*. The Corporation administers the Return to Work Scheme (the Scheme) under the *Return to Work Act 2014*. The Scheme compensates injured workers and helps them return to work using monies from the Compensation Fund.
Financial statistics	Result from operating activities: $1.5 billion Premium revenue: $645 million Net claims paid: $486 million Outstanding claims liability: $2.5 billion Net assets: $370 million Funding ratio increased from 71% to 114% The number of workers receiving income support for a year or more decreased by 38%, and for less than a year decreased by 37% Average premium rate reduced to 1.95% in 2015-16 Number of FTEs: 274
Significant events and transactions	— On 1 July 2015 the *Workers Rehabilitation and Compensation Act 1986* was replaced with the *Return to Work Act 2014*, significantly reducing future compensation entitlements. — On 2 February 2015 the WorkCover Corporation of South Australia was reconstituted as the Return to Work Corporation of South Australia. — There was a $1.3 billion reduction in the outstanding claims liability in 2014-15.
Financial statement opinion	**Unmodified** An emphasis of matter was included in the financial report opinion relating to inherent uncertainty with the estimate of the outstanding claims liability and the funding ratio.
Financial controls opinion	**Modified** Key issues: — Some areas of financial risk were not audited internally including controls at claim agents that ensure the accuracy and validity of reimbursements of $54 million paid to employers — Internal audits detected a high error rate in income support calculations of a claim agent — Inaccurate checklists used by claim agents to waive employers' obligations to pay the first two weeks of income support

Legislative changes

Legislative changes have impacted significantly on the Scheme. The changes aim to get injured workers back to work more promptly and reduce the cost of the Scheme. This will lead to reductions in the Scheme's net liability and premium rates.

On 4 December 2014 the *Return to Work Act 2014* was proclaimed with most provisions commencing on 1 July 2015 and some commencing earlier. This Act replaced the *Workers Rehabilitation and Compensation Act 1986* on 1 July 2015.

On 2 February 2015 the *Return to Work Corporation of South Australia Act 1994* replaced the *WorkCover Corporation Act 1994*. This resulted in the WorkCover Corporation of South Australia being reconstituted as the Return to Work Corporation of South Australia.

The 2014 legislative changes separate claims into the following two categories:

- short-term claims for injured workers with less than 30% whole person impairment (WPI) – will receive income support for up to two years and treatment costs for up to three years. The legislation also introduces a new lump sum benefit for economic loss available to workers with a WPI of at least 5%

- serious injury claims for injured workers with 30% or higher WPI – will receive income support until retirement age, and treatment and other care costs for life.

The Scheme will focus on getting short-term claimants back to work and, in the case of serious injury claimants, providing lifetime care.

Under transitional arrangements, claimants injured before 1 July 2015 with a WPI below 30% will receive income support until 30 June 2017, unless they exit from the Scheme before this date.

Under previous legislation, a worker's income support was reduced by 10% at 13 weeks and another 10% at 26 weeks, equating to 80% of their pre-injury earnings. Under current legislation, a worker's income support will not be reduced until 52 weeks, at which point it will be reduced to 80% of their pre-injury earnings. This means workers will receive more income support in their first year under current legislation than under previous legislation. Under transitional arrangements, workers injured before 1 July 2015 will receive the same income support they were receiving at 30 June 2015 at either 100%, 90% or 80% until 29 June 2016, when it will be reduced to 80%.

Impact of decreased outstanding claims liability on funding ratio and premiums

For the first time in many years the Scheme has a funding ratio (assets divided by liabilities) of greater than 100% which means the Scheme has become fully funded. Net liabilities at 30 June 2014 were $1.1 billion and the funding ratio 71%. The legislative changes, coupled with the Corporation's initiatives to get claimants back to work more promptly, resulted in a $1.3 billion decrease in the net outstanding claims liability, moving the Corporation into a net asset position of $370 million. The funding ratio increased from 71% to 114%. Refer note 7 of the financial report for information about the funding ratio. Given the improved financial results, the Corporation reduced the average premium rate from 2.75% in 2014-15 to 1.95% in 2015-16. Whilst the reduction in the premium rate will benefit employers financially, it will reduce the Corporation's premium revenue in 2016.

Uncertainty with estimate of outstanding claims liability

Under previous legislation, the Corporation often ceased income support to claimants having some capacity to work. When this occurred, many claimants successfully disputed this decision on the grounds of being unable to find suitable work, then received income support until retirement age. Under the new legislation existing short-term claimants, with a WPI below 30%, will cease receiving income support by 30 June 2017. This is the main reason for the outstanding claims liability reducing by $1.3 billion. The Scheme's independent actuary made reference in their report that the robustness of the WPI assessment rules under the new legislation has not been tested in practice, and if these rules do not operate as intended, the cost implications may be significant. Uncertainties with the estimate of the outstanding claims liability are covered later in more detail.

Overview of Return to Work Scheme

Employers must pay a premium to the Corporation based on remuneration provided to their workers and, for certain employers, their claims experience. The Corporation invests the premium revenue until needed to pay compensation and other costs of operating the Scheme, including the claim management fees of two claim agents for managing workers compensation claims. Small employers are not required to pay a premium whilst self-insured employers must pay a fee instead of a premium.

Scope of the audit

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

During 2014-15 specific areas of audit attention included:

- premiums
- investments
- workers compensation payments such as income support and medical costs
- actuarial estimates of outstanding claims liabilities
- procurement activities
- general operating expenses such as payroll and other administrative expenses
- information and communications technology infrastructure and systems.

The Corporation has a comprehensive internal audit program. Planned and actual internal audit activities for 2014-15 were considered and reviewed to assist the planning, conduct and assessment reporting for specific areas of the Corporation's operations that were subject to audit review.

Audit findings and comments

Audit approach to the estimate of outstanding claims liability

Due to the nature and significance of the Scheme estimate of outstanding claims liability, the audit approach has included focused review of the Scheme actuary's projections by an independent professional actuary engaged by the Auditor-General. The nature and impact of the legislative changes in 2014-15 continued to warrant a high level of audit scrutiny, particularly at the beginning of the new Scheme arrangements.

Our audit did not identify any issues or variations from expected practice that would suggest the estimate of outstanding claims liability is not unreasonable or that the estimate for 30 June 2015 should 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.

The key valuation uncertainties in this valuation are: the 2014 legislative changes; the eventual outcomes arising from operational strategies; and resolution of existing disputes. The uncertainties may have favourable as well as unfavourable outcomes for the Scheme.

Auditor's report on the financial report

Since 2008-09 the Independent Auditor's Reports (IARs) on the financial reports of the Corporation have been unmodified. The IARs, however, have included a comment on the inherent uncertainty regarding the outstanding claims provisions, and funding ratio implications.

The comment is made again for 2014-15 and reflects acknowledgement of uncertainty about the financial impact of legislative reforms on the Scheme. The impact of reform will only become clearer as actual claims experience emerges under the reforms in upcoming periods.

The following is an extract from the IAR on the Corporation's 2014-15 report, which is unmodified and again includes the comment on the inherent uncertainty of the outstanding claims provisions, and funding ratio implications.

> ***Opinion***
>
> *In my opinion, the financial report gives a true and fair view of the financial position of the Return to Work Corporation of South Australia as at 30 June 2015, its financial performance and its cash flows for the year then ended in accordance with the Treasurer's Instructions promulgated under the provisions of the* Public Finance and Audit Act 1987 *and Australian Accounting Standards.*
>
> ***Inherent uncertainty – outstanding claims liability and funding ratio***
>
> *Without qualification to the opinion expressed above, attention is drawn to notes 4, 10 and 11 of the financial report.*
>
> *There is significant uncertainty surrounding the financial impact of legislative reforms which will only become clearer as outstanding claims experience emerges in future financial periods. If in future years the actual costs of claims described in notes 10 and 11 are greater than the balances recorded in the financial statements, this will adversely impact the funding ratio described in note 7.*

Assessment of controls

In my opinion, the controls exercised by the Return to Work Corporation of South Australia in relation to the receipt, expenditure and investment of money, the acquisition and disposal of property and the incurring of liabilities, except for the matters raised in relation to the completeness of the Agent Performance Operational Risk Register, waiver checklists, income support and procurement of items for injured workers outlined under 'Communication of audit matters', are sufficient to provide reasonable assurance that the financial transactions of the Return to Work Corporation of South Australia have been conducted properly and in accordance with law.

Communication of audit matters

Matters arising during the course of the audit were detailed in management letters to the Chief Executive Officer. The main matters raised and related responses are provided below.

Potential duplication in claim agent assurance framework

The Corporation’s claim agent assurance framework comprises an array of processes for confirming that claim agents have provided benefits according to legislative requirements. In response to our past recommendations, the Corporation reviewed the structure of its assurance framework for the purpose of removing any duplicated assurance processes that are causing unnecessary costs. The Corporation is still considering possible changes to the provision of internal auditing services that underpin the assurance framework. These changes are intended to improve the evaluation of end-to-end controls whilst reducing the duplication of assurance processes. We will continue to monitor the Corporation’s progress in this area.

Completeness of the Agent Performance Operational Risk Register

The Agent Performance Operational Risk Register provides the Corporation with assurance that all legislative requirements for providing benefits are covered by a control and is integral to its internal auditing processes. We noted the register omitted some key legislative requirements for determining claims and promptly paying lump sum amounts to workers with a permanent impairment. The omissions increased the risk of legislative requirements not being properly enforced. The Corporation advised it will revise the register.

Reporting to the Corporation’s Audit Committee on results of internal audits of claim agents

Internal audits of claim agents are performed throughout the year by Corporation and claim agent staff. The audits provide the Corporation with assurance that claim agents have provided benefits according to legislative requirements. The Corporation was still developing a process to address our recommendation made last year to provide fuller and more timely reporting on these audits to the Corporation’s Audit Committee. The Corporation expects this will be completed by September 2015. Improved reporting will keep the Audit Committee abreast of risks emerging at claim agents and action taken on issues identified.

Key performance indicator (KPI) audits and financial penalties

KPI audits conducted by the Corporation resulted in claim agents improving their controls. When KPI audits detected high error rates the Corporation directed the claim agents to take corrective action within specified time frames. The Corporation can also apply financial penalties to claim agents if audits identify high error rates. We noted the method of weighting and evaluating errors may result in claim agents not incurring financial penalties for errors in areas of high financial risk. Some areas of high and low financial risk were given equal weightings. We advised the Corporation that better weightings would make claim agents reassess their risk of incurring financial penalties, potentially resulting in better controls being implemented well before receiving directions from the Corporation.

The Corporation agreed that it was important to get the balance right with KPIs to avoid unintended consequences and advised that, on the whole, KPI incentives have led to excellent claims liability results from claim agents, and the focus on corrective actions from the KPI audits has ensured acceptable levels of improvement by claim agents. We noted the Corporation is implementing changes to its assurance framework that will take into consideration the issue of getting the balance right with KPIs.

Waiver checklists

Employers who satisfy certain reporting obligations to the Corporation are required by legislation to have their obligation to pay the first two weeks of income support waived. Claim agents use a checklist to determine whether employers have satisfied these obligations before providing a waiver. In past years, we raised issues about the legality of the prerequisites on the claim agent waiver checklists. Our follow-up of this matter identified continuing issues with the prerequisites on the checklists, increasing the risk of under or overpayment of income support. The Corporation advised it will issue an instruction to the claim agents to ensure consistency of waiver checklists with legislative requirements.

Income support – checking of employer reimbursements

In 2015 the Corporation reimbursed employers $54 million for paying workers for periods of time not worked due to their injuries. Employers obtained the reimbursements using a specified reimbursement form. In February 2015 the Corporation implemented our recommendation that claim agents evidence on reimbursement forms the comparison of requested reimbursement amounts against the worker's expected earnings based on their work capacity. We noted the Corporation's claim agent assurance framework did not cover this control, nor any other reimbursement controls. Problems with reimbursements could result in under or over payments. The Corporation advised it will review the completeness of its Agent Performance Operational Risk Register. We consider this should result in employer reimbursements being incorporated into the internal auditing of claim agent activities.

Income support – checking of average weekly earnings calculations

Legislation specifies how the average weekly earnings of an injured worker must be determined when a claim is first received. The determination forms the basis for calculating an injured worker's ongoing weekly income support.

KPI audits performed by the Corporation for the six months up to 31 December 2014 identified a high error rate in the average weekly earnings calculations of a claim agent, potentially causing under or overpayment of income support. The errors resulted from control deficiencies. After the KPI audits, the claim agent changed their checking procedures reducing the risk of future errors.

Procurement of items for injured workers

Last year, we reported the Corporation had not established a framework and controls for the procurement of housing modifications and curative appliances. Additionally there was no requirement to obtain evidence that these goods were delivered and met the required specifications. Our follow-up of this issue indicated the Corporation's Serious Injury Unit was addressing this matter whereas claim agents were still awaiting guidance from the Corporation. In response, the Corporation advised this matter will be discussed with claim agents to ensure their procedures for procuring items combine value for money with worker independence and quality of life, and that the Serious Injury Unit will be engaged to create consistent practices across the Scheme where possible.

Interpretation and analysis of the financial report

Highlights of the financial report

	2015 $'million	2014 $'million
Underwriting result		
Premium revenue from registered employers	645	662
Net claims paid	(486)	(454)
Decrease (Increase) in net outstanding claims liability	1 302	(122)
Claim management fees	(101)	(65)
Other underwriting expenses	(15)	(15)
Underwriting result	1 345	6

	2015 $'million	2014 $'million
Net investment and other income		
Net investment profit	223	285
Other income	17	19
Net investment profit and other income	240	304
Operating expenses		
Employee benefit expenses	(36)	(34)
Other expenses	(47)	(42)
Total operating expenses	(83)	(76)
Result from operating activities	1 502	234
Other comprehensive income		
Remeasurements of defined benefit liability	(1)	1
Total comprehensive result	1 501	235
Net cash provided by operating activities	86	184
Assets		
Investments	2 863	2 647
Other assets	98	120
Total assets	2 961	2 767
Liabilities		
Outstanding claims	2 518	3 848
Other liabilities	73	51
Total liabilities	2 591	3 899
Total equity	370	(1 132)

Statement of Comprehensive Income

Total comprehensive result

The comprehensive result of the Corporation depends significantly on:

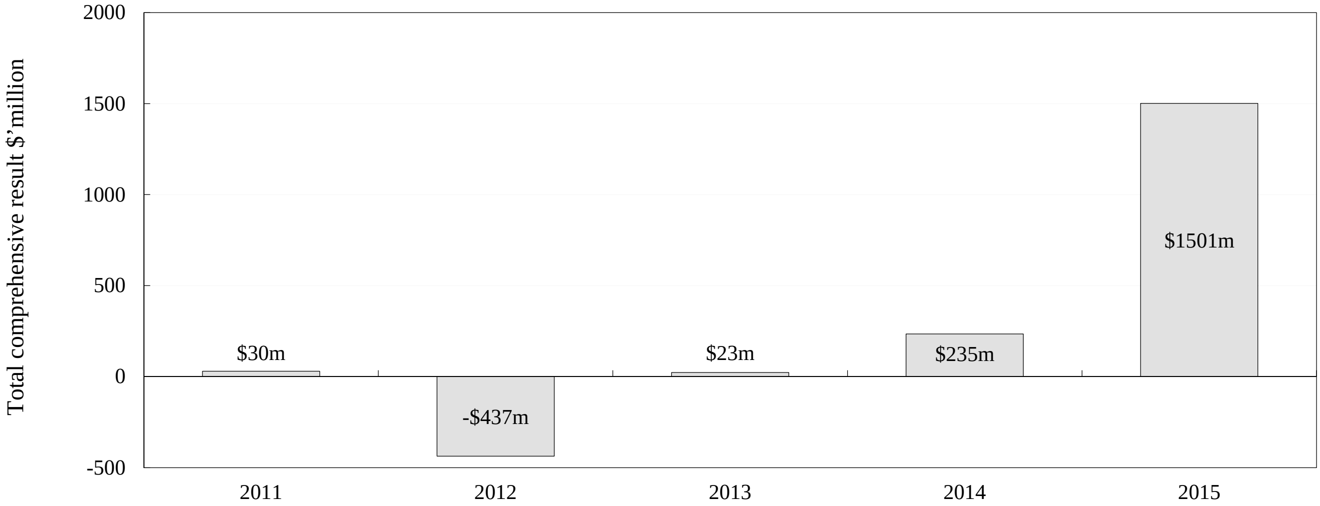
- premium rates being set before the start of the financial year with the aim of ensuring premium revenue and investment income will at least cover the cost of new claims received during the financial year and administrative costs. The premium setting process depends significantly on the actuarial estimate of the cost of new claims likely to be received during the forthcoming year and other factors determined by the Board of Management of the Corporation

- actuarial estimate of the outstanding claims provision

- the market value of its investments.

The total comprehensive result for the year was a profit of $1.5 billion ($235 million). The $1.3 billion improvement in the total comprehensive result was due mainly to the decrease in net outstanding claims liability.

The following chart shows the total comprehensive result of the Corporation for the five years to 2015.



Underwriting result

The underwriting result is essentially registered employer premium revenue less claims expense. Investment income does not form part of the underwriting result. AASB 1023 'General Insurance Contracts' requires the underwriting result to be shown separately in the Statement of Comprehensive Income to help show the extent to which underwriting activities rely on investment income for the payment of claims.

There was a $1.3 billion improvement in the underwriting result reflecting:

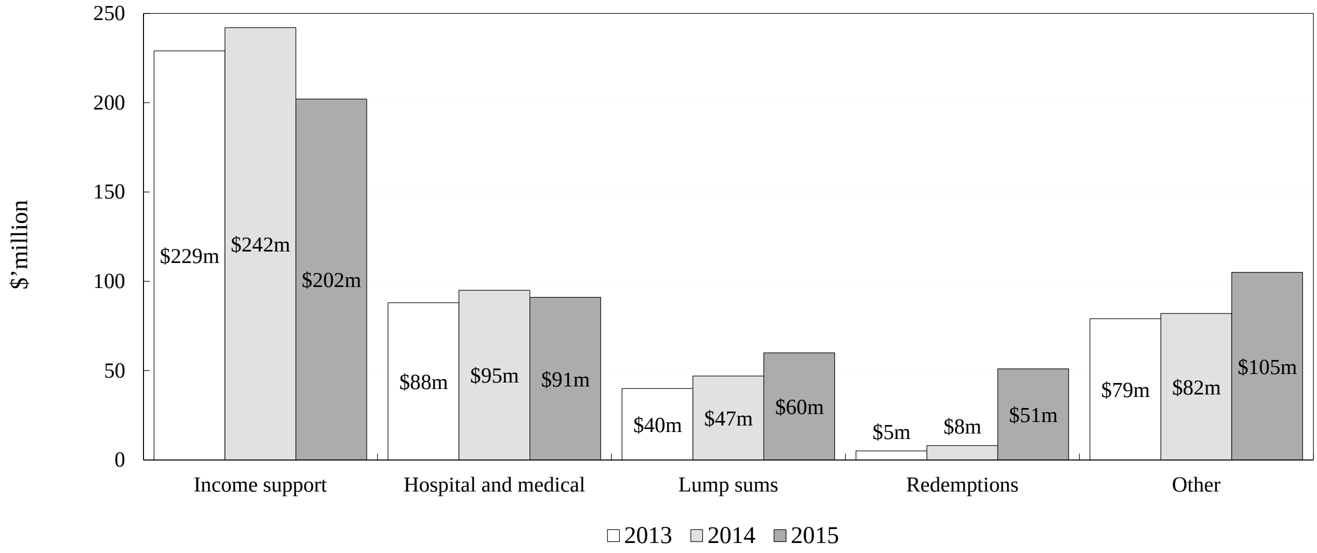
- a $1.3 billion decrease ($122 million increase) in the actuarial estimate of the net outstanding claims liability comprising:
  - a $1283 million decrease in the actuarial estimate of the net outstanding claims liability for the Compensation Fund
  - a $19 million decrease in the net outstanding claims liability for the Statutory Reserve Fund due mainly to a reduction in the number of claims and average claim sizes
- a $35 million increase in claim payments due mainly to:
  - redemptions paid to claimants increasing by $43 million to $51 million upon agreeing to exit the Scheme. According to the Corporation, the number of income support redemptions increased from 21 in 2014 to 489 in 2015. Many redemptions were paid to claimants with a WPI below 30% who had received income support for over 130 weeks and otherwise would have, under the transitional arrangements of the new legislation, potentially continued to receive income support until 30 June 2017. The redemption amount in each case was calculated as the income support the claimant would have received up to 30 June 2017. The redemption represents only a change in timing (bringing forward) of payments that would have been received in the future, and had only a minor impact on the Scheme's estimated outstanding liabilities
  - sundry costs increasing by $22 million to $47 million due mainly to lump sum amounts paid to claimants for their future training needs upon agreeing to settle disputes and exit the Scheme
  - lump sum benefits for non-economic loss paid to claimants permanently impaired increasing by $14 million to $60 million,

offset by a $40 million reduction in income support to $202 million as a result of less claimants receiving income support, due mainly to the Corporation's initiatives to get claimants back to work more promptly

- a $36 million increase in claim management fees due mainly to claim agents earning higher performance fees, coupled with incentives paid to implement the Corporation's initiatives for getting claimants back to work more promptly
- a $17 million decrease in premiums due mainly to the Corporation changing the method of calculating premiums for labour hire agencies, and more employers participating in the retro-paid loss scheme which is open to large employers and calculates premiums differently from experience rated employers.

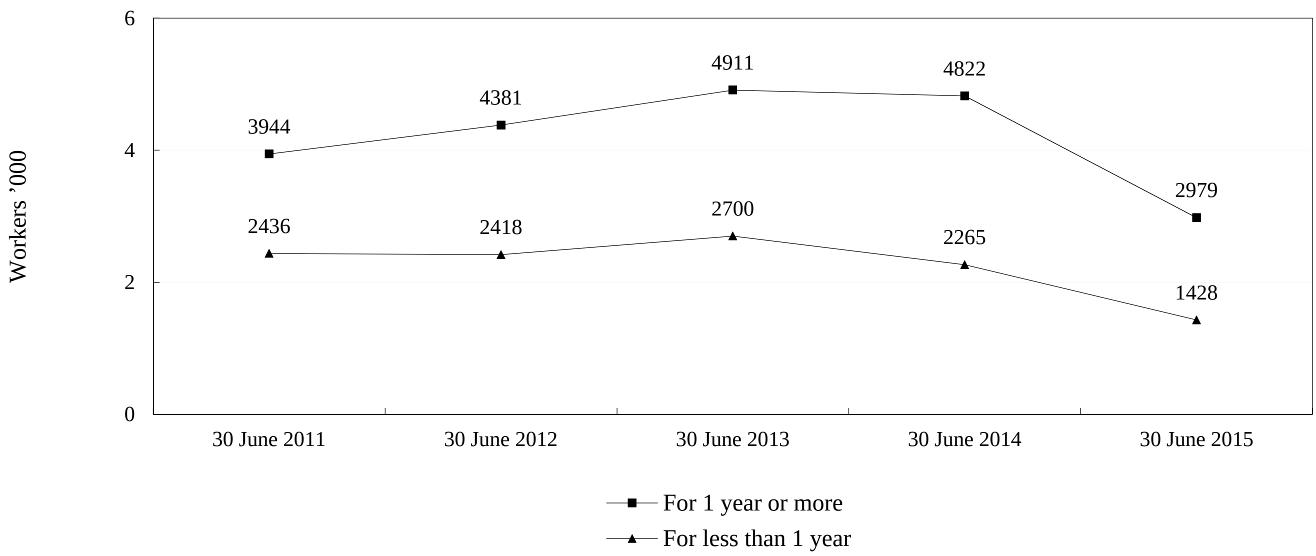
Claim payments

The following chart analyses claim payments for the three years to 2015.



The above chart shows the downturn in income support and medical expenses in 2015 due mainly to the new initiatives of the Corporation, which resulted in reductions in the number of workers receiving benefits.

The change in the number of workers receiving income support for the five years to 2015 is reflected in the following chart.

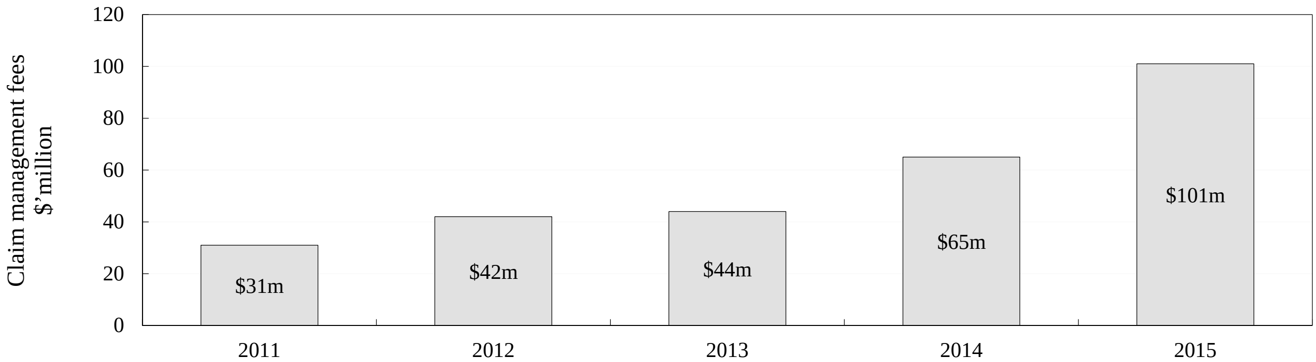


The numbers shown in the above chart were provided by the Corporation and are unaudited.

The above chart shows that up until 2013 the number of workers receiving income support was increasing but began to reduce in 2014. In 2015 the number of workers receiving income support for a year or more (long-term claims) decreased by 38%, and for less than a year decreased by 37%. The Corporation's actuary has attributed the reduction to the Corporation's new claim acceptance and response initiatives, progressively implemented from late 2013, together with more on-time work capacity assessments resulting in more determinations to cease benefits, and an increase in the number of claimants paid redemptions and other settlements to exit the Scheme.

Claim management fees

The following chart shows claim management fees for the five years to 2015.



Claim management fees are paid to the Corporation's two claim agents for managing workers compensation claims.

The Corporation's sole claim agent managed workers compensation claims until 1 January 2013 when this responsibility was split equally with another claim agent.

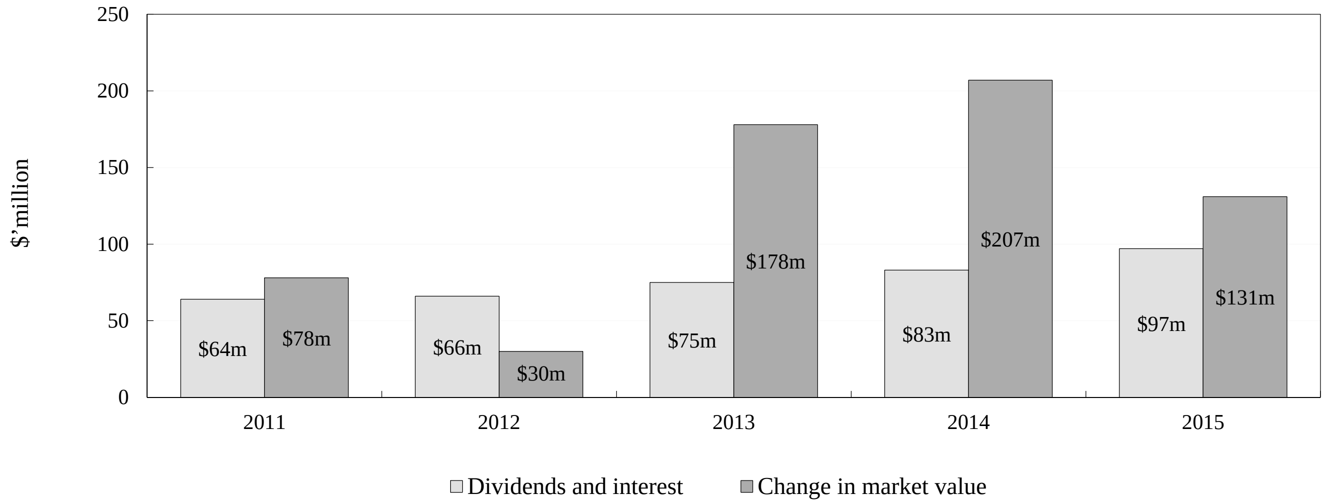
Claim management fees have increased over recent years due mainly to:

- in 2012 the method of determining performance fees was amended resulting in higher fees
- in 2013 new contractual arrangements with the two claim agents resulted in the method of determining performance fees being amended again resulting in higher fees. The higher fees in 2013 also resulted from more claims to manage and transition costs associated with moving from one claim agent to two claim agents
- in 2014 the amended method of determining performance fees resulted in claim management fees continuing to increase. The higher fees in 2014 also resulted from incentives paid to claim agents to implement the Corporation's new initiatives for getting claimants back to work more promptly, which impacted favourably on the outstanding claims liability
- in 2015 the claim agents continued to earn higher performance fees and receive incentives for managing the Corporation's initiatives for getting claimants back to work implemented in 2014, and new initiatives implemented in 2015 such as mobile case managers. These initiatives have impacted favourably on the outstanding claims liability.

Investment profits

The Corporation's investment profits have fluctuated significantly over recent years as a result of changes in the market value of its investments which depend on financial market conditions. Financial markets improved significantly since 2013 compared to 2011 and 2012. In the later part of 2015 there was a downturn in investment markets affecting investment returns.

The following chart shows the investment income of the Corporation for the five years to 2015.

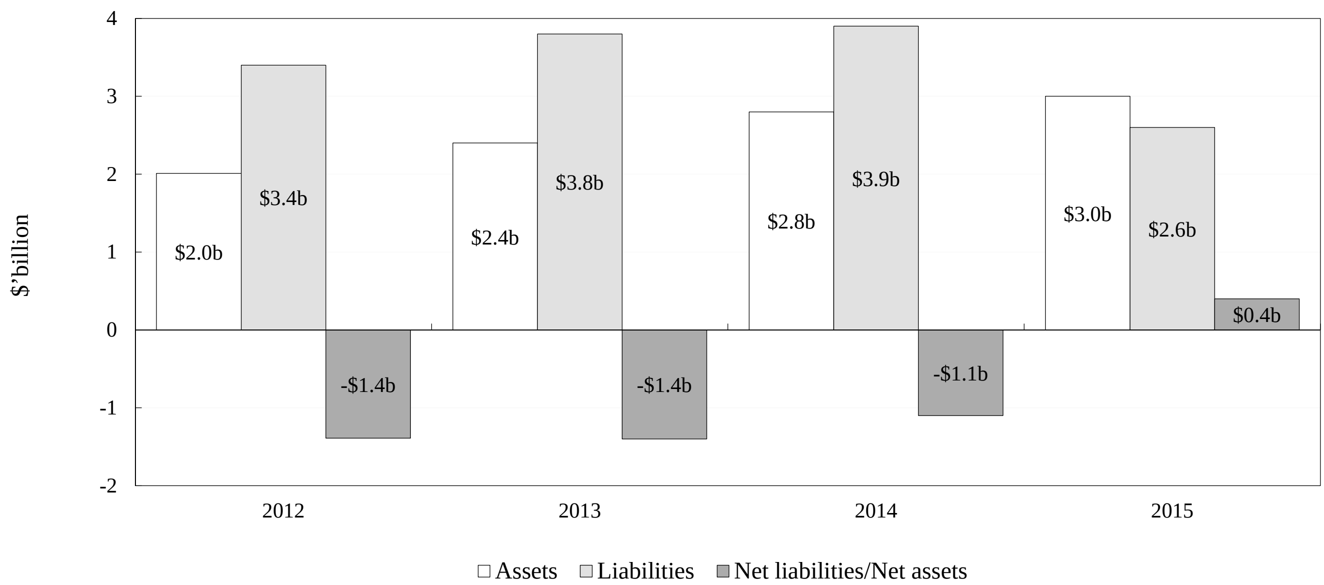


Statement of Financial Position

In the years before 2015, the Corporation's liabilities were significantly higher than its assets due mainly to the outstanding claims liability exceeding investments. In 2015 there was a $1.5 billion improvement in the Corporation's financial position due mainly to:

- estimated outstanding claims reducing by $1.3 billion to $2.5 billion
- investments increasing by $217 million to $2.9 billion due mainly to increased market values of investments and investing of net cash proceeds from operations
- receivables reducing by $18 million to $69 million due mainly to a $12 million decrease in premium refunds payable offset against receivables. Last year, there was a once-off increase in premium refunds payable at 30 June 2014 due to changing the method of calculating year end hindsight premium adjustments
- payables increasing by $20 million to $54 million due to more accrued claim agent fees.

The following chart analyses the assets and liabilities of the Corporation for the four years to 2015.



Outstanding claims – Compensation Fund

Outstanding claims for the Compensation Fund comprised 95% (96%) of the Corporation's liabilities. The outstanding claims liability covers expected future payments including those related to claims reported but not yet paid, incurred but not yet reported and incurred but underreported.

The liability is determined on the basis of consideration and assessment by the management and Board of Management of the Corporation of a comprehensive actuarial review of claims exposures by an independent actuary. Relevant information relating to the actuarial estimation of outstanding claims liabilities is provided in notes 4, 10 and 11 of the financial report.

The net central estimate of outstanding claims liabilities was $2238 million at 30 June 2015. The net outstanding claims provision was $2384 million at 30 June 2015, including a risk margin of $146 million intended to achieve a 65% probability of sufficiency.

The net central estimate of outstanding claims liabilities has decreased from $3476 million at 30 June 2014 to $2238 million at 30 June 2015. The $1238 million decrease can be attributed to:

- a $993 million decrease due to legislative changes. The initial legislative changes contributed to a $1065 million decrease whilst subsequent regulation changes contributed to a $72 million reversal. This included a decrease of $1225 million for income support due mainly to the new two year cut-off threshold for short-term claims. This was partially offset by an increase of $105 million for treatment costs due mainly to the provision of lifetime care for serious injury claims and $74 million increase due to the additional claims handling expense during the transitional period until 30 June 2017

- a $371 million decrease due to improved claims performance reducing the number of claimants receiving income support, which stems from the Corporation's management actions to get claimants back to work more promptly

- a $134 million increase due to economic assumptions reflecting reductions in risk free long-term discount rates. A decrease in the discount rate leads to an increase in the liability. Although changes to discount and inflation rate assumptions are impacted by events outside of the Corporation's control, the actuary determines the rates with reference to market practice. The actuary reduced the discount rate from 4.16% in 2014 to 4.06% in 2015.

The liability for long-term claims may extend for many years beyond the current year causing the liability to grow. The reduction in short-term claims has resulted in long-term claims becoming a greater proportion of total claims. This is reflected in the weighted average expected term to settlement of claims increasing from 9.5 years in 2014 to 13 years in 2015 (refer note 10(a) of the financial report).

Legislative reform and other developments affecting the uncertainty of the outstanding claims liability

The actuarial estimation is primarily based on the anticipated impact of new legislation. The impact will only become clearer as actual claims experience emerges under the legislation. Further, note 10 of the financial report specifies the nature of a number of key uncertainties associated with the actuarial estimation and the sensitivities of the estimation to changes in key assumptions. Of particular note are the uncertain actual experience for short-term claims and serious injury claims and WPI assessments. The independent actuary made reference in their report to the following:

- WPI assessments – are the gateway to lifetime benefits for serious injury claimants and new lump sum benefits for economic loss. The robustness of the WPI assessment rules under the legislation has not been tested in practice. If these rules do not operate as intended, the cost implications may be significant

- Future cost escalation – future cost growth in medical treatment and personal care is a particular risk for the lifetime benefits payable to serious injury claimants

- Return to work – the potential improvements to Scheme culture as a result of new hard boundaries may encourage earlier return to work for short-term claims. Counter to this, the potential for benefits to continue while claims are in dispute may encourage further disputes and worsen return to work experience up to the two year cut-off

- Outcomes for claims with current disputes – the valuation basis assumes a high level of success on currently disputed claims

- Management actions – the extent to which activity over the transition period will ultimately act to reduce the number of claims that remain on long-term benefits.

Probability of sufficiency

As disclosed in note 10 of the financial report, the estimate of outstanding claims liability is determined by reference to a 65% probability that the provision for outstanding claims will be adequate. Given the greater uncertainty with the estimate, the Corporation increased the risk margin from 5.5% at 30 June 2014 to 6.5% at 30 June 2015, so that the net liability is adequately provided to approximately a 65% probability of sufficiency. The performance statement of the Corporation, authorised by the Treasurer and the Minister for Industrial Relations, requires it to estimate its claims liabilities using a risk margin with at least 65% probability of sufficiency for the net liability. The Australian Prudential Regulation Authority sets a minimum of 75% in its Prudential Standard GPS 320 'Actuarial and Related Matters'. Public sector entities are not bound by this requirement. It is noted that the Motor Accident Commission uses 80% and some other schemes in Australia use 75%.

Using a 75% probability of sufficiency for the outstanding claims liability would result in an increase of $112 million as shown in note 10(f) of the financial report.

Investments

The Corporation's investment portfolio of $2.9 billion ($2.6 billion) mainly comprises investments in pooled funds, discrete mandate funds and fixed-term deposits.

Pooled funds

The Corporation trades unit holdings in pooled funds that have characteristics consistent with the Corporation's fund manager guidelines. Other organisations besides the Corporation also hold units in the pooled funds.

Discrete mandate funds

The Corporation has agreements with firms (fund managers) to manage investment portfolios in accordance with the Corporation's investment guidelines.

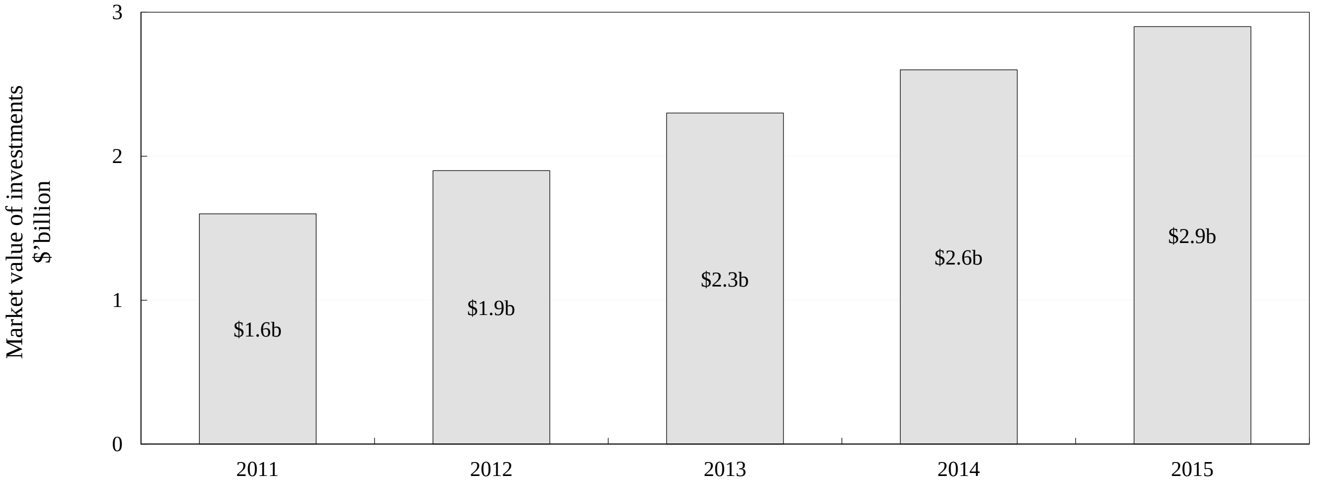
Custodian

The Corporation has appointed the National Australia Bank to be custodian of the pooled funds and discrete mandate funds.

Investment decisions

Corporation investment officers implement the Corporation's investment strategy which involves rebalancing the investment portfolio held in pooled funds, discrete mandate funds and fixed-term deposits to minimise risk and achieve target returns. The investment officers also receive expert advice on investment matters from an external consultant.

The following chart shows the market value of the Corporation's investments for the five years to 2015.



According to the Corporation, the return on investments measured in accordance with Australian Investment Performance Standards for the last five years to 2015 were:

	2015	2014	2013	2012	2011
Return on investments	8.6%	12.6%	13.1%	5.5%	10.4%

The Board for the last two years approved a targeted return of CPI plus 3.5% p.a., equating to 6.5% for 2014 and 5% for 2015. The actual return on investments exceeded these targets significantly.

South Australia Police

Functional responsibility	South Australia Police (SAPOL) is an administrative unit established under the *Public Sector Act 2009* and operates under a legislative framework prescribed by the *Police Act 1998*. SAPOL is responsible to the Minister for Police. The functions of SAPOL are to: — uphold the law — preserve the peace — prevent crime — assist the public in emergency situations — coordinate and manage responses to emergencies — regulate road use and prevent vehicle collisions.
Financial statistics	Employee benefits expense: $658 million Employee benefits liability and related on-costs: $282 million Workers compensation liability: $84 million Net cost of providing services: $780 million Total revenues from SA Government: $795 million Number of active FTEs: *Police Act 1998* employees 4588 Protective Security 124 Unsworn employees 949 Total 5661 Administered items: Revenue from expiation fees $74 million Revenue from Victims of Crime levy $13 million
Significant events and transactions	Stage 1 of the Shield Business Transformation Program was completed in July 2014, with work continuing on Stage 2 of the program. Total program costs incurred to date amounted to $18 million out of a total estimated program cost of $58 million.
Financial statement opinion	**Unmodified**
Financial controls opinion	**Modified** Key issues: — Approval, recording, monitoring and reporting of staff leave — Review of expiation revenue reports, transactions and system access — Cash receipting procedures and system access — Expenditure authorisation, bank account user access and disbursement limits — Purchase card cancellations, purchase restrictions and transaction verification.

Scope of the audit

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

During 2014-15 areas of review included:

- expiation revenue
- expenditure
- payroll
- revenue and receipting
- workers compensation
- procurement/contract management
- financial accounting
- Police Records Management system – Shield Business Transformation program
- governance and accountability
- purchase card management
- consultant and contractor disclosure requirements.

Audit findings and comments

Assessment of controls

In my opinion, the controls exercised by the South Australia Police in relation to the receipt, expenditure and investment of money, the acquisition and disposal of property and the incurring of liabilities, except for all matters outlined under 'Communication of audit matters', are sufficient to provide reasonable assurance that the financial transactions of the South Australia Police have been conducted properly and in accordance with law.

Communication of audit matters

Matters arising during the course of the audit were detailed in management letters to the Commissioner of Police. The main matters raised with SAPOL and the responses are detailed below.

Payroll

The key findings from our review were as follows:

- We noted several instances of leave taken that were not supported by approved leave forms.

- While a report outlining missing leave forms (the No PD45 Leave Form report) is regularly distributed to management, there is a lack of sufficient follow-up by management to ensure all missing leave forms are submitted.

- Shared Services SA (SSSA) processes certain types of leave found on the No PD45 Leave Form report based only on timesheet information and without approved PD45 leave forms.

- We noted discrepancies between timesheets and records shown in the Human Resources Management system.

- We identified a number of opportunities for improvement in reviewing key payroll processing reports and managing Human Resources Management system user access.

In response, SAPOL advised that measures will be implemented to address the findings, including changes to existing procedures, closer monitoring through the PD160 audit process, and undertaking a communication strategy to reinforce the need to comply with internal procedures.

Expiation revenue

Key issues raised with SAPOL were as follows:

- We found many instances where no documentation exists to evidence the timely review of management reports within the Expiation Notice Branch.
- There is limited review and follow-up made on missing traffic infringement notices (TINs) outlined in the Missing TINs report, which is sent to the local service areas. This may lead to forfeiture of valid expiation fees if no follow-up is made within six months from the date the missing TINs are issued.
- SAPOL's policy on withdrawn notices is unclear on the treatment of manual notices withdrawn due to clerical error. This increases the risk of expiation notices not being issued for valid offences.
- Two employees had administrator access to the Expiation Notice System (ENS) who did not require this level of access. We were advised that these employees previously required this level of access however it was not removed when no longer required. The quarterly review of ENS user access does not include a review of existing users with administrator access.

SAPOL responded that:

- an Expiation Notice Branch ENS daily report policy is being developed to guide staff and ensure the correct auditing and filing of daily reports
- a number of measures have been adopted to ensure exceptions raised in the Missing TINs report are promptly addressed, including changes to procedures in managing the Missing TINs report
- manual notices withdrawn for major or fatal errors are no longer reissued at the issuing officer's discretion – these are now reissued by the Expiation Notice Branch. A standard operating procedure (SOP) document has been developed to guide members in the procedures for reissuing notices
- access for the two employees identified has been removed and measures are now in place to prevent this from reoccurring.

Revenue from fees and charges

We have raised the following key findings during our audit:

- An iKey provides supervisor or administrator level access to Bizgate (SAPOL's cash receipting system). We noted instances of inappropriate access to Bizgate iKeys, including three cases where iKeys were provided to users whose positions were not on the authorised officers list under internal policy.
- A number of banking and shift close-offs were not completed promptly and the prescribed close-off audit sheets were not used in all instances. This increases the risk of inaccurate or incomplete revenue and cash balances.
- There is no mechanism in place to ensure that invoices are raised for all invoice request forms sent by the Records Release Unit to SSSA.

SAPOL responded positively to our observations and noted that measures will be put into place to address the above matters, including undertaking a communication strategy to ensure compliance with the General Order and updating internal procedures.

Expenditure

Key findings raised during our review of the expenditure business cycle were as follows:

- The review of bank account user access, including authorisers in CommBiz, is not documented. The review also lacks independence since the reviewer is also an authoriser in CommBiz.

- Changes to financial authorisations approved by the Commissioner of Police released in March 2015 were not reflected in Basware since the Procurement and Contract Management Services Branch was not advised of the changes made.

SAPOL responded that:

- it is proposed that the Director Business Service reviews and approves bank account user access every six months. The next review is due in October 2015

- it will notify the Procurement and Contract Management Services Branch promptly when financial delegations are updated.

Bank disbursement limits

During our audit, we noted certain daily bank disbursement limits assigned to staff that appeared to be excessive. Disbursement limits of $50 million were assigned to non-managers of the Service Management Branch (SMB) and the Manager of the Financial Management Services Branch. Disbursement limits of $100 million were also assigned to the Manager and Supervisor of the SMB.

We understand these limits were established to ensure SAPOL’s creditors and employees are paid in the unlikely event of SSSA’s inability to pay creditors and employees on behalf of SAPOL. While disbursements are subject to dual authorisation, the relatively high disbursement limits expose SAPOL to severe financial loss should any instance of fraud or human error occur when processing payments involving the above amounts.

We recommended that SAPOL revisit these disbursement limits and consider whether they are necessary in light of business needs and risks associated with delegating high disbursement limits to staff.

SAPOL has advised that it will reduce daily bank disbursement limits to a maximum of $50 million.

Government purchase cards

SAPOL has 375 active purchase cards issued to staff as at 30 June 2015 with a total spend of $1.6 million for 2014-15. Purchase cards offer a range of benefits including efficiency and detailed transaction recording and reporting. The use of purchase cards also presents a number of inherent risks including the potential use of purchase cards for non-work related expenses, purchases of restricted items, non-compliance with internal SAPOL policies and potential error in recording purchase card transactions. SAPOL uses the ANZ Expense Manager system to manage the use and processing of purchase card transactions.

Key findings from our review were as follows:

- We noted instances where purchase cards held by terminated staff were not cancelled promptly.
- Numerous restricted items were purchased using purchase cards.
- Purchase card transactions were not verified in a timely manner.

SAPOL has advised that:

- the cancellation of cards is included in the 'General Order – Government purchasing card' and will be covered as part of an online training course. SAPOL is also considering adding a specific question on timely cancellation of purchase cards as part of the PD160 audit process

- restricted items are referred to through various means within SAPOL (eg General Order, SMB intranet pages, ANZ Expense Manager acknowledgement screen). SAPOL considers the process of reinforcement on this matter extensive. An online training course on using and approving purchase cards will soon be rolled out throughout the organisation to further reinforce this matter

- there is no reporting function available to enable identification of late (or on time) transaction verification. The only way to check is a manual comparison of dates. The 'General Order – Government purchasing card – cardholders' is fully prescriptive regarding approval/submission time frames. An email can also be work flowed in the ANZ Expense Manager system to all employees with access to reinforce the timelines.

Governance and accountability

We have reviewed elements of governance and accountability arrangements in SAPOL. Key findings noted during our review include the following:

- SAPOL has not reported and published information on mobile phone expenditure, office expenditure and the gifts register in a timely manner, resulting in non-compliance with the Department of the Premier and Cabinet (DPC) Circular PC035 'Proactive Disclosure of Regularly Requested Information' and SAPOL's own publication policy.

- For consultancies amounting to $10 000 and above, SAPOL has not disclosed a list of consulting firms and a brief summary of the services for which they were engaged in its 2013-14 annual report, which is a breach of DPC Circular PC013 'Annual Reporting Requirements'.

- Information on a number of eligible contracts and contractors was not fully published on the SA Tenders and Contracts website, resulting in non-compliance with DPC Circular PC027 'Disclosure of Government Contracts'.

In response, SAPOL advised that:

- all information required for publication by DPC Circulars PC013, PC027 and PC035 will be brought up to date and published in a timely manner

- SAPOL will review the SOP on disclosure of government contracts to ensure clarity of requirements and responsibilities, and amend the SOP as appropriate. An awareness training program will be implemented after this review.

Information and communications technology and control

Police Records Management system – Shield Business Transformation program (Shield program) follow-up review

During 2013-14 we reviewed the implementation status of Stage 1 and the planning status of Stages 2-4 of the Shield program. We raised certain matters for consideration by SAPOL, including the formalisation of a post-implementation review for Stage 1, the updating of the overall program plan to reflect current project status, and some observations on system user access controls.

SAPOL responded with corrective action plans to remediate shortcomings by October 2014 and considered user access observations we raised as part of the review.

In 2014-15 we have again performed a review of the Shield program. We found some positive controls and also identified shortcomings, including:

- certain prior year findings and recommendations not addressed in a timely manner:
  - no formal regular reviews of assignment of secondary access control roles in the Niche records management system
  - deficiencies in the segregation of duties matrix testing
- lack of timely notification of separation advice
- lack of evidence of discussion and endorsement of implementation approach changes.

SAPOL responded positively to our audit observations and advised all matters would be addressed accordingly.

Shield Business Transformation Program status and budget and expenditure

In September 2009 Cabinet approved a submission for a police records management system (Niche RMS), now referred to as the Shield program. The submission included the implementation of Stage 1 (custody management and criminal associations) at an approved budget of $13.3 million. A further Cabinet submission in November 2013 approved $44.9 million for the implementation of Stages 2-4 of the Shield program.

At the time of our review Stage 1 was completed, with work continuing on the first Stage 2 release planned for September 2015.

As at 30 June 2015 the program-to-date capital investment expenditure totalled $13.2 million, while total operating and recurrent expenditure to date amounted to $5.1 million.

The remaining budget for capital investment expenditure amounts to $24.4 million. A further $1.1 million was yet to be formally approved for carryover by the Department of Treasury and Finance at the time of this Report.

The remaining budget for operating and recurrent expenditure amounts to $12.3 million as proposed in the November 2013 approved Cabinet submission.

Road safety camera review

In South Australia, the road safety camera program is an integral part of an overall road safety program to ensure South Australia’s roads are safe for all users. In addition to the safety aspects of the camera system, this system collects revenue from road users who are detected illegally exceeding the speed limit or failing to stop at a red light. Expiation notices can also be issued for driving an unregistered vehicle or not having current third party insurance.

In 2013-14, we reviewed the processes performed by the Radio and Technology Unit and the Traffic Camera Unit, with particular reference to fixed red light cameras, and the Enterprise Asset Management System (EAMS) control environment. EAMS is a web application that is used to record information for a number of different types of assets, including storing safety camera asset information.

As part of this review, we raised certain matters for consideration by SAPOL, including the need to retain all test data, including photographs, to corroborate annual fixed red light camera calibration test results. We also made a number of observations on SAPOL's use and maintenance of EAMS records.

In response, SAPOL has established several measures, including changes to internal policies, to ensure all test data is retained to support camera calibration test results. SAPOL has also implemented measures to ensure staff are aware of the policies and procedures on the use and maintenance of information found in EAMS. Further, SAPOL has developed a calibration audit SOP to ensure the accuracy and completeness of EAMS maintenance records.

In 2013-14, we also reviewed aspects of the general IT control environment for EAMS. Key findings included:

- weaknesses of an alternate method of access to the application
- lack of formalised user access management process at EAMS application level
- no role access reviews performed at the application level
- lack of monitoring of sensitive data changes.

In response to our recommendations, SAPOL has implemented a stronger method of access into EAMS, and has formalised the EAMS application user access management process through the creation of a roles and responsibilities matrix and process chart.

SAPOL has also developed a report showing active EAMS users and is in the process of including this report as part of SAPOL's periodic internal security audit.

SAPOL is also working with the EAMS vendor to develop auditing reports that will assist in identifying non-compliance with internal policies on road safety camera calibration, testing and maintenance. SAPOL expects to address this requirement by 31 December 2015.

Interpretation and analysis of the financial report

Highlights of the financial report

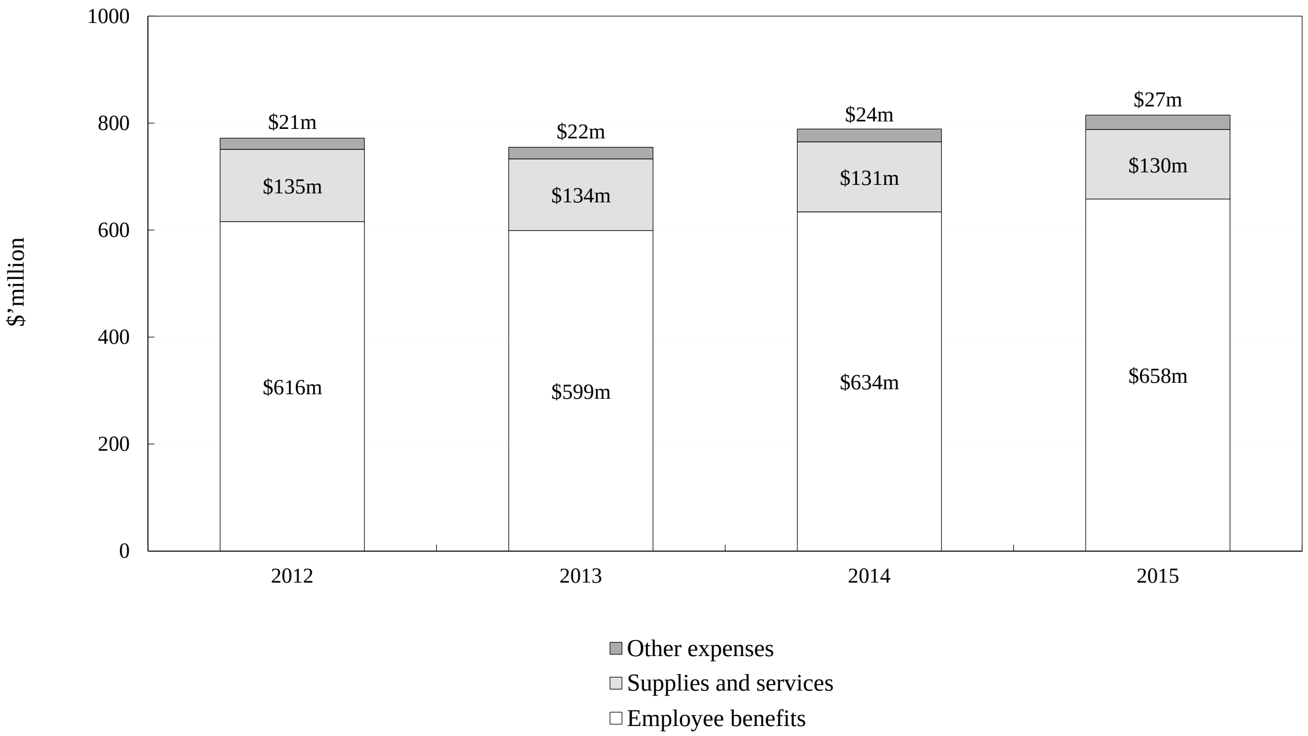
	2015 $'million	2014 $'million
Expenses		
Employee benefits	658	634
Supplies and services	130	131
Other expenses	27	24
Total expenses	815	789
Income		
Fees and charges	26	27
Other revenues	9	7
Total income	35	34
Net cost of providing services	780	755
Revenues from (Payments to) SA Government	795	750
Net result	15	(5)
Other comprehensive income	-	16
Total comprehensive result	15	11

	2015 $'million	2014 $'million
Net cash provided by (used in) operating activities	75	13
Assets		
Current assets	142	99
Non-current assets	375	386
Total assets	517	485
Liabilities		
Current liabilities	105	94
Non-current liabilities	284	277
Total liabilities	389	371
Total equity	128	114

Statement of Comprehensive Income

Expenses

The following chart shows a structural analysis of the main expense items for the four years to 2015.



Employee benefits account for 81% of total expenses and increased by $24 million during 2014-15. This movement was mainly due to the following factors:

- salaries and wages increased by $14 million
- an increase in long service leave expense of $10 million
- initial recognition of police service leave expense of $8 million
- a decrease in workers compensation expense of $14 million.

The increase in salaries and wages was driven by the police enterprise bargaining agreement, which provides for a 2.5% increase effective 1 July 2014.

Long service leave expense increased mainly as a result of the decrease in the discount rate used in calculating the long service leave liability from 3.5% in 2013-14 to 3% in 2014-15.

In 2014-15 SAPOL recognised, for the first time, a liability (initially valued at $8 million) for police service leave. Police service leave is prescribed under clause 34 of the South Australia Police Enterprise Agreement 2011 and became effective from 1 July 2014. It applies to police who have 20 years or more police service (refer note 5 of the financial report).

The decrease in workers compensation expense was driven by the newly introduced cap on the length of time workers compensation payments can be made under the *Return to Work Act 2014*. The *Return to Work Act 2014*, which became effective 1 July 2015, specifies that payments, in general, are not payable after the end of the period of 104 weeks from the date on which the relevant incapacity for work first occurs. This 104 week cap prospectively applies to workers in receipt of weekly payments as at 30 June 2015, subject to certain conditions.

Supplies and services account for 16% of total expenses and include:

- $31 million for accommodation and property related expenses
- $26 million for communication and computing expenses
- $23 million for motor vehicle related expenses.

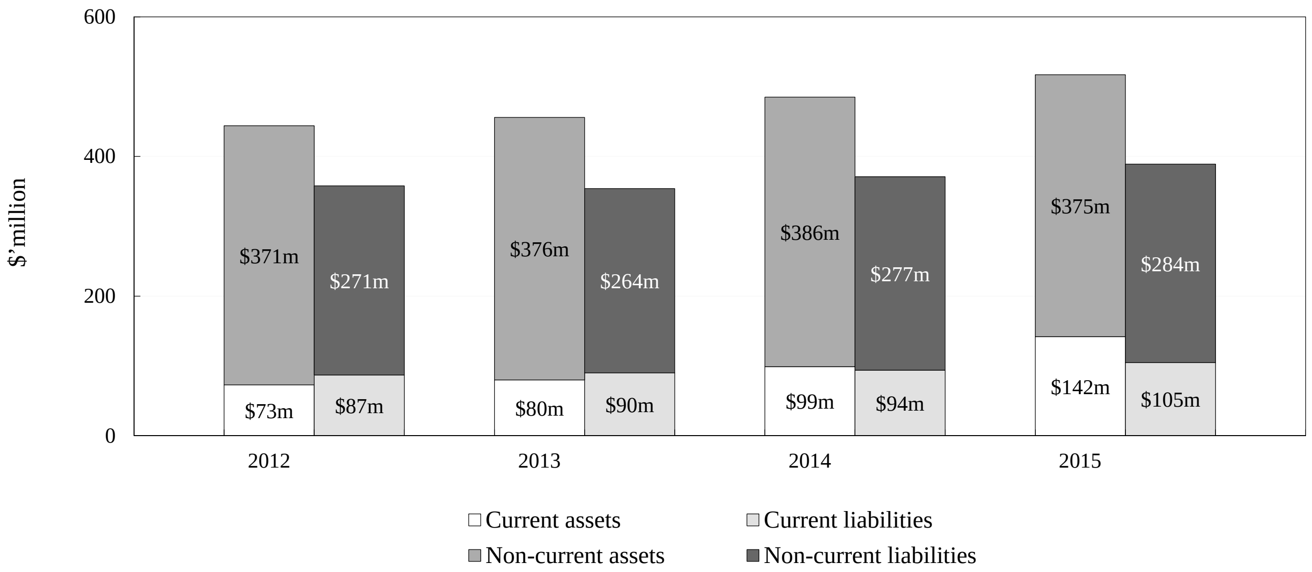
Supplies and services expenses marginally decreased by $738 000 in 2014-15.

Income

SAPOL receives government funding based on annual budgeted expenditure, less estimated revenues from fees and charges and other sources. Revenues from the SA Government increased by $45 million to $795 million.

Statement of Financial Position

For the four years to 2015, a structural analysis of assets and liabilities is shown in the following chart.



Assets and liabilities

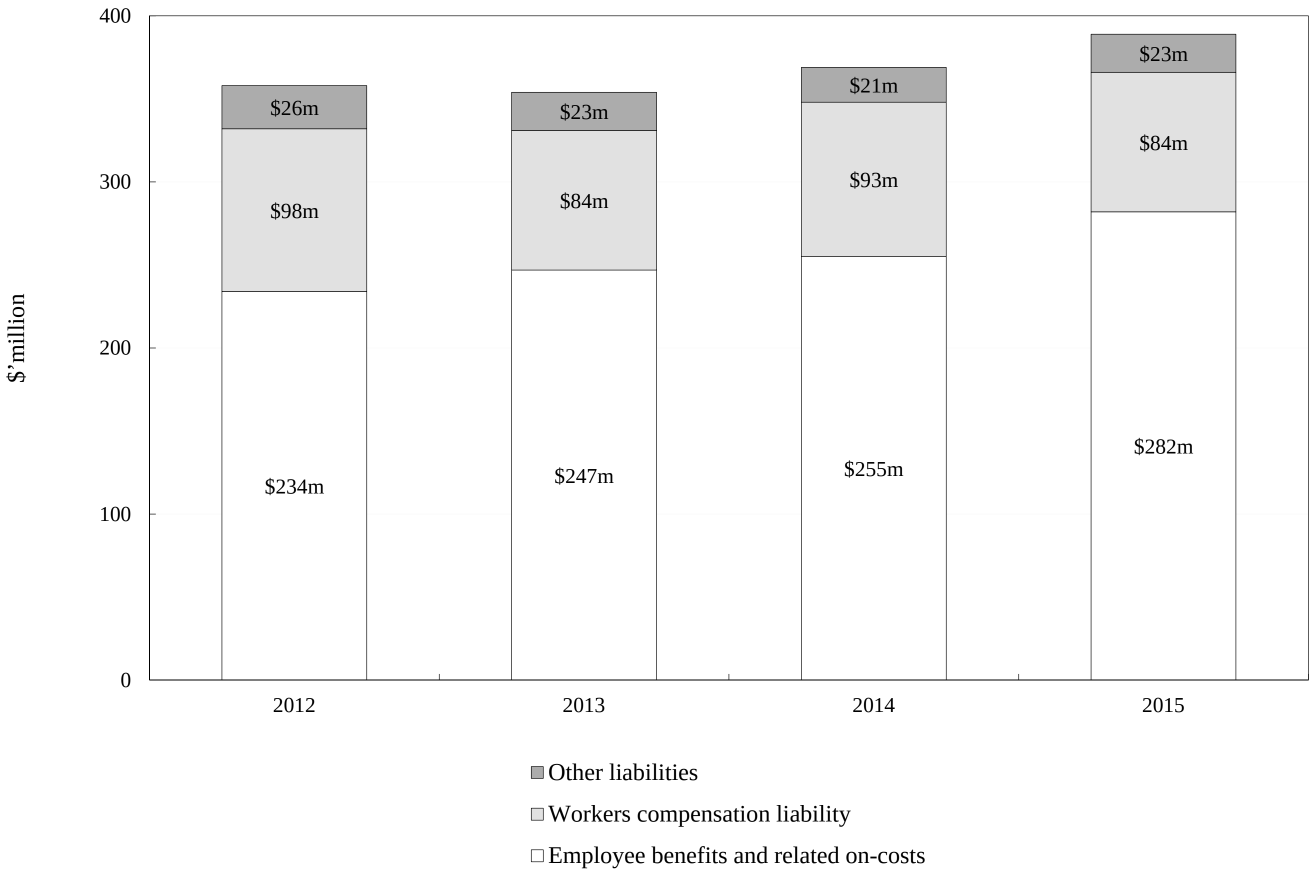
Current assets increased by $43 million mainly as a result of the increase in cash by $61 million, offset by a decrease in receivables of $18 million.

The increase in cash was primarily due to receiving funds for both the 2013-14 and 2014-15 Community Emergency Services Fund contributions during the year totalling $41 million (refer below), and the overall savings achieved on budgeted operating expenses of $21 million and on investing expenditure of $4 million (refer note 28 of the financial report).

The decrease in receivables was mainly due to the collection in 2014-15 of the 2013-14 Community Emergency Services Fund revenue invoice for $20 million which was outstanding as at 30 June 2014.

The decline in non-current assets of $11 million reflects the depreciation and amortisation charge during the year of $26 million, offset by additions amounting to $15 million. Of the total additions of $15 million, approximately $13 million was attributable to the Shield program.

The significance of employee related liabilities compared to total liabilities is shown in the following chart.



The increase in employee benefits and related on-costs of $27 million was driven by the following main factors:

- increase in the long service leave liability of $13 million mainly due to the decrease in discount rate used in calculating the long service leave liability from 3.5% in 2013-14 to 3% in 2014-15
- initial recognition of the police service leave liability of $8 million.

The decrease in workers compensation liability of $9 million was due to the newly introduced cap on the length of time workers compensation payments can be made under the *Return to Work Act 2014.* The provision is an actuarial estimate provided by the Office for the Public Sector.

Administered items

Expiation fees

Expiation fees are collected by SAPOL on behalf of the Government. SAPOL treats the collection of expiation revenue pursuant to the requirements of the *Expiation of Offences Act 1996* as an administered item and pays the revenue to the Consolidated Account. Expiation fees collected increased by $4 million to $74 million in 2014-15.

Victims of Crime levy

SAPOL collects monies associated with the *Victims of Crime Act 2001* from the expiation of offences included on expiation notices issued by police officers and other authorised officers. The *Victims of Crime Act 2001* provides for the payment of compensation to persons who suffer injury as a result of criminal acts and the recovery of monies from offenders.

SAPOL collects monies and remits them to a special interest bearing deposit account managed by the Attorney-General's Department.

During 2014-15, Victims of Crime levy receipts paid to the Attorney-General's Department totalled $13 million.

Further commentary on operations

Staffing

As at 30 June SAPOL employed the following active FTE by category for the past two years.

	2015 FTE	2014 FTE
Police Act 1998 employees	4 588	4 603
Protective Security	124	111
Unsworn employees	949	924
Total	5 661	5 638

South Australian Country Fire Service

Functional responsibility	The *Fire and Emergency Services Act 2005* provides for the South Australian Country Fire Service (SACFS) as a body corporate and also establishes the South Australian Fire and Emergency Services Commission (SAFECOM). The SACFS and SAFECOM are responsible to the Minister for Emergency Services. The primary function of the SACFS is the prevention of fires, and provision of fire and emergency response services to regional and peri-urban areas of South Australia. SAFECOM provides various corporate services in support of the SACFS's primary functions. Also, the operations of the SACFS are financed by the Community Emergency Services Fund (the Fund), established by the *Emergency Services Funding Act 1998*. For more information about the SACFS's objectives refer note 1 of the financial report.
Financial statistics	Net cost of providing services: $68.6 million Total contributions from the Fund: $74.3 million Number of FTEs: 136.9 Number of volunteers: 14 004 Employee benefits liability and related on-costs: $6 million Workers compensation liability: $3.6 million
Significant events and transactions	Responses to bushfires including the Sampson Flat bushfire resulted in operational costs of $7 million, largely funded through contributions from the Fund.
Financial statement opinion	**Unmodified**
Financial controls opinion	**Modified** Key issues: — Several instances where there was no evidence of approval of bona fide reports — Instances of asset creation/upgrade forms not being completed or independently reviewed — No independent oversight of annual asset stocktake — Controls for the Shared Services SA main payroll system did not meet a generally satisfactory standard

Scope of the audit

The audit program covered the major financial systems and was directed primarily to obtaining sufficient evidence to enable an opinion to be formed with respect to the financial report and internal controls.

