



Government
of South Australia

Report
of the
Auditor-General
Annual Report
for the
year ended 30 June 2017

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Second Session, Fifty-Third Parliament

Part A: Executive summary

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Dear President and Speaker

Report of the Auditor-General: Annual Report for the year ended 30 June 2017

As required by the *Public Finance and Audit Act 1987*, I present to you my 2017 Annual Report.

Content of the Report

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

Part A: Executive summary contains this letter of transmittal which provides the opinions I am required to give under section 36 and identifies any examinations I have made under section 32 of the *Public Finance and Audit Act 1987*.

Part A also summarises the main matters that should, in my opinion, be brought to the attention of the Parliament and the SA Government from our 2016-17 audits of public sector agencies. This includes significant financial outcomes and events and financial control matters communicated to agencies and small scale specific reviews.

Part B: Agency audit reports is a summary of the audit outcomes for each agency included in this Report. It has more detailed commentary on many of the matters in Part A. It features a snapshot of key agency information covering financial statistics, significant events and transactions, and whether the financial statement and financial controls opinions are unmodified or modified (qualified). If modified, the key matters causing the modification are identified. The snapshot is followed by comments on financial administration matters for each agency that, in my opinion, are of importance to the Parliament and the SA Government. The individual agency reports also contain selected financial ratios and information for assessing their financial performance and position, and significant financial transactions.

The Appendix to the Annual Report (Volumes 1 to 5) contains scanned copies of the Treasurer's statements and the final audited financial reports of public sector agencies that are, in my opinion, important enough to publish. It also contains the Independent Auditor's Reports that I have issued to these agencies.

Supplementary and other reports will cover additional matters resulting from our 2016-17 work program that are in this Report.

Agency financial reports not included in this Report

Not every public sector agency I am required to audit is included in this Annual Report. Some audits are continuing at the time of preparation, and some I have used my discretion to exclude. I give priority to areas I assess as important enough to be published in this Report. A list of the public sector agencies not included is provided in section 8 of Part A. If any matters arise in these audits that impacts on the opinions I state in the following section, I will advise the Parliament in a Supplementary Report.

Auditor-General's opinions

Section 36(1)(a) of the *Public Finance and Audit Act 1987* sets out three opinions I must state in my Annual Report. I deal with each of these in this section.

In my opinion, the Treasurer's statements reflect the financial transactions of the Treasurer as shown in the accounts and records of the Treasurer for the preceding financial year.

The Treasurer's statements for the year ended 30 June 2017 are provided in the Appendix to the Annual Report. I have reported in Part B for the Department of Treasury and Finance that a reconciliation issue that affected Statement C of the Treasurer's statements is now resolved.

In my opinion, the financial statements of each public authority reflect the financial position of the authority at the end of the preceding financial year and the results of its operations and cash flows for that financial year.

I give this opinion for each of the public sector agencies included in this Report except:

- The Legislature – Joint Parliamentary Service
- University of South Australia.

I have issued modified opinions on the financial reports of these agencies.

In addition, without modifying my opinion on the financial reports of the Return to Work Corporation of South Australia and the Lifetime Support Authority, I drew attention to the inherent uncertainty in certain liabilities reported for those entities at 30 June 2017.

In all cases where a modified opinion is given, or I draw attention to something like an inherent uncertainty, the Independent Auditor's Report explains my reason(s). This is also explained in the commentary on each of those agencies in Part B of this Report.

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

This is a summary, collective opinion. I give a controls opinion for each public authority. 40 of the 63 agencies included in Part B of this Report and subject to controls opinions received modified (qualified) controls opinions due to financial and management control weaknesses and compliance matters. Details are given in the commentary for those agencies in Part B.

Because of the control weaknesses and compliance matters identified, the internal controls of those 40 agencies have not, in my opinion, achieved or maintained the standard required by the *Public Finance and Audit Act 1987*. I have included commentary on my reason(s) for any modified controls opinions I have issued.

The overall aim of our audits of controls is to establish whether controls were sufficient to provide reasonable assurance that the financial transactions were conducted properly and in accordance with law. This concept requires the agency to meet the standards of financial probity and propriety expected of a public authority and, at all times, discharge its responsibilities within the letter and spirit of the law, both in terms of its own charter and as an instrumentality of government discharging public functions.

Audit assessments involve reviewing the adequacy of procedures and testing a number of control components for a range of financial transactions, taking into account risk and materiality.

We consider agency structures, risks and the interrelation of policies, procedures, people, management's philosophy and operating style, demonstrated competence, and overall organisational ethics and culture. These are all elements of control. We also assess whether the controls in operation were consistent with the Treasurer's Instructions, with particular focus on Treasurer's Instructions 2 'Financial Management' and 28 'Financial Management Compliance Program'.

It is not practical in any such assessment to review each and every control for each and every transaction. While every effort is made to test the sufficiency of controls across a representative range of transactions, no system of control should be considered fail-safe. The Parliament has recognised this in stating that the controls need only be sufficient to provide, at the time of audit, 'reasonable assurance' of the matters set out in the opinion.

Where I have assessed the controls exercised by agencies as not meeting a sufficient standard, I have made recommendations as to where, in my opinion, improvements are needed. Audit findings, risk considerations, recommendations and agency responses are included for each agency in Part B under the heading 'Audit findings and comments'.

All matters are discussed with agencies. This gives them the opportunity to confirm the factual correctness of our findings and discuss the effect and practicality of our recommendations. It is up to the agency to decide whether to adopt our recommendations, taking into account the risks, costs and benefits. There are times where we do not agree and agencies do not adopt our recommendations.

Section 32 examinations

Section 36(1)(ab) of the *Public Finance and Audit Act 1987* requires me to report on any section 32 examinations that were completed during the year and briefly describe the outcome.

In 2016-17 we completed and reported on the following examinations:

- Examination of the Brown Hill and Keswick Creeks Stormwater Management project: November 2016
- Examination of governance in local government: February 2017
- Examination of governance in local government: June 2017.

A brief summary of the outcomes of these reports is provided in section 5.6 of Part A.

In addition, on 1 May 2017 the Treasurer requested that I examine the accounts of the District Council of Coober Pedy. At the time of this Report the examination is in progress.

Acknowledgments

I have great pleasure in recognising and thanking my professional and dedicated staff for their complete commitment and efforts in 2016-17. The high standard of their work throughout the year is evidenced in the timely production and the quality content of this and other reports. The senior managers of the teams that have contributed to this work are listed in section 7 of Part A.

I am grateful for the professional services provided by contractors who have assisted with this year's audit program, and for the cooperation all public sector agencies gave to my staff.

I also extend my thanks to the Under Treasurer, Government Publishing SA and their staff for their part in producing this Report.

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

Yours sincerely



Andrew Richardson
Auditor-General

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1 Overview

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

In 2016-17 there were, as in many years, numerous individual major projects that involve large outlays of public money and require a high standard of governance to ensure transactions are conducted properly and lawfully. Our audits have sought to respond to many of these matters of moment as well as the substantial ongoing financial activity that is the normal public sector business.

Parts A and B of this Report bring together findings from some small scale but focused audits and the audits of the 63 most significant agencies. Our large scale focused reviews, which we call performance audits, are reported separately. A number were tabled in Supplementary Reports in 2016-17. Others will follow this Report at the earliest opportunity.

As a guide to some of our work, in the health sector we have given some focus to budget management and Transforming Health. A Supplementary Report on the new Royal Adelaide Hospital (RAH) public private partnership (PPP) is being completed. In another infrastructure audit, we reviewed and reported on the Torrens Road to River Torrens South Road Upgrade Project in a Supplementary Report.

Information technology systems and matters have featured for many years. We reviewed and have reported on the RevenueSA Information Online system, Oracle Corporate System, the Enterprise System for Medical Imaging and the Enterprise Patient Administration System. We also audited key components of information security management at 10 SA Government agencies. We are completing an audit of disaster recovery planning for information technology systems.

We reviewed many procurement and contract management arrangements. In Part A, we give some focus to project manager contracts for the Festival Plaza and government facilities services, which are integral to maintaining, managing and improving government building assets. A Supplementary Report will further address our work on the Adelaide Riverbank (Festival Plaza) development.

Grants of various forms are a major ongoing public sector outlay. We look at aspects of industry assistance in Part A. We are completing an audit of a grant to the One Community organisation for a Supplementary Report.

Governance and structure changes also occur relatively regularly. In Part A, we summarise how a sample of agencies manage legal compliance. We also report an overview of the National Disability Insurance Scheme. Part B contains our observations on the establishment of the new Department for Child Protection. It also gives an update on the progress of reforms the Department of Planning, Transport and Infrastructure (DPTI) has been working on since 2015.

In 2018-19 and 2019-20, several new Australian Accounting Standards will see the most significant changes to financial reports in over a decade. We summarise our views on these changes in Part A. Agencies will need to give significant and early commitment to dealing with these changes and the Department of Treasury and Finance (DTF) will need to have policies to ensure consistency within government. The work needed and the complexities in data collection and analysis, should not be underestimated.

Section 5.7 summarises my proposed Supplementary Reports. I am also conducting an examination of the District Council of Coober Pedy accounts in response to a request from the Treasurer under section 32 of the *Public Finance and Audit Act 1987* (PFAA).

By reporting on the largest 63 agencies, this Report covers most of our work for the year. The major part of the audit program, and where most audit resources are devoted, continued to be our focus on reviewing controls and auditing financial reports. Our obligation is to cover every agency, every year. As well as understanding the financial transactions and activity for the year, this requires us to revisit organisational ethics and culture, management philosophy, control systems and structures, risks and how agencies operate within the law. These are all foundational aspects of public administration.

1.2 Access to Cabinet decisions was granted

Last year I reported that Cabinet had approved a policy that information on its decision-making, including Cabinet submissions and notes, comments and advice provided in Cabinet documents, will not be provided to investigative agencies. This includes my office.

I was, however, also advised that I may seek access to Cabinet documents. A request may be considered by Cabinet as to whether an exception to the policy is warranted, depending on the circumstances of any particular investigation undertaken by the investigative agency.

Previously, copies of Cabinet submissions were available to the Auditor-General by request to the Cabinet Office through the Chief Executive of the Department of the Premier and Cabinet (DPC). This process was used where required because, in some circumstances, access to Cabinet submissions was needed to gather the necessary evidence to support audit opinions.

1.2.1 Request and approval for access to Cabinet submission decision sets as audit evidence

In June 2017, I wrote to the Deputy Premier proposing an approach to gain timely access to Cabinet decision sets that are necessary audit evidence. The decision set evidences the approvals given, the substance of approvals and whether an approval is based on any conditions. Often approvals include related future reporting and accountabilities that establish future expectations, limitations or requirements on agencies.

In September 2017, I received formal confirmation that Cabinet had authorised the Chief Executive of DPC to provide me with a record of Cabinet decisions that reflects the approved recommendation(s) relating to a transaction of interest where:

- I request such a record for the purpose of properly exercising my statutory functions
- I agree to only make reference to the fact of Cabinet approving or not approving a matter where appropriate in the proper exercise of my statutory functions, and not to disclose any further information as to the deliberations of Cabinet that are apparent from the record.

I have since requested a number of Cabinet decision sets that are necessary evidence of approvals and conditions for transactions. I have received all the items I requested.

1.2.2 Cabinet confidentiality is acknowledged

I acknowledge the convention of Cabinet confidentiality. Audit practice has been, and will continue to be, to maintain confidentiality to the extent that is consistent with fulfilling the Auditor-General's statutory functions.

In exercising my reporting responsibilities, I will refer to Cabinet decisions as necessary and appropriate to the convention. It is well understood that Cabinet is the pre-eminent executive body of the State. Some matters require Cabinet approval. Stating that this has occurred and what has been approved is likely to be fundamental knowledge for proper reporting and understanding of a matter in some circumstances.

1.2.3 The audit request resolved uncertainty about access

When I was advised in September 2016 of the policy that information on Cabinet decision-making would not be provided to investigative agencies, I expected that we would have access to decision sets where Cabinet approval was needed or given for a transaction that an agency had acted on and was required to act on in the future.

I understood this request was appreciated, and I expected that access to the decision set would be routine given that agencies would be advised of approvals as the basis for their subsequent actions. This, in turn, is fundamental audit evidence. If the auditor is unable to obtain sufficient appropriate evidence, a scope limitation exists and the auditor must express a qualified conclusion, disclaim a conclusion, or withdraw from the engagement, where withdrawal is possible under applicable law or regulation.

I wrote to all relevant agencies in November 2016 advising of the audit response to the new policy. I advised that in the absence of the past access to Cabinet submissions, agencies would have to retain and make available appropriate evidence, within the new policy, to enable audit work to be completed. I also advised that a key document we would request from agencies was the Cabinet decision set.

In practice, agency responses were originally mixed and eventually no decision sets or advice of decision sets were being provided to my officers. Agencies understood this complied with the Cabinet policy.

To resolve any misunderstanding and establish a clear protocol for access, I wrote to the Deputy Premier. This was satisfactorily dealt with explained above.

If I am unable to obtain appropriate evidence or am denied access to a relevant Cabinet document that I require to properly perform my statutory audit functions, I will advise the Parliament if necessary.

1.3 Changes to improve timing of Auditor-General's reports

I recommend that the audit reporting provisions of the PFAA be amended in a number of ways to improve:

- the flexibility of the Auditor-General's reporting to the Parliament
- the Government's accountability.

We have recently sought amendments that, in my opinion, are critical to ensuring that the Auditor-General has clear authority to report to the Parliament at the earliest opportunity. The amendments would affect:

- the tabling process
- the Annual and Supplementary reporting process.

1.3.1 Tabling process amendments sought

Reports prepared by the Auditor-General under the PFAA must be delivered to the President of the Legislative Council and the Speaker of the House of Assembly. They must table these reports on the next parliamentary sitting day. Only then is the report deemed to be 'published' (that is, it is available to all Members of Parliament and the public). The availability of the Auditor-General's reports is therefore restricted to parliamentary sitting dates. This impacts on the Auditor-General's ability to report on audit outcomes as soon as possible. For example, in the last election year the Auditor-General was unable to table a report between the last sitting day on 28 November and the first time the new Parliament sat on 6 May.

Reports prepared by the Auditor-General under the *Adelaide Oval Redevelopment and Management Act 2011* have a different tabling process whereby if Parliament is not sitting at the time a report is delivered to the Speaker and President, the report will be taken to have been published one clear day after it is received.

The adoption of a similar tabling process for reports prepared by the Auditor-General under the PFAA would ensure prompt reporting of audit outcomes.

1.3.2 Annual and Supplementary reporting process amendments sought

The ability for the Auditor-General to report on important matters as they arise is key to ensuring the Parliament and the Government are advised as soon as possible.

The Annual Report is the Auditor-General's primary statutory report. The Auditor-General must prepare an Annual Report before 30 September each year that reports on the outcomes of audits for the preceding financial year.

The Auditor-General can also prepare a supplementary report relating to any matter required to be dealt with in an annual report. We have used the supplementary reporting for many years to help manage our reporting responsibilities.

The use of a supplementary report is subject to some restrictions. My predecessors have had advice that 'supplementary' is 'of the nature of forming a supplement: additional'. 'Supplement' is defined, in the relevant sense here, as 'something added to complete a thing'.

This advice suggests that a supplementary report would follow an annual report only to add something else to complete or possibly correct something that is included in that annual report. This interpretation is consistent with statements made in the Second Reading Speech relating to the enactment of section 36(3) of the PFAA.

The practical effect of this advice is that:

- I cannot report on new matters for the current year in a Supplementary Report to the prior year's Annual Report
- I am limited to reporting on existing matters for a year up until 30 June of the following year, after which new matters can be included in the next Annual Report.

This could significantly delay reporting on matters of public interest during the year.

I have sought to amend the PFAA to include a provision allowing the Auditor-General to prepare 'other reports relating to matters required to be dealt with in an annual report'. This amendment would give the Auditor-General the ability to report immediately on any matter that should be brought to the attention of the Parliament and the Government.

1.4 2016-17 audit conclusions

The letter at the beginning of this Annual Report contains the three annual opinions required by the PFAA.

I have given three unmodified opinions.

I drew attention to two agencies where modified financial report opinions were expressed and two instances where an emphasis of matter was made without modifying the financial report opinions.

1.4.1 Matters of significance to the overall controls opinion

I give an opinion about the controls exercised by the Treasurer and public authorities. As mentioned, the overall opinion is unmodified. It reflects an overall and collective view of public sector financial administration for a year.

For 2016-17 the estimated public sector revenues and expenses were each \$19 billion and capital outlays were \$5 billion. These amounts exclude the financial corporations we audit such as the Return to Work Corporation of South Australia (RTWSA) and HomeStart Finance.

The controls required to sufficiently provide reasonable assurance that this level of financial transactions by the Treasurer and public authorities have been conducted properly and lawfully are broad ranging and exercised by many individuals throughout the public sector. We found instances in many agencies where their systems of internal control have not, in my opinion, achieved or maintained the standard required by the PFAA. Details of the significant financial controls matters we found in 2016-17 are provided in section 3.