The audit included access to systems and information maintained by SAFECOM and the SACFS to conduct relevant financial transaction and control compliance tests of those systems and information.

The audit included a review of the overall internal control environment covering compliance with Treasurer's Instructions and verification of transactions on a test basis. The scope of the audit included:

- expenditure
- payroll and employee entitlements
- revenue, including grants and contributions
- cash and receivables
- non-current assets including works in progress
- liabilities, including workers compensation
- financial accounting
- business continuity planning
- legislative compliance
- financial management compliance programs
- banking arrangements and reporting.

Audit findings and comments

Assessment of controls

In my opinion, the controls exercised by the South Australian Country Fire Service in relation to the receipt, expenditure and investment of money, the acquisition and disposal of property and the incurring of liabilities, except for all matters outlined under 'Communication of audit matters', are sufficient to provide reasonable assurance that the financial transactions of the South Australian Country Fire Service have been conducted properly and in accordance with law.

Communication of audit matters

Matters arising during the course of the audit were detailed in management letters to the Chief Executive, SAFECOM and the Chief Officer, SACFS who are responsible for the governance of the SACFS.

Matters raised with SAFECOM and the SACFS and the related responses are provided in detail under 'Communication of audit matters' in the section of Part B of this Report titled 'South Australian Fire and Emergency Services Commission'.

Interpretation and analysis of the financial report

Highlights of the financial report	2015 $'million	2014 $'million
Expenses		
Employee benefits expenses	16	15
Supplies and services and other expenses	48	50
Depreciation and amortisation	10	10
Total expenses	74	75

	2015 $'million	2014 $'million
Total income	5	4
Net cost of providing services	69	71
Revenues from (Payments to) SA Government	75	75
Net result	6	4
Other comprehensive income	-	(4)
Total comprehensive result	6	-
Net cash provided by (used in) operating activities	16	13
Assets		
Current assets	17	16
Non-current assets	160	154
Total assets	177	170
Liabilities		
Current liabilities	6	6
Non-current liabilities	6	5
Total liabilities	12	11
Total equity	165	159

Statement of Comprehensive Income

Revenues from SA Government

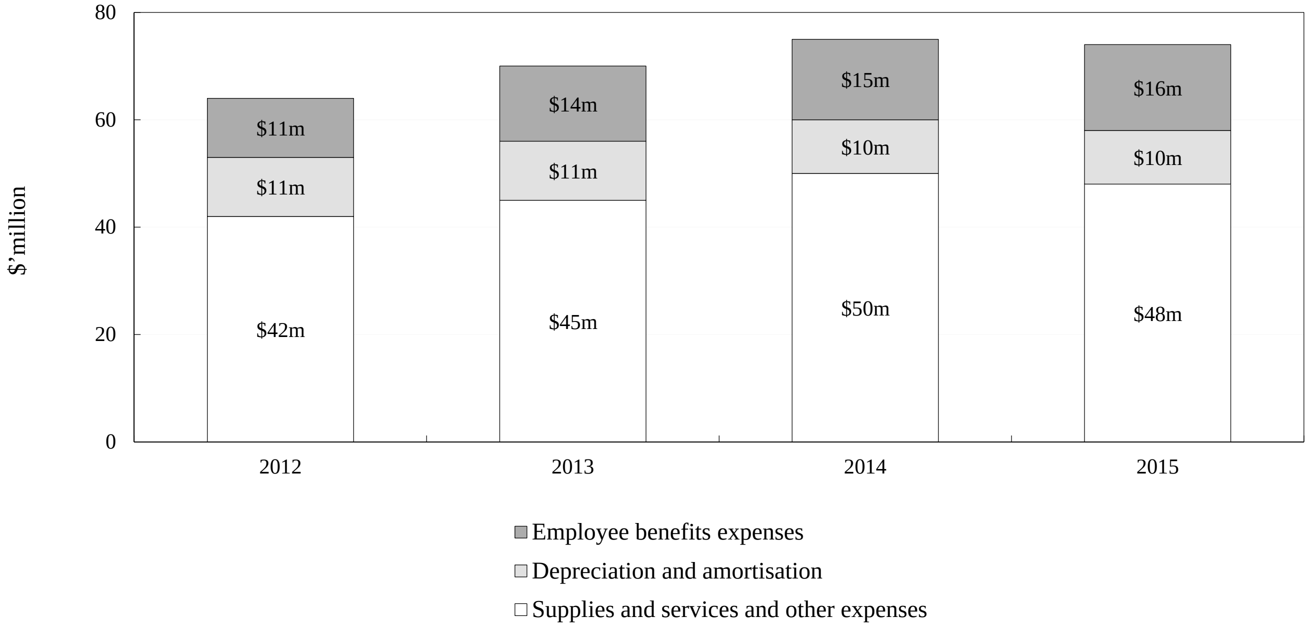
Revenues from the SA Government of $74.9 million remained consistent with the previous year. Contributions from the Fund of $74.3 million during 2014-15 were $6.7 million up from the previous year. This was largely due to increased funding for responses to the Sampson Flat and other bushfires, and the extension in workers compensation entitlements following amendments to the former *Workers Rehabilitation and Compensation Act 1986* that increase firefighters' compensation for certain cancers associated with their role. In 2013-14 funding to meet additional costs associated with bushfire responses was met through additional budget funding, and not the Fund, which resulted in a $6.7 million decrease in other revenues from the SA Government in 2014-15. The main source of revenue for the SACFS is contributions from the Fund which account for 92% of total income (refer note 17 of the financial report).

Expenses

Employee benefits expenses of $16 million account for only 22% of the total expenses of the SACFS due to the extensive use of volunteer firefighters.

During 2014-15 supplies and services expenditure decreased by $800 000 to $47.3 million mainly due to bushfire response costs incurred in 2014-15, including costs for the Sampson Flat bushfire, being lower than the level of expenditure incurred for the 2013-14 Bangor, Eden Valley and Riverland fires.

For the four years to 2015, a structural analysis of the main expense items for the SACFS is shown in the following chart.



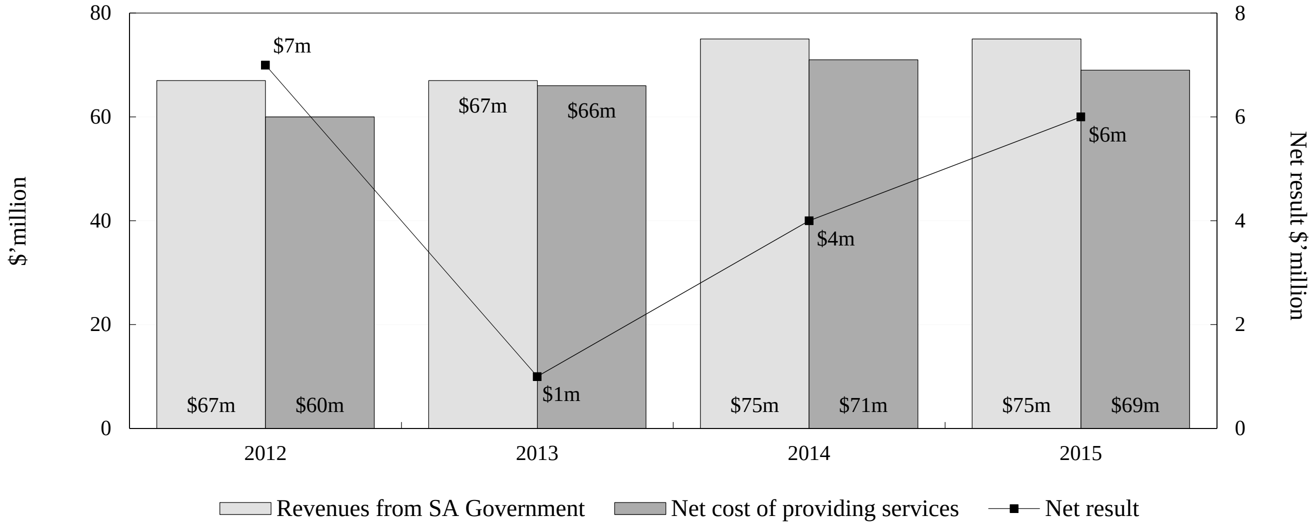
Over the four years, expenses have increased by $10 million (16%) to $74 million in 2015, noting that total expenses were slightly lower than 2014 due to an asset valuation decrement expense ($1.6 million) in 2014.

Net result

The net result for 2014-15 increased by $2 million to $6.3 million. An increase in total income of $701 000 coupled with a decrease in total expenditure of $1.3 million contributed to this result.

Funding provided to the SACFS includes money for capital purposes. The net result has fluctuated in recent years but does not take into account asset revaluations and other comprehensive income movements. The net result can be impacted by capital expenditure timing and approvals.

The following chart shows the funding received by the SACFS from the SA Government (predominantly from the Fund), the net cost of providing services and the net result for the past four years.



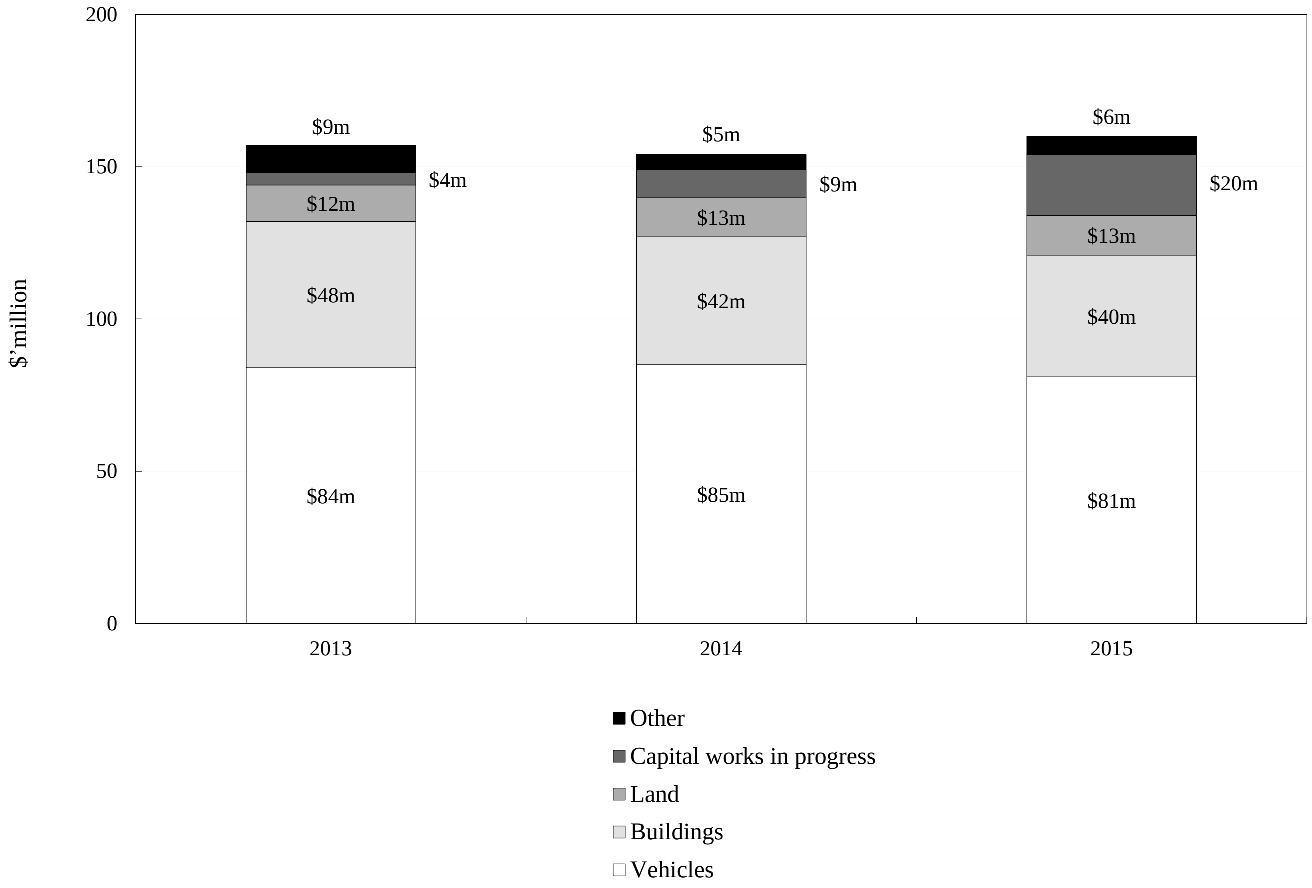
Statement of Financial Position

The Statement of Financial Position is dominated by the non-current asset property, plant and equipment which accounts for 90% of total assets. Property, plant and equipment increased by $6.2 million to $160.3 million this year.

The fair values of the main asset classes held by the SACFS were land ($13 million), buildings ($40 million) and vehicles ($80.5 million). Refer note 22 of the financial report for more information.

The SACFS invested $16.6 million in additional property, plant and equipment in 2014-15. This included $9.1 million for new appliances, $4.3 million for communication equipment and $2.2 million for other equipment.

For the three years to 2015, a structural analysis of property, plant and equipment is shown in the following chart. Vehicles are the most significant class of assets, and include approximately 800 fire appliances. Buildings and land largely represent SACFS brigades throughout the State. Capital works in progress of $20 million represents uncompleted assets at year end, which are made up of appliances and other equipment.



Employment liabilities make up $9.6 million of the SACFS's total liabilities at 30 June 2015, comprising:

- employee benefits liabilities and related on-costs, $6 million ($5.4 million)
- provision for workers compensation, $3.6 million ($3.2 million). As mentioned, in 2014-15 the actuarial estimate allowed for legislative changes associated with firefighter compensation.

South Australian Fire and Emergency Services Commission

Functional responsibility	The South Australian Fire and Emergency Services Commission (SAFECOM) was established by the *Fire and Emergency Services Act 2005*. SAFECOM and its Board are responsible to the Minister for Emergency Services. SAFECOM is responsible for corporate services across the emergency services sector. SAFECOM supports and allocates sector resources and has a leadership role in state-wide emergency management. SAFECOM administers the Community Emergency Services Fund (the Fund), the main source of funding for all emergency services sector agencies.

Financial statistics

Consolidated net cost of providing services:	$225 million
Total consolidated contributions from the Fund:	$224 million
Employee benefits liability and related on-costs:	$47.8 million
Workers compensation liability:	$13.7 million
Number of FTEs (SAFECOM consolidated):	1189.6

Significant events and transactions

In 2014-15 the State Government removed general Emergency Services levies remissions for all property owners, except eligible concession recipients. As a result property owners are required to pay their full levy from 1 July 2014.

Financial statement opinion

Unmodified

Financial controls opinion

Modified

Key issues:

- Some policies and procedures not finalised
- SAFECOM charter not yet made available to the public
- Several instances where there was no evidence of approval of bona fides and parade statements
- Instances of asset creation/upgrade forms not being completed or independently reviewed
- No independent oversight of annual asset stocktake
- Controls for the Shared Services SA main payroll system did not meet a generally satisfactory standard

Scope of the audit

The audit program covered the major financial systems and was directed primarily to obtaining sufficient evidence to enable an opinion to be formed with respect to the financial report and internal controls.

The audit included access to systems and information maintained by SAFECOM and the emergency services organisations (ESOs) to conduct relevant financial transaction and control compliance tests of those systems and information.

The audit included a review of the overall internal control environment covering compliance with Treasurer's Instructions and verification of transactions on a test basis. The scope of the audit included:

- expenditure
- payroll and employee entitlements
- revenue, including grants and contributions
- cash and receivables
- non-current assets including works in progress
- liabilities, including workers compensation
- financial accounting
- governance and risk management
- business continuity planning
- legislative compliance
- financial management compliance programs
- banking arrangements and reporting.

The audit included a follow-up of previous audit findings and the operations of the Fund.

Audit findings and comments

Assessment of controls

In my opinion, the controls exercised by the South Australian Fire and Emergency Services Commission in relation to the receipt, expenditure and investment of money, the acquisition and disposal of property and the incurring of liabilities, except for all matters outlined under 'Communication of audit matters', are sufficient to provide reasonable assurance that the financial transactions of the South Australian Fire and Emergency Services Commission have been conducted properly and in accordance with law.

Communication of audit matters

Matters arising during the course of the audit were detailed in management letters to the Chief Executive and chief officers responsible for the governance of SAFECOM and the ESOs. The main matters raised with SAFECOM and the ESOs and the related responses are detailed below.

In addition, matters relating to Shared Services SA (SSSA) as a service provider to SAFECOM and the ESOs are also described below.

Policies and procedures

The Treasurer's Instructions state that chief executives must ensure policies and procedures are documented and reviewed on a regular basis. Policies and procedures should also be revised by agencies where necessary to reflect current practices.

Our review in 2014-15 identified a significant number of SAFECOM's policies and procedures were yet to be finalised and we observed that a substantial number had not been updated or reviewed for a number of years. This increases the risk that out-of-date policies and procedures may not reflect current business needs and staff may not have clear direction regarding acceptable business practices or for training new employees.

In response SAFECOM advised that a program to review policies and procedures, which commenced in 2013-14, would continue to be monitored through the annual Audit and Risk Working Group action plan. The review will give priority to significant policies and procedures requiring substantial changes, subject to resourcing constraints.

Financial management compliance programs

In previous audits we have reported that financial management compliance programs prepared for the sector had a number of significant compliance areas requiring improvement. This included controls that were assessed as 'neither effective nor ineffective' that did not have action plans prepared or planned completion dates recorded.

We found in 2014-15 that action plans are in now place for low rated items. However, planned completion dates had not been recorded and 15 out of 30 actions for the first three quarters (up to the end of March 2015) remained outstanding. This increases the risk of control weaknesses not being addressed in a timely manner.

In response SAFECOM advised that action plans for every low rated item (rated 3 or less) had been developed and monitored via the annual Audit and Risk Working Group action plan, with completion dates being included in report subheadings. SAFECOM's response also indicated that there were 10 outstanding items with a low rating, and these would be incorporated into the 2015-16 annual Audit and Risk Working Group action plan.

Legislative requirements

The *Fire and Emergency Services Act 2005* (FES Act) states that SAFECOM must prepare a charter relating to its functions and operations, provide a copy of the charter to the Minister and ensure that it is publicly available.

Our 2014-15 review found that the charter was reviewed but had not formally been approved by the Board and was yet to be made available to the public. This increases the risk of the charter being out of date and not fully reflecting current functions and operations of SAFECOM. SAFECOM may not have been compliant with legislation.

In response SAFECOM advised this task will be prioritised in the annual Audit and Risk Working Group action plan for 2015-16.

Bona fide and parade statements

The certification of bona fide reports policy requires delegates in business units within SAFECOM, the South Australian Country Fire Service (SACFS) and the South Australian State Emergency Service (SASES) to review bona fide reports issued to them by SSSA from the CHRIS payroll system. For South Australian Metropolitan Fire Service (SAMFS) employees, parade statements are maintained in order to ensure rostered staff are present and also to record instances of overtime worked.

Our review found that there were several instances where there was no evidence of approval of bona fides and parade statements. This increases the risk that attendance information is incorrect resulting in payments to employees being inaccurate.

In response SAFECOM indicated that reminders will be issued to all business unit delegates and duty officers about the need to approve bona fides and parade statements. New SAMFS human resources software will also likely lead to significant improvements in workplace practices.

Fixed assets

Recognition of completed assets

The audit of SAFECOM and ESO fixed assets reviewed processes for recognising completed assets transferred from capital work in progress.

The SAFECOM non-current assets policy and procedure requires that all non-current assets must be entered into the asset register and checked in accordance with an asset creation/upgrade form. Completed forms are to be forwarded to the project management support officer for review prior to being sent to SSSA Financial Services for processing.

Our review of a sample of completed assets, which were transferred out of capital work in progress, revealed a number of instances where the required asset creation/upgrade forms were not completed or independently reviewed by the agency prior to being sent to SSSA. In addition we observed that the majority of completed assets are transferred from work in progress at the end of financial year. This could result in completed assets that are ready for use remaining in capital work in progress, increasing the risk of assets not being correctly recognised. This could adversely impact on the management, monitoring and financial recording of the sector's assets.

SAFECOM responded that reminders will be issued to the asset management officer about the need to complete asset creation/upgrade forms and have them independently reviewed prior to being sent to SSSA for processing.

Fixed asset stocktake process

Our review of the SAFECOM annual asset stocktake revealed that the process did not require an independent officer to oversee the stocktake and verify the data produced. The review identified that procedures at different locations are inconsistent. Some locations had an independent officer involved, whilst other locations only had one officer performing the stocktake process. The absence of a review by an independent officer increases the risk that inaccurate asset information is recorded in the fixed asset register and general ledger, leading to incorrect balances in the financial report.

In response, the Chief Executive stated that SAFECOM agrees in principle with the requirement for an independent officer to oversee the stocktake and verify the data produced. However, the Chief Executive advised that this would be difficult to fully implement given the geographical distribution of sites and the nature of the largely volunteer workforce of the SACFS.

Shared Services SA – financial systems and transaction processing environments

SSSA processes financial transactions on behalf of SAFECOM under service level determinations. The main systems and control environments include accounts payable, payroll and general ledger financial functions.

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

As discussed in the commentary under 'Department of the Premier and Cabinet' elsewhere in Part B of this Report, our review and evaluation of controls for the SSSA main payroll systems concluded that controls did not meet a generally satisfactory standard for 2014-15. A number of specific matters were raised with SSSA for corrective action and review for process and procedural improvement. Our review and evaluation of controls for the SSSA main accounts payable systems and environment concluded that controls met a generally satisfactory standard for 2014-15.

The matters do not relate to SAFECOM transaction processing.

Interpretation and analysis of the financial report

Highlights of the financial report – consolidated emergency services sector

	2015 $'million	2014 $'million
Expenses		
Employee benefits expenses	144	138
Depreciation and amortisation	19	20
Supplies and services	74	74
Other expenses	3	5
Total expenses	240	237
Total income	15	16
Net cost of providing services	225	221
Revenues from SA Government	226	220
Net result	1	(1)
Other comprehensive income	-	(4)
Total comprehensive result	1	(5)
Net cash provided by (used in) operating activities	24	22
Assets		
Current assets	35	41
Non-current assets	340	329
Total assets	375	370
Liabilities		
Current liabilities	36	32
Non-current liabilities	34	34
Total liabilities	70	66
Total equity	305	304

Statement of Comprehensive Income

The main source of revenue for the consolidated sector is contributions from the Fund of $224.4 million ($213 million), which account for 93% of total income (refer note 16 of the financial report).

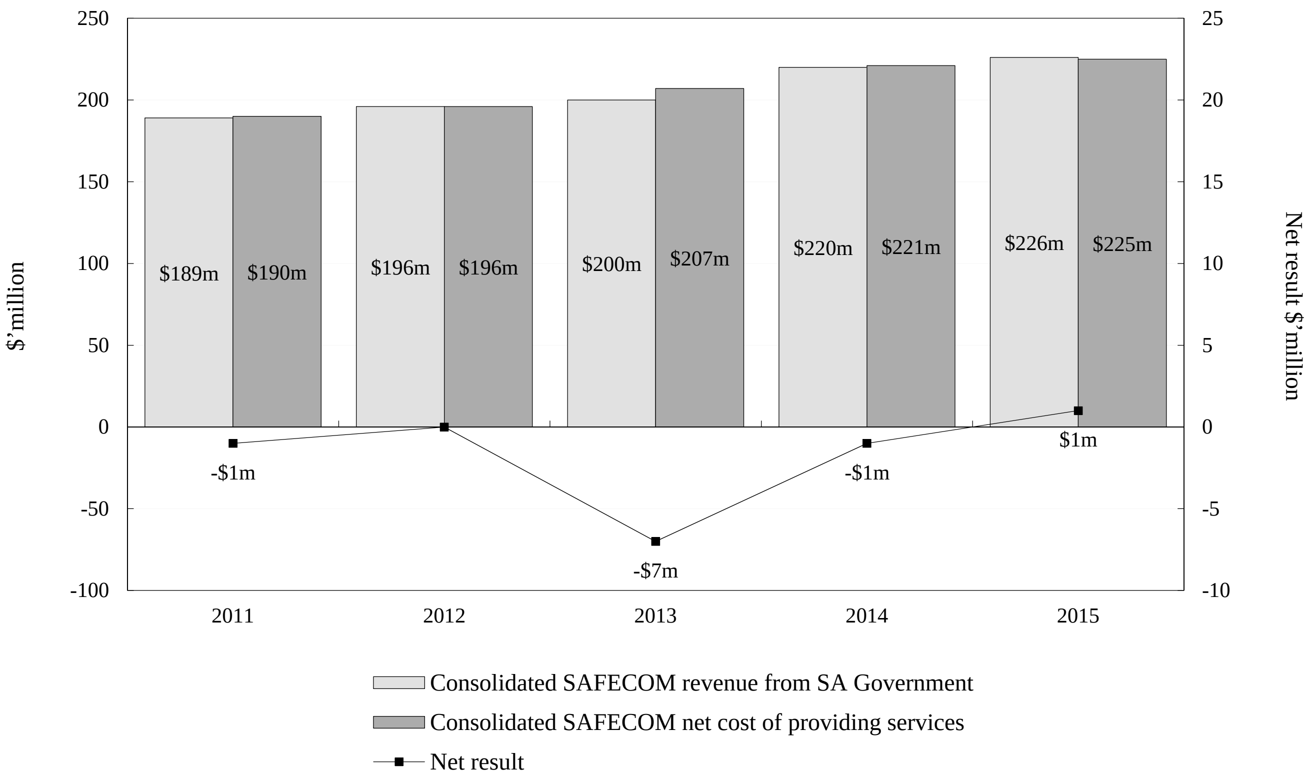
Expenses largely comprised employee benefits expenses of $144.2 million ($137.9 million), which represent 60% of total expenses. During 2014-15, employee benefits expenses increased by $6.3 million or 5% due mainly to:

- salaries and wages increasing by $2.8 million due to increases in overtime, allowances and salaries under the enterprise bargaining agreement for some staff
- long service leave and annual leave expenses increasing by $1.9 million
- workers compensation costs increasing by $734 000, due mainly to amendments to the former *Workers Rehabilitation and Compensation Act 1986* that increase firefighters' compensation for certain cancers associated with their employment.

During 2014-15 expenses other than employee benefits expenses decreased by $3.4 million to $96.4 million. Contributing to the change was:

- a decrease in other expenses of $2.7 million as there were no asset revaluations this year. Decrements were expensed in the Statement of Comprehensive Income in 2013-14
- a decrease in depreciation and amortisation expense of $1.1 million due to asset revaluation decrements in 2013-14 and changes to useful lives reducing asset values and the depreciation base
- an increase in grants and subsidies expense of $383 000 for grant payments for the Small Business Innovation Research pilot program.

The following chart shows the consolidated funding received by SAFECOM from the SA Government (including the Fund), the net cost of providing services and the net result for the past five years. It illustrates that revenue from the SA Government has been sufficient to meet the net cost of providing services, apart from 2013 when there was a $7 million shortfall. This was met by cash reserves as explained in the commentary under 'Statement of Cash Flows' below.

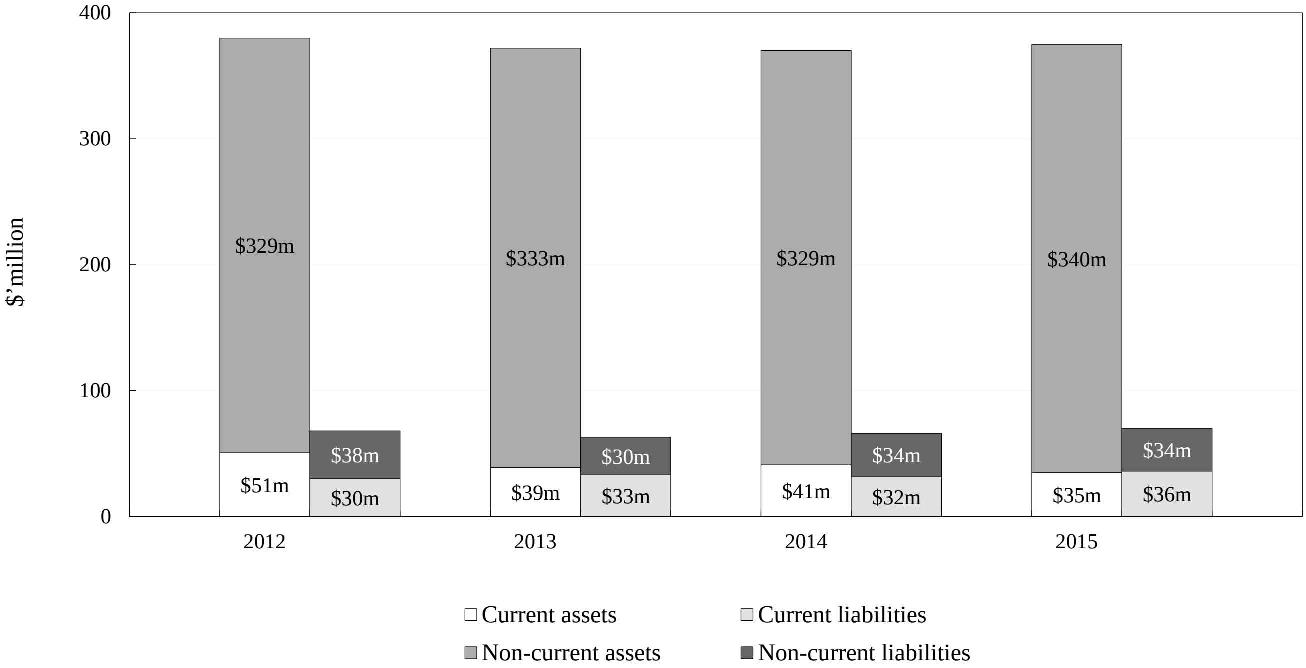


Statement of Financial Position

Property, plant and equipment assets of $338 million represent 90% of total assets. The fair values of the main asset classes held are land ($63 million), buildings ($110 million) and vehicles ($120 million).

Property, plant and equipment increased by $11.2 million during the year to $338 million due mainly to capital work in progress acquisitions of $31 million, offset by depreciation expense for the year of $19 million (refer note 21 of the financial report).

For the four years to 2014, a structural analysis of assets and liabilities is shown in the following chart.



Employment liabilities make up $61.5 million of SAFECOM's consolidated total liabilities at 30 June 2015, comprising:

- employee benefits liabilities and related on-costs, $47.8 million ($44 million)
- provision for workers compensation, $13.7 million ($13.9 million). As mentioned, in 2014-15 the actuarial estimate allowed for legislative changes associated with firefighter compensation.

Statement of Cash Flows

Net cash provided by operating activities increased to $24 million during 2014-15 mainly due to increased employee benefits payments, offset by increased contributions from the Fund. Investing cash outflow has also increased to $31 million due to the acquisition of property, plant and equipment for the sector.

Consolidated cash reserves have decreased steadily since 2011. Significant cash reserves had been accumulated by the SAMFS under the previous *South Australian Metropolitan Fire Service Act 1936*. This was prior to the FES Act becoming operational. During 2011, it was determined that these reserves could be applied for the functions conferred on the SAMFS under the FES Act and they have been progressively used for operational and capital purposes. This occurred predominantly in 2013 and 2015, when there were significant reductions in cash.

The following table summarises the consolidated net cash flows and reduction in cash for the five years to 2015.

	2015 $'million	2014 $'million	2013 $'million	2012 $'million	2011 $'million
Net cash flows					
Operating	24	22	14	20	25
Investing	(31)	(22)	(25)	(23)	(24)
Change in cash	(7)	-	(11)	(3)	3
Cash at 30 June	25	32	32	43	46

Highlights of the financial report – SAFECOM

	2015 $'million	2014 $'million
Expenses		
Employee benefits expenses	8	8
Supplies and services	6	5
Other expenses	3	3
Total expenses	17	16
Total income	2	4
Net cost of providing services	15	12
Revenues from SA Government	12	10
Net result	(3)	(2)
Total comprehensive result	(3)	(2)
Net cash provided by (used in) operating activities	(1)	(3)
Assets		
Current assets	8	11
Non-current assets	3	2
Total assets	11	13
Liabilities		
Current liabilities	3	2
Non-current liabilities	2	2
Total liabilities	5	4
Total equity	6	9

Statement of Comprehensive Income

Revenues from SA Government

The main source of funds for SAFECOM is the contributions from the Fund of $11.5 million which account for 82% of revenues (refer note 16 of the financial report).

Contributions from the Fund increased by $1.5 million to $11.5 million during 2014-15.

Expenses

Employee benefits expenses are the main expense category of SAFECOM and total $7.9 million ($7.6 million), which represents 45% of total expenses. During 2014-15, employee benefits expenses increased by $333 000 or 4%, mainly related to an increase in long service leave.

Highlights of the financial report – administered items

	2015 $'million	2014 $'million
Expenses		
Contributions to SA Government administrative units	250	238
Grants and subsidies	2	3
Other expenses	9	8
Total expenses	261	249

	2015 $'million	2014 $'million
Income		
Revenues from levy sources	263	249
Other revenues	2	2
Total income	265	251
Net result and total comprehensive result	4	2
Net cash provided by (used in) operating activities	(19)	23
Assets		
Current assets	9	29
Total assets	9	29
Liabilities		
Current liabilities	1	25
Total liabilities	1	25
Total equity	8	4

Community Emergency Services Fund

Contributions, by way of levies, are made by all owners (including State and Local Government) for fixed and mobile property to fund the provision of emergency services. Levies are collected in accordance with the *Emergency Services Funding Act 1998* (ESF Act).

The levy on fixed property is collected by RevenueSA and applies to capital values adjusted for location and land use. The levy on mobile property is collected by the Department of Planning, Transport and Infrastructure using the vehicle registration system. Once collected, these levies are paid into the Fund.

In addition, the Government has made direct contributions to the Fund in the form of remissions of levies (both fixed and mobile property) and concession subsidy payments through the Department for Communities and Social Inclusion for eligible persons.

All levy receipts and government contributions are paid into the Fund, from which payments are made to organisations that undertake emergency service activities.

The costs of collecting levies and expenses relating to administration are also met from the Fund.

Removal of general Emergency Services levies remissions

In the 2014-15 Budget, the Government removed general remissions for all property owners, except eligible concession recipients. All non-concessional property owners were required to pay their full levy from 1 July 2014.

This had the following impact:

- remissions paid by the State Government decreased by $84 million
- fixed property collections paid by property owners increased by $90 million
- mobile collections paid by property owners increased by $8 million.

Statement of Administered Comprehensive Income

For the year ended 30 June 2015 the Fund's net result was a surplus of $4 million ($1.8 million).

The following table shows the Fund's income (mainly levies collected) and expenses over the past four years.

	2015 $'million	2014 $'million	2013 $'million	2012 $'million
Emergency Services levies collected*	265	251	234	226
Payments to emergency services sector**	261	249	234	225
Net result	4	2	-	1

* Includes levies, interest and other income.
** Includes payments to emergency services sector, levy collection and administration costs.

Administered revenue

Levies and other revenues are collected in accordance with the ESF Act to fund the budget of SA Government administrative units, grants and subsidies to various bodies and other payments approved by the Minister for the provision of emergency services. Emergency Services levies increased by $14.8 million (6%) to $263 million, up from $249 million the previous year. The increase in levy revenue and changes in remissions this year are shown in the table below.

	2015 $'million	2014 $'million
Fixed property collections	191	101
Fixed property remissions*	20	96
Mobile collections	41	33
Mobile remissions*	4	12
Government concessions	7	7
	263	249

* Remissions are provided by the State Government.

The table highlights the following levy changes in 2015:

- fixed property revenue has increased by $14 million to $211 million ($197 million) due to a general increase in the prescribed property levy rate of 7%
- remissions have decreased by $84 million due to the removal of general remissions
- fixed property collections have increased by $90 million due to the removal of general remissions and increase in the prescribed property levy rate
- mobile collections have increased by $8 million.

Administered expenses

In 2014-15, contributions to SA Government administrative units increased by $13 million to $250 million (refer note A3 to the administered financial statements). The predominant reason for the increase was as follows:

- $7.3 million for Sampson Flat bushfire supplementation for the SACFS, the SASES and the Department of Environment, Water and Natural Resources
- $4.5 million extension of workers compensation entitlement for the SAMFS and the SACFS
- $1.1 million for the State component of the National Disaster Resilience program.

Note A5 to the administered financial statements discloses other expenses. This details that \$6.2 million was paid to RevenueSA for collection costs under the ESF Act for administering the collection of fixed property levies. The Department of Planning, Transport and Infrastructure was paid \$995 000 in collection costs for collection of mobile property levies.

Statement of Administered Financial Position

At 30 June 2015, current assets totalled \$8.8 million (\$29.3 million). The decrease in cash and cash equivalents of \$18.9 million to \$6.6 million relates to the additional funds being retained in 2013-14 due to cash flow uncertainties following the removal of remissions. Payables at 30 June 2015 were \$1.3 million compared to \$25.7 million in the previous year. The payables balance of \$25.7 million in 2013-14 mainly comprised contributions payable to South Australia Police (\$20.3 million), the Department of Environment, Water and Natural Resources (\$2.6 million) and the SA Ambulance Service Inc (\$1.3 million) which were not payable in 2014-15 as this year's payments had already been settled.

South Australian Forestry Corporation

Functional responsibility	The South Australian Forestry Corporation (the Corporation) is a public corporation, established under the *South Australian Forestry Corporation Act 2000*. The Corporation is responsible to the Minister for Forests. The Corporation manages native forest reserves and commercial plantations located in the Mount Lofty Ranges and the mid-north of the State. The Corporation also manages commercial plantations owned by OneFortyOne Plantations Pty Ltd (OFO) located in the south-east of the State, spanning into Victoria.
Financial statistics	Sale of timber products: $18 million Revenues from SA Government: $8 million Value of land and standing timber: $87 million Number of FTEs: 95 Hectares of forests managed by the Corporation: Commercial plantations owned by OFO 81 673 Commercial plantations in Mount Lofty Ranges 11 581 Commercial plantations in mid-north of the State 3 351 Native forest reserves 19 865
Significant events and transactions	— On 22 July 2015 the Minister for Forests announced that OFO will internalise the management of its plantations in 2015-16, effectively ending the Corporation's obligation to manage OFO's plantations. Most of the Corporation's workforce and operations will be transferred to OFO. — On 1 December 2014 a new suite of financial and forestry systems was implemented to support the operations of the Corporation and OFO. — The State Government is reconsidering the future of the fire ravaged plantations in the mid-north of the State.
Financial statement opinion	**Unmodified**
Financial controls opinion	**Modified** Key issue: — Financial procedure documents not updated in a timely manner with new processes and controls

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 Corporation'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.

OFO engaged the Treasurer (and the Corporation as the Treasurer's agent) to manage the Green Triangle plantations under a plantation management agreement (PMA) in return for a management fee. OFO pays the management fee directly to the Corporation.

Change to OneFortyOne arrangement

On 22 July 2015, the Minister for Forests announced that OFO will internalise the management of its plantations in 2015-16, effectively ending the Corporation's obligation to manage OFO's plantations. OFO has offered to employ the Corporation's staff predominantly involved in providing plantation management services to OFO. This arrangement will significantly reduce the Corporation's workforce and operations. For more information about these changes refer note 1 of the financial report.

Implementation of new financial and forestry systems

On 1 December 2014 the Cengea logging system and the JD Edwards financial system were implemented to support the operations of the Corporation and OFO, and the existing systems decommissioned. On 1 July 2015 the JD Edwards payroll system was implemented, replacing the CHRIS payroll system.

Future of forests in mid-north of the State

Wildfires in the summers of 2013 and 2014 caused major damage to the commercial plantations in the mid-north of the State, impacting significantly on their commercial viability. Given the extent of the losses, the State Government requested expressions of interest from the public seeking proposals for the development and use of this area comprising commercial plantations and native forest reserves. Expressions of interest closed on 28 August 2015. Responses received will inform future processes that could include tendering the sale, lease or management of various portions of the land. The future of the mid-north forests is expected to be determined by the end of 2015. In the meantime, the Minister for Forests has directed the Corporation to replant a portion of the commercial plantations.

Scope of the audit

The audit program covered major financial systems and was directed primarily to obtaining sufficient evidence to enable an opinion to be formed on the financial report and internal controls.

During 2014-15 specific areas of audit attention included:

- sale of timber products to domestic and overseas customers
- expenditure resulting from the harvest and transport of timber products to customers
- payroll and other forms of expenditure
- compliance with the PMA and other key agreements emanating from the sale of harvesting rights to OFO, including the completeness and accuracy of management fees.

Internal audit activities have been reviewed to assess the risks of material misstatement in the financial report and to design and perform audit procedures.

Audit findings and comments

Assessment of controls

In my opinion, the controls exercised by the South Australian Forestry Corporation in relation to the receipt, expenditure and investment of money, the acquisition and disposal of property and the incurring of liabilities, except for all matters outlined under 'Communication of audit matters', are sufficient to provide reasonable assurance that the financial transactions of the South Australian Forestry Corporation have been conducted properly and in accordance with law.

Communication of audit matters

Matters arising during the course of the audit were included in a management letter to the Acting Chief Executive. The main matters and responses are detailed below.

Update of financial procedure documents

We identified that financial procedure documents were not updated in a timely manner with new processes and controls. This increased the risk of officers not knowing how to correctly perform controls that prevent errors or frauds. The Corporation responded that the delay in updating procedure documents was due to officers focusing on ensuring new systems and controls were operating as required before their inclusion in the procedure documents.

Monitoring of reconciliations

We identified instances of reconciliations between the general ledger and other systems being performed or reviewed in an untimely manner. The untimely performance of reconciliations increased the risk of possible errors or fraud not being promptly detected and addressed. The Corporation responded that, due to competing priorities when implementing new systems, a risk based approach to reconciliations was temporarily applied, such that all major reconciliations were performed whilst other reconciliations were gradually brought up to date in time for 30 June 2015 financial reporting.

Verification of price changes in Cengea for harvesting, transporting and selling timber

The Corporation uses the Cengea system to calculate billing amounts to customers for timber sales and payment amounts to contractors for harvesting and transporting timber. If inappropriate or inaccurate prices are set in Cengea, the wrong amounts will be billed to customers or paid to contractors. We noted that price change information in Cengea was being checked by officers who also had access to make price changes.

To detect inappropriate or inaccurate price changes made by these officers, we recommended individual price adjustments on Cengea reports be checked against approved input forms by an officer who cannot adjust prices in Cengea. We also recommended the Corporation investigate the possibility of implementing a control within Cengea where all price changes must be approved within the system by an approving officer before the system applies the change.

The Corporation responded that the review of the reasonableness of price changes in Cengea reports would detect errors and, taking into account the large volume of price adjustments, our recommended check would not improve the current review process.

Interpretation and analysis of the financial report

Highlights of the financial report

	2015 $'million	2014 $'million
Income		
Sales – timber products	18	19
Wood sales – back-to-back	42	37
Sales – management services	13	17
Revenues from SA Government	8	15
Other revenue	2	1
Total income	83	89
Expenses		
Employee benefits	11	23
Contractors	13	11
Wood purchases – back-to-back	42	37
Other expenses	17	18
Total expenses	83	89
Trading profit before revaluation of standing timber	-	-
Net change in value of standing timber	13	(37)
Profit (Loss) after revaluation of standing timber and income tax equivalent expense	13	(37)
Land revaluation recorded in revaluation surplus	7	(45)
Total comprehensive result	20	(82)
Net cash flows from operating activities	(8)	12
Assets		
Current assets	30	42
Non-current assets	108	88
Total assets	138	130
Liabilities		
Current liabilities	8	22
Non-current liabilities	4	3
Total liabilities	12	25
Total equity	126	105

Statement of Comprehensive Income

Income

Income in 2015 decreased by $6.3 million to $82.5 million. This was due mainly to lower revenue from the SA Government and lower sales of management services, partially offset by increases in back-to-back wood sales.

Timber products sales

Timber products sales revenue remained relatively constant at $18.4 million ($18.9 million). In addition to selling timber to local mills, the export sales program, which commenced in 2014, continued to operate in 2015 predominantly to deal with the fire salvage of forests in the Mount Lofty Ranges burnt in January 2015.

Back-to-back wood sales

After the sale of forward harvest rotations, all but one customer in the Green Triangle novated their sales contracts from the Corporation to OFO. Back-to-back wood sales of $42.2 million ($36.7 million) relate to revenue received on behalf of OFO from this one customer. The Corporation passed this revenue onto OFO and recognised the transfer as back-to-back wood purchases expense. The back-to-back sales and expenses have no net affect on the Corporation's trading profit. Sales revenue from novated contracts received directly by OFO is not recognised in the Corporation's financial report.

Sales of management services

Sales of management services decreased by $3.7 million to $13.1 million due mainly to a decrease in the plantation management fees paid by OFO to the Corporation.

Under the PMA, the plantation management fee comprises two components: a direct charge and a general overhead charge (GOC). The direct charge reflects mainly the silviculture expenditure (cost of growing and tending forest crops) incurred by the Corporation on behalf of OFO. The GOC reflects administrative expenses that support the silviculture in the Green Triangle such as planning, management and supervisory functions, including salaries of staff who provide such services. The GOC is a fixed amount indexed annually under the PMA.

In 2015, OFO directly engaged certain suppliers who were previously engaged by the Corporation. This reduced the silviculture expenditure incurred on behalf of OFO, resulting in lower direct charges to OFO.

Revenues from SA Government

Revenues from the SA Government decreased by $7.5 million to $7.6 million due mainly to funding of $7.1 million received in the previous year for targeted voluntary separation packages (TVSPs). The TVSPs reduced the workforce and lowered employee expenses in 2015. As a consequence, funding required by the Corporation to manage OFO's plantations and its own commercial forestry operations was reduced from $4.4 million to $3.6 million. Funding totalling $4 million ($3.6 million) was also received from the SA Government for community service obligations and the Government Radio Network.

Expenses

Expenses include expenditure incurred by the Corporation on behalf of OFO that is recoverable from OFO under the PMA as either a GOC or a direct charge such as silviculture expenses and council rates. Expenses exclude supplies and services from suppliers that have contracted directly with OFO. In these circumstances the expenses are paid directly by OFO and not recognised in the Corporation's financial report.

Expenses decreased by $6.3 million to $82.5 million due mainly to:

- employee benefit expenses decreasing by $11.4 million to $11.3 million as a result of TVSPs incurred at the end of 2014 and a reduced workforce in 2015
- back-to-back wood purchases expense increasing by $5.5 million to $42.2 million. For further details refer to commentary under the heading 'Back-to-back wood sales'
- contractor expenses increasing by $2.2 million to $13.3 million due mainly to increases in expenses for harvesting, transport and labour hire

- equipment and vehicle expenses decreasing by $984 000 to $1.8 million because of a decrease in the cost of operating the Corporation's downsized vehicle fleet
- council rates decreasing by $1.4 million to $291 000 as councils began billing OFO for land in the Green Triangle in 2015 instead of the Corporation.

Other expenditure remained relatively constant and included $6.7 million ($6.6 million) for shipping and marketing costs incurred for the export sales program, which commenced in 2013-14.

Trading results

In 2015 and 2014, the Corporation achieved a trading profit of $0. The Corporation's trading operations reflect three main activities:

- management of OFO forestry operations in the Green Triangle after 17 October 2012 in return for a management fee pursuant to the PMA
- commercial forestry operations in the Mount Lofty Ranges and the mid-north of the State
- community service obligations such as native forest management, community use of forests and community protection of forests (including fire protection).

For more information about the trading profit for each of these three main activities refer note 22 of the financial report.

Note 1 of the financial report indicates that the Corporation will require funding from the SA Government for the performance of its obligations under the PMA and the ongoing discharge of its community service obligations. The arrangement for the provision of this funding resulted in a trading result of $0 in 2015 and 2014 before the revaluation of standing timber. For more information about this funding arrangement refer note 2(h) of the financial report.

Standing timber

In 2014, the Corporation reassessed its method of valuing standing timber and subsequently adopted the net present value approach. This approach takes into account the likely timing of cash flows from harvesting and sales of timber over long periods and the effects of inflation and discount rates. In 2014 the valuation applying the net present value approach was determined internally at $34.7 million and related almost entirely to the value of the plantations in the Mount Lofty Ranges. In 2015 the valuation of the plantation in the Mount Lofty Ranges was undertaken by an independent expert in forest valuations and determined to be $48 million. The main reason for the increase of $13.3 million in the valuation was the yearly net revenue and expense cash flows from forest operations being estimated by the independent valuer was higher than estimated internally. The plantations in the mid-north of the State were valued internally in 2014 and 2015 at $0.

For more information about the valuation of standing timber refer note 2(o) of the financial report.

There is inherent uncertainty in the standing timber valuation that is endemic to all forest valuations. A sensitivity analysis is provided in note 15 of the financial report to assess the impact of changes in key assumptions used in the standing timber valuation. A pre-tax real discount rate of 8.5% (7.6%) was applied in the determination of the value of standing timber. The use of a 'real' discount rate effectively allows for all prices and costs to be expressed in current dollar terms. Increasing the discount rate for the valuation of standing timber in the Mount Lofty Ranges from 7.5% to 8.5% decreases the valuation by $4.4 million.

Other comprehensive income

Land revaluation, discussed below, resulted in an increase of $7.3 million in land value.

Statement of Financial Position

Net assets increased by $20.6 million due to increases in the value of land and standing timber, which represent 63% (51%) of the total assets of the Corporation. Movements in the value of standing timber were explained above.

Land

Land holdings under the control of the Corporation are located in the Mount Lofty Ranges and the mid-north of the State. There are also a few smaller parcels in the Green Triangle.

Land was revalued on 30 June 2015 resulting in a revaluation increment on non-current assets of $7.3 million. Land was valued at $39.1 million ($31.8 million).

The Corporation uses valuations provided by the Valuer-General to determine the fair value of its land. In 2014 the Corporation requested the Valuer-General incorporate into the valuations the restrictions imposed on the use of the land by various legislation under which the Corporation operates. The Valuer-General determined the fair value of land based on the market price of surrounding unrestricted land and applied discount factors to account for the legal restrictions. The application of the discount factors resulted in a $45.2 million revaluation decrement on non-current assets being recognised on 30 June 2014. The Valuer-General reduced the discount factors in 2015 to account more precisely for the legal restrictions. This reversed some of the previous year’s decrement and caused most of the $7.3 million revaluation increment recognised on 30 June 2015.

For more information about the valuation of land refer notes 2(p)(iv), 14 and 15 of the financial report.

Other assets

Receivables decreased by $3 million to $7.6 million due mainly to less GOC management services revenue being accrued at 30 June 2015. In 2015 the Corporation began invoicing OFO for the GOC monthly instead of quarterly.

Intangible assets increased by $954 000 to $1.5 million reflecting the implementation of new financial and forestry systems.

Current liabilities

Current liabilities decreased by $13.9 million to $8.2 million due mainly to a decrease in TVSPs approved but not yet paid and a decrease in revenues from the SA Government payable back to the SA Government. For more information about the SA Government funding arrangement refer note 2(h) of the financial report.

South Australian Government Financing Authority

Functional responsibility	The South Australian Government Financing Authority (SAFA), a body corporate, was established under the *Government Financing Authority Act 1982* (SAFA Act). SAFA is the central borrowing authority for the State of South Australia, and is responsible for managing the majority of the State's debt and for implementing the Government's debt management policy as determined by the Treasurer of South Australia. Pursuant to section 15 of the SAFA Act, SAFA's liabilities are guaranteed by the Treasurer. SAFA also administers the Government's: — insurance and risk management arrangements through its insurance division trading as SAICORP — passenger and light commercial vehicle fleet operations.
Financial statistics	Profit before income tax equivalents: $33 million Total loans on issue: $18.4 billion Total bonds, notes and debentures on issue: $15.6 billion Outstanding insurance claims: $366 million Fleet vehicles owned (including held for sale): $183 million
Significant events and transactions	A variation in SAFA's government sector loan profile resulting from the Government's $2.7 billion restructure of the South Australian Water Corporation's debt to asset gearing ratio.
Financial statement opinion	**Unmodified**
Financial controls opinion	**Unmodified**

Scope of the audit

Operational areas reviewed in 2014-15 included:

- financial accounting for the financing, fleet and insurance functions
- cash and electronic banking systems (including insurance payments)
- accounts payable function
- governance and accountability arrangements
- fleet operations
- treasury function.

Internal audit activities were reviewed to assess the risks of material misstatement in the financial report and to design and perform audit procedures. We made use of the work performed by internal audit in the following areas:

- quarterly reporting by SAFA's compliance unit
- internal audit half yearly assessment of work performed by SAFA's compliance unit.

Audit findings and comments

Assessment of controls

In my opinion, the controls exercised by the South Australian Government Financing Authority in relation to the receipt, expenditure and investment of money, the acquisition and disposal of property and the incurring of liabilities are sufficient to provide reasonable assurance that the financial transactions of the South Australian Government Financing Authority have been conducted properly and in accordance with law.

Communication of audit matters

Matters arising during the course of the audit were detailed in management letters to the General Manager, SAFA. Satisfactory responses were received to the matters raised.

Information and communications technology and control

Over recent years SAFA has replaced a number of legacy systems. These replacement systems include the:

- insurance system (AON RiskConsole) and its transition to a new 'Software as a Service' (SaaS)[2]
- financial system (Technology One)
- treasury management system (FINDUR).

In 2014-15 we reviewed SAFA's IT control environment, which included security arrangements for the AON RiskConsole and Technology One systems.

Our review recommended that SAFA undertake a gap analysis of data stored within AON RiskConsole to ensure compliance with the *Privacy Act 1988 (Cwlth)*. We also noted that components of SAFA's operational recovery plan required review and updating. SAFA responded positively to our recommendations and advised that issue remediation would be completed by December 2015.

Fleet operations – contract management arrangements

In 2014-15 SAFA's internal audit function reviewed the integrity of data supporting:

- contractual key performance indicator statistics

---

[2] Software as a Service (SaaS) is one type of cloud service model. This cloud service allows the application to be hosted by a vendor or service provider and made available to customers over a network, typically the internet.

- results from standards and specifications for services and service components

provided to SAFA from Pickles Auctions and LeasePlan Australia.

The audit scope included data collection, management, storage and security as well as general reporting processes. No systemic contractual issues were noted for Pickles Auctions, however internal audit recommended certain key performance indicators be adjusted to make the contract more 'operationally effective'. No systemic contractual issues were identified for LeasePlan Australia.

Interpretation and analysis of the financial report

Highlights of the financial report

	2015 $'million	2014 $'million
Interest revenue	1 065	1 108
Interest expense	(1 063)	(1 098)
Net interest revenue	2	10
Net gain (loss) on financial instruments and derivatives	69	74
Leasing and hire revenue	63	67
Insurance premium revenue	48	44
Recoveries	25	10
Other income (including net gain on sale of property, plant and equipment)	5	9
Vehicle operating costs (including depreciation and impairment)	(70)	(76)
Insurance claims	(89)	(19)
Other expenses	(20)	(29)
Profit before income tax equivalents	33	90
Income tax equivalent expense	(10)	(27)
Profit after income tax equivalents and total comprehensive result	23	63
Assets		
Cash, short-term assets and investments	4 247	3 786
Loans	18 448	17 450
Derivatives receivable	191	523
Property, plant and equipment (including held for sale)	183	190
Other assets	28	63
Total assets	23 097	22 012
Liabilities		
Deposits and short-term borrowings	6 699	5 661
Bonds, notes and debentures	15 606	15 382
Outstanding claims	366	303
Derivatives payable	43	292
Other liabilities	29	34
Total liabilities	22 743	21 672
Total equity	354	340

Statement of Comprehensive Income

Net income and expense

Interest revenue and expense is determined on a market value accounting basis. Interest revenue decreased by $43 million or 4%. This was associated with a corresponding decrease in interest expenses of $35 million or 3%.

Net gain on financial instruments and derivatives

The net gain on financial instruments and derivatives for 2014-15 comprises realised and unrealised gains from SAFA's treasury and insurance activities. The net gain on financial instruments and derivatives of $69 million is attributable to SAFA's treasury and insurance investments.

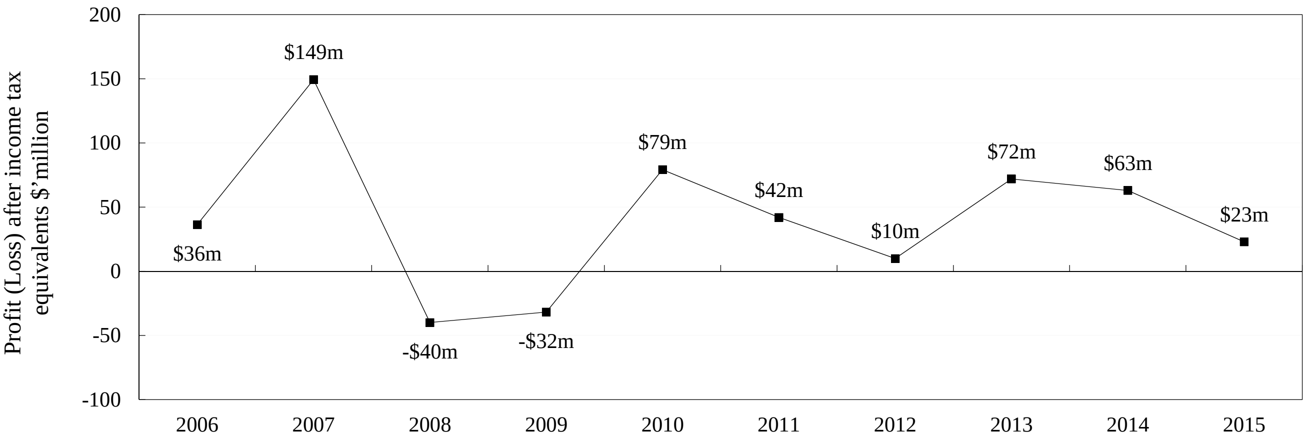
Leasing and hire revenue and recoveries

Leasing and hire revenue reflects the fees charged to other government agencies for the use of fleet vehicles, whereas recoveries include the recovery of fuel costs and unscheduled maintenance charges for leased vehicles.

Profit (Loss)

SAFA's profit before income tax equivalent was $33 million. In accordance with Treasurer's Instruction 22 'Tax Equivalent Payments' SAFA is required to pay the Treasurer an income tax equivalent. The income tax liability is calculated by applying a tax rate of 30% to its profit or loss before tax.

The 10 year trend in SAFA's profit or loss after income tax equivalent expense is illustrated in the following chart.



The chart above highlights the volatility in SAFA's results. This volatility is impacted by the financial performance of SAFA's insurance activities, which were transferred to SAFA in July 2006.

The 2007 profit result includes the net gain on the initial transfer of the net assets of the former SAICORP, whereas the 2008 and 2009 losses are attributable to net investment losses on insurance assets and a large increase in claims expense.

The 2015 profit after income tax equivalents of $23 million was principally supported by a profit on SAFA's treasury activities of $20 million.

Insurance activity impact on profit (loss)

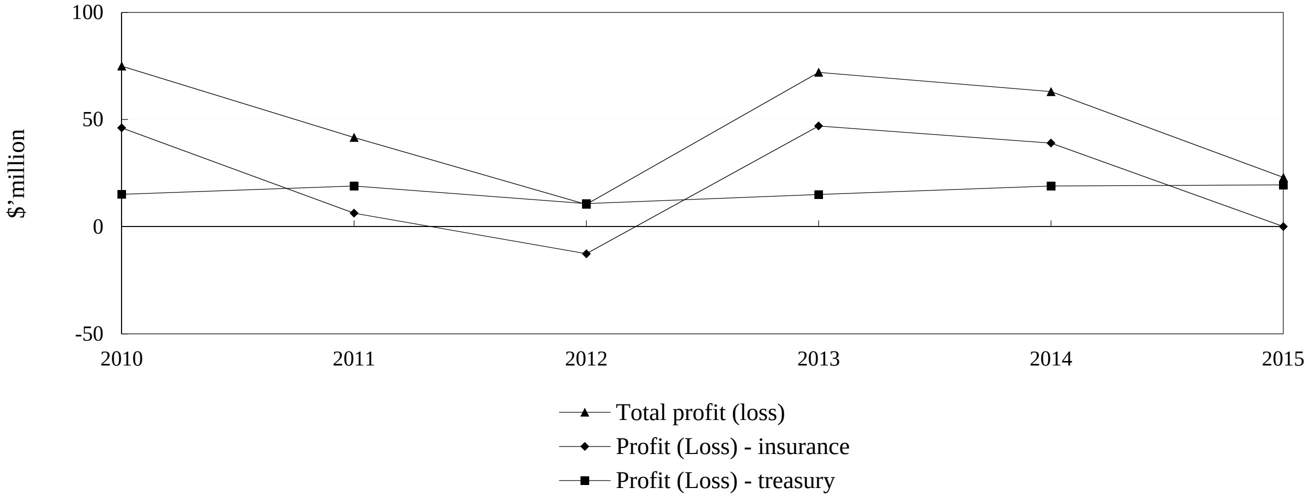
SAFA's insurance activities are designated into three funds (Fund 1, Fund 2 and Fund 3). SAFA's result after income tax equivalents is, in net terms, only affected by Fund 1 results, as SAFA is indemnified by the Treasurer against any operating profit or loss arising from the activities of Funds 2 and 3.

Fund 2 is used to fund liabilities arising from insurable incidents that occurred prior to 1 July 1994, claims under the building warranty indemnity reinsurance arrangements up to 30 June 2013, and the former State Government Insurance Commission residual claims and workers compensation claims previously managed by the former South Australian Asset Management Corporation.

Fund 3 is used to fund liabilities arising from claims under the building indemnity insurance scheme effective from 1 July 2013.

All of SAFA's remaining insurance activities are funded through Fund 1.

The impact of SAFA's insurance activities, in particular, on SAFA's profit or loss is highlighted in the following chart.

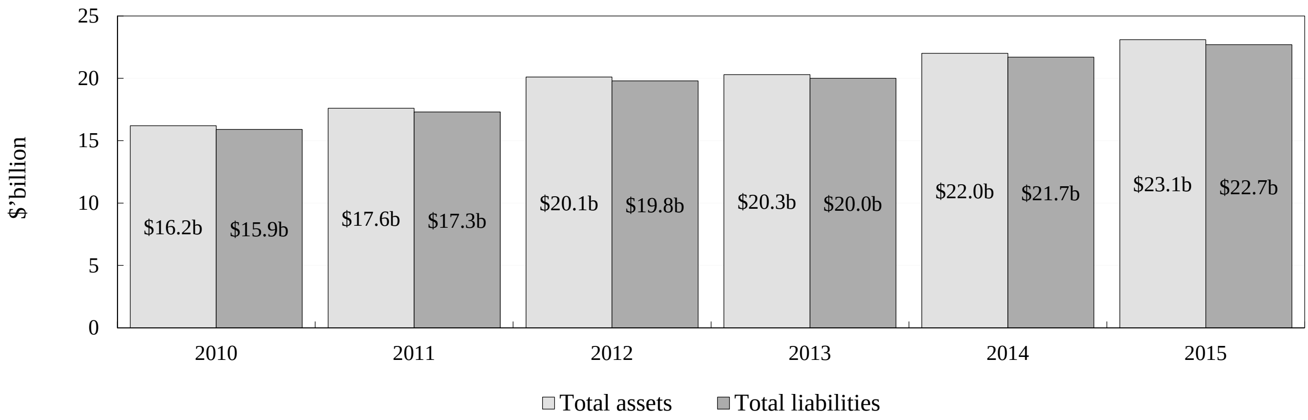


SAFA's insurance activities reported a 2014-15 loss of $900 000 ($39.1 million profit), which was mainly attributable to unfavourable increases in insurance claims expenditure of $69.2 million. Claims expenditure increases were predominantly due to a rise in medical malpractice claims coupled with the application of lower discount rates used in calculating the outstanding claims liability. This rise in claims expenditure highlights the inherent volatility associated with insurance activities, and therefore its impact on SAFA's financial performance.

Statement of Financial Position

Assets and liabilities

A structural analysis of assets and liabilities for the six years to 2015 is shown in the following chart.

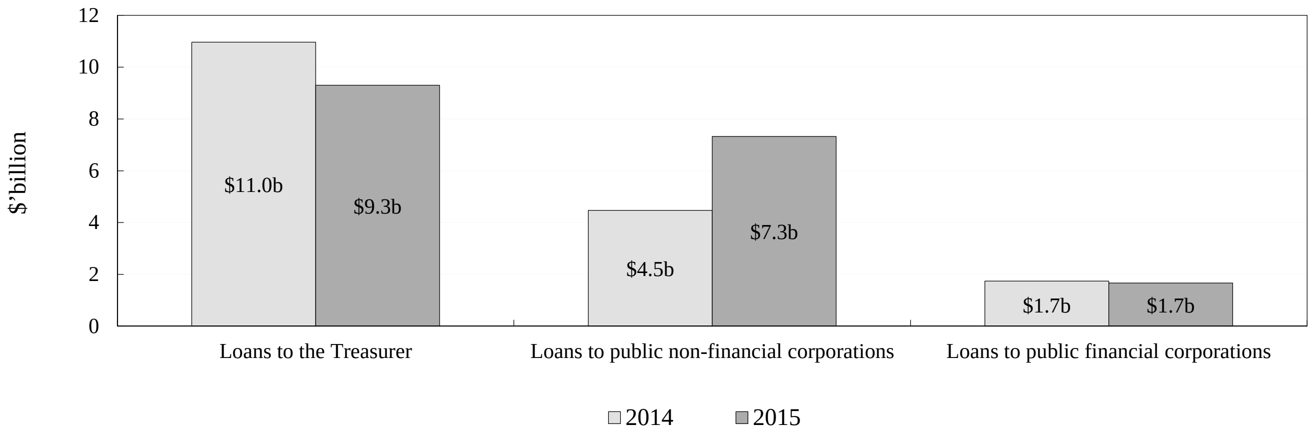


The chart above demonstrates the gradual increase in SAFA's assets since June 2010. Total assets include SAFA's loans to the Treasurer to fund accumulated Consolidated Account deficits and loans to other public authorities.

Over the same period SAFA's total liabilities have increased by a corresponding amount, reflecting the quantum of SAFA's borrowing activities in financial markets to fund the accumulated deficits and loans to public authorities.

At 30 June 2015 SAFA's loans to the Treasurer totalled $9.3 billion, a decrease of $1.7 billion since 30 June 2014. The Treasurer also has funds on deposit with SAFA totalling $4.3 billion ($2.9 billion) as at 30 June 2015.

The chart below highlights the current and prior year governmental sector loan composition of SAFA.



The chart highlights the current year decrease in the Treasurer's loan as well as the converse increase in loans to public non-financial corporations. This change in SAFA's governmental sector loan profile has resulted from the Government's restructure of the South Australian Water Corporation's (SA Water's) debt to asset gearing ratio. This restructure resulted in a $2.7 billion increase in SA Water's debt, as well as a corresponding reduction in general government sector net debt principally reflected by the reduction in the Treasurer's loan. As at 30 June 2015 SA Water accounted for $6.3 billion of total public non-financial corporation loans.

Capital and distributions

At 30 June 2015 SAFA's capital reserves were represented solely by its retained earnings which stood at $354 million ($340 million). A $9 million ($33 million) dividend distribution was made to the Treasurer this financial year.

Statement of Cash Flows

The following table summarises the net cash flows for the four years to 2015.

	2015 $'million	2014 $'million	2013 $'million	2012 $'million
Net cash flows				
Operating	129	100	118	48
Investing	(1 174)	(1 448)	(1 007)	(2 547)
Financing	1 193	1 248	1 127	2 469
Change in cash	148	(100)	238	(30)
Cash at 30 June	444	296	396	158

SAFA's cash position has fluctuated over the four years in line with the net effects of the various activities. Strong cash balances have been maintained in line with liquidity requirements.

Further commentary on operations

SAFA Advisory Board

The SAFA Act provides that SAFA is 'constituted of the Under Treasurer' and establishes the South Australian Government Financing Authority Advisory Board (the Advisory Board). The Advisory Board comprises up to seven members, one of whom is the Under Treasurer, who is also Presiding Member.

The SAFA Act provides that the Under Treasurer may request advice from the Advisory Board and consider any advice given. The Advisory Board may provide advice, as it sees fit, to the Treasurer or SAFA. SAFA's annual report must include details of any advice from the Advisory Board that the Treasurer or SAFA has decided not to follow and the Treasurer's or SAFA's reason for that decision.

Business risk management

Operational risk management

SAFA has a number of mechanisms to manage operational risks, including:

- an annual risk assessment performed by the contracted internal auditors addressing changes to SAFA's operating environment and financial markets they transact with. This assessment is used to determine the scope of the internal audit program
- the establishment of a policy manual that details parameters within which SAFA pursues its core objectives, including dealings with financial markets, reporting requirements and the management of assets and liabilities. This manual is reviewed annually and subject to the Treasurer's approval
- maintenance of a centralised procedures manual that provides a high level summary of the actions that SAFA expects to be maintained within the treasury, insurance, fleet and operational support units. The procedures manual is also subject to annual review
- the compliance unit performing daily, weekly, monthly and quarterly reviews to ensure compliance with policy requirements. The compliance unit's work is reviewed and tested by SAFA's contracted internal auditor
- an Audit and Risk Management Committee comprising four members appointed by the Advisory Board.

General market risk management

SAFA is the State's central borrowing authority and is also responsible for managing the majority of the State's debt. SAFA lends funds raised from financial markets to a number of South Australian public sector clients, including the Treasurer who borrows on behalf of public sector agencies to support their operational requirements. SAFA aims to undertake its treasury functions in a risk neutral fashion and to protect the interests of the Government and clients.

To assist in the management of SAFA's treasury function and its associated risks, SAFA's balance sheet is separated into distinct pools or portfolios. This portfolio structure includes three Treasurer's portfolios – the managed, passive and loan portfolios. The portfolio structure and associated procedures adopted by SAFA are designed to contribute to enhanced treasury risk identification and management. This includes the daily management of liquidity, interest rate, currency and credit risk.

The Treasurer's managed portfolio is the main portfolio for the Treasurer, containing liabilities and assets managed against a benchmark range. The main task is to minimise interest rate risk within the portfolio relative to the policy benchmark range set by the Treasurer. Any cash surplus or deficit resulting from the operations of this portfolio is cleared to the liquidity portfolio daily.

The Treasurer's passive portfolio contains assets and liabilities that are not subject to active management against the Treasurer's benchmark. That is, this portfolio is managed on a passive basis (ie on a neutral interest rate view) and does not have a target duration. Any cash surplus or deficit resulting from the operations of this portfolio is cleared to the liquidity portfolio daily.

The Treasurer’s loan portfolio comprises internal liability deals from the Treasurer’s managed and passive portfolios. This portfolio does not require direct management and merely provides the mechanism to spread the interest receipt from the Treasurer against the underlying source of funds. Interest is calculated and paid monthly by the Treasurer at the average cost of the sum of the managed and passive portfolios plus a margin of 0.1%.

SAFA also maintains a number of other principal portfolios including:

- funding
- liquidity
- reinvestment
- foreign exchange hedging service
- cash management facility.

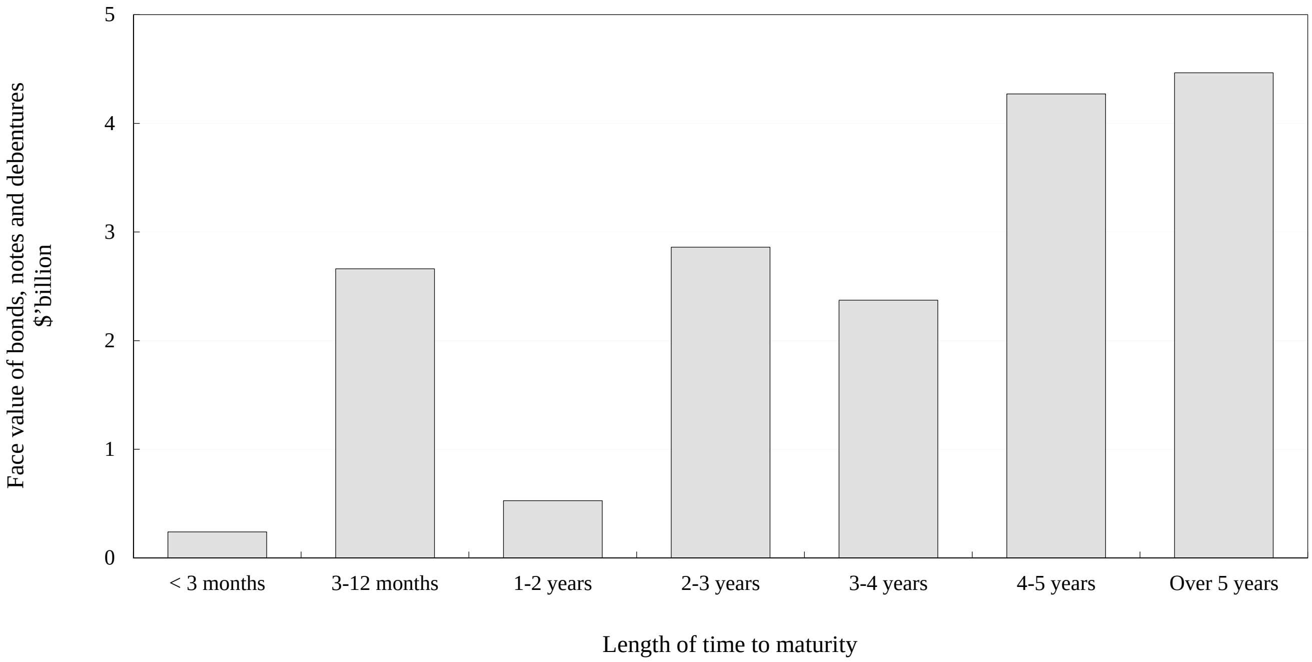
These portfolios are used for the purpose of monitoring and managing investment and hedging services provided by SAFA to public sector agencies. Any profits or losses from these portfolios are recorded in SAFA’s statement of comprehensive income.

Funding risk management

SAFA is responsible for raising funds from domestic and international financial markets to support the Government’s budgetary funding requirements.

Funding risk refers to the prospect of SAFA either being unable to raise funds when required, or only being able to raise funds at a high margin cost. Accordingly, SAFA’s objective for funding risk is to ensure that it is not exposed to a significant refinancing or funding risk within any financial year. Guidelines for funding risk are set by the Under Treasurer.

A maturity profile of the face value of SAFA’s bonds, notes and debentures as at 30 June 2015 is presented in the following chart. Bonds, notes and debentures include SAFA’s core funding issue, select lines and floating rate notes.



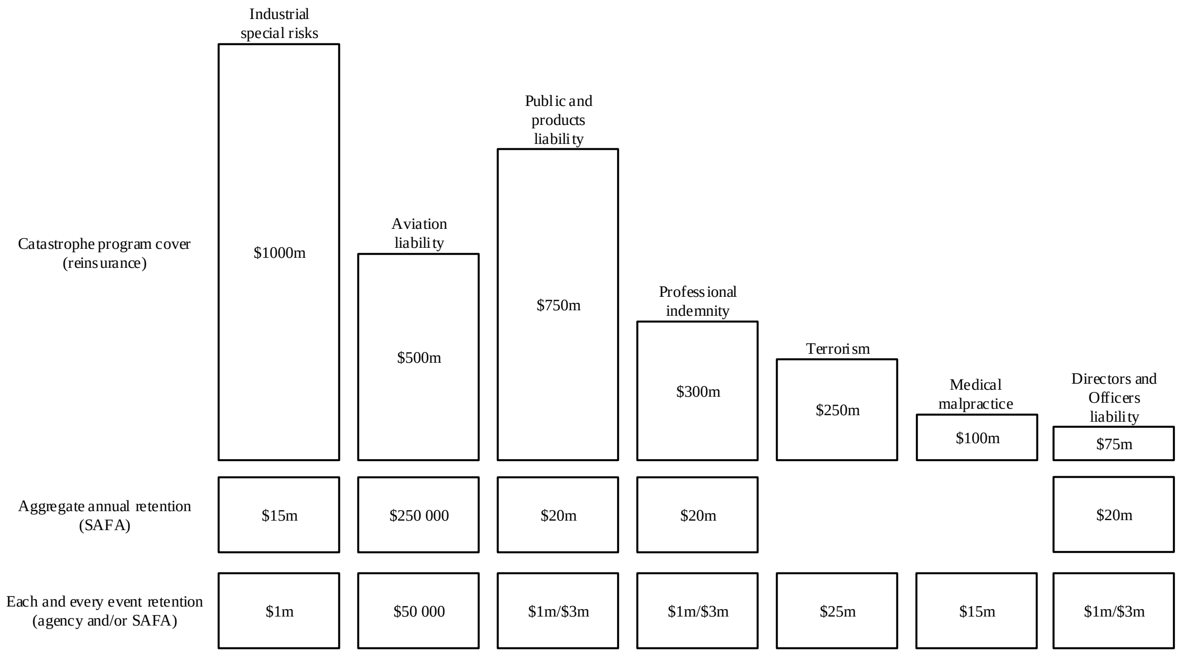
The chart highlights the largest component of SAFA’s debt refinancing requirements and does not include expectations for the Government’s future financing requirements.

The chart demonstrates that SAFA is required to refinance, on average, $2.1 billion each year for the next four years. From 2019, SAFA is required to refinance a further $8.7 billion of debt.

Catastrophe reinsurance program

The State Government is fundamentally a self-insurer. However, to protect the State's finances against a very large loss or claim or a series of large losses or claims in a year, a commercial catastrophic reinsurance program is placed in the international insurance market. The reinsurance program is renewed annually and then approved by the Minister for Finance following consideration by the Advisory Board.

The structure of SAFA's catastrophe reinsurance program for 2014-15 is depicted as follows:



SAFA's catastrophe reinsurance premium expense for 2014-15 was $8.7 million ($9.1 million).

SAFA reviews its coverage levels annually. Whilst various factors influence SAFA's final choice of cover, key drivers in this evaluation are the market's willingness to accept risk for SAFA's preferred coverage, and SAFA's internal value-for-money assessments of the prevailing insurance market.

South Australian Housing Trust

Functional responsibility

The South Australian Housing Trust (the Trust) continued in existence under the *South Australian Housing Trust Act 1995*. The Trust also administers the *Housing Improvement Act 1940*.

The functions of the Trust include the following:

- the construction, purchase, ownership and management of houses and units for tenant occupation
- managing Trust tenancies and housing grant programs.

The Trust has service level administrative arrangements with the:

- Urban Renewal Authority to provide asset and maintenance services, and housing development and delivery projects to renew housing stock and manage not-for-profit community housing growth strategies and transfers
- Department for Communities and Social Inclusion to deliver social housing services through Housing SA.

Financial statistics

Net cost of providing services:	$284 million
Rental income:	$287 million
Total revenue from SA Government:	$179 million
Value of rental property:	$8182 million
Number of lettable rental properties:	41 726
Number of FTEs:	865.5

Significant events and transactions

- Received $65 million in June 2015 for a public housing package to renovate and rebuild Trust houses.
- Commenced Business System Transformation program to replace the Trust's ageing mainframe based business system.

Financial statement opinion

Unmodified

Financial controls opinion

Modified

Key issues:

- Uninvestigated potential overclaimed/overpaid benefits
- Private rental assistance not consistently verified
- Contractual abatements not applied where multi-trade contractors (MTCs) failed to achieve performance benchmarks
- MTC audit and compliance activities not undertaken
- Monthly statutory declaration confirming payment of MTC subcontractors and employees not provided by an MTC
- Payroll bona fide reports are not always reviewed and certified on a timely basis
- Ineffective review of leave reports

Scope of the audit

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

During 2014-15 specific areas of audit attention included:

- revenue including raising rent and recoveries
- accounts payable
- staffing costs
- maintenance
- council and water rates
- fixed assets including rental properties
- private rental assistance
- house and vacant land sales
- homelessness grant management
- general ledger
- governance and accountability.

Internal audit activities were considered in order to identify and assess the risks of material misstatement in the financial report and to design and perform audit procedures.

In addition, some services, including payroll and accounts payable processing, were undertaken by Shared Services SA (SSSA) and these were reviewed as part of the audit.

Audit findings and comments

Assessment of controls

In my opinion, the controls exercised by the South Australian Housing Trust in relation to the receipt, expenditure and investment of money, the acquisition and disposal of property and the incurring of liabilities, except for all matters outlined under 'Communication of audit matters', are sufficient to provide reasonable assurance that the financial transactions of the South Australian Housing Trust have been conducted properly and in accordance with law.

Communication of audit matters

Matters arising during the course of the audit were detailed in management letters to the Executive Director, Housing SA or the Chief Executive, Urban Renewal Authority. The main matters raised with the Trust and the related responses are detailed below.

Rent

The following matters were raised with the Trust in 2014-15.

Replacement of household occupancy declaration process with less rigorous/robust occupancy survey

In August 2014 the Trust implemented a household occupancy survey (HOS) which replaced the previous household occupancy declaration (HOD) process. The purpose of the HOS is to ensure the income of all occupants residing at a property is taken into account when determining the rent payable.

The HOS only required tenants to respond if there is a change in their household occupancy. The Trust did not follow up where no response was received.

The HOD process required all selected tenants to provide a signed declaration of their household occupancy. Failure by a household to respond to the HOD resulted in reversion to full rent. Therefore we consider the HOD a more rigorous/robust control to ensure household occupancy details are reasonably accurate and current.

In response the Trust advised that Housing SA has been required to meet significant efficiency savings, and, as part of these reforms, transitioned from the HOD to the HOS. The HOS represents a reduced administrative burden to both tenants and Housing SA.

Potential overclaimed/overpaid benefits (rental subsidy) yet to be investigated

The Trust charges a market rent on properties tenanted. To ensure rents remain affordable a rental subsidy is provided to ensure households pay no more than 25% of their gross assessable household income on rent. A key risk is that if a tenant fails to provide prompt notification of a change in their circumstances, they may receive benefits (ie rental subsidy) to which they are not entitled.

Our review of processes implemented by the Trust to investigate potential overclaimed/overpaid benefits found the following were yet to be investigated by the Benefit Review Team for potential overclaimed/overpaid benefits as required by the Trust's Overpaid Benefits Guidelines and Rent Assessment Guidelines:

- tenants whose rent was reverted to full rent as they had failed or refused to provide proof of income
- a considerable number of referrals from rent assessment officers where tenants had advised Housing SA of extra persons or a significant increase in their income.

Further, a risk based system to identify tenants at high risk of overclaimed/overpaid benefit (ie tenants with a history of overclaimed/overpaid benefits, tenants with irregular income etc) has not been established.

In response the Trust advised that Housing SA is currently undertaking a review of the Compliance and Collections function, which will include consideration of matters from our audit. The review, to be completed in early 2016, will consider the most efficient means of identifying, assessing, prioritising and investigating cases of potential overclaimed benefits with a view to addressing any outstanding backlog of cases and developing a more efficient and targeted referral system. Further, the review will include consideration of risk assessment strategies to identify and prioritise cases for investigation.

For tenants whose rent has been reverted to full rent as they had failed or refused to provide proof of income, the Trust advised these cases are prioritised as low risk as they are already paying full market rent.

Private rental assistance

The Trust provides a range of assistance to individuals to enter and remain in the private rental market. Assistance provided under the Private Rental Assistance Program (PRAP) includes the provision of:

- bond guarantees
- rent in advance and rent in arrears.

In 2014-15 $17 million was spent on the provision of private rental assistance. Our review of the Trust's controls for processing PRAP expenditure identified the following issues:

- customer service officers do not consistently verify the integrity of property owners using the Property Assist database prior to the provision of rental assistance. Verification of property owners to the Property Assist database decreases the risk of fraudulent payments

- bonds claimed by landlords where the bond refund form was not signed by the tenant, or the tenant's signature does not match the signature on the original bond lodgement, are not always verified for legitimacy. Failure to verify the legitimacy of bonds claimed may result in the inappropriate release of a bond to the landlord
- the Trust had not established a prescribed process for calculating a customer's capacity to contribute to part of a bond. Consequently, a customer's capacity to contribute to part of a bond is not routinely assessed as required by the PRAP guidelines.

The Trust's response advised that the approved replacement of the PRAP ICT system will enhance the ability of staff to address issues identified from the audit. Further, our recommendations are being considered as part of the PRAP ICT system design, due for completion at the end of 2016.

In response to the specific control findings detailed above the Trust advised:

- an audit was conducted in January 2015 to ensure staff have access to the Property Assist database. Further PRAP training is to be held later in 2015 on the implementation of the program/policy changes
- the Trust will review reporting and controls to ensure compliance with PRAP policy to verify legitimacy of bond claims and, where applicable, contest the claim.

  The Trust also advised that it is general practice in all instances where the tenant has not consented to the release of a bond to the landlord for disputes to be lodged with the Tenancies branch of Consumer and Business Services. Over the period of audit review, staffing issues compromised the Trust's capacity to dispute all bonds claimed where the tenant had not consented to the release of the bond
- a liquid asset limits test is to be implemented in 2015 as an eligibility criteria for PRAP assistance.

Maintenance

In October 2013 the Trust implemented an MTC model whereby MTCs now manage the majority of all job orders issued by the Trust for responsive, vacancy, programmed and capital upgrade maintenance within defined geographical areas. The Trust's MTC Agreements with five MTCs are worth an estimated $912 million over eight years (including renewals).

Our review found that controls over the processing of maintenance expenditure and the management of MTC performance required improvement. The following summarises the significant observations from the review.

Contractual abatements for multi-trade contractors not meeting performance benchmarks not applied

The MTC Agreements contain nine key performance indicators for measuring the performance of MTCs for timeliness and quality. MTCs are required to achieve a compliance performance benchmark of 90%. To penalise unsatisfactory performance the MTC Agreements provide that if an MTC does not achieve a compliance score of 90% or more for either timeliness or quality of work an abatement will apply.

The Principal's Performance Reports (1 April 2014 – 30 September 2014 and 1 October 2014 – 31 March 2015) indicate that MTCs did not always meet the compliance benchmark target of 90% for timeliness and/or quality of work. However contractual abatements were not applied as:

- the number of quality inspections performed by Housing SA was minimal and short of a valid sample size

- quality inspections were not determined statistically or randomly.

Further, the measures used to assess MTC performance were also compromised by data reliability issues.

Our review also noted there were delays in the development and implementation of an appropriate audit and sampling methodology for inspecting maintenance works. Specifically, a statistical based sampling methodology was not implemented until February 2015 despite the MTC Agreements commencing in October 2013. The absence of an appropriate audit and sampling methodology compromised the Trust's ability to enforce contractual abatements.

In response the Trust confirmed that due to data reliability issues, an insufficient number of work inspections by Housing SA and the potential for challenges from MTCs on the validity of the performance data it was determined that contractual abatements would not be applied. The Trust also noted that the application of contractual abatements remains an option to apply in the future.

The Trust also advised that Housing SA has strongly focused on improving performance of both MTCs and Housing SA staff to ensure improved customer outcomes.

Multi-trade contractor audit and compliance assessment activities not performed

In July 2014, the Trust issued the Audit and Compliance Assessments procedure for Multi-Trade Contractor procedure. This procedure outlines the Trust's methodology to inspect and assess works and services provided by MTCs, as well as ensure MTC compliance with contract requirements, operational performance and standards.

Our review found the following compliance and assessment activities detailed in the procedure had not occurred:

- annual audit of MTC administrative operations
- audits of regional operations.

In addition, as detailed previously, inspections of maintenance work by Housing SA field staff were minimal.

In response the Trust advised:

- significant improvement has been made in the inspection of maintenance work by Housing SA field staff, including development of a random selection methodology and weekly management reporting to ensure Housing SA staff are undertaking the required number of inspections
- plans for auditing MTC administrative operations are being developed and audits of MTC administrative operations are scheduled in the Maintenance Business Plan for 2015-16
- the audit of two Housing SA regional operations have been included in the Maintenance Business Plan for 2015-16.

Multi-trade contractors not complying with requirements to inspect minimum amount of invoices on completion of works

To ensure that maintenance work is completed to appropriate standards and in accordance with contractual arrangements, the MTC Agreements require MTCs to inspect a minimum amount of invoices on completion of works (invoice inspections). MTC invoice inspections are supplemented by inspections performed by Housing SA that cover both works inspected and works not inspected by MTCs.

Our review noted that MTCs are not complying with all the inspection requirements detailed in the MTC Agreements.

In response the Trust advised that Housing SA implemented monthly reporting in January 2015 and there has been significant improvement in the numbers of invoice inspections being undertaken by MTCs.

Statutory declarations confirming payment of subcontractors and employees not provided by a multi-trade contractor

MTCs are required to provide a monthly statutory declaration confirming that:

- the undisputed amount of each subcontractor and supplier invoice was paid within 10 days
- all employees of the MTC, and all subcontractors and suppliers (and their employees), were paid all monies due.

Our review found that one MTC provided weekly aged subcontractor payable reports instead of a monthly statutory declaration. The aged subcontractor payable reports provided:

- did not confirm whether all employees of the MTC and all employees of the MTCs subcontractors were paid all monies due
- indicated that the MTC is not complying with the requirement in the MTC Agreement to pay each subcontractor and supplier within 10 days.

In response the Trust advised that it has written to the relevant MTC to formally request that they provide confirmation of when they will be in a position to submit statutory declarations to the Trust.

No review prior to processing invoices to ensure approval for additional works

The MTC Agreements and the Trust's Contractor Invoicing procedure require MTCs to obtain approval for additional works in excess of $600. Our audit found accounts payable officers did not ensure all additional works were appropriately approved prior to processing the invoice into the maintenance system. Specifically, for responsive maintenance, we were advised that accounts payable officers do not check to ensure there is approval for the additional works where they deem the additional work to relate to the original work order.

In response the Trust advised that the requirement to record all approvals in the records management system for works greater than $600 has been reinforced with staff.

Absence of controls for accurate and complete processing of maintenance invoices

Our review found controls were not implemented to ensure maintenance invoices, including non-financial performance data, are processed completely and accurately in the maintenance system by accounts payable officers. Specifically:

- the Trust's primary financial information control, the review of weekly invoice discrepancy reports, did not operate as intended. Our review found only two weekly invoice discrepancy reports were signed off as checked for the year
- there is no independent review to ensure non-financial information is input completely and accurately in the maintenance system.

In response the Trust advised that the review of invoice discrepancy reports has been reintroduced. For non-financial information the Trust advised that there is a high degree of accuracy of data entry. Further, there are insufficient resources to undertake independent reviews.

Water rates

Prior audits have identified control weaknesses over the processing of water rate transactions. Our 2014-15 review noted the Trust had undertaken actions to improve controls, however scope for further improvement still exists.

Processing water rates expenditure

The Trust is responsible for the payment of water rates. Water rates expenditure is processed through the water rates system and in 2014-15 expenditure was $35 million. Review of the Trust's controls for processing water rate expenditure found:

- instances where manual water rates were paid without being authorised for payment. Processing payments without being authorised increases the risk of incorrect/invalid payments
- checks to ensure the accurate processing of manual water rates into the Water Rates system were occurring after disbursement. Consequently, any errors/omissions in the data entry of manual water rate notices were not able to be identified and corrected prior to payment.

In response the Trust advised it had implemented processes in April 2015 to ensure manual water rate payments cannot be processed before being independently checked and authorised.

Recovery of water rates from tenants

Tenants are responsible for the cost of their water consumption, with the Trust recharging tenants for water rates paid on their behalf.

Review of the Trust's controls for processing water rate recoveries found:

- controls designed to assess a tenant's ongoing entitlement to water allowances did not operate effectively as not all water allowances were reviewed. Ineffective controls to review a tenant's ongoing entitlement to water allowances increase the risk that tenants may receive water allowances to which they are not entitled
- there is no control to ensure all remissions to eligible tenants were processed completely in the Water Rates system and therefore applied to tenant accounts.

In response the Trust advised:

- processes to review tenants' ongoing entitlements to water allowances require significant review. Consequently, the Trust has established a working group to review and streamline processes for reviewing water allowances
- a review is underway to determine what checks are required as part of the weekly inspection of remissions.

Council rates

Council rates expenditure is processed through the Council Rates system and in 2014-15 expenditure was $45 million.

The Trust has established a range of control activities to ensure the council rates and charges are uploaded into the Council Rates system, verified and paid in a timely manner. In most cases the necessary control activities are documented in the Trust's Council Rates procedures.

However, consistent with the previous year's findings, our audit found that key control activities are not being performed by officers as required. The significant findings from the audit included:

- the Trust has developed a council rate calculator to verify that council rates payable are in accordance with declared rates as published in The South Australian Government Gazette. Our audit found the use of the council rate calculator to verify council rates payable was ineffective as:
  - variations between the council rates payable as calculated by the Trust's council rate calculator and the council rate notices were not all checked, explained and, where necessary, resolved
  - data in the council rate calculator was not always complete and accurate
  - there is no control to ensure all council rate billing information is entered into the council rate calculator
- there is no evidence exception reports were reviewed as they are not printed off, signed or dated as evidence of review.

In response the Trust advised that steps are currently being undertaken to enhance the processes in place to ensure key controls for accurate processing of council rate notices, verification of council rate notices and review of exception reports are performed by officers as required.

Payroll

While SSSA is responsible for payroll processing, important payroll controls are performed by the Trust. Specifically the Trust has an important role in reviewing payroll reports to validate employee payments and leave records.

Timely review and certification of bona fide reports

To reduce the risk of invalid payments to employees the Trust's policies and procedures require managers/supervisors to review bona fide reports. Our audit found a significant number of bona fide reports (28%) were not certified as reviewed by relevant managers within required time frames.

In response the Trust advised that the Department for Communities and Social Inclusion (DCSI) undertakes the bona fide reporting and follow-up function for the Trust. DCSI has implemented a bona fide escalation process where bona fide reports not reviewed within two weeks of issue are escalated to the next highest supervisor.

The Trust also advised that follow-up processes for outstanding bona fide reports will include regular ageing analysis reports from the bona fide system and, where applicable, non-compliance will be escalated to relevant Directors and if necessary the Executive Director, Housing SA.

Ineffective review of leave reports resulting in unrecorded or incorrectly recorded leave in payroll system

Consistent with prior year audits, the review of controls over leave recording concluded they did not operate effectively to provide assurance that all leave taken has been accurately recorded in the payroll system. Our testing identified instances where leave recorded in attendance records was not recorded or was incorrectly recorded in the payroll system.

In October 2014, the Trust implemented a procedure addressing line manager responsibility for the management and monitoring of employee attendance as well as the recording and management of leave. In March 2015 management audits were undertaken to review compliance with the procedure. These audits found:

- not all areas are maintaining the appropriate records as per the procedure

- there were minor discrepancies with noting information in the records
- evidence that reconciliation processes are in place to verify and cross check records was inconsistent.

The Trust advised that managers' responsibilities for reviewing leave reports will be reinforced through targeted communication.

Shared Services SA – financial systems and transaction processing environments

SSSA processes financial transactions on behalf of the Trust under service level determinations. The main systems and control environments include accounts payable, payroll and general ledger financial functions.

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

As discussed in the commentary under 'Department of the Premier and Cabinet' elsewhere in Part B of this Report, our review and evaluation of controls for the SSSA main payroll systems concluded that controls did not meet a generally satisfactory standard for 2014-15. A number of specific matters were raised with SSSA for corrective action and review for process and procedural improvement. Our review and evaluation of controls for the SSSA main accounts payable systems and environment concluded that controls met a generally satisfactory standard for 2014-15.

The matters do not relate to Trust transaction processing.

Grants

The Trust provides grants to a number of government and non-government organisations for the provision of specialist homelessness services. During 2014-15, $55 million in grants was provided to homelessness service providers.

The audit found that the Trust had implemented adequate controls to support the effective management of grants to homelessness service providers. However, the following control improvements were raised with the Trust:

- user access levels within the grants system (FGMS) were not reviewed in 2014-15 as required by the DCSI Funding and Grant Management System guidelines
- two homelessness service agreement amendments (ie extensions) were not approved in accordance with the requirements of Treasurer's Instruction 8 'Financial Authorisations'.

At the time of preparing this Report the Trust is resolving this matter with the relevant areas of DCSI.

Governance and accountability review

Our review of the governance and accountability arrangements at the Trust identified some areas where governance practices could be improved. The significant matters included:

- scope to improve the Trust's legal compliance program by:
  - obtaining acknowledgements regarding legal compliance from Board members and all responsible officers listed in the Trust's legislative matrix

  - updating the legislative matrix to include specific requirements of key provisions of legislation
  - including relevant operational legislation in the legislative matrix
- the Audit and Finance Committee had not prepared an annual report to the Board, as required by its Terms of Reference, that summarised its activities and significant results and findings.

The Trust's response indicated that the recommendations to improve governance and accountability will be implemented.

Property ownership review

In May 2015 Housing SA established a Property Ownership Review Team to investigate tenants who are suspected to have contravened their conditions of tenancy through ownership of residential property.

As part of our audit we sought an update on the Property Ownership Review Team's investigations.

The Trust advised that as at 25 August 2015, 377 investigations (incorporating the investigation of 799 properties) into tenants have been finalised, with the following key achievements:

- 12 property owners have vacated their Trust tenancy
- three property owners have agreed to vacate their Trust tenancy
- seven property owners have been placed onto the rental subsidy exclusion list after the Property Ownership Review Team determined that due to property ownership they are not entitled to rental subsidy.

The Trust also advised there are:

- 106 investigations (incorporating 235 properties) into tenants that are in progress
- a further 106 investigations have been completed, and will be subject to annual monitoring
- 1034 investigations (incorporating 1894 properties) still awaiting investigation.

We also sought advice as to the processes the Trust intends to implement to ensure the prompt identification of Trust tenants who are in contravention of their conditions of tenancy through the ownership of residential property. The Trust advised that the Property Ownership Review Team has introduced a range of controls. These controls include:

- checking of the South Australian Integrated Land Information System property ownership records:
  - when customers apply for placement on the register for public housing assistance
  - prior to allocation of any new tenancies, including existing tenants transferring to a new property
  - prior to approval of any new adult household occupants
- the requirement to sign a declaration regarding any properties owned at the time of applying for a rental subsidy, and as part of the biannual bulk rent review process
- reminding tenants of the requirements to declare any property ownership to Housing SA on all rent letters sent to tenants paying market rent, and all household occupancy survey forms.

Business System Transformation (BST) program

The Trust's core ICT systems are at the end of their intended and useful lives.

In May 2014, TIBCO Software Inc., which supports 34 of the Trust's 38 mainframe based business systems, confirmed that it will provide software support until December 2015 and limited extended support until December 2017. Confirmation of the availability or commercial terms of any support beyond this period has not been received by the Trust. This increases the risk of system failure and business interruption, which would carry significant, legal, reputational and financial implications.

A Cabinet submission is currently being prepared outlining the proposed BST program, which will focus on replacing the ageing systems and delivering significant business improvements to the Trust. The BST program is anticipated to run over three years and will include a series of staged projects. The proposed time frame for implementation extends beyond the TIBCO support period. The BST program will commence once the respective business case, tender selection, design and contract finalisation have been completed.

The Trust expects the new system to deliver the following benefits:

- increased accessibility, including online services and mobile technology for staff
- enhanced security and identity management
- enhanced accuracy and accessibility of information including the sharing of real-time information securely with other service providers and customers
- a digital-by-default approach to customers and stakeholder communications.

While the cost of the BST program is still being formulated, and is expected to be significant, the Trust anticipates the full cost of transition will be offset by the future savings within 10 years. This cost will be clearer once the request for price and selected tenderer have been finalised and suitably assessed. Current procurement and business readiness activity is being funded from existing resources.

A business case will be prepared following the shortlisting of suitable providers. The business case will include a fully managed Software as a Service (SaaS)[3] option as this offers potentially significant reductions to the requirement for up-front capital investment.

Audit will monitor further developments in the BST program during 2015-16.

Interpretation and analysis of the financial report

Highlights of the financial report

	2015 $'million	2014 $'million
Expenses		
Staffing costs	70	85
Finance costs	-	7
Maintenance	116	103
Council rates and water rates	80	82
Land tax equivalent	176	178
Depreciation and amortisation	87	86
Grants and subsidies	98	107
Other expenses	77	73
Total expenses	704	721

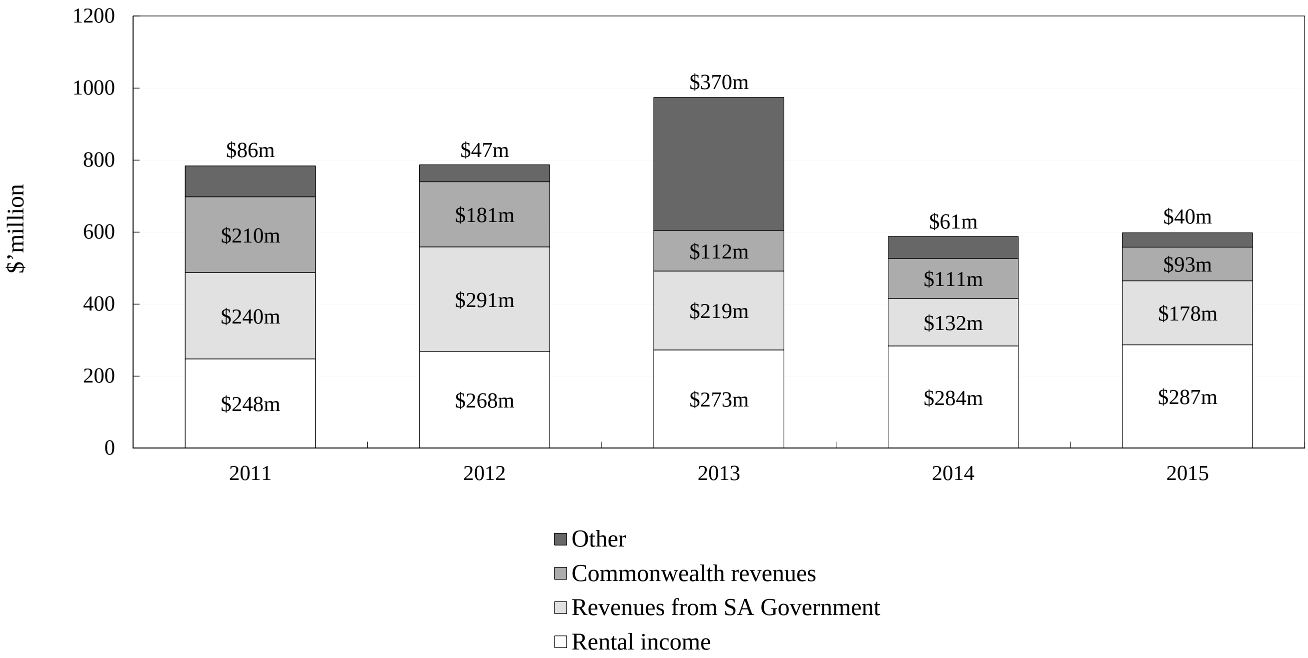
3 Software as a Service (SaaS) is one type of cloud service model. This cloud service model allows the application to be hosted by a vendor or service provider and made available to customers over a network, typically the internet.

	2015 $'million	2014 $'million
Income		
Rental income	287	284
Commonwealth revenues	93	111
Other	40	61
Total income	420	456
Net cost of providing services	284	265
Revenues from SA Government	178	132
Net result	(106)	(133)
Other comprehensive income	219	(19)
Total comprehensive result	113	(152)
Net cash provided by (used in) operating activities	-	28
Assets		
Current assets	398	393
Non-current assets	9 771	9 669
Total assets	10 169	10 062
Liabilities		
Current liabilities	67	95
Non-current liabilities	20	21
Total liabilities	87	116
Total equity	10 082	9 946

Statement of Comprehensive Income

Income

For the five years to 2015 a structural analysis of income for the Trust is presented in the following chart.



Total income was $598 million, an increase of $10 million over the previous year. The movements in the main components of income were as follows:

- SA Government revenues increased by $46 million to $178 million due to:
  - housing stimulus funding received in June 2015. The 2015-16 State Budget included a $65 million public housing package to renovate and rebuild Trust homes
  - land tax equivalent reimbursement, down $11 million. Land tax equivalent payments are no longer fully reimbursed by the Government. Effective 30 June 2013, the Commonwealth Government agreed to write off $320 million of South Australian public housing debt. Of the total $365 million benefit from the housing debt relief, $315 million is to be returned to the broader State budget in reduced grant payments to the Trust for land tax equivalent payments
  - increased capital funding for solar hot water systems ($6 million) and city respite facility ($3 million)
  - general purpose grant, down by $19 million
- rental income (net of rental rebates) increased by $3 million as a result of increased market rent, up $4 million, other rent, up $2 million, and rent rebates, up $3 million. Rent rebates reduce the rent paid by low income tenants
- Commonwealth revenues decreased by $18 million to $93 million due to:
  - reduced National Affordable Housing Agreement funding ($11 million). In 2014-15 the Commonwealth Government recovered unspent nation building funds of $10 million from the State through reduced National Affordable Housing Agreement funding
  - one-off capital funding received in 2013-14 of $7 million under the National Partnership Agreement: Homelessness for the Common Ground Adelaide project
- other income decreased by $21 million to $40 million due to:
  - reduced recoveries ($13 million) principally as result of decreased targeted voluntary separation package recoveries ($9 million)
  - a gain on disposal of non-current assets of $6 million recognised in 2013-14. In 2014-15 the Trust incurred a loss on disposal of non-current assets.

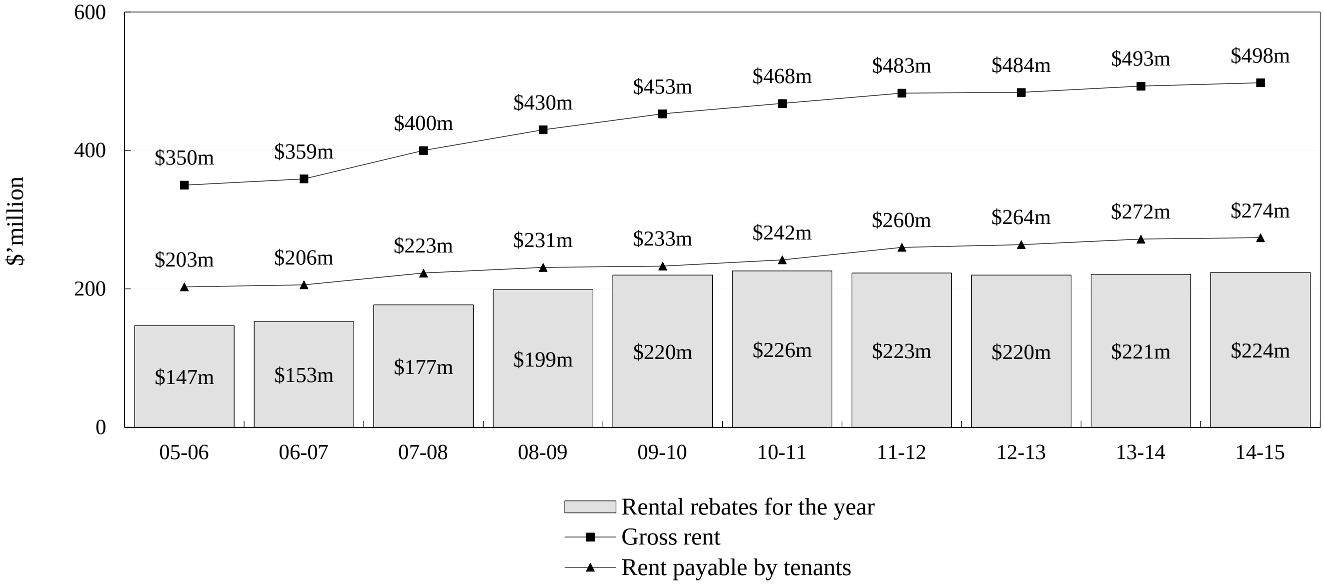
Rental operations

The following table shows the level of housing stock, excluding unlettable properties, as at 30 June for the past five years.

	2015 Number	2014 Number	2013 Number	2012 Number	2011 Number
Properties	41 726	42 847	43 548	43 705	44 436

87% (87%) of tenants pay reduced (rebated) rent due to low income.

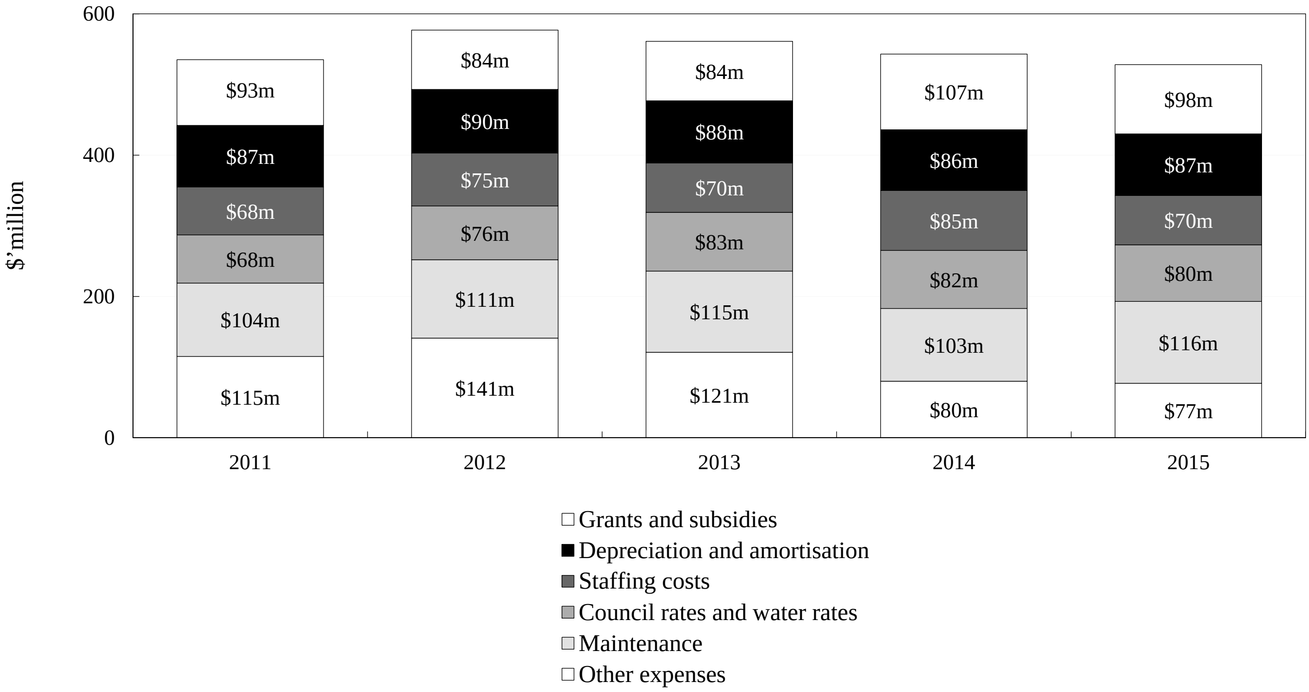
Data relating to housing stock levels and tenancies was provided by the Trust and is unaudited. The trend of rents and rebates is illustrated in the following chart.



The chart highlights that gross rent has steadily increased since 2005-06 due to increases in market rents. 2007-08 was also affected by an increase in tenant numbers due to the Trust taking over responsibility for indigenous housing. In 2015 gross rent increased by $5 million, rent revenue increased by $2 million and rent rebates increased by $3 million. The amount of rent rebates is dependent on each tenant's circumstances, with rent payable being capped at 25% of household income or market rent, whichever is the lower.

Expenses

For the five years to 2015, a structural analysis of the major expense items for the Trust, other than tax equivalent expenses, is shown in the following chart.



The chart shows an upward trend in expenses over the period 2011 to 2012, with a decline in expenses over the period 2013 to 2015.

In 2015 total expenses (excluding tax equivalent expenses) decreased by $15 million (3%). This decrease was due mainly to decreases in:

- finance costs ($7 million) due to the Trust repayment in June 2014 of the outstanding balance of loans with the Treasurer

- staffing costs ($15 million) due to reduced targeted voluntary separation package ($10 million) and workers compensation ($2 million) expenses

- grants and subsides ($9 million) due to payments in 2013-14 for the Common Ground Adelaide project ($7 million) and reduced community housing construction stimulus grant payments ($5 million).

Offsetting the above decreases were increases in the following expenses:

- maintenance expenses ($13 million) due to significant underspend in 2013-14 as a result of the implementation of MTC arrangements

- supplies and services ($4 million) due to an increase in insurance ($1 million), computer ($1 million) and leased property ($1 million) expenses and reduced administration expenditure charged to capital program ($1 million).

Loss on disposal of assets

In 2015 the Trust recorded a loss on disposal of assets of $1 million compared with a gain in 2014 of $6 million.

The Trust has agreed a Cabinet approved financial viability strategy which is achieved primarily through the sale of Trust properties.

For 2014-15 the estimated asset disposal requirement was 593 properties to achieve a budgeted revenue target of $116 million.

601 properties were sold in 2014-15. Total proceeds received from asset disposals for financial viability (sales of property excluding capital work in progress and debentured properties) for 2014-15 were $114 million compared to the net book value of $108 million.

The balance of the proceeds from asset disposals is applied to fund the capital works program of the Trust.

Grant funded programs

The Trust's recurrent direct expenditure on grant funded programs was $98 million ($107 million). This decrease of $9 million is mainly the result of:

- grants made under the National Partnership Agreement for Homelessness decreasing by $10 million

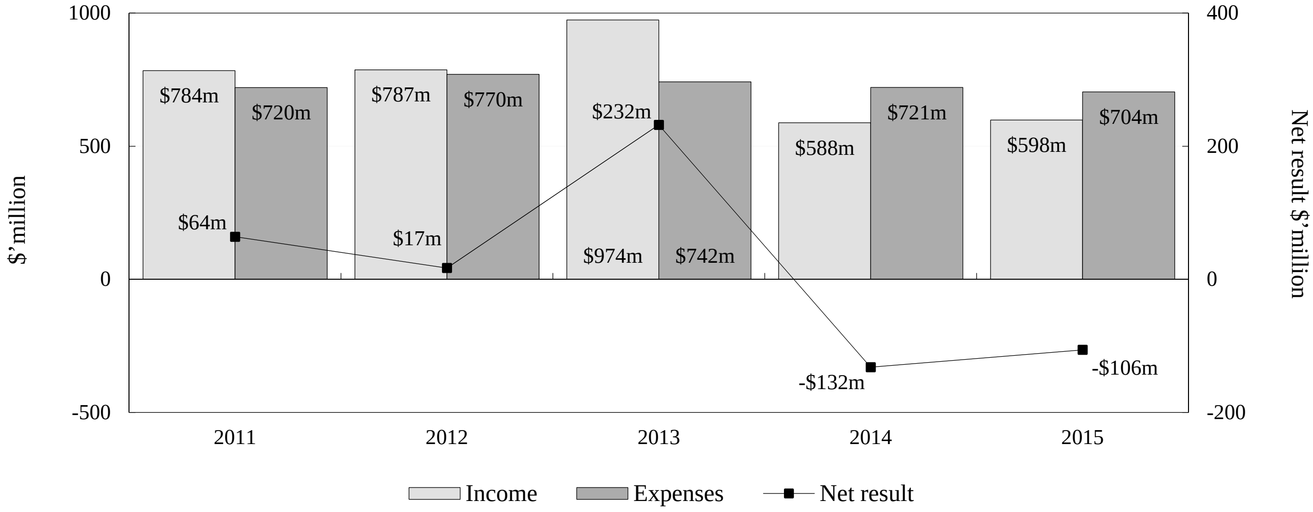
- community housing construction stimulus grants decreasing by $5 million

- a funding contribution of $5 million in 2014-15 to the Woodville West project (Urban Renewal Authority).

Note 11 of the financial report discloses a detailed list of grant and subsidies by grant program.

Net result

The following chart shows the income and expenses (including income tax equivalent but excluding administrative restructure) and net result for the five years to 2015.



The chart shows that the Trust achieved surpluses for the years 2011 to 2013 and deficits for 2014 and 2015. The surpluses in 2011 and 2012 reflect a higher level of Commonwealth and SA Government revenues than in 2014 and 2015. The significant surplus in 2013 is attributable to the forgiveness of the $320 million of the Trust loans with the Treasurer. The deficits in 2014 and 2015 are predominantly due to decreased revenue, principally Commonwealth and SA Government revenues.

Unexpended grant funding commitments

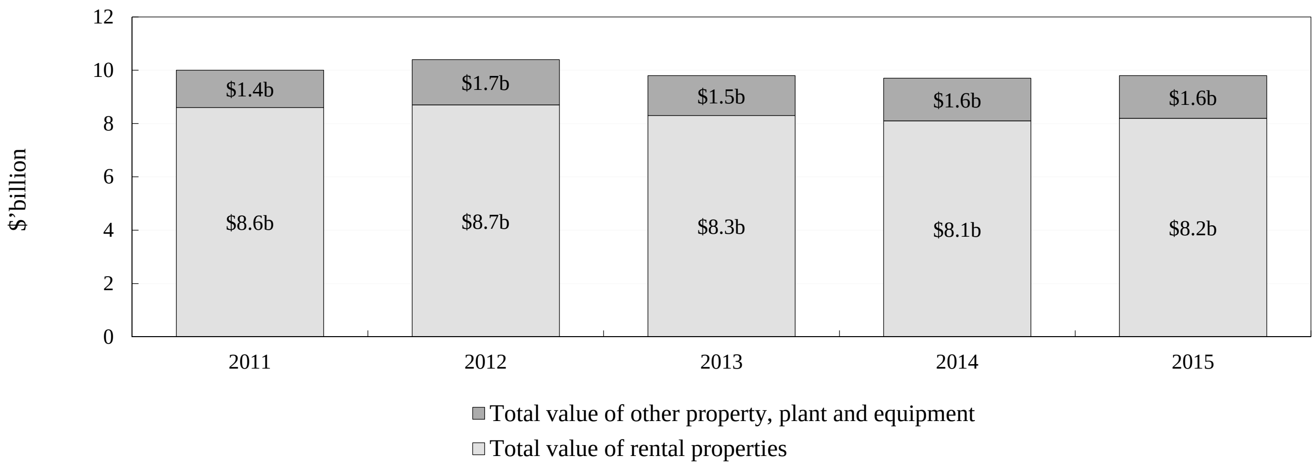
State and Commonwealth Government funds received for a number of projects are yet to be fully expended. Note 36 of the financial report details that $29 million of grant funds received in 2014-15 and $307 000 received in earlier financial years were unspent as at 30 June 2015.

Statement of Financial Position

The Trust's financial position is dominated by non-current property, plant and equipment assets. Current assets and liabilities are, while significant in their own right, not material relative to the non-current assets. Notwithstanding, at 30 June 2015 current liabilities amounted to $67 million ($95 million), while current assets were $398 million ($393 million).

Property, plant and equipment

The following chart shows an analysis of the value of the Trust's rental properties compared to the value of the Trust's other property, plant and equipment assets over the past five years.



In 2015 the value of rental properties increased by $59 million to $8.2 billion. The increase reflects an upward revaluation of assets of $114 million, and additions (including maintenance upgrades) and transfers in of $182 million. This was offset by disposals of assets of $110 million, transfers out (including to assets held for sale) of $59 million and depreciation expense of $69 million.

The chart shows a steady increase in the value of both rental properties and other property, plant and equipment for the period 2011 to 2012. In 2013 the value decreased due to lower market values associated with a subdued property market, which resulted in a revaluation decrement. In 2014 the value slightly decreased due to lower market values and depreciation/amortisation, while in 2015 the value slightly increased.

Other property, plant and equipment includes assets under arrangement of $1.2 billion (refer note 2.14(i) of the financial report).

It is important to note that the Trust revalues most land and buildings annually using the Valuer-General's values. Because of the timing of the update of the Valuer-General's database and the Trust's financial reporting obligations, reported values lag current market values. As reported in note 2.14(ii) of the financial report, values for 2014-15 were issued by the Valuer-General as at 1 July 2014. This policy has been consistently applied and reflects the practicality of valuing a very large housing stock.

In 2015, the Trust revalued remote indigenous leased properties for the first time. The revaluation resulted in an upward revaluation of $86 million. Due to the remoteness of many of the remote indigenous leased properties there is no observable market or consistent Valuer-General information. Consequently, many of these properties were valued using a depreciated replacement cost method.

Statement of Cash Flows

In 2015 the Trust recorded an increase in cash of $22 million compared to a decrease in cash of $46 million in the previous year.

The increase in cash is principally due to net cash generated from financing activities. In 2014-15 the Trust received an equity contribution of $24 million.

Of the $271 million balance of cash on hand at 30 June 2015, $29 million relates to grants received in this and previous years that were unspent at year end.

South Australian Metropolitan Fire Service

Functional responsibility	The *Fire and Emergency Services Act 2005* provides for the South Australian Metropolitan Fire Service (SAMFS) as a body corporate and also establishes the South Australian Fire and Emergency Services Commission (SAFECOM). The SAMFS and SAFECOM are responsible to the Minister for Emergency Services. The SAMFS is the primary provider of structural firefighting services to the State of South Australia. SAFECOM provides various corporate services in support of the SAMFS's primary functions. The operations of the SAMFS are financed by the Community Emergency Services Fund (the Fund), established by the *Emergency Services Funding Act 1998.* For more information about the SAMFS's objectives refer note 1 of the financial report.
Financial statistics	Net cost of providing services: $129.1 million Total contributions from the Fund: $123.8 million Number of FTEs: 934.9 Employee benefits liability and related on-costs: $37.3 million Workers compensation liability: $9.5 million
Significant events and transactions	— New building works for the new Salisbury Fire Station of $6 million in addition to the $1.3 million spent in 2013-14. — Current liabilities, $24.6 million (mainly employee entitlements due over 12 months), exceeded current assets, $7.3 million, at 30 June 2015.
Financial statement opinion	**Unmodified**
Financial controls opinion	**Modified** Key issues: — Instances of asset creation/upgrade forms not being completed or independently reviewed — No independent oversight of annual asset stocktake — Instances where there was no evidence approval of parade statements — Controls for the Shared Services SA main payroll system did not meet a generally satisfactory standard

Scope of the audit

The audit program covered the major financial systems and was directed primarily to obtaining sufficient evidence to enable an opinion to be formed with respect of the financial report and internal controls.

The audit included access to systems and information maintained by SAFECOM and the SAMFS to conduct relevant financial transaction and control compliance tests of those systems and information.

The audit included a review of the overall internal control environment covering compliance with Treasurer's Instructions and verification of transactions on a test basis. The scope of the audit included:

- expenditure
- payroll and employee entitlements
- revenue, including grants and contributions
- cash and receivables
- non-current assets including works in progress
- liabilities, including workers compensation
- financial accounting
- business continuity planning
- legislative compliance
- financial management compliance program
- banking arrangements and reporting.

Audit findings and comments

Assessment of controls

In my opinion, the controls exercised by the South Australian Metropolitan Fire Service in relation to the receipt, expenditure and investment of money, the acquisition and disposal of property and the incurring of liabilities, except for all matters outlined under 'Communication of audit matters', are sufficient to provide reasonable assurance that the financial transactions of the South Australian Metropolitan Fire Service have been conducted properly and in accordance with law.

Communication of audit matters

Matters arising during the course of the audit were detailed in management letters to the Chief Executive, SAFECOM and the Chief Officer, SAMFS who are responsible for the governance of the SAMFS.

Matters raised with SAFECOM and the SAMFS and the related responses are provided in detail under 'Communication of audit matters' in the section of Part B of this Report titled 'South Australian Fire and Emergency Services Commission'.

Interpretation and analysis of the financial report

Highlights of the financial report

	2015 $'million	2014 $'million
Expenses		
Employee benefits expenses	116	111
Supplies and services	13	13
Other expenses	7	7
Total expenses	136	131
Total income	7	7
Net cost of providing services	129	124
Revenues from (Payments to) SA Government	125	121
Net result	(4)	(3)
Other comprehensive income	-	2
Total comprehensive result	(4)	(1)
Net cash provided by (used in) operating activities	6	8
Assets		
Current assets	7	12
Non-current assets	141	138
Total assets	148	150
Liabilities		
Current liabilities	25	22
Non-current liabilities	25	25
Total liabilities	50	47
Total equity	98	103

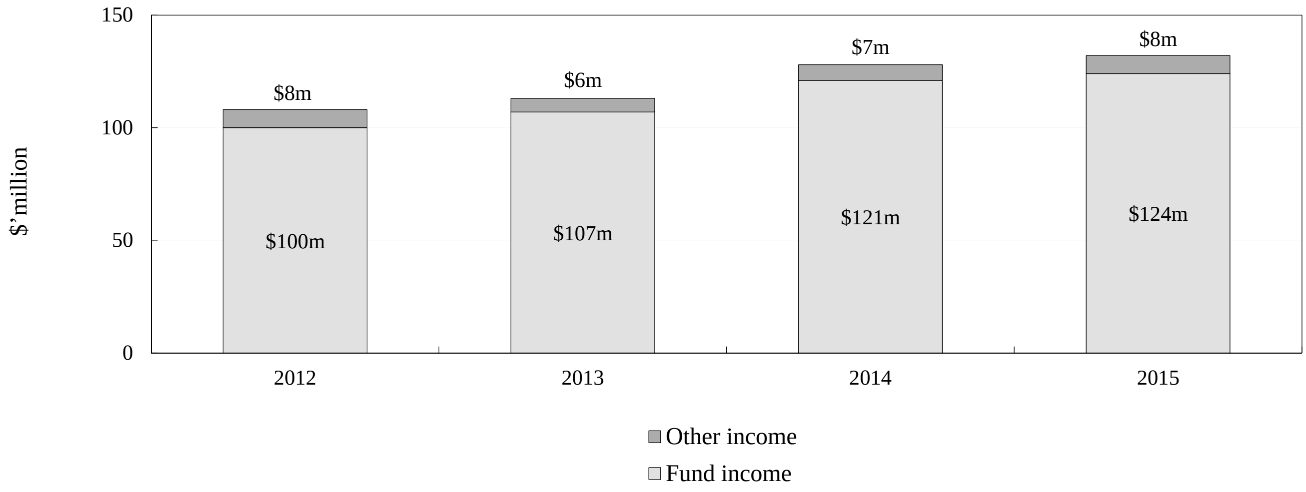
Statement of Comprehensive Income

Revenues from SA Government

The main source of funds for the SAMFS is the contributions from the Fund, which account for 94% of total income (refer note 14 of the financial report).

The contributions from the Fund to the SAMFS increased by $3 million (3%) to $124 million during 2014-15. The increase is mainly associated with the revaluation of the workers compensation provision to recognise amendments to the former *Workers Rehabilitation and Compensation Act 1986* that increase firefighters' compensation for certain cancers associated with their employment.

A structural analysis of income for the SAMFS for the four years to 2015 is presented in the following chart.

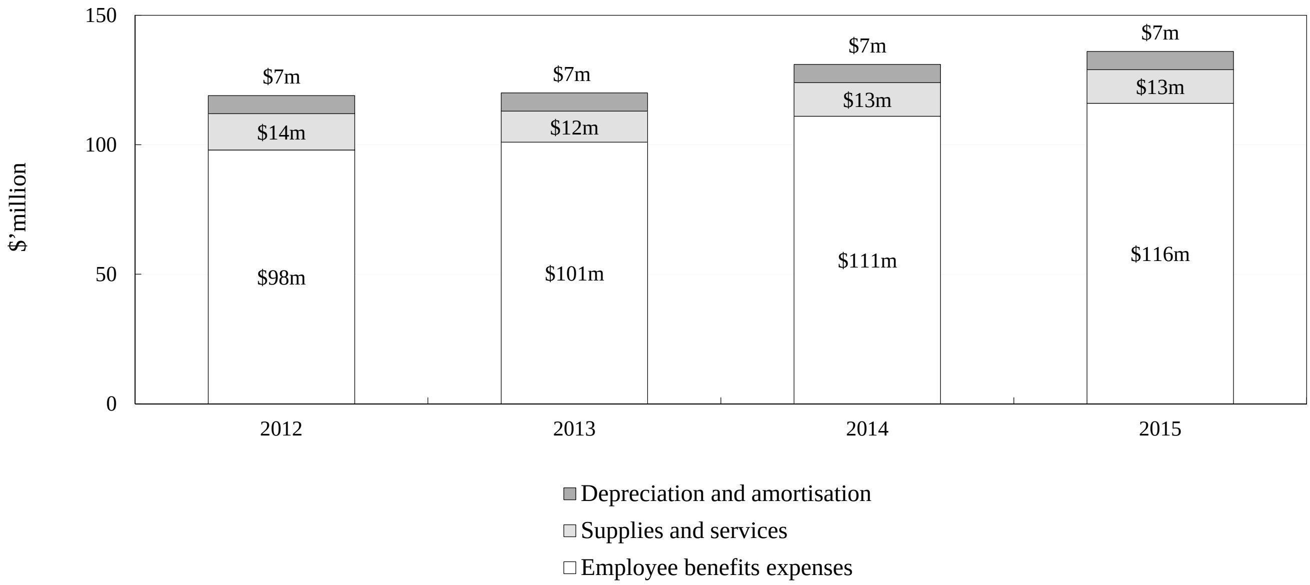


Expenses

Total expenses increased by $4.7 million to $136 million during 2014-15. Employee benefits costs account for 85% of the total expenses of the SAMFS. During 2014-15 employee benefits expenses increased by $4.9 million (4%) due mainly to:

- long service leave expenses increasing by $916 000
- salaries and wages increasing by $2.7 million due to increases in the firefighters' enterprise bargaining agreement
- an increase in annual leave and on-costs of $1 million.

For the four years to 2015, an analysis of the main operating expense items for the SAMFS is shown in the following chart.



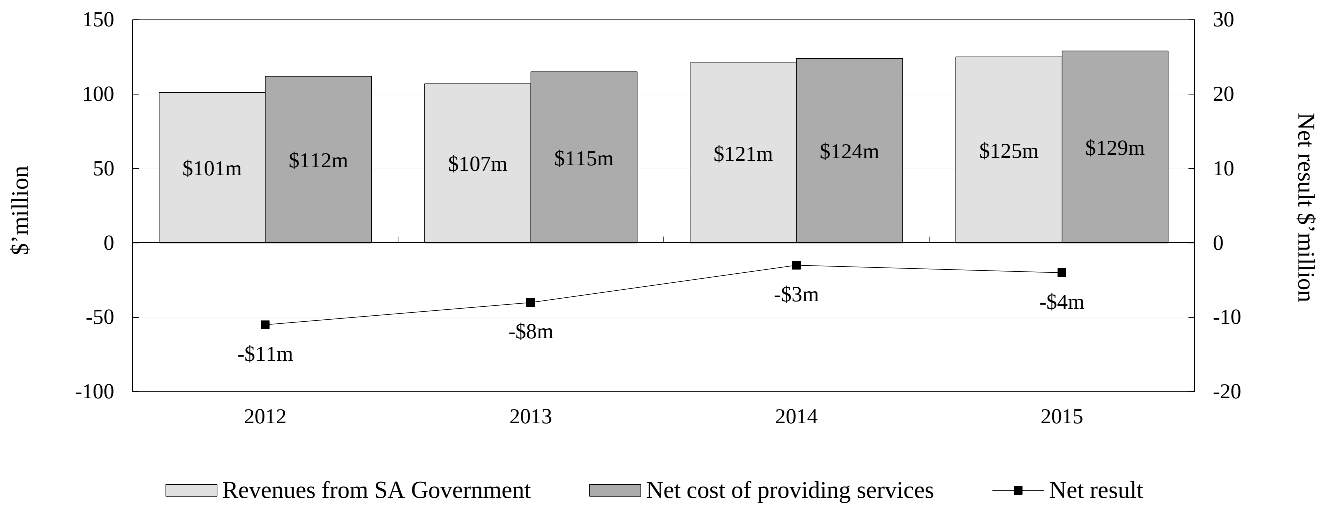
Over the four years to 2014-15 expenses have increased by $17 million or 14% due mainly to increased employee benefits expenses.

Net result

The net result was a deficit of $4.2 million compared to a deficit of $3.3 million the previous year. Total income increased by $3.8 million to $132 million, while expenses increased by $4.7 million to $136 million.

There have been consistent deficits in recent years due to the SAMFS using cash reserves to fund certain agency expenditure. Refer to 'Statement of Cash Flows' below for details on cash and cash equivalents held by the SAMFS over the past four years.

The following chart shows the funding received by the SAMFS from the SA Government (predominantly from the Fund), the net cost of services and the net result for the past four years.



Statement of Financial Position

The Statement of Financial Position is largely comprised of the non-current asset property, plant and equipment which accounts for 95% of total assets. Property, plant and equipment increased by $2.7 million to $141 million this year. This was due mainly to an investment in building works and fire appliances of $10 million, offset by depreciation of $7.2 million (refer note 18 of the financial report).

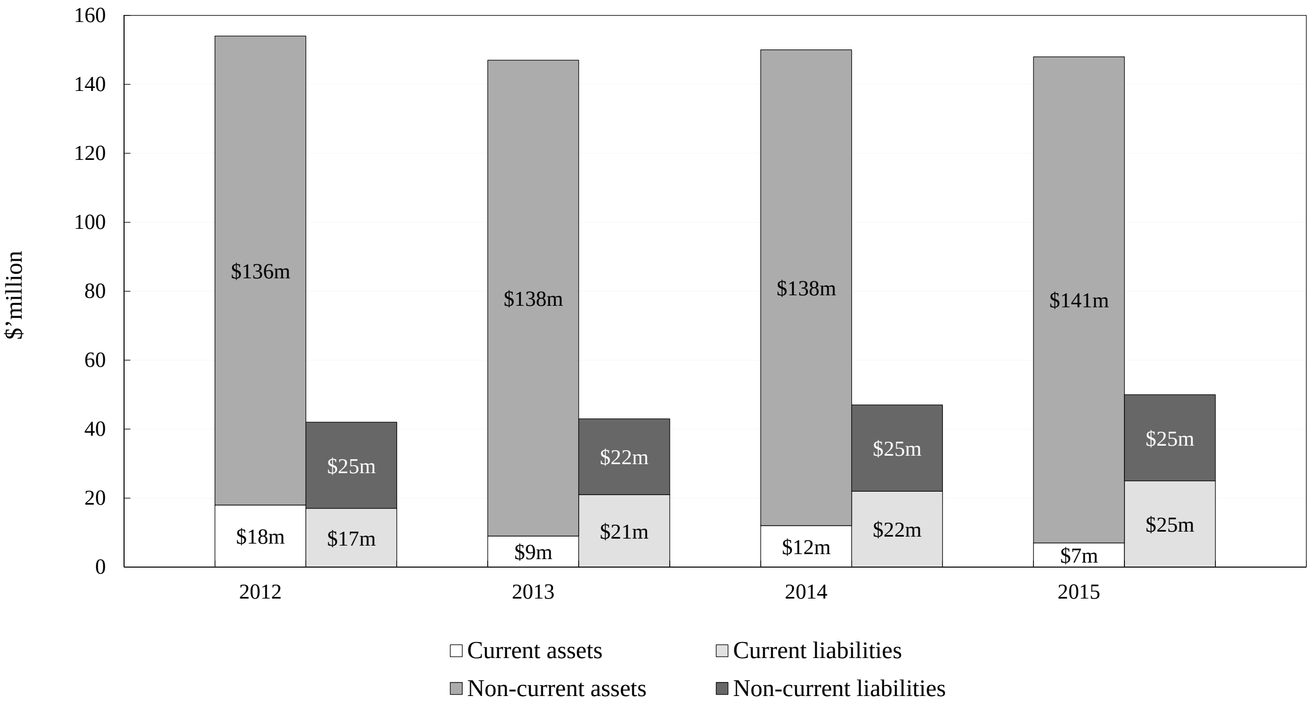
During 2014-15 current assets decreased by $4.7 million to $7.3 million mainly due to a decrease in cash and cash equivalents of $4.5 million. The SAMFS uses cash reserves to fund certain operational and capital expenditure. Cash used to purchase property, plant and equipment was $10 million, an increase of $4.3 million over the previous year. This contributed substantially to the decrease in cash at 30 June 2015 (refer to 'Statement of Cash Flows' below).

Current liabilities increased by $2.5 million to $24.6 million during the year and exceeded current assets of $7.3 million at balance date. Cash and cash equivalents of $6.4 million is sufficient to meet current payables of $5.7 million. Employee entitlements are the largest element of current liabilities, totalling $16.3 million at 30 June 2015. They mainly comprise leave entitlements expected to be taken within 12 months. Total liabilities increased by $2.3 million to $49.8 million mainly due to an increase in employee benefits liabilities for long service leave.

Employment liabilities make up $46.8 million of the SAMFS's total liabilities at 30 June 2015, comprising:

- employee benefits liabilities and related on-costs, $37.3 million ($34.6 million)
- provision for workers compensation, $9.5 million ($9.9 million). As mentioned, in 2014-15 the actuarial estimate allowed for legislative changes associated with firefighter compensation.

For the four years to 2015, a structural analysis of assets and liabilities is shown in the following chart.