The financial control matters remain concerning, as some relate to fundamental areas of governance and financial control and accountability. Not many matters occur widely throughout all agencies. There are some common themes, like access to systems, issues with delegations and approvals, reconciliations and contract management. Mostly, however, our findings are specific to individual agencies.

1.4.2 Avoiding control issues by properly exercising responsibility, authority and accountability

Most of the matters we identify in our audits are quite readily resolvable and to a large degree avoidable. They often involve failure in one or more of the concepts of responsibility, authority and accountability. We have made a series of recommendations in section 3.1.4. They essentially involve:

- a clear understanding of the requirements of relevant laws, regulations and instructions through up-to-date policies procedures and processes that are communicated, readily available and supported by relevant training
- clear allocation of responsibility
- clear allocation and understanding of the authority to act and the limits of that authority
- accountability for actions demonstrated by regular reporting and monitoring of events and exceptions, and active management of that information by those responsible for governance.

Most of the matters we identify and report arise because people have not performed a task according to the requirements and standards expected. It is necessary that people diligently perform their roles consistently and are supported by systems and checks that ensure reasonable assurance is achieved.

It is critical that the links of responsibility, authority and accountability are properly aligned with each person's role. Failure here is likely to reduce leadership effectiveness and, more importantly, expose organisations to higher risk of not achieving their goals and responsibilities, or major error.

1.4.3 Retention and access to documentation

Sound public administrative recordkeeping needs to be maintained

Sound recordkeeping is a fundamental requirement for good public administration. Legislation and instructions support this principle in many ways.

As some examples, the *Public Sector Act 2009* requires public sector employees to deal with agency information in line with law and agency requirements. Treasurer's Instructions state that chief executives of public authorities must maintain documentation that substantiates the existence or occurrence, completeness, valuation or allocation, passing of control, rights and/or obligations relating to expenditure activities. The PFAA requires a public authority's financial statements to be accompanied by a certificate of compliance with the requirement for the statements to be in line with the authority's accounts and records.

Accessing records needs improvement in some areas

I have been surprised that requests we make, seemingly for documents and records that we expect to be readily available, take more than one request or sometimes weeks to produce, particularly for some of the more complex topics we have audited. Some examples are:

- governance committee minutes and papers
- key milestone reports required under contractual arrangements
- final signed documents for key decisions such as tender evaluation panel evaluations
- key documentation supporting procurements such as acquisition plans and purchase recommendations
- ministerial briefings/approvals
- documentation for projects maintained by external service providers such as procurement plans and conflict of interest documentation
- routine project and contract documentation such as resource plans, modification orders, costing information and key responsibility areas summary.

During our audit and examination work, we naturally require a broad range of material as evidence of authorisations, approvals and processes to support the conclusions we make. The PFAA makes provision that people must assist audit processes where requested by providing accounts, records or other documents or information, and provides powers to obtain information. If needed, the Auditor-General can conduct an audit or make an examination by summons, requiring the appearance of any person or the production of any relevant accounts, records or other documents.

Audit is a regular and ongoing annual function in the public sector. For agencies, our interactions must fit within their working schedules. Often agency staff are involved in time-sensitive work and very large projects. We seek to be sensitive to the work demands on agency staff. As a matter of practice, we aim to keep our interactions with agencies consistent with the need for an ongoing, mutually cooperative working environment.

In the clear majority of circumstances this works well.

We, of course, must also complete our work efficiently and in a timely way. It is quite clear to me that Parliament expects to receive the reports I say I am planning to complete, at the earliest opportunity. This is partly dependent on receiving requested information.

I have not raised this matter formally with agency chief executives. I will do so in future if we form the view that the time it takes to produce documents and records that agencies should be able to readily access seems excessive. We will seek to ensure that we have understood the situation and demands on agencies when making our requests, given reasonable time and been clear on what is required. We will also, if agencies have concerns about our practices, seek to resolve them.

1.5 Public finances

1.5.1 Estimated result for 2016-17 was lower than budgeted

The 2016-17 State Budget estimated result is a net operating balance surplus of \$239 million (Budget surplus \$254 million, mid-year budget review (MYBR) 2016-17 surplus \$300 million).

Figure 1.1 sets out major financial budgets and outcomes for the general government sector for the three years to 2017-18.

Figure 1.1: Major financial budgets and outcomes for the general government sector

	2015-16 Result \$'million	2016-17 Budget \$'million	2016-17 Estimated result \$'million	2017-18 Budget \$'million
Net operating balance	300	254	239	72
Net lending	96	(2 436)	(2 595)	228
Net debt	4 393	6 246	6 297	6 072
Net worth	37 741	40 573	41 523	41 943

	2015-16 Result %	2016-17 Budget %	2016-17 Estimated result %	2017-18 Budget %
Revenue and expenses:				
Revenue real growth	4.0	3.8	3.7	2.8
Expenses real growth	1.1	3.9	4.1	3.7
Net debt to revenue ratio	25.3	34.2	34.5	31.7

The estimated result includes an originally unbudgeted dividend

Estimated dividend and income tax equivalent income revenue for 2016-17 is \$628 million compared to the original budget of \$326 million. This increase was mainly due to:

- an originally unbudgeted additional dividend of \$192 million in 2016-17 from the Motor Accident Commission (MAC), announced in the 2016-17 MYBR in December 2016. MAC also paid \$390.4 million to the Highways Fund as a return of equity in 2016-17 (recorded directly to the State's balance sheet)
- an originally unbudgeted income tax equivalent payment on profits of \$86.3 million from RTWSA.

The 2017-18 State Budget notes that the privatisation of MAC will result in almost \$2.8 billion returning to government between 2014-15 and 2019-20 in the form of dividends, return of equity and a private insurer approval fee (refer 2017-18 Budget Paper 3 'Budget Statement', table 5.11). These amounts flow through to net lending or, where they are capital returns, directly to net debt.

MAC, while within the total public sector, is outside of the general government sector, the focus of the annual budget.

The net lending result includes the effect of the lease liability for the new RAH

The net lending estimated result for 2016-17 is a deficit of \$2.595 billion compared to the originally budgeted amount of \$2.436 billion. This primarily reflects expected sales of non-financial assets being \$243 million lower than originally budgeted.

The large net lending deficit expected result arises due to the inclusion of the lease liability for the new RAH in 2016-17 (estimate was \$2.76 billion at the time of releasing the 2017-18 State Budget).

The general government sector is estimated to have net debt of \$6.297 billion at the end of 2016-17. The significant increase in that year is due to the recognition of the new RAH finance lease liability. A corresponding asset for the new RAH is recognised in net worth, offsetting the liability.

The net worth of the general government sector at 30 June 2017 is estimated at \$41.5 billion, an increase of \$3.782 billion from 30 June 2016. Movements between government sectors do not flow through to the overall net financial position of the total public sector represented in the whole-of-government financial statements (which consolidate the non-financial public sector and public financial corporations).

The increase in net worth mainly reflects a reduction of \$2.8 billion in the unfunded superannuation liability. This largely reflects a higher discount rate used to value the liability as at 30 June 2017. The SA Government remains on track to fully fund superannuation liabilities by 2034, a longstanding budget target.

1.5.2 Treasurer's statements for 2016-17

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

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

The Consolidated Account achieved a \$618 million deficit for 2016-17, an improvement on the budgeted deficit of \$979 million.

Total payments from the Consolidated Account of \$12.9 billion were within appropriation authority of \$13.7 billion (refer Statement K of the Treasurer's statements).

The balance of funds on hand in special deposit accounts (\$6.039 billion) and deposit accounts (\$772 million) collectively increased by \$1.29 billion. The largest contribution to the increase was two payments in 2016-17 to the Highways Fund (a special deposit account):

- \$688 million from MAC
- \$259 million from DTF, representing the initial fee paid by private insurers for participating in the compulsory third party insurance scheme.

The SA Government's indebtedness to the South Australian Government Financing Authority (SAFA) increased to \$10.9 billion in 2016-17 from \$10.2 billion. This was mainly due to the \$618 million consolidated account deficit for 2016-17.

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

2 Significant financial outcomes and events in 2016-17

2.1 Key findings

The key findings in this section are as follows:

- RTWSA – outstanding claims liability was \$2.5 billion and inherent uncertainty associated with the new Return to Work Scheme remains high.
- MAC – made a payment of \$688.2 million to the Highways Fund.
- Lifetime Support Authority of South Australia (LSA) – Lifetime Support Scheme participants and liabilities continued to increase and inherent uncertainty associated with the new Scheme remains high.
- South Australian Water Corporation (SA Water) – profit decreased due to lower water sales and the 2017-18 State Budget announced that SA Water would pay additional dividends to maintain its debt to asset ratio at 45%.
- Urban Renewal Authority (URA) – incurred a loss before income tax equivalent of \$19 million, down from the previous year's loss. The URA purchased TAFE SA sites on 1 March 2017 for \$619 million.
- South Australian Housing Trust (SAHT) – progressed the second tranche transfer of responsibility for the property and tenancy management of over 4000 public housing properties to community housing providers.
- TAFE SA – ownership of TAFE SA sites transferred to the URA in 2016-17, with increased costs to TAFE SA offset by additional funding from the Department of State Development (DSD).
- New RAH PPP – the new RAH opened on 5 September 2017. A Completion Deed was executed by the Minister in March 2017 which facilitated achieving technical completion on 15 March 2017. Commercial acceptance was achieved on 13 June 2017. The Central Adelaide Local Health Network Incorporated (CALHN) recognised total liabilities of \$2.771 billion and assets totalling \$2.809 billion as at 30 June 2017 associated with the new RAH.

Commentary is also provided on several other matters.

2.2 Insurance agencies

2.2.1 Return to Work Corporation of South Australia liabilities reduced

The *Return to Work Act 2014* came into full operation from 1 July 2015. The legislative

changes to entitlements, coupled with RTWSA's initiative to get claimants back to work more promptly, have had a significant impact on the Return to Work Scheme (the RTW Scheme).

The outstanding claims liability reduced to \$2.1 billion

The liability for outstanding claims as at 30 June 2017 was \$2.1 billion, a decrease of \$177 million from the previous year. The RTW Scheme actuary's projections are reviewed by an independent professional actuary engaged by the Auditor-General. Our audit did not identify any issues or variations from expected practice that required the estimate for 30 June 2017 to be adjusted in any material way.

Change to risk margin

In June 2017 the RTWSA Board approved an increase in the probability of sufficiency used to calculate the risk margin from 65% to 70%. The estimate of outstanding claims liability is determined by reference to a 75% probability that the provision for outstanding claims will be adequate. This change increased the risk margin included in the provision from 7% to 15%, which added an additional \$141 million to the provision and claims expense for 2016-17.

Inherent uncertainty associated with the new RTW Scheme remains high

There is still inherent uncertainty associated with the new RTW Scheme arrangements, which may impact the liability for outstanding claims. In particular, the independent actuary noted the uncertain actual experience for short-term claims and serious injury claims and the robustness of the whole person impairment assessments that are the gateway to lifetime benefits for serious injury claims. The outcome of any legal challenges was also noted as potentially impacting the RTW Scheme. An emphasis of matter was included in the financial report opinion drawing attention to the uncertainty associated with the outstanding claims liability reported as at 30 June 2017.

The actuarial estimation is primarily based on the anticipated impact of the new legislation. If the RTW Scheme does not operate as intended, the cost implications may be significant.

The RTW Scheme continues to be fully funded

RTWSA had a net asset position as at 30 June 2017 of \$501 million and a funding ratio of 119.5%, which means that the RTW Scheme continues to be fully funded. The average premium rate in 2016-17 was 1.95%, the same as the previous year. The average premium rate for 2017-18 has been maintained at 1.95%.

The total comprehensive result for 2016-17 was a profit of \$175 million

In 2016-17 the underwriting result was a profit, after the net liability for outstanding claims decreased by \$8 million (compared to a \$51 million decrease in 2015-16) and premium income increased by \$22 million. Net investment profit increased by \$87 million. RTWSA also paid an income tax equivalent payment of \$73 million to the SA Government.

2.2.2 Motor Accident Commission distributed \$688.2 million

MAC paid \$688.2 million to the Highways Fund in 2016-17

MAC paid \$688.2 million to the Highways Fund as a return of capital in 2016-17. The payment was made from net assets in excess of the (revised) sufficient solvency level. The Treasurer directed the payment be made to the Highways Fund under section 26(2) of the *Motor Accident Commission Act 1992*.

Further returns of capital from MAC totalling \$509.8 million over the next four years are included in the 2017-18 State Budget, in addition to the \$1.99 billion paid to date.

MAC recorded a \$361 million surplus

MAC recorded a \$361 million surplus for 2016-17, \$48 million higher than 2015-16. The improved result reflects an \$18 million improvement in the underwriting result to \$212 million, reflecting the outcome of a reduction in the outstanding claims liability, and an \$18 million increase in investment returns due to improved investment performance.

Revised statutory solvency formula achieved

As at 30 June 2017, the assets of the MAC Fund were \$359.4 million above the target solvency level, equating to 129% of the target.

A revised formula to calculate the sufficient level of solvency was approved by the Treasurer in December 2016, specifying only that the MAC Fund assets should exceed liabilities. The revised formula was introduced as MAC no longer issues insurance policies.

The outstanding claims liability reduced to \$1.2 billion

MAC's outstanding claims liability reduced by \$515 million to \$1.2 billion in 2016-17. The outstanding claims liability is calculated for MAC by one actuary and then reviewed by a second actuary in line with good practice for a liability of this type and size.

The reviewing actuary reported that they believed the methodology and analysis performed by the primary actuary was reasonable and noted the valuation provided a balance between optimistic and cautious assumptions, representing a reasonable central estimate.

The CTP Scheme actuary's projections are also reviewed by an independent professional actuary engaged as part of the audit by the Auditor-General. Our audit did not identify any issues or variations from expected practice that required the estimate for 30 June 2017 to be adjusted in any material way.

The outstanding claims liability is sensitive to changes in key assumptions

The outstanding claims liability estimate is sensitive to changes in the key assumptions made. For example, if the number of claims under the new CTP scheme arrangements (since 1 July 2013) that involve a settlement decreases by 15%, this could lead to an \$81.6 million

benefit to the liability. Alternatively, should the average size of large claims pre-1 July 2013 increase by 33%, the liability would increase by \$84.9 million.

MAC's new role

MAC's role from 1 July 2016 is to manage the run-off of its outstanding claims and perform road safety functions. MAC ceased writing new CTP insurance policies from 1 July 2016 and therefore no longer receives premium income. To fund its road safety functions, MAC was provided with \$13.5 million from the CTP insurance regulator in 2016-17.

Compulsory third party insurance in South Australia is now offered by four private insurance companies. The CTP insurance regulator oversees private insurance and has taken over MAC's previous function as the nominal defendant from 1 January 2017.

2.2.3 Lifetime Support Scheme is growing and liabilities are sensitive to change

The LSA administers the Lifetime Support Scheme and Fund for people who suffer very serious injuries in motor vehicle accidents. The Lifetime Support Scheme commenced operation on 1 July 2014 and 2016-17 is its third full year of operation. It is mainly funded by a levy on South Australian motor vehicle registrations.

Lifetime Support Scheme is growing

The Lifetime Support Scheme is growing, with the total number of participants increasing from 76 in 2015-16 to 113 in 2016-17. The related estimated future cost of caring for current participants increased by \$103 million to \$306 million.

LSA made an operating surplus of \$67 million

The operating surplus for 2016-17 was \$67 million. The levy raised during the year of \$149 million was sufficient to cover operating expenses. Expenses included \$10.7 million in direct expenses for participant care and a \$103 million increase in the provision for the estimated future costs of caring for current participants.

Lifetime Support Scheme is fully funded

The LSA had net assets of \$157 million, which means the Lifetime Support Scheme is fully funded as at 30 June 2017.

Significant uncertainty around provision for future treatment, care and support costs

The value of the provision for participant's treatment, care and support is pivotal to the financial position and operating outcome of the LSA. The Board of the LSA determined the value of the provision after considering a report from an independent actuary. The role of the actuary is critical to estimating the provision liability, and the LSA engaged a reviewing actuary to provide additional comfort about the sufficiency of the amount provided.

The Lifetime Support Scheme is not an insurance scheme. Consistent with similar interstate schemes, the LSA determined the provision in line with relevant accounting requirements and did not apply a risk margin to its central estimate of liabilities.

The liability estimate is measured as the present value of the expected future payments for claims incurred up to 30 June 2017, including claims incurred but not yet reported. Sensitivity analysis illustrates that relatively small changes to key assumptions in the estimate can result in changes in the order of millions of dollars.