The fair values of the main asset classes held by the SAMFS were land ($46.9 million), buildings ($52.3 million) and vehicles ($28.5 million). Refer note 18 of the financial report for more information.

Current liabilities have exceeded current assets in each of the past three years.

Statement of Cash Flows

Net cash provided by operating activities decreased to $5.6 million during 2014-15 mainly due to increased employee benefits payments, offset by increased contributions from the Fund. Investing cash outflow has also increased to $10 million due to the building works at the Salisbury Fire Station of $6 million, and acquisition of $3.4 million for other property, plant and equipment.

SAMFS cash reserves have decreased steadily since 2011. The SAMFS had accrued significant cash reserves under the previous *South Australian Metropolitan Fire Service Act 1936* before the *Fire and Emergency Services Act 2005* (FES Act) came into operation. Whilst the FES Act provided for the continued operation of the SAMFS, there was uncertainty regarding the purpose and permitted use of previous cash reserves and whether these could be consolidated with other SAMFS cash accounts.

During 2011, it was determined that these reserves could be applied for the functions conferred on the SAMFS under the FES Act and they have been progressively used for operational purposes.

The following table summarises the net cash flows and reduction in cash for the five years to 2015.

	2015	2014	2013	2012	2011
	$'million	$'million	$'million	$'million	$'million
Net cash flows					
Operating	6	8	(1)	(2)	(3)
Investing	(10)	(5)	(8)	(3)	(3)
Change in cash	(4)	3	(9)	(5)	(6)
Cash at 30 June	6	11	8	17	22

South Australian Motor Sport Board

Functional responsibility	The South Australian Motor Sport Board (the Board) was established pursuant to the *South Australian Motor Sport Act 1984*. The main functions of the Board are to promote motor sport events within the State including entering into agreements, establishing a temporary motor racing circuit and conducting and managing motor racing events. For details of the Board's functions refer note 1 of the financial report.
Financial statistics	Net cost of providing services: $12.2 million SA Government revenues: $11.2 million Ticketing sales: $6.5 million Hospitality and sponsorship: $8.1 million Number of FTEs: 11.6
Significant events and transactions	— 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 transfer all functions to the South Australian Tourism Commission (the Commission) and abolish the Board as a separate entity. — The V8 Supercar Championship Series Sanction Agreement was renewed in November 2014. Consequently the State, through the Commission, has the right to stage a motor sport event known as the 'Clipsal 500 Adelaide' for a period of seven years concluding in 2021.
Financial statement opinion	**Unmodified**
Financial controls opinion	**Modified** Key issue: — Inconsistent evidence of approval of significant invoices

Scope of the audit

The audit program covered major financial systems and was directed primarily to obtaining sufficient evidence to enable an opinion to be formed on the financial report and internal controls.

During 2014-15 specific areas of audit attention included:

- payroll
- expenditure
- revenue and cash
- governance and financial compliance.

Audit findings and comments

Auditor's report on the financial report

Recognition of government grant income

The Board did not previously apply appropriate Australian Accounting Standards and mandatory Accounting Policy Framework requirements when reporting its capital and infrastructure grant revenues. As a result, the prior financial reports of the Board were qualified on the basis of this treatment.

The Board has now applied AASB 1004 'Contributions' and Accounting Policy Framework V 'Income Framework' when recognising capital and infrastructure grant revenues and has restated 2013-14 comparatives accordingly. Refer note 2.15 of the Board's financial report for further details.

Assessment of controls

In my opinion, the controls exercised by the South Australian Motor Sport Board in relation to the receipt, expenditure and investment of money, the acquisition and disposal of property and the incurring of liabilities, except for the matter outlined under 'Communication of audit matters', are sufficient to provide reasonable assurance that the financial transactions of the South Australian Motor Sport Board have been conducted properly and in accordance with law.

Communication of audit matters

A matter arising during the course of the audit of the Board was detailed in a management letter to the Chief Executive of the Commission who was, by that time, responsible for the former Board's activities. The matter raised and the related response is detailed below.

Expenditure

Inconsistent evidence of approval of significant invoices

The audit of the Board identified instances where the method to evidence payment and disbursement approval for invoices above $500 000 was inconsistent with the requirements of Treasurer's Instruction 8 'Financial Authorisations' and established Board policies. As a result there was an increased risk that payments were not appropriately approved.

The Commission responded to this matter indicating that, following the transfer of operations of the Board to the Commission, clear delegations have been established to support payment processing in line with the Commission's policies and procedures moving forward.

Interpretation and analysis of the financial report

Highlights of the financial report*	2015 $'million	2014 $'million
Expenses		
Employee benefits expenses	2	2
Supplies and services	27	29
Depreciation and amortisation	2	2
Total expenses	31	33
Income		
Revenues from fees and charges	18	19
Total income	18	19
Net cost of providing services	12	14
Revenues from SA Government	11	10
Operating surplus (deficit)	(1)	(4)
Other comprehensive income	-	2
Total comprehensive result	(1)	(2)
Assets		
Current assets	5	4
Non-current assets	14	15
Total assets	19	19
Liabilities		
Current liabilities	4	3
Total liabilities	4	3
Total equity	15	16

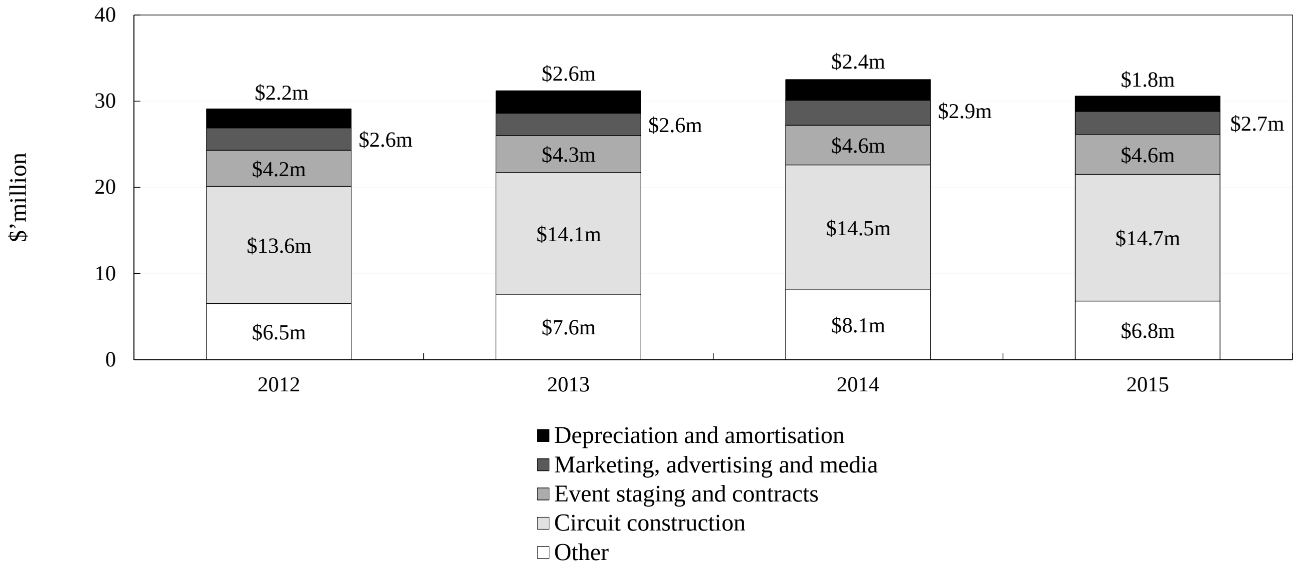
* Table may not add due to rounding

Statement of Comprehensive Income

Expenses

The Board's activities remain predominantly delivered through contracted services, therefore salary costs are comparatively low.

The following chart analyses the main expense items for the Board for the four years to 2015.

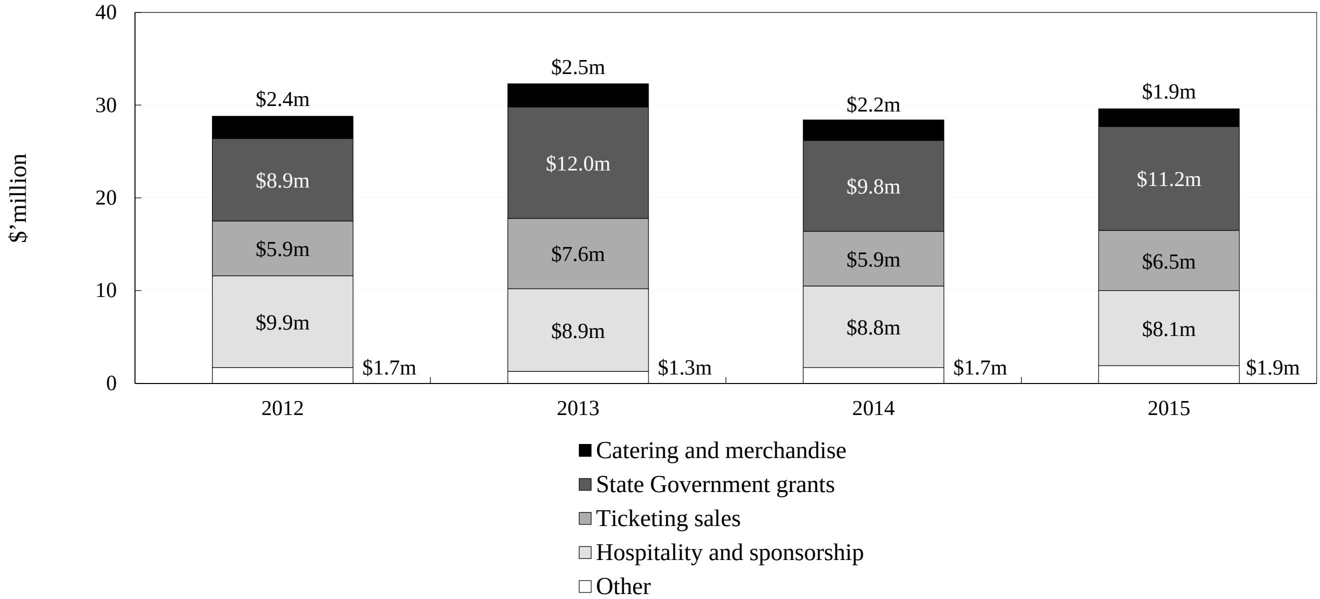


The chart illustrates that overall expenditure increased across most expenditure categories over the period 2012 to 2014. This increase was principally due to increases in event staging and contracts and circuit construction.

In 2015 expenditure has continued to increase for circuit construction, however has decreased for marketing, advertising and media as well as in other expenditure items, predominantly for patron entertainment and catering and merchandise costs.

Income

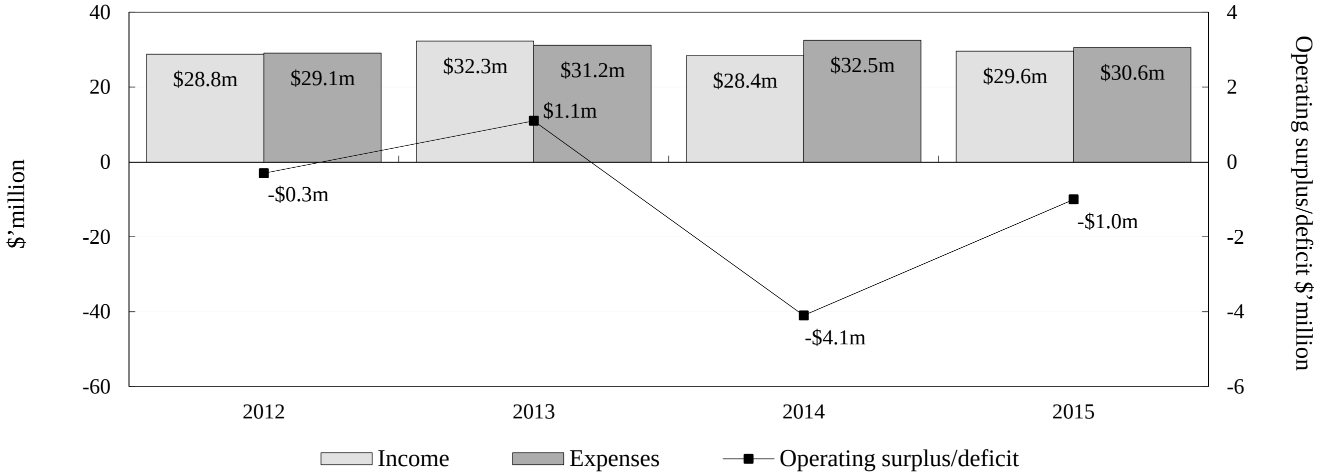
The following chart analyses the main sources of income for the Board for the four years to 2015.



The chart illustrates the fluctuating income from ticketing sales and revenues from the SA Government across the four years to 2015. It also highlights declines in income from hospitality and sponsorship and catering and merchandise over time.

Net result

The following chart shows expenses, income and net result for the four years to 2015.



The Board recorded an operating deficit of $1 million ($4.1 million deficit) which is the third operating deficit since 2011-12. The $3.1 million improvement in the net result for 2015 is principally due to increased revenues from the SA Government, up $1.4 million, and an overall decrease of $1.9 million in expenditure.

South Australian State Emergency Service

Functional responsibility	The *Fire and Emergency Services Act 2005* provides for the South Australian State Emergency Service (SASES) as a body corporate and also establishes the South Australian Fire and Emergency Services Commission (SAFECOM). The SASES and SAFECOM are responsible to the Minister for Emergency Services. The primary function of the SASES is to provide emergency services to the State of South Australia and work towards a safe and prepared community. SAFECOM provides various corporate services in support of the SASES's primary functions. The operations of the SASES are financed by the Community Emergency Services Fund (the Fund), established by the *Emergency Services Funding Act 1998.* For more information about the SASES's objectives refer note 1 of the financial report.
Financial statistics	Net cost of providing services: $12.5 million Total contributions from the Fund: $14.8 million Number of FTEs: 43.7 Number of volunteers: 1668 Employee benefits liability and related on-costs: $1.5 million Workers compensation liability: $521 000
Financial statement opinion	**Unmodified**
Financial controls opinion	**Modified** Key issues: — Instances of asset creation/upgrade forms not being completed or independently reviewed — No independent oversight of annual asset stocktake — Controls for the Shared Services SA main payroll system did not meet a generally satisfactory standard

Scope of the audit

The audit program covered the major financial systems and was directed primarily to obtaining sufficient evidence to enable an opinion to be formed with respect to the financial report and internal controls.

The audit included access to systems and information maintained by SAFECOM and the SASES to conduct relevant financial transaction and control compliance tests of those systems and information.

The audit included a review of the overall internal control environment covering compliance with Treasurer's Instructions and verification of transactions on a test basis. The scope of the audit included:

- expenditure
- payroll and employee entitlements
- revenue, including grants and contributions
- cash and receivables
- non-current assets including works in progress
- liabilities, including workers compensation
- financial accounting
- business continuity planning
- legislative compliance
- financial management compliance programs
- banking arrangements and reporting.

Audit findings and comments

Assessment of controls

In my opinion, the controls exercised by the South Australian State Emergency Service in relation to the receipt, expenditure and investment of money, the acquisition and disposal of property and the incurring of liabilities, except for all matters outlined under 'Communication of audit matters', are sufficient to provide reasonable assurance that the financial transactions of the South Australian State Emergency Service have been conducted properly and in accordance with law.

Communication of audit matters

Matters arising during the course of the audit were detailed in management letters to the Chief Executive, SAFECOM and the Chief Officer, SASES who are responsible for the governance of the SASES.

Matters raised with SAFECOM and the SASES and the related responses are provided in detail under 'Communication of audit matters' in the section of Part B of this Report titled 'South Australian Fire and Emergency Services Commission'.

Interpretation and analysis of the financial report

Highlights of the financial report

	2015 $'million	2014 $'million
Expenses		
Employee benefits expenses	5	5
Supplies and services	7	7
Other expenses	1	3
Total expenses	13	15

	2015 $'million	2014 $'million
Total income	1	-
Net cost of providing services	12	15
Revenues from (Payments to) SA Government	15	15
Net result	3	-
Other comprehensive income	-	(1)
Total comprehensive result	3	(1)
Net cash provided by (used in) operating activities	4	3
Assets		
Current assets	3	2
Non-current assets	36	34
Total assets	39	36
Liabilities		
Current liabilities	2	2
Non-current liabilities	1	1
Total liabilities	3	3
Total equity	36	33

Statement of Comprehensive Income

Revenues from SA Government

The main source of funds for the SASES is the contributions from the Fund, which account for 93% of total income (refer note 14 of the financial report for details).

The contributions from the Fund to the SASES increased by $188 000 to $14.8 million during 2014-15.

Expenses

Employee benefits expenses of $4.6 million account for only 35% of the total expenses of the SASES due to the extensive use of volunteers.

During 2014-15 total expenditure decreased by $1.6 million to $13.3 million due mainly to:

- a decrease in supplies and services of $555 000 following a reduction in contract costs for the E-mergency Connect project and reduced emergency responses because of less extreme weather events in 2014-15 in comparison to 2013-14
- a decrease in depreciation expense of $764 000 due to an adjustment in the useful lives of vehicles
- other expenses of $0, a decrease of $478 000 as there were no asset revaluation decrements taken to the Statement of Comprehensive Income this year.

Statement of Financial Position

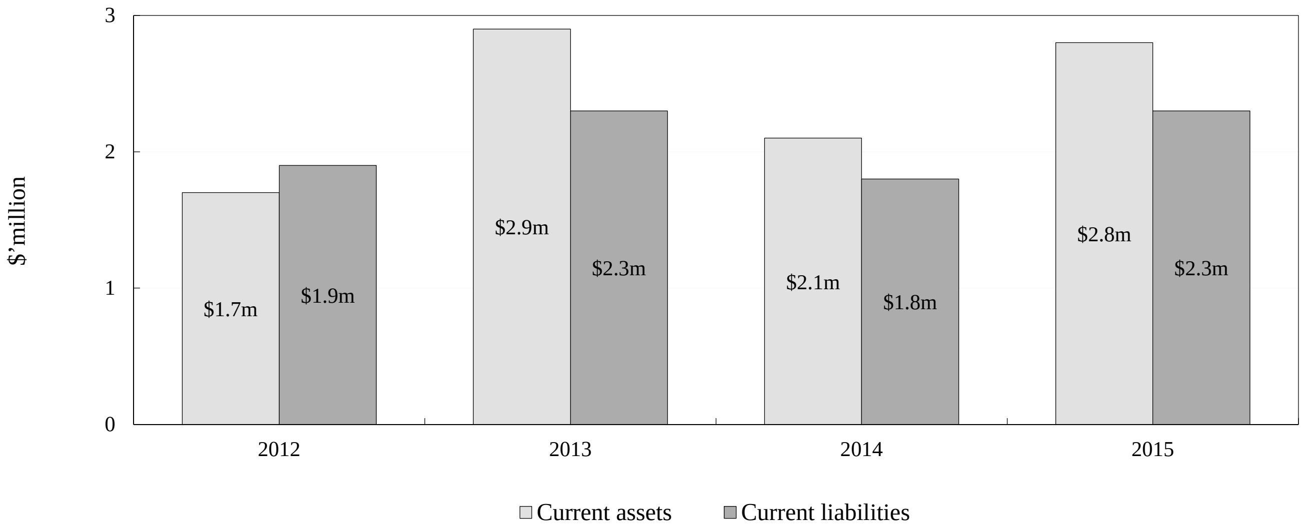
The Statement of Financial Position is dominated by the non-current asset property, plant and equipment, which accounts for 93% of total assets.

Property, plant and equipment increased by $2.3 million during the year to $36.3 million due mainly to an investment in building works, rescue vehicles and vessels of $3.8 million, offset by depreciation of $1.5 million (refer note 18 of the financial report).

The fair values of the main asset classes held by the SASES were land ($3.5 million), buildings ($17.5 million) and vehicles ($10.5 million).

At balance date, current assets of $2.8 million exceeded current liabilities of $2.3 million. Current assets include an increase in cash and cash equivalents of $679 000 to $2.1 million as a result of net cash provided by operating activities of $4.2 million exceeding net cash used in investing activities of $3.6 million.

The following chart shows the current assets and current liabilities of the SASES for the past four years.



Employment liabilities make up $2 million of the SASES's total liabilities at 30 June 2015, comprising:

- employee benefits liabilities and related on-costs, $1.5 million ($1.3 million)
- provision for workers compensation, $521 000 ($702 000).

South Australian Superannuation Board

Functional responsibility

The South Australian Superannuation Board (the Board) was established by the *Superannuation Act 1988* (the Act).

The Board is responsible to the Minister for Finance for the administration of the following superannuation schemes:

- South Australian Superannuation Scheme under the Act
- Southern State Superannuation Scheme under the *Southern State Superannuation Act 2009*
- Super SA Retirement Investment Fund under the Southern State Superannuation Regulations 2009
- South Australian Ambulance Service Superannuation Scheme under the Act.

The Board's administration of these schemes encompasses maintenance of:

- accounts in the names of all members
- employer contribution accounts
- proper accounts for each financial year on receipts of contributions and payments of benefits.

The Department of Treasury and Finance – State Superannuation Office provides services to administer the schemes.

The Superannuation Funds Management Corporation of South Australia is responsible for the investment and management of the schemes' funds under the above legislation and the *Superannuation Funds Management Corporation of South Australia Act 1995*.

Financial statistics

Administration expense:	$18.3 million
Net revenue from providing services:	$400 000
General reserve:	$13.4 million

Financial statement opinion

Unmodified

Financial controls opinion

Unmodified

Scope of the audit

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

During 2014-15 areas of review included:

- administration expenses
- revenue from recovery of administration fees from the superannuation schemes
- general ledger.

Audit findings and comments

Assessment of controls

In my opinion, the controls exercised by the South Australian Superannuation Board in relation to the receipt, expenditure and investment of money, the acquisition and disposal of property and the incurring of liabilities are sufficient to provide reasonable assurance that the financial transactions of the South Australian Superannuation Board have been conducted properly and in accordance with law.

Communication of audit matters

During our audit we identified a number of opportunities for improvement in managing the risks facing the schemes administered by the Board, as well as best practice recommendations on the Board's internal audit function. We also noted that there is no conflicts of interest policy in place and a number of IT policies are outdated.

Further, as part of the financial statement audit, we have recently written to the Board outlining some areas where controls can be improved. The matters raised with management and their response will be followed up as part of the 2015-16 audit.

Interpretation and analysis of the financial report

The Board's financial report reflects its administration role in that:

- expenses relate predominantly to fees paid to the Department of Treasury and Finance (DTF) to administer the superannuation schemes
- revenues are mainly for the reimbursement of DTF fees from the relevant superannuation schemes.

Highlights of the financial report

	2015 $'million	2014 $'million
Expenses and income		
Total expenses	18.3	16.9
Total income	18.7	18.2
Total comprehensive result	0.4	1.3
Net cash provided by (used in) operating activities	1.3	1.7

	2015 $'million	2014 $'million
Assets		
Cash and cash equivalents	14.8	13.5
Receivables	0.6	0.5
Total assets	15.4	14.0
Liabilities	1.5	0.5
Equity	13.9	13.5

Statement of Comprehensive Income

The net surplus for the year was $400 000 ($1.3 million). This result mainly reflects:

- revenue from recoveries of administration fees of $18.4 million ($17.9 million). This amount represents the administration fees charged to the superannuation schemes administered by the Board
- administration expenses of $18.3 million ($16.9 million). This amount is paid to DTF for administrative services.

Below is a summary of administration fees recovered from each superannuation scheme:

	2015 $'million	2014 $'million
Southern State Superannuation Scheme	13.3	13.0
South Australian Superannuation Scheme	2.7	2.5
Super SA Retirement Investment Fund	2.0	2.0
South Australian Ambulance Service Superannuation Scheme	0.4	0.4
Total	18.4	17.9

Statement of Financial Position

The increases in cash and cash equivalents and liabilities reflect the difference in timing of payments and receipts for administration expenses and revenue.

General reserve

The general reserve was established in December 2013 to:

- account for under and over spend in office expenditure
- provide for future project expenditure
- provide funding for the triennial Board election.

During 2014-15, $390 000 ($805 000) was transferred from retained earnings to general reserve.

South Australian Ambulance Service Superannuation Scheme

Functional responsibility	The South Australian Ambulance Service Superannuation Scheme (the Scheme) was established by the *Superannuation Act 1988*. The Scheme provides for the payment of benefits to persons who have served as employees of the SA Ambulance Service prior to 1 July 2008. From 1 July 2008, the Scheme was closed to new members. All new SA Ambulance Service employees commencing employment after this date automatically become members of the Southern State Superannuation Scheme. The South Australian Superannuation Board is responsible for administering the Scheme. The Department of Treasury and Finance – State Superannuation Office provides services to administer the Scheme.
Financial statistics	Liability for accrued benefits as at 30 June 2014 (latest valuation date): $191.9 million Excess of net assets over liability for accrued benefits: $24.9 million Benefit expenses: $7.8 million Number of members: 849
Financial statement opinion	**Unmodified**
Financial controls opinion	**Unmodified**

Scope of the audit

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

During 2014-15 areas of review included:

- receipting and banking of contributions
- processing of contribution data
- maintenance of member accounts
- benefit payments
- liability for accrued benefits.

The investment and management of the Scheme's assets is reviewed as part of the Superannuation Funds Management Corporation of South Australia audit.

Audit findings and comments

Assessment of controls

In my opinion, the controls exercised by the South Australian Ambulance Service Superannuation Scheme in relation to the receipt, expenditure and investment of money, the acquisition and disposal of property and the incurring of liabilities are sufficient to provide reasonable assurance that the financial transactions of the South Australian Ambulance Service Superannuation Scheme have been conducted properly and in accordance with law.

Communication of audit matters

The audit did not identify any notable matters requiring formal communication.

Interpretation and analysis of the financial report

Highlights of the financial report

	2015 $'million	2014 $'million
Revenue		
Contribution revenue	12.5	12.4
Investment revenue	19.3	23.6
Total revenue	31.8	36.0
Expenses		
Benefit expenses	7.8	10.4
Other expenses	1.6	1.5
Income tax expense	3.1	3.4
Total expenses	12.5	15.3
Net increase (decrease) in funds	19.3	20.7
Assets		
Investments	218.8	198.7
Other assets	0.5	0.5
Total assets	219.3	199.2

	2015 $'million	2014 $'million
Liabilities		
Current liabilities	0.4	1.0
Non-current liabilities	2.1	0.7
Total liabilities	2.5	1.7
Net assets available to pay benefits	216.8	197.5

Statement of Changes in Net Assets

There was a net increase in funds of $19.3 million for 2014-15 which reflects:

- contributions revenue of $12.5 million ($12.4 million) consisting mainly of contributions by employers of $10.9 million ($10.8 million)
- returns on investments of $19.3 million ($23.6 million). Investment returns are discussed in the commentary under 'Superannuation Funds Management Corporation of South Australia' elsewhere in Part B of this Report
- benefit expenses of $7.8 million ($10.4 million). The decrease in benefit expenses was driven by the continued decline in the number of members from 875 in 2013-14 to 849 in 2014-15 and reduced total and permanent disablement expense.

Statement of Net Assets

The main item in the Statement of Net Assets is investments. Investments increased by $20.1 million to $218.8 million due mainly to the returns on investments and contributions, offset by benefits paid.

Further commentary on operations

Liability for accrued benefits

An actuarial valuation to determine the liability for accrued benefits is undertaken every three years. The most recent review was completed as at 30 June 2014 and resulted in an estimated liability for accrued benefits of $191.9 million (2011: $141.8 million). Refer note 7 of the financial report for further explanation.

The vested benefits as at 30 June 2015 were $206 million ($186 million) as disclosed in note 8 of the financial report. Vested benefits represent benefits that members are entitled to receive had their membership been terminated at reporting date.

Members

The number of members and contributions received for the past three years were:

	2015	2014	2013
Non-contributory members	20	20	21
Contributory members	743	761	792
Spouse members	2	3	5
Preserved members	84	91	83
Total members	849	875	901
Contributions received ($'000)	1 378	1 320	1 457

The total number of contributory members decreased by 18. This is consistent with a closed scheme where retirements necessarily cause a reduction in contributory membership. The Scheme was closed to new members with effect from 1 July 2008.

South Australian Superannuation Scheme

Functional responsibility

The South Australian Superannuation Scheme (the Scheme) was established by the *Superannuation Act 1988*.

The *Superannuation Act 1988* provides for superannuation benefits for persons employed by the SA Government and other prescribed persons and makes provisions for the families of such persons.

The Scheme is divided into two segments – the Pension Scheme and the Lump Sum Scheme.

The Pension Scheme is the superannuation scheme for SA Government employees who elected to contribute to the Scheme before 30 May 1986. Contributors to the Pension Scheme are entitled to a pension based benefit.

The Lump Sum Scheme is the superannuation scheme for SA Government employees who elected to contribute to the Scheme after 1 July 1988 and before 3 May 1994. Contributors to the Lump Sum Scheme are entitled to a lump sum based benefit.

The South Australian Superannuation Board is responsible for administering the Scheme. The Department of Treasury and Finance – State Superannuation Office provides services to administer the Scheme.

Financial statistics

Liability for accrued benefits:	$10.3 billion
Net assets available to pay benefits:	$5 billion
Excess of liabilities for accrued benefits over net assets:	$5.3 billion
Past service liability funding:	$360.2 million
Benefits paid and payable:	
Pension Scheme	$600.1 million
Lump Sum Scheme	$252.2 million
Number of members:	
Pension Scheme	16 749
Lump Sum Scheme	4 839
Total	21 588

Financial statement opinion — **Unmodified**

Financial controls opinion — **Unmodified**

Scope of the audit

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

During 2014-15 areas of review included:

- receipting and banking of contributions
- processing of contribution data
- maintenance of member accounts
- benefit payments
- liability for accrued benefits.

The investment and management of the Scheme's assets is reviewed as part of the Superannuation Funds Management Corporation of South Australia (Funds SA) audit.

Audit findings and comments

Assessment of controls

In my opinion, the controls exercised by the South Australian Superannuation Scheme in relation to the receipt, expenditure and investment of money, the acquisition and disposal of property and the incurring of liabilities are sufficient to provide reasonable assurance that the financial transactions of the South Australian Superannuation Scheme have been conducted properly and in accordance with law.

Communication of audit matters

The audit did not identify any notable matters requiring formal communication.

Interpretation and analysis of the financial report

Highlights of the financial report

	2015 $'million	2014 $'million
Revenue		
Investment revenue	514	693
Contribution revenue	449	465
Other revenue	36	38
Total revenue	999	1 196
Expenses		
Benefits expense	690	787
Direct investment expenses	35	33
Other expenses	12	12
Total expenses	737	832
Operating result	262	364
Net cash provided by (used in) operating activities	(396)	(312)
Assets		
Investments	4 981	4 895
Other assets	13	20
Total assets	4 994	4 915

	2015 $'million	2014 $'million
Liabilities		
Benefits payable and other current liabilities	27	17
Total liabilities	27	17
Net asset available to pay benefits	4 967	4 898
Liability for accrued benefits	10 298	10 492
Excess of liabilities over net assets	5 331	5 594

Operating Statement

Revenue

Total revenue decreased by $196.8 million to $998.9 million mainly due to decreases in investment revenue of $179.5 million and contribution revenue of $15.9 million.

Approximately 97% of the Scheme's funds are invested in the Growth options. The decrease in investment revenue was largely driven by the reduced rate of return as Growth returns reduced from 14.9% in 2014 to 10% in 2015.

Investment returns are discussed in the commentary under 'Superannuation Funds Management Corporation of South Australia' elsewhere in Part B of this Report.

Contribution revenue decreased by $15.9 million to $449.3 million, due to the following:

- contributions by employers decreased by $11.8 million
- contributions by members reduced by $3.2 million
- contributions for past service liability decreased by $700 000.

The decrease in employer and member contributions is indicative of a closed scheme where the number of members is decreasing due to retirement.

During the year the Government transferred a total of $356.7 million ($357.4 million) into the South Australian Superannuation Scheme Contribution Account for past service liability funding. Public sector employers contributed $3.5 million ($3.5 million). Past service liability payments represent funding from both the Government (since 1994) and public sector employers to meet accrued superannuation liabilities. The Government expects to fully fund its liabilities by 30 June 2034.

Expenses

The Scheme's dominant expenditure item is benefits expense which decreased by $97.5 million to $689.8 million for the year.

Benefits expense comprises the benefits paid and the change in the liability for accrued benefits. Benefits expense can fluctuate significantly due to changing assumptions in the calculation of the estimated liability for accrued benefits. An actuarial review is undertaken every three years but the assumptions from this review are used to calculate the accrued liability in years between reviews. Further details of the liability are provided below under the heading 'Statement of Financial Position'.

Benefits paid and payable

The total benefits paid and payable over the last four years are outlined in the following table.

	2015 $'million	2014 $'million	2013 $'million	2012 $'million
Pensions	600.1	576.4	554.8	533.4
Lump sums	252.2	191.4	162.5	160.0
Commutations	28.0	25.8	32.4	29.2
Retrenchments and targeted separation packages	2.7	4.8	0.9	2.2
Total	883.0	798.4	750.6	724.8

Over the period of review there has been a steady increase in benefits paid. This is expected as more members reach retirement age. Benefits paid are also affected by increases in final salary and inflation adjustments to pensions.

Statement of Financial Position

Summarised below are the net assets available to pay benefits, liability for accrued benefits, and the resulting excess of liabilities over net assets over the last four years.

	2015 $'million	2014 $'million	2013 $'million	2012 $'million
Net assets available to pay benefits	4 967.1	4 898.0	4 545.1	4 093.3
Liability for accrued benefits	10 298.4	10 491.6	10 502.7	10 426.6
Excess of liabilities over net assets	5 331.3	5 593.6	5 957.6	6 333.3

The estimated liability for accrued benefits decreased by $193.2 million to $10.3 billion for which net assets of $5 billion were available to pay benefits. This has resulted in an excess of liabilities over net assets of $5.3 billion.

Of the $10.3 billion liability, $8.5 billion (83%) represents the old scheme (pension) liability and $1.8 billion (17%) is the new scheme (lump sum) liability. The demographic assumptions of the 2013 triennial actuarial review were applied to the calculation of the liability for accrued benefits.

The following rates were used in calculating the 2014-15 liability:

- discount rate 7%
- long-term salary inflation 4%
- long-term CPI factor 2.5%.

The liabilities for the old and new schemes decreased by $124.8 million and $68.5 million, respectively. This is due largely to the overall decline in membership numbers which is consistent with the ageing membership demographic and the Scheme's closure to new members since May 1986 (old scheme) and May 1994 (new scheme).

Total investments posted a slight increase as a result of reduced contributions and investment returns, which were significantly offset by the ongoing benefit payments to members.

Total net assets available to pay benefits, $4967 million, comprises the employer component, $2849 million, and the employee component, $2118 million.

Vested benefits

Vested benefits represent benefits that members are entitled to receive had their membership been terminated at reporting date. The vested benefits as at 30 June 2015 were $10.4 billion ($10.5 billion) as disclosed in note 9 of the financial report. The value of vested benefits has been calculated using the same actuarial and economic assumptions as for the calculation of the estimated liability for accrued benefits.

Statement of Cash Flows

The increase in the operating cash outflow for 2014-15 is due mainly to a reduction in contributions received of $13.7 million and an increase of $80.9 million in benefits paid.

Further commentary on operations

Funding of benefit payments

Benefit payments are funded from a number of sources that have remained relatively consistent. Over half of the benefit payments are funded from the SA Government Employer Account.

The South Australian Superannuation Fund (the Fund) portion of a benefit is fully funded. Member contributions are deposited into the Fund and, on payment of a benefit, a proportion of the amount is charged against the Fund. The amount charged is determined by legislation and regulation.

There are numerous arrangements covering the funding of the employer liability for accrued superannuation benefits. Depending on the employer’s arrangement with the South Australian Superannuation Board they may either:

- make provisions for superannuation liabilities in their own accounts and pay for benefits as they emerge
- contribute fortnightly to employer contribution accounts managed by Funds SA, in this way funding their accruing liability
- make cash contributions to the Treasurer, which are invested with Funds SA.

Note 1(d) of the financial report provides details of the various funding arrangements.

Although a portion of the total superannuation liability is currently unfunded, members’ entitlements to benefits are required to be paid out of the Consolidated Account, or a special deposit account established for that purpose.

Membership statistics for the last three years are provided in the following table.

Pension Scheme	2015 Number	2014 Number	2013 Number
Contributory	939	1 226	1 548
Preserved	484	577	676
Superannuants	15 326	15 438	15 471
Total	16 749	17 241	17 695

Lump Sum Scheme	2015 Number	2014 Number	2013 Number
Contributory	3 428	3 871	4 262
Preserved	1 411	1 528	1 618
Total	4 839	5 399	5 880

Total number of members	2015 Number	2014 Number	2013 Number
Contributory	4 367	5 097	5 810
Preserved	1 895	2 105	2 294
Superannuants	15 326	15 438	15 471
Total	21 588	22 640	23 575

Southern State Superannuation Scheme

Functional responsibility	The Southern State Superannuation Scheme (the Scheme) was established on 1 July 1995 by the *Southern State Superannuation Act 1994* and is continued under the *Southern State Superannuation Act 2009*. The Scheme is an accumulation scheme that provides superannuation and other products and services for the benefit of persons employed, or who have ceased employment, with the SA Government. The South Australian Superannuation Board is responsible for administering the Scheme. The Department of Treasury and Finance – State Superannuation Office provides services to administer the Scheme.
Financial statistics	Contribution revenue: $1.3 billion Liability for accrued benefits: $12.7 billion Benefits paid and payable: $1.2 billion Number of members: 176 038
Financial statement opinion	**Unmodified**
Financial controls opinion	**Unmodified**

Scope of the audit

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

During 2014-15 areas of review included:

- receipting and banking of transactions
- processing of contribution data
- maintenance of member accounts
- benefit payments.

The investment and management of the Scheme's assets is reviewed as part of the Superannuation Funds Management Corporation of South Australia audit.

Audit findings and comments

Assessment of controls

In my opinion, the controls exercised by the Southern State Superannuation Scheme in relation to the receipt, expenditure and investment of money, the acquisition and disposal of property and the incurring of liabilities are sufficient to provide reasonable assurance that the financial transactions of the Southern State Superannuation Scheme have been conducted properly and in accordance with law.

Communication of audit matters

The audit did not identify any notable matters requiring formal communication.

Interpretation and analysis of the financial report

Highlights of the financial report

	2015 $'million	2014 $'million
Revenue		
Investment revenue	1 157	1 422
Contribution revenue	1 339	1 234
Total revenue	2 496	2 656
Expenses		
Direct investment expenses	77	64
Other expenses	12	13
Total expenses	89	77
Benefits accrued as a result of operations	2 407	2 579
Net cash provided by (used in) operating activities	161	338
Assets		
Investments	12 868	11 624
Other assets	39	39
Total assets	12 907	11 663

	2015 $'million	2014 $'million
Liabilities		
Current liabilities	49	31
Total liabilities	49	31
Net assets available to pay benefits	12 858	11 632
Represented by:		
Liability for accrued benefits	12 685	11 457
Reserves	173	175
	12 858	11 632

Operating Statement

Revenues

Total revenue decreased by $159.9 million to $2.5 billion and is represented by a decrease in investment revenue of $265.3 million, offset by an increase in contribution revenue of $105.4 million.

Approximately 83% of the Scheme's funds are invested in the Balanced option at the direction of members. The decrease in investment revenue was largely driven by the reduced rate of return for Balanced option funds, from 13.8% in 2013-14 down to 9.4% in 2014-15. Most of the other investment options also saw weaker investment returns compared to the prior year.

Investment returns are discussed in the commentary under 'Superannuation Funds Management Corporation of South Australia' elsewhere in Part B of this Report.

Contribution revenue continued to increase in line with the growth in membership experienced by the Scheme.

Contribution revenue

Presented below are details of contribution revenue and membership statistics for the last three years.

	2015 $'million	2014 $'million	2013 $'million
Contributions by members	145.1	137.5	107.2
Contributions by employers	961.2	895.0	808.0
Rollovers from other schemes	231.2	199.4	177.4
Government co-contribution	1.7	1.8	5.6
Total contributions	1 339.2	1 233.7	1 098.2

	2015 Number	2014 Number	2013 Number
Contributory members	30 073	30 293	30 364
Non-contributory members	86 416	85 567	83 544
Preserved members	58 983	59 997	59 931
Spouses	566	524	490
Total number of members	176 038	176 381	174 329

Active members of the Scheme (contributory and spouse members) can elect to make contributions. Employers are required to make contributions for contributory members of the Scheme.

Member contributions have increased despite a continuing decline in the number of contributory members over the three year period. This is predominantly due to increases seen in the following:

- one-off contributions increased by $8.5 million to $76.1 million
- spouse contributions increased by $1.3 million to $2.3 million.

The value of contributions by employers has increased over the three year period by $153.2 million (19%) which is largely driven by the increase in non-contributory members and salary increases.

Statement of Financial Position

Net assets available to pay benefits increased by $1.2 billion. This increase was mainly driven by the growth in contributions and positive investment returns, offset by benefit payments made during the year. The movement in net assets is indicative of the accumulative nature of the Scheme, where the increases reflect the total of contributions received and net investment income less benefits paid and other expenses. The accumulative nature of the Scheme also means that it is fully funded.

The net assets available to pay benefits over the last four years were:

	2015	2014	2013	2012
	$'billion	$'billion	$'billion	$'billion
Net assets available to pay benefits	12.9	11.6	9.9	8.3

Benefits paid and payable

Total benefits paid and payable amounted to $1.2 billion ($900 million). The increase in benefits paid and payable of $300 million is expected due to the growth in membership numbers, and the increase in average length of membership of Scheme members in general.

Statement of Cash Flows

The analysis of cash flows shows that the Scheme maintains a relatively small balance of funds on hand. Amounts not used to pay benefits and other expenses are transferred to the Superannuation Funds Management Corporation of South Australia for investment.

Super SA Retirement Investment Fund

Functional responsibility	The Super SA Retirement Investment Fund (the Fund) was established by the *Southern State Superannuation Act 2009* to provide investment services and other products and services for the benefit of persons who have retired, are reaching retirement age, or have ceased employment with the SA Government. The South Australian Superannuation Board is responsible for administering the Fund. The Department of Treasury and Finance – State Superannuation Office provides services to administer the Fund.
Financial statistics	Contribution revenue: $927.2 million Liability for accrued benefits: $2643.6 million Benefits paid and payable: $391 million Number of members: 10 721
Financial statement opinion	**Unmodified**
Financial controls opinion	**Unmodified**

Scope of the audit

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

During 2014-15 areas of review included:

- receipting and banking of transactions
- processing of contribution data
- maintenance of member accounts
- benefit payments.

The investment and management of the Fund's assets is reviewed as part of the Superannuation Funds Management Corporation of South Australia audit.

Audit findings and comments

Assessment of controls

In my opinion, the controls exercised by the Super SA Retirement Investment Fund in relation to the receipt, expenditure and investment of money, the acquisition and disposal of property and the incurring of liabilities are sufficient to provide reasonable assurance that the financial transactions of the Super SA Retirement Investment Fund have been conducted properly and in accordance with law.

Communication of audit matters

The audit did not identify any notable matters requiring formal communication.

Interpretation and analysis of the financial report

The Fund comprises transactions for the Super SA Income Stream Product (the Income Stream) and the Flexible Rollover Product.

Highlights of the financial report

	2015 $'million	2014 $'million
Revenue		
Investment revenue	178.5	172.7
Contribution revenue	927.2	716.1
Other revenue	5.0	3.2
Total revenue	1 110.7	892.0
Expenses		
Direct investment expenses	12.0	8.2
Income tax expense	81.2	59.2
Other expenses	2.0	1.8
Total expenses	95.2	69.2
Benefits accrued as a result of operations	1 015.5	822.8
Net cash provided by (used in) operating activities	461.0	378.2

	2015 $'million	2014 $'million
Assets		
Investments	2 657.2	2 026.7
Other assets	23.1	22.0
Total assets	2 680.3	2 048.7
Liabilities		
Current liabilities	23.1	19.4
Non-current liabilities	5.6	2.2
Total liabilities	28.7	21.6
Net assets available to pay benefits	2 651.6	2 027.1
Represented by:		
Liability for accrued benefits	2 643.6	2 021.5
Reserves	8.0	5.6
	2 651.6	2 027.1

Operating Statement

Benefits accrued as a result of operations for the year amounted to $1015.5 million ($822.8 million). The year's result took into account:

- returns on investments of $178.5 million ($172.7 million) and direct investment expenses of $12 million ($8.2 million). Investment returns and direct investment expenses are further discussed in the audit commentary under 'Superannuation Funds Management Corporation of South Australia' elsewhere in Part B of this Report

- contribution revenue of $927.2 million ($716.1 million). The increase in contribution revenue by $211.1 million reflects the continued growth in Fund membership

- income tax expense of $81.2 million ($59.2 million). The increase in income tax expense is due mainly to the improvement in net results (benefits accrued) of the Fund during the year, driven by an increase in rollovers from other schemes.

Statement of Financial Position

The improved performance together with additional funds invested has contributed to the increase in net assets available to pay benefits of $624.5 million. This is indicative of the accumulative nature of the Fund, where the increases reflect the total of contributions received and net investment income less benefits paid and other expenses. The accumulative nature of the Fund also means that it is fully funded.

Benefits paid

Total benefits paid and payable amounted to $391 million ($276.4 million). The increase in benefits paid and payable of $114.6 million is expected due to the strong growth in membership experienced by the Fund.

Statement of Cash Flows

The increase in cash provided by operating activities of $82.8 million reflects the continued growth of the Fund. The Fund maintains a relatively small balance of funds on hand. Amounts not used to pay benefits and other expenses are transferred to the Superannuation Funds Management Corporation of South Australia for investment.

Further commentary on operations

Membership statistics for the last four years are provided in the following table.

	2015 Number	2014 Number	2013 Number	2012 Number
Flexible Rollover Product	4 043	3 668	3 168	2 793
Income Stream	6 678	5 230	4 142	3 236
Total	10 721	8 898	7 310	6 029

South Australian Tourism Commission

Functional responsibility	The South Australian Tourism Commission (the Commission), a body corporate, was established pursuant to the *South Australian Tourism Commission Act 1993*. The Commission is responsible to the Minister for Tourism. The Commission was established to promote South Australia as a tourist destination and further develop and improve the State's tourism industry. For more information about the Commission's objectives refer note 1 of the financial report.
Financial statistics	Net cost of services: $52.4 million Total appropriation: $54.5 million Number of FTEs: 101.5
Significant events and transactions	— An increase of $4 million in industry assistance expenses included initiatives to attract the ICC Cricket World Cup, the Liverpool Football Club, conventions and other events. — The Commission continued to manage the Credit Union Christmas Pageant and the Santos Tour Down Under cycling race. — From 1 July 2015 all assets and liabilities of the dissolved South Australian Motor Sport Board vested in the Commission.
Financial statement opinion	**Unmodified**
Financial controls opinion	**Modified** Key issue: — Controls for the Shared Services SA main payroll systems did not meet a generally satisfactory standard

Scope of the audit

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

During 2014-15 areas of review included:

- revenue
- expenditure
- payroll
- financial accounting
- control over overseas operations
- governance.

Audit findings and comments

Assessment of controls

In my opinion, the controls exercised by the South Australian Tourism Commission in relation to the receipt, expenditure and investment of money, the acquisition and disposal of property and the incurring of liabilities, except for the matter identified under 'Communication of audit matters' in relation to Shared Services SA main payroll systems, are sufficient to provide reasonable assurance that the financial transactions of the South Australian Tourism Commission have been conducted properly and in accordance with law.

Communication of audit matters

Matters arising during the course of the audit were detailed in a management letter to the Chief Executive Officer. The main matters raised with the Commission and the related responses are detailed below.

In addition, matters relating to Shared Services SA (SSSA) as a service provider to the Commission are also described below.

Evidence of review on manual journal registers

Our review found an instance where there was no evidence of review recorded on manual journal registers. An absence of a review by an independent officer increases the risk that inappropriate or incorrect general ledger journals are processed.

The Commission responded that it will ensure all manual journals are reviewed by an independent officer and that evidence of review is provided on the manual journals register.

Absence of signed written agreements

Our review of revenue contract management noted a contract that was not signed until after the event had concluded. We also noted another occasion where an agreement was not formally documented. This increases the risk that the Commission may be unable to resolve potential disputes leading to additional costs. Ensuring contracts and agreements are signed by appropriate delegates in a timely manner assists all parties to be aware of their rights and obligations.

The Commission responded that it will ensure all contracts and other agreements are in place to document arrangements and are executed in a timely manner.

Shared Services SA – financial systems and transaction processing environments

SSSA processes financial transactions on behalf of the Commission under service level determinations. The main systems and control environments include accounts payable, payroll and general ledger financial functions.

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

As discussed in the commentary under 'Department of the Premier and Cabinet' elsewhere in Part B of this Report, our review and evaluation of controls for the SSSA main payroll systems concluded that controls did not meet a generally satisfactory standard for 2014-15. A number of specific matters were raised with SSSA for corrective action and review for process and procedural improvement. Our review and evaluation of controls for the SSSA main accounts payable systems and environment concluded that controls met a generally satisfactory standard for 2014-15.

The matters do not relate to Commission transaction processing.

Other matters

The *Statutes Amendment (Boards and Committees – Abolition and Reform) Act 2015* dissolved the South Australian Motor Sport Board (SAMSB) and vested all assets and liabilities of the SAMSB at 1 July 2015 in the Commission. Estimated net assets of the SAMSB at 30 June 2015 were $14.9 million. By notice in The South Australian Government Gazette all employees of the SAMSB were transferred to employment by the employing authority under the *South Australian Tourism Commission Act 1993* from 1 July 2015. The financial effect of these changes has not been reflected in the financial report.

Interpretation and analysis of the financial report

Highlights of the financial report

	2015 $'million	2014 $'million
Expenses		
Employee benefits expenses	10	11
Advertising and promotion	21	24
Industry assistance	11	7
Event operations	11	11
Other	7	8
Total expenses	60	61
Income		
Revenues from SA Government	54	54
Other	8	7
Total income	62	61
Net result and total comprehensive result	2	-
Net cash provided by (used in) operating activities	3	(2)

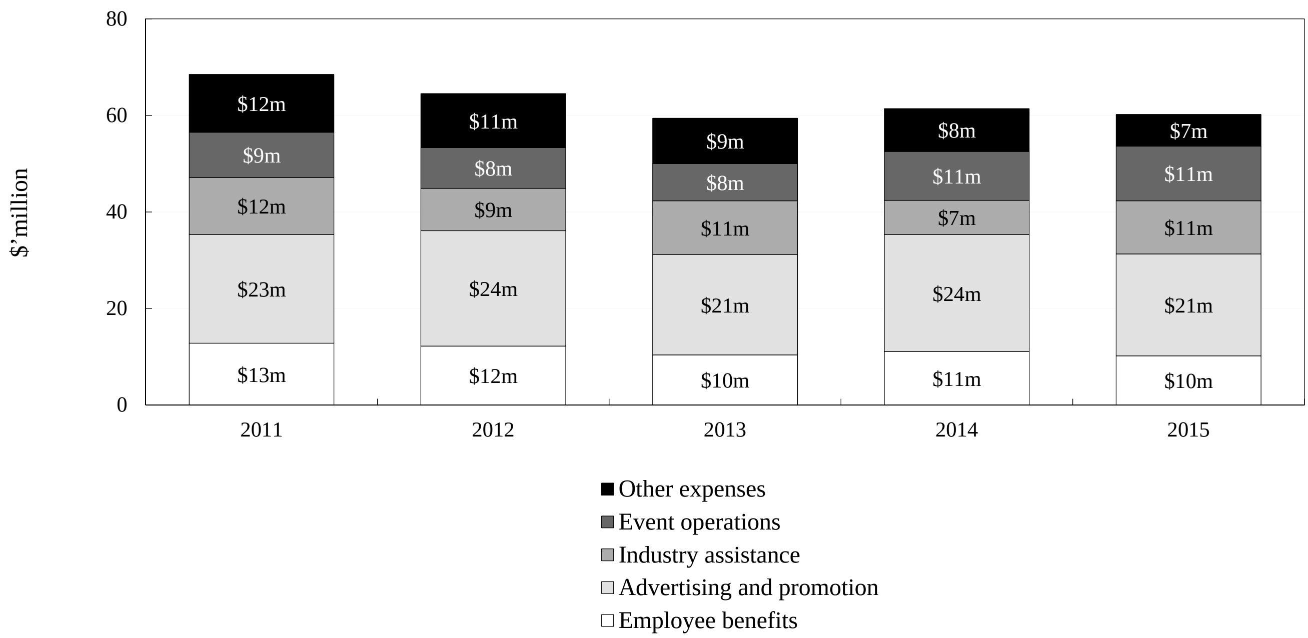
	2015 $'million	2014 $'million
Assets		
Current assets	5	3
Non-current assets	2	2
Total assets	7	5
Liabilities		
Current liabilities	4	4
Non-current liabilities	2	2
Total liabilities	6	6
Total equity	1	(1)

Statement of Comprehensive Income

The Commission is reliant on SA Government funding as its major revenue source to fund its operations. The level and timing of the Commission's financial activities vary from year to year depending on the planned mix of marketing, destination development and events supported and the extent to which specific Commission identified opportunities are funded. The main annual events managed by the Commission are the Santos Tour Down Under and the Credit Union Christmas Pageant.

Expenses

The following chart shows a structural analysis of the main expense items for the five years to 2015.



Total expenses have decreased from $69 million in 2011 to the current level of $60 million, which has been the average level of expenses over the last three years. This decrease is a result of general savings initiatives implemented across the period in line with Department of Treasury and Finance requirements.

Total expenses decreased by $1.1 million in 2015 to $60.3 million. Significant factors contributing to this change were:

- a decrease in employee benefits expenses of $895 000. Staff numbers reduced following the payment of five targeted voluntary separation packages totalling $661 000 in 2014. No targeted voluntary separation packages were paid in 2015

- a decrease in advertising and promotions expenses of $3.2 million due to a reduction in spending for the Adelaide ‘Breathe’ campaign of $4.7 million, offset by an increase in marketing costs of $1.5 million in other areas
- an increase of $4 million in industry assistance expenses including initiatives to attract the ICC Cricket World Cup, the Liverpool Football Club, conventions and other events.

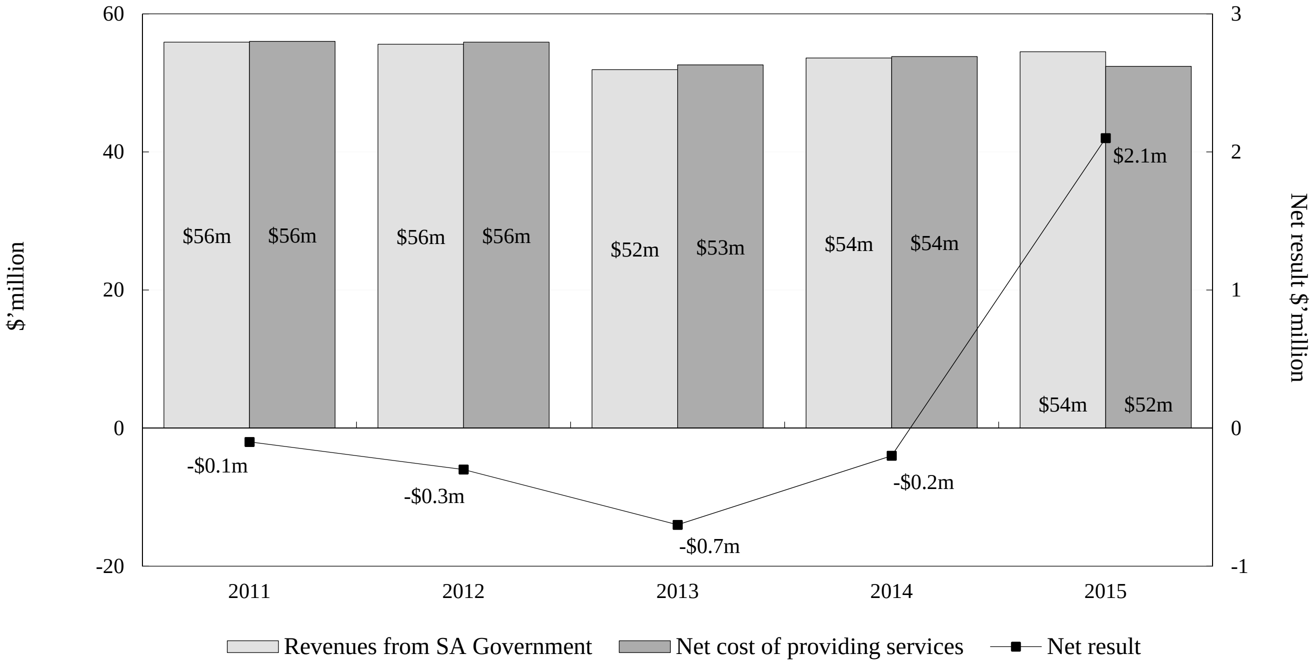
Income

Income for the year totalled $62.4 million ($61.2 million). The majority of income comprises revenue from the SA Government, which amounted to $54.5 million ($53.6 million) and represented 87% (88%) of total income. Included in revenue from the SA Government was $2.8 million ($700 000) from the Governor’s Appropriation Fund of which $2 million contributed to improving the Commission’s cash position.

Other income of $7.9 million ($7.6 million) predominantly consists of sponsorship revenue $4.3 million ($4.4 million) and event entry fees $824 000 ($1.1 million) relating to events managed by the Commission.

Net result

The following chart shows the revenues from government, net cost of providing services and net result for the five years to 2015.



The chart indicates that funding from the SA Government covered the majority, but not all, of the net costs of services for four of the past five years. In 2015 the Commission returned to a positive net result due to additional funding received from the Governor’s Appropriation Fund as outlined previously.

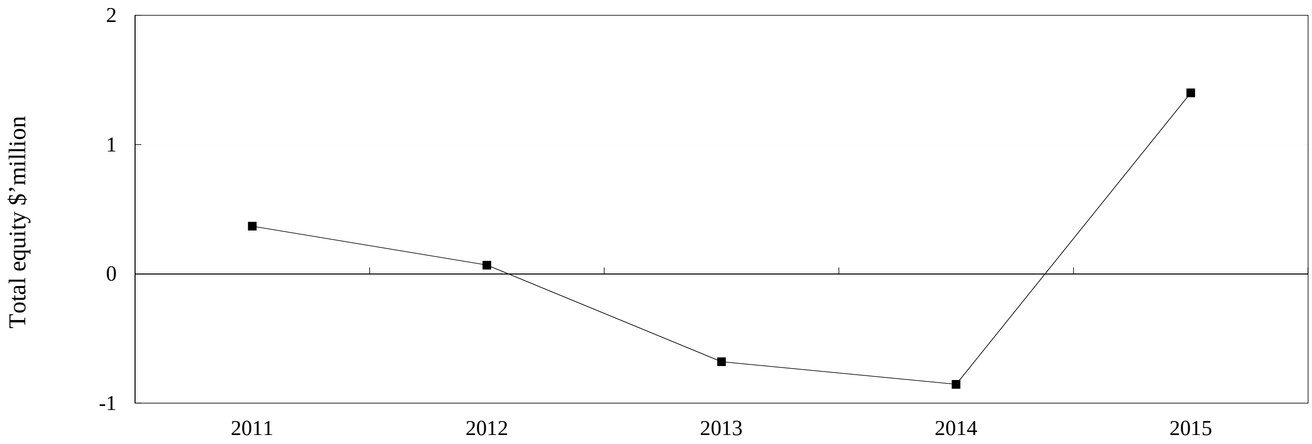
Statement of Financial Position

Current assets and liabilities

At 30 June 2015 current assets amounted to $5.5 million ($2.6 million), exceeding current liabilities of $3.9 million ($3.6 million) by $1.6 million (negative $1 million). Government funding has met the Commission’s cash funding requirements in the past. The increase in current assets is due primarily to an increase in cash and cash equivalents of $3.1 million resulting from the additional government funding mentioned previously.

Equity (net assets)

The following chart shows total equity as at 30 June for the past five years.



In 2014-15 the Commission's total equity (net assets) has returned to a positive position of $1.4 million. This result is attributable in part to the additional government funding received during the year.

South Australian Water Corporation

Functional responsibility	The South Australian Water Corporation (SA Water) was established pursuant to the *South Australian Water Corporation Act 1994.* SA Water is responsible to the Minister for Water and the River Murray. The primary functions of SA Water, are to provide services for the storage, treatment and supply of water and removal and treatment of wastewater. The *Public Corporations Act 1993* applies to SA Water and requires a charter and performance statement to be prepared by the Minister and the Treasurer after consultation with SA Water.
Financial statistics	Water and wastewater rates and charges: $1.16 billion Community service obligations: $128 million Borrowing costs: $314 million Profit before income tax: $279 million Infrastructure, plant and equipment: $13.5 billion Borrowings: $6.3 billion Net assets: $5.3 billion Number of FTEs: 1500
Significant events and transactions	— A $2.7 billion dividend was requested by the Treasurer, recommended by the SA Water Board and approved by the Acting Treasurer in September 2014. This dividend was paid through reassigning responsibility for $2.7 billion of existing debt from the Treasurer to SA Water, with the transfer taking place in October 2014. — Revenue from water and wastewater charges increased by $60 million as a result of a 2.9% increase in rates and increased water usage. — Revaluation loss of $135 million predominantly relating to the external valuation of wastewater treatment plants, resulting in a $122 million decrement.
Financial statement opinion	**Unmodified**
Financial controls opinion	**Modified** Key issues: — Inadequate user access reviews for access to a number of SA Water systems — Inadequate review of, or restrictions regarding, financial authorisations established within a number of SA Water systems

2014-15 Budget impact – transfer of $2.7 billion in debt

In the 2014-15 State 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, increasing SA Water's debt to asset ratio from around 26% to around 46%.

On 16 September 2014 the Treasurer wrote to the Chair of the SA Water Board (the Board) asking the Board to recommend whether an interim dividend of $2.7 billion should be paid. At its September 2014 meeting, the Board recommended that an interim dividend of $2.7 billion be paid to the Minister. On 30 September the Acting Treasurer approved the payment of $2.7 billion to the credit of the Consolidated Account.

The transfer occurred in October 2014 through the reassignment of responsibility for $2.7 billion of the Treasurer's debt held with the South Australian Government Financing Authority (SAFA) to SA Water. This had the effect of increasing SA Water's loans from SAFA, with a corresponding decrease in the Treasurer's loans from SAFA. Accordingly, no cash transfer was necessary.

To reflect the changed capital and gearing arrangements as a result of the dividend, the Chair of the Board also requested approval by the Treasurer for:

- an increase in the core debt facility limit with SAFA enabling a maximum core debt facility limit of $6.4 billion under funding arrangements with SAFA

- an increase in SA Water's working capital facility limit with SAFA from $100 million up to a maximum of $150 million, to be reviewed every two years

- amendments to SA Water's interest rate risk management policy and liquidity risk management policy.

These requests were also approved by the Acting Treasurer on 30 September 2014.

The impact of the increased borrowings is evident through the increased overall liabilities and the increase in borrowing costs in 2014-15. As a result of the change in gearing ratio the guarantee fee charged by SAFA increased from 1% to 1.6%, contributing to an increase in fees associated with borrowings. A further increase in borrowing expenses will be seen in 2015-16, as the revised arrangements were only in place for eight months of the 2014-15 financial year.

The full year impact of this change in 2015-16 will result in a larger impact of increased borrowing costs on the profit, which will in turn reduce the level of income tax and the dividend payable to the SA Government.

Scope of the audit

The audit program covered major financial systems to obtain sufficient evidence to form an opinion on the financial report and internal controls. During 2014-15 specific areas of audit attention included:

- revenue raising, collection, receipting and banking
- procurement and contract management
- operating and capital expenditure
- payroll
- financial accounting
- non-current asset recording, valuation and depreciation
- borrowing and finance leases

- governance arrangements
- general IT controls.

The work of internal audit was considered in planning and conducting the audit program.

Audit findings and comments

Assessment of controls

In my opinion, the controls exercised by the South Australian Water Corporation in relation to the receipt, expenditure and investment of money, the acquisition and disposal of property and the incurring of liabilities, except for the matters outlined for expenditure, payroll, revenue and network user access under 'Communication of audit matters', are sufficient to provide reasonable assurance that the financial transactions of the South Australian Water Corporation have been conducted properly and in accordance with law.

Communication of audit matters

Matters arising during the course of the audit were detailed in management letters to the Chief Executive. The main matters raised with SA Water and the related responses are detailed below.

Adelaide Services Alliance contract (the Alliance contract)

The 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 Alliance contract entered into by SA Water is designed to allow the sharing of responsibility for the management of the operations and maintenance activities through an external alliance with a contractor (Allwater). The alliance model is a more complex and integrated arrangement than would be experienced under standard type contract arrangements. As the purchaser of services, it is important for SA Water to ensure a structured, detailed and complete contract management regime is documented, maintained and used to address the contractual, operational and financial risks to SA Water, notwithstanding shared governance arrangements for the alliance.

Our 2014-15 audit included a review of the contract management framework in place for the Alliance contract and follows a review performed as part of our 2013-14 audit, which identified some areas in which the contract management framework could be improved.

We identified that SA Water had amended the contract management framework to address issues that we had previously raised. We did, however, identify some areas where the contract management framework could be further enhanced. These included:

- clearly linking the specific processes in place within the contract management framework to the risks SA Water is exposed to under the contract arrangements, to identify any gaps that need to be addressed. In the absence of this clear link, there is a risk SA Water may not identify residual risk exposures

- implementing a formal monitoring and reporting process, via a register, within SA Water to document findings and actions from consultant and internal audit reviews associated with the contract. Without this clear documentation there is an increased risk that appropriate measures may not be implemented, monitored and reported to those charged with governance within SA Water regarding issues identified by these reviews

- Updating the contract management framework to incorporate additional information on key processes, including requirements for the maintenance of records, the dispute resolution approach and the process to ensure the ethical conduct of those employees embedded within the alliance. Inadequate documentation supporting SA Water's process to manage these aspects of the contract increases the risk that issues arising from these processes are not dealt with appropriately.

Additionally, at the time of our review the external audit report providing assurance regarding the validity and accuracy of invoices relating to the Alliance contract was not available for the last quarter of 2014-15. There was also an outstanding report from an internal audit review over the integrity, accuracy and completeness of data supporting Allwater's reporting of specific performance indicators for the period October 2014 to June 2015, which assists in the monitoring of contract performance. Whilst the timeliness of reporting outcomes from these reviews to those charged with governance has improved compared with 2013-14, further focus is required to ensure these reviews are completed and reported to SA Water in a timely manner.

SA Water response

SA Water's response indicated clear linkages between risks and processes had now been established and a review of the contract management framework would be conducted and would consider the other matters raised.

The response also provided an update on the external audit on the validity and accuracy of invoices and the internal audit on the performance measures, indicating that the reviews were in the final stages of completion.

Expenditure

SA Water uses Ellipse accounts payable for processing of expenditure transactions. Our review of this system identified the following:

Inadequate reviews of, and approval for changes to, authorisations in Ellipse

The Ellipse accounts payable system has system authorisation limits established to enable officers with appropriate delegation to approve purchase orders, contracts and invoices. The authorisation limits established should reflect the approved financial delegations. SA Water conducts a quarterly review of application access levels in Ellipse and an annual review of the authorisation limits established.

Our 2014-15 review noted that the quarterly reviews were not conducted in a timely manner and did not capture all employees, and that changes identified from the review were not always appropriately authorised. We also noted instances where changes to procurement delegations in Ellipse, and general changes in access rights, were not appropriately approved. Collectively, these findings highlighted a risk of users having inappropriate system access and transactions being inappropriately approved.

We also noted evidence supporting the annual review process differed across the business and there were instances where the established authorisations did not agree to the approved delegations. Accordingly there was a risk that transactions would be inappropriately approved.

SA Water responded to these matters, noting its intention to strengthen the control environment by combining the annual review process with the quarterly reviews, and clarifying and reinforcing the requirements for the appropriate approval of changes to Ellipse access and the requirements regarding the completion of the review process.

Lack of authorisation limits in CommBiz

Our review of access to the CommBiz online banking system identified areas where controls could be strengthened, including the implementation of dollar value authorisation cap limits for each user and disbursement cap limits for each bank account. The absence of such limits increases the risk that, were fraudulent or collusive behaviour to occur, SA Water could be exposed to significant loss.

SA Water advised it believed the existing controls were sufficient. SA Water did not believe introducing cap limits would mitigate risks beyond existing processes, that such limits would be ineffective and the current controls were appropriate for SA Water's business needs.

Inadequate generation and distribution of Ellipse reports

A number of Ellipse reports are produced and forwarded to relevant SA Water staff for review, as part of the controls for the system. Our review identified that a number of these reports were not produced for the full period in 2014-15, that there were issues with the completeness of some of the reports that were produced, and that the reports were not, at times, adequately distributed to enable an effective review.

The reports covered a number of functions including review of:

- changes to delegation limits in Ellipse
- the segregation of financial and procurement authorisations for transactions
- the use of special delegation limits in Ellipse
- the establishment of contract information in Ellipse.

Review of these reports ensures risks associated with the use of the functionality and workflows established in the Ellipse system are appropriately managed. The inadequate generation and distribution of these reports for review increases the risk that inappropriate or invalid transactions are processed.

SA Water responded that retrospective reviews were occurring over the relevant periods and processes were being implemented to ensure required reports were generated and provided as intended.

Absence of monitoring of approval of contract invoice payments

Ellipse enables authorisation of contract invoice payments for each component of an invoice, rather than the invoice total. This leads to a risk that the total invoice value authorised may be above the authorising officer's delegation, where it combines several line items that they are able to approve individually.

SA Water advised a report to identify instances where this has occurred would be developed.

Payroll

SA Water utilises CHRIS 21 for payroll processing for all employees and TimeWise for time and attendance recording for office employees. Our review of these payroll systems identified the following:

Inadequate review of system authorisations

Time worked and leave taken is approved online within the payroll systems. Approvals are based on employee authorisations established within the CHRIS 21 and TimeWise systems.

We identified that there was no review performed on a regular basis to ensure the system authorisations are consistent with the approved human resource delegations. The absence of this review increases the risk that inappropriate payroll transactions are approved.

SA Water advised an annual review would be implemented to ensure employee authorisations in CHRIS 21 and TimeWise were consistent with the approved human resource delegations.

No review of the use of TimeWise's function to approve on behalf of another user

The TimeWise system has a function that enables users to approve transactions (timesheets or leave) on behalf of another user. We identified there was no review of changes and approvals made by employees who are using this function, nor is there a review of those who currently have access to this function. As a result there is an increased risk of inappropriate approval of timesheets and leave.

SA Water responded that a review of access to this function would be included as part of the ongoing suite of reporting to be implemented over the coming months.

Outstanding timesheets and leave forms and reconciliation of leave between CHRIS 21 and TimeWise

Office employees use the TimeWise system to submit timesheets and leave forms for approval by appropriate delegates. In 2013-14 we reported that there was no follow-up process in place for timesheets that had not been approved. In 2014-15 we identified that a review of outstanding timesheets and leave forms occurred in November 2014, resulting in emails outlining the results of the review being sent out to relevant managers. We understand that no further escalation processes occurred for those results and that no further reviews had occurred at the time of the audit.

Outstanding timesheets and leave forms create a risk that recorded leave balances and adjustments to time worked may not be recorded accurately and completely in the payroll system.

Further, it was identified that the leave being approved in TimeWise was not reconciled regularly to the CHRIS 21 payroll system during 2014-15. This increases the risk that leave balances are not complete or accurate.

SA Water responded that regular monthly reporting of leave reconciliations and timesheet completion would be implemented. SA Water also advised an interface had been successfully implemented, late in 2014-15, between TimeWise and CHRIS 21, allowing automated leave entry and validation from TimeWise into CHRIS 21. An overall assessment of leave taken, as reported in TimeWise, compared to CHRIS 21 was being performed.

No evidence of review of termination checklists

On termination, a checklist is completed that ensures an employee's access to online applications is removed, final pays and entitlements are processed and an exit protocol has been followed. The checklist is completed by one payroll officer and independently reviewed by another.

We identified a number of instances where the checklist did not contain evidence of independent review, increasing the risk that the employee may still have had access to SA Water's network or be continuing to receive monetary benefits. We noted the identified instances all occurred on the same day.

SA Water advised the requirement to ensure completion of the checklist had been reinforced to staff.

Revenue

Our review of revenue systems identified some areas for improvement for the Connection Application Management System (CAMS) and Ellipse accounts receivable system.

Inadequate review of access to the CAMS system

SA Water has implemented a process to undertake a review of CAMS users every six months. This process uses a report and aims to ensure access levels are relevant and access to CAMS is appropriate.

Our review of this process identified:

- the reports were incomplete
- the level of detail in the reports would not enable a reviewer to assess the user access level for reasonableness
- there was no information on financial authorisation levels established in CAMS
- there was no policy or procedure outlining the requirement to perform the reviews.

These weaknesses result in an increased risk that invalid or inaccurate transactions could be processed in CAMS, affecting the underlying integrity of data from CAMS.

In response, SA Water indicated work would be undertaken to create reports with improved reporting, enabling adequate reviews of access to CAMS.

Review of adjustments to standard fees

Standard fees are established in CAMS, reflecting fees approved by the Board. These fees can be adjusted in CAMS when raising individual invoices. Whilst the practice is for any adjustments to a standard fee to be forwarded to another officer with appropriate financial delegation for approval in CAMS, the system does not enforce this segregation, nor the financial delegation limits that have been established in CAMS. Therefore, an officer could raise an invoice, adjust the fee and approve it without any involvement by a second officer. There was also no guidance regarding when adjustments to a Board approved standard fee is appropriate.

As a result there is a risk of invalid or inaccurate adjustments being made to Board approved fees, impacting on the integrity of the revenue raising processes.

SA Water's response identified steps would be taken to ensure clarity regarding adjustments to standard fees and ways in which future reviews over any adjustments would occur within the system.

Review of non-standard fee processes

Non-standard fees are those manually calculated and entered into CAMS. These fees are approved within CAMS based on established financial authorisation limits. Our review over the process for raising non-standard fees in CAMS identified:

- as was the case for adjustments to standard fees, the system does not prevent the same officer from raising and approving an invoice
- the system does not enforce the limits established within CAMS, enabling an officer with a lower authorisation level to authorise the fees
- a lack of consistency and clarity over how non-standard fees are raised and reflected in CAMS.

As a result of these matters, there is an increased risk that invoices for non-standard fees are inaccurately raised and are not appropriately approved in line with established authorisation limits. This may impact on the integrity of revenue raised.

In response, SA Water detailed actions taken to establish a procedure and process for the determination, application and estimating of non-standard fees. SA Water's procedure will also outline the required checks and approval processes within CAMS when raising invoices.

Unexplained variances and inconsistent performance of reconciliations

Our audit of CAMS included reviewing a number of general ledger revenue and balance sheet reconciliations. We identified instances of unexplained variances in reconciliations performed. We also noted instances of inconsistent reconciliation practices as a result of inadequate reporting from the systems involved. These limitations did not allow an effective reconciliation to occur on a regular basis in line with policies. As a result, there is an increased risk that information recorded in the general ledger is not accurate or complete.

In response, SA Water detailed action taken and planned to address the reconciling matters raised. As at 30 June 2015 these issues were still being addressed.

Access to Ellipse accounts receivable system

Our review of access levels within the Ellipse accounts receivable system focused on key processes including creating, adjusting, cancelling or writing off invoices, manual receipt of invoices and processing credit notes. Our review identified a significant number of users had access to these Ellipse functions. However, a review of those who actually perform these processes revealed a number of users who had access but did not require it.

Having access that is not required increases the risk that inappropriate or invalid transactions and adjustments are processed, resulting in the integrity of revenue figures being compromised.

In response, SA Water detailed action taken to review and address the high level of users in the Ellipse accounts receivable system.

General ledger

Access and review of manual journals

SA Water’s process for manual journals requires that they are prepared by one officer and reviewed by an independent officer against supporting documentation, prior to being processed to the general ledger. The independent review process is manual and relies on the preparer ensuring that they provide the information to another officer for review prior to processing. Our review of this process identified:

- a large number of employees had access to post journals
- instances sampled where no evidence of review by an independent reviewer was present
- instances where insufficient or irrelevant supporting documentation was attached.

As a result of these matters, there is an increased risk that inappropriate adjustments are made to financial information in the general ledger which may compromise the integrity of information reported to management.

SA Water responded, noting access to post journals had been restricted following a review of required users. SA Water also advised a review of journal procedures would be performed.

Information and communications technology and control

Internal audit reviews

During 2014-15 we obtained a status update regarding remediation progress for issues identified in two internal audit reviews. The first was a June 2014 review on disaster recovery management, and the other was a web application security review conducted on a number of computer environments, completed in September 2014.

The dates for completion of actions to address findings from the disaster recovery management review originally targeted completion in mid-2015. A particular matter concerning the development of IT continuity plans was, however, to be addressed over a three year period to June 2016.

In 2014-15 SA Water advised certain policies concerning business continuity management were close to completion and that IT continuity plan development for various systems was on target for completion by June 2016.

In 2014-15 SA Water also indicated all issues, with a single exception, had been remediated concerning the previous web application security review. The remaining issue would be remediated in 2016-17 as part of the scheduled upgrade program for the product concerned.

2014-15 reviews

Ellipse review

The Ellipse system was upgraded in May 2014, resulting in the system moving to an external cloud service provider hosting arrangement. We performed a focused change management review of this upgrade.

Our review noted SA Water needed to ensure the system complied with the requirements of the government-mandated Information Security Management Framework, as they related to cloud based application systems. SA Water also needed to action issues identified from an internal audit review of Ellipse continuity testing.

SA Water responded that it would perform a risk assessment to determine mitigating controls required and the consideration of Information Security Management Framework standards would form part of this assessment. This would be completed by the end of 2015.

SA Water also advised an additional Ellipse continuity test was planned and SA Water would undertake risk assessments to determine further work in this area. The outcomes of this work would be considered in determining whether an additional IT continuity test is to be conducted under the existing supplier support contract. Actions for this matter are due for completion by mid-2016.

Network user access

Our review of access to SA Water's network identified some areas where internal controls could be improved. Reviews over user access to the active directory were not working as intended and inconsistent interpretations regarding which staff had the authority to approve privileged user access were identified. As a result, there was an increased risk that inappropriate officers may have access to sensitive data.

In response, SA Water detailed actions that would be taken to ensure the risk was mitigated.

Information and communications technology (ICT) management and control arrangements follow-up

In 2013-14 we completed a high level review of the ICT management arrangements. Our review noted that SA Water had strengthened certain aspects of ICT governance through the establishment of committees and the development of various policies and procedures. However, there were a number of issues that required attention and reflected certain matters identified in the internal audit reviews. These matters included:

- establishment of data management plans for key systems
- development of an annual self-assessment methodology for business units to assess compliance against the information security policy

- implementation of detailed procedures for physical and environmental security to allow for the establishment of information security key performance indicators
- consolidation of information asset registers and standardisation of data classifications.

In response to the 2013-14 review, SA Water indicated that most of the matters would be actioned by either the end of 2014 or June 2015. Our follow-up in 2014-15 found that the required actions were not completed.

SA Water responded that most of the action completion dates had been rescheduled to 2016, with the exception of the creation of data management plans (due for completion December 2015).

Telecommunications management – further follow-up

Last year's Report included commentary regarding a follow-up review into telecommunications management at SA Water, following an original review conducted in 2010-11. In 2013-14 we identified some further action was required, including documenting procedures for no usage reporting of data services, sign-off of invoices for data and voice services and the review and reconciliation of mobile service invoices. It was also evident that invoices for voice services were not fully reconciled to each of the service providers' billing management systems.

Our 2014-15 review found these matters were addressed with the exception of invoice review procedures for mobile phones and invoice reconciliation procedures for mobile voice services.

SA Water responded that it had recently entered into a new mobile telecommunications contract which includes pooled data at a fixed price. This will effectively remove the need to manage individual data plans. A process was under development to reconcile new and cancelled mobile services against monthly invoices for the new contract. This process was to be completed at the end of 2015, when the new contract arrangement begins.

Interpretation and analysis of the financial report

Highlights of the financial report

	2015 $'million	2014 $'million
Income		
Water and wastewater rates and charges	1 157	1 097
Community service obligations	128	126
Other	143	159
Total income	1 428	1 382
Expenses		
Depreciation and amortisation expense	311	318
Borrowings costs	314	225
Operational and service contracts	191	182
Employee benefits expense	120	126
Other expenses	213	247
Total expenses	1 149	1 098
Net profit before income tax equivalents expense	279	284
Income tax expense	82	84
Net profit after income tax equivalents expense	197	200
Other comprehensive income (net of tax)	(93)	245
Total comprehensive result	104	445

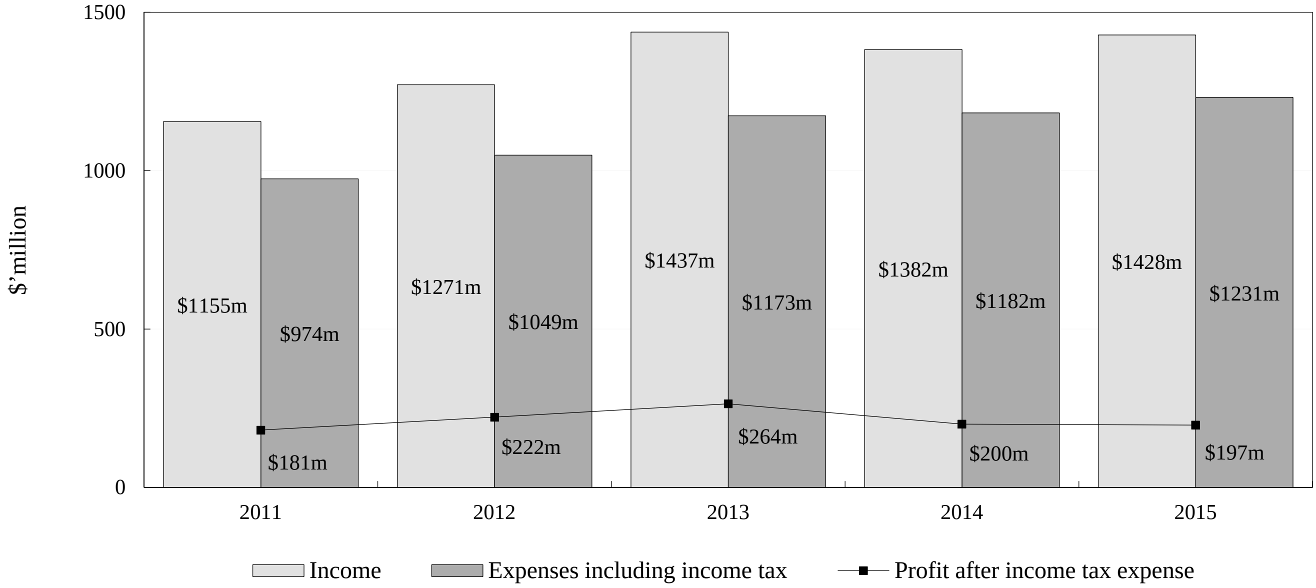
	2015 $'million	2014 $'million
Net cash inflows (outflows) from operating activities	454	469
Assets		
Current assets	215	202
Non-current assets	13 743	13 927
Total assets	13 958	14 129
Liabilities		
Current liabilities	239	220
Non-current liabilities	8 399	5 810
Total liabilities	8 638	6 030
Total equity	5 320	8 099

Statement of Comprehensive Income

Operating result

SA Water's profit after income tax equivalents expense (income tax) decreased by $3 million to $197 million ($200 million).

The following chart shows the income, expenses (including income tax) and profit after income tax for the five years to 2015.

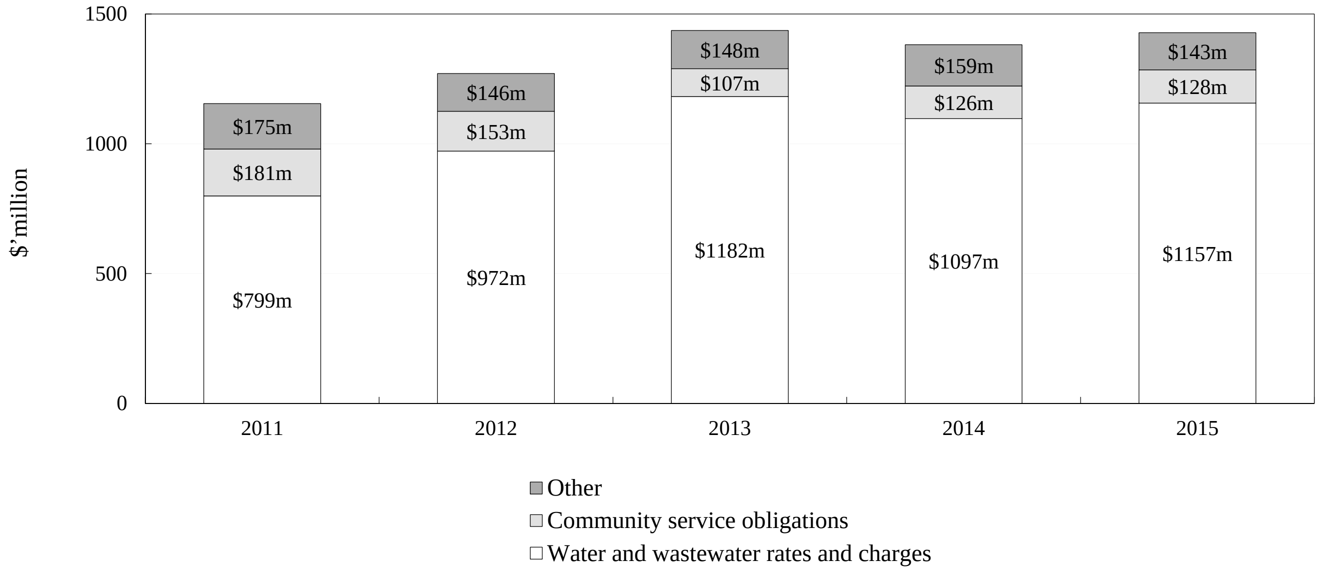


The chart shows that both income and expenses have increased each year, with the exception of income in 2014 which decreased, resulting in a decrease in profit. In 2015 profit decreased due to expenses increasing at a higher level proportionately to income. Reasons for the increase in revenue and expenses are explained below.

Income

Total income increased by $46 million to $1.4 billion. The increase was due mainly to water and wastewater rates and charges increasing by $60 million (5%) and fees and charges increasing by $5 million (16%), offset by decreases in contributed assets of $6 million (13%) and recoverable works of $10 million (16%).

The following chart analyses the main sources of income for SA Water for the five years to 2015.



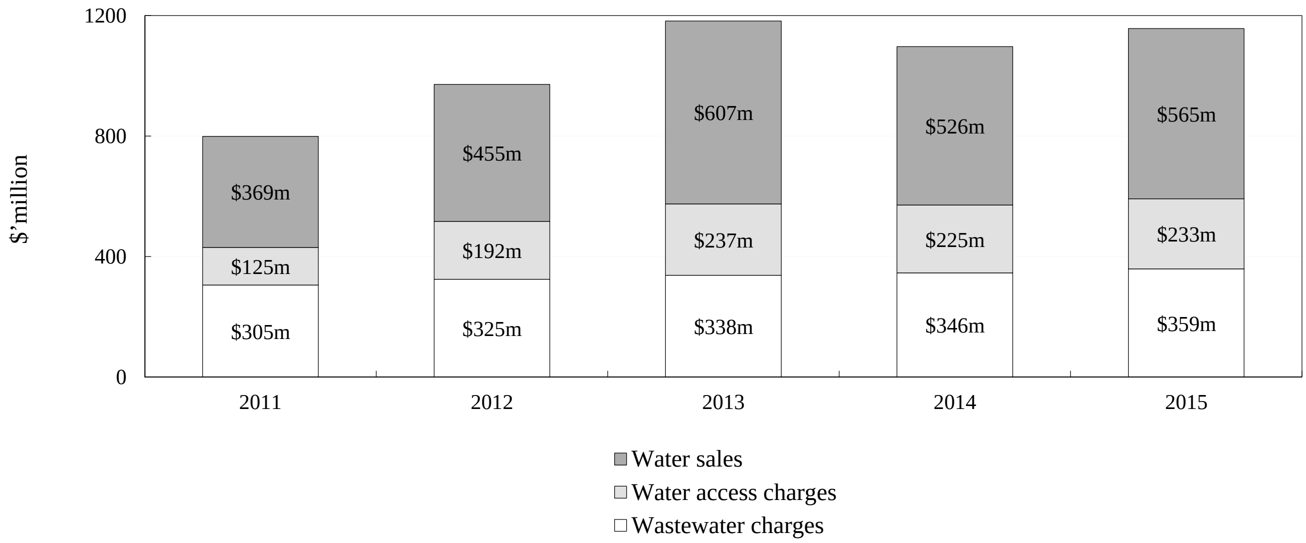
The above chart shows total income has increased each year to 2013 and decreased in 2014 due to water and wastewater rates and charges, before increasing again in 2015. Comments on the trend over this period are discussed below.

Water and wastewater rates and charges

The major contribution to SA Water's income is water and wastewater rates and charges. These rates and charges are mainly comprised of:

- wastewater charges, mainly set on property values
- water access charges, mainly set at a fixed amount
- water sales, charged by volume of water used.

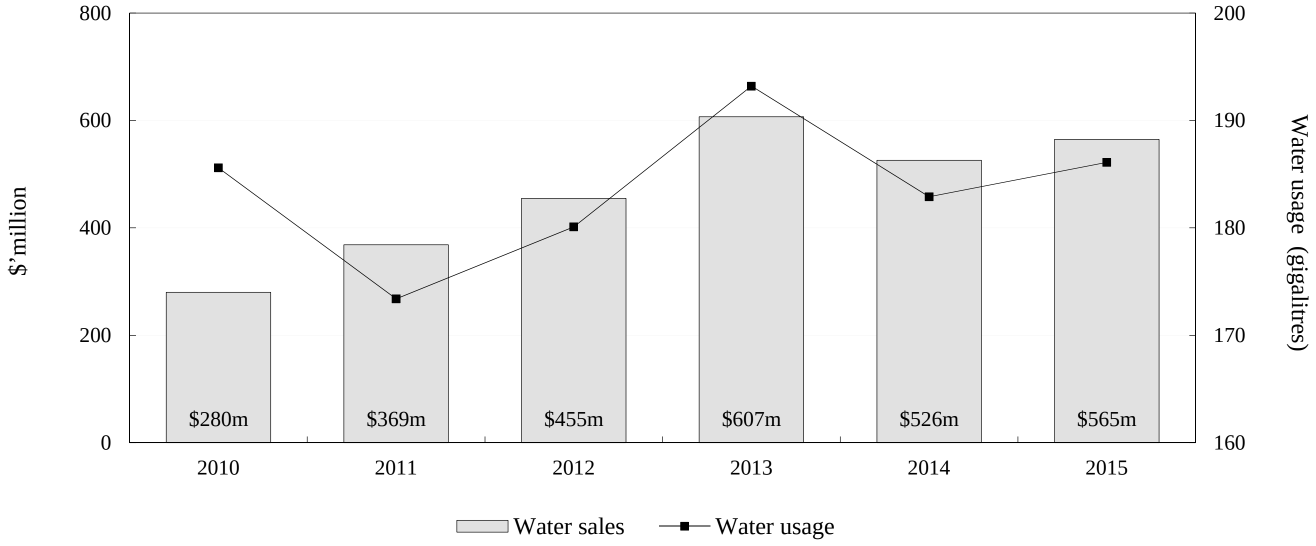
The following chart details these components for the past five years.



The main factors affecting water and wastewater rates and charges are changes in price and water consumption.

Wastewater charges have increased by $13 million to $359 million. Whilst customer growth has contributed, the main component of the increase was price increases of 2.9%. Similarly, water access charges have increased by $8 million to $233 million as a result of price increases of 2.9%, in addition to customer growth.

The following chart shows water sales income compared to the volume of water used.



Water restrictions, which commenced in October 2006, were lifted in December 2010. The easing of water restrictions saw growth in water usage in 2012 and 2013. Water usage decreased in 2014 primarily due to higher rainfall in 2014 compared to the previous year, however in 2015 water usage has increased.

In addition, prices for water increased each year up to 2013, decreased in 2014 and increased in 2015 as mentioned. The factors affecting water and wastewater prices are discussed below under 'Further commentary on operations'.

Community service obligations (CSOs)

SA Water is required to provide a number of non-commercial services to the community on behalf of the Government. The Government provides SA Water with CSO funding to compensate for these non-commercial activities. The main CSOs are to compensate SA Water for:

- the under-recovery of country water and wastewater services (due to the requirement for state-wide pricing). SA Water received $108 million ($108 million) for this CSO in 2015
- the provision of water and wastewater concessions to certain properties such as charities, churches and public schools. This CSO amounted to $13 million ($13 million) in 2015.

CSOs are provided under the financial ownership framework agreed with the Department of Treasury and Finance (DTF).

Other income

Other income decreased by $16 million to $143 million.

Other income includes contributed assets and recoverable works, which can vary from year to year depending on economic conditions and government initiatives. Of the $52 million ($62 million) recoverable works income, $33 million ($46 million) was received from the Murray-Darling Basin Authority for management and works on the River Murray. In 2014-15 recoverable works were declining as a result of the Environmental Water Management program for the Murray-Darling Basin Authority nearing completion.

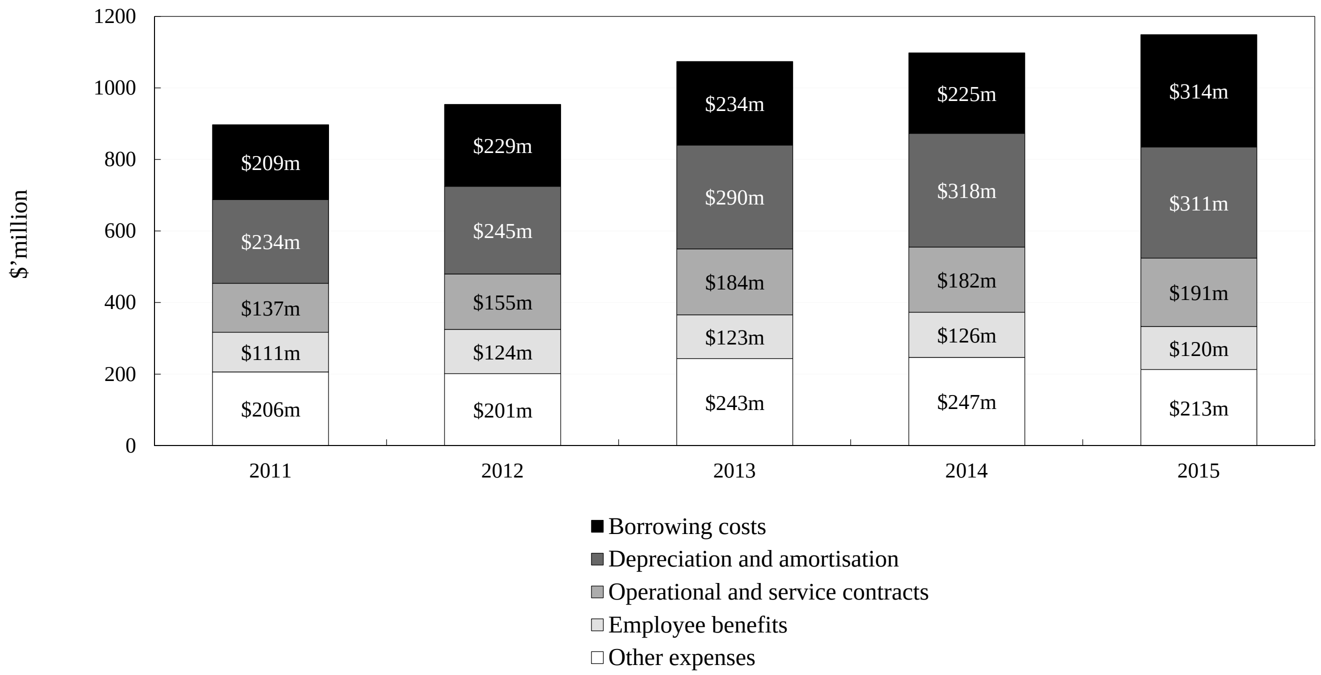
Contributed assets decreased by $6 million to $39 million ($45 million), which principally related to the removal of the standard capital contributions charge in 2015 as part of SA Water's newly implemented developer contribution framework.

Expenses

Total expenses increased by $51 million to $1.1 billion. The major contributing components were:

- borrowing costs increased by 39% or $89 million due mainly to increased borrowings as a result of the transfer of $2.7 billion in debt discussed earlier
- operational and service contracts increased by 5% or $9 million. The main operational and service contracts were:
  - Alliance contract costs of $105 million ($99 million)
  - the Adelaide Desalination Plant (ADP) Operations and Maintenance contract expenditure of $24 million ($27 million)
- the employee benefits expense decreased by 5% or $6 million as a result of the effects of internal restructures on staff numbers and classifications
- depreciation and amortisation decreased by 2% or $7 million due mainly to the decrement in asset values as a result of the current year revaluation of assets as at 1 July 2014
- other expenses decreased by $34 million due mainly to:
  - a decrease in electricity expenses of $20 million, due mainly to decreased electricity usage from the operation of the ADP of $20 million. The ADP produced about one third the amount of water in 2014-15 as the prior year. The ADP is discussed below under 'Further commentary on operations'
  - a decrease in services and supplies of $12 million, principally due to a decrease in recoverable works, consistent with the commentary above for other income.

The following chart analyses the main expense items excluding income tax expense for SA Water for the five years to 2015.



Since 2011 expenses have increased by $252 million (28%). Major factors affecting expenses have been:

- increased borrowing costs of $105 million since 2011, due to additional borrowings to fund the construction and acquisition of assets, but most significantly the current year increase in borrowings as a result of a change in the capital structure of SA Water, as discussed previously

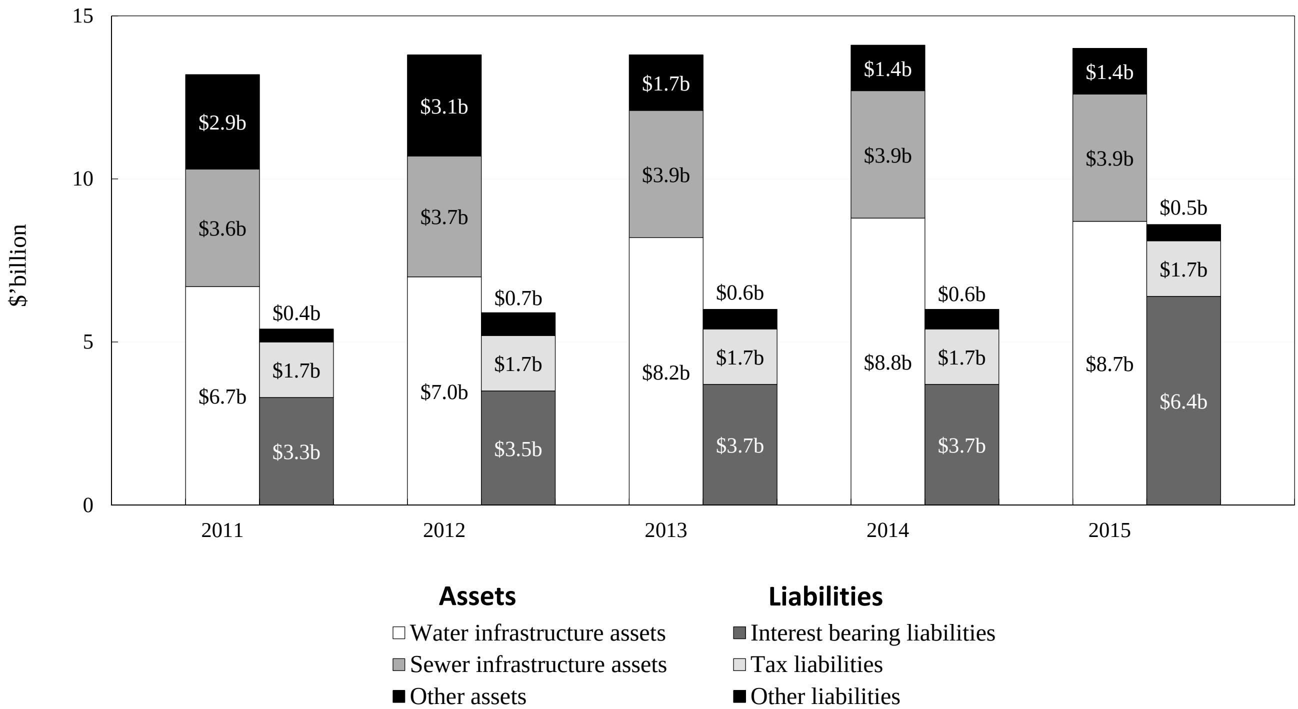
- depreciation and amortisation costs are highly responsive to asset revaluations and additions. These have continued to result in increased costs over the past five years, except for 2015 where there was a revaluation decrement. Over the past five years this expense has increased by $77 million
- increasing operational and service contracts expenses, due mainly to water security activities and the ADP commencing production in 2012
- in 2011 and 2012 the increase in employee benefits exceeded salary rate increases due to additional staff being hired to meet workload demand from water restrictions, drought initiatives and capital and operational projects. As previously discussed, employee benefits expense decreased in 2015
- for other expenses:
  - electricity costs increased in 2013 and 2014 due to the operation of the ADP commencing but have decreased in 2015 with a reduction in the use of the ADP
  - from 2012 SA Water incurred new expenditure of $16 million p.a. for water planning and management
  - a water efficiency rebates scheme reduced from 2012 when a number of rebates ceased
  - the level of recoverable works varies from year to year depending on economic conditions and government initiatives. In 2012 recoverable River Murray works declined due to high river levels, which resulted in additional spending on deferred works in 2013 and 2014. In 2015 the works have declined again due to the finalisation of specific programs.

Other comprehensive income

Other comprehensive income recorded a net loss of $93 million ($245 million gain), principally attributable to a downward revaluation of assets.

Statement of Financial Position

A structural analysis of assets and liabilities for the five years to 2015 is shown in the following chart.



SA Water's financial position is dominated by non-current water and sewer infrastructure assets and related borrowings and tax liabilities. The chart shows that in 2011 and 2012, total assets increased significantly reflecting:

- significant expenditure on capital projects such as the ADP and the North South Interconnection System project (the NSISP). Whilst these assets were being constructed they were reflected in other assets. The ADP and the NSISP were transferred to water infrastructure in 2013 and 2014 respectively, resulting in the decrease in other assets and increase in water infrastructure in those years
- significant increases in assets from revaluations.

In 2015 total assets were $14 billion ($14.1 billion), remaining at a similar level to the previous year. Significant matters affecting assets during the year were:

- the acquisition of infrastructure, plant and equipment of $262 million. Major capital expenditure includes the Bolivar wastewater treatment plant upgrade of $30 million, water and wastewater extensions of $29 million, and assets contributed through development activity of $32 million
- the revaluation of infrastructure, plant and equipment by $135 million downwards. This principally consisted of a revaluation decrement to sewer infrastructure of $82 million and a revaluation decrement to water infrastructure of $62 million, offset by revaluation increments in land and other plant and equipment:
  - The decrement in the sewer infrastructure is mainly a result of a revaluation downwards, by an external independent valuer, of wastewater treatment plants by $122 million due to lower construction prices resulting from a competitive market and the availability of modern equivalent replacement materials at a lower cost price than materials used in original construction. The last revaluation of wastewater treatment plants was five years ago. This decrement was partially offset by a revaluation upwards of other sewer assets based on directors' valuations determined using current contract rates for various asset types, or applying an indexation factor based on the price of new construction outputs. Note 1(e) of the financial report details SA Water's revaluation policies.
  - The decrement in the water infrastructure is mainly a result of the application of prices as advised by an independent valuer and valuation methodology assumptions associated with the modern equivalent replacement cost method. The valuation methodology assumptions were also reviewed by an independent valuer. Note 1(e) of the financial report details SA Water's revaluation policies
- depreciation and amortisation charges of $311 million
- the increase in receivables of $11 million mainly due to the increase in water and wastewater rates receivable of $13 million, resulting from increased prices and water sales (refer to income analysis above).

In 2015 liabilities increased by $2.6 billion due mainly to a combination of:

- an increase in borrowings of $2.7 billion as a result of the assumption of additional debt related to the capital return previously discussed
- a decrease in income tax related liabilities of $68 million due mainly to the tax effect of revaluing assets.

Current assets and liabilities

At 30 June 2015 current liabilities amounted to $239 million ($220 million), exceeding current assets of $215 million ($202 million) by $24 million ($18 million). While such a deficiency in working capital can be of concern, SA Water has a strong cash flow position from operating activities and access to sufficient borrowing facilities with SAFA, which would enable all of its current liabilities to be met. A large component of current liabilities is payables, comprising 66% of the balance (69%), which includes obligations for capital purchases.

Statement of Cash Flows

Factors affecting cash flows include:

- the investment in the construction and purchase of infrastructure, plant and equipment and intangible assets. In 2015 investing payments for assets amounted to $251 million ($302 million). Since 2011 total payments for assets have amounted to $2.3 billion
- payment of a cash dividend to the Government. This amounted to $184 million ($196 million) in 2015
- increased net borrowings. In 2015 net cash flows from borrowings were $17 million ($19 million).

The $2.7 billion debt transfer was a non-cash transfer and therefore is not reflected in the cash flows of SA Water in 2014-15.

Further commentary on operations

Performance statement

As a public corporation, SA Water is bound by a charter and is also required to meet a range of performance targets set out in an annual performance statement, as agreed between SA Water, the then Minister for Water and the Treasurer. The performance statement defines the contribution to the Government in terms of dividends, repayment of capital, income tax equivalents and other taxes and rates.

The key financial performance measures agreed to in the performance statement are set out in the following table.

Performance measure	Target 2014-15	Actual result 2014-15
Profit ($'million)	202.8	278.8
Tax expense ($'million)	60.8	81.5
Dividend ($'million)	134.9	183.9
Total contribution ($'million)	195.7	265.4
Gearing ratio (%)(1)	44.6	45.6

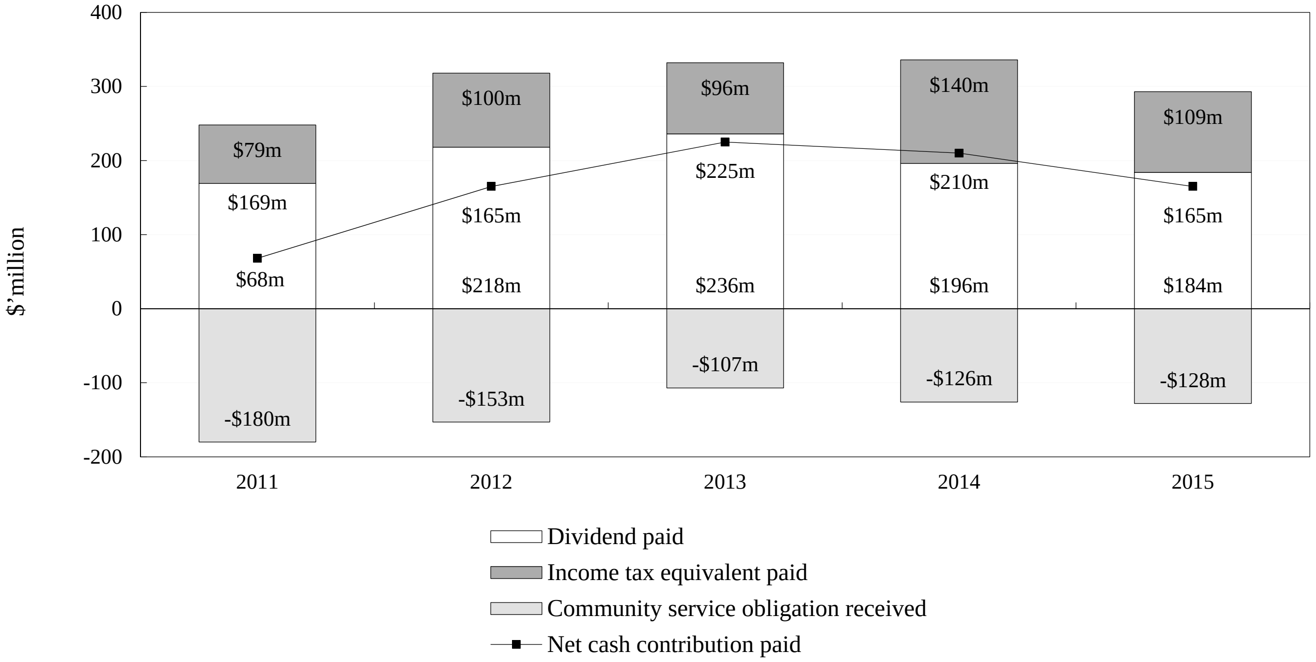
(1) Total interest bearing debt (including borrowings and lease liabilities) divided by total assets.

SA Water's final result was $76 million above target profit before tax in the performance statement. SA Water's internal reporting indicates that this principally relates to the timing of the $2.7 billion transfer, which resulted in a decrease of approximately $58 million in actual borrowing costs compared with the forecast. Further, other contributing factors were the lower than planned income from water revenue of $5 million due mainly to lower than forecast consumption (186 gigalitres used rather than 190 gigalitres), which was offset by lower than planned depreciation expenditure of $15 million and savings across a range of other expenditure lines.

Commentary on SA Water's gearing ratio is included under 'Contributions to the State Government' below.

Contributions to the State Government

A structural analysis of particular cash contributions (dividends, income tax equivalent) paid to the Government and CSO funding provided by the Government for the five years to 2015 is shown in the following chart. As the $2.7 billion debt transfer was not a cash transaction, it is not included in the chart.



The above chart shows that the amount of money returned to the SA Government through income tax equivalent and dividend increased significantly between 2012 and 2014. The 2015 reduction does not reflect the additional $2.7 billion non-cash dividend achieved through the debt transfer. In 2011 the CSO funding exceeded the dividend.

SA Water operates under a financial ownership framework developed by DTF for public non-financial corporations implemented in 2005-06. The main features of the framework are:

- debt to total assets ratio range of 15-25%
- dividend payout ratio of 95% based on after tax profit
- arrangements for the Government to purchase non-commercial services for which CSO payments are made.

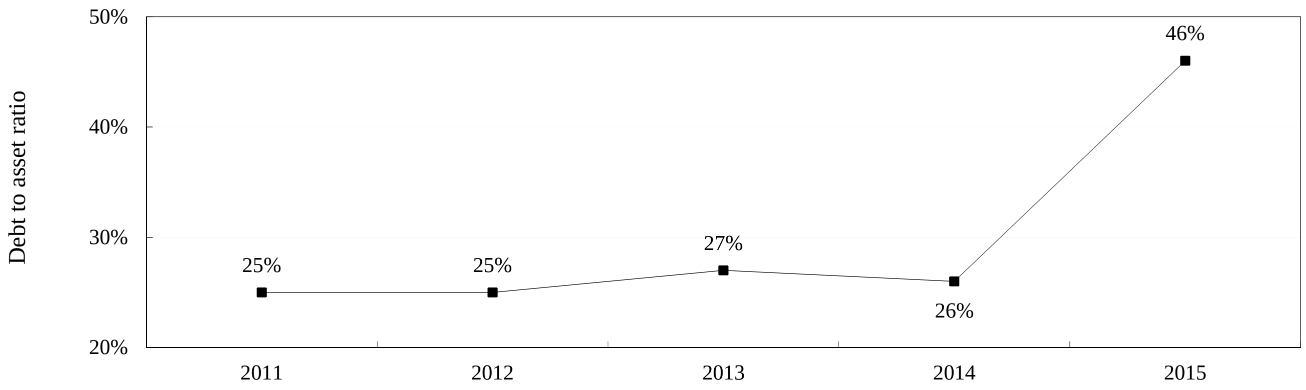
SA Water and DTF are currently revising the financial ownership framework as a result of the change in SA Water's capital structure from the transfer of $2.7 billion debt.

The following table summarises movements in the major items influencing borrowings.

	2015 $'million	2014 $'million	2013 $'million	2012 $'million	2011 $'million
Net cash inflows from operating activities	454	469	538	637	396
Net cash outflows from investing activities	(246)	(286)	(473)	(602)	(722)
Surplus (Shortfall in) cash from operations after investing activities	208	183	65	35	(326)
Dividend payments to owners	(184)	(196)	(236)	(218)	(169)
Surplus (Shortfall in) funds to pay for dividends and investing activities	24	(13)	(171)	(183)	(495)
Net increase in borrowings	17	19	176	189	500

For the period to 2013 SA Water has increased its borrowing to finance its capital works programs, most notably for the ADP and the NSISP. There were only small increases in net borrowings in 2014 and 2015 due to the reduction in SA Water's capital program, however this net increase does not show the impact of the $2.7 billion increase to borrowings as it relates to a non-cash transfer.

The following graph presents movements in the debt to asset ratio for the five years to 2015.



The financial ownership framework gearing ratio range was 15-25% with a long-term target of 20%. From 2010, due to borrowings to fund capital works, the ratio exceeded the long-term target. It is noted that the annual performance statement for 2015 established a target debt/asset ratio target of 44.6% as a direct result of the debt transfer. This is outside the range of the financial ownership framework which is currently being reviewed.

Water industry legislation

The *Water Industry Act 2012* (the WI Act) commenced on 1 July 2012. The WI Act replaced the *Waterworks Act 1932, Water Conservation Act 1936* and *Sewerage Act 1929.*

The WI Act appoints the Essential Services Commission of South Australia (ESCOSA) as the independent economic regulator for the South Australian water industry. ESCOSA commenced its role as economic regulator of the water industry in South Australia on 1 January 2013. SA Water operates within the requirements of the WI Act by holding a licence, and continuing to provide water supply and sewerage services.

ESCOSA made its first determination for prices commencing from 1 July 2013 for a period of three years. The process for the second determination across a four year period from 2016-17 to 2019-20 is underway, with SA Water having submitted their Regulatory Business Proposal on 31 August 2015.

Water and wastewater rates and charges

Pricing

Essential Services Commission of South Australia

The WI Act establishes ESCOSA as the body responsible to make price determinations. In making price determinations, the WI Act requires ESCOSA to comply with the requirements of any pricing order issued by the Treasurer under the WI Act.

Pricing orders

The Treasurer issued two pricing orders. The first pricing order, issued in September 2012, included the requirements that ESCOSA set a three year regulatory period commencing 1 July 2013, determine the revenue (not price) that may be derived from the provision of drinking and sewerage retail services (separately) and apply either a revenue cap, average revenue cap or combination of the two as the form of price regulation for drinking water and sewerage services.

The second pricing order, issued in May 2013, included the requirements that ESCOSA:

- adopt specified values for SA Water's retail water and sewerage regulatory asset bases (RAB), at $7.77 billion and $3.58 billion respectively as at 1 July 2013 (in December 2012 dollars)
- adopt an annual demand forecast of 190 gigalitres of water for each year of the initial regulatory period.

The Treasurer issued a third pricing order in September 2014 with respect to the next regulatory period commencing 1 July 2016.

Ministerial direction

Under the *Public Corporations Act 1993* and the *South Australian Water Corporation Act 1994* SA Water is subject to the control and direction of the Minister for Water and the River Murray (the Minister). On 9 May 2013 the Minister issued a direction to SA Water under these Acts.

The direction recognised the WI Act and that ESCOSA must make a determination that complies with any pricing order issued by the Treasurer. The pricing order provides for the ESCOSA determination to consider the directions from the Minister.

The Minister considered it appropriate to direct SA Water to, amongst other things, purchase renewable energy or renewable energy certificates for the purposes of operating the ADP, maintain state-wide pricing for drinking water and sewerage retail services (compensated by CSOs) and reimburse the Minister for fees paid to the Valuer-General for a copy of the valuation roll (SA Water contributions were determined at $4.4 million for 2013-14, $4.6 million for 2014-15 and $4.8 million for 2015-16).

The costs of these directions may be recovered by SA Water in accordance with the terms of the initial pricing order (ie where not covered by a CSO or where the CSO is not sufficient).

The Minister issued an updated direction covering these matters on 25 June 2015.

Essential Services Commission of South Australia determination

On 27 May 2013 ESCOSA issued a final determination of the amount of revenue that can be recovered by SA Water from drinking water retail services and sewerage retail services for the three year period commencing 1 July 2013.

For both drinking water retail and sewerage retail services ESCOSA determined that the (maximum) average revenue control cap price regulation method be used. These were set at $4.098 per kilolitre for drinking water retail services and $610.113 per connection for sewerage retail services. The determination allowed the average revenue from both services to increase by the annual change in CPI in 2014-15 and 2015-16.

The determination included forecast revenues for drinking water retail services and sewerage retail services in each regulatory year as follows.

	2013-14 $’million	2014-15 $’million	2015-16 $’million
Drinking water retail services[(1)]	778.715	778.715	778.715
Sewerage retail services[(2)]	353.189	356.368	359.575

(1) Assumption of 190 gigalitres each year.

(2) Assumption of connections of 578 892 in 2013-14, 584 102 in 2014-15 and 589 359 in 2015-16.

(3) No allowance has been made for CPI increases in the table, however the determination includes a mechanism to adjust for inflation.

In its ‘Final Determination – Statement of Reasons’ document of May 2013, supporting the price determination, ESCOSA set out:

- the impacts of the Treasurer’s pricing orders on ESCOSA’s assessment and determination of SA Water’s average revenues
- that in nominal terms (including inflation), SA Water’s average revenue from drinking water services would fall by 5.5% and average revenue from sewerage services would increase by 1.6% on 1 July 2013. As noted earlier, average prices are allowed only to increase by CPI in 2014-15 and 2015-16.

Important elements to the average revenue reductions by ESCOSA were:

- setting capital and operating expenditure at $166 million and $145 million lower than was proposed by SA Water during the three year period
- a significant reduction in financing costs – the weighted average cost of capital. ESCOSA noted that this impact was, however, largely offset by the Treasurer’s decision to increase the value of SA Water’s RAB in the second pricing order.

SA Water pricing 2014-15

SA Water is responsible for setting the prices charged to consumers during the three year regulatory period. Those prices must comply with ESCOSA’s revenue determination.

Under the ESCOSA determination SA Water must prepare a statement of compliance each year. This document:

- for 2014-15 indicated that SA Water will comply with the maximum average revenue in 2014-15 by increasing water rates and charges on average by 2.9% nominal (ie including inflation) and increasing average sewerage rates and charges by 2.9% nominal (ie including inflation) for metropolitan customers and 3.4% for country customers
- for 2015-16 indicated that SA Water will comply with the maximum average revenue in 2015-16 by increasing water rates and charges on average by 1.3% nominal (ie including inflation) and increasing average sewerage rates and charges by 1.3% nominal (ie including inflation) for metropolitan customers and 1.8% for country customers.

SA Water’s statements of compliance are available on the SA Water website and note it is not possible to directly compare the information contained in those statements with the audited financial report due to differences in the purposes of the documents and calculation methods applied.

SA Water water prices vary according to customer type and property location. A large component of SA Water water prices is residential customers. The charges for water for residential customers for the four years to 2015-16 are detailed below.

	2015-16	2014-15	2013-14	2012-13
	$	$	$	$
Residential water charges				
First tier: first 0.3288 kL per day	2.35/kL	2.32/kL	2.26/kL	2.42/kL
Second tier: from 0.3288 kL to 1.4247 kL per day	3.36/kL	3.32/kL	3.23/kL	3.45/kL
Third tier: over 1.4247 kL per day	3.63/kL	3.59/kL	3.49/kL	3.73/kL
Annual residential water supply charge per year	286.40	282.80	274.80	293.00

Asset value accounting matters

As part of the determination of prices for water and sewerage services, ESCOSA considers the appropriate RAB. As detailed above, the RAB was determined by the Treasurer in the second pricing order.

The RAB differs from the value of assets reported in SA Water's financial report. The total RAB assets as at 1 July 2013 as specified in the pricing order were $11.35 billion (comprising $7.77 billion for water services and $3.58 billion for sewerage services). This compares to SA Water's total assets at 30 June 2013 of $13.83 billion.

SA Water values the majority of its assets at fair value. In many organisations fair value can be assessed from recent market trading information. However, the determination of fair value for large infrastructure agencies such as SA Water is difficult because reliable market information is not available due to the absence of readily observable market values. SA Water estimates the fair value of the majority of its assets on the basis of written down current cost, being the lower of written down reproduction or written down replacement cost (refer note 1(e) of the financial report).

Under the current regulatory parameters the RAB, as initially determined by the Treasurer, is the value of assets on which regulatory revenues are determined. Asset earning capacity provides information relevant to determining the market value of assets.

Given the difference in the RAB and financial report asset values, in 2012-13 SA Water investigated, with the assistance of DTF and an accounting firm, whether the establishment of the RAB was an indication that the asset values adopted for financial reporting were impaired (ie overvalued).

Important considerations noted were that the RAB is based on the perspective of the current owner rather than what a willing buyer would pay for the asset, and that the RAB value in isolation is not an appropriate valuation to adopt for accounting standard purposes. Evidence was available that where infrastructure utilities are traded they achieve sales prices in a range in excess of the published RAB value. SA Water's financial report asset value was determined as being within a reasonable range.

SA Water concluded, on the basis of the 2012-13 investigation, that the assets do not need to be subjected to further investigation of impairment, since the financial report values are likely to be materially within the range of market values. Since that time, SA Water has continued to engage independent valuers to provide valuation advice for SA Water's assets, including an independent assessment of wastewater treatment plants in 2015.

Regulatory accounting statements

For 2013-14 SA Water was, for the first time, required to submit regulatory accounting statements to ESCOSA. Under Water Industry Guideline 2 'Water regulatory information requirements for major retailers', pursuant to section 8 of the *Essential Services Commission Act 2002*, ESCOSA has specified requirements for major retailers for the collection, allocation, recording and reporting to ESCOSA of regulated business data in accordance with the Guideline. Under the Guideline SA Water was required to submit special purpose financial statements.

The statements were audited against the framework outlined in Guideline 2 and additional determinations outlined by ESCOSA throughout the audit. The statements were prepared for the purposes of meeting ESCOSA's requirements alone and should not be used for any other purpose. An unmodified audit opinion was issued on the statements against the requirements of these guidelines and determinations.

The opening balance of the regulated asset base used in the regulatory accounting statements was set by the Treasurer through the second pricing order for the regulatory period 1 July 2013 to 30 June 2016, issued under section 35 of the WI Act. No opinion was provided on the amount of the regulated asset base as set by the Treasurer.

Adelaide Desalination Plant

The ADP was a major construction undertaking that commenced in 2008-09. The objective of the project was to construct and operate infrastructure that obtains and treats seawater to produce drinking quality water. The desalination plant handover to the operator occurred on 12 December 2012. While handover to the operator occurred in 2012, there was continuing work to address deferred items and defects. In addition there was a 24 month defects correction period, which finished in December 2014. Previous reports have included commentary on the construction and handover of the plant.

The major non-construction contracts are for the:

- operation and maintenance of the desalination plant (O&M contract). The O&M contract was awarded in February 2009 and provides for the operator to operate and maintain the desalination plant for a period of 20 years from project handover on 12 December 2012. During 2014-15 expenditure for operating the plant was $24 million ($27 million). Approximately 22.75 gigalitres (60 gigalitres) of water was produced in 2014-15

- power to operate the desalination plant. As part of the approval for the ADP, a commitment was made that renewable energy would be used for the production of the desalinated water and the transfer of this water to the distribution network. In September 2009 SA Water entered into a 20 year contract for the supply of operational power for the ADP. During 2014-15 expenditure for operational power (including relevant used renewable energy certificates) was $22 million ($42 million). In addition, a current asset of $3 million ($3 million) was recorded for renewable energy certificates acquired but not yet used (refer note 11 of the financial report).

From handover of the desalination plant to the operator on 12 December 2012 the plant was ready for use and consequently depreciation was recognised. The total depreciation expense (including intangible assets) related to the ADP amounted to $52 million in 2014-15 ($47 million).

Department of State Development

Functional responsibility	The Department of State Development (DSD or the Department) is an administrative unit established under the *Public Sector Act 2009*. The main function of the Department is to drive economic growth and create jobs while supporting South Australia's economic transformation. Details of the Department's objectives are contained in note 1 of the financial report.
Financial statistics	Net cost of providing services: $650 million Total appropriation: $687 million Vocational Education Training funding: $241 million Grants and subsidies: $289 million Administered royalties: $237 million Number of FTEs: 990.8
Significant events and transactions	— DSD was formed on 1 July 2014, combining the former Department for Manufacturing, Innovation, Trade, Resources and Energy and the Department of Further Education, Employment, Science and Technology, as well as a number of other elements from other government agencies. — A new program called WorkReady for training, employment and skills activity and investment replaces Skills for All from 1 July 2015.
Financial statement opinion	**Unmodified**
Financial controls opinion	**Modified** Key issues: — Control weakness in processes for Skills for All expenditure — Control deficiencies in Skills for All systems — Key payroll reports not being reviewed on a timely basis — Purchase orders were not always used when required — Review of special delegations not timely and delegations not updated on a timely basis — Purchase card payments not consistent with DSD policy — Amendments to TAFE SA funding arrangements not approved by the Chief Executive of DSD — Controls for the Shared Services SA main payroll system did not meet a generally satisfactory standard

Structure of the Department

The Chief Executive of the Department is responsible to the Premier and the following Ministers:

- Minister for Employment, Higher Education and Skills
- Minister for Science and Information Economy
- Minister for the Arts
- Minister for Health Industries
- Minister for State Development
- Minister for Mineral Resources and Energy
- Minister for Small Business
- Minister for Investment and Trade
- Minister for Manufacturing and Innovation
- Minister for Automotive Transformation
- Minister for Aboriginal Affairs and Reconciliation
- Minister for Water and the River Murray.

DSD was formed on 1 July 2014 as a result of the former Department for Manufacturing, Innovation, Trade, Resources and Energy (DMITRE) being renamed and the functions of a number of other agencies being combined into the new Department.

The Public Sector (Reorganisation of Public Sector Operations) Notice 2014 (dated 15 June 2014) declared that, effective 1 July 2014, the following were transferred to DSD:

- the operations of the Department of Further Education, Employment, Science and Technology (DFEEST)

- 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 (DPC)

- the operational unit of Health Industries South Australia, transferred from the Department for Health and Ageing.

Scope of audit

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

During 2014-15 specific areas of audit attention included:

- expenditure, including funding to TAFE SA and private registered training organisations (RTOs), grants and accounts payable

- employee benefits

- revenue, including mining and petroleum application fees, rentals and licences

- cash management, including bank reconciliations

- administered royalties income

- property, plant and equipment

- general ledger
- governance arrangements
- Skills for All information systems controls.

The audit took into account the controls and procedures performed by service providers including Shared Services SA (SSSA).

The work of DSD's internal audit function was considered in planning and conducting the audit program.

Audit findings and comments

Assessment of controls

In my opinion, the controls exercised by the Department of State Development in relation to the receipt, expenditure and investment of money, the acquisition and disposal of property and the incurring of liabilities, except for all matters outlined under 'Communication of audit matters', are sufficient to provide reasonable assurance that the financial transactions of the Department of State Development have been conducted properly and in accordance with law.

Communication of audit matters

Matters arising during the course of the audit of DSD were detailed in management letters to the Chief Executive. The main matters raised with DSD and the related responses are detailed below.

In addition, matters relating to SSSA as a service provider to the Department are also described below.

Skills for All expenditure

Skills for All program expenditure has been subject to a number of external audit, internal audit and external consultant reviews over a number of years. Although DSD has worked to address findings arising from these reviews, our 2014-15 audit identified a number of matters requiring management attention, as detailed below.

The former DFEEST previously advised that a number of issues associated with the verification and payment of Skills for All claims would be addressed through the implementation of a claims payments and reconciliation (CPR) system. This system was planned to be operational by 31 January 2015, however this was delayed until April 2015 due to additional time being required to finalise the system. As at 30 June 2015, CPR was running in parallel with the Vocational Education and Training Application (VETA) but was not being used to process payments to RTOs. Payments were, instead, still being processed using VETA.

Approval of subsidy base rates

Skills for All payments to training providers are based on subsidy base rates and pricing variables. As part of our audit we sought evidence to support that subsidy base rates for Skills for All courses had been appropriately approved. While the Department had implemented revised delegations and draft procedures covering the approval of, and changes to, pricing variables, evidence of the approval of subsidy base rates could not be provided.

The absence of documented approval for the subsidy rates paid to registered training providers increases the risk that inaccurate payments are made to training providers.

We also note that while Skills for All has been replaced by WorkReady from 1 July 2015, the same systems and base rates calculations will continue to apply under the new arrangements.

DSD replied that the approval of WorkReady base rates would be formalised through the delegate.

Changes to payment hours and subsidy hourly rate variables in Enterprise Client Relationship Management (Pricing Management) (ECRM) system

Our audit of the former DFEEST previously identified there was no process in place to ensure all changes made to payment hours and other variables in the ECRM system were independently checked for validity, accuracy and completeness. Our 2014-15 review of DSD's processes identified draft reports showing changes processed in ECRM were developed but were not yet being used by DSD.

The absence of a review process over changes processed to ECRM leads to a risk that inaccurate changes could be processed, resulting in incorrect payments to RTOs.

DSD replied that audit reports on changes to subsidy rates and payment hours had been developed and are in testing phase. Work instructions for producing audit reports include how often audit reports are produced/reviewed and the required evidence.

Procedures for managing changes to subsidy variables (including rates and payment hours) had been drafted and were being finalised.

Changes in training activity data

Training providers, including TAFE SA, submit training activity data electronically to DSD. In some cases, training activity data for a student may change between data submissions. Student records may, for example, be removed from later data submissions or be removed and then reinstated in later data submissions. Where this occurs it may indicate that Skills for All claims for those students may not have been valid.

The former DFEEST did not have a documented policy or procedure in place to identify these changes in training provider activity data.

To address this issue, DSD finalised the development of the first phase of the CPR system during 2014-15, which will identify changes in training activity data and flag them for review. We noted, however, DSD did not have a documented policy or procedure about the production and review of CPR reports or the follow-up actions required for identified changes in training activity data. As a result there is a risk that invalid payments may not be detected in a timely manner.

DSD replied that CPR (which is in production although not used for generating final payments at present) undertakes these checks monthly and reports on data changes. These data changes are actioned accordingly either with the training provider being required to update their data (if there has been an error) or recovery (if there has been an overpayment). Procedures for CPR had also been developed.

In addition, as part of the future development of the Skills SA payment system (as approved on the forward plan on 12 August 2015 by the Skills and Employment Systems committee) one of the capabilities to be developed will require training providers to sign off each claim as being accurate and correct. Once that occurs the claims will be assessed. This will allow recoveries to occur as part of the payment for the relevant period.

Business solution for assessment of training claims outside of VETA

Skills for All claims were assessed by VETA in 2014-15. VETA has a number of business rules established against which claims are reviewed. Claims that do not comply with the established business rules are rejected as ‘non-conforming’. There are, however, circumstances where training has been provided and will be paid, although it falls outside of the normal business rules. Examples of potentially valid claims that are inconsistent with the established rules include: claims from training providers who have taken on students from a different provider (but cannot establish a new account due to a limit on new enrolments); or instances where training has been delivered prior to a training account being established for the student.

Presently these claims are assessed outside of VETA and the student data is not updated to VETA. While this allows processing of the claim, it can lead to future overpayments as there are limits on the total funding provided for each student, based on VETA data.

DSD replied that there are instances where it is appropriate for a business rule to be switched off for a particular training provider. VETA has this functionality and it has been used where appropriate. A claim can be processed for payment by ‘lifting’ certain business rules.

In instances where a payment is made to a training provider outside of VETA processing, a decision is made by the delegate and the decision is documented. Further, after the payment is made, the matter is raised with Information and Procurement Services to transition the claim line items into the student history.

Priority has been given to the development of a solution to recognise both a payment and a recovery within the VETA student history. In the interim the process to undertake a payment outside of VETA processing will be documented and added to the existing Skills SA Claim, Payment and Reconciliation procedure.

Training agreements

Each registered training provider has a Skills for All contract with the Minister for Employment, Higher Education and Skills. This contract requires training providers to ensure their students complete a student agreement, or have an existing student agreement, at the time of enrolment. Copies of student agreements are to be provided to DSD on behalf of the Minister within 30 days of enrolment.

We noted that a number of private training providers had not submitted student agreements to DSD. In each instance DSD had, however, made a payment to the training provider for the training delivered to that student.

Student agreements assist DSD in establishing that claims relate to valid students. While DSD has other processes in place to review student agreements when undertaking compliance audits, making payments in the absence of a student agreement having been received gives rise to a risk of overpayment.

DSD replied that compliance monitoring always reviews whether student agreements have been provided as required under the contract.

A future capability of the system for Skills SA, a division of DSD, is to require training providers to load a participant (student) agreement to a student profile and/or subsequent training accounts, the intention being that failure to provide the participant agreement will not allow the training provider to make a valid claim.

In the interim when student agreements are not provided the training provider is required to:

- take steps to obtain the student agreement if possible
- provide to Skills SA evidence of the student’s existence and evidence of the delivery of training to the student.

Payroll

Return of bona fide certificates and leave reports

Our 2014-15 audit identified that bona fide certificates and leave return reports for DSD were not consistently being reviewed and returned on a timely basis by managers. Lack of timely review of these key payroll reports increases the risk of financial loss to DSD from inaccurate processing of payroll and leave payments through the payroll system.

DSD responded noting reports are now distributed electronically with clear instructions and that a random audit of compliance would be considered. DSD also noted the implementation of CHRIS 21 would enable online review and approval of reports. CHRIS 21 is due to be implemented for DSD in 2015-16. Once CHRIS 21 is in place, DSD expects to conduct regular audits of compliance through the available reporting functions.

Expenditure

Policies and procedures

Our review of expenditure in 2014-15 identified that a mix of policies and procedures was used by staff across the Department, with policies and procedures from the former DMITRE, the former DFEEST and DPC in use. DSD staff were confused regarding which policies or procedures should be followed, particularly in the early part of 2014-15. As a result there was a risk of non-compliance with policies and procedures that management intended should be followed and of inconsistent practices being applied across the Department.

DSD responded that all DSD policies were located on the Department’s intranet and the Department would soon complete a review of all policies and procedures. Communication would also be forwarded to staff advising them of new policies and procedures.

Purchase orders not always used when required

DSD policy requires purchase orders to be used for expenditure except in cases for which the policy provides an exemption. Exemptions are provided for utilities and across-government IT services, amongst others.

Our testing of compliance with the requirements to complete purchase orders identified a number of instances where purchase orders were not completed, although they were required by policy. Not completing purchase orders where required by policy results in a risk that the purchase may not be consistent with management’s intentions or represent the best value for money.

DSD responded that DSD Procurement had advised all staff involved in the procurement process of the updated policies as part of the Procurement Capability Development program. The review of the use of purchase orders would also be included in DSD internal audit’s Procurement Framework review.

Review of special delegations not undertaken on a timely basis

SSSA provides monthly reports to DSD listing expenditure transactions that have been approved using special delegation authorities, which are assigned to some DSD officers. We identified that the review of these monthly reports was not occurring on a consistently timely basis across the Department. Delays in the review of these reports increases the risk that inappropriate transactions will not be identified and addressed on a timely basis.

DSD responded that its processes had been reviewed to ensure timely review of reports occurs and appropriate corrective action is undertaken where required.

Payment delegations not updated to Basware on a timely basis

Our 2014-15 audit identified delays in processing approved changes to delegations into Basware, the application system used to approve invoice payments. The delay in updating Basware for changes to delegations resulted in officers being able to approve payments above their revised delegations, creating a risk that inappropriately approved payments could occur.

DSD advised the consolidation of financial delegations, undertaken at 1 January 2015, took time to be processed to Basware due to the volume of data and process issues, which had since been resolved.

Purchase cards

Purchase card payments not consistent with DSD policy

Purchase card holders within DSD are not to use purchase cards for certain categories of expenditure, as outlined in DSD policy. Categories for which purchase cards are not to be used include the purchase of mobile telephones or accessories, computer software and staff gifts. Our review of compliance with these requirements, however, identified numerous purchase card transactions for the purchase of mobile telephones or accessories, computer software and staff gifts.

Where DSD policies for purchase card use are not followed, there is an increased risk of inappropriate purchase card expenditure.

DSD responded that revised purchase card procedures were released on the Department's intranet, effective 31 May 2015 and include guidance on transactions that are not permitted. In addition, reminders will be provided to all cardholders and supervisors regarding their responsibilities.

Purchase cards used above delegated limits

Our audit identified instances where officers used purchase cards for amounts in excess of the transaction and monthly limits established in delegations. These transactions were able to occur as the limits set in the purchase card system differed from the delegations and these differences had not been detected. These instances highlight the risk when regular reviews of the established purchase card limits are not performed.