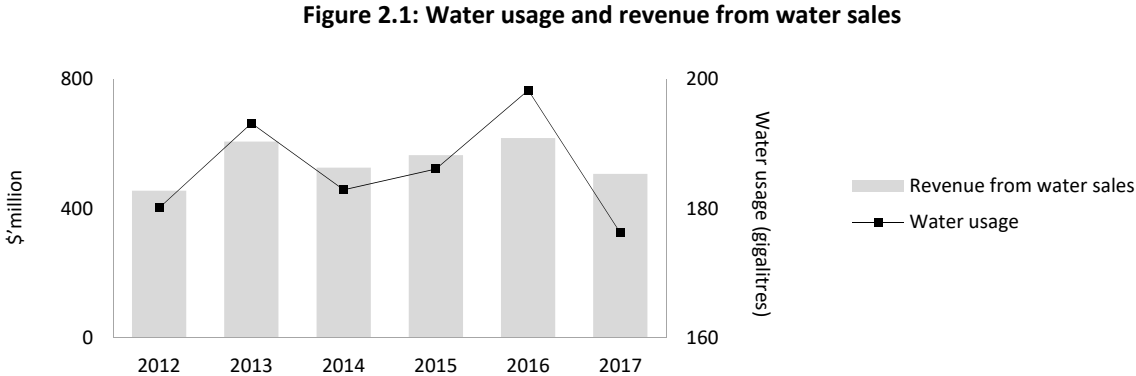
Given the limited participants’ experience to date and the long-term nature of the claims, there is still significant uncertainty surrounding the estimate of the provision for participants’ treatment, care and support services. An emphasis of matter was included in the financial report opinion drawing attention to this uncertainty.

2.3 Other statutory corporations

2.3.1 South Australian Water Corporation’s profit decreased following lower water sales

SA Water recorded a \$113 million (37%) decrease in profit before tax. This decrease was mainly driven by a 22.1 gegalitre (11%) decrease in the volume of water sold, to a total of 176 gegalitres, contributing a \$62 million increase in revenue.

Figure 2.1 shows water usage and revenue from water sales over the last six years.



There was a further \$38 million decrease in revenue from reduced water pricing this year, reflecting the impact of the regulatory pricing decision for the first year of the new regulatory period.

SA Water’s debt to asset ratio will be maintained at 45% following a decision announced in the 2017-18 State Budget

The 2017-18 State Budget announced that SA Water’s debt to asset ratio would be maintained at 45%. This policy change was implemented in 2016-17, with an additional \$71 million dividend paid in June 2017. The additional dividend was paid as directed by the Treasurer under section 30(5) of the *Public Corporations Act 1993*.

The 2017-18 State Budget noted that maintaining SA Water’s debt to asset ratio at 45% would maintain gearing levels in line with its interstate peers. Figure 2.2 highlights the relative debt to asset gearing ratios of a sample of water corporations from around Australia, as at 30 June 2016.

Figure 2.2: Debt to asset gearing ratios around Australia

	SA Water	Sydney Water	Water Corporation of Western Australia	Yarra Valley Water	Unitywater
Total debt (\$'billion)	6.356	7.215	5.694	2.171	1.558
Total assets (\$'billion)	14.090	17.647	16.753	4.539	3.499
Gearing ratio (%)	45	41	34	48	45

Figure 2.2 shows that SA Water’s revised gearing ratio is similar to those of Yarra Valley Water in Victoria and Unitywater in Queensland.

SA Water continued to make a strong cash contribution to the State Budget

In 2016-17, SA Water paid dividends totalling \$193 million and income tax equivalents totalling \$83 million. It received \$136 million in community service obligation funding, leading to a net contribution for 2016-17 of \$140 million. Figure 2.3 shows SA Water’s net cash contributions to the SA Government over the last five years.

Figure 2.3: Net cash contributions to the SA Government

	2016-17 \$'million	2015-16 \$'million	2014-15 \$'million	2013-14 \$'million	2012-13 \$'million
Net cash contributions	140	182	165	210	225

2.3.2 Urban Renewal Authority financial performance improved

Accumulated losses and the impact of land inventory and investment property valuations

The URA made a loss before income tax equivalent in 2016-17 of \$19 million (\$153 million). Over the past three years the URA’s losses before income tax equivalent have totalled \$295 million mainly due to land inventory write-downs.

For 2017 the loss was impacted by an \$18 million reduction in the fair value of investment properties, based on independent valuations performed as at 30 June 2017. The reduction was due mainly to a \$12 million write-down of TAFE SA properties, reflecting the inclusion of stamp duty in the cost of acquiring these assets.

The URA wrote down its land inventory by \$2 million in 2017. This comprised an \$18 million write-down for the Port Adelaide Waterfront – reflecting higher remediation requirements – partially offset by reversals of past write-downs, including a \$4 million reversal for Osborne North and a \$3 million reversal for Bowden.

Figure 2.4 shows the land inventory write-downs and reversals that have occurred over the last three years.

Figure 2.4: Land inventory write-downs*

	Write-downs (reversals)			Carrying
	2015	2016	2017	Amount
	\$'million	\$'million	\$'million	30.6.17
				\$'million
Development projects:				
Tonsley	18	54	(2)	53
Playford Alive	-	52	-	5
Bowden	-	17	(3)	28
Woodville West	-	5	1	19
Land held for sale	56	9	7	209
Total inventory write-down	74	137	2	314

* Table may not add due to rounding

The land inventory write-downs in 2016 (\$137 million) relate mostly to changes in the URA's cash flow models used to measure the net realisable value of development projects. Importantly, these changes included reductions in revenue forecasts from reassessing the likely outcomes of its business strategies for these projects and forecast market conditions.

Financial sustainability and purchase of TAFE SA properties

DTF requires the URA to adopt a core debt management facility approach, consistent with other public non-financial corporations. This requires approval of an annual debt ceiling by the Treasurer and Minister.

In June 2016, the Treasurer and Minister approved a \$390 million increase in the URA's core debt facility to \$930 million. The additional borrowings and equity contributions from the SA Government of \$219 million were used to buy TAFE SA properties from DSD for \$619 million (including stamp duty) in March 2017.

The Treasurer and Minister anticipate that these TAFE SA properties will provide the URA with a longer term revenue stream and enable its debt to asset ratios to remain at prudent levels.

In recent years the URA has reviewed its capital structure and business model to ensure it is financially sustainable. This has included obtaining independent expert advice on the value and marketability of the URA's entire land portfolio to help formulate an achievable land sales strategy.

Development strategies were revised in 2016 to improve the financial outcomes of the Playford Alive and Woodville West projects. In 2017 the URA again revised its strategy for Woodville West and now intends to develop some of the land previously earmarked for sale as super-lots.

URA received a direction from the Minister in response to Independent Commissioner Against Corruption's recommendation

In 2015 the Independent Commissioner Against Corruption recommended that the Chief Executive of the URA consider proposing to the SA Government amendments to relevant legislation and regulations to clarify the reporting relationship, reporting requirements and decision-making responsibility between the Chief Executive, the Board and the Minister.

In response, on 23 March 2017 the Minister for Housing and Urban Development issued a direction to the URA's Board and Chief Executive. The direction requires the Chief Executive to report to the URA Board about the nature of services that the URA provides to other agencies, including the SAHT, Riverbank Authority and Ministers holding State assets. The URA Board must not, however, direct the Chief Executive in relation to these services if the other agencies hold the assets. Instead the Chief Executive must report to, and take direction from, the governing bodies of the agencies holding the assets.

2.3.3 South Australian Housing Trust change program continues

Net cost of services increased to \$254 million

The SAHT recorded a net cost of providing services of \$254 million, a \$19 million increase from 2015-16. The increase mainly reflects:

- grants of \$8 million to those affected by the extreme weather and loss of power event on 28 September 2016. The SA Government reimbursed the SAHT for the grants as well as the cost of administering them
- impairment expenses increasing by \$7 million to \$30 million. This increase resulted from a \$4 million increase in asset write-offs, due to property demolitions relating to the SAHT's housing renewal programs, and a \$3 million increase in doubtful debts expense. The increase in doubtful debts reflects SAHT's revised approach of writing off debts resulting from incidents of domestic violence and customers with large debts experiencing financial hardship.

Selected public housing is being transferred to the community housing sector

The SAHT is in the process of transferring the responsibility for property and tenancy management of over 5000 SAHT properties to community housing providers (CHPs).

The first tranche of 1086 properties (valued at approximately \$184 million) was transferred to two CHPs in October 2015. These CHPs were selected through a national two-stage tender process. The transfer of a second tranche of over 4000 SAHT properties (valued at approximately \$1 billion) to five CHPs is in progress and planned to be complete before October 2017. The five CHPs were selected through expressions of interest followed by a selected tender process.

The SAHT applied a concurrent lease and deed model to the transfers. Under these arrangements the SAHT has granted a lease over its residual rights to the properties to the CHPs. This lease operates concurrently with the SAHT's lease with the existing tenant.

The leases for the first tranche have three-year terms with optional extensions of 20 years, while the leases for the second tranche have 20-year terms. These latest leases also require the CHPs to implement a stock renewal program.

The CHPs are required to maintain and manage all of the transferred properties and are entitled to receive the rental income from selected properties.

An objective of the CHP transfers is to create better quality social housing stock through:

- rents increasing by the amount of Commonwealth rent assistance to fund housing stock improvements. CHP tenants are eligible for Commonwealth rent assistance whereas SAHT tenants are not
- CHPs using their extra rental income to improve the quality of housing stock by implementing a stock renewal program and increasing programmed maintenance.

CHPs must comply with the SAHT's tenancy conditions, ensuring the tenancy conditions of transferred tenants remain the same.

The SAHT will maintain a contract management role for these arrangements, ensuring that the CHPs continue to comply with their contractual obligations.

A Business System Transformation program has started

In November 2016 Cabinet approved a business case for releasing a request for proposal to replace the SAHT's core business systems. The SAHT updated the business case in July 2017 after evaluating the request for proposal, amending plans and designs, and starting contract negotiations with the preferred supplier.

The Business System Transformation program is scheduled to commence in January 2018 and be completed by the end of 2020. The contract provides for program implementation, and cloud and related services. The total cost of the program is estimated at \$45 million and will be funded from existing SAHT resources.

In July 2017 the mainframe support vendor extended the maintenance and support of the SAHT's existing support software licences until the end of 2020. This should ensure that legacy mainframe support continues until the program is implemented.

2.3.4 Ownership of TAFE SA's campuses changed and its financial performance improved

Ownership of TAFE SA campuses moved to the URA

The 2016-17 State Budget announced that ownership of TAFE SA campuses would move from DSD to the URA in 2016-17. This transfer occurred on 1 March 2017.

Following the transfer of ownership, the URA now leases the TAFE SA campuses to DSD, which then leases them to TAFE SA. Under this arrangement, DSD controls the use of the vocational education and training (VET) infrastructure in line with its responsibility for VET policy.

The URA will charge DSD rental fees of around \$52 million p.a. from 1 March 2017. DSD will, in turn, charge these fees to TAFE SA. TAFE SA previously paid around \$21 million p.a. to DSD for these sites.

DSD increased funding to TAFE SA in April 2017 by \$15 million, \$11 million of which offset the increased rental charges.

TAFE SA achieved a \$6 million surplus net result

TAFE SA's financial performance improved in 2016-17, with a \$6 million surplus net result compared with the \$4 million achieved in 2015-16.

The improved result reflects that expenses reduced by \$9 million, \$2 million more than the reduction in income for the year. A \$10 million reduction in employee benefit expenses is the main reason for the reduced expenses. The most significant elements of this reduction were an increase in the discount rate used to calculate the long service leave liability, which reduced the liability by \$3 million, and a \$4 million reduction in workers compensation expenses (reflecting reductions in claim payments and in the provision calculated by the actuary).

2.3.5 South Australian Forestry Corporation pays a \$3.6 million dividend

The South Australian Forestry Corporation paid a \$3.6 million dividend to the SA Government to return proceeds from the sale of equipment following the transfer of management of the Green Triangle plantations to OneFortyOne Plantations Pty Ltd from 1 October 2015.

2.3.6 Adelaide Convention Centre redevelopment completed

The Adelaide Venue Management Corporation's redevelopment of the Adelaide Convention Centre continued in 2016-17. As at 30 June 2017 \$384.8 million was spent on the redevelopment from a total budget of \$396.8 million.

The redevelopment was completed in September 2017.

2.3.7 Adelaide Festival Centre Trust major capital works

Redevelopment of the Adelaide Festival Centre and Plaza

The \$90 million redevelopment of the Adelaide Festival Centre and Plaza, as part of the major redevelopment of the Riverbank Precinct continued in 2016-17. The construction work resulted in the closure of the car park and restricted access to the Dunstan Playhouse, Space Theatre and footbridge.

The closures affected the operations of the Adelaide Festival Centre Trust, with a loss of revenue across a number of areas and additional costs incurred for security, marketing and advertising.

The Festival Theatre will be closed from July to December 2017 and this is likely to affect ticket sales for 2017-18.

Redevelopment of Her Majesty's Theatre

In June 2016 a \$35 million redevelopment and expansion of Her Majesty's Theatre was announced, to expand the existing auditorium as well as improve front-of-house amenities and technical facilities. On 22 July 2017 the SA Government announced additional funding of \$31 million over three years for the project, bringing the total capital cost to \$66 million.

The project will primarily be funded by a \$62 million loan from SAFA and \$3 million from fundraising by the Adelaide Festival Centre Trust Foundation. As part of the project, ownership of Her Majesty's Theatre will transfer from Arts South Australia to the Adelaide Festival Centre Trust. The building adjacent to the theatre has been purchased as part of the expansion.

Major construction works are expected to commence in April 2018 and be completed in early 2020.

2.3.8 Lotteries Commission of South Australia's distribution to government decreased

LCSA is responsible for monitoring the activities of its Master Agent

Tatts is the exclusive Master Agent to operate the Lotteries Commission of South Australia (LCSA) brands and products for a term of 40 years. The LCSA has an ongoing responsibility to monitor whether the Master Agent complies with all applicable laws, regulations, codes of practice, contractual agreements and policies.

In 2017 the amount provided for distribution to government decreased by \$2.9 million to \$75 million. The decrease mainly reflects the decrease in gambling tax, which was in line with the decrease in net gambling revenue. Gambling tax is calculated as 41% of net gambling revenue.

2.3.9 Environment Protection Authority waste levy income increased

Solid waste levies increased

Income from fees and charges (controlled and administered) totalled \$71.1 million for 2017, including \$55.4 million in waste levies.

Waste levies include solid waste levies from waste depots. Solid waste levy rates increased by 9% from 1 July 2016, and a further 23% from 1 September 2016.

Increase in waste levy rates offsetting a decrease in the volume of solid waste collected

Figure 2.5 shows the amounts collected from waste levies over the past five years. It is based on data provided by the Environment Protection Authority.

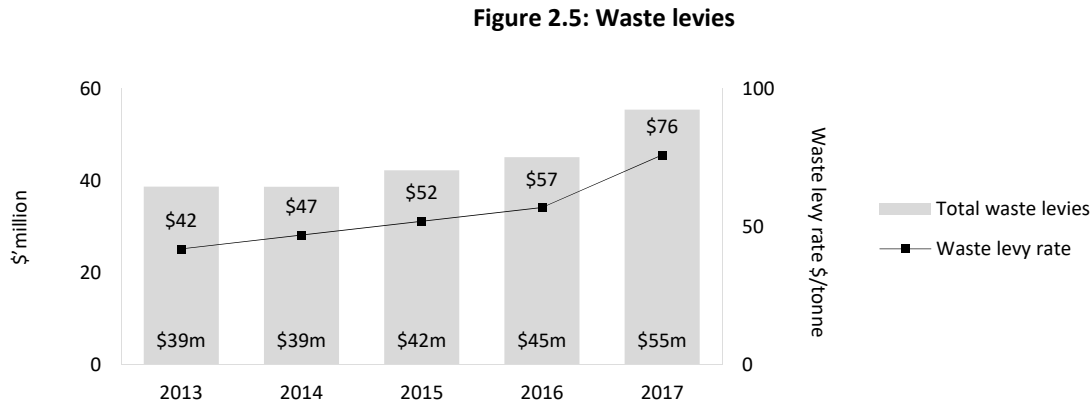
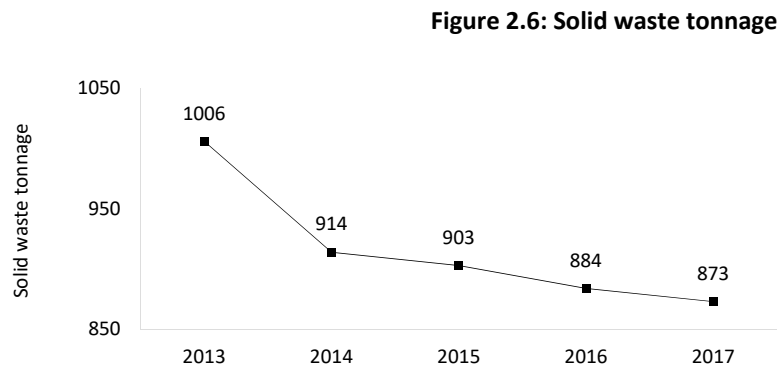


Figure 2.6 shows the downward trend in solid waste tonnage over the same period.