DSD advised quarterly reviews of transaction and monthly purchase card limits will occur.

Amendments to TAFE SA funding arrangements

An agreement was signed between the Chief Executive of DSD and the Chief Executive of TAFE SA to provide additional structural adjustment funding to TAFE SA during 2014-15. Subsequent to the agreement, arrangements for the payment of the second instalment of this funding were varied by agreement between TAFE SA and DSD officers. While the payment was approved within DSD's established delegations, DSD was unable to provide evidence the amendments to the payment arrangements agreed between chief executives was approved by the Chief Executive of DSD.

Further, DSD was unable to provide documentation supporting an adjustment made to a separate TAFE SA supplementation funding payment.

Where DSD does not comply with agreed payment arrangements, the ability to resolve any matters of dispute with TAFE SA may be complicated.

DSD responded that it would implement our recommendation to comply with agreements signed by the Chief Executive or, where circumstances require changed arrangements, gain approval from the Chief Executive for the revised arrangements. DSD would ensure this approval is clearly documented and retained as evidence to support the payment made. Future adjustments to other payment arrangements would also be documented as appropriate.

Shared Services SA – financial systems and transaction processing environments

SSSA processes financial transactions on behalf of the Department under service level determinations. The main systems and control environments include accounts payable, payroll and general ledger financial functions.

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

As discussed in the commentary under 'Department of the Premier and Cabinet' elsewhere in Part B of this Report, our review and evaluation of controls for the SSSA main payroll systems concluded that controls did not meet a generally satisfactory standard for 2014-15. A number of specific matters were raised with SSSA for corrective action and review for process and procedural improvement. Our review and evaluation of controls for the SSSA main accounts payable systems and environment concluded that controls met a generally satisfactory standard for 2014-15.

The matters do not relate to the Department's transaction processing.

Skills for All information systems review

DSD operates a number of subsidiary information systems that collectively form the Skills for All system. These subsidiary systems record training results, perform data validation checks and convert data to a format for inclusion into batch claims for payment processing.

During 2014-15, we reviewed aspects of these systems. This review included gaining a status update on remediation activities performed following recommendations made in prior reviews by us and by external consultants. Our review also included assessing documentation supporting the interfaces between key Skills for All subsidiary systems, understanding recent changes to systems governance arrangements, reviewing data integrity through certain system interfaces and assessing the effectiveness of privileged user access management for subsidiary systems.

The review noted improvements to Skills for All systems governance arrangements, plans to consolidate application development activities within the information and communications technology team and the delivery of a formal quality assurance strategy for systems development. However, the review also identified shortcomings that required management attention. These included:

- privileged user access not being appropriately managed across Skills for All systems
- instances where developers had access to production environments, creating segregation of duties conflicts
- insufficient documentation for key data interfaces.

To address these findings and strengthen the overall information and communications technology environment, we raised a number of recommendations, including reviewing privileged user access in Skills for All systems on a periodic basis. We recommended privileged user access should be restricted to users who require these permissions as part of their current primary job function, and that DSD segregate application development and system administration user roles as much as practicable.

We also recommended procedures be developed to manage all DSD-managed interfaces for Skills for All applications, and that procedures include assigned responsibilities for each interface component, the frequency and nature of interface data flows, details of data integrity checks performed and data transformation rules.

DSD responded to our findings and recommendations, advising that it has already updated procedures to ensure that application production changes are implemented by different people to ensure appropriate checks are in place. However, it was noted that some staff hold both development and system administration roles. This process has been implemented to mitigate the risk of segregation of duties conflicts and DSD advised that it accepts the residual risk.

DSD responded positively to the remaining recommendations with details of planned remediation.

Interpretation and analysis of the financial report

As previously discussed DSD was formed on 1 July 2014 by renaming DMITRE and transferring the functions of a number of other agencies to create the new Department. Comparative figures for 2013-14 would not be meaningful, as these would only relate to the former DMITRE, and are not included in the following table.

Comparative figures for DMITRE only are, however, reported in the DSD financial report for the year ending 30 June 2015.

Highlights of the financial report

	2015 $'million
Expenses	
Grants and subsidies	289
Vocational Education Training (VET) Fund	241
Employee benefit expense	118
Supplies, services and other expenses	126
Total expenses	774
Income	
Revenues from fees and charges	61
Commonwealth revenues	36
Other revenues	27
Total income	124
Net cost of providing services	650
Revenues from (Payments to) SA Government	
Revenues from SA Government	687
Payments to SA Government	(15)
Net result	22
Net cash provided by (used in) operating activities	98
Assets	
Current assets	235
Non-current assets	983
Total assets	1 218
Liabilities	
Current liabilities	139
Non-current liabilities	28
Total liabilities	167
Total equity	1 051

Statement of Comprehensive Income

Expenses

Total expenses were $774 million. The main expenses of DSD were grants and subsidies of $289 million, VET funding of $241 million and employee benefits of $118 million, which collectively constitute 84% of total expenses.

Grants and subsidies consist of three main categories: grants to arts and cultural bodies of $128 million; grants to TAFE SA of $68 million, and skills and employment grants of $57 million.

Grants and subsidies to cultural bodies were previously reported in DPC's financial report.

Grants to TAFE SA form part of the substantial overall funding that is provided by DSD to TAFE SA. The following table details all forms of funding provided by DSD for the current year, and by the former DFEEST to TAFE SA, for the last two years.

	2015 $'million	2014 $'million
VET funding	161	193
Structural adjustment funding	44	42
Community services obligation funding	16	17
Capital funding	6	14
TVSP reimbursement	3	30
Other	2	-
Total	232	296

Overall funding to TAFE SA has decreased in 2014-15 as a result of fewer TAFE SA staff receiving targeted voluntary separation packages (TVSPs) and a reduction in the level of Skills for All funding provided. Some of TAFE SA's TVSPs were reimbursed by the Department of Treasury and Finance, with $30 million being paid through DSD to TAFE SA in 2013-14. The reduction in Skills for All funding reflects a decrease in the number of training hours delivered and changes to the rates paid for each completed unit of competency.

Skills and employment grants include funding of the Tertiary Students Transport Concession Scheme, Bio Innovation SA, Adult Community Education and Education Adelaide.

Total VET funding reduced in 2014-15 from $309 million reported in the former DFEEST's 2013-14 financial report, to $241 million in 2014-15. The reduction reflects the impact of cost containment measures introduced for Skills for All and involved:

- reduced subsidy prices being paid
- capping course numbers
- restricting eligibility for new students.

These measures saw a reduction in Skills for All funding to TAFE SA of $41 million and a reduction in funding provided to private RTOs of $36 million to $80 million.

Income

DSD is predominantly funded by appropriation. Revenues from the SA Government were $687 million.

The Department's other main income streams were revenue from fees and charges of $61 million and Commonwealth revenues of $36 million.

Revenues from fees and charges predominantly relate to:

- infrastructure recharges from TAFE SA of $24 million, paid to reflect TAFE SA's use of the Department's assets to deliver training
- mining and petroleum application fees, rentals and licences of $21 million.

Commonwealth revenues predominantly relate to the National Partnership Agreement on Skills Reform funding of $32 million. The National Partnership Agreement relates to the reform of the VET sector.

Statement of Financial Position

The Statement of Financial Position shows that the most significant items are as detailed in the following table.

	2015 $'million
Assets	
Cash and cash equivalents	172
Property, plant and equipment	962
Liabilities	
Payables	124
Employee benefits	34

Property, plant and equipment and non-current assets held for sale collectively represent 81% of total assets, with cash and cash equivalents representing a further 14%.

Property, plant and equipment assets comprise TAFE SA educational campus sites, including Regency and Tonsley Park, which were formerly recognised by the former DFEEST. The Adelaide Festival Centre and other buildings controlled by Arts SA are also included in the Department's property, plant and equipment figures, having transferred from DPC as part of the restructure to create DSD.

The Department's significant cash balance of $172 million as at 30 June 2015 is offset by current payables totalling $122 million. Included within the creditors and accrued expenses balance are payables to TAFE SA for $72 million. This amount comprises Skills for All accruals and other funding amounts not paid as at 30 June.

DSD's total receivables balance also includes $13 million owing from TAFE SA as a result of previous Skills for All overpayments. These overpayments occurred as a result of the imposition of a payment cap for 2013-14 Skills for All payments to TAFE SA not being recognised by the Skills for All systems that assessed claims for payments.

Statement of Cash Flows

Cash at 30 June 2015 is $172 million. Of this amount, $162 million is held in DSD's operating account and $10 million is for accrual appropriations. Information outlined above explains the significant payable amounts that account for a large portion of this balance.

Administered items

DSD is responsible for administering the collection of royalties levied on mineral and petroleum production on behalf of the State Government.

During 2014-15 DSD administered the collection of $237 million ($291 million) in royalties, which was paid to the Consolidated Account. Royalties collections have decreased through a combination of lower production volumes and lower market prices.

Further commentary on operations

Skills for All and WorkReady

In 2011 the State Government announced its Skills for All policy, with the aim of achieving an additional 100 000 training places. Under Skills for All, eligible South Australian students were able to gain qualifications at little or no cost from an approved training provider of their choice (either TAFE SA or a private RTO).

Skills for All commenced on 1 July 2012. Total expenditure of Skills for All funding since inception is provided in the following table.

	2015	2014	2013	Total
	$'million	$'million	$'million	$'million
TAFE SA	148	189	161	498
Private RTOs	80	100	62	242
Total	228	289	223	740

Note: TAFE SA commenced as a separate statutory body on 1 November 2012 and was previously part of the former DFEEST, which was also responsible for making payments under Skills for All.

The State Government announced a replacement program called WorkReady 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.

Anangu Pitjantjatjara Yankunytjatjara (APY) Lands

Issues relating to the financial management and governance practices of APY, the incorporated body with responsibility for the management of the APY Lands, have received considerable attention in recent times.

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.

APY receives funding from the State Government to fund the administration of the *Anangu Pitjantjatjara Yankunytjatjara Land Rights Act 1981* (APY Act). In 2014-15, total grant funding, excluding GST, provided by DSD for this purpose was $1 763 954. $2 004 480 was provided for this purpose in 2013-14 from DPC, as Aboriginal Affairs and Reconciliation were part of DPC until 1 July 2014.

The grant funding provided in both years included an amount of $180 000 for an Exploration and Mining Liaison Officer.

Other funding is provided by DSD, and is reflected in the administered financial statements, to other government agencies and non-government organisations to undertake works or programs on the APY Lands, but these amounts are not paid to APY.

As part of our 2014-15 audit of the Department, we met with senior officers from the Aboriginal Affairs and Reconciliation division to understand how DSD management were fulfilling their responsibility for the grant administration process for grants paid to APY for the 2013-14 and 2014-15 financial years. These discussions also focused on understanding the changes to grant acquittal requirements over time. We also sought copies of specific documentation to support the information provided.

Grant agreements

The 2013-14 grant agreement with APY was signed in November 2013, with a minor variation agreed in March 2014.

A grant agreement for 2014-15 was signed in February 2015. This agreement was signed following an extended period of negotiation between APY and both former and current Ministers for Aboriginal Affairs and Reconciliation. No grant funding was provided in 2014-15 until the funding agreement had been signed, with the first payment occurring on 20 February 2015.

An initial variation to the 2014-15 funding agreement was signed in April 2015, providing additional funding for a variety of specific purposes and reallocating the purpose of existing funding. A further minor variation to the 2014-15 funding agreement was executed on 29 June 2015, providing a revised total of $1 763 954. The second amendment included variations in the purposes for which funds were to be used, reflecting discussions that had continued between DSD and APY.

Grant acquittal requirements

The 2013-14 grant agreement required monthly reporting, in the form of statements of receipts and payments and budget analysis, to account for the grant funds provided. An audited financial statement for the previous financial year was to be provided within six months of the end of the financial year (ie by 31 December 2014) and there was to be six monthly reporting against the APY Act.

There were issues associated with the receipt of information required, with information being received later than the established time frames. The audited financial statements, for example, were only signed by the auditor in March 2015, over eight months after the end of the financial year. They were provided to DSD on 14 April 2015.

The 2014-15 grant agreement acquittal requirements included those of the 2013-14 agreement and added a number of additional conditions:

- APY was required to implement strict delegations for approving payments, with only the General Manager having authority for approval
- an independent audit of spending and financial controls was to be undertaken covering the period between July 2014 and December 2014, with the report being provided to the Minister
- specific documentation, including minutes of APY Executive Board meetings, monthly financial reports and annual reports, was required to be provided on the APY website, commencing from the end of March 2015.

As noted above, funding for the first quarter of 2014-15 was provided in February 2015. Funding for the second quarter was provided on 24 April 2015, following the receipt of information, including the 2013-14 APY annual report, by DSD.

We noted that minutes of APY Executive Board meetings were being added to the APY website from April 2015 and that KPMG was engaged by the Department to undertake an audit of expenditure, as discussed further below.

Prior to the release of the final two quarters of funding, we also noted APY had provided quarterly financial reports for the first three quarters of 2014-15, and further minutes of Executive Board meetings, on their website.

Payments for the third and fourth quarter funding were approved on 29 June 2015. In approving these payments, the Minister recognised there had been progress made in transparency and accountability for APY and reinforced his expectation that these improvements would continue.

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

External reviews of Anangu Pitjantjatjara Yankunytjatjara finance and administration

APY engaged Accounting for Good to perform a review of APY's financial management system. This report was finalised in December 2014 and made a number of recommendations regarding the need to fundamentally improve financial management practices.

The Department, in order to meet one of the funding conditions of the 2014-15 funding agreement, engaged KPMG to undertake a review of APY expenditure and financial controls for the period 1 July 2014 to 31 December 2014. This review, which was finalised in May 2015, also identified a number of fundamental issues with the financial management of APY, concluding there was a general lack of financial control and non-compliance with required expenditure delegations, and that reporting for that period could not be relied upon.

A copy of this report is available from the Department's website.

The Department also engaged KPMG to undertake a follow-up review to understand the progress made by the interim General Manager in addressing the matters raised by KPMG's initial report. This report noted an improved control environment around expenditure approval, with only the interim General Manager approving payments, and progress towards addressing other matters. A copy of this report, including the interim General Manager's response, is available from either the Department's or APY's websites.

The Department, in cooperation with the Commonwealth Government, also engaged Ernst & Young to undertake a further review of APY's finances. The scope for this review included an audit of State and Commonwealth Government funds for the 2014-15 year, including reconciling spending against approved budget amounts, and ensuring there was a robust financial management system in place within APY to support compliance with State and Commonwealth funding agreements from 2015-16 onwards.

While the scope of the Ernst & Young review is available from the Department's website, a report from this review was not yet available at the time of finalising this Report.

As the management response to this matter is not concluded, the audit will continue in 2015-16.

Superannuation Funds Management Corporation of South Australia

Functional responsibility	The Superannuation Funds Management Corporation of South Australia (Funds SA) is a statutory authority established by the *Superannuation Funds Management Corporation of South Australia Act 1995* (the SFMCSA Act). Funds SA's main function is to invest and manage the public sector superannuation funds, the nominated funds of approved authorities and other funds (funds under management) pursuant to strategies formulated by Funds SA. For details of Funds SA's objectives and functions refer note 1 of the financial report.
Financial statistics	Net surplus: $374 000 Number of FTEs: 28.8 Funds under management: $25.8 billion Net income of assets under management: $2.2 billion
Significant events and transactions	— Funds SA took on the management of funds for two new clients namely the Lifetime Support Authority of South Australia and the Health Services Charitable Gifts Board. Funds under management as at 30 June 2015 for these two clients were $165 million and $80 million respectively. — Motor Accident Commission redeemed $645 million of investment funds.
Financial statement opinion	**Unmodified**
Financial controls opinion	**Unmodified**

Restrictions on operations

Pursuant to section 21(1) of the SFMCSA Act, Funds SA is subject to the direction and control of the Minister. However, a ministerial direction must not be given for an investment decision dealing with property or the exercise of a voting right.

Funds SA has broad powers over the investment of funds under management. Funds SA, however, cannot borrow money or obtain any other form of financial accommodation unless authorised to do so by the Regulations or by the Minister. In addition, the Regulations under the SFMCSA Act impose restrictions so that Funds SA must not invest in real property outside the State or enter into derivative transactions (eg futures contracts, forward contracts, swaps) without the relevant authority of the Minister.

Funds under management

The funds managed and invested by Funds SA are identified in note 1(b) of the financial report.

Funds SA is not responsible for administering (ie receipting contributions and paying benefits) any of the public sector superannuation funds or eligible superannuation funds. This responsibility rests with the following entities:

- South Australian Superannuation Board – South Australian Superannuation Scheme, Southern State Superannuation Scheme, Super SA Retirement Investment Fund and South Australian Ambulance Service Superannuation Scheme

- Police Superannuation Board – Police Superannuation Scheme

- South Australian Parliamentary Superannuation Board – Parliamentary Superannuation Scheme

- Department of Treasury and Finance – the Governors' Pensions Scheme and the Judges' Pensions Scheme

- the Trustee of the SA Metropolitan Fire Service Superannuation Scheme

- Southern Select Super Corporation as trustee of Super SA Select.

Additional information on administering superannuation schemes is available in the financial report of the various schemes included elsewhere in Part B of this Report.

Approved authorities for the purpose of investing funds with Funds SA are:

- South Australian Government Financing Authority
- Adelaide Cemeteries Authority
- Motor Accident Commission
- Lifetime Support Authority of South Australia
- Health Services Charitable Gifts Board.

Structure

Funds SA operates with a small staff comprising investment officers and accounting and administrative support staff. This structure is complemented by extensive use of external fund management firms. Fund managers are utilised for all investment types, and there is a single custodian entity (which is responsible for holding, valuing and accounting for the assets) for the majority of those fund managers. Each fund manager and the custodian is appointed pursuant to an agreement that dictates the scope for investment, fees and reporting requirements.

Scope of the audit

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

During 2014-15 the review included:

- investment policy and strategy approval and compliance
- investment expenditure, income and valuation
- investment allocation and redemption
- custodial and fund management
- fixed assets
- administration expenses.

Audit findings and comments

Assessment of controls

In my opinion, the controls exercised by the Superannuation Funds Management Corporation of South Australia in relation to the receipt, expenditure and investment of money, the acquisition and disposal of property and the incurring of liabilities are sufficient to provide reasonable assurance that the financial transactions of the Superannuation Funds Management Corporation of South Australia have been conducted properly and in accordance with law.

Communication of audit matters

Matters arising during the course of the audit were provided in a management letter to the Chief Executive Officer. The matters related to some minor internal controls deficiencies. The response from the Chief Executive Officer indicated that the matters would be appropriately addressed.

Interpretation and analysis of the financial report

Highlights of the financial report

Funds SA	2015 $'million	2014 $'million
Total income	6.3	5.8
Total expenses	5.9	5.5
Net surplus (deficit) and total comprehensive result	0.4	0.3
Net cash provided by (used in) operating activities	0.7	0.6
Total assets	4.8	4.2
Total liabilities	1.6	1.4
Total equity	3.2	2.8

Funds under management	2015 $'billion	2014 $'billion
Net income	2.2	2.8
Net assets	25.8	23.8

Statement of Comprehensive Income

The operating result of Funds SA for the year was a net surplus of $374 000 ($333 000).

Revenues from fees and charges increased by $486 000 as a result of a higher level of fees charged for services provided to Funds SA clients due to an increased level of funds under management. Funds SA aims to only recover its costs and from time to time will adjust the amounts charged for its services if excessive amounts are recovered.

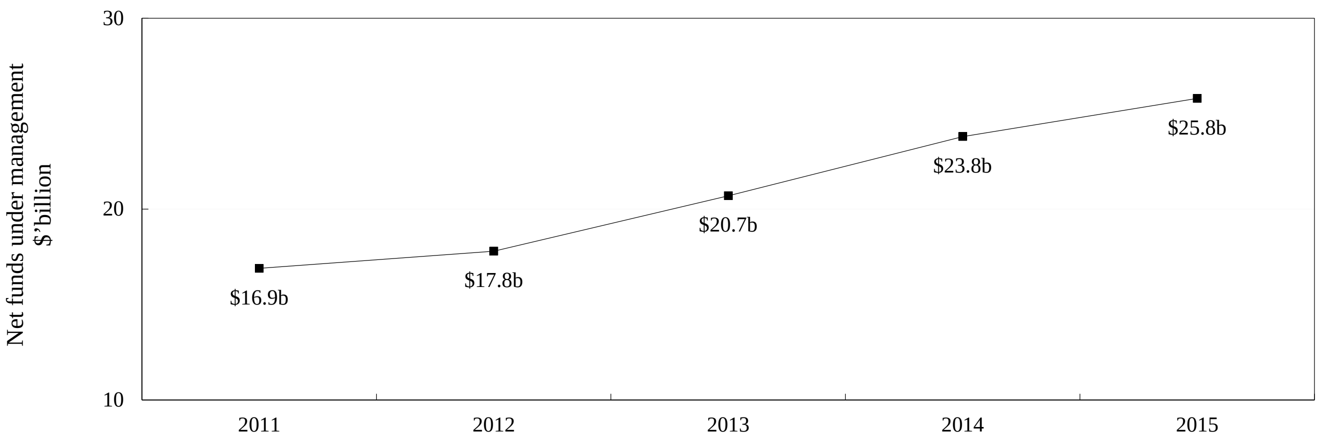
Expenses increased by $453 000 mainly as a result of an increase in supplies and services, up $293 000, and employee benefits costs, up $225 000. This was offset by a decrease in depreciation expense of $65 000. The increase in supplies and services was due mainly to increased human resource expense, up $167 000, associated with the costs of hiring the new Chief Executive Officer, and office rent expense, up $136 000, as result of securing new office accommodation.

Further commentary on operations

Funds under management

As mentioned, Funds SA invests and manages the public sector superannuation funds, the funds of eligible superannuation schemes and the nominated funds of approved authorities. The public sector superannuation funds represent 89% of total net funds under management.

The following chart illustrates the net funds under management as at 30 June over the past five years.



In 2015 the net funds under management increased by $2 billion to $25.8 billion due mainly to net income earned from investing activities of $2.2 billion (further commented on under the heading 'Income from investments' below) offset by a net redemption of client funds of $200 million.

Asset allocation

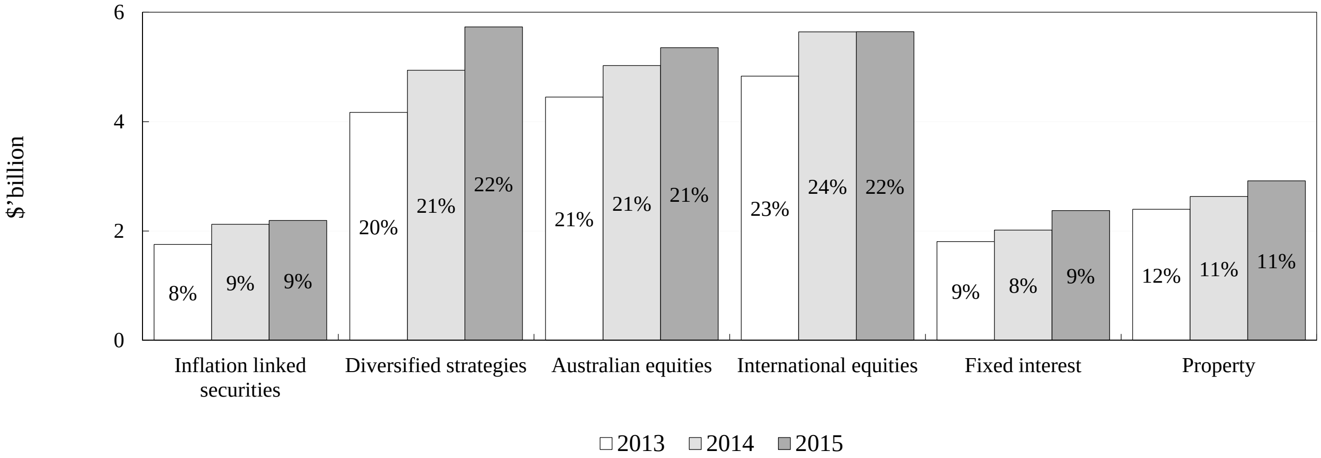
An investment policy drives decisions about how funds will be invested. Section 7 of the SFMCSA Act provides that the objective of Funds SA in performing its functions is to achieve the highest return possible on investment of the funds while having proper regard for:

- the need to maintain the risks relating to investment at an acceptable level
- the need for liquidity in the funds
- such other matters as are prescribed by regulation.

Underpinning the investment policy and decision-making is an understanding of the financial risks facing Funds SA. Funds SA manages some of its financial risks by diversifying funds under management into 19 asset classes. These asset classes underpin the investment strategies (multi-sector portfolios) and single-sector products that Funds SA offers to its clients to meet their differing time horizons and levels of acceptable risks. Client investors are responsible for setting investment objectives and selecting investment options that meet their needs. Funds SA is responsible for managing the investment portfolio in accordance with agreed asset allocations and reporting investment performance as required by the client.

Funds SA continually monitors investment performance during the year and makes adjustments to investment subclass holdings as required.

The value of each asset class (excluding the cash, Motor Accident Commission absolute return, Motor Accident Commission infrastructure and socially responsible investment classes which in total only represent 6% (6%) of the total funds under management) and the holding of each asset class as a percentage of total funds under management at 30 June for the last three financial years is illustrated in the following chart. The asset classes include both taxed and untaxed funds where applicable.



The chart shows that diversified strategies investments, which include both growth and income assets, continued to increase in both value and percentage of the overall investment portfolio. This reflects the continued solid performance of certain market segments within the class. Australian equities and property both increased in value although the percentage holdings remained steady. This reflects the strong returns from these asset classes. International equities remained steady in value although the percentage holdings decreased.

The primarily long-term nature of investment strategies means funds under management are exposed to periodic falls in financial markets as well as gains.

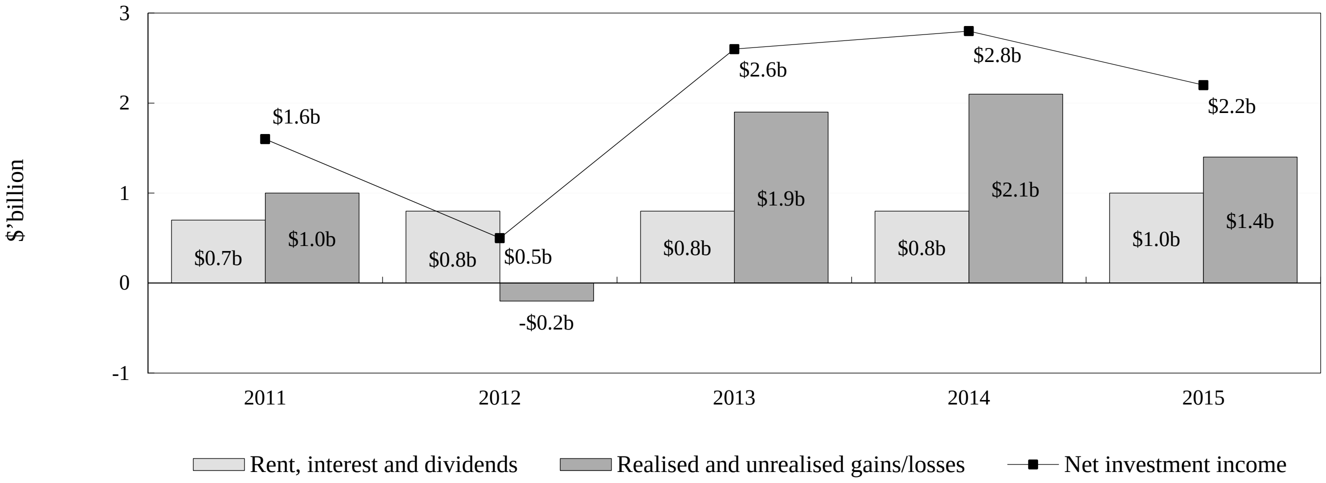
Income from investments

Net income from investment activities comprises income from rent, interest and dividends, and realised and unrealised gains and losses from investment valuations less expenses incurred in the investment activity.

Net income from investment activities was a surplus of $2.2 billion ($2.8 billion), a decrease of $644 million. Income comprised rent, interest and dividends of $976 million ($828 million), realised losses of $114 million ($8 million) and unrealised gains of $1.5 billion ($2.2 billion).

Schedule 1 of the financial report provides full details of income earned from investment activities for each asset class.

An analysis of the investment result for funds under management for the five years to 2015 is shown in the following chart.



As can be seen from this chart, positive realised and unrealised gains in 2011, 2013, 2014 and 2015 contributed significantly to the net investment income result. In 2012 there were negative realised and unrealised gains but these were offset by rent, interest and dividend income to still provide for a positive net investment income result.

The following table shows a structural analysis of net income earned for the five years to 2015, highlighting the varying performance of the major investment asset classes. It should be noted that the magnitude of net income earned from investment activities in each year is a function of not only the performance of financial markets, especially equities, but also the size of total assets invested in the markets.

Net income earned from investment activities

	2015 $'million	2014 $'million	2013 $'million	2012 $'million	2011 $'million
Inflation linked funds	103	162	61	236	123
Property	289	209	264	155	138
Australian equities	315	753	839	(398)	447
International equities	1 007	1 039	1 118	(23)	453
Fixed interest	109	95	61	224	99
Diversified strategies	320	519	227	278	315
Cash/Socially responsible/Other	52	62	63	65	53
Total net income	2 195	2 839	2 633	537	1 628
Total value of assets invested as at 30 June	25 797	23 835	20 684	17 774	16 875

The earlier chart showing asset class holdings indicated that Funds SA's investment strategy is weighted towards Australian and international equity holdings. The table above shows a decrease in income from these asset classes in 2015. Income from Australian equities decreased, due to the lower performance of the Australian equities market relative to the prior year. The volatile nature of these investments will cause their returns to fluctuate from year to year consistent with prevailing economic conditions. Income from property increased in 2015, which reflects strong returns in the Australian unlisted property market. In 2012 improved returns from inflation linked funds and fixed interest investments offset poor results from investment in equities.

The table below shows Funds SA's percentage return for each of the past 10 years for both the balanced and growth (tax exempt) funds, which together account for 71% of total funds under management. These figures were provided by Funds SA and are unaudited.

Funds SA investment return – periods ending 30 June

	10 years	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
	% p.a.	%	%	%	%	%	%	%	%	%	%
Balanced	6.9	9.4	13.8	14.7	3.1	10.9	12.6	(15.3)	(9.3)	17.7	17.6
Growth	7.0	10.0	14.9	16.4	2.0	11.4	12.3	(17.5)	(11.2)	19.5	19.4

The performance against target benchmarks for certain asset classes for the 2014-15 year and also the three years ended 2014-15 is shown in the following table. These figures were provided by Funds SA and are unaudited.

	1 year Actual %	1 year Benchmark %	3 years Actual %	3 years Benchmark %
Cash	2.7	2.6	3.0	2.9
Short-term fixed interest	3.6	4.0	3.6	3.6
Long-term fixed interest	7.0	7.6	6.5	6.5
Inflation linked securities A	5.0	5.4	5.3	4.4
Diversified strategies income	4.1	3.9	6.9	6.5
Property A	11.1	11.6	10.7	10.5
Australian equities A	5.9	5.6	15.0	14.7
International equities A	18.2	17.7	23.3	21.9
Diversified strategies growth A	12.4	6.7	12.3	6.9
Inflation linked securities B	4.4	5.0	4.7	4.3
Property B	10.3	11.6	9.7	10.5
Australian equities B	6.1	5.6	14.8	14.7
International equities B	18.8	17.9	23.2	22.1
Diversified strategies growth B	11.4	6.7	11.7	6.9

The performance of asset classes against benchmark for 2014-15 was good overall with the majority of asset classes exceeding benchmark. Growth investments were generally the strongest performers with diversified strategies growth A and B classes exhibiting the strongest performance against benchmark.

Investment expenses

In 2015 investment expenses amounted to $153 million, an increase of $21 million from the previous year. The increase is primarily a result of a higher value of funds under management during the year. Investment expenses are 0.6% (0.6%) of average funds under management.

Year	Investment expenses $'million	Average funds under management $'billion
2009	57.4	13.4
2010	69.0	14.5
2011	88.9	16.4
2012	85.4	17.3
2013	100.4	19.8
2014	131.8	22.7
2015	153.4	25.1

TAFE SA

Functional responsibility	TAFE SA is established pursuant to the *TAFE SA Act 2012* and is a statutory corporation to which the provisions of the *Public Corporations Act 1993* (other than section 35) apply. The TAFE SA Board is responsible to the Minister for Employment, Higher Education and Skills. TAFE SA's main function is to provide technical and further education. Details of TAFE SA's objectives are contained in note 1 of the financial report.
Financial statistics	Total expenses: $336 million Net cost of providing services: $4 million Total income from the Department of State Development (DSD): $232 million Number of FTEs (excluding casuals): 2295.5 Number of resulted units of competency delivered: 380 296* * Data provided by TAFE SA and unaudited.
Significant events and transactions	— 80 IT services staff transferred from DSD to TAFE SA in September 2014, to establish an internal technology services capacity within TAFE SA. — DSD provided structural adjustment funding totalling $44 million to TAFE SA, in addition to funding provided under the Skills for All program and other grants.
Financial statement opinion	**Unmodified**
Financial controls opinion	**Modified** Key issues: — Inadequate controls over user access to, and changes made in, the Student Information System — Review or approval of key payroll documents did not occur on a timely basis — Purchase orders were not used in all instances where they were required and purchase cards were used for purposes not allowed by TAFE SA procedures — Inadequate controls for the Building and Construction Unit inventory at Tonsley Park — No policies covering Skills for All revenue reconciliation processes — Control issues over fee-for-service revenue raisings — No comprehensive legal compliance program

Scope of the audit

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

During 2014-15 specific areas of audit attention included:

- operating expenditure and accounts payable
- employee benefits
- revenue, including funding under Skills for All, student fees and receivables
- cash management, including bank reconciliations
- fixed assets
- general ledger processing
- governance arrangements
- IT controls for the Student Information System (SIS).

The audit took into account the controls and procedures performed by service providers including Shared Services SA.

The work of TAFE SA's internal audit function was also considered in planning and conducting the audit program.

Audit findings and comments

Assessment of controls

In my opinion, the controls exercised by TAFE SA in relation to the receipt, expenditure and investment of money, the acquisition and disposal of property and the incurring of liabilities, except for all matters outlined under 'Communication of audit matters', are sufficient to provide reasonable assurance that the financial transactions of TAFE SA have been conducted properly and in accordance with law.

Communication of audit matters

Matters arising during the course of the audit, including a number that were raised in prior years, were detailed in a management letter to the Chair of the TAFE SA Board. The main matters raised with TAFE SA and the related responses are detailed below.

Payroll

Return of bona fide certificates

Our audit identified that certifying officers were not always reviewing and returning bona fide certificates on a timely basis. We also noted there were changes to the process for the review and monitoring of bona fide certificates during 2014-15.

Ineffective review of bona fide certificates increases the risk of financial loss to TAFE SA due to inaccurate payroll processing or leave recording within the payroll system.

TAFE SA responded that it will develop and implement a work instruction for the management of bona fide certificates and the human resource systems team will undertake bimonthly audits of the bona fide certificate process, with an escalated reporting process for areas where no improvement is shown.

Approval of timesheets

TAFE SA staff who do not perform an educational role use timesheets to record their hours worked, record leave taken and manage flexitime arrangements. Our 2014-15 audit identified instances where timesheets were not authorised, or not authorised on a timely basis.

Instances where timesheets are not approved, or not approved on a timely basis, increase the risk of incorrect payments being made to employees, potentially resulting in financial loss to TAFE SA through overpayments or excessive leave taken.

TAFE SA responded that a quarterly reminder will be sent to all TAFE SA managers of their responsibilities to review and maintain timesheets for all of their staff on a timely basis. Human Resources will also conduct bimonthly audits of timesheets.

Letter of offer to engage hourly paid instructors

In previous years we have identified instances where hourly paid instructors (HPIs) have commenced employment prior to signing a contract. Our 2014-15 review again identified that some HPIs commenced work prior to signing an employment agreement with TAFE SA.

The absence of a signed employment contract increases the risk of incorrect payments to the HPI and also increases the risk that the HPI may not be clear on their responsibilities as a TAFE SA employee.

TAFE SA responded that all relevant officers would be reminded of the industrial obligation to ensure HPIs receive and accept a formal offer of employment prior to commencing work. A schedule of spot audits of HPIs will also be undertaken by human resources business partners within their business units.

Expenditure

Purchase orders not used in all instances where they were required

Our audit identified instances where purchase orders were not used to order goods and services for which an order, under TAFE SA policy, was required. Where purchase orders are not used for orders that require them, there is an increased risk of the purchase not being appropriately authorised or in line with management's expectations.

TAFE SA's Procurement Services Unit will reinforce to all TAFE SA staff their obligation to raise purchase orders for all purchases, except for those that are specifically exempted by policy.

Purchase cards used for purposes not allowed by TAFE SA policy

TAFE SA policy states that purchase cards are not to be used for internal functions and staff gifts or for the purchase of computer software, mobile phones and fuel. We identified instances where purchase cards were used for each of these types of expenditure during 2014-15.

Where purchase cards are not used in accordance with established policy, there is a risk that inappropriate purchases could occur, resulting in potential financial loss to TAFE SA.

TAFE SA advised that a communication would be issued to all staff, reminding them of their responsibilities regarding purchase card use and the need to comply with existing policy. TAFE SA also noted an existing process, coordinated by the Department of Treasury and Finance, is used to flag high risk purchase card transactions for further investigation with cardholders, with the potential to recover funds from staff where transactions breach policy requirements.

Inventory

An internal audit review undertaken in 2014-15, and further follow-up work, identified a number of control issues for inventory management and reporting for the Building and Construction Unit at Tonsley Park. Issues identified included inaccurate stock records, inventory reports not being produced on a timely basis and a lack of control over inventory movements.

These issues result from implementation issues for new inventory management practices as part of the relocation from previous TAFE SA locations to Tonsley Park. The identified issues result in risks that stock theft could occur, waste costs are not being appropriately managed and purchasing decisions are not based on accurate information.

TAFE SA responded that the inventory issues at Tonsley Park would be addressed in two stages. The first stage involved confirming inventory holdings through detailed stocktake processes, which would then continue on a regular basis. The second stage would involve the establishment of a steering group to manage inventory issues at Tonsley Park and a wider audit of all materials handling and change management issues being undertaken by an independent consulting firm.

Student revenue – Student Information System

Policy and procedure about updating student fee rates and hours in the Student Information System

Course fees charged to TAFE SA students are calculated for each unit of competency within SIS. Our audit identified TAFE SA did not have policies or procedures that covered the process of fee setting or allocating the nominal amount of hours for each competency. We also noted there was no evidence of an independent review of fees entered into SIS, and identified instances where the fees entered were lower than those approved by the TAFE SA Board.

The absence of a documented process to change fees within SIS and the absence of an independent review or validation process to confirm changes made, could result in incorrect fees being charged to TAFE SA students.

TAFE SA advised that further work was undertaken since the completion of the audit, including checks of the fees that have been loaded into SIS, with documentation supporting the review being retained. TAFE SA also advised a project to improve the process and controls in this area had commenced in August 2015.

Incorrect use of exemption codes

We found that there was no evidence of an independent review to ensure that only approved exemptions from paying fees were processed in SIS. Our audit identified a number of instances where documentation supporting fee waivers could not be provided.

In the absence of an independent review for instances where fees are waived, through the use of fee exemption codes, there is a risk that exemptions may be inappropriately granted to students.

TAFE SA responded that managers would be provided specific training on the TAFE SA policies for fee exemptions and that TAFE SA would implement a regular reporting process to enable the regular review of fee exemptions by business units.

No policy or procedure for recognition of prior learning

Our 2013-14 audit identified there was no policy or procedure regarding the approval and processing of applications for recognition of prior learning. In 2014-15, we confirmed there was still no policy in place.

As a result, there is a risk that unauthorised or incorrect processing of recognition of prior learning within SIS will occur.

TAFE SA advised a policy would be developed covering:

- who has the authority to approve recognition of prior learning
- what reports should be produced and the frequency with which they should be generated
- the review process to be undertaken to ensure only authorised and valid instances of recognition of prior learning are entered into SIS.

No review of changes made to student grades

Our 2014-15 audit identified a number of TAFE SA employees, who do not directly teach students, had access to alter student grades in SIS. We also noted there was no evidence of an independent review to ensure only authorised changes were made to grades.

The absence of a process to review changes made to student grades in SIS, coupled with non-teaching staff access to make these changes, creates a risk that incorrect grades may be entered within student accounts.

TAFE SA responded that it would implement a policy for the independent review of grades entered into SIS and review the business need for non-lecturer staff access to amend grades within SIS.

Skills for All revenue

No policies covering Skills for All reconciliation processes

Our review of controls over Skills for All revenue received by TAFE SA identified there was no policy covering the review process for the:

- completeness of training activity data transferred between the data warehouse facility and the Vocational Education and Training Application payment and error files
- accuracy of general ledger updates to Vocational Education and Training Application payments and accrual calculations.

In addition there was no evidence of an independent check of the above processes. As data related to Skills for All revenue is processed through a number of different systems, reconciliations are a key control to ensure data integrity. There is a risk that reconciliations will not be in line with management's expectations where they are not governed by policy to ensure consistency and are not subject to independent review.

TAFE SA responded that the Business Intelligence Competency Centre of TAFE SA had developed a Skills for All revenue procedure, which included requirements to undertake an independent review of reconciliations and for records supporting the reconciliation to be retained in the Business Intelligence Competency Centre.

Fee-for-service revenue

Inconsistent invoice raising practices

Our review of the processes within TAFE SA to manage fee-for-service revenue identified there was no consistent practice in the manner that business operations managers managed contracts and invoiced customers. Some managers used the Procurement and Contract Management system, while others used spreadsheets to monitor arrangements.

Inconsistent contract management practices across TAFE SA may result in duplication of effort and the use of ineffective processes to ensure correct invoices are generated on a timely basis.

TAFE SA responded that policies would be updated to reflect that:

- the Procurement and Contract Management system scheduling functionality must be used to set reminders to raise invoices in line with agreements

- invoices must be raised in a timely manner and supporting documentation must be attached to the request.

Lack of segregation of duties – credit notes

Fee-for-service credit notes are created using an online form. The form did not enforce segregation of duties between the person completing the form and the person who approves it. We also noted there was no systematic process to review credit notes to ensure they were appropriately approved. As a result, there is a risk that unauthorised credit notes can be processed, resulting in a financial loss to TAFE SA.

TAFE SA advised existing policy would be clarified to make it clear that in all circumstances, the credit note form is required to be reviewed by two separate staff members. TAFE SA also advised that Financial Accounting would generate, review and escalate credit note reports each month.

Governance

No comprehensive legal compliance program

TAFE SA did not have in place a structured comprehensive legal compliance program to ensure compliance with legislative requirements. A formal legal compliance framework, which contains an up-to-date register of relevant legislative requirements, is a useful reference for staff monitoring legislative compliance and assists in minimising the risk of non-compliance with requirements.

TAFE SA responded that a draft policy for the creation of a legal compliance framework had been developed and would shortly be released for internal consultation. It was intended that the Legislation and Delegations Unit would have overall responsibility for overseeing legal compliance within TAFE SA and would maintain a register of key legislation as part of that process.

Fraud and corruption control plan

Our review identified TAFE SA did not have an endorsed fraud and corruption control plan, increasing the risk of TAFE SA not effectively managing the prevention and risk of fraud.

TAFE SA advised that a fraud and corruption control plan would be established.

Skills for All information systems review

In 2014-15, we reviewed Skills for All information systems at DSD. This included aspects of SIS and the data interface between SIS and DSD systems.

Our review identified shortcomings that required management attention. These included ineffective privileged user access management controls for SIS, insufficient segregation of duties for application developers, insufficient interface documentation and the absence of a standardised interface for training activity data.

To address these findings and strengthen the overall information and communications technology environment, we raised a number of recommendations for TAFE SA, including:

- reviewing privileged user access in SIS on a periodic basis and validating access with the relevant application owners
- restricting SIS privileged user access to users who require that access as part of their current primary job function
- segregating SIS system administration and application development user roles, and conducting regular reviews to ensure privileged access to the production environment was not granted to application developers
- working with DSD to develop a procedure to manage the interface between SIS and DSD systems
- proceeding with the proposed approach to develop a standardised export file from SIS to reduce the complexity of the interface and provide increased integrity over training activity and qualifications data.

TAFE SA responded to our review findings and recommendations, advising that it accepted the current level of segregation of duties for application developers. It advised that remediation for the remaining recommendations would be completed by the end of June 2016.

Student Information System review

An internal audit was undertaken of SIS in October 2013. The review found a number of issues associated with the system including issues concerning the integrity of address and postcode data, the presence of duplicate SIS accounts and issues associated with user access to SIS.

We have followed up TAFE SA’s progress in addressing these findings for the last two years.

In 2014-15 TAFE SA advised that all outstanding issues from the audit had been completed. In particular, a project to implement unique student identifications (student IDs) and a project to implement user access related actions were both completed in early 2015. As part of efforts to remove duplicate student IDs, a student data integrity officer role was created with responsibility for identifying the causes of duplicate records, and managing and resolving them. The improvements relating to user access included the delivery of redesigned security profiles for SIS and the provision of documentation and processes to modify and remove access to SIS.

Interpretation and analysis of the financial report

Highlights of the financial report

	2015 $’million	2014 $’million
Expenses		
Employee benefits	220	275
Supplies and services	109	121
Other expenses	7	7
Total expenses	336	403

	2015 $'million	2014 $'million
Income		
Vocational education and training funding from DSD	161	193
Student and other fees and charges	85	83
Commonwealth and other grants and contributions	81	84
Other income	5	31
Total income	332	391
Net cost of providing services	4	12
Other comprehensive income	-	1
Total comprehensive result	(4)	(11)
Assets		
Current assets	111	101
Non-current assets	30	29
Total assets	141	130
Liabilities		
Current liabilities	64	52
Non-current liabilities	57	53
Total liabilities	121	105
Total equity	20	25

Statement of Comprehensive Income

Expenses

The main expenses of TAFE SA are employee benefits of $220 million which comprise 65% of total expenses. Employee benefits decreased by $55 million in 2014-15. This decrease reflects the payment in the prior year of $46 million in targeted voluntary separation packages (TVSPs) to 370 TAFE SA staff. Only $3 million was paid in TVSPs in 2014-15, to 31 staff.

Salaries and wages costs decreased by $9 million to $178 million, reflecting the reduction in the TAFE SA workforce as a result of the TVSPs in 2013-14.

Supplies and services expenses decreased by $12 million to $109 million. This reduction is principally a result of an $11 million decrease in payments of corporate services recharges to DSD. In previous years, DSD provided IT services to TAFE SA in accordance with a memorandum of administrative arrangement. From September 2014, 80 staff transferred from DSD to TAFE SA to establish TAFE SA's own IT services capacity. As a result, payments for these services only occurred until September 2014. Note 32 of the financial report provides further information on the staff transfer.

Infrastructure payments to DSD remained steady at $23.7 million. These payments represent rental payments for the provision of TAFE SA campuses, which are owned by DSD.

Income

TAFE SA's main income source is from DSD. Total funding from DSD was $232 million ($296 million).

This funding constitutes 70% of TAFE SA's total income and consists of the following components:

	2015 $'million	2014 $'million
Vocational education training (VET) funding	161	193
Grants	68	73
TVSP recovery from DSD	3	30
Total expenses	232	296

DSD grants to TAFE SA include amounts for structural adjustment funding, funding for community services obligations and capital funding.

VET 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. As a result of these changes, TAFE SA received $30 million in additional structural adjustment funding from DSD.

Funding from DSD in 2013-14 included TVSP recoveries of $30 million. These amounts were transferred from the Department of Treasury and Finance to DSD and then passed onto TAFE SA. The reduction in this amount to only $3 million in 2014-15 reflects the much lower level of TVSPs during the year.

Statement of Financial Position

The Statement of Financial Position shows that the most significant items are as follows.

	2015 $'million	2014 $'million
Assets		
Cash and cash equivalents	14	59
Receivables	96	41
Property, plant and equipment and intangibles	30	29
Liabilities		
Payables	45	33
Employee benefits	67	60

Cash has decreased by $45 million during 2014-15. This is offset by an increase in receivables of $55 million. Out of the total receivables of $96 million, $72 million relates to amounts owed by DSD to TAFE SA under the Skills for All program or other agreements. A further $6 million of receivables relates to VET FEE-HELP funding to be received from the Commonwealth.

Payables have increased by $12 million in total and this includes an amount of $13 million that is owed to DSD for previous Skills for All overpayments. These overpayments occurred because the cap imposed on total Skills for All payments to TAFE SA in 2013-14 was not recognised by the Skills for All systems that assessed the June 2014 claims for payment.

Notably, TAFE SA does not own campus infrastructure. Consequently, land and buildings are not a feature of TAFE SA's assets.

Statement of Cash Flows

Cash decreased by $45 million during the period, principally due to the timing of receiving payments from DSD, as reflected in the high receivables balance.

Further commentary on operations

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 VET training.

The Future Education Delivery Strategy aims, in part, to respond to government announcements regarding future funding to be provided to TAFE SA under the WorkReady Scheme, which has replaced Skills for All for new training commencements from 1 July 2015. 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.

Department of Treasury and Finance

Functional responsibility	The Department of Treasury and Finance (the Department or DTF) is an administrative unit established under the *Public Sector Act 2009*, and is responsible to the Treasurer. The Government, through the Treasurer and the Department, undertakes a number of distinct roles including: — setting economic and fiscal policy at the whole-of-government level — managing whole-of-government financial management processes — providing a range of direct whole-of-government services including asset and liability management, collection of taxes, and insurance and superannuation administration.
Financial statistics	Net cost of providing services: $57 million Total revenues from government: $59 million Employee benefit expenses: $56 million Revenues from fees and charges: $40 million Number of FTEs (including the South Australian Government Financing Authority and the South Australian Superannuation Board): 568
Significant events and transactions	In February 2013 DTF's corporate services function transferred to the Department of the Premier and Cabinet. The 2014-15 financial report reflects the full year impact of this transfer.
Financial statement opinion	**Unmodified**
Financial controls opinion	**Modified** Key issues: — Improvements to compliance risk management documentation and processes at RevenueSA (a branch of DTF) — Improvements to debt management policies and procedures at RevenueSA — Improvements to debtor management reporting for State taxes — Reconciliation of central general ledger clearing account is unresolved — Controls for Shared Services SA main payroll system did not meet a generally satisfactory standard

Scope of the audit

The audit program covered major financial systems to obtain sufficient evidence to form an opinion on the financial report and internal controls. The audit program also considered the review work undertaken by the internal audit section of the Department.

During 2014-15 specific areas of audit attention included:

Corporate systems

- expenditure
- payroll
- financial accounting.

RevenueSA

- financial accounting and recording systems for tax collections
- taxpayer compliance and debt management
- RISTEC project review.

Financing and insurance services

Commentary on these activities is included in the section titled 'South Australian Government Financing Authority' elsewhere in Part B of this Report.

Superannuation services

Commentary on these activities is included in the section titled 'South Australian Superannuation Board' elsewhere in Part B of this Report.

Public finances

In addition we undertake ongoing work on various aspects of the public finances. These matters will be reported in a Supplementary Report on the State Finances, and the Treasurer's Statements are included in the Appendix to this Annual Report.

Audit findings and comments

Assessment of controls

In my opinion, the controls exercised by the Department of Treasury and Finance in relation to the receipt, expenditure and investment of money, the acquisition and disposal of property and the incurring of liabilities, except for all matters outlined under 'Communication of audit matters', are sufficient to provide reasonable assurance that the financial transactions of the Department of Treasury and Finance have been conducted properly and in accordance with law.

Communication of audit matters

Matters arising during the course of the audit of the Department were detailed in management letters to the Under Treasurer. The main matters raised with the Department and the related responses are detailed below.

In addition, matters relating to Shared Services SA (SSSA) as a service provider to the Department are also described below.

RevenueSA

RevenueSA, through the Commissioner of State Taxation, is responsible for the management, collection and enforcement of the State's taxation revenue, including stamp duty, payroll tax, land tax and the fixed property component of the Emergency Services levy (ESL).

Billing and receipting

The following observations were made:

- RevenueSA has not reconciled the value of ESL receipts recorded in the CLIMBER receipting system to the value of receipts recorded in the Department's general ledger since December 2013. Delays in completing the reconciliation increase the risk that ESL receipts are inaccurately and incompletely recorded in the general ledger and errors are not identified in a timely manner.
- RevenueSA does not ensure the complete and accurate transfer of property data into the South Australian Land Tax system, which may result in billing errors.
- An opportunity exists for RevenueSA to improve the process used to check the complete and accurate transfer of property data into the CLIMBER system for ESL billing purposes.

RevenueSA responded that it has since completed the CLIMBER to general ledger reconciliations for 2013-14 and the 2014-15 reconciliations are in progress, and that it will refine property data accuracy checks.

Taxpayer compliance and debt management

We have considered RevenueSA's risk management approach to taxpayer compliance and the controls established by RevenueSA to manage outstanding tax debts. Key findings from our review are summarised below.

Compliance risk management

- Opportunities exist for RevenueSA to improve the nature and extent of documented policies and procedures that instruct staff when identifying, analysing, evaluating and treating compliance risks.
- RevenueSA does not evaluate compliance risks using criteria that are closely linked to its compliance priorities. Without this link RevenueSA staff are required to exercise significant judgement when assessing the significance of identified compliance risks, compromising the objectivity of the risk assessment process.
- RevenueSA does not prioritise compliance risks or select compliance activities (risk treatments) using its compliance risk management systems. Without a clear link between the risk assessment process and its compliance activities, RevenueSA is unable to demonstrate how it applies a structured and systematic approach to treating risks to taxpayer compliance.
- RevenueSA does not measure the effectiveness of its compliance activities in responding to its identified compliance priorities. We recognise that in measuring effectiveness there is a need to consider the costs and benefits of applying limited resources to this activity.

RevenueSA responded positively to these findings, indicating that it would:

- develop a policy and procedure to document the compliance risk framework by December 2016
- develop its own risk rating matrix for compliance risks with a clear link to its compliance priorities

- review the applicability of tools used to prioritise and select risk treatments and ensure there is clear correlation between planned compliance activities and risk rating outcomes

- consider additional resources to measure the effectiveness of compliance activities.

Debt management

- RevenueSA has not documented its policies for identifying, recording and managing outstanding tax debts. The absence of documented policies increases the risk that RevenueSA fails to identify and pursue tax debts in a timely manner. Delays in pursuing outstanding payroll tax and stamp duty, in particular, increase the risk that these debts are written off as uncollectable.

- RevenueSA's documented procedures for managing outstanding tax debt are incomplete and were not formally approved by the Commissioner of State Taxation. Incomplete documented procedures for identifying, recording and managing outstanding tax debts increase the risk that tax debts may not be effectively monitored and pursued in a timely manner, and penalties and interest taxes may be inconsistently applied.

RevenueSA responded positively to our findings and indicated it would implement policies and procedures, and improve documentation. These actions are expected to be completed by December 2016.

RISTEC debtor management

In prior years we noted opportunities for RevenueSA to improve the usefulness of debt management reporting.

As mentioned above RISTEC Release 1 (R1) was implemented in June 2012 for calculating and managing payroll tax. In 2012-13 we noted that while RISTEC is able to produce a range of debtor reports, RevenueSA had identified a number of limitations with them.

RevenueSA has recognised the implementation of RISTEC Release 2 (R2: land tax and ESL) as its next opportunity to improve its internal reporting on outstanding taxation debt, including the production of aged debtors reports.

RISTEC R2 was implemented in July 2015. As a result, the issues reported by us in prior years on debtor management were not resolved in 2014-15.

DTF advised that it continues to work on debt management dashboard reporting to correct identified deficiencies and errors within various reports. Further, an aged debtor report has been developed as part of RISTEC R2 implementation and the report is under review.

RISTEC project developments

In the December 2014 Supplementary Report, we reported that the RISTEC project's ability to achieve proposed functionality and deliverables had worsened over 2013-14. This was attributable to the deferral of the RISTEC R2 operation to July 2015 and the abandonment of Release 3 (R3), with a $4.5 million write-off of capitalised development costs.

During 2014-15, DTF continued to progress the implementation of RISTEC R2. Recent project updates indicate that all remaining project requirements for system design, environment readiness, testing, data validation, training, final deployment and cutover to DTF's production environment have been implemented.

On 6 July 2015, RISTEC R2 went live within DTF's production environment. Since go-live, a number of defects have been noted. As part of the post go-live/implementation, a defect prioritisation model has been developed to assist in addressing the resolution of known defects. The system integrator will focus on addressing outstanding RISTEC R2 defects in accordance with the current contractual warranty arrangement.

Project costs/benefits

As at 30 June 2015 the RISTEC project budget was $55.9 million (inclusive of enhancements) and project expenditure was $53.6 million.

Based on the assumption that all three RISTEC project releases would be operational, an initial estimated State taxation collection revenue benefit of $16.6 million p.a. was anticipated. This benefit was to occur through improved identification of taxpayer obligations, better data matching capability and automated debt management tracking and reporting.

However, as a consequence of the de-scoping of RISTEC R3, the future revenue benefit has been revised down to $12.5 million p.a. as reported in a Cabinet note dated December 2014. This implies that project cost recovery/recoup time frames may be extended.

Other observations

Notwithstanding that we noted tighter project reporting in 2014-15, operational and security residual risks associated with RISTEC R1 and R2 functionality remain. These include:

- R1 defects and prior recommendations have not yet been remediated
- system upgrades remain outstanding
- R2 penetration testing postponed to post go-live
- application support and technical documentation not yet finalised
- the business continuity plan and disaster recovery plan require updating to reflect current position
- user acceptance testing of non-critical functionality not yet performed
- review of R1 and R2 for non-deliverables.

DTF responded positively to our recommendations and advised that issue remediation would be completed by late 2016.

DTF corporate functions

DTF's corporate functions include:

- general ledger processing and general ledger reconciliations
- human resource management and payroll processing
- accounts payable and EFT disbursement
- accounts receivable.

Many of these functions are performed by SSSA on behalf of the Department in accordance with a service level determination.

The Department exercises controls to ensure that information provided to SSSA for processing is complete, accurate and properly approved. SSSA is responsible for the complete and accurate processing of this information into the Department's financial reporting systems.

Reconciliation of general ledger accounts

SSSA is responsible for maintaining the completeness and accuracy of the Department's general ledger. To meet this responsibility SSSA regularly reconciles relevant general ledger balances with information recorded in subsidiary records.

During 2013-14 we identified the need for SSSA to improve the nature and scope of general ledger reconciliations performed on behalf of the Department. We noted reconciliation processes have been revised in 2014-15 to improve the completeness and accuracy of general ledger reconciliations, however certain areas could be further improved. In particular, we identified that the current process does not ensure that all object codes are considered and reconciled, and certain accrual accounts are not effectively reconciled to subsidiary records. SSSA is therefore unable to provide DTF with assurance that all general ledger accounts are accurate and complete.

SSSA has advised that it will review existing reconciliation processes.

Public Finance Branch

Responsibilities of the Public Finance Branch include administration of the annual appropriation process, recording activities of the Consolidated Account and the balances of the Treasurer’s deposit accounts and Treasurer’s loans. Our review of the controls exercised by the Public Finance Branch identified the following matter.

Reconciliation of central general ledger (CGL) clearing accounts

The Treasurer is required to prepare an annual financial report in accordance with section 22 of the *Public Finance and Audit Act 1987*, based on financial records maintained by the Department in the CGL.

This financial report is referenced as the Treasurer’s Statements A through to L and is included in the Appendix to this Annual Report.

The CGL includes a series of clearing accounts representing amounts which, due to processing error or timing differences between recording activity in the CGL and agency records, the Department has yet to transfer to another, more appropriate, CGL account. The Public Finance Branch largely relies on information from agencies to update the CGL clearing accounts.

The accumulated balance of these CGL clearing accounts is reported in Treasurer’s Statement C as cheques drawn but not presented/deposits not credited, which at 30 June 2015 totalled -$57 million. While this classification reflects the generally understood and likely nature of the balances held, the Department is unable to validate this balance. This has been an ongoing issue since 2011-12.

The Public Finance Branch has undertaken a significant amount of work during 2014-15, in cooperation with relevant agencies, to understand the activity recorded in the clearing accounts and reconcile the monthly movements in them. The causes of some variances had been identified, however at the time of preparation of this Report further work was required to successfully reconcile the balance of CGL clearing accounts.

The Department has advised that it will perform further work to resolve the variances in the clearing accounts.

SSSA – financial systems and transaction processing environments

SSSA processes financial transactions on behalf of the Department under service level determinations. The main systems and control environments include accounts payable, payroll and general ledger financial functions.

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

As discussed in the commentary under 'Department of the Premier and Cabinet' elsewhere in Part B of this Report, our review and evaluation of controls for the SSSA main payroll systems concluded that controls did not meet a generally satisfactory standard for 2014-15. A number of specific matters were raised with SSSA for corrective action and review for process and procedural improvement. Our review and evaluation of controls for the SSSA main accounts payable systems and environment concluded that controls met a generally satisfactory standard for 2014-15.

The matters do not relate to the Department's transaction processing.

Interpretation and analysis of the financial report

Highlights of the Department's financial report – controlled items*

	2015 $'million	2014 $'million
Expenses		
Employee benefit expenses	56	67
Supplies and services	42	37
Other expenses	1	6
Total expenses	99	110
Income		
Fees and charges	40	38
Other income	2	5
Total income	43	43
Net cost of providing services	57	67
Net revenues from SA Government	56	58
Net result and total comprehensive result	(0)	(9)
Assets		
Current assets	15	18
Non-current assets	26	22
Total assets	41	40
Liabilities		
Current liabilities	13	14
Non-current liabilities	15	13
Total liabilities	28	27
Total equity	13	13

* Table may not add due to rounding

Statement of Comprehensive Income

Effective from 10 February 2014, the Department's corporate services function was transferred to the Department of the Premier and Cabinet (DPC). On 1 April 2014 Ministerial fleet services were also transferred to DPC. The full year impact of these transfers in 2014-15 is the main reason for the $11 million decrease in employee expenses in 2014.

Employee expenses include salaries and wages for staff provided by DTF to support South Australian Government Financing Authority and South Australian Superannuation Board operations. These costs are recovered from the South Australian Government Financing Authority and the South Australian Superannuation Board through a service level arrangement and are reported in note 11 of the financial report.

Supplies and services increased by $5 million to $42 million due to the following factors:

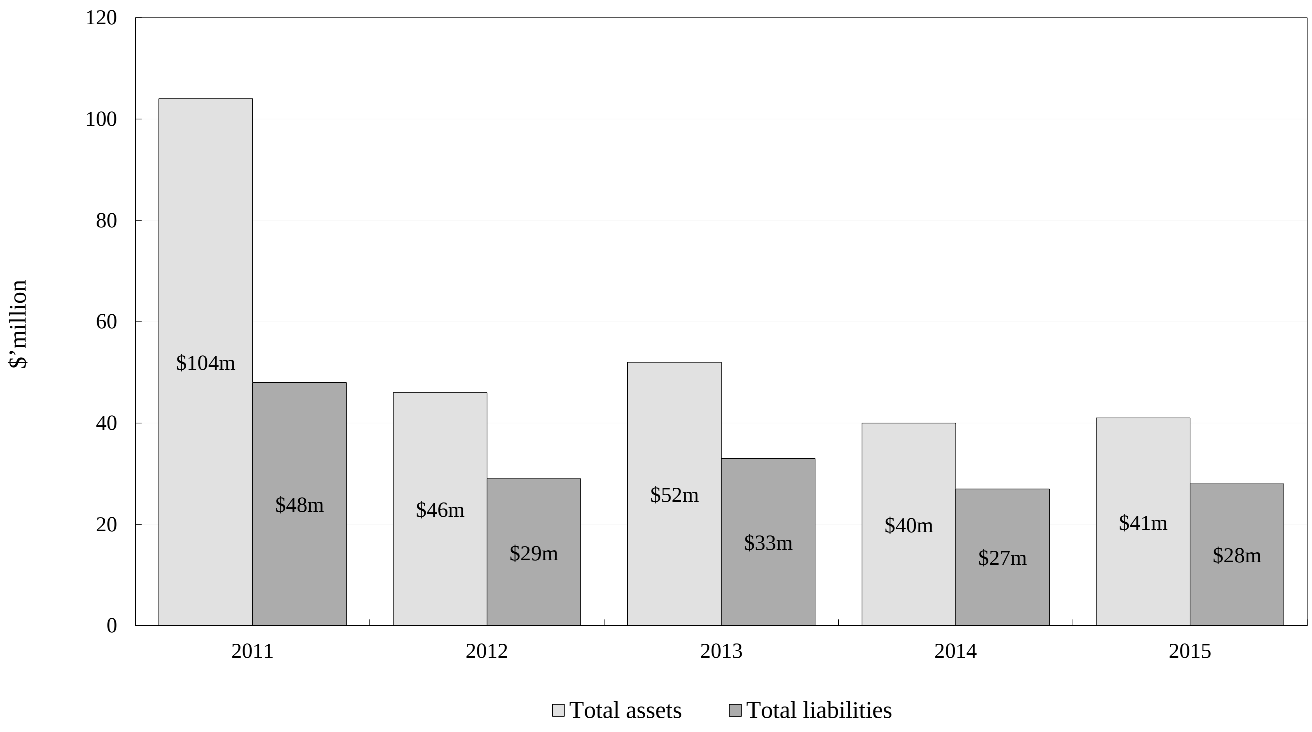
- accommodation and telecommunication, IT and general administration expenses decreased by $4 million, primarily due to the full year impact of the corporate services transition
- corporate recharge expenses increased by $8 million, primarily due to the full year impact of the annual service level agreement fee paid by DTF to DPC for the provision of corporate services functions
- legal costs and consultants increased by $2 million due to projects including the Compulsory Insurance Reform project and divestment of the State Administration Centre precinct.

Other expenses decreased by $5 million, mainly due to the write-off of costs in 2013-14 previously capitalised associated with the RISTEC R3 project. No further write-offs occurred in 2014-15.

Statement of Financial Position

Total assets increased by $1 million to $41 million due mainly to a $4 million decrease in cash, offset by a $4 million increase in intangible assets. The increase in intangible assets reflects capital expenditure associated with the development of RISTEC R2.

The following chart shows the decrease in the Department's assets and liabilities since 2011.



The significant decrease in assets and liabilities from 2011 to 2012 reflects the transfer of SSSA to DPC during 2011-12.

Statement of Cash Flows

Net operating cash flows improved by $6 million due mainly to a decrease in cash flows associated with employee benefits and payments for supplies and services, and a decrease in payments to the SA Government due to less surplus cash returned to the Consolidated Account.

Highlights of the Department's financial report – administered items

The administered financial statements mainly reflect the Department's transactions on behalf of the SA Government for the Consolidated Account. The Consolidated Account result for 2014-15 is reported in the Treasurer's Statements (Appendix to the Annual Report).

	2015 $'million	2014 $'million
Income		
Taxation	3 904	3 759
Commonwealth revenues	6 935	6 474
Revenues from SA Government	1 448	1 853
Other revenues	3 392	1 164
Total income	15 679	13 250
Expenses		
Payments to SA Government	12 451	10 193
Grants, subsidies and transfers	2 311	2 246
Other expenses	923	1 018
Total expenses	15 685	13 457
Net result	(6)	(207)
Assets		
Current assets	1 120	1 635
Non-current assets	2	2
Total assets	1 122	1 637
Liabilities		
Current liabilities	826	1 329
Non-current liabilities	64	70
Total liabilities	890	1 399
Total equity	232	238

Other revenues and payments to the SA Government both increased significantly, mainly due to a $2.7 billion return of capital by the South Australian Water Corporation to the Treasurer for the credit of the Consolidated Account. Further information relating to this transaction is included in the section titled 'South Australian Water Corporation' elsewhere in Part B of this Report.

Further commentary on operations

Commonwealth funding arrangements

The Intergovernmental Agreement on Federal Financial Relations (IGA) provides the framework for the Commonwealth's financial relations with the states and territories.

The IGA provides for the following types of Commonwealth payments:

- general revenue assistance, including the ongoing provision of GST payments, to be used by the states and territories for any purpose

- national specific purpose payments (SPP) to be spent in the key service delivery sectors as agreed to between the Commonwealth and the States. Each national SPP is linked to a national agreement that contains objectives, outcomes, outputs and performance indicators, and clarifies the roles and responsibilities of each jurisdiction

- national partnership payments to support the delivery of specified outputs or projects, to facilitate reforms or to reward those jurisdictions that deliver on nationally significant reforms.