The figures demonstrate how increases in waste levy rates have offset decreases in the volume of solid waste collected over the period.

The balance of the Green Industries Fund continued to increase

The balance of the Green Industries Fund (formally the Waste to Resources Fund) at 30 June 2017 was \$108.3 million (\$86.8 million).

The Environment Protection Authority transfers 50% of solid waste levies collected from waste depot licence holders to the Green Industries Fund.

The Green Industries Fund is controlled by Green Industries SA (formally Zero Waste SA), a statutory authority established under the *Green Industries Act 2004*. Green Industries SA must apply the Fund in line with an annual business plan approved by the Minister for Sustainability, Environment and Conservation, or in any other manner authorised by the Minister for the purposes of the *Green Industries Act 2004*.

Under changes to the *Green Industries Act 2004* assented to in 2016-17, the Minister may also apply the Fund towards the costs of climate change initiatives, or the costs of managing waste or debris or harm to the environment following an identified major incident, major emergency or disaster declared under the *Emergency Management Act 2004*.

Green Industries SA's annual business plan for 2017-18 forecasts that the balance of the Green Industries Fund will be \$167 million by 30 June 2020.

2.3.10 HomeStart Finance continued to grow gross loans and advances

Growth in graduate loans led to gross loans and advances increasing by \$75 million in 2016-17

A \$76 million increase in graduate loans, to a total of \$380 million, drove a net increase of \$75 million in HomeStart Finance's gross loans and advances to a total of \$1.88 billion. The increase in graduate loans builds on a similar increase in 2016, reflecting the impact of previous changes to the graduate loan product, increasing the maximum loan size and introducing revised criteria that allows applicants to meet the employment requirements sooner.

Overall coverage for loan impairment remains consistent

HomeStart Finance's specific and collective provisions for impairment totalled \$18.2 million at 30 June 2017. It also has a general reserve for credit losses, which increased by \$400 000 this year. In total, coverage for loan impairment increased slightly to \$26.5 million from \$25.3 million in 2015-16, remaining at about 1.4% of gross loans and advances.

Loan portfolio is concentrated in some geographic areas

Due to the nature of HomeStart Finance's customer base, it has a greater concentration of loans in some geographic areas. 34% of loans by value are within the City of Playford and City of Salisbury, while a further 24% of loans by value are located outside of metropolitan Adelaide.

2.3.11 Local Government Finance Authority of South Australia continues to achieve profits and make annual bonus payments

LGFA's steady performance continued

The Local Government Finance Authority of South Australia (LGFA) made a \$5.1 million profit before income tax equivalents in 2016-17, \$1 million less than the profit in 2016 mainly as a result of reduced interest income.

\$2 million paid in annual payments in 2016-17

The LGFA has the discretion to make distributions from the surplus for the year to councils and local government bodies. The LGFA paid \$2 million in bonus payments during the year from prior year surpluses and set aside another \$2 million for bonus payments in 2017-18.

General reserve continues to increase

The LGFA maintains a general reserve to safeguard against the risk of future adverse conditions. At 30 June 2017, the general reserve was \$63.6 million, increasing by \$1.6 million from the LGFA's 2016-17 performance.

2.3.12 South Australian Government Financing Authority

Loan assets increased \$807 million

SAFA is the central borrowing authority for the State, and is responsible for managing most of the State's debt and for implementing debt policy as determined by the Treasurer. As at 30 June 2017 SAFA had loan assets of \$20.7 billion made up of:

- loans to the Treasurer – \$11.1 billion
- loans to public non-financial corporations – \$7.9 billion
- loans to public financial corporations – \$1.6 billion.

Funds are raised in domestic and international financial markets

SAFA raises most of its funds from domestic and international financial markets to support the SA Government's budgetary funding requirements. Funds are in the form of bonds, notes and debentures and amount to \$17.9 billion as at 30 June 2017, an increase of \$2.8 billion.

The increase in bonds, notes and debentures is mainly due to changes in SAFA's liquidity policy. SAFA sought to increase its liquidity to align with market best practice and regulator and rating agencies' guidelines. To increase the amount of liquid funds available, new select line bonds were issued, with the proceeds placed in investments. Consequently, investment assets increased by \$2.9 billion in 2016-17 to \$6.4 billion.

SAFA also holds significant deposits and short-term borrowings of \$8.7 billion. This includes \$6.5 billion in deposits from the Treasurer.

SAFA implemented interest rate risk hedging strategy for the new RAH project debt

The State's interest rate risk exposure on the new RAH project finance lease arrangements is fixed until June 2018. After that, the interest rate exposure moves to a floating rate format based on the prevailing 90-day bank bill swap interest rate.

To take advantage of the current low rate environment and mitigate the State's exposure to adverse rate movements, SAFA sought to fix the interest rate for the new RAH project debt. It executed a series of forward starting hedges using interest rate swaps from 2018 to 2033.

Insurance and vehicle operations continue in SAFA

SAFA is also responsible for managing the SA Government's:

- insurance and risk management arrangements, trading as SAICORP. The outstanding insurance claims liability as at 30 June 2017 was \$383 million
- passenger and light commercial vehicle operations. Fleet vehicles owned as at 30 June 2017 were valued at \$166 million.

2.3.13 South Australian Superannuation Board

The SASB is implementing a new superannuation management system

The South Australian Superannuation Board (SASB) is implementing a new superannuation management system for all of the superannuation schemes it administers.

The State has entered into a contract with DST Bluedoor for a new superannuation administration system and the SASB is working with DST Bluedoor on the implementation. Phase one of the implementation was originally scheduled for April 2017 but has been delayed. SASB now expects to implement phase one in the second half of 2017-18.

The total project cost to 30 June 2017 was \$11.5 million, including capitalised software costs and project implementation costs. Additional project funding of \$812 500 was approved by the SASB in February, bringing the total project budget to \$14.7 million.

Superannuation schemes reported under a new accounting standard for the first time in 2016-17

The requirements of a new Australian Accounting Standard were applied to superannuation financial reporting for the first time in 2016-17. The new requirements result in financial reports that are closer in form to other financial reports than under previous reporting requirements for superannuation schemes. Additionally, the surplus or deficit of funds and insurance liabilities are shown directly in the financial statements for the first time.

2.4 Health

2.4.1 Department for Health and Ageing

Consolidated net surplus result exceeded the original budget

The consolidated net result for the Department for Health and Ageing (DHA), the local health networks (LHNs) and SA Ambulance Service Inc (SAAS), collectively SA Health, was a surplus of \$72 million. Actual expenses were less than the original 2016-17 State Budget by \$71 million while total actual revenue exceeded budget by \$112 million, leading to an overall improvement of \$84 million against the original budget.

Contributing to this improved result were reductions in budgeted expenditure for borrowing and depreciation costs, \$143 million and \$81 million respectively, as a result of the delay in opening the new RAH.

Provision for insurance decreases to \$105 million

DHA's provision for insurance, which estimates the liability for professional indemnity including medical malpractice and general public liability, decreased by \$17 million to \$105 million. This provision is impacted by a range of factors considered by an actuarial assessment including prudential margins, inflation, taxes and claim numbers.

Key executives change for DHA

DHA's senior leadership changed with new staff in the role of Chief Executive and two deputy chief executives during 2016-17.

Transforming Health program continues

In 2016-17 DHA continued with its Transforming Health program. Further commentary on aspects of Transforming Health is provided in section 4.2.

2.4.2 Central Adelaide Local Health Network Incorporated

New RAH commercial acceptance and subsequent opening

In March 2017 the State and Celsus (previously SA Health Partnership Nominees Pty Ltd) entered into a Completion Deed which formally agreed the approach to resolving a range of outstanding matters including access to the site and dealing with alleged major defects to allow technical completion to be achieved, and subsequent commercial acceptance.

Commercial acceptance was achieved on 13 June 2017, signalling the transfer of control of the new RAH to the State.

Following commercial acceptance and a testing and commissioning period, the treatment of some outpatients commenced from 14 August 2017, with the transfer of inpatients and all activity from the old RAH taking place in early September 2017. The Emergency Department opened on 5 September 2017.

The last inpatient transfers from the old RAH occurred on 6 September 2017, with all medical services from that date provided at the new RAH.

Financial impact of the new RAH

The new RAH arrangements have been accounted for as a finance lease under Australian Accounting Standards. As a result, substantial liabilities, representing the present value of the minimum lease payments to Celsus over the contract term to June 2046, have been recognised in CALHN's financial report.

Liabilities totalling \$2.771 billion were recognised at 30 June 2017 for the payments to Celsus for the design, construction and financing of the new RAH building and the furniture, fittings and equipment that Celsus provided to the State as part of the arrangement. These payments also include projected maintenance costs (lifecyle costs) for the assets over the life of the arrangements.

Offsetting the liabilities, CALHN has also recognised \$2.809 billion in assets for the new RAH building, leased furniture, fittings and equipment and the right to have that equipment maintained throughout the term. The total assets include \$50 million of costs CALHN incurred directly for building modifications from the original agreed design.

CALHN has also purchased \$92 million of equipment and capitalised \$31 million in intangible IT assets for the new RAH.

Total nominal cost of the new RAH arrangements

The liabilities recognised for the new RAH in CALHN’s financial report are the present value of the minimum lease payments to Celsus. This figure is determined by discounting the nominal payments to Celsus using the discount rate of 9.929% implicit in the arrangement.

When the effect of discounting is excluded, the total nominal cost of the new RAH arrangements to the State over the term to June 2046 is shown in figure 2.7.

Figure 2.7: Total nominal cost of the new RAH arrangements to the State (excluding discounting)

	Finance lease \$'million	Operations and maintenance \$'million	Total \$'million
Nominal payments over the life of the lease (until June 2046)	8 426	2 984	11 410

Figure 2.7 includes the cost of making payments to Celsus for the finance lease, which is represented by the assets and liabilities discussed above, and for operations and maintenance costs (including security, maintenance and cleaning at the new RAH). The nominal cost of these services is included as commitments in CALHN’s financial report, as these costs are only paid following service delivery and therefore do not meet the requirements to be recognised as a liability.

The operations and maintenance costs will change over the course of the arrangements as they are based on the number of patients in the new RAH and other factors.

The arrangements also provide for the indexation of the lifecycle costs, meaning the total paid to Celsus will change over time.

Negotiation of the level of any reductions (abatements) in payments to Celsus as a result of elements that are going through arbitration were continuing at the time of this Report.

Legal action in progress

On 1 August 2017, the builder (Hansen Yuncken Pty Ltd and CPB Contractors Pty Ltd (formerly Leighton Contractors Pty Ltd)) filed legal proceedings against Celsus, independent certifier Donald Cant Watts Corke Pty Ltd and the State of South Australia for alleged breaches of contract and other matters in relation to the construction of the new RAH. The case will be heard in the Federal Court of Australia (New South Wales registry).

Further reporting on the new RAH

I intend to table a further Supplementary Report for the year ended 30 June 2017 on the new RAH. It will provide a summary of the status of the project and relevant observations.

2.4.3 Southern Adelaide Local Health Network Incorporated

Construction of new facilities at the Flinders Medical Centre continued

Construction of new facilities at the Flinders Medical Centre commenced in 2015-16 and continued through 2016-17. The total budget for this build is \$185.5 million and the project includes a rehabilitation building, including a palliative care unit, a new older persons mental health facility and a new multi-deck car park.

During the year, the construction contract between DPTI (which is delivering the project on behalf of SA Health) and the builder was modified to a fixed price arrangement to minimise the risk of budget overruns.

The total spend to 30 June 2017 was \$157.2 million. The target completion date is late 2017 to allow for the relocation of services from the Repatriation General Hospital.

A new proponent for the Repatriation General Hospital site

RSL Care SA rescinded its offer to purchase the Repatriation General Hospital site in 2016. Cabinet approved the sale of the site to the Aged Care and Housing Group Incorporated (ACH Group) in October 2016.

The change in proponent resulted in a sale price higher than the previous contract.

2.4.4 Northern Adelaide Local Health Network Incorporated

Work on the Modbury Hospital Transforming Health redevelopment substantially complete

Construction of the \$32 million Modbury Hospital Transforming Health project to upgrade facilities and expand elective surgery capacity was substantially completed in 2016-17.

Oakden Older Persons Mental Health Facility (Oakden Facility)

In December 2016 concerns were raised over clinical care at the Oakden Facility. In April 2017 the Chief Psychiatrist issued a report on the Oakden Facility recommending its closure.

The Commonwealth Department of Health has issued a Notice of Decision to Impose Sanctions under the *Aged Care Act 1997* (Cwlth) on services provided at the Makk and McLeay nursing home in the Oakden Facility.

The Independent Commissioner Against Corruption is conducting a maladministration investigation into the Oakden Facility.

As at June 2017 some Oakden Facility residents had transferred to alternate accommodation, and \$13.7 million was committed in the 2017-18 State Budget for a new specialised Older Persons Mental Health Facility with an estimated completion date of June 2019.

2.5 Other agencies

2.5.1 Department for Child Protection created

DCP was created on 1 November 2016

The Department for Child Protection (DCP) was established on 1 November 2016 after the SA Government accepted an interim recommendation of the Child Protection Systems Royal Commission that a separate department be established with child protection as its primary focus.

The creation of DCP included the transfer of Families SA staff from the Department for Education and Child Development (DECD). Net liabilities of \$30.8 million transferred from DECD to DCP on 1 November 2016, reflecting that the employee benefit liabilities and workers compensation provisions had a higher value than the Families SA assets, which also transferred to DCP.

The cost of commercial care increased significantly in 2016-17

The full-year cost of commercial care expenditure rose by \$43.7 million, or 52%, to \$126.6 million in 2016-17. The steep rise in these costs, which were \$37 million in 2013-14, reflects an increase in the average number of children in commercial care.

Figure 2.8 shows the increase in these costs over the last four years (previously in DECD).

Figure 2.8: Commercial care expenditure

	2016-17 \$'million	2015-16 \$'million	2014-15 \$'million	2013-14 \$'million
Commercial care expenditure	126.6	82.9	55.4	37.0

DPC received \$121 million in additional appropriation funding in 2016-17 from the Governor's Appropriation Fund, in part to fund the increased need for commercial care.

2.5.2 Department of State Development restructured during the year and sold TAFE SA assets to Urban Renewal Authority

Several business units transferred from DSD to DPC on 1 April 2017

All employees of the business units known as the Mineral Resources Division, the Energy Resources Division, the Energy Markets and Programs Division, the Resources Infrastructure and Investment Task Force (with the exception of the Case Management Function), the Strategy and Governance Unit and the Office of the Economic Development Board transferred to DPC on 1 April 2017.

This transfer involved 329 employees and the transfer of net assets of \$33 million, including property, plant and equipment and employee liabilities.

As a result of this transfer, DSD was no longer responsible for collecting minerals and petroleum royalties from 1 April 2017, with this function moving to DPC.

TAFE SA sites sold to the URA

The 2016-17 State Budget announced the SA Government's intention to transfer ownership of TAFE SA sites from DSD to the URA. The transfer of land and buildings that DSD was holding with a fair value, being the written down replacement cost, of \$708 million occurred on 1 March 2017.

DSD received \$595 million in proceeds from the URA, based on an independent valuation using future rental income estimates to determine fair value. The difference between the valuation undertaken by the URA and DSD's carrying value reflects that DSD valued the sites on the basis of depreciated replacement cost while the URA, as a for-profit entity, values the properties based on their income generating potential.

DSD recognised a loss on sale of \$113 million, and the proceeds from the sale were then transferred to the Consolidated Account and are reflected as payments to the SA Government in DSD's Statement of Comprehensive Income.

DSD has entered into a lease back arrangement for the sites with the URA, incurring rental fees of around \$52 million p.a. from 1 March 2017. The commencement of this lease arrangement increased DSD's accommodation and service costs by \$11 million in 2016-17.

DSD will continue to lease these assets to TAFE SA, recovering the full lease costs payable to the URA. Under this arrangement DSD controls the use of VET infrastructure facilities in line with its responsibility for VET policy.

DSD increased its funding to TAFE SA by \$15 million in April 2017, \$11 million of which offset the impact of higher rental charges that TAFE SA will now pay back to DSD.

Grant funding

DSD paid over \$524 million in grants and subsidies in 2016-17, across a range of programs.

Skills and employment grants

Grants to TAFE SA totalled \$231 million, a slight decrease on the \$234 million paid in 2015-16. VET funding to private service providers reduced from \$53 million to \$34 million in 2016-17. The reduction in funding to private service providers reflects the smaller number of subsidised courses under the WorkReady funded training list and the focus on supporting TAFE SA to transition its business.

Total funded training hours for TAFE SA and private service providers reduced to 13 million hours in 2016-17 (16.9 million hours in 2015-16).