Under the IGA all Commonwealth funding, with the exception of funding under the National Health Reform Agreement and the National Education Reform Agreement, is provided to the Department, which is then responsible for distributing funds to agencies. The Treasurer has established a special deposit account to receive and disburse money paid to the State for the national SPP purposes listed in Schedule F of the IGA and the national partnership payments purposes listed in Schedule G.

The balance of the IGA account at 30 June 2015 was $43 million ($74 million). This balance represents funds that the Department is yet to transfer to other agencies.

University of Adelaide

Functional responsibility	The University of Adelaide (the University) is established by the *University of Adelaide Act 1971*. The University has the objective of advancing learning and knowledge which it achieves through the provision of university education and the conduct of research activities.
Financial statistics	Net operating result: $53 million Australian Government financial assistance: $496 million Number of FTEs: 3 862 Number of students (EFTSLs): 21 396
Significant events and transactions	The construction of the University of Adelaide Clinical Centre, located adjacent to the new Royal Adelaide Hospital, commenced in August 2014. The Centre will incorporate new facilities for the University's Medical and Nursing Schools and a new Dental Clinic. The Centre has a total budgeted construction and fitout cost of $246 million and is planned for completion in semester 1, 2017.
Financial statement opinion	**Unmodified**
Financial controls opinion	**Modified** Key issues: — Lack of formal policy or procedure for leave monitoring or recording — Lack of compliance reviews for cash receipting locations — No evidence of review of purchase order segregation of duties report — Purchase orders not raised in accordance with accounts payable procedure

Scope of the audit

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

During 2014 specific areas of audit review included:

- corporate governance
- information and communications technology
- procurement, project management and contract management
- Commonwealth financial assistance
- research grants, student fees and other revenue
- accounts receivable
- cash, investments and borrowings
- property, plant and equipment
- payroll
- accounts payable
- general ledger.

Internal audit activities and reports were reviewed to assess the risks of material misstatement in the financial report and to design and perform audit procedures.

The audits of the controlled entities for the year ending 31 December 2014 were carried out by private accounting firms.

Audit findings and comments

Assessment of controls

In my opinion, the controls exercised by the University of Adelaide in relation to the receipt, expenditure and investment of money, the acquisition and disposal of property and the incurring of liabilities, except for all the matters raised under 'Communication of audit matters', are sufficient to provide reasonable assurance that the financial transactions of the University of Adelaide have been conducted properly and in accordance with law.

Communication of audit matters

Matters identified during the course of the audit were detailed in a management letter to the Vice Chancellor and President. The University's response to the letter indicated that appropriate action would be taken to address the matters raised. The main matters raised with the University and the related responses are detailed below.

Payroll

Lack of formal policy or procedure for leave monitoring or recording

Our review in the prior year indicated the University had no formal policies or procedures that outlined the practices to be followed by faculties and divisions in monitoring leave. As a result, no guidance existed outlining how faculties and divisions were to ensure that all leave taken was identified, recorded and updated to the Staff Services Online system (the SSO system). This may result in incorrect leave balances being recorded in the SSO system and impact the liability reported in the financial report.

We recommended the University update the workforce management policy to clearly reflect staff member and supervisor responsibilities for recording leave in the SSO system. We also recommended that the requirements of the updated policy be formally communicated to all University staff.

Our follow-up in the current year indicated human resources policies and procedures have not yet been updated to reflect staff member, supervisor and manager responsibilities for recording leave in the SSO system. As a result, the University still does not have any formal procedure or process to ensure all leave taken is completely reflected in the SSO system.

The University responded that human resources policies and procedures are to be updated and communicated to all staff.

Accounts receivable

Lack of compliance reviews for cash receipting locations

The 2014 audit indicated that no reviews were performed during the year to confirm cash receipting location compliance with the invoicing and cash receipting procedures. As a result, there was an increased risk that monies received by these locations were not accurately and completely banked and recorded.

The University responded that rotational reviews of receipting location compliance will commence in 2015. The University also indicated the e-Commerce project will reduce the amount of cash handling and number of receipting locations.

Follow-up of overdue debtors

Our review indicated that debt recovery actions had not been initiated for the University's trade and sundry debtors in accordance with procedural requirements. For example, debt recovery letters were not routinely sent to customers and outstanding debts were not referred to debt collection agencies or recommended for legal action. Delays in commencing follow-up action may reduce the likelihood of full debt recovery.

The University responded that overdue general debtor follow-up processes have been reviewed and the dispatch of recovery letters was reintroduced in April 2015 in accordance with applicable procedures. The University also noted that debtors outstanding for greater than 120 days have decreased over the last 12 months as a result of revised debtor recovery processes.

Review of receipting location refund limits

The 2014 audit identified that refund reports from cash receipting locations were not being reviewed to ensure that authorised refund limits were not exceeded. As a result, refunds processed by cash receipting locations in excess of approved refund limits may not have been detected.

The University responded that refund limits and refund practices would be reviewed for all receipting locations on a rotational basis.

Expenditure

No evidence of review of purchase order segregation of duties report

The University has established a segregation of duties report which is run twice yearly and identifies any instances where the same officer has approved a purchase order and receipted the corresponding good or service.

Our review indicated there was no documentary evidence that all reported instances where this conflict had occurred were independently reviewed for reasonableness. This increases the likelihood that invalid or fraudulent purchases may have been initiated and approved without detection.

The University responded that the June 2014 and December 2014 confirmations have now been completed and reviewed. The reports have been retained for records management purposes and the six monthly review has been incorporated into the operations calendar.

Purchase orders not raised in accordance with accounts payable procedure

The 2014 audit identified several instances where purchase orders were not raised in accordance with procedural requirements.

The University's expenditure commitment disclosures in the financial report are derived in part from open purchase order reports run from the Peoplesoft accounts payable module. If purchase orders are not raised when required, there is increased likelihood that reported expenditure commitments may be understated.

Purchase orders can also facilitate effective monitoring of payments against contracts by, for example, ensuring total expenditure amounts approved do not exceed total agreed contracted amounts.

The University responded that a new Compliance Officer has been appointed whose duties will include confirming that faculties and divisions have raised purchase orders in accordance with procedural requirements.

Property, plant and equipment

Establishment and maintenance of local asset registers

Our review in the prior year indicated there were no formal policies and procedures detailing the responsibilities of faculties and divisions for the management of attractive assets.

We recommended the University develop formal policies and procedures that outline processes to be followed by faculties and divisions in managing attractive assets, including processes for identifying and centrally recording all attractive assets and regular stocktakes. We also recommended the University modify the Peoplesoft system to facilitate central recording and stocktake of all attractive assets by faculties and divisions.

Our follow-up in the current year indicated the University had established an asset management procedure, which requires each faculty and division to maintain its own register of local assets. The procedure states that all items that are susceptible to theft or misappropriation, or need to be tracked to comply with research funding acquittal requirements, must be included in the local asset register. The procedure also outlines the information requirements for the register and the processes for ensuring the register is kept up-to-date and accurate (eg periodic stocktakes).

We also confirmed that system modifications to the Peoplesoft fixed assets module to enable faculties and divisions to establish and maintain local asset registers were completed. However, the rollout of the new system functionality was not fully implemented, with staff in faculties and divisions yet to receive formal training. As a result, faculties and divisions had not established local asset registers in Peoplesoft.

Given that faculties and divisions had not established or maintained local asset registers in order to centrally record and monitor all attractive assets held, it was not possible for faculties and divisions to perform regular stocktakes to confirm that attractive assets have not been misappropriated.

The University responded that local asset registers would be rolled out to faculties and divisions by June 2015.

Governance

Fraud data analysis program

Given the very large volume of data and transactions processed through the University's financial systems, we believe it would be beneficial for the University to obtain additional assurance that potentially invalid, anomalous or fraudulent transactions have been identified and appropriately investigated.

We recommended the University conduct a fraud data analysis program which obtains coverage of data and transactions processed through all major financial systems.

The University agreed and indicated that a fraud data analysis program will be undertaken by an external consulting firm during 2015.

Completion of conflict of interest declarations by tender panel members

A number of tender evaluation panels were established as part of the procurement process for the Adelaide Medical and Nursing Schools (AMNS) building project. Our review indicated that potential conflicts of interest declared by members of the tender evaluation panels were recorded in the panel meeting minutes.

However, we noted that individual members of the tender evaluation panels were not required to complete and sign formal conflict of interest declarations.

It is considered better practice to require individual members of procurement panels to complete conflict of interest declarations, as this provides a more robust documentation trail of member interests and increases awareness of conflict of interest considerations.

The University responded that individual conflict of interest declarations are to be implemented for all future tender processes. This requirement will be included in the University's procurement procedure.

Information and communications technology and control

Last year's Report stated that we had commenced a review of the overall governance, security and control arrangements for ICT at the University. The completed review identified a number of positive controls, including a framework for managing University security risks, an operational internal audit program and a functional risk register.

Despite these positive controls, the review identified ICT shortcomings requiring remediation. These included:

- the lack of a formal IT strategic plan
- the lack of formal IT committee(s) charter
- the lack of formal review of information security standards

- the lack of formal University continuity plans
- weaknesses in University network password settings
- weaknesses in the change management process.

Our review also identified certain weaknesses in relation to the general system controls applied to the University's financial system. These included aspects of user access management and change management.

The University responded positively to our recommendations and identified management actions that were underway to address these matters. The University advised that all remediation would be completed by 31 December 2015.

Interpretation and analysis of the financial report (Consolidated)

The revenue and expense items for the interpretation and analysis of the financial report have been sourced from notes 38 and 39 of the financial report, as these notes are prepared in accordance with the Department of Education and Training reporting guidelines and provide consistency and comparability with the other universities.

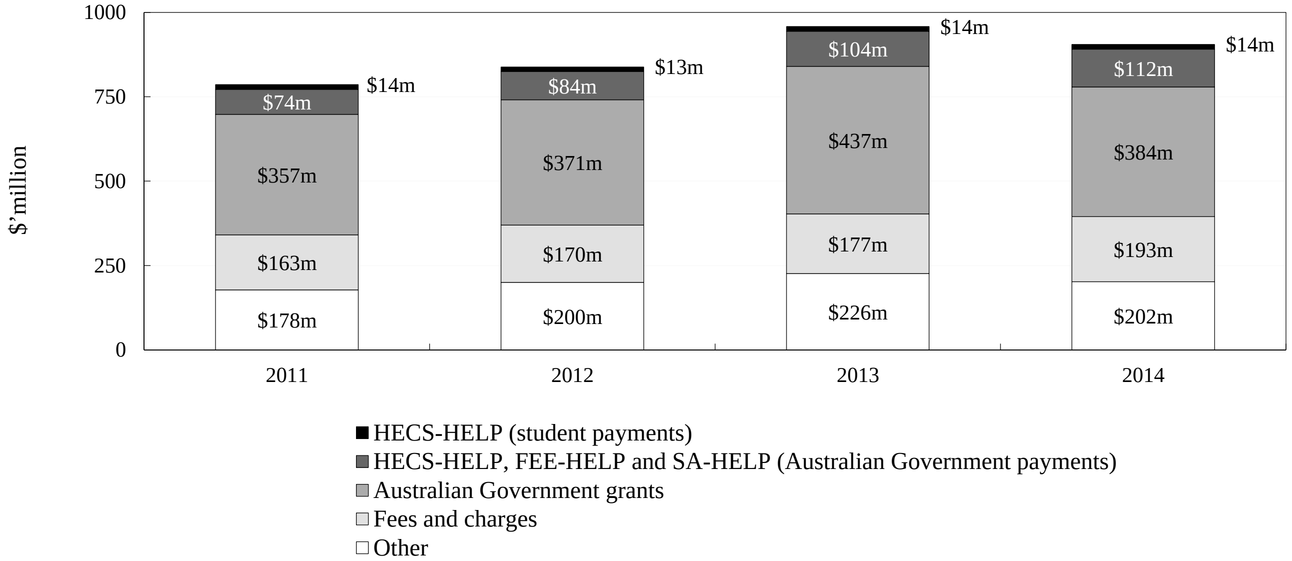
Highlights of the financial report (Consolidated)

	2014 $'million	2013 $'million
Revenue		
Australian Government grants	384	437
HECS-HELP, FEE-HELP and SA-HELP (Australian Government payments)	112	104
HECS-HELP (student payments)	14	14
Fees and charges	193	177
Other	202	226
Total revenue	905	958
Expenses		
Salaries and related expenses	479	444
Other expenses	373	367
Total expenses	852	811
Operating result from continuing operations	53	147
Net cash flows provided by (used in) operating activities	89	135
Net cash flows provided by (used in) investing activities	(70)	(111)
Assets		
Current assets	239	142
Non-current assets	1 512	1 536
Total assets	1 751	1 678
Liabilities		
Current liabilities	124	114
Non-current liabilities	230	211
Total liabilities	354	325
Total equity	1 397	1 353

Statement of Comprehensive Income

Revenue

A structural analysis of operating revenues for the University in the four years to 2014 is presented in the following chart.



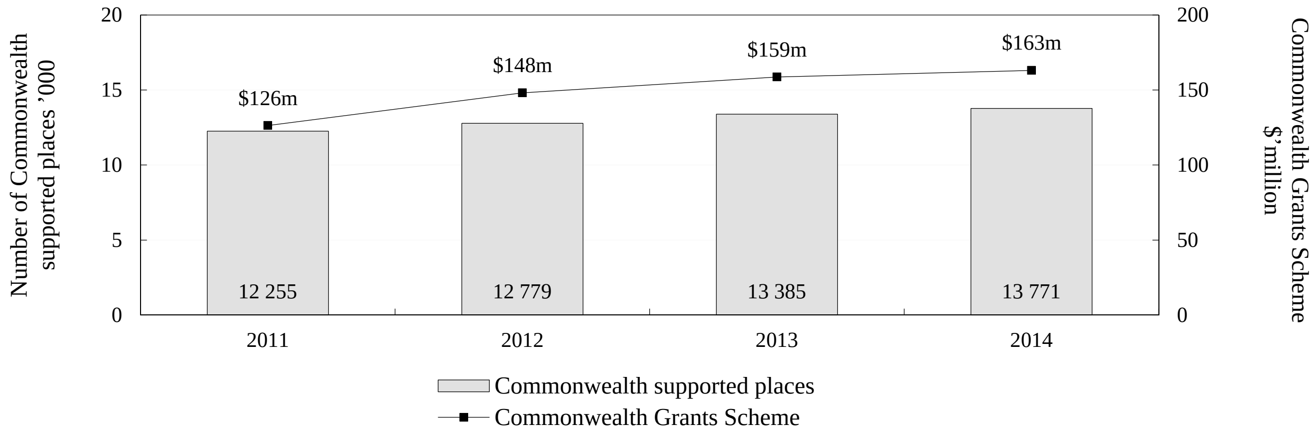
The chart shows that the University has a diversity of revenue sources. The following provides more detail on the major revenue components.

Australian Government grants and payments

Australian Government grants decreased by $53 million to $384 million in 2014. The decrease is mainly due to a one-off $60 million capital grant received from the Department of Industry for a new AMNS building in the West End medical precinct in 2013.

This decrease is partly offset by increases in Commonwealth Grants Scheme funding ($4 million) and HECS-HELP funding ($7 million). The increase in Commonwealth Grants Scheme funding is primarily attributable to an additional 386 Commonwealth supported places and a 0.9% indexation increase. The increase in HECS-HELP funding is attributable to the increase in Commonwealth supported places and a 3% indexation increase.

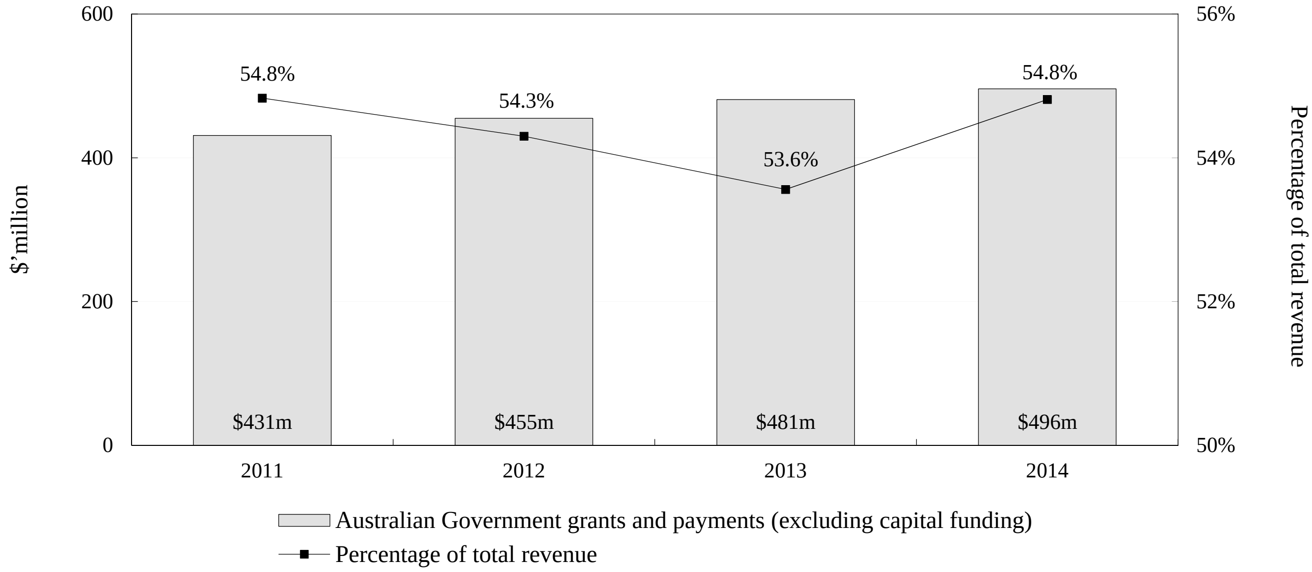
The following chart highlights the upward trend in Commonwealth Grants Scheme funding and supported places.



Source: Commonwealth supported places, which are based on equivalent full-time load, were obtained from the Australian Government Department of Education and Training Higher Education Statistics website (uCube) and are unaudited figures.

The total Australian Government grants and payments received by the University during 2014 was $496 million, which represents 55% of total revenue.

The following chart shows that Australian Government grants and payments as a percentage of total revenue have remained relatively stable over the past four years. The lower percentage in 2013 is primarily attributable to higher investment income in that year.

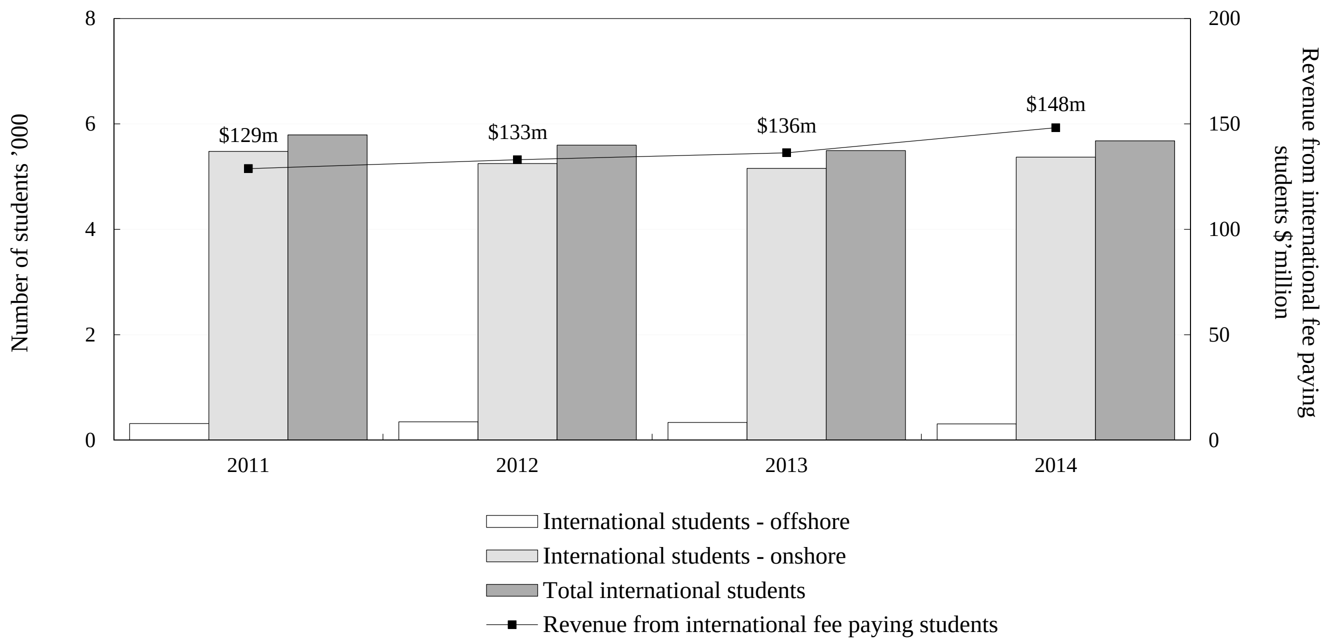


The chart excludes capital funding as this is not necessarily comparable from year to year.

Fees and charges

Fees and charges totalled $193 million in 2014 compared to $177 million in 2013. This increase is primarily attributable to revenue from international fee paying students ($12 million) and non-award courses ($3 million).

The following chart highlights the upward trend in revenue received from international fee paying students.



Source: Student numbers, which are based on equivalent full-time student load (EFTSL), were obtained from the University's published statistics and are unaudited figures.

The $12 million increase in student fee income from international fee paying students between 2013 and 2014 is due to an increase in total international fee paying student numbers ($4 million) and price increases ($8 million).

The University's total international fee paying students increased by 3% between 2013 (5493) and 2014 (5678). This reflects an upturn in the University's total international student numbers following a downward trend in the previous three years. There was also a 6% average price increase in international student fees in 2014.

The increase in revenue from non-award courses is primarily attributable to an increase in student numbers for the Academic English program and Bradford Degree Transfer program.

Other revenue

Other revenue decreased by $24 million to $202 million. The decrease in other revenue is mainly related to the following items reflected in note 4 of the financial report:

- the $20 million decrease in the net unrealised gain on endowment fund investments, which reflects lower returns on the University's investment portfolio compared to 2013
- the one-off gain on acquisition of the Women's and Children's Health Research Institute controlled entity in 2013 ($9 million)
- the one-off reversal of impairment of other buildings associated with the independent revaluation of the University's property holdings in 2013 ($5 million).

These decreases are partly offset by an increase in consultancy and contract revenue ($12 million) reflected in note 43 of the financial report. The increase in consultancy and contract revenue is primarily attributable to higher contract research revenue from Commonwealth Government departments for the Faculty of Sciences and Faculty of Health Sciences.

Expenses

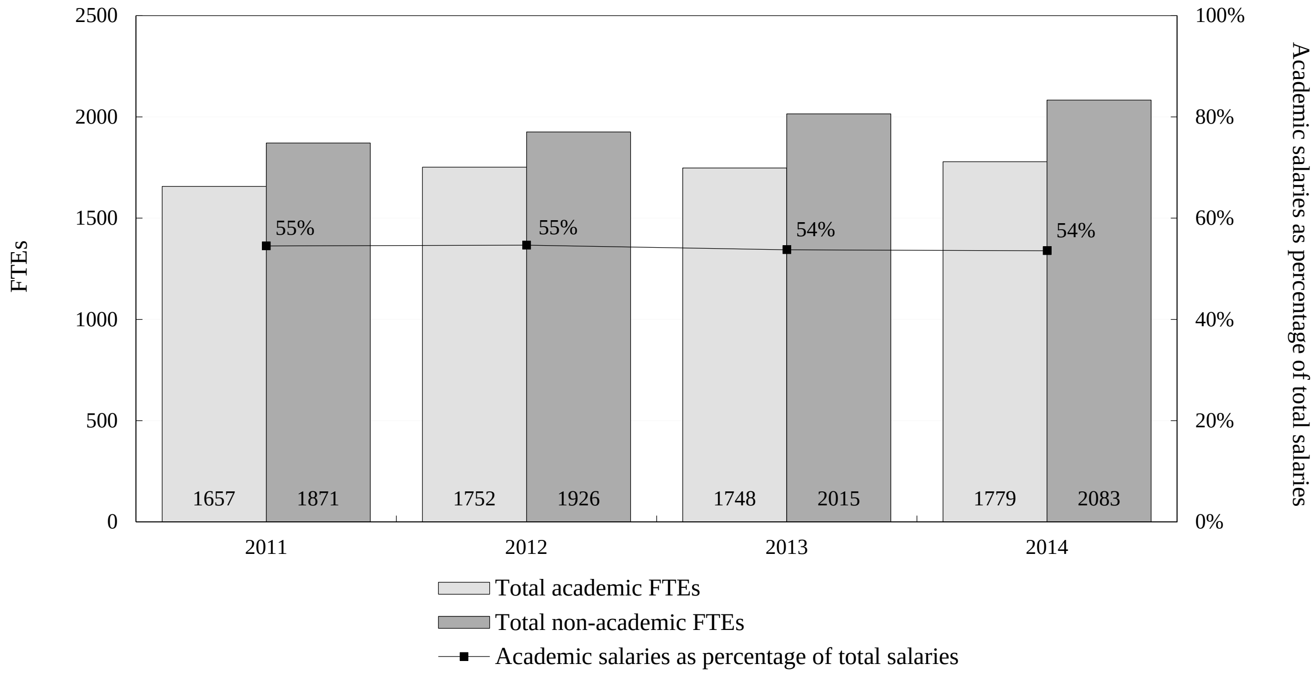
Expenditure in 2014 totalled $852 million compared to $811 million in 2013. This increase in expenditure reflects a $35 million increase in salaries and related expenses and a $6 million increase in other expenses.

The increase in salaries and related expenses is primarily attributable to:

- the impact of enterprise bargaining agreement and salary increment increases
- vacant positions from the prior year being filled.

The University had 1779 academic employees and 2083 non-academic employees in 2014. Academic and non-academic employees comprised 54% and 46% respectively of total salaries and related expenses in 2014.

The following chart shows that academic staff numbers and salaries and related expenses have been relatively consistent in relation to non-academic staff numbers and salaries and related expenses over the four years to 2014.

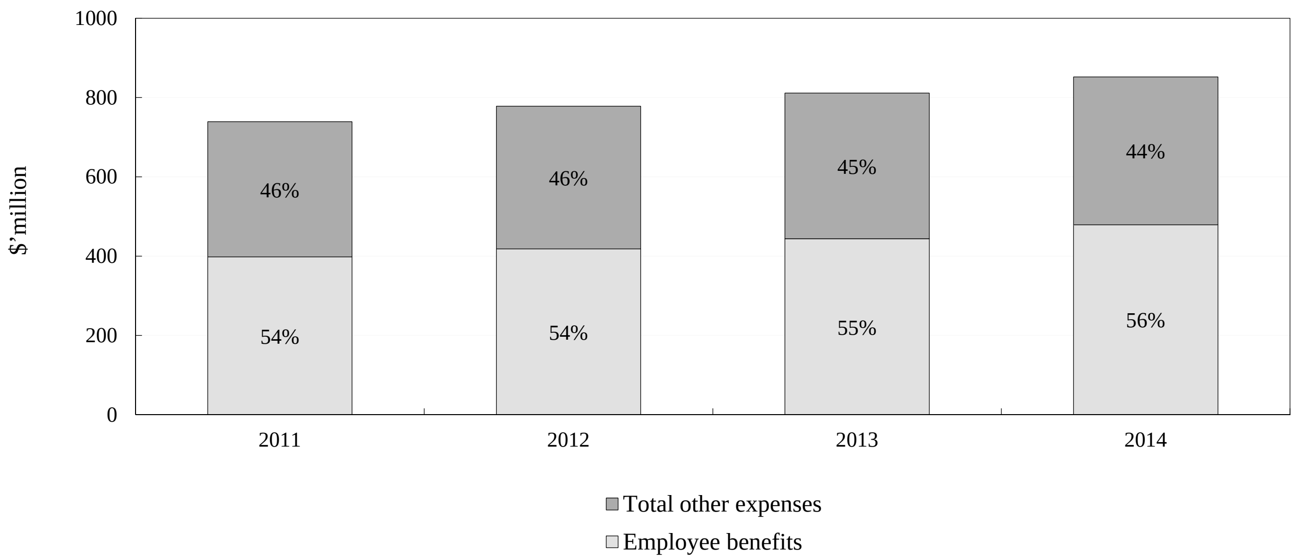


Source: Staff numbers, which are based on full-time equivalents (FTEs), were obtained from the University's annual report and are unaudited figures.

Other expenses increased primarily due to:

- a $3 million increase in buildings and grounds expenses, mainly relating to works required on properties held for sale and increased maintenance expenses associated with maintenance backlogs
- a $2 million increase in non-capitalised equipment expenses, which primarily relates to additional equipment purchased for a number of research centres and projects.

The following chart shows employee expenses compared to other expenses over the four years to 2014.



There is a slight upward trend in employee expenses compared to other expenses, as explained above.

Operating result from continuing operations

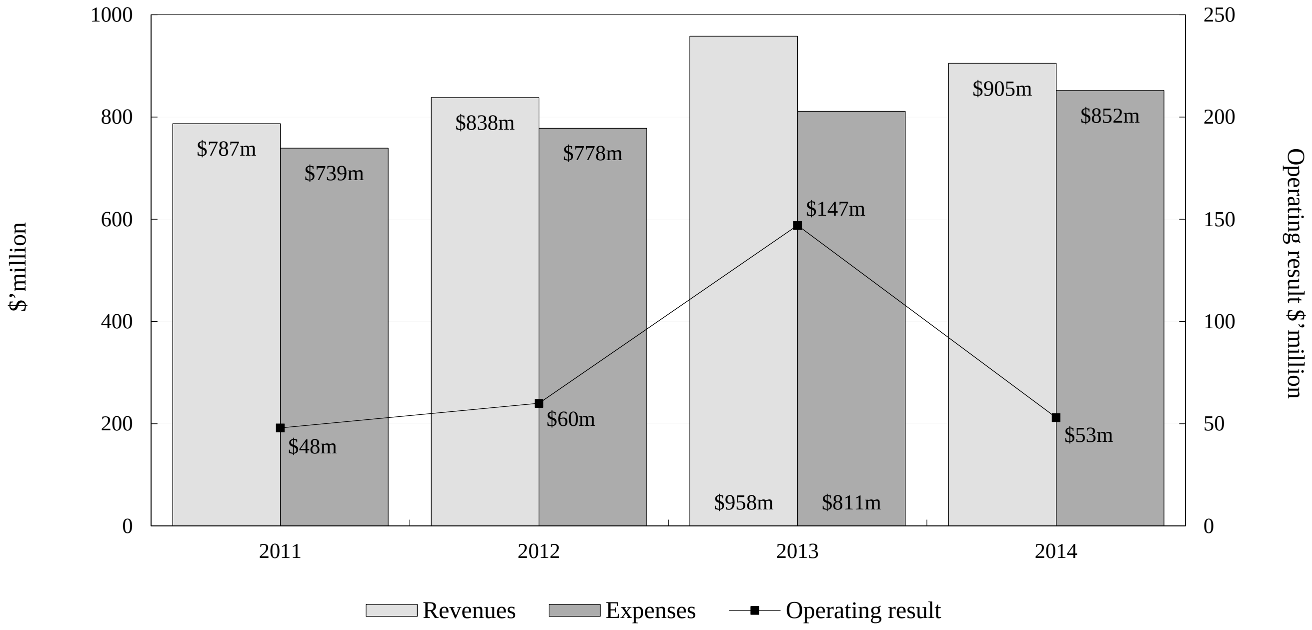
The consolidated operating result for 2014 was a surplus of $53 million compared to $147 million in 2013. The significant decrease in the University's consolidated operating result is predominantly due to:

- the one-off capital grant received for a new AMNS building in the Adelaide West End precinct in 2013 ($60 million)
- lower investment returns on the University's endowment fund compared to the prior year ($20 million)
- the one-off gain on acquisition of the Women's and Children's Health Research Institute controlled entity in 2013 ($9 million)
- the one-off reversal of impairment of other buildings associated with the independent revaluation of the University's property holdings in 2013 ($5 million).

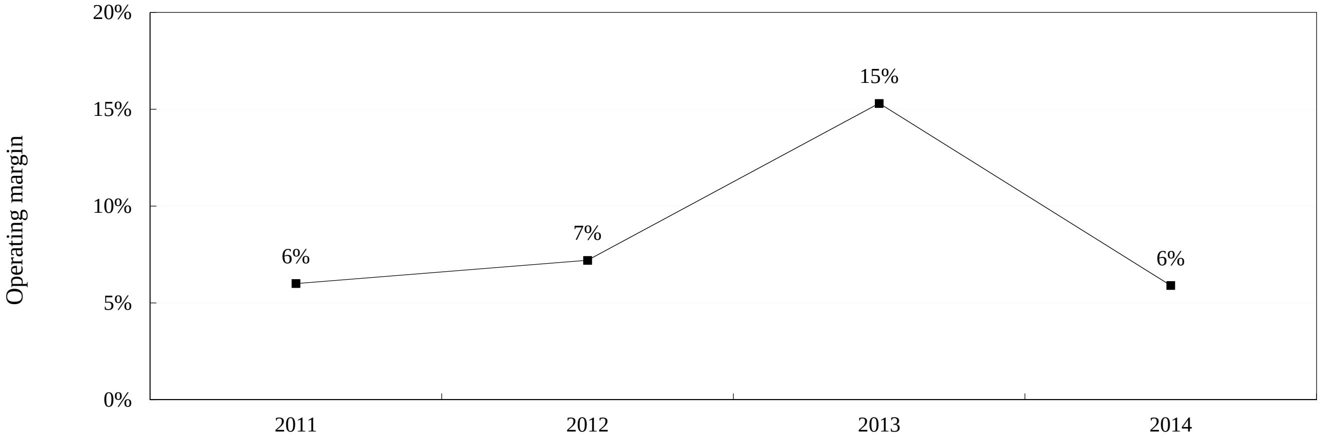
The funding agreement with the Commonwealth for the 2013 capital grant restricts the purposes for which the funds can be used. Expenditure against the capital grant commenced in 2014 and is reflected through building additions in the Statement of Financial Position.

The University's endowment fund is used to fund research projects, prizes and scholarships. It is general practice that donations and bequests from benefactors and alumni are placed in the University's endowment fund. The investment earnings on the endowment fund can only be used in accordance with the conditions of relevant donations or bequests.

The following chart shows the operating revenues, operating expenses and operating result for the four years to 2014.



The following chart shows the University's operating margin (the operating result as a percentage of total income) over the four years to 2014.



The University's operating result and operating margin have been relatively stable over the past four years with the exception of 2013. The large increase in the operating result and operating margin in 2013 was primarily attributable to significant one-off transactions including the $60 million capital grant received for a new AMNS building and the $9 million gain on acquisition of the Women's and Children's Health Research Institute controlled entity.

Statement of Financial Position

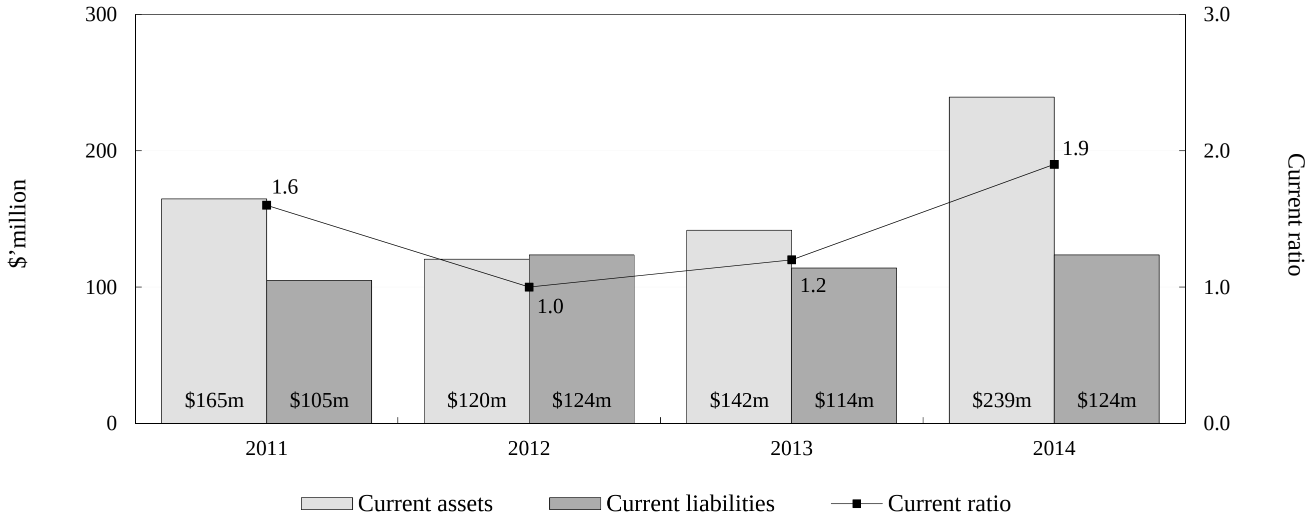
The consolidated net assets of the University at 31 December 2014 totalled $1397 million ($1353 million), an increase of $44 million.

Assets

The value of the University's assets increased by $73 million to $1751 million. The major items causing this change were:

- an increase in total other financial assets due mainly to investment gains on the endowment fund
- property, plant and equipment additions associated with the new AMNS building, the Law School refurbishment, the Adelaide Microscopy expansion and the new Biobank.

As at 31 December 2014, current assets of $239 million exceeded current liabilities of $124 million. The following chart shows the University's current assets, current liabilities and current ratio for the four years to 2014.



The chart highlights that the University's current ratio has improved significantly in 2014. This is primarily attributable to increases in current other financial assets ($40 million) and non-current assets classified as held for sale ($46 million).

The increase in current other financial assets is mainly due to the reclassification of all held-to-maturity bank term investments to current in 2014. These investments were reclassified given the relevant cash will be drawn down during 2015 in order to fund the construction of the new AMNS building.

The increase in non-current assets held for sale is due to the University planning to sell a number of its properties in Adelaide and Thebarton in order to partially fund the construction works for the new AMNS building. These properties were reflected under property, plant and equipment and investment property in 2013 (refer notes 15 and 16 to the financial report which detail amounts transferred to non-current assets held for sale).

Major capital works projects

In May 2014, the University Council approved the construction of a new AMNS building in the South Australian Health and Biomedical Precinct located in Adelaide's West End. The AMNS building project had an original total budgeted cost of $206 million.

The Council subsequently approved a Dental Partnership Agreement in July 2015 which will incorporate an 89 chair Integrated Dental Clinic within the AMNS building.

Following the inclusion of the Integrated Dental Clinic, the AMNS building was renamed the University of Adelaide Clinical Centre. The University of Adelaide Clinical Centre will have 14 floors and a total budgeted construction and fitout cost of $246 million.

Construction of the University of Adelaide Clinical Centre commenced in August 2014 with completion planned in semester 1, 2017. The total capital expenditure on the building in 2014 was $14 million.

The building project is funded in part by the $60 million capital grant received from the Australian Government in June 2013.

The University Council also approved a $50 million debt facility to partially fund the construction of the Adelaide Clinical Centre in August 2015.

Liabilities

The value of the University's liabilities increased by $29 million to $354 million. The major items causing this change were:

- an increase in accounts payable, which mainly relates to additional creditors associated with AMNS building works, campus refurbishments, office equipment and electricity costs
- increases in long service leave and defined benefit fund net liability provisions arising from decreases in the discount rates used to calculate the liabilities
- an increase in derivative financial instruments, primarily due to increases in the interest rate swap liability arising from interest rate movements
- an increase in the defined benefit obligation, mainly due to a decrease in the discount rate used to calculate the liability.

These increases are partly offset by a decrease in borrowings. The first principal payment under the loan agreement for the North Terrace Development strategy borrowings was made in 2014.

Statement of Cash Flows

The net cash provided by operating activities in the Statement of Cash Flows decreased by $46 million. This decrease was due mainly to the one-off capital grant received for the new AMNS building in 2013.

The net cash used in investing activities decreased by $41 million, which is primarily attributable to one-off payments made for financial assets held to maturity in 2013. These payments reflected the investment of the funds associated with the capital grant for the new AMNS building.

The net cash used in financing activities increased by $5 million. This increase relates to the first principal payment under the loan agreement for the North Terrace Development strategy borrowings being made in 2014.

Total cash and cash equivalents at 31 December 2014 were $52 million ($43 million).

University of South Australia

Functional responsibility	The University of South Australia (the University) is established under the *University of South Australia Act 1990*. The main functions of the University are to provide tertiary education programs, preserve, extend and disseminate knowledge through teaching, research, scholarship and consultancy and to provide educational programs for the benefit of the wider community or the enhancement of its cultural life.
Financial statistics	Operating result before income tax: $28.5 million Australian Government financial assistance: $378 million Number of FTEs: 2 641 Number of students (EFTSLs): 22 495
Significant events and transactions	— The $85 million Learning Centre, named the Jeffrey Smart Building, opened in April 2015. — During 2014 the design stage commenced for the Health Innovation Building.
Financial statement opinion	**Modified** The University has recognised $34.8 million of unspent funding as a liability for the year ended 31 December 2014. These funds represent contributions and meet the recognition criteria of income in accordance with Accounting Standard AASB 1004 'Contributions' and Accounting Policy Framework V 'Income Framework'. The University controls these funds upon receipt and it is highly unlikely that funds will be repaid.
Financial controls opinion	**Modified** Key issues: — Lack of a centralised contract management framework — No requirement for the review of online banking access — Inadequate review and management of staff excess leave balances and ineffective review of payroll master file data — No requirement that all expenditure transactions are reviewed for appropriate authorisation

Scope of the audit

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

During 2014 areas reviewed included:

- governance arrangements
- cash and term deposits
- receipting and banking
- general ledger and financial accounting
- student revenue
- research and consultancy revenue
- Commonwealth financial assistance
- payroll
- expenditure
- property, plant and equipment
- information and communications technology.

Internal audit activities were reviewed in order to assess the risks of material misstatement in the financial report and to inform the design of audit procedures.

The audits of the controlled entities for the year ending 31 December 2014 were carried out by a private accounting firm.

Audit findings and comments

Auditor's report on the financial report

The following is an extract from the 2014 Independent Auditor's Report which outlines the qualification of the University's financial report:

> ***Basis for Qualified Opinion***
>
> *The University has recognised $34.8 million of unspent funding as a liability for the year ended 31 December 2014. These amounts have been accounted for as income received in advance and included in 'Other liabilities – Commonwealth and State Government grants', 'Other liabilities – Income in advance on incomplete projects' and 'Other liabilities – Other current liability' in note 25 to the financial report. The University has disclosed its accounting treatment of these funds in note 1(d) to the financial report.*
>
> *The funds represent contributions and meet the recognition criteria of income in accordance with Accounting Standard AASB 1004 Contributions and Accounting Policy Framework V Income Framework. The University controls these funds upon receipt and it is highly probable that any unspent funds will be spent in accordance with stipulated conditions. It is highly unlikely that unspent funds will need to be repaid to the granting bodies and as such funds should be recognised as income at the time of receipt.*
>
> *As a result, the following has been misstated in the 2014 financial report:*
>
> - *the revenue recognised as Australian Government grants is understated by $1.7 million ($4.9 million overstated in 2013)*
> - *the revenue recognised as State and Local Government financial assistance is overstated by $800 000 ($60 000 overstated in 2013)*

- *the revenue recognised as consultancy and contract research is overstated by $1.6 million ($2.5 million overstated in 2013)*
- *operating result attributable to members of University of South Australia is overstated by $700 000 ($7.5 million overstated in 2013)*
- *other liabilities is overstated by $34.8 million ($35.5 million overstated in 2013)*
- *closing retained earnings is understated by $34.8 million ($35.5 million understated in 2013).*

Qualified Opinion

In my opinion, except for the effects of the matter described in the 'Basis for Qualified Opinion' paragraphs, the financial report gives a true and fair view of the financial position of the University of South Australia and its controlled entities (the consolidated entity) as at 31 December 2014, their financial performance and their cash flows for the year then ended in accordance with the Treasurer's Instructions promulgated under the provisions of the Public Finance and Audit Act 1987, *the* Higher Education Support Act 2003 *and Australian Accounting Standards.*

Assessment of controls

In my opinion, the controls exercised by the University of South Australia in relation to the receipt, expenditure and investment of money, the acquisition and disposal of property and the incurring of liabilities, except for all matters outlined under 'Communication of audit matters', are sufficient to provide reasonable assurance that the financial transactions of the University of South Australia have been conducted properly and in accordance with law.

Communication of audit matters

Matters arising during the course of the audit were detailed in a management letter to the Vice-Chancellor and President. Major matters raised with the University and the related responses are detailed below.

Grant funding

Consistent with prior years the University has recognised a liability for unspent grant funding as at 31 December 2014. As mentioned in the 'Auditor's report on the financial report' under the 'Basis for Qualified Opinion', in accordance with AASB 1004 'Contributions' these grants should be recognised as revenue in the year of receipt.

Lack of a centralised contract management framework

Our review of the University's processes for contract management (excluding research contracts) revealed there was no centralised contract management framework. Key findings from the review were:

- there was no common approach to how contracts were recorded or monitored
- whilst some areas have created contract registers there was no consistency in what was recorded in the registers
- there were no central procedures in place to ensure registers are appropriately monitored and updated.

Without a University-wide contract management framework there is a risk of inconsistent practice which may lead to inappropriate contract management and monitoring approaches.

The University advised that a contract management system within its finance system has been in development over the past 12 months and will be implemented in August 2015.

Cash and online banking

No requirement for the review of online banking access

Our review of cash processes and controls noted there was no requirement to perform reviews of access granted to online banking. Regular reviews of user access and limits reduce the risk of inappropriate or unauthorised transactions.

The University advised reviews of online banking access would be performed.

Lack of documented procedures for cash and online banking processes

The University has a lack of documented procedures for the cash and online banking processes, leading to a risk that processes will not be undertaken in a consistent manner in accordance with management expectations.

The University advised procedures for this area would be documented.

Research and consultancy revenue

No review of delegations on invoice request forms prior to processing

Our review of processes to raise research and consultancy revenue identified the Vice-Chancellor's delegations on the invoice request forms are not checked. Testing of a sample of transactions found that an appropriate authorisation was not present for one third of the sample. Inappropriate authorisation increases the risk of inaccurate or incomplete invoices being generated.

The University advised that the accounts receivable team has commenced verifying correct authorisations on all invoice requests.

No formal monitoring controls for grant expenditure incurred by divisions

For the majority of research and consultancy projects, spending of grant funding is specific and individual to the project and its funding agreement. Our assessment in the current year looked at monitoring controls across divisions to ensure spending of funds is in accordance with the grant agreement, and is adequately reported and acquitted as per agreement requirements.

University staff noted that whilst finance officers at the divisions perform ad hoc reviews of cost centres in Finance One, there is currently no formal requirement for divisions to review spending for compliance with grant agreements, in particular where acquittals are not required. Inconsistent or inappropriate monitoring processes increase the risk of University non-compliance with grant agreements.

The University advised that it will document and implement a procedure for the regular review of a sample of research projects to ensure grant expenditure is in accordance with the respective agreements.

Payroll

Inadequate review and management of staff excess leave balances

The audit revisited the University's leave reporting and management of excessive leave balances process. The main areas noted from this review were:

- the management review of payroll system leave payments does not enable adequate follow-up of missing leave forms and appropriate recording of leave, particularly for academic staff

- as at December 2014 there were 182 staff members who had leave balances in excess of 40 days.

As a result there is a risk University leave records are inaccurate.

The University has assessed the above and advised that it accepts the risk. It advised that it will further investigate the areas where excessive leave balances are occurring.

Ineffective review of payroll master file data

The University currently relies on division staff to review the Employee Position report to ensure the accuracy of payroll masterfile data. Our review of this process identified:

- there is no follow-up of changes noted on the report from the divisions
- payroll staff do not currently check to ensure the two signatures on the reports are appropriate.

These weaknesses may result in incorrect payments being made to employees.

The University agreed with our recommendations to check the reports are reviewed and signed by the appropriate officers and to review the current process to ensure requested changes are accompanied by the appropriately approved forms for processing.

Casual staff predetermined hours are not checked prior to payment

Our review of processes to ensure casual staff are only paid for time worked noted that the Claims for this Pay report, which details the hours casual employees have claimed for payment, is not checked for casuals who have predetermined hours set in the system on commencement of the contract. These staff do not use timesheets and are paid automatically each fortnight. The absence of a review process for these employees increases the likelihood incorrect payments could be made.

In response the University has notified that automatic payments are no longer a component for the new system implemented for casual staff and that the payments for regular scheduled hours will be presented to the supervisor for approval as a batch.

Expenditure

No requirement that all expenditure transactions are reviewed for appropriate authorisation

Consistent with findings reported in previous years, we found the University does not confirm that all payments are appropriately authorised prior to payment. Until the implementation of an electronic workflow approval system, only a sample of payments were tested for appropriate approval (consistent with prior years). As a result a risk remained that inappropriately approved payments would be processed.

We understand the web-based workflow solution the University has now implemented will address this issue for many payments. We note, however, that some specific payments are currently processed outside of the workflow invoice approval system.

The University advised that the invoice workflow system is now operational for all domestic invoices across the University.

Receipt of goods or services not always maintained

We have previously reported that documentation to evidence the receipt of goods or services is not always maintained as required, particularly purchases made without a purchase order. Payment may therefore occur without goods or services having been received. This remained the case for 2014. The introduction of the web-based workflow arrangements does not address this matter where purchase orders are not used, unless the receipt of the goods or services is documented or evidenced in Finance One.

The University agreed with our recommendation that University employees authorising the payment of an invoice receive and maintain evidence that goods or services were received and match the goods or services ordered.

Purchase cards

The University utilises accumulated frequent flyer points associated with credit cards for senior management group members to reduce travel costs for these staff on University business. Points are accumulated by paying certain supplier invoices with the cards. Our review of this arrangement noted:

- there is currently a lack of segregation of duties in the process
- the management process to select and authorise payments on these cards requires further documentation in procedures.

Inappropriate segregation increases the risk of unauthorised payments occurring.

The University has advised that procedures will be revised to improve the segregation of duties within this function.

Information and communications technology and control

Last year's Report stated that we had commenced a review of the overall governance, security and control arrangements for ICT at the University. The completed review identified certain positive controls, including formal ICT governance arrangements, detailed information security policies and an operational internal audit program. In addition, the University's IT security plan included a documented commitment to align the University with current international security standards.

Despite these positive controls, the review identified ICT shortcomings requiring remediation. These include:

- weaknesses in business continuity planning
- weaknesses in backup and disaster recovery processes.

Our review also identified certain weaknesses with the general system controls applied to the University's financial system. These included aspects of user access management, change management and password configuration.

The University responded positively to the majority of our recommendations and management actions were underway. The University did not agree that aspects of password security required change as it believes existing arrangements address the associated risks. The University advised that all remediation would be completed by 30 June 2015.

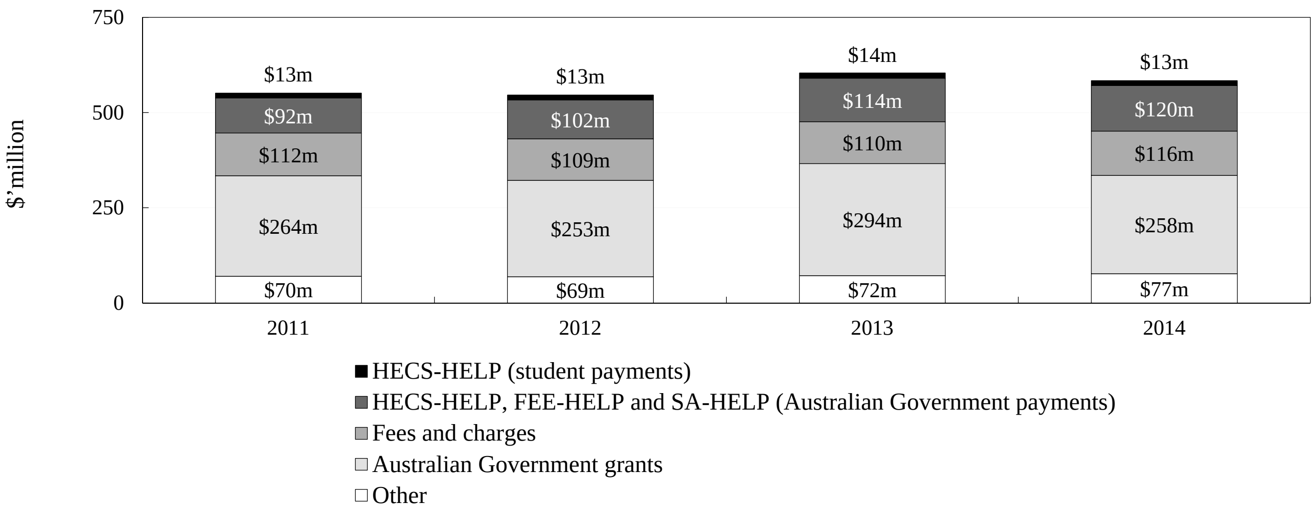
Interpretation and analysis of the financial report

Highlights of the financial report (Consolidated)	2014 $'million	2013 $'million
Income		
Australian Government grants	258	294
HECS-HELP, FEE-HELP and SA-HELP (Australian Government payments)	120	114
HECS-HELP (student payments)	13	14
Fees and charges	116	110
Other	77	72
Total income	584	604
Expenses		
Employee related expenses	350	338
Other expenses	206	194
Total expenses	556	532
Operating result before income tax	28	72
Net cash provided by (used in) operating activities	48	90
Net cash provided by (used in) investing activities	(41)	(74)
Assets		
Current assets	392	377
Non-current assets	1 257	1 187
Total assets	1 649	1 564
Liabilities		
Current liabilities	146	157
Non-current liabilities	494	426
Total liabilities	640	583
Total equity	1 009	981

Statement of Comprehensive Income

Income

A structural analysis of the University's income for the four years to 2014 is presented in the following chart. Total income decreased by $20 million to $584 million.

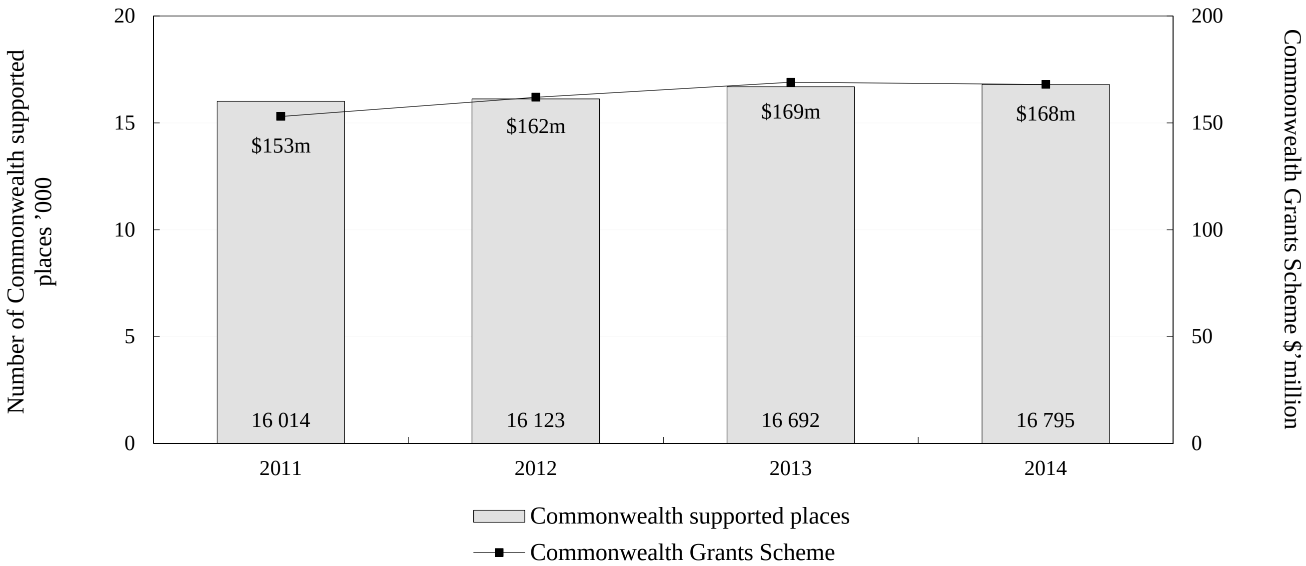


Australian Government grants decreased by $36 million to $258 million in 2014, mainly due to:

- the one-off $40 million capital funding received in 2013 for the Centre for Cancer Biology accommodation
- an increase in the capital funding of $7 million from the Education Investment Fund for the Whyalla and Mt Gambier Regional Connections projects.

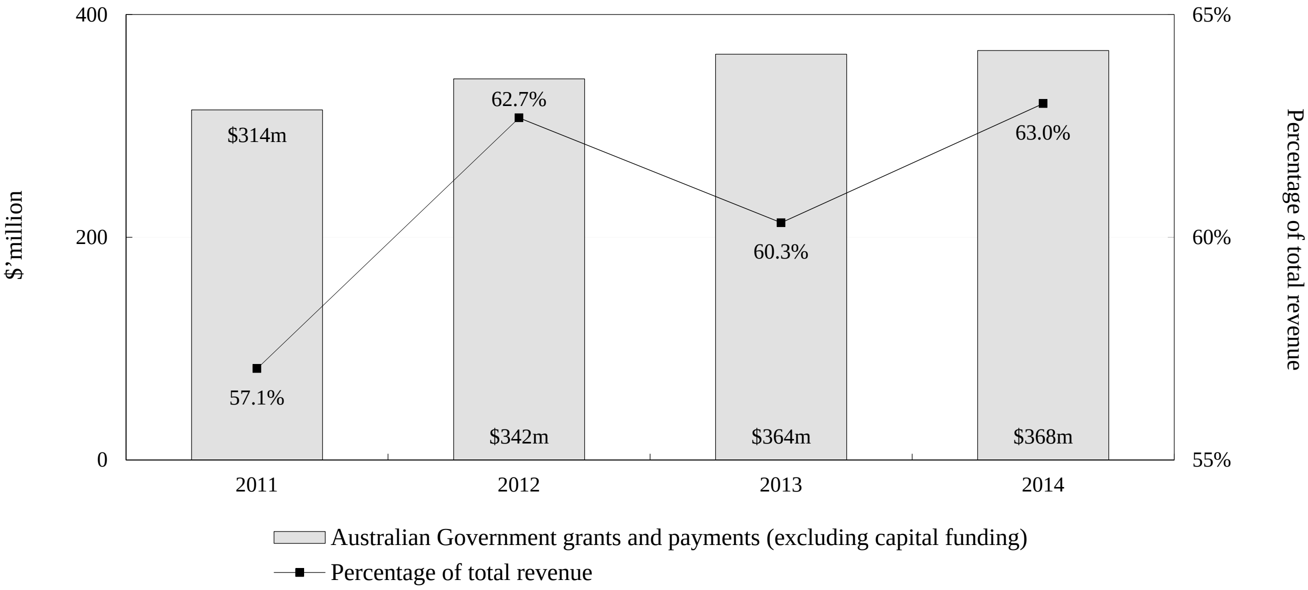
HECS-HELP, FEE-HELP and SA-HELP income increased by $6 million to $120 million in 2014. This shows a continued growth as a result of indexation of 3% and an increase in fee paying students.

The following table highlights the Commonwealth Grants Scheme and supported places have remained stable from 2013 to 2014.



Source: Student numbers, which are based on equivalent full-time student load (EFTSL), were obtained from the Department for Education and Training's online uCube – Higher Education Statistics.

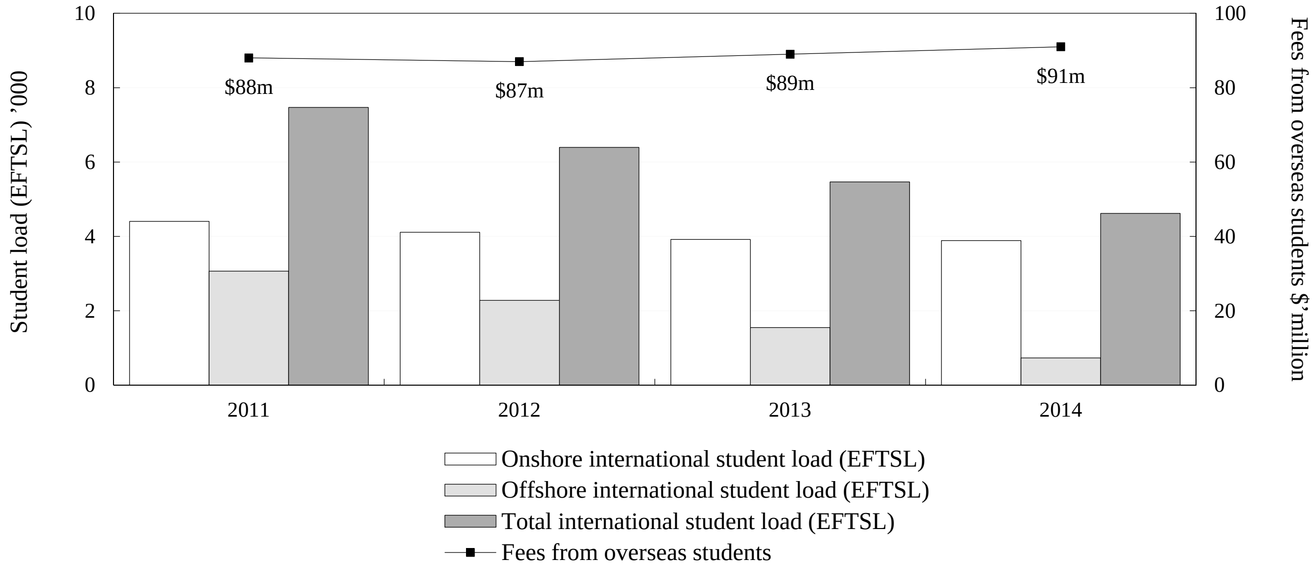
Total Australian Government financial assistance provided to the University (excluding capital grants) is shown in the chart below. This highlights that the University's reliance on Australian Government financial assistance, excluding capital funding, has increased slightly in 2014.



Fees and charges

Fees and charges increased by $6 million in 2014 to $116 million. This increase is attributable to an increase in fee paying students and overall increases in non-course fees and charges.

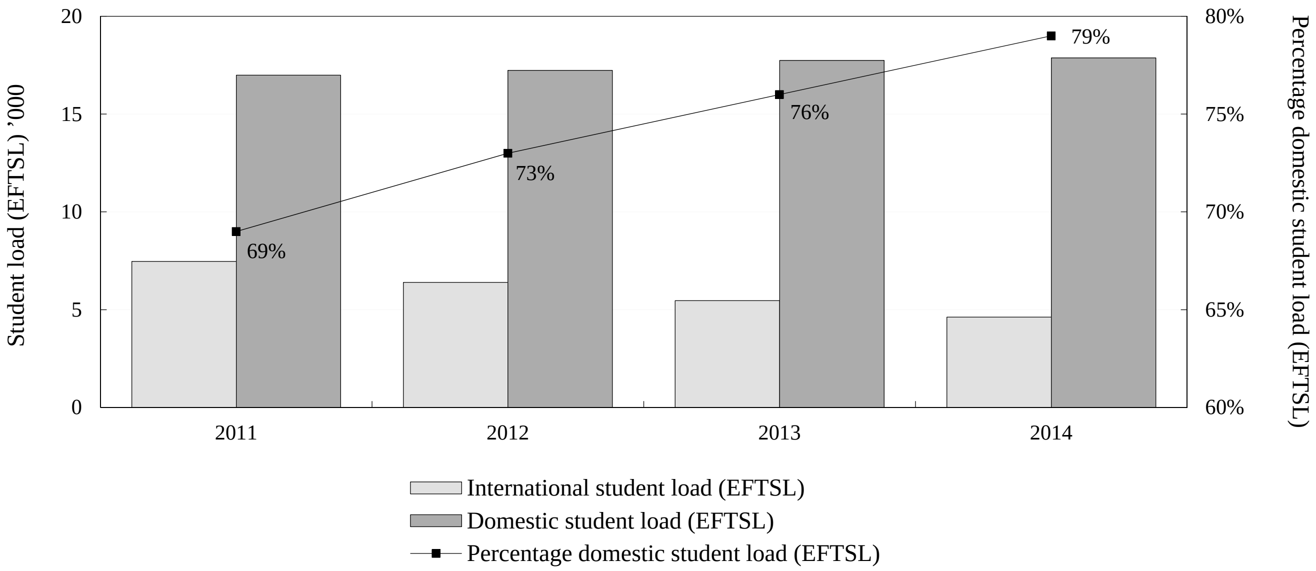
The main component of fees and charges is fee paying overseas students (78%). The following chart shows that fees from international students have remained relatively consistent over the last four years as a result of fee increases, which offset falling numbers of international students.



Source: Student numbers, which are based on equivalent full-time student load (EFTSL), were obtained from the University's annual reports and are unaudited figures.

The total student load has decreased over the past four years. Over this time the percentage of student load related to domestic students has steadily increased as the international student load has progressively decreased. Revenue from fee paying overseas students represents 16% of total revenue. International student load reduced by 16% in 2014 from 5467 EFTSL to 4618 EFTSL.

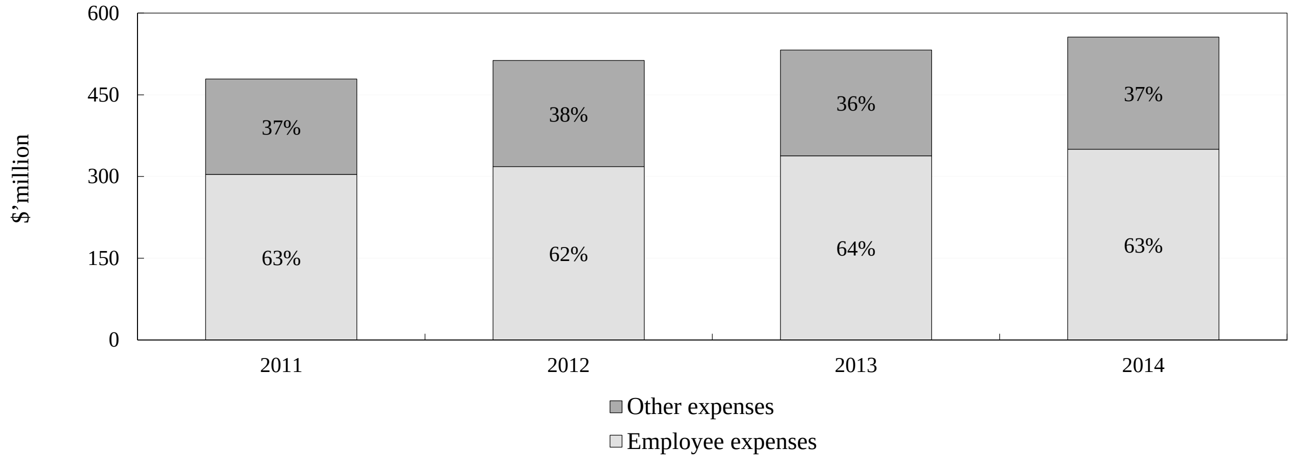
The chart below illustrates the changing student load since 2011.



Source: Student numbers, which are based on equivalent full-time student load (EFTSL), were obtained from the University's annual reports and are unaudited figures.

Expenses

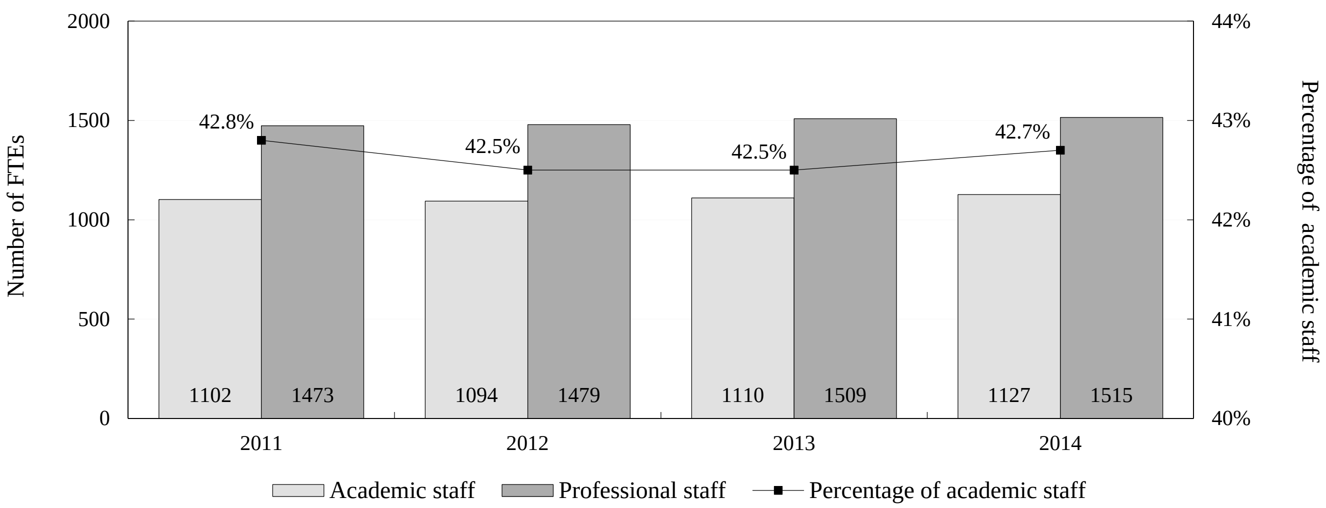
Total expenses have increased by $24 million to $556 million. The split of employee expenses to total other expenses remains relatively stable.