Arts and cultural grants

DSD paid \$132 million in arts and cultural grants in 2016-17, a slight increase on the \$129 million paid in 2015-16. A substantial portion of this funding is paid to government statutory bodies, including the Libraries Board of South Australia, the Adelaide Festival Centre Trust, the Art Gallery Board and the Museum Board.

Other grants

DSD also paid a significant amount under a range of other grant programs in 2016-17. Specific items included:

- \$47 million in skills and employment grants, including funding for the Tertiary Students Transport Concession Scheme, Jobs First Employment Programs and Adult Community Education
- \$13 million in payments under the Our Jobs Plan which includes payments for the Next Generation Manufacturing Works project and automotive transformation initiatives.

2.5.3 Attorney-General's Department

Fines Enforcement and Recovery Unit

The Fines Enforcement and Recovery Unit collects outstanding court fines, expiation fees (including overdue local government amounts referred) and other outstanding amounts, including Victims of Crime levies and third party suitor amounts.

Total outstanding debts and related payments as at 30 June 2016 were \$379 million (\$369 million). Of this amount, \$307 million (\$321 million) is under active management, with \$126 million (\$161 million) subject to payment arrangements and \$25 million (\$42 million) having been referred to an external debt collection agency.

During the year the Fines Enforcement and Recovery Unit collected \$94 million in fines and related fees (excluding Victims of Crime amounts), an increase on the \$7 million collected in 2015-16. A further \$40 million, which is not yet overdue, is subject to payment arrangements.

Victims of Crime fund (VOC fund)

The Attorney-General's Department administers the VOC Fund. The maximum amount that can be awarded under the *Victims of Crime Act 2001* is \$100 000. The balance of the VOC Fund at 30 June 2017 was \$271 million (\$240 million).

In 2016-17, total payments from the VOC Fund were \$26 million (\$21 million), including \$17 million (\$13 million) in compensation payments and \$4 million (\$4 million) in grants. Total Victims of Crime income for 2016-17 was \$56 million (\$57 million) and included Victims of Crime levies totalling \$42 million (\$42 million) and revenues from the SA Government of \$8 million (\$8 million).

Amounts recovered directly from offenders totalled \$807 000 (\$640 000), with a further \$1.5 million (\$1.9 million) recovered from offenders under the *Criminal Asset Confiscation Act 2005*.

2.5.4 Department for Correctional Services costs and capacity continue to increase

Net cost of services increased

The net cost of providing services for the Department for Correctional Services increased by \$26 million (9%) to \$311 million, primarily because of costs associated with an increased number of beds.

Increase in prisoner and bed numbers

Prisoner numbers as at 30 June 2017 increased by 96 (3%) to 3050. During the year 142 new prisoner beds were added, bringing the total number of approved beds to 3003.

Capital work in progress includes additional 288 beds

As at 30 June 2017 capital work in progress was \$48 million and included:

- \$6 million for 160 beds at the Mount Gambier Prison
- \$35 million for 128 beds at Port Augusta Prison.

Home detention numbers have increased

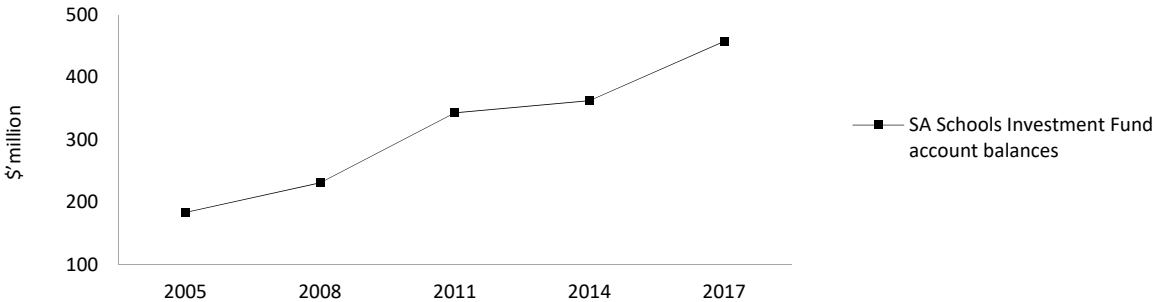
Home detention numbers have increased from 383 in June 2014 to 798 at the end of 2016-17. This is attributable to legislative changes that introduced additional home detention sentencing options in 2016. The growth in home detention has also resulted in increased electronic monitoring contract costs over this period from \$759 000 in 2014 to \$1.9 million in 2017.

2.5.5 Department for Education and Child Development schools have significant cash holdings and Families SA functions moved to the Department for Child Protection

DECD school and preschool cash balances increased to a total of \$492 million

The cash balances held by DECD schools continued to increase during the year. As at 30 June 2017 the schools have cash balances of \$457.4 million held in SA Schools Investment Fund accounts. There has been a substantial increase in the funds held in these accounts over the last 12 years, as shown in figure 2.9.

Figure 2.9: Funds held in SA Schools Investment Fund accounts



DECD pre-schools hold a further \$34.5 million in SA Schools Investment Fund accounts, bringing the total at 30 June 2017 to \$491.9 million.

Families SA functions move to DCP

DCP was created on 1 November 2016, in response to an interim recommendation from the Child Protection Systems Royal Commission. Families SA staff and activities, which were previously part of DECD, transferred to DCP from 1 November 2016.

The transfer involved 1763 FTEs and the transfer of net liabilities of \$30.8 million, mostly relating to employee leave and workers compensation provisions.

2.5.6 Department of Treasury and Finance

DTF manages some key strategic projects and activities

DTF is currently managing a number of key strategic projects and activities, including the sale of the State Administration Centre precinct, Arrium Whyalla Steelworks government support and the commercialisation of transactional land services and functions.

2.5.7 Department of Environment, Water and Natural Resources

Property, plant and equipment controlled or administered by DEWNR now exceed \$2 billion

The Department of Environment, Water and Natural Resources (DEWNR) manages significant asset holdings on behalf of the State. As at 30 June 2017 the fair value of

property, plant and equipment managed by DEWNR exceeded \$2 billion.

Property, plant and equipment recognised by DEWNR at 30 June 2017 includes that shown in figure 2.10.

Figure 2.10: Property, plant and equipment recognised by DEWNR

	\$'million
State's interest in the property, plant and equipment of the joint operation, Murray-Darling Basin Authority*	724
Crown land (administered on behalf of the State)	591
Pastoral land (administered)	54
Land controlled by DEWNR	267
Buildings and improvements (controlled)	64
Groundwater monitoring wells (controlled)	76
Park infrastructure, road, tracks and trails, and other infrastructure and equipment (controlled)	195
Capital works in progress (controlled)	33

* Mainly comprises infrastructure assets of \$701 million

In 2016-17 severe storm events damaged several hundred DEWNR assets, including buildings, camp grounds, fencing, roads, tracks and trails. At 30 June 2017 DEWNR had incurred \$7.6 million in remedial works and the estimated cost of completing these works is \$9.1 million.

2.5.8 Department of Planning, Transport and Infrastructure improved result

Net cost of providing services improved through Commonwealth funding

DPTI recorded a net cost of providing services for the year of \$49 million. A significant factor is the level of Commonwealth funding received, which increased by \$313 million to \$557 million. Commonwealth funding included \$230 million for the Northern Connector project, \$150 million for the North-South Corridor Darlington Upgrade, \$103 million for the South Road Upgrade (Torrens Road to River Torrens) project and \$28 million for road maintenance programs.

Highways Fund received a further \$688.2 million from MAC

In 2016-17 MAC paid \$688.2 million into the Highways Fund. The Treasurer directed MAC to make the payment under section 26(2) of the *Motor Accident Commission Act 1992*. This transfer follows similar transfers of \$852.9 million in 2014-15 and 448.5 million in 2015-16, meaning that MAC has contributed almost \$2 billion to the Highways Fund over the past three years.

Further contributions from MAC are subject to the direction of the Treasurer.

2.5.9 Department of Primary Industries and Regions delivering grant programs

South Australian River Murray Sustainability Program (SARMS)

The Department of Primary Industries and Regions (PIRSA) received \$52 million from the Commonwealth in 2016-17 for SARMS program. This is a \$265 million program delivered over six years through a National Partnership Agreement.

PIRSA paid \$41.5 million in SARMS grants, with the payments being made over time as approved projects are delivered.

Regional Development Fund payments increase to \$18.4 million

PIRSA paid \$18.4 million in Regional Development Fund grants during 2016-17. Similar to SARMS, payments under the current Regional Development Fund program are approved and then paid over time as projects are delivered. Since the Fund's inception, funding totalling \$45.9 million for 87 projects has been approved.

2.5.10 Department of the Premier and Cabinet

Machinery of government changes from 1 April 2017

DPC became responsible for a number of business units previously part of DSD, with 329 employees and net assets of \$33 million transferred. Key divisions transferred were the Energy Resources, Minerals Resources and Energy Markets and Programs divisions.

Resource and energy grants paid by DPC in 2016-17 included:

- \$23.8 million in funding for the PACE gas grants program, which aims to increase the supply of gas in South Australia's energy market and increase competition between gas suppliers
- \$3 million as the second instalment of a \$10 million grant to Oz Minerals over three years.

Procurement commenced for the SA Government's energy plan

In March 2017 the SA Government announced an energy plan to address various reliability and cost issues experienced by the State recently.

DPC established an Energy Plan Implementation Committee and an Energy Plan Implementation Taskforce to oversee and implement the various aspects of the energy plan.

Procurement processes have commenced to source additional electricity generation and storage capacity.

Other initiatives being developed include providing grant and loan funding through the Renewable Technology Fund.

Chris21 implementation completed

In 2016-17 the transition of agencies from the Chris5 payroll system to Chris21 was completed. This two-year project migrated 27 Chris5 databases and three existing standalone Chris21 databases into the new Chris21 environment. As a result only two databases, one for DHA and one for general government employees, are maintained.

In 2017-18 Shared Services SA will transition South Australia Police and TAFE SA from their existing databases to Chris21.

2.5.11 Department for Communities and Social Inclusion

Grants for disability services continue to rise

Grants for disability services increased by \$23.6 million to \$281.2 million. These grants are primarily to non-government organisations that provide services to individual clients based on their needs. It is expected that these costs will decrease in future years as disability clients transition to the National Disability Insurance Scheme (NDIS).

Further commentary on the NDIS is provided in section 4.4.

Disability and aged care reform

On 7 February 2017 the SA Government approved a number of significant changes to the way disability and domiciliary care services will be provided in South Australia, in response to Commonwealth disability and aged care reforms. These changes, along with the full transition to the NDIS, will have a significant impact on the Department for Communities and Social Inclusion's (DCSI) operations, structure and finances in 2017-18 and in future years.

One of the first changes to occur will be the transition of domiciliary care to non-government management by June 2018. DTF's Commercial Projects Group will engage with the market, and undertake any subsequent procurement processes, in consultation with DCSI.

A two-stage market process is being followed, with an initial expression of interest for interested parties, followed by a request for tender process. A registration of interest was advertised publicly on the SA Government's Tenders and Contracts website from 14 March 2017 to 22 March 2017, with interested parties required to complete a registration of interest form to participate further in market sounding processes. The expression of interest was then advertised on the Tenders and Contracts website on 20 June 2017, closing on 17 July 2017. There were 20 responses to it, with six of these shortlisted to bid to manage domiciliary care services.

Updated energy concession reconciliation processes saved \$3.8 million

In our Supplementary Report for the year ended 30 June 2015 'Department for Communities and Social Inclusion – Concessions: June 2016' we identified that DCSI could improve its processes for ensuring energy concessions are only paid to eligible clients. In response to these findings DCSI implemented improved reconciliation processes.

DCSI advised us that it achieved additional cost savings by implementing detailed reconciliation processes for energy concessions. It implemented them in December 2015, with further refinements made in 2016-17.

We were advised that between December 2015 and August 2017 DCSI saved at least \$6.2 million on reimbursement claims from energy retailers. This represents the difference between the amount that energy retailers were claiming for reimbursement and the amount actually paid by DCSI. This is because DCSI applied greater scrutiny to the reconciliation data and identified invalid or incomplete records. The scrutiny required additional FTEs, costing an extra \$2.4 million across the same period, resulting in an overall net saving of around \$3.8 million.

DCSI advised us that it is performing additional checks over 2016-17 reconciliation data and that this may result in more invalid or incomplete records being identified. It estimated that total invalid payments could be up to \$12 million, with net savings of \$9.6 million. These figures have not been audited.

2.6 Restructures of government agencies in 2016-17

Restructures occur in most years. Generally, changes affect the comparability of agency financial information from the previous year.

Typically, agency restructuring leads to transition periods while transferred staff and activities settle into their revised arrangements. Issues that can arise during transition include the timeliness of settling delegations, updating and rationalising systems and policies and procedures, and clarity of roles, responsibilities and accountabilities. Restructures that occurred in 2016-17 were as follows:

- DCP was created on 1 November 2016, with 1763 Families SA FTEs transferred from DECD.
- A number of business units transferred from DSD to DPC on 1 April 2017, involving the transfer of 329 employees.

2.7 Summary of selected financial disclosures

A summary of selected financial statement items is included in section 6. It is taken from information disclosed in the financial reports included in the Appendix to this Annual Report.

3 Significant financial control matters communicated to agencies in 2016-17

This section sets out significant financial control matters arising from our audits that were communicated to agencies in 2016-17 and were important to forming control opinions. For a full understanding of these and other matters, together with agency responses, I refer readers to Part B of this Annual Report.

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

3.1 Key findings and recommendations

3.1.1 40 of the 63 agencies received modified controls opinions

40 of the 63 agencies reported in Part B of this Annual Report and subject to controls opinions¹ received modified (qualified) control opinions due to financial and management control weaknesses and compliance matters. The causes of these qualifications ranged from a single matter to multiple reasons. Some matters were, for a range of reasons, unresolved from the previous year.

3.1.2 We changed the way we report findings to agencies this year

We changed the way we report our audit findings to agencies in 2016-17. We now include our assessment of the risk to an agency from each finding, a risk rating that is designed to help agencies clearly understand the matters that we consider are most important.

The risk ratings we assign are our assessment and agencies will make their own assessments of the risk to their operations from the matters that we raise. In some cases, agencies have communicated that they do not agree with the ratings we have assigned, with their own rating giving context to, and forming part of, their response to the matter raised.

The risk rating is individual to the agency that we raise the matter with, and may be rated differently in a different agency. This reflects that while there may be similar issues at different agencies, the relative risk and impact of a particular matter depends on the circumstances of each agency in its own right. However, should we identify an issue that has the potential to impact a number of agencies or that may impact at a whole-of-government level, we would take the broader impact into account in determining our risk rating.

In addition, our management letters to agencies now clearly highlight which matters are repeat issues.

¹ Adelaide Oval SMA Limited and the Legislature (House of Assembly, Legislative Council and Joint Parliamentary Service) are not subject to controls opinions.

3.1.3 We still raised a large number of matters with agencies this year, including many that are repeated

We continue to raise a large number of matters with agencies. As mentioned above, we introduced risk ratings for our financial audit findings for the first time this year. We rated a significant number of matters we raised 'high' or 'medium' by our scale for the agency concerned.

Further detail on the more significant matters we have noted is included below. In summary, the areas we rated as a higher risk to agencies reflect fundamental areas of governance and financial control and accountability.

We also reported that a significant proportion of the matters we raised were repeat findings. In some cases, this reflects that the agencies are continuing work to address matters that cannot be easily or quickly addressed. In other cases, repeat findings indicate that the agencies have not followed through on the actions they advised us they intended to take. In a small number of cases, the agencies have accepted the risk that we reported to them.

Once again this year, agencies have largely accepted our findings and recommendations and committed to resolving the matters raised. In many instances the agencies' responses tell us that the matters raised have been addressed.

There are occasions where agencies have advised they do not accept our recommendations. These responses have generally indicated that the agencies are satisfied with their existing practices on a risk/cost benefit basis. Occasionally this reflected changed practices brought on by their response to cost saving pressures, restructuring or process change. On other occasions, agencies have expressed the view that matters we have raised are not material risks relative to other agency activities.

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

In a number of cases, agencies advise that future system changes or improvements will address the matters we have identified, or help to do so. While new or improved systems can help, the system itself often does not resolve all issues and can introduce new control issues, including managing access to the system and segregation of duties between employees.

Significant or frequently occurring control weaknesses identified across agencies and included in this section related to:

- system user access management
- delegations and approvals
- reconciliations

- contract management
- reviewing key reports.

3.1.4 Recommendations

We recommend agencies:

- ensure appropriate mechanisms are in place so that corrective actions they have committed to take are clearly assigned to responsible officers, timelines are established, performance is monitored and issues are resolved promptly
- review processes to assign and review user access to systems to ensure access remains appropriate and relevant
- educate agency staff about delegations and the process to make changes to them where that is required
- improve processes to ensure that financial approval limits in systems are consistent with approved financial delegations
- review existing delegations to ensure they reflect the business needs of agencies where payments are undertaken without appropriate approval due to urgency or convenience
- take steps to ensure regular bank reconciliations are undertaken where that was not the case
- improve processes to ensure key reconciliations are performed promptly and that all reconciling items are appropriately addressed
- strengthen contract management frameworks and plans and put contracts in place where there are significant supply arrangements that are not currently subject to contracts
- ensure contract management systems include all contracts and that contract details are accurate
- provide the staff responsible for approving payments under contracts with details of contract prices
- strengthen processes to ensure key system reports are promptly and adequately reviewed.

3.2 Background

3.2.1 Public sector managers are responsible for internal control

Public sector managers have the responsibility to cost effectively manage and control financial resources, operations and risk exposures within their agencies and to comply with

relevant laws, regulations and instructions. The ability of public sector entities to operate properly and to report reliable, accurate and timely information is underpinned by an effective control framework.

3.2.2 Auditor-General must express an opinion on controls

The Auditor-General has the statutory responsibility to annually express an opinion on the sufficiency of controls and whether and how well those controls provide reasonable assurance that financial transactions of the Treasurer and public authorities have been ‘conducted properly and in accordance with law’. In performing tasks to support this opinion, we use relevant criteria against which to assess whether controls conform to established standards of financial management practice and behaviour.

The primary sources of criteria are relevant laws, regulations and instructions (eg Treasurer’s Instructions) and agency policies. Where these sources are absent, we have regard to generally accepted standards of financial management practice and behaviour, especially where other Australian jurisdictions have issued authoritative guidance.

Assessing what is reasonable is a matter of judgement and circumstance that has regard to facts, changing practices, expectations and behaviours. Fundamental principles that underpin our audits of controls include public accountability, integrity, financial probity and propriety, discharging responsibilities within the letter and spirit of the law and value for money. They are inherent values and essentially do not change over time.

Nonetheless, there remains significant room for judgement. Consequently, it is probable that auditors and management will disagree in some areas.

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

3.2.3 A modified opinion means controls are not sufficient

Modified controls opinions in Part B of this Report reflect our view that aspects of agency controls are of an insufficient standard to provide reasonable assurance.

Where we have drawn that conclusion, we have made recommendations as to where, in our opinion, improvements are required.

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

The natural justice process results in agreement on most audit issues, findings and their resolution. It is up to agencies to determine whether to adopt audit recommendations.

Agencies have regard to their view of risks, costs and benefits. Occasionally agencies put forward reasons for not accepting our recommendations. The primary differences arise where agencies decide that existing practices sufficiently address the relevant risk.

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

3.2.4 Agencies with modified opinions are exposed to increased risks

It is clear that finding material error, such as overpayments or realised loss, would give persuasive evidence of the significance of our audit findings and recommendations. In practice this does not necessarily occur.

Where controls are not at a sufficient standard to provide reasonable assurance, it is equally clear that this means an agency is exposed to increased risk regarding the financial probity and propriety expected of a public authority and discharging its responsibilities for cost effective public services.

3.2.5 Auditor-General's Reports are forwarded to the Office for Public Integrity

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

3.3 User access to systems

An increasing amount of government business and financial transactions are processed electronically through online systems. Key online systems used by the SA Government include:

- Basware: used for the review and approval of expenditure transactions
- Chris21: the SA Government's main payroll system, which also provides for online leave approval
- Oracle: SA Health's financial system
- CommBiz: the Commonwealth Bank online system used by agencies to make payments.

There are also a number of other agency financial and operational systems used across government. They include systems for registration, licensing, health and emergency services that record important and, in some cases, sensitive information.

More government transactions are now processed only electronically where in the past paper forms might have been used. Most expenditure for the SA Government, for example, is now authorised online in Basware or Oracle. Similarly, applying for and approving leave is now performed online using Chris21 in a number of agencies.

As systems are used more, and new systems replace existing manual processes, controlling access to them and ensuring that the access granted matches the user's role becomes increasingly important.

3.3.1 A controlled process to grant and regularly review user access is important

Agencies need to have a controlled process in place to grant access to their systems. This should include formal approval for access and consider the level of access that users need to perform their roles. User access should be sufficient for employees to perform their roles efficiently. It should, however, also ensure appropriate controls remain over financial transactions and access to information.

When agencies replace manual processes with online systems, they must also consider how the online environment supports the basic requirements for effective governance and control. Segregation between roles should be built into user access, ensuring individual users do not have excessive access. To do this, agencies need to understand the roles of the users and the structure of the user profiles for their systems, so that they can match what access someone needs with the right user access profile in the system.

As online transaction approval continues to expand, it is also critical to ensure the approval limits that are present in systems match the agency's approved delegations for both, financial delegations and those related to human resources (eg the ability to approve specific types of leave).

Agencies should also regularly review user access, as staffing and user roles change over time. It is important that agencies ensure the access granted remains appropriate and that only individuals who need access have it.

3.3.2 We found a number of agencies did not regularly review user access and could improve user access management

We identified a large number of instances across agencies where user access management could be improved.

The issues we raised with agencies included that:

- reviews of user access had not been performed
- too many users of some systems had privileged user access (giving them a higher level of access, or ability, than normal users)
- user access was not always removed when staff left

- it was not clear in some cases who could, or had, granted system access
- some changes to user access were not appropriately authorised
- the password settings for user access were not strong enough.

These issues occurred across a number of agencies and a range of systems including payroll, expenditure, banking and general ledger systems.

Many of these systems feature online approval and there is a risk that established controls can be bypassed where user access is not appropriately granted and regularly reviewed to ensure it remains appropriate.

3.3.3 Access to information needs to be protected

Our financial audit processes focus mainly on systems with direct financial functions, such as expenditure, payroll and banking systems. It is important, however, that agencies manage user access across all of their systems. Some systems that have limited financial functions contain sensitive information and access to these systems also needs to be actively reviewed and appropriately managed by agencies.

3.4 Delegations and approvals

Every year billions of dollars of public money is spent by public sector employees who have been given approval to do so through a delegated authority to transact on behalf of a public authority.

It is the most fundamental of activities. Delegated authority is a practical necessity to allow public authorities to meet operational and business requirements effectively and efficiently.

3.4.1 Delegations provide structure to payment approval processes

Individual transactions can commit public money to individually high amounts or accumulating commitments over many years, whether for ongoing employees – the largest part of government spending – or contracts for services. Many individual transactions are of high value and the amounts exposed to misspending are accordingly high. Because of the responsibility and trust associated with using public money, the standards of expected behaviour and compliance are high.

Delegations provide a structured framework for approving payments. They should reflect public sector rules that govern this activity, such as those established by the PFAA, *Public Sector Act 2009*, *State Procurement Act 2004* and Treasurer's Instructions.

Most broadly, the Code of Ethics for the South Australian Public Sector is the code of conduct for the purposes of the *Public Sector Act 2009*, and all public sector employees are bound by it. The Code of Ethics provides that public sector employees are accountable for exercising their delegated authority and for performing their role within the values and standards of conduct outlined in the Code.

If public sector employees do not adhere to delegated authorities, they risk committing the SA Government to, or incurring, expenditure that does not achieve value from spending public money. The consequences of deliberate misapplication are also potentially severe for individuals.

Delegations, like the public sector rules mentioned above, typically require higher level approval for more significant transactions. These requirements reflect that greater scrutiny should be applied to more significant transactions, as there is a greater commitment of public money being contemplated.

3.4.2 Online payment approval limits exist in many agencies, alongside formal delegations

Online payment systems are now the main systems used for transactions in the South Australian public sector. They allow access and use limitations to be set that restrict users to transactions within their approved delegations.

The limits set for users in payment systems should be at the same level as, or lower than, the financial delegations that individuals hold. However, the processes to manage financial delegations and update payment systems are often quite separate.

We often find that financial limits within systems differ from the agencies' financial delegations. Where these differences occur there is a risk that transactions may not be appropriately approved, as delegations have not been properly exercised.

3.4.3 We identified a range of issues with delegations and approvals

While the effectiveness of delegation and financial approval across the public sector varies, our 2016-17 audits found examples where:

- delegations were exceeded
- agencies did not have established delegations for certain activities
- delegations had not been properly approved
- system approval limits were not consistent with financial delegations
- reviews of changes to delegations or system approval limits were not performed
- systems did not enforce financial delegations
- reviews of special delegations and manual payments reports were not performed promptly.

We reported all of the instances we identified to the agencies involved and they have responded to the specific matters raised.

Agencies advised us that the issues we identified have a range of causes, with many being the result of misunderstandings about the delegations individuals hold or oversights in updating delegations or system authorisation limits.

We have also occasionally noted instances where financial delegations are restricted to

specific types or categories of expenditure, but that these restrictions cannot always be reflected in payment systems. Where this is the case we seek to understand and test the processes agencies have in place to ensure specific delegations are only used for their intended purpose.

3.4.4 Interaction of agency delegations with the Treasurer's Instructions

A range of government policies set limits and delegations that agencies need to adhere to. The most direct relationship between agency delegations and other government policy requirements are the limits established in Treasurer's Instruction 8 'Financial Authorisations' (TI 8) for the approval of expenditure and contracts. Agency financial delegations need to be consistent with these limits unless the agency has an exemption for particular types of payments or contracts.

Some of the instances we identified where delegations were exceeded involved the limits established by TI 8 being exceeded by agency staff.

3.4.5 Convenience or urgency is rarely a sound basis for departing from established approval requirements

In some instances, agencies advised us that staff approved purchases or payments inappropriately due to the transaction being urgent, or because an appropriate delegate was not immediately available to approve the transaction.

While there are some instances where payments genuinely may require urgent approval, in most cases the level of urgency associated with certain types of payments can be anticipated. Some agencies have, for example, raised with us that the requirements for appropriate delegate approval would delay a purchase and negatively impact the agency's clients.

We have discussed with agencies the need to align their financial delegations with operational needs, such that if there is a regular need for certain staff to have delegations to allow client needs to be met, the financial delegations should reflect that. Agencies then have the option of introducing additional controls to monitor the use of those delegations if they consider there is a particular risk.

We do not consider it acceptable to continue to breach the requirements of established financial delegations due to foreseeable urgency.

We also noted instances where breaches of delegations occur essentially due to convenience. Examples include instances of transaction splitting using purchase cards, rather than seeking approval through a different payment method or from a staff member who holds a card with the appropriate limit for the transaction, and where approval is given by an agency employee rather than going to a higher level of approval, such as a Minister.

We consider that these examples are avoidable by following established processes and, where necessary, ensuring delegations match job requirements. In some instances, it will be appropriate for an agency to have a higher approval limit than generally allowed for by TI 8. In these circumstances, an exemption from the requirement should be sought from the Treasurer.

3.5 Reconciliations

Reconciliations are an important control in ensuring that agency financial records are complete and accurate. As they can provide assurance over the completeness of information, particularly information transferring between systems, we regularly look at reconciliations for a range of areas as part of our audit process.

Regular reconciliation processes help agencies to ensure that systems and processes are working as intended, and information reported to agency management and in financial reports is accurate.

3.5.1 Bank reconciliations are a foundational control

Bank reconciliations are a foundational control for ensuring agency financial transactions have been properly accounted for.

Our 2016-17 audits found that most agencies perform regular and effective bank reconciliations.

We did, however, identify some matters of concern for bank reconciliation processes. In particular:

- there were significant delays in preparing monthly reconciliations for RevenueSA's collection account
- the design of the DEWNR bank account reconciliation process needed improvement to properly allocate reconciling items between the 16 separate entities and 22 funds that transact through the account.

In both of these cases, discussed more fully under each agency's section in Part B of this Report, the agencies advised of improved processes that either had been established since the audit, or would be established in future.

3.5.2 Other reconciliation issues identified in 2016-17

As noted above, we look at a range of reconciliations in our audits each year.

Reconciliation of central general ledger (CGL) clearing accounts

An adjustment of \$57 million was made to the Treasurer's CGL to clear historical differences between clearing accounts in the CGL and agency general ledgers. We reported this matter to DTF for a number of years. The adjustment was made to correct misclassifications: the deposit account balances (Statements C, F and G) were overstated by \$57 million and the cheques drawn but not presented/deposits not credited (Statement C) were understated by \$57 million.

To mitigate the risk of inaccurate information in the CGL, DTF has redesigned the monthly return of ledger balances advice completed by agencies. This return now requires agencies to clearly identify how the balance of deposit accounts and any balances held in clearing accounts in agency general ledgers reconcile to the total cash balance on bank statements. Agencies have been submitting the new return for all periods from February 2017.

Other matters

We also found instances where:

- reconciliations between employee time recording systems and the payroll system, particularly for leave transactions, had not been performed
- reconciliations for balance sheet accounts had either not been performed, or were performed later than the agency time frame for the reconciliations to be completed
- reconciliations between subsidiary systems and general ledgers were not occurring promptly or had not been reviewed
- reconciling items were not cleared promptly.

Agencies generally responded that the matters we raised with them would be addressed.

Delays in completing reconciliations can mean that more time is required to undertake the reconciliation and clear reconciling items when it is performed. Regular reconciliations allow for the prompt identification of any issues that need to be addressed and help to limit the volume of reconciling items that need to be cleared.

3.6 Contract management

The public sector is an extensive user of private providers for services. As disclosed further under section 6.5, these arrangements commit the SA Government to payments annually exceeding \$2 billion for services including infrastructure provision and maintenance, project management, transport and contract staffing. In other instances, the SA Government has transferred management of services to an external provider in exchange for the right to future revenue streams. Section 6.5 lists examples of expenditure on outsourced contracts by agency.

Regardless of the reason for the outsourced arrangement, it is important that the SA Government achieves value-for-money outcomes by ensuring that all contract providers meet their obligations in line with contract performance measures, time frames and expected deliverables.

This expectation is set out in Treasurer's Instruction 28 'Financial Management Compliance Program', which requires chief executives to ensure:

- contractor/supplier performance against orders, contracts, service level agreements (SLAs) (including services outsourced and PPP contracts) or equivalent are regularly monitored and reviewed to ensure services are being received, and payments are made, in line with agreed arrangements

- reductions in payments (abatements) are promptly applied in line with contract documentation where abatable contract performance failures occur. Public authorities must not delay the application of abatements or enter into extra-contractual arrangements in lieu of abatement (eg a negotiated settlement involving abatement being 'traded off' for other 'benefits'), unless agreed to by DTF and the Crown Solicitor's Office. Public authorities must develop, document and implement contract management policies and procedures (including for PPP contracts).

3.6.1 Effective management of contracted arrangements is directly linked to effective and cost efficient service delivery

Contracting in the SA Government takes a number of forms; some contracts relate to ongoing purchasing arrangements, some to outsourced service delivery and others to ongoing maintenance arrangements (for assets, software, buildings or plant and equipment). Regardless of the type of contract established, the effective management of the contract arrangement has a direct link to effectively delivering government services and the cost efficiency of that service.

Many of the SA Government's contracts for ongoing service delivery include key performance indicators in one form or another; some of these contracts include many different levels of performance indicators or targets. In some cases, there are direct financial costs or benefits to the SA Government and the contracting party linked to these indicators.

In other cases, contracts with significant suppliers establish the prices the SA Government will be charged and the terms and conditions under which goods or services will be delivered.

Regardless of the nature of the contract arrangement, it is important that agencies:

- understand the contracts they are a party to, typically through having some form of contract register
- clearly identify staff who are responsible for contract management and the expectations attached to their roles
- ensure that contract management plans are in place and accurately reflect the contract requirements, as well as meeting the requirements established by the State Procurement Board (SPB)
- actively manage contract arrangements, ensuring deliverables occur as contracted and that there is active monitoring of performance indicators or targets
- ensure staff responsible for approving charges under contract arrangements have access to up-to-date contract pricing schedules to properly verify that the agency is paying the correct amount
- have evidence to support the contract management activities that they have undertaken (minutes of meetings, copies of correspondence etc).

3.6.2 We found a range of contract management issues in agencies in 2016-17

Due to the value of expenditure on contracted services and significant procurements each year, we annually review aspects of contract management and contractual compliance as part of our agency audits. Examples of the issues we identified this year were instances where:

- contract management frameworks were inadequate
- contract management plans were not in place or did not meet the SPB's requirements
- contracts were not in place for significant suppliers or arrangements
- contract management systems needed to be improved, did not include all contracts or did not always accurately reflect contract details
- prices charged under contract arrangements were not checked against contract prices before payments were made.

In addition, we undertook targeted work on contract management arrangements at a number of agencies with significant contractual arrangements this year, which is discussed further in section 4.5.

Section 4.6 outlines the findings from our review of the specific procurement and contract management matters associated with the Festival Plaza redevelopment.

3.7 Review of key systems reports

Financial and payroll systems produce a range of key output reports. These reports list information for review and are intended as a control to ensure the accuracy of changes made to systems and the correct processing of information. Typically, these reports are intended to provide assurance that the data input to systems, or actions taken by staff, is accurate or appropriate.