Employee expenses

The University's main expense is employee related expenses which increased by $12 million to $350 million, as a result of enterprise agreement increases and an increase in staffing levels.

The following chart shows a breakdown of employee FTE numbers between academic and professional employees, along with the percentage of total staff classified as academic staff since 2011. While there has been a slight increase in total staff over this time, the ratio of academic staff to professional staff has remained stable.



Source: Staff numbers, which are based on FTEs, were obtained from the University's annual reports and are unaudited figures.

Other expenses

The total of other expenses increased by $12 million. The main components of this change are attributed to:

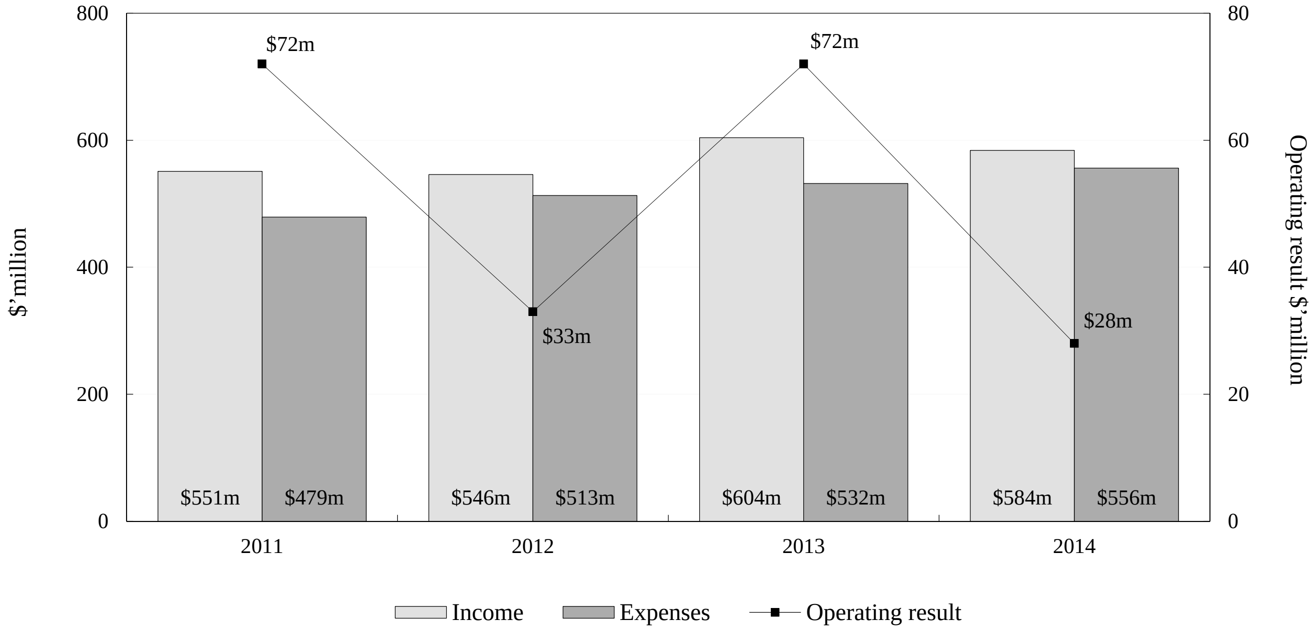
- an increase of $5.4 million in repairs and maintenance expense from $14.3 million to $19.7 million mainly due to the Hindley Street Redevelopment project
- an overall increase in other expenses of $5.5 million, with the main increase being IT hardware and software expenses mainly due to the Mount Gambier and Whyalla fibre optics projects.

Operating result

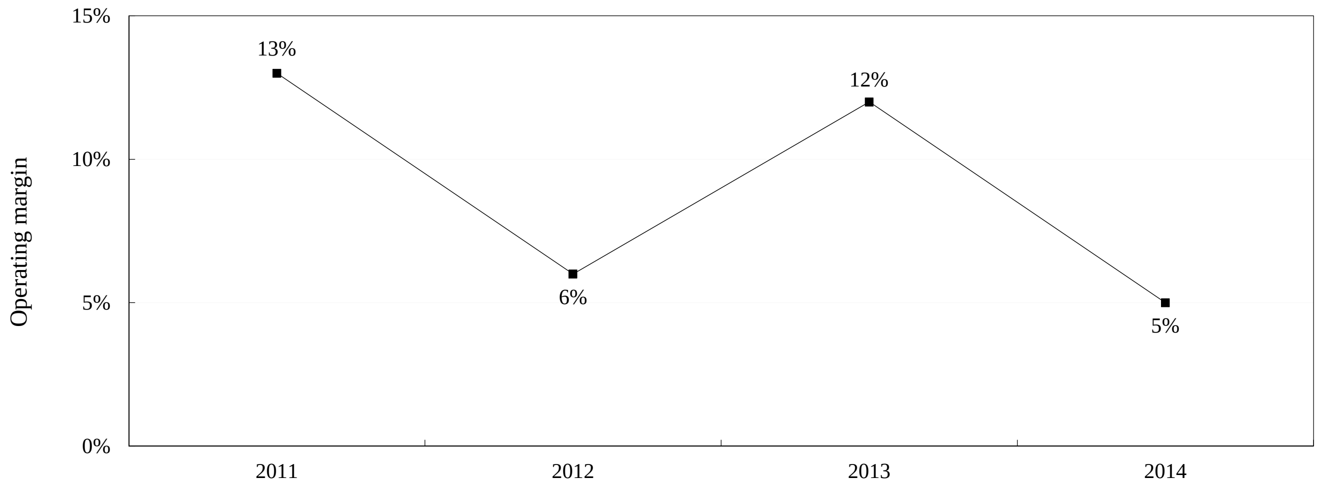
The consolidated operating result before income tax for the year was a surplus of $28 million ($72 million). As mentioned in the preceding analysis, the decrease is predominantly due to:

- the $40 million non-recurring capital funding received in 2013 from the Australian Government for the Centre for Cancer Biology
- overall increases in income, in particular HECS-HELP Australian Government payments, fees and charges and consultancy and contract research
- the increase in total expenditure of $24 million.

The following chart shows the movement in income, expenses and the operating result before income tax for the last four years.



The following chart shows the University's operating margin (the operating result as a percentage of total income) over the four years to 2014. It shows that the University's operating margin has decreased to 5%, resulting mainly from the one-off $40 million capital funding received in 2013 for the Centre for Cancer Biology.

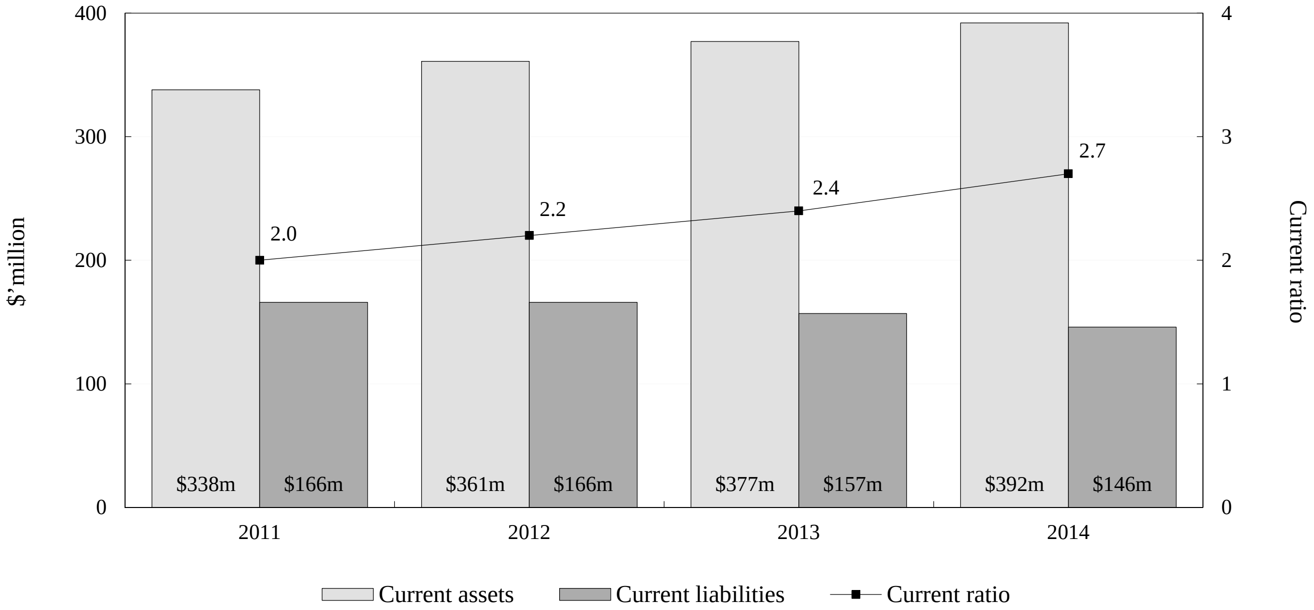


This chart illustrates that the University's operating margin has decreased in 2014, returning to a level similar to 2012 where no large one-off grants for capital infrastructure projects were received.

Statement of Financial Position

The University's net assets at 31 December 2014 were $1009 million ($981 million).

The following chart shows the University's current ratio has continued to increase for the four years to 2014. As at 31 December 2014 current assets exceeded current liabilities by $246 million.



Assets

Cash and cash equivalents

As at 31 December the University's cash and cash equivalents totalled $317 million compared to $310 million in 2013. The cash and cash equivalents balance has steadily increased over recent years. This balance is expected to decrease as a result of the University's significant capital program in coming years.

Property, plant and equipment

The main component of the University's Statement of Financial Position is property, plant and equipment, representing 49% of total assets. The carrying value of property, plant and equipment increased by $10 million to $804 million due mainly to:

- expenditure on major capital infrastructure projects of $24 million
- other asset additions of $21 million, predominantly for land and plant and equipment purchases.

These increases were offset by depreciation charges of $31 million and other adjustments totalling $4 million.

Capital program

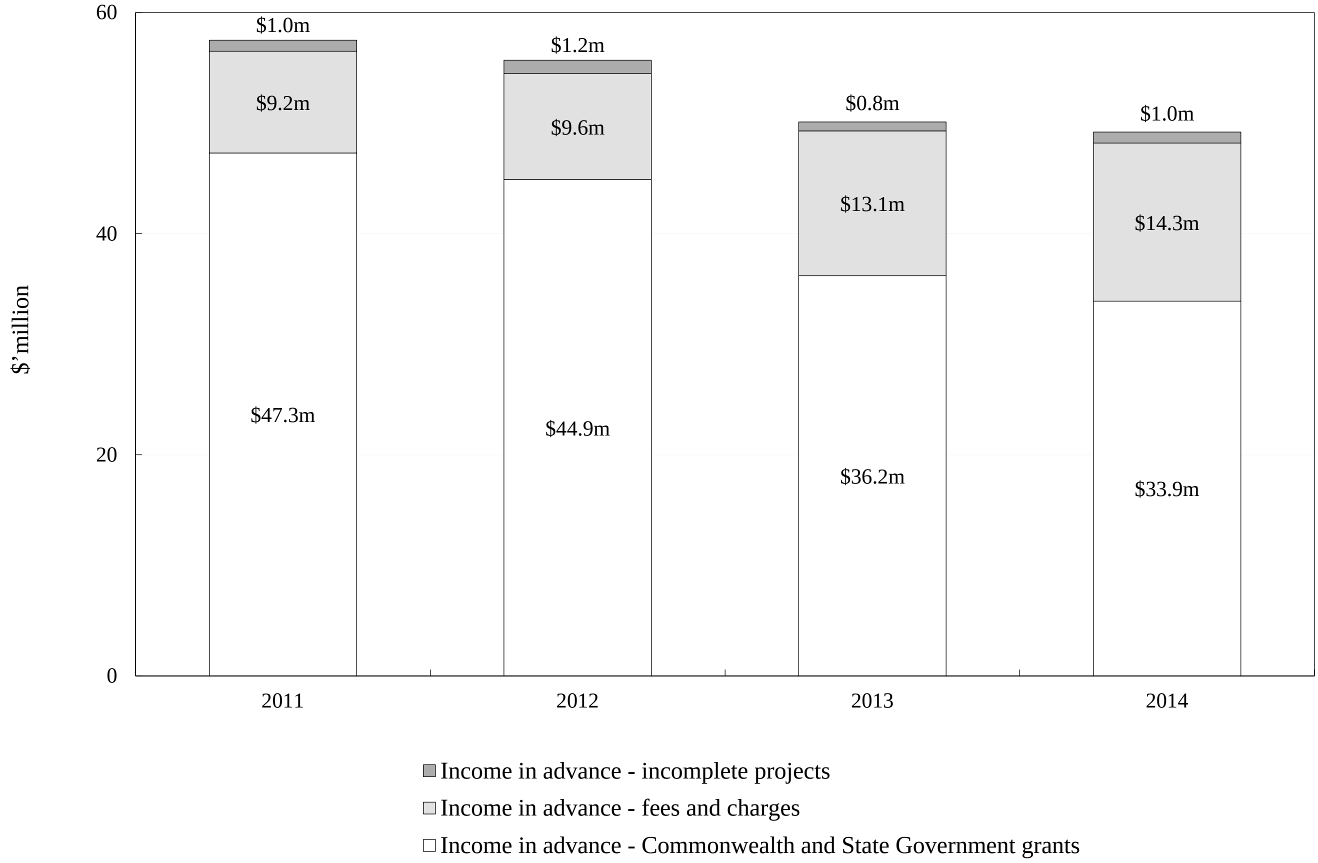
The University has a significant ongoing capital investment program. The major activity for 2014 was the opening of the $85 million Learning Centre, named the Jeffrey Smart Building, at the City West Campus. The design stages of the Health Innovation Building, which is to house a number of tenants including the Centre for Cancer Biology, and the separate Great Hall project commenced in 2014.

Liabilities

Income in advance

The following chart shows the breakdown of income received in advance recorded in other liabilities. These liabilities represent the deferral of the income into future reporting periods based on the University's income recognition policies. Refer note 1(d) of the financial report and the audit qualification for other liabilities and the revenue deferral outlined in the 'Auditor's report on the financial report' above.

Since 2011 there has been an overall decrease in the income in advance. The main decrease is to the Commonwealth and State Government income which is offset by an increase to the fees and charges income in advance.



Statement of Cash Flows

Operating cash inflows include capital grants that are used for investing purposes, primarily payments for property, plant and equipment. The net cash flows provided by operating activities decreased by $42 million due mainly to a decrease in Australian Government grants received.

Net cash used in investing activities decreased by $33 million as a result of the timing of payments associated with major capital program expenditure.

Urban Renewal Authority

Functional responsibility	The Urban Renewal Authority (URA) has responsibility for leading and coordinating urban renewal activity to ensure future housing needs are met through better planned, affordable and vibrant mixed use (residential and commercial) urban developments located near to transport, employment, education and other services. Note 1 of the financial report explains the objectives of the URA. The trading name of the URA is Renewal SA.
Financial statistics	Sales: $48 million Cost of sales: $34 million Loss before income tax equivalent: $123 million Borrowings: $519 million Inventories and investment properties: $555 million Number of FTEs: 299
Significant events and transactions	— The responsibility for financial, 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. — The values of inventories and investment properties were written down by $97 million as at 30 June 2015.
Financial statement opinion	**Unmodified**
Financial controls opinion	**Modified** Key issues: — Finalisation and approval of a number of frameworks, policies and procedures yet to occur — Non-compliance with procurement and contract management frameworks in respect of a Tonsley Park Redevelopment project contract — No formal business continuity and disaster recovery plans and no formal regular review of system user access profiles — No formal review of bona fide reports since November 2014

Scope of the audit

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

During 2014-15 areas of review included:

- corporate governance
- project management
- IT
- sales
- property income
- expenditure
- payroll
- inventory
- cash
- general ledger.

The audit included follow-up of findings and recommendations made in our review of the Gillman site transaction that was completed in October 2014.

Internal audit activities and reports were also reviewed to assess the risks of material misstatement in the financial report and to design and perform audit procedures.

Audit findings and comments

Assessment of controls

In my opinion, the controls exercised by the Urban Renewal Authority in relation to the receipt, expenditure and investment of money, the acquisition and disposal of property and the incurring of liabilities, except for all matters outlined under 'Communication of audit matters', are sufficient to provide reasonable assurance that the financial transactions of the Urban Renewal Authority have been conducted properly and in accordance with law.

Communication of audit matters

Matters identified during the course of the audit were detailed in a management letter to the Chief Executive. The URA's response to the letter indicated that, in general, appropriate action would be taken to address the matters raised. The main matters raised with the URA and the related responses are detailed below.

Governance

Finalisation and approval of the ownership framework

The URA has been in the process of establishing an ownership framework since its establishment in March 2012. Our follow-up in 2014-15 indicated the ownership framework was yet to be finalised and formally approved.

It is of particular concern that the URA has operated without an approved ownership framework for a period of more than three years. In the absence of a formal approved ownership framework, Cabinet's expectations regarding the URA's role, functions and funding arrangements may be unclear. This may result in the URA not conducting its operations in accordance with government expectations.

The URA responded that it is committed to finalising the ownership framework as soon as possible and indicated a significant amount of work had been completed in order to achieve this, including the completion of an independent report on the land economics of URA's entire asset holdings. This report has been used to prepare a revised long-term financial plan which is currently being presented to key stakeholders including URA's Board of Management, the Department of Treasury and Finance and the Minister for Housing and Urban Development. It is proposed that key decisions regarding projects, sales program and operating costs will be subject to Cabinet approval.

Once Cabinet approval has been obtained, the ownership framework will be drafted and approved, formalising the targets associated with the revised financial plan.

Finalisation and approval of policy and procedure framework for unsolicited proposals

Our review of the Gillman site transaction in the prior year indicated the URA did not have a formal policy and procedure framework governing the consideration and assessment of unsolicited proposals and significant transactions.

We recommended the URA establish a formal policy and procedure framework for unsolicited proposals and significant transactions which incorporated direction and guidance on the following areas:

- the role, responsibilities and decision-making powers of Cabinet, the responsible Minister, the Board and the Chief Executive
- the development of a governance plan for unsolicited proposals that establishes a governance structure and clearly defines the roles and responsibilities of all parties involved
- the provision of all significant expert opinions and advice to the Board on a timely basis to allow for adequate consideration and analysis and requests for additional information before a final decision is made
- the use and timely engagement of expert advice, including independent valuers and probity advisers
- the required timelines for processes and decision-making.

Our follow-up in 2014-15 indicated that a formal policy and procedure framework, specific to the URA, governing the consideration and assessment of unsolicited proposals and significant transactions had yet to be finalised and approved.

The URA advised that it had been considering and assessing unsolicited bids in accordance with the Government's Guidelines for Assessment of Unsolicited Proposals issued in November 2014 and in conjunction with the State Coordinator-General.

Management had also progressed a suite of policies that provide for the governance and process associated with unsolicited proposals, including a new Probity policy and a new Real Property (Off-Market) Sales and Real Property (On-market) Sales policy, as well as revisions to the existing Delegations and Authorisations Framework and Board of Management policy. These policies and instruments were currently with the Crown Solicitor's Office for final review and consideration following the outcome of legal challenges made to the Gillman site transaction process.

Update of the Board of Management policy

Our review of the Gillman site transaction in the prior year indicated that improvements could be made to board meeting policies and processes.

We recommended the Board review its Board of Management policy to provide further guidance on the use of out-of-session decision papers and the convening of special/extraordinary meetings of the Board to discuss and make resolutions on significant transactions. In the event of holding teleconferences, we recommended the Board should also agree whether the teleconferences constitute a proper meeting and, if so, record minutes as relevant.

Our follow-up in 2014-15 indicated that the Board of Management policy had not yet been updated to provide guidance on these areas.

In the absence of formal guidance on these areas, there is an increased possibility that Board discussions may not be documented in a manner that demonstrates relevant matters and issues have been well considered with the fair and full participation of all Board members.

The URA responded that the Board of Management policy had been updated to reflect that the Chief Executive no longer uses out-of-session papers. The URA had provided the updated policies to the Crown Solicitor's Office for legal review. Once the Crown Solicitor's Office completes its legal review, the URA intends to present the updated policy to the Board of Management in either September or October 2015.

Non-compliance with the Gifts and Benefits policy

Our review identified several instances where staff with contracting, procurement, payment or property delegations had accepted gifts up to a value of $100 during 2014-15. The URA's Gifts and Benefits policy states that such staff are precluded from accepting any gifts.

Given the non-compliance with the Gifts and Benefits policy, there is an increased risk that inappropriate gifts and benefits may be received which could adversely impact the impartiality, or perceived impartiality, of URA officers involved in procurement and contracting decision-making processes.

We recommended that formal advice be provided to all URA staff regarding the Gifts and Benefits policy requirements and that the URA implement regular formal independent checks to confirm compliance with the policy.

The URA responded that it would review the Gifts and Benefits policy to ensure it aligns with other government agencies and to ensure that staff do not inadvertently breach policy as a result of standard industry practice.

Update of Ethical Behaviour policy

Our review identified the URA's Ethical Behaviour policy had not been updated since April 2012. As a result, the policy may not reflect current government and legislative requirements regarding ethical behaviour and conduct, including the revised Code of Ethics for the South Australian Public Sector, which took effect from 13 July 2015.

We recommended the URA update the Ethical Behaviour policy to reflect current government and legislative requirements relating to ethical behaviour and conduct, including the revised Code of Ethics, as soon as possible.

The URA responded that its industrial policy framework was being reviewed and updated to align with public sector requirements. Ethical behaviour and conduct requirements of the public sector, as outlined in the revised Code of Ethics, would be incorporated into the revised industrial framework which would be completed and implemented by December 2015.

Establishment of entertainment policy

Our review indicated the URA did not currently have a policy that outlines the processes to be followed in incurring and approving entertainment expenditure.

This increases the risk that Board and management expectations regarding entertainment expenditure may be unclear and inconsistent, or that inappropriate business practices may be adopted when incurring and approving entertainment expenditure.

The URA responded that it was reviewing all human resources policies and procedures and an entertainment policy will be considered as part of this review. It is expected that the review would be completed by the end of November 2015.

Update of delegations of authority

Our review indicated the Delegations and Authorisations Schedule had not been updated to reflect new position titles and responsibilities in the revised organisation structure.

As a result, there may have been a lack of clarity regarding the delegated authority allocated to key positions within the URA. This increased the likelihood that procurements, contracts, payments, sales and human resources functions may not have been approved in accordance with the expectations of the Chief Executive and the Board.

The URA responded that it has completed a comprehensive review and update of its Delegations and Authorisations Schedule and supporting guidelines to ensure they align with the agency's business model and structure.

Tonsley Park Redevelopment project

Non-compliance with procurement and contract management frameworks

Our review of the procurement and contract management practices adopted in engaging a particular contractor identified the following instances of non-compliance with applicable policy requirements:

- a procurement checklist was not completed, signed and retained
- the details of the original contract and deed of variation were not recorded on the URA's contracts register
- the contract was not disclosed on the SA Government's Tenders and Contracts website as required by the Department of the Premier and Cabinet Circular PC027 'Disclosure of Government Contracts'
- a supplier performance scorecard had not been completed.

The URA was also unable to locate the signed pre-authorisation to enter into the contract, the final signed and executed contract and the signed contract disclosure form.

Given these instances of non-compliance with applicable policy requirements, there is an increased risk the URA may not have obtained maximum value for money from the procurement contract. The URA may also have lacked assurance regarding the probity of the procurement process, compliance with key contract deliverables and the adequacy of records management practices.

The URA responded that staff training had been provided on procurement and contract management framework requirements in order to improve levels of compliance.

Completeness of project risk register

Our review of the Tonsley Park Redevelopment project risk register indicated that it may not have included all legal risks specific to the project, for example legal risks specifically identified by the Crown Solicitor's Office or potential contract management and legislative compliance risks. Our review also indicated certain commercial risks may not have been reflected on the risk register.

As a result, all legal and commercial risks relevant to the Tonsley Park Redevelopment project may not have been appropriately identified, assessed and monitored.

The URA responded that the project risk register had been comprehensively reviewed during August 2015, including a review of all legal and commercial risks. An updated risk register was to be completed in September 2015 with all additional risks identified and treated in accordance with the URA's risk management policy.

Finalisation of Project Delivery Structure manual

Our review indicated the Tonsley Park Redevelopment Project Delivery Structure manual was in draft form and was under review due to proposed future changes in the project structure. In the absence of a formal governance manual, the roles and responsibilities of all relevant parties and applicable project reporting requirements may be unclear.

We recommended the Tonsley Park Redevelopment Project Delivery Structure manual be finalised, approved and distributed to relevant parties as soon as possible.

The URA responded that finalisation of the Project Delivery Structure manual for endorsement by the Project Control Group (PCG) would be addressed by the URA, in conjunction with the Department of State Development (DSD) Tonsley project team members, by 30 September 2015.

Approval of waivers of competitive process

Our review identified there was a lack of clarity in the procurement delegations and procurement policies and procedures regarding the approvals required when contracted amounts for direct source procurements, or other contracts involving waivers of competitive process, are varied.

This lack of clarity increases the likelihood that direct source procurements, or other contracts involving waivers of competitive process, may not be approved in accordance with Board expectations.

The URA responded that consideration would be given to introducing strengthened contract variation requirements when a waiver of competitive process has applied to the initial procurement methodology.

Regularity of Project Control Group meetings

A PCG was established for the Tonsley Park Redevelopment project that includes representatives from both the URA and DSD. The PCG is responsible for the successful delivery of the Tonsley Park redevelopment in line with project objectives.

The terms of reference for the PCG require it to meet monthly, however our review indicated this had not occurred during 2014-15.

The PCG plays a significant role in delivering the project in line with its vision, objectives and desired outcomes, as well as providing leadership, direction and advice to the Project Co-Ordination Workgroup and project directors. A lack of formal, regular meetings by the PCG may adversely affect the development of successful strategies to achieve these objectives and desired outcomes.

The URA responded that a calendar of monthly PCG meetings had now been established in line with the terms of reference.

Information and communications technology and control

Establishment of business continuity and disaster recovery plans

Our review of IT governance arrangements identified the URA did not have a formal business continuity plan or disaster recovery plan.

As a result, the URA may not be able to resume operations and restore system data and access in a timely manner in the event of a disaster or major system failure.

We recommended the URA establish a business continuity framework and disaster recovery plan as soon as possible and ensure the framework and plan are communicated to all relevant staff. We also recommended the URA perform and document regular tests of the business continuity framework and disaster recovery plans to confirm their effectiveness.

The URA responded that it had the existing capability to ensure business continuity and recovery of key business systems. The URA has daily backups of data and information, which are stored offsite, by Distributed Computing Support Services panel providers. Test restores are performed weekly and backups and restores are monitored for success and recorded. Any issues identified are also logged with the Distributed Computing Support Services provider and followed up to confirm resolution.

A review of on-premise infrastructure was currently underway, with the expected outcomes that a business continuity framework and disaster recovery plan will be formalised and implemented.

User access reviews

Our review indicated a process was established whereby manager approval was required prior to system access changes being granted. However, the URA did not have a formal procedure governing system user access reviews. There was also no ongoing formal review of system user access profiles for reasonableness.

This raises the possibility that access to financial systems may be inappropriate or unauthorised and increases the likelihood that invalid or inappropriate changes may be made to financial data.

We recommended the URA perform and document periodic reviews to confirm system user access profiles in financial and human resources systems were appropriate.

The URA responded that a framework for scheduling regular reviews of user, administration and application profiles for all core business applications was currently being drafted for review.

Payroll

Review of bona fide reports

Our review indicated that bona fide reports, including employee name, classification, hours worked and leave taken details, are available from the URA's payroll system (Empower) for each pay period. However, from November 2014, bona fide reports were not run from the Empower system and provided to pay point managers for their review.

The review of bona fide reports is an important control in ensuring only accurate and valid changes are made to employee details. The review of bona fide reports also serves to ensure that all leave taken is accurately recorded.

We recommended the URA distribute bona fide reports to pay point managers for their review each pay period and establish and maintain a central register to confirm that all pay points have reviewed and returned their bona fide reports in a timely manner. We also recommended the URA establish a formal procedure that outlines this process.

The URA responded that it was currently working with its payroll system provider, Empower, to initiate a bona fide system that is driven directly from the Empower system, including a review and confirmation workflow process. It was expected that the system-based bona fide process would be in place by November 2015, with procedures and training available to support all staff as required.

Access to payroll disbursement EFT files

The payroll disbursement EFT file is stored temporarily on a shared drive prior to upload to the CommBiz banking system and is able to be edited. We noted that no independent review was performed to confirm whether invalid or inappropriate changes have been made to the EFT file while it is stored on the shared drive. Our review also indicated that a number of payroll and human resources officers had access to the location of the EFT file on the shared drive.

Given the EFT file can be edited, there is an increased possibility that invalid or inappropriate changes may be made to disbursement details prior to upload into the CommBiz banking system. This may increase the likelihood of fraudulent payroll disbursements.

We recommended the URA perform further investigation to determine whether the payroll disbursement EFT file can be changed to a non-editable format when being transferred from Empower to the CommBiz banking system. If this change was not feasible, we recommended that payroll and human resources officers only have read (and not edit) access to the network drive that stores the EFT file.

The URA responded that investigations had been completed with regard to options on how to best limit access to the EFT file. The Commonwealth Bank had confirmed that the EFT file is required to be in its current format and, as such, it cannot be read only. The URA also advised that it had existing compensating controls in place that mitigate the risk, including limited user access to the EFT file and independent reconciliations between the total number of pay records in Empower and CommBiz reports.

Independent review of employee masterfile changes

Our review indicated the payroll officer has the ability to edit their own pay details in the Empower system. We also noted that a consolidated audit report available from Empower, which lists changes made to employee pay details and the employee masterfile, had not been run or reviewed at any time during 2014-15. This raised the possibility that inaccurate, invalid or inappropriate changes may have been made to pay details or the employee masterfile without detection.

The URA responded that an additional control had been introduced whereby the payroll officer produces a monthly consolidated audit report for each business partner. This report details changes made to the employee masterfile throughout the month and will be reviewed by business partners to ensure all masterfile changes are valid and accurate. This control will be formalised through the review and update of human resources policies and procedures currently being undertaken.

Review and approval of timesheets and leave taken

Our review indicated there was no formal requirement for line managers to review, approve or submit employee timesheets. We also noted that timesheets can be modified without line managers being notified (ie it is possible for employees to make invalid changes to timesheets without being detected).

Further review identified there was no formal requirement for managers to ensure that all leave taken has been recorded accurately on timesheets and Payroll did not perform any checks to reconcile timesheets to leave forms.

As a result, timesheets may not accurately and completely reflect all leave taken and outstanding leave forms may not be identified and appropriately followed up. This increases the likelihood that leave liabilities may be misstated.

We recommended the URA establish a formal procedure outlining required processes for the review, approval and submission of employee timesheets. We also recommended changes be implemented to ensure timesheets are locked following line manager approval.

The URA responded that the timesheet system had recently been upgraded to generate emails to staff and line managers in instances where timesheets have not been completed. A formal timesheet procedure would also be developed as part of the review and update of human resources policies and procedures. This will ensure that the timesheet system is included as part of an integrated suite of controls, including bona fide reporting and leave approvals.

Timely review and update of human resources policies and procedures

Our review in prior years indicated the URA had not updated its human resources policies and procedures in order to reflect current business processes, legislative requirements, organisational structures and management expectations.

Our follow-up in 2014-15 indicated that work to update the policies and procedures was ongoing. However, the policies and procedures were yet to be finalised, approved and distributed.

We note that this issue was first raised in 2012-13 and is yet to be appropriately addressed.

Given human resources policies and procedures may not reflect current business processes, legislative requirements, organisational structures and management expectations, there is an increased likelihood that inconsistent and/or ineffective human resources practices may be adopted.

The URA responded that, as a result of the recent South Australian Housing Trust (SAHT) machinery of government restructure that occurred with effect from January 2015, there had been a requirement to review all human resources policies and procedures to ensure they reflect the current business processes and employment conditions of employees who have transferred over. It was expected this review would be completed by the end of November 2015.

Expenditure

Purchase orders not raised and matched in accordance with Purchase Order policy

Our review identified several instances where purchase orders were not raised in accordance with the URA's Purchase Order policy. We also identified instances where purchase orders were raised, however relevant invoices were not appropriately matched to the purchase orders in the accounts payable system.

Expenditure commitment disclosures in the financial report are derived in part from open purchase order reports run from the accounts payable system. Therefore, if purchase orders are not raised when required, there is increased likelihood that reported expenditure commitments may be understated.

In the event that invoices are not appropriately matched to corresponding purchase orders, it may also not be possible to effectively monitor progress payments against contracts (eg ensure that total expenditure amounts approved do not exceed total agreed contracted amounts).

The URA responded that all staff involved in the transactions highlighted by us had been provided with guidance on the requirements of the Purchase Order policy and invoice matching.

The URA will also introduce system generated reports to highlight invoices not applied to purchase orders. The URA will actively monitor the results of these reports and identify whether additional training is required.

Sales and property income

Finalisation and approval of real property disposal framework

Our review in the prior year indicated policies and procedures relating to the sale of real property had not been updated since the establishment of the URA.

Follow-up in 2014-15 indicated that a new real property disposal framework, to replace existing policies and procedures, was in development. However, the new framework had yet to be finalised, approved and distributed.

As a result, existing policies and procedures covering the sale of real property may not reflect current land release and pricing strategies or current business processes, organisational structures and management expectations.

The URA responded that management had progressed a suite of policies which together form a comprehensive real property disposal framework. This includes a new Probity policy and a new Real Property (Off-market) Sales and Real Property (On-market) Sales policy, as well as revisions to the existing delegations and authorisations framework. These policies and instruments were currently with the Crown Solicitor’s Office for final review and consideration following the outcome of legal challenges made to the Gillman site transaction process.

Non-compliance with Real Property Marketing and Pricing policy

The URA’s Real Property Marketing and Pricing policy outlines the required sale and pricing methodology to be applied to the URA’s real property assets. The Real Property Marketing and Pricing policy requires that allotment prices for the retail sale of commercial, retail or industrial allotments, completed under a development program or project, be based on a single independent valuation.

Our review identified Tonsley Park land sales to the Flinders University of South Australia (Flinders University) and DSD where an independent valuation was not obtained prior to sale. These sales arrangements had, however, been approved by Cabinet.

There may be instances where property is not offered on the open market, given non-commercial public policy considerations. In such instances, an independent valuation may not serve as the basis of the sale or transfer price. However, it is still appropriate to obtain independent valuations for such property in order to reliably ascertain the current market value and appropriate carrying amount of the property for financial reporting and accountability purposes.

We recommended the URA update the real property disposal framework to specify the requirements for independent valuations in respect of property sales or transfers that will not be conducted on the open market. This includes specifying independent valuation requirements for property sales or transfers to State Government agencies and public institutions (eg universities).

The URA responded that the revised real property disposal framework will specify the requirements for independent valuations of real property disposals undertaken off market.

Inventory

Independent review of project development costs

Our review indicated that no overall independent review is performed to confirm that project development costs capitalised and expensed by project teams are reasonable. Given that most project staff do not possess professional accounting expertise, they may not be able to effectively determine whether development costs should be capitalised under the inventory policy and the requirements of AASB 102 'Inventories'.

As a result, there is an increased likelihood that development costs may be inappropriately capitalised or expensed. This could result in the misstatement of inventories and operating expenditure in the financial report.

We recommended the URA Finance team perform a periodic review to confirm material costs that have been capitalised are appropriate given Inventory policy and AASB 102 requirements.

The URA responded that the allocation of further resources to conduct any additional review processes may not result in benefits of a material nature. However, the URA would continue to monitor instances of non-compliance with the Inventory policy and AASB 102 and amend the control environment if material misclassifications are identified.

Interpretation and analysis of the financial report

Highlights of the financial report

	2015 $'million	2014 $'million
Income		
Sales	48	64
Cost of sales	(34)	(34)
Joint venture profit	3	4
Revenues from government	11	11
Property income	26	26
Interest and other revenues	12	10
Net gain from disposal of non-current assets	-	1
Net gain from administrative restructure	-	4
Total income	66	86
Expenses		
Employee benefits expenses	25	20
Operating expenditure, depreciation and amortisation	51	68
Borrowing costs	15	14
Loss resulting from changes in value of non-current assets	97	23
Net loss from disposal of non-current assets	1	-
Total expenses	189	125
Profit (Loss) before income tax equivalent	(123)	(39)
Total comprehensive result	(123)	(39)

	2015 $'million	2014 $'million
Net cash provided by (used in) operating activities	(56)	(82)
Assets		
Current assets	128	96
Non-current assets	478	585
Total assets	606	681
Liabilities		
Current liabilities	216	314
Non-current liabilities	343	197
Total liabilities	559	511
Total equity	47	170

Statement of Comprehensive Income

Income

Income totalled $66 million in 2014-15 compared to $86 million in the prior year, a decrease of $20 million. This decrease is primarily attributable to a decrease in sales ($16 million) and net gain from administrative restructure ($4 million).

Sales

The decrease in sales is mainly due to lower sales income relating to Seaford ($13 million), Woodville West ($9 million), Playford Alive ($5 million) and Bowden ($5 million), partly offset by increases in sales at Tonsley Park ($11 million), Gillman ($5 million) and Marden ($3 million).

The final instalment for Stage 6 at Seaford Meadows and the second instalment for Stage 2 at Seaford Heights settled in 2013-14 for a total of $13 million. There were no sale settlements at Seaford for 2014-15. In respect of Woodville West, Stage 1 sales were completed during 2014-15 and Stage 2 development works commenced. However, there were no Stage 2 allotments completed or sold during 2014-15, with these scheduled to commence in 2015-16. The reduction in Playford Alive sales was due to fewer settlements (ie 48 settlements in 2014-15 compared to 97 settlements in 2013-14). In the Bowden area, there were two apartment site sales totalling $3 million in 2014-15 compared to 13 terrace allotments totalling $3 million and four apartment sites totalling $5 million in 2013-14.

The increase in Tonsley Park sales revenue is attributable to four commercial sale settlements during 2014-15. This included the sale of allotments to DSD for a new Drill Core Library and TAFE SA's Sustainable Industries Education Centre. There was also an allotment sale to Flinders University for a new Computer Science, Engineering and Mathematics School building. There were no sales at the Tonsley Park site in 2013-14.

The increase in Gillman sales relates to the sale of a Hanson Road property during the current year. The URA also sold its sole landholding at Marden during 2014-15.

Refer note 3 of the financial report for further details regarding material sales transactions.

Net gain from administrative restructure

The net gain from administrative restructure in the prior year of $4 million related to the transfer of 13 Woodville West project properties from the SAHT to the URA on 15 August 2013.

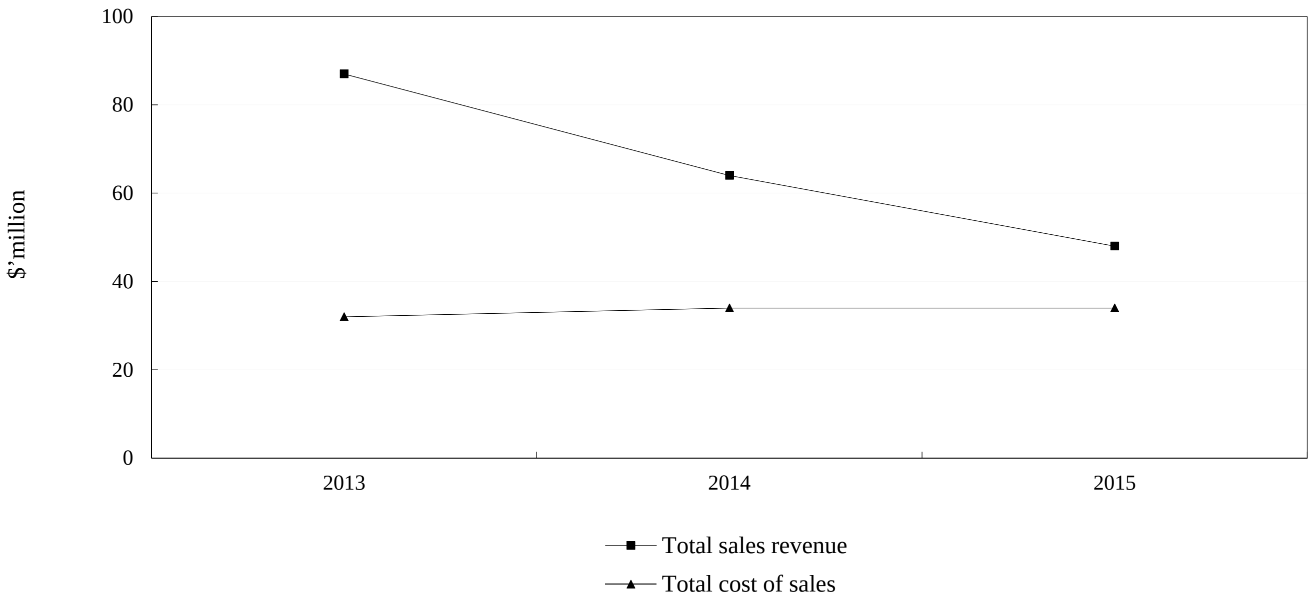
There was another administrative restructure in the current year relating to the transfer of SAHT functions to the URA. However, this restructure did not result in the transfer of any net assets or liabilities. Note 39 of the financial report provides further details on the current and prior year administrative restructures.

The section below titled 'Changes to functional responsibilities and organisational structure' under 'Further commentary on operations' also provides further information on the 2014-15 administrative restructure.

Cost of sales

Cost of sales has remained steady between the current and prior year despite sales decreasing significantly. This is primarily due to fewer englobo land sales in the current year, which have low costs associated with sales (ie limited capital development obligations resulting in higher gross profit margins). In 2013-14, englobo land sales included Seaford and Evanston which contributed a combined profit of $14 million. In 2014-15, there was a greater proportion of sales in projects with high cost margins such as Tonsley Park, and no major englobo sales. In addition, Bowden and Playford cost margins increased significantly from 2013-14 as a result of deteriorating whole-of-life budget positions.

The following chart shows total sales and cost of sales for the three years to 2015.



The chart highlights that sales are trending significantly downward while cost of sales has remained relatively constant. This shows the URA is increasingly moving away from high profit margin englobo land sales to low profit margin or break-even projects.

Expenses

Total expenses for the year were $189 million, an increase of $64 million from the previous year. This reflects an increase in the loss resulting from changes in the value of non-current assets ($74 million) and an increase in employee benefits expenses ($5 million), partly offset by a decrease in operating expenditure ($17 million).

Loss resulting from changes in value of non-current assets

The loss resulting from changes in the value of non-current assets in 2014-15 relates to the write-down of inventories to the lower of cost or net realisable value, based on a mixture of independent and internal valuations as at 30 June 2015 ($74 million) and downward investment property fair value adjustments based on independent valuations performed as at 30 June 2015 ($23 million).

The net realisable value write-down amount for inventories is $59 million higher in 2014-15 than the prior year.

The major factor contributing to inventory write-downs in 2014-15 is current market conditions for industrial land in Adelaide. There is currently a large supply of, and low level of demand for, industrial land, particularly in the outer west and inner-Port areas of the city. The excess of land supply has put significant downward pressure on prices and this has been exacerbated by broader economic conditions in the State, in particular the decline in the manufacturing industry. The inventory write-downs primarily relate to Osborne North ($20 million), Northern Lefevre Peninsula ($20 million), Tonsley Park ($18 million), Gillman ($12 million) and Techport Australia ($5 million).

For further commentary regarding the inventory valuations refer ‘Inventory valuations’ below.

The downward fair value adjustments for investment properties were $15 million higher than the prior year. The investment property write-downs primarily relate to Northern Lefevre Peninsula properties ($12 million), Adelaide Station and Environs Redevelopment (ASER) properties ($6 million) and Industrial and Commercial Premises Schemes (ICPS) properties ($4 million).

The Northern Lefevre Peninsula properties were formerly held by Defence SA. The valuation loss on these properties reflects current lease market opportunities with a low level of demand for industrial land being experienced in Adelaide, particularly in the inner-Port area. The current valuation also reflects stockpiles of soda ash remaining on land previously leased to Penrice, a company that was placed into liquidation during 2014-15.

The valuation loss on ASER property in 2014-15 is mostly due to a softening of market rental yields, an allowance for necessary capital works and depreciation of plant.

In respect of the ICPS properties, the valuation losses reflect potential tenant vacancies and corresponding impacts on market yields. There are also properties where existing improvements will eventually require demolition in order to reposition sites for lower intensity, lighter industrial use.

For further commentary regarding the investment property fair value adjustments refer ‘Investment properties’ below.

Employee benefits expenses

The increase in employee benefits expenses is mainly due to the transfer of 130 employees from the Department for Communities and Social Inclusion (DCSI) in January 2015 to enable the URA to undertake financial, asset management and not-for-profit community housing sector growth responsibilities on behalf of the SAHT.

Operating expenditure

The decrease in operating expenditure of $17 million is primarily attributable to a decrease in contractors and consultants ($10 million), property expenditure ($4 million) and administration and other expenditure ($2 million). The decrease in contractors and consultants expenses primarily relates to a $5 million reduction in Port Adelaide activation work costs compared to the prior year and 2013-14 costs associated with the completion of intersection roadworks at Evanston ($6 million).

The decrease in property expenditure is mainly attributable to the one-off payment of Bowden housing affordability funds from the Commonwealth to Unity Housing in 2013-14 ($2 million). There was also a $1 million reduction in the profit share distributions for Edinburgh Parks as a result of reduced sale price forecasts.

The decrease in administration and other expenditure is primarily due to $4 million in damages and associated costs being paid to the Newport Quays Consortium in 2013-14 in order to settle the Port Adelaide Waterfront Redevelopment project legal dispute. This expenditure was one-off in nature and was partly offset by an existing provision of $1 million.

Loss before income tax equivalent

The URA made a loss before income tax equivalent in 2014-15 of $123 million, compared to a loss of $39 million in the prior year.

The $84 million decline between the years is primarily attributable to an increased loss resulting from changes in value of non-current assets ($74 million), a decreased gross profit from sales ($16 million), a decrease in net gain from administrative restructures ($4 million) and an increase in employee benefits expenses ($5 million), partly offset by a decrease in operating expenditure ($17 million).

The significant losses in 2013-14 and 2014-15 have resulted in negative retained earnings as at 30 June 2015.

Treasurer's Instruction 22 'Tax Equivalent Payments' (TI 22), requires tax equivalent payments to be calculated and paid on the basis of the accounting profit method. As the URA made a loss before income tax equivalent in 2014-15, no income tax equivalents were paid or payable under TI 22.

Dividend

Pursuant to section 26 of the *Urban Renewal Act 1995*, the URA is required to make a recommendation to the Minister for Housing and Urban Development regarding whether a dividend will be paid each financial year.

A special dividend totalling $12 million was budgeted for 2014-15 which comprised:

- a $9 million special dividend, representing the net proceeds received for the sale of the Optus Call Centre investment property at Technology Park, which settled in March 2015
- a $3 million special dividend for the ASER site, representing the budgeted profit on the site for the year ending 30 June 2015.

The URA was also requested by the Minister to consider paying a special dividend of $2 million, representing the ASER site profits for the year ended 30 June 2014. This dividend was previously not approved by the Minister and accordingly was not paid.

The URA is required to declare a dividend of 100% of the profit relating to the ASER site in accordance with the requirements of the Cabinet decision to transfer the site from the Department of Planning, Transport and Infrastructure to the URA effective 30 June 2013.

The URA's Board of Management considered the dividend declaration at its May 2015 meeting and noted that URA's financial projections indicated a net loss would be incurred for the 2014-15 financial year. The URA's Board of Management also noted that the budgeted dividend payments would all be funded by borrowings and would adversely impact the URA's current debt position. The Board of Management resolved that no special dividend would be paid for the $9 million net proceeds received for the sale of the Optus Call Centre investment property.

The URA's Board of Management also resolved that the payment of the 2013-14 and 2014-15 ASER special dividends be deferred pending the outcome of the asset and financial planning exercise being undertaken by the URA.

The Minister approved the URA's recommendation to not to declare a dividend for the 2014-15 financial year on 27 July 2015.

Statement of Financial Position

Assets

Total assets decreased by $75 million to $606 million. The decrease in assets is mainly due to a decrease in inventories ($35 million), investment properties ($33 million) and mortgage debtor receivables ($22 million), partly offset by an increase in receivables ($13 million).

Inventories

The URA's primary activities involve holding and developing land assets. Land and other property held for sale in the ordinary course of business is classified as inventory. The value of inventory at 30 June 2015 was $420 million, representing 69% of total assets.

The value of inventory includes initial acquisition costs and capitalised development costs, reduced for cost of sales during the year. Annual valuations are performed to ensure inventories are reflected at the lower of cost or net realisable value.

The URA only made one inventory purchase during 2014-15, for a residential dwelling at Clovelly Park.

Capitalisation of inventory development costs

The URA capitalises salaries, land tax and borrowing costs to inventory, where those costs are directly attributable to land currently under development and are necessarily incurred in bringing the inventories to their present condition. These costs are then recognised as part of cost of sales when inventories are sold.

The total development costs capitalised in 2014-15 were $87 million ($92 million) (refer note 21 of the financial report). These costs primarily relate to Tonsley Park ($45 million), Playford Alive ($16 million), Woodville West ($6 million) and Gillman – East Grand Trunkway ($9 million).

The salaries, land tax and borrowing costs capitalised to inventories are reflected in notes 11, 14 and 15 of the financial report respectively.

Cost of sales

The cost of sales attributable to inventories sold during the year was $34 million. Cost of sales comprises all direct material acquisition, development and holding costs. The carrying amount of any inventory held for sale is expensed as a cost of sale when settlement occurs. Where applicable, a portion of future development obligations in respect of land that has been sold is also recognised in cost of sales when settlement occurs.

Inventory valuations

The URA has determined that it will obtain independent valuations for all inventories on a rolling basis over the next two years. The properties selected for independent valuation as at 30 June 2015 were those considered at highest risk of not being reflected in accordance with AASB 102 requirements (ie reflected at an amount above net realisable value). These properties were primarily industrial land holdings in the Port Adelaide area.

The major inventory write-downs arising from the independent valuations as at 30 June 2015 were Osborne North ($20 million), Northern Lefevre Peninsula ($20 million), Gillman ($12 million) and Techport Australia ($5 million).

An internal valuation process was performed for all other inventories to ensure they were recognised at the lower of cost or net realisable value in accordance with AASB 102. This analysis included reference to recent sale contracts, any independent valuations performed for relevant land parcels during 2014-15 and actual/forecast project cash flows. The major inventory write-down arising from the internal valuations as at 30 June 2015 was for Tonsley Park ($18 million).

Investment properties

The URA is a holder of significant investment properties, which are valued at $135 million as at 30 June 2015. The $33 million decrease in investment property is primarily attributable to disposals ($10 million) and downward valuation adjustments ($23 million).

The only investment property disposal for 2014-15 was the sale of the Optus Call Centre building at Technology Park (refer note 3.1 of the financial report for further information). The proceeds from the sale were $9 million and the carrying amount of the property was $10 million, resulting in a loss on disposal of $1 million (refer note 10 of the financial report).

Investment properties are initially measured at cost and are then valued at fair value based on annual independent valuations.

The current year fair value adjustments primarily comprise write-downs relating to Northern Lefevre Peninsula properties ($12 million), ASER properties ($6 million) and ICPS properties ($4 million). As discussed above, the downward fair value adjustments are primarily driven by the low demand for this type of property, resulting in higher vacancy rates and lower projected rental returns for investment properties.

The total property income derived from investment properties during 2014-15 ($14 million) was 10% of the total carrying amount of investment properties (refer note 22 of the financial report).

Mortgage debtor receivables

Mortgage debtor receivables are associated with deferred purchase agreements (DPAs) under the ICPS.

In June 2006, the former Land Management Corporation entered into a DPA with Inghams Enterprises Pty Ltd (Inghams) for the sale of 27-35 Sturton Road, Edinburgh for $52 million. Under the DPA, Inghams entered into a financial agreement with quarterly repayments of interest and principal for a term of 10 years to repay the full purchase price by September 2017. In October 2014, the URA received notification of Inghams' intention to pay out the purchase price early. The URA agreed to terminate the DPA on 31 October 2014 and requested Inghams to pay the final balance of $21 million, which included break costs for early repayment. The URA subsequently repaid the corresponding borrowings with the South Australian Government Financing Authority (SAFA) of $18 million.

The other remaining deferred purchase agreement under the ICPS relating to Bresagen was also paid out during 2014-15.

Liabilities

Total liabilities increased by $48 million to $559 million. The increase in liabilities is mainly due to an increase in borrowings ($47 million) and employee benefits ($4 million), partly offset by a decrease in payables ($4 million).

The additional borrowings were primarily required to fund capital development costs for inventories and operating expenditure. Refer to 'Borrowings' below for further commentary on debt management.

The increase in employee benefits is primarily due to the transfer of 130 employees from DCSI to the URA in January 2015 and the corresponding impact on leave entitlements.

The decrease in payables is mainly attributable to decreases in current trade creditors ($2 million) and current sundry creditors and accrued expenses ($3 million). Creditors and accrued expenses have decreased in line with the overall decrease in operating expenditure compared to the prior year. There was also a one-off $5 million creditor as at 30 June 2014 for amounts payable to the Department of Planning, Transport and Infrastructure for Tonsley Park enabling works.

Statement of Cash Flows

Net cash used in operating activities decreased by $25 million primarily due to decreases in payments for land purchase and development and payments to suppliers.

Net cash provided by investing activities decreased by $11 million primarily as a result of lower proceeds on the sale of investment properties and reduced capital repayments by joint ventures.

Net cash provided by financing activities of $47 million reflects the increase in net borrowings to fund current year development activity and operations.

Further commentary on operations

Changes to governing legislation

The URA was established as a statutory corporation on 1 March 2012 by the Housing and Urban Development (Administrative Arrangements) (Urban Renewal Authority) Regulations 2012 under the *Housing and Urban Development (Administrative Arrangements) Act 1995*.

On 18 September 2014, both these pieces of legislation were revoked and replaced by the *Urban Renewal Act 1995* and the Urban Renewal Regulations 2014.

The URA's current functions are set out in section 7C of the *Urban Renewal Act 1995*.

Changes to functional responsibilities and organisational structure

On 8 December 2014, Cabinet approved a strategy to progressively replace ageing SAHT owned housing with new social housing dwellings that better meet contemporary social housing needs. In order to align the strategic and operational governance of SAHT with the Cabinet approved strategy, the responsibility for the *South Australian Housing Trust Act 1995* and other relevant Acts transferred from the Minister for Social Housing to the Minister for Housing and Urban Development.

This resulted in financial, asset management and not-for-profit community housing sector growth responsibilities transferring to the Minister for Housing and Urban Development, while the provision of social housing services (including property maintenance) and other housing programs and responsibilities (including rent assistance, indigenous housing programs and delegated social housing duties) remained with the Minister for Social Housing.

SAHT and the URA have entered into a service level administrative arrangement to reflect the financial, asset management and not-for-profit community housing sector services to be provided by the URA to the SAHT under the Cabinet approved strategy. To enable the URA to manage the services that it provides to SAHT under the service level administrative arrangement, 130 employees (125.2 FTEs) were transferred from DCSI to the URA under the Public Sector (Reorganisation of Public Sector Operations) Notice 2015 on 5 February 2015. Assets and liabilities relating to these employees were transferred into the URA as at 31 January 2015 (refer to note 39 of the financial report).

The salary costs and leave entitlements of the transferred employees and corresponding recharges of these costs back to the SAHT are reflected in the URA's financial report. There are no other financial reporting impacts for the URA arising from this administrative restructure. All costs associated with the SAHT capital program, including the construction of new social housing dwellings, continue to be reflected in the SAHT's financial report.

Provision of administrative support to the Riverbank Authority

The Riverbank Authority was established by the Housing and Urban Development (Administrative Arrangements) (Riverbank Authority) Regulations 2014 on 13 February 2014.

The functions of the Authority are as follows:

- to give advice and make recommendations to Government about major infrastructure proposals and funding mechanisms for the development of land within the Riverbank precinct
- to oversee and be accountable for the delivery of the implementation plan for the precinct and other master plans for the precinct
- to promote and encourage the involvement of the private sector in the development of key sites within the precinct
- to act as a referral authority for the purpose of giving advice on proposals that contain recommendations to Cabinet about development within the precinct
- to promote recreational, social and cultural activities in relation to the precinct.

The Riverbank Authority has a Board of Management but does not have any employees. All the administrative support functions for the Board are provided by employees of the URA. A service level agreement is being established to govern these administrative support services and corresponding recharge arrangements.

Gillman site transaction

Background

On 18 June 2013 the Premier received an unsolicited proposal from Adelaide Capital Partners (ACP) for the purchase and development of approximately 450 hectares of the Gillman Precinct (the Gillman site). As owners of the Gillman site, the Premier sought URA's advice on ACP's unsolicited proposal to enable the Premier and the responsible Minister to make recommendations to Cabinet, the approving authority.

On 2 December 2013 Cabinet approved ACP's offer and for the URA to grant an exclusive call option for ACP to acquire up to 407 hectares of the Gillman site within three options over a nine year period for up to $122 million.

On 13 December 2013 the Premier and Minister for State Development, the Chief Executive of the URA and ACP entered into the Lipson Industrial Estate Option Deed (the Option Deed).

2014-15 developments

ACP exercised its first option, representing Stage 1 of the project, on 29 December 2014. The exercise of the Stage 1 option gave rise to a conditional land sale contract for a minimum of 150 hectares of land, with a minimum payment to the URA of $45 million, to be paid by ACP at the time of settlement under the Stage 1 land sale contract. 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 ACP receiving the necessary statutory and development approvals.

Upon settlement of the Stage 1 option land, the URA will also enter into a long-term licence with ACP over the remaining land which will form part of the second and third exercisable options. If ACP exercises the second and third options and effects settlement under the land sale contract(s) that arise, further off-market sales of up to 257 hectares of land at Gillman and Dry Creek will occur for a combined total of up to $77 million.

Status of legal challenge to the transaction

Acquista Investments and Veolia Environmental Services (jointly IWS) commenced an action for a Judicial Review of the Gillman site transaction in May 2014. The Supreme Court of South Australia handed down its findings in relation to the Judicial Review on 24 December 2014. The Court (Blue J) upheld that the Option Deed was valid and dismissed the action.

IWS subsequently appealed the judgement in the Judicial Review proceedings, with the relevant trial commencing in April 2015. The Full Court of the Supreme Court of South Australia handed down its findings in relation to the appeal of the Judicial Review on 20 July 2015. The majority of the Full Court (Vanstone and Lovell JJ) dismissed the appeal.

On 17 August 2015, IWS 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.

Borrowings

The URA's borrowings include debt inherited from the former Land Management Corporation and borrowings incurred on the establishment of the URA to fund asset transfers from Defence SA and the SAHT.

The URA has also incurred additional borrowings since its establishment in order to fund capital development costs for inventories and operating expenditure. The level of borrowings has been significantly impacted by the current challenging market conditions for property sales, with property sales not being able to offset operating expenditure to the degree expected.

Increase in debt ceiling

The Department of Treasury and Finance and SAFA require the URA to adopt a core debt management facility approach, consistent with other public non-financial corporations. This requires approval by the Minister and Treasurer for an annual debt ceiling.

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.

Based on cash flow projections performed in March 2015, the URA forecasted a peak debt level of $545 million would be reached in May 2015. This forecast was based on the assumption that sales proceeds from the Gillman land sale transaction of $45 million would be received prior to 30 June 2015.

There was a risk associated with the timing of this transaction given conditions needed to be met to ensure the payment was made. Given this risk, it was management's view that the debt ceiling should be increased by an additional $45 million to ensure any timing delays associated with this transaction did not present a significant risk to the URA's ability to fund core activity during 2014-15.

The URA advised the Minister and Treasurer that an increase in the core debt facility from $460 million to $540 million was required while the working capital overdraft should remain unchanged at $50 million. This would result in the annual debt ceiling limit increasing to $590 million.

The URA indicated to the Minister and Treasurer that it was undertaking a comprehensive review and detailed examination of its operations and asset holdings to assess the opportunities to reduce both the agency's debt levels and operational expenditure.

This review aims to identify a number of opportunities with regard to non-strategic and/or non-commercial assets, projects and operational activities. Where possible, the URA will look to cease such projects or operations, or significantly reduce the ongoing financial impact that the activity or project has. This will include seeking to dispose of assets, where appropriate, in an orderly manner. Where an asset is deemed to be non-commercial but strategic, the URA will either seek a community service obligation to fund the ongoing holding and operational costs, or alternatively look to transfer the asset to a more appropriate government agency.

In May 2015, the Minister and Treasurer approved the requested increase in the core debt facility to $540 million and the continuation of the $50 million working capital facility until 30 June 2016.

Liquidity and cash management

The increase in the debt ceiling highlights the URA's current liquidity issues and the challenges it faces in maintaining sufficient cash reserves to fund its operations.

The need for additional borrowings to fund working capital and operations is primarily attributable to the slow real estate market and consequent impact on sales. The URA currently has insufficient sales revenue to cover operating costs. In order to address this issue, the URA has deferred capital expenditure on a number of major projects in 2014-15.

We also note the URA's current 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, SAFA has rolled over loans into subsequent periods when the URA has not had sufficient funds to repay the loan.

In the event the current borrowings were not rolled over by SAFA, the URA would encounter significant liquidity and cash management issues.

The URA is liaising with SAFA to ensure the maturity dates on its borrowings more closely align with the expected timing of sales income on relevant projects. This has resulted in a higher proportion of borrowings being classified as non-current in 2014-15 compared to the prior year (refer note 27 of the financial report).

Major projects

Bowden Urban Village

The Bowden project is an urban renewal project that is planned to be completed over 10 to 15 years. The project is expected to house approximately 3000 people in over 2400 dwellings in addition to a substantial commercial and retail component.

The project encompasses an area of approximately 16 hectares of which 10 hectares comprise the former Clipsal site and six hectares comprise the former Origin Energy site. In December 2009 Cabinet approved the purchase of the Origin Energy site at a price of $1 million with Origin Energy to pay the Government $12 million towards the cost of site remediation. The site will facilitate a transit orientated development on behalf of the Government.

A master plan for the project was completed in early 2010 and urban design guidelines, a design review panel and a Ministerial Development Plan Amendment report have been completed.

The Bowden Urban Village Ministerial Development Plan Amendment was gazetted in July 2012 for inclusion in the City of Charles Sturt Development Plan.

The URA is the master developer for the project and is responsible for managing land assembly, remediation, infrastructure works, community engagement and marketing, with the private sector purchasing vacant development parcels for building construction.

During 2014-15, the key project events and activities were:

- the first residents moved into their completed housing
- the first key worker housing development was completed with Unity Housing retaining 62% of the apartments for rental to low income earners
- Stage 2 civil works and streetscapes commenced
- the largest development parcel to date comprising 5000 square metres has been released
- a retail leasing opportunity has been secured for Plant 4, which will involve the adaptive re-use of a former industrial warehouse and see the delivery of the first stage of retail for the project fronting the Bowden Park
- construction commenced on two development sites
- design works commenced for Bowden Park
- designs were finalised for the Adelaide Park Lands landscaping upgrade.

The whole-of-life total capital expenditure budgeted for the project is $202 million.

Playford Alive

The Playford Alive project was approved in February 2006 by Cabinet. The project involves the physical and community renewal of the existing suburbs of Davoren Park and Smithfield Plains linked to the development of adjacent undeveloped land at Munno Para, Munno Para Downs and Andrews Farm. The project is planned to be completed over 15 to 20 years and will see the existing population of approximately 13 000 people expand to almost 40 000 people over the life of the project.

The URA delivers the renewal areas of the project for the SAHT and develops the greenfield component of the project in its own right. The URA also undertakes a coordination role working with government agencies and the City of Playford to ensure the delivery of whole-of-government objectives.

During 2014-15, the key project events and activities were:

- design and delivery of innovative small lot affordable housing comprising one and two bedrooms in the Town Centre Precinct in Munno Para, with five display homes opened

- opening of a new display village in Munno Para
- opening of the Playford Alive Town Park and the Curtis Rd Wetlands
- renovation of 29 public housing dwellings and construction of 27 new public housing dwellings
- redevelopment and opening of the John McVeity Community Centre in Smithfield Plains
- construction and opening of the Stretton Centre comprising a library, café and offices for researchers, businesses and community groups
- construction of the new Woolworths Marketplace in the Town Centre which will include a Woolworth's supermarket, retail specialty stores and new restaurants.

The whole-of-life total capital expenditure budgeted for the project is $399 million.

Tonsley Park

In December 2009, Cabinet approved the purchase of the former Mitsubishi Motors Tonsley Park manufacturing site at Clovelly Park. The value of the land recognised by the former Department of Trade and Economic Development (now DSD) was $44 million, reflecting a $32 million cash component and a rent-free period provided to Mitsubishi Motors which was valued by the former Land Management Corporation at $12 million.

The site is being established as an integrated mixed-use employment precinct that will support a shift from manufacturing industry to knowledge-intensive industries and contribute to the economic growth of southern Adelaide in support of South Australia's Strategic Plan.

During 2014-15, the key project events and activities were:

- the Tonsley Town Square and Retail Precinct was completed and opened
- Stage 2 civil construction works were completed which has connected vehicular, pedestrian and cycle traffic to allow public access to the site
- construction of the main public space called the Central Forest within the main assembly building was completed in June 2015
- negotiations are progressing with the Canberra Investment Corporation as the preferred developer for the residential and mixed-use precinct
- Flinders University's Computer Science, Engineering and Mathematics school building opened in January 2015
- the fitout of approximately 600 square metres of office space in the Administration building was completed in April 2015
- construction of the Siemens Energy Maintenance and Repair facility was completed in April 2015
- Hills Limited relocated its South Australian innovation centres, product teams and shared support service functions from Hindmarsh to the Flinders University building in January 2015
- a Tonsley Park tenant (Tier 5 Pty Ltd) entered into voluntary administration in May 2015

- a voluntary site contamination assessment proposal agreement was entered into with the Environment Protection Authority to determine the nature and extent of onsite and offsite groundwater contamination sources in May 2015.

The whole-of-life total capital expenditure budgeted for the project is $202 million.

Woodville West project

The Woodville West medium density residential development commenced in 2009 following Cabinet approval for DCSI to undertake a renewal project to demolish up to 183 outdated SAHT owned dwellings and create a minimum of 423 new dwellings. Under the project targets, 85% of the dwellings have been earmarked for private sale with the remainder retained as social housing.

The majority of the rights, liabilities, assets, contracts and properties associated with the Woodville West project were transferred from the SAHT to the URA by notice in The South Australian Government Gazette on 26 April 2012.

At the time of transfer, the SAHT had undertaken significant civil and building works within Stage 1 and the carrying value of the land and improvements was $61.5 million.

The construction of Stage 1 of the project was completed during 2012-13. Stage 1 of the project involved the construction of 69 apartment and townhouse properties. 11 of the properties were transferred to the SAHT in February 2013 for social housing with the remainder made available for private sale.

In July 2013, the URA's Board of Management approved the delivery of Stage 2. Stage 2 is situated to the west of Stage 1 and will see the construction of 81 dwellings (70 by the URA and 11 through the sale of a super-lot to a developer). A minimum of 15% of dwellings will be sold as affordable housing and the remainder will be private market sales. Stage 2 comprises three releases and 42 of 45 dwellings in the first two releases have been sold.

The whole-of-life total capital expenditure budgeted for the project is $144 million.

Part B

General index

M

N

O

P

Q

R