Because of their importance, our audits consider if there has been prompt review of key system reports. In some cases, these reports are intended as a preventative measure and should be reviewed prior to the next step in a process, such as actually paying staff, while in others they are a detective control designed to identify errors in processing that need to be corrected.

3.7.1 We found a range of issues with the review of key systems reports this year

3.7.1.1 User access

As discussed in section 3.3, reviewing system user access is an important control process. Our 2016-17 audits identified instances where changes to user access were not reviewed. In

several cases this reflected that no review of user access had been performed (as discussed in section 3.3); in others it reflected that the review process was not adequate.

3.7.1.2 Reports covering manual payment approval or the use of special delegations

Reports detailing payments that have been approved manually (not using online approval processes) or where special delegations have been used are regularly produced from Basware for agencies that use Shared Services SA. The reports are provided because these transactions have been approved outside of the normal processes and authority limits established and have an inherently higher risk associated with them. As noted in section 3.4, we found instances where reports of manual and special delegations payments had either not been adequately reviewed, or were not reviewed promptly.

3.7.1.3 We continue to find issues in the review of key payroll reports

The SA Government employs more than 100 000 people and paid \$7 billion in salaries and wages in 2016-17.

In past years we have found that key payroll reports, including bona fide and leave management reports, were not consistently reviewed or that the review of these reports was not prompt. This remained the case for a number of agencies in 2016-17.

While agencies have, in the past, advised that online processes would assist in the prompt review of key payroll reports, in practice online systems do not resolve this issue by themselves. An effective monitoring process that supports the follow-up of instances where reports are not reviewed promptly is needed to ensure these reports are reviewed as intended and any errors in payroll processing are identified promptly.

We have continued to investigate with agencies whether there are alternative controls to bona fide and leave management reports. The answer has frequently been that these are the only systematic processes in place to ensure the accuracy of payments to employees and agency leave liabilities.

Where these reports are not reviewed consistently and promptly there is a risk that incorrect payments made to employees may not be identified and corrected promptly and that employee leave liabilities may not be accurate.

3.7.1.4 We also found instances where changes to system masterfiles were not reviewed adequately

System masterfiles are used to record the data that is used by the system to generate charges or make payments. When an error is made in a masterfile change, it can affect a large number of transactions, for example all transactions with a particular vendor, or all invoices generated with a particular code.

Due to the potential impact of errors in changes to masterfiles, we generally consider that masterfile changes should be reviewed by a person independent from whoever made them. Typically, systems will produce reports of all changes to masterfiles to facilitate this review.

Our 2016-17 audits identified instances where changes to system masterfiles were not adequately reviewed.

4 Other reviews – 2016-17

Areas we gave specific attention this year were:

- Health budget and performance management
- Transforming Health – aspects of governance and financial management arrangements
- legal compliance
- the NDIS
- contract management
- awarding project manager contracts for the Festival Plaza project State works
- across government facilities management arrangements (AGFMA)
- consistency of government industry assistance processes.

4.1 Health budget and performance management

4.1.1 Introduction

In 2016-17 we looked at two aspects of health financial management in addition to the audits reported in Part B of this Report. They were:

- a review of SA Health’s budget and performance management including its reported outcomes against saving targets and budgets. A summary of the outcomes of this review follows
- a follow-up review of the Transforming Health program from our work in 2015-16. Transforming Health is covered in section 4.2.

4.1.2 The importance of Health expenditure to the State budget

General government operating expenses for Health and Ageing are estimated to amount to \$5.6 billion of the estimated total operating expenses of \$18 billion for 2016-17.

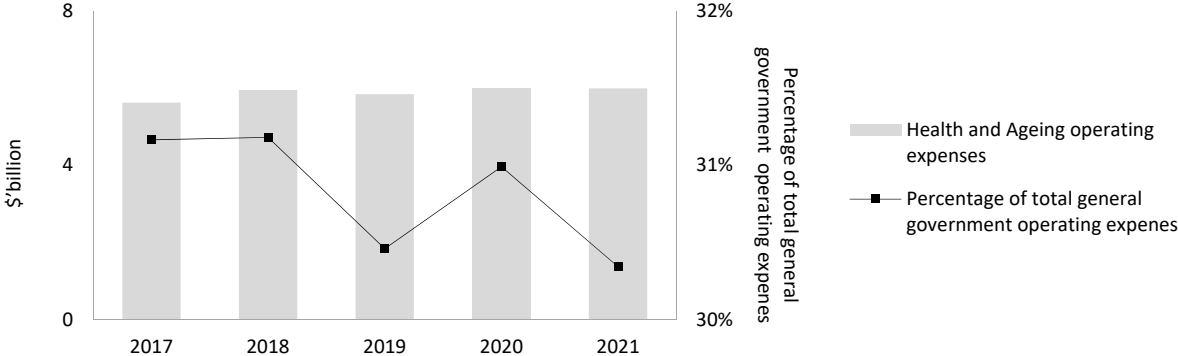
The financial sustainability of our public health care system is an ongoing financial risk managed through the State’s *Health Care Act 2008* and related structural and governance arrangements.

The SA Government’s ‘Delivering Transforming Health – Our Next Steps’ information document noted at the time (March 2015) that the SA Government spent 31.5% of the state budget on health. It projected that at the then current rate of growth, South Australia’s spending on health would be nearly half of the state budget over the next 15 years. Health care expenditure was assumed to be growing at 7.8% p.a., the average growth of health spending over the previous seven years.

In 2016-17 Health and Ageing operating expenses were estimated to be 31.2% of total operating expenses. The budget for 2017-18 is estimated to remain at that level and projected to reduce by 2020-21.

Figure 4.1 shows Health and Ageing operating expenses as set out in 2017-18 Budget Paper 3 ‘Budget Statement’, and as a percentage of total operating expenses for the general government sector.

Figure 4.1: Health and Ageing operating expenses



Hospital expenditure growth remains a highlighted risk in the 2017-18 State Budget as it has for many years.

In the section on expenditure risks, the 2017-18 Budget Statement states that hospital expenditure is a significant component of the budget and growth can therefore have a substantial impact on the budget. It reports the SA Government is implementing strategies to manage the expenditure growth in hospitals and ensure services and infrastructure are provided in the most efficient manner to deliver quality health outcomes and productivity improvements. A measure of impact is given, saying a 1% growth in hospital expenditure above the level incorporated in the 2017-18 State Budget would increase expenditure by approximately \$53 million p.a.

4.1.3 Responsibilities for budget management

As delegated under the *Health Care Act 2008*, the Chief Executive of DHA must ensure the proper allocation and use of resources between health regions and incorporated health services. The allocation of resources is established through SLAs between the Chief Executive of DHA and the chief executive officers of the LHNs and SAAS.

The *Health Care Act 2008* also makes the Chief Executive of DHA responsible for:

- the overall management, administration and provision of health services and incorporated hospitals
- facilitating the efficient and economic operation of the public health system.

Consequently, the Chief Executive of DHA’s responsibilities for financial accountability and performance extend across SA Health. The Chief Executive’s responsibilities are also established in the Treasurer’s Instructions.

Treasurer’s Instruction 19 ‘Financial Reporting’ sets out the responsibility of each public authority for the discharge of financial accountability. Specifically, it requires chief

executives to:

- regularly review the public authority's performance against its budget and ensure that appropriate action is taken
- ensure the public authority adopts appropriate management strategies for all known risks that may affect the financial sustainability of the public authority.

DHA, the LHNs and SAAS are public authorities, and their chief executives are responsible for meeting these financial accountability requirements.

The financial accountability requirements of LHN and SAAS chief executive officers are further established through SLAs. The SLAs state that delivering agreed savings and achieving a balanced budget were the primary focus for 2016-17. Documented key deliverables of the LHNs and SAAS included:

- managing activity volumes within agreed parameters and approved budgets
- managing FTE employee numbers within agreed parameters and approved budgets.

4.1.4 Summary of audit findings

In recent years the LHNs and DHA have failed to achieve saving targets or have experienced other service demands that have necessitated additional funding. The Chief Executive of DHA has a legislative role in facilitating the efficient and economic operation of the public health system. Important in achieving this goal are:

- transparent and shared strategies across the sector
- ensuring appropriate financial management and governance capacity.

Regular reporting and review

We found that DHA had governance arrangements in place to ensure that SA Health's performance against its budget was reviewed regularly. These arrangements include monthly meetings between DHA's Chief Executive and Deputy Chief Executives and the LHN/SAAS Chief Executive Officers and Chief Finance Officers to discuss financial performance. A key monthly report is DHA's Portfolio Performance Report (PPR).

Projected portfolio result for June 2017

DHA's June 2017 (interim) PPR projected an unfavourable net operating result for the SA Health portfolio on a GFS adjusted basis in the range of \$25 million to \$40 million. The projected end of year net investing result for the SA Health portfolio of \$67 million was favourable.

FTEs were also reported to be favourable against the budget for the year to date.

Within the overall result are many offsetting favourable and unfavourable items. Our review focused on savings targets for 2016-17 within the overall budget.

2016-17 missed savings targets

DHA's June 2017 (interim) PPR reported that of the Cabinet approved, mandated savings targets and associated FTE reductions, the LHNs/SAAS failed to achieve:

- the overall full-year savings target by \$124.6 million (of which a significant portion related to planned Transforming Health savings)
- the mandated FTE reduction target by 652.

The PPR also reported, including the unfavourable savings target outcome, that the LHNs/SAAS failed to deliver \$216 million in strategies and a reduction of 511.9 FTEs in order to deliver a balanced end of year position. Although there was a failure to implement these strategies, after approved budget amendments and the provision of centrally retained DHA reserves, the PPR projected the portfolio position for June 2017 discussed under 'Projected portfolio result for June 2017' above.

Concerns expressed as to financial management and governance

During the year we reviewed financial performance reporting, risk reporting and various internal communications. From early in the financial year, LHNs and SA Health projections show targeted savings and a balanced budget would not be met in 2016-17.

We found divergent views between DHA and LHNs/SAAS on the level of funding.

During the year DHA, through its PPR, expressed concerns about aspects of budget management in the portfolio. For example, the PPR noted a lack of confidence in CALHN's financial management and governance because it had not been able to link achieving savings to total financial results or correlate this with FTE savings or activity. There were also consistent fluctuations of its end of year forecast and the components that drove this. CALHN's end of year position was reported to remain at significant risk late in March 2017. This is supported by the recognition at the time of a further deterioration in projected end of year savings from the previous month's reporting.

While the largest unfavourable savings variations were reported at CALHN, other LHNs also had unfavourable outcomes.

LHN and SAAS risk reporting commonly highlighted an inherent risk that agreed funding levels were insufficient to meet commissioned activity. For example, the Country Health SA Local Health Network Incorporated (CHSALHN) highlights a strategic risk of 'The inability to operate within financial allocations. Demands in service activity that CHSALHN is commissioned to provide, will exceed financial allocations. An emerging risk is that CHSALHN will be funded less than the efficient price while having to meet increasing activity demands'. This risk was rated moderate after treatment. Similar risks were rated high after treatments at the Southern Adelaide Local Health Network Incorporated (SALHN), Northern Adelaide Local Health Network Incorporated (NALHN) and SAAS, moderate at the Women's and Children's Health Network Incorporated WCHN and low at CALHN.

We acknowledge that differences in opinion on the adequacy of funding are likely to occur between any funding body and the recipient. However, we considered it important that we not dismiss this tension, particularly given the Chief Executive's responsibilities across SA Health and considering the reported outcome in the June 2017 (interim) PPR.

Request for advice on actions

Because of our findings we requested DHA advise its:

- actions to address the reported failure to achieve mandated and balanced year end position saving targets across SA Health
- strategies to manage risks that may affect the financial sustainability of SA Health
- actions to manage any concerns about the capability of LHN financial management and governance.

4.1.5 Department for Health and Ageing response

DHA's advice on its actions to address the reported failure to achieve mandated and balanced year end position saving targets across SA Health and strategies to manage risk that may affect the financial sustainability of SA Health

Setting budget at an efficient price

The budget allocation methodology of 2016-17 was predicated on LHNs being funded for hospital activity at no less than the national benchmark of the National Efficient Price.

The South Australian price allocated for activity is therefore based on the determination of the National Efficient Price by the Independent Hospital Pricing Authority, premised on the cost data of most Australian hospitals. In effect, this is reflective of an average price outcome. The use of this average in funding SA hospital activity is requiring LHNs to deliver services in line with average costs nationally. It provides funding at a level that is ostensibly not beyond the outcomes of many national hospitals and therefore provides a significant level of comfort that the funding allocations are reasonable and workable in the operations of the LHNs. Other cost considerations were then applied to further refine the budget allocations to ensure reasonableness.

Largely the same principles have been applied in the budget allocation process for 2017-18 to provide overarching comfort that a balanced financial outcome is achievable.

Continuation of existing thorough reporting mechanisms

As summarised below, DHA will continue to maintain a strong emphasis on financial reporting and accountability through regular and focused discussions with high level personnel to ensure prompt identification of issues and the implementation of corrective action from the LHNs as operational managers.

High level implementation support through the Strategic Support Unit (SSU)

DHA established the SSU at the start of 2017-18. The SSU will provide additional targeted direction, analysis, support and guidance to ensure that LHNs are focusing on addressing key areas of concerns and provide complementary leadership through this process. The SSU will help the LHNs to establish suitable internal improvement plans and will actively monitor the progress of their implementation.

Establishing the SSU will provide only limited targeted resources to support LHNs in improving their core governance and related business processes and does not supersede the LHNs' structures. Importantly DHA considers the line of accountability for LHN financial performance continues to be the Chief Executive Officer of the LHN.

SA Health's advice on its actions to manage any concerns about the capability of LHN financial management and governance

Service level agreements

LHNs are contracted (commissioned) by DHA to provide an amount of activity at essentially an 'efficient' price. The activity and related funding is articulated in the SLA between DHA and the LHN and includes the accountabilities of both parties, as well as deliverables and key performance indicators.

Portfolio Performance Report

LHNs complete their end of month PPR by the tenth working day of the following month. The PPR provides high level variance analysis for the year to date actual versus budget financial results of the LHN and includes the end of year forecast position based on factors known at the time. PPR's are consolidated by DHA as the basis of monthly formal reporting to DTF for whole-of-government reporting requirements.

LHNs also provide Transforming Health savings progress at this time. Calculations of the Transforming Health savings reported are confirmed by Ernst & Young as the engaged Implementation Project Management Office provider, and any variances are required to be clarified.

Savings

Each LHN has a project management office or equivalent that seeks to coordinate and ensure savings are documented and that progress is occurring in line with time frames/planned milestones.

LHN Project Officers promote the use of PRINCE2 principles by stakeholder staff and Quickbase is used as a project management tool to report effectively into the existing governance structures. Quickbase is updated on a monthly basis by the LHNs and reports are produced and distributed. This information is reflected through the savings reporting contained in the PPR.

LHN internal governance

LHNs also have their own internal governance framework where they review and monitor performance at a number of cascaded levels (eg division, directorate, service). Through these forums, LHNs critique their results, including savings progress based on a raft of metrics and key performance indicators largely linked to their underlying SLA requirements. LHN executives are also required to explore initiatives to support necessary remediation and ultimately inform their reporting through PPR and contract meetings with DHA.

Transforming Health

Transforming Health savings are monitored by the DHA's Implementation Project Management Office and the Program Delivery Support Office. Reports are produced at the end of each month and sent to LHNs for review and confirmation. Once confirmed, these reports form part of the monthly contract meeting process.

In addition to this, the Chief Executive of DHA and Chief Executive Officers of LHNs and SAAS attend the Transforming Health Strategic Committee (THSC) which includes senior DTF representation. The Chief Operating Officers of each LHN and SAAS attend the Transforming Health Operation and Implementation Committee. These committees discuss program related savings strategies, progress and risks.

Contract meetings

The Chief Executive Officer and Chief Finance Officer from each LHN are required to attend a monthly performance meeting (contract meeting) with DHA's Chief Executive, and Deputy Chief Executives. These meetings draw on information, such as the PPR and SLA key performance indicators to inform the DHA executives of the LHNs' operational performance, including planned actions by LHNs to address any adverse outcomes relative to targeted results.

LHN Chief Executive Officers and Chief Finance Officers are required to provide explanations about factors affecting the year to date performance and end of year forecast and what initiatives will be taken to support delivering a balanced budget.

Business Review and Implementation Steering Committee (BRISC)

BRISC is a DTF chaired committee, including DPC representation, that meets monthly about Health-related matters, including overall financial performance, risks, issues and savings initiatives. BRISC also includes considerable assessment of monthly LHN performance, consistent with PPR reporting.

4.2 Transforming Health

4.2.1 Introduction

Transforming Health was planned to transform the State's health system to provide

consistent, quality care in the future. Announcements on the initiative noted that the need for change arose because, while there are many areas of excellence, the health system did not consistently deliver the quality of care expected from a modern health system.

The Transforming Health business case, approved by Cabinet on 16 March 2015, identified that Transforming Health was necessary to achieve a sustainable health system, which meets contemporary safety and quality standards, as well as being economically viable for the future. Financial sustainability was expected to be improved by delivering significant productivity savings.

As was the case last year, our review of Transforming Health in 2016-17 focused on aspects of governance, financial management arrangements and contract management. Specific areas covered included:

- governance and accountability arrangements
- risk management
- financial management
- benefits realisation management
- management of contract extensions for the implementation partner and independent program management office (iPMO), and skills transfer arrangements
- follow-up of key findings and observations reported last year.

We note that the Transforming Health program is expected to conclude sometime in 2017-18. Our findings and recommendations are framed against the expectation of accountability for the program and for future processes where relevant.

4.2.2 Summary of key audit findings

The audit identified areas where SA Health could improve its procedures and practices. The main findings are set out here, with full details, recommendations and DHA responses in section 4.2.4.

Savings targets not achieved and lack of mitigating strategies to address savings shortfalls

We noted several matters, including:

- the 2016-17 net savings target and financial benefit target were not achieved
- planned financial benefits were insufficient to meet the 2016-17 financial benefit target
- lack of mitigating Transforming Health strategies identified to address shortfalls in financial benefits

- other business related savings strategies to offset the shortfall in Transforming Health savings were not achieved.

Lack of planning for Transforming Health related strategies to realise future financial benefits

We noted that, throughout 2016-17, the iPMO and the Program Delivery Support Office (PDSO) observed a lack of planning for Transforming Health related strategies to realise the 2017-18 financial benefit target. Further, the THSC also identified a need for LHNs to formulate strategies.

Program expenditure reporting limited to the current financial year

We noted that the budgetary and financial information provided to the THSC and Acting Deputy Chief Executive Transforming Health only captured a comparison of year to date expenditure against the current financial year budget and forecast. Program reporting did not contain total program life information comparing actual total program to date expenditure against the program to date budget and forecast.

Processes to address the Clinical Standards of Care are in progress

DHA advised that, at the time of the audit, work was underway to embed the Clinical Standards of Care within business as usual processes. The standards are being categorised and included in existing policies and guidelines where not already the case. We noted that the Clinical Benefits Framework has not been updated to reflect this approach and the 45 standards not achievable were not correctly quantified and identified in the framework document.

iPMO has identified multiple opportunities to strengthen processes

The iPMO provides independent assurance on the Transforming Health program. The iPMO noted increased maturity in project management practices throughout the year, however opportunities for improvement exist, including:

- lack of project manager experience and capability to deliver a large complex transformation project in LHNs in health checks up to February 2017. The iPMO acknowledged improvements in this area as the year progressed
- some opportunities to improve information recorded in the project management tool, Quickbase
- lack of mitigating strategies to address shortfalls between actual/projected benefits and target benefits
- insufficient project plans identified to reach the 2017-18 financial benefits target

- clinical targets have not been set for some projects and project managers lack knowledge about the Transforming Health Clinical Benefits Framework and processes for identifying and monitoring clinical benefits.

The iPMO also observed some good practices by LHNs including:

- project managers have demonstrated a good understanding of how their projects qualitatively align with the Transforming Health objectives
- improvements in the quality of project information recorded in Quickbase
- improved understanding of governance structures and reporting requirements across the program
- financial benefits have been identified and are mapped monthly.

Risk and issue information could be improved

SA Health have a Transforming Health Risk and Issue Framework that provides a practical approach to risk and issue management tailored specifically to the Transforming Health program.

We identified that many risks and issues recorded in the risk and issues database did not identify the risk/issue source, event and/or consequence and preparers did not always adhere to the risk/issue statement convention prescribed by the framework and quick reference guide.

Management of Implementation Partner and iPMO contract arrangements

Deloitte commenced as the Transforming Health Implementation Partner from 6 October 2015 for an initial term of 12 months. The contract was extended for a further six months.

Ernst & Young commenced as the iPMO provider from 16 November 2015 for an initial term of 12 months. A 12-month extension option was exercised by DHA.

Our review of these contract arrangements identified the following matters:

- The Implementation Partner contract extension was executed after the contract extension term had started.
- A contract was not established for the provision of Implementation Partner services after expiry of the contract extension.
- iPMO quarterly performance reviews are not being conducted as required by the contract.
- The iPMO contract extension was not disclosed in line with DPC Circular PC027 'Disclosure of Government Contracts'.

4.2.3 Program status

Key program achievements in 2016-17

The Transforming Health program is significant and involves decisions on many service profile and system changes across most parts of the health services.

To understand the scope and status of the program activity and keep our analysis of financial consequences in perspective, we sought information on the status of health service transformation.

Program status, risks and issues are reported and monitored through the governance arrangements established by DHA (for example the THSC and Transforming Health Operational and Implementation Committee). We have not audited the status of service information provided by DHA.

DHA advised that it has progressed various initiatives to deliver consistent, quality care across all services and sites. Some significant achievements in 2016-17 advised by DHA include:

- completion of the reconfiguration of clinical services within NALHN, with Lyell McEwin Hospital being the major tertiary hospital undertaking complex multi-day and emergency surgery and Modbury Hospital established as the subacute and elective surgery centre for the North and North East
- completion of service moves from the RAH and The Queen Elizabeth Hospital to the Lyell McEwin Hospital
- planning and consultation for some general rehabilitation to move from the Hampstead Rehabilitation Centre to Modbury Hospital
- completion of a number of service moves and continued consultation and planning to support clinical reconfiguration across SALHN
- development and progressive implementation of various clinical improvement projects
- completed capital works, including: a new Noarlunga ambulance station; new facilities at Noarlunga Hospital; new and upgraded rehabilitation facilities at Modbury Hospital; and a new cardiac catheter lab at the Lyell McEwin Hospital
- continued progress of capital works, including:
 - construction of various new facilities at Flinders Medical Centre (expected opening October 2017)
 - construction of a new Veterans' Mental Health Precinct at Glenside Health Service campus (expected opening November 2017)

- continued workforce modelling, change management, culture and leadership development initiatives to support and develop staff.

DHA also advised that it is continuing to achieve better quality care, further reductions in waiting times and inpatient lengths of stay and improvements in access and patient flow.

Financial status

The program financial status for the two years ending 30 June 2017 is summarised in figure 4.2.

Figure 4.2: Program financial status for 2015-16 and 2016-17⁽¹⁾

	2015-16 \$'million	2016-17 \$'million
Net savings target	35.8	52.3
Actual net savings (cost)	(29.8)	(17.2)
Shortfall	65.6	69.5

⁽¹⁾ Includes operating expenditure only

DHA advised that the Transforming Health program will cease after the Repatriation General Hospital is decommissioned and the new RAH is open. It also noted that clinical innovation service reforms to improve the consistency and quality of care, and to support the financial sustainability of the health system, will transition to business as usual.

Key program goals for 2017-18 identified by DHA include continuing to develop condition specific models of care and clinical pathways, completing planned service moves and evaluating the Transforming Health program.

4.2.4 Detailed audit findings

4.2.4.1 Budgetary and financial benefits management

Savings targets not achieved and lack of mitigating strategies to address savings shortfalls

Background

The business case for Transforming Health incorporated annual net savings targets for SA Health and indicated that the program should result in net savings over the forward estimates 2014-15 to 2018-19 amounting to \$314.3 million p.a. ongoing by 2019-20.

In late 2015-16, the net savings targets were refreshed and re-baselined to reflect actual 2014-15 activity and cost data, and the most current planning information. Net savings ongoing from 2019-20 were downgraded to \$261 million p.a.

Figure 4.3 illustrates the movement in net savings target between the original business case and business case refresh.

Figure 4.3: Movement in net savings target between the original business case and business case refresh

	2014-15 \$'million	2015-16 \$'million	2016-17 \$'million	2017-18 \$'million	2018-19 \$'million	2019-20 (ongoing) \$'million
Original business case – net savings from Transforming Health ⁽¹⁾	-	35.8	192.1	285.1	304.8	314.3
Less: Business case refresh – net savings from Transforming Health ⁽²⁾			52.3	187.8	251.2	261.0
Reduction in net savings between the original business case and business case refresh			139.8	97.3	53.6	53.3

⁽¹⁾ Net savings targets from 2014-15 to 2019-20 were approved by Cabinet in March 2015.

⁽²⁾ Net savings targets from 2016-17 to 2019-20 were refreshed in May 2016 and align with the 2016-17 State Budget.

Figure 4.4 shows actual performance against the net savings target since 2015-16 as advised by DHA.

Figure 4.4: Actual performance against the net savings target

	2015-16 \$'million	2016-17 \$'million
Net savings target	35.8	52.3
Actual net savings (cost)	(29.8)	(17.2)
Shortfall	65.6	69.5

DHA's overall savings targets were included in the 2016-17 State Budget and included the refreshed Transforming Health net savings targets. Figure 4.5 illustrates the significant growth in required overall savings from 2016-17 to 2019-20, and how the Transforming Health program was expected to be a major contributor achieving DHA's overall savings targets.

Figure 4.5: 2016-17 State Budget Department for Health and Ageing overall savings targets

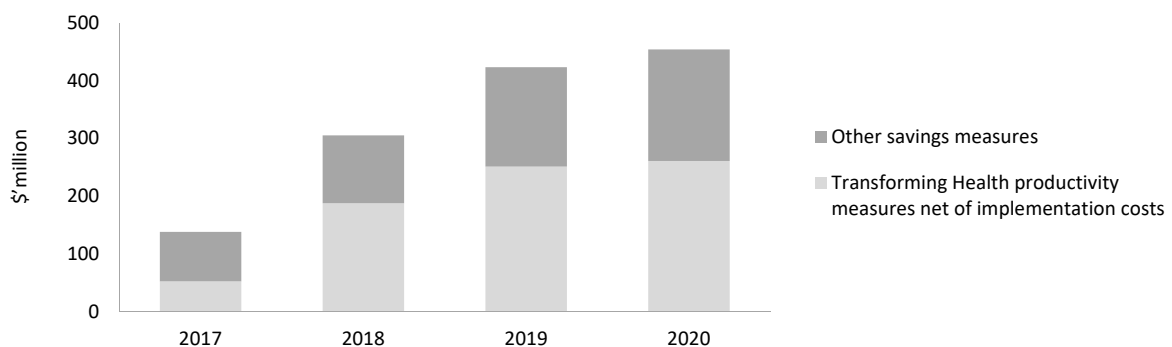


Figure 4.5 shows that Transforming Health savings represent more than 50% of the total savings required to be achieved by DHA for each of the years from 2017-18 to 2019-20. Ongoing savings from 2019-20 were expected to be \$261 million annually.

The operating costs of the program were intended to be largely funded by productivity savings.

The net savings targets identified in the business case refresh comprise gross financial benefits less implementation costs (expected to be offset by productivity savings) as detailed in Figure 4.6.

Figure 4.6: Business case refresh net savings target composition

	2016-17 \$'million	2017-18 \$'million	2018-19 \$'million	2019-20 (ongoing) \$'million
Gross financial benefits	118.3	269.6	305.1	313.6
Less: Implementation costs (expected to be offset by productivity savings)	66.0	81.8	53.8	52.6
Business case refresh – net savings target	52.3	187.8	251.2	261.0
Annual growth in net savings target		135.5	63.4	9.8

2016-17 net savings target and financial benefit target were not achieved

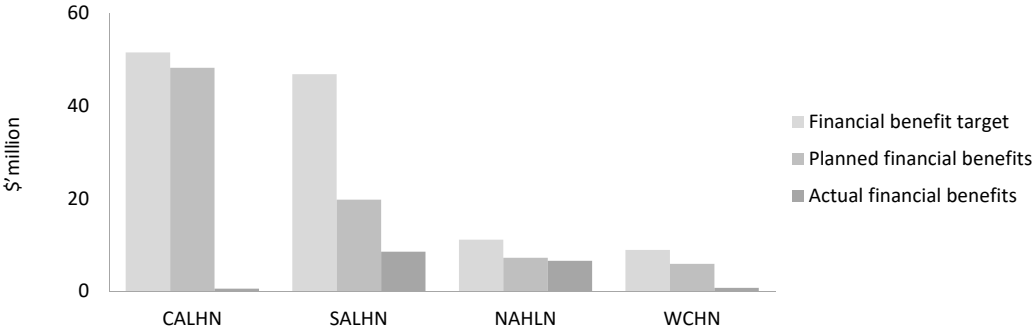
The 2016-17 net savings target of \$52.3 million was not achieved in 2016-17. Instead the program resulted in a net cost of \$17.2 million.

The PDSO advised that this result is mainly due to financial benefits not being realised as intended.

The financial benefit target² for 2016-17 was \$118.3 million. Actual financial benefits³ realised were only \$16.3 million, resulting in a shortfall of \$102 million (86.2%).

Actual financial benefits also fell well short of planned financial benefits⁴ of \$81 million. Figure 4.7 data provided by DHA illustrates that the shortfall mainly occurred at CALHN and SALHN.

Figure 4.7: Financial benefits by LHN as at 30 June 2017



² Financial benefit target: endorsed gross value of financial benefits as defined in the business case.
³ Actual financial benefits: actual gross value of financial benefits realised by identified projects/initiatives.
⁴ Planned financial benefits: gross value of financial benefits expected to be made possible by identified projects/initiatives.

The PDSO advised that the shortfall between target and actual financial benefits is mainly due to:

- delays in bed reconfiguration and FTE reductions due to the volume of consultation required with multiple peak union groups to resolve a number of industrial relations matters
- financial benefits modelling being based on 2014-15 activity data with no allowance for growth. SA Health advised it has experienced 2.7% growth in activity since 2014-15
- some of the models of care implemented to support Transforming Health required LHNs to reinvest from within existing resources, impacting on the realisation of financial benefits.

The inability to realise financial benefits through the release of FTEs is a high priority issue on the Transforming Health program issues register. The register indicates that some reductions in length of stay have been achieved, however bed reconfiguration has not occurred and, as a result, FTE savings cannot be released. Program documentation indicates that consultation between SA Health and the unions is ongoing to resolve this matter.

We note that DHA has identified the need to consult with unions sooner for future projects and allow sufficient time in future project plans for consultation, review, feedback and approval processes required to implement bed closures and workforce reductions. This learning has been captured on the Transforming Health lessons learned register.

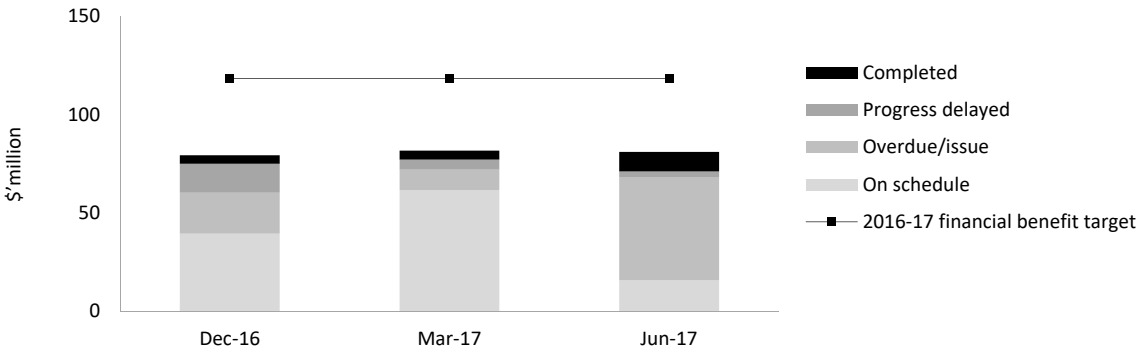
Planned financial benefits were insufficient to meet the 2016-17 financial benefit target

LHNs identified Transforming Health related plans to achieve financial benefit targets, however the value of these plans was insufficient to meet the 2016-17 financial benefit target.

Total planned financial benefits as at 30 June 2017 were \$81 million, \$37.3 million (31.5%) less than the target of \$118.3 million.

Figure 4.8 illustrates a significant shortfall between total planned financial benefits and the 2016-17 financial benefit target throughout the year.

Figure 4.8: Shortfall between planned financial benefits and 2016-17 financial benefit target



The iPMO regularly reported to the THSC that there were insufficient project plans in Quickbase to reach the 2016-17 financial benefit target and observed little improvement in the formulation of plans throughout the year.

Lack of mitigating Transforming Health strategies identified to address shortfalls in financial benefits

The THSC reminded LHNs during the year to implement mitigating strategies to meet financial benefit targets where shortfalls existed.

The iPMO highlighted several times in its monthly reporting that there was a lack of concrete mitigating strategies to address shortfalls in target benefits. This was also reported as an issue by the iPMO in 2015-16.

There was minimal growth in the value of planned benefits and number of planned projects associated with Transforming Health during the year, and increasing slippage in projects as the year progressed as illustrated in figure 4.8.

Other business related savings strategies to offset the shortfall in Transforming Health savings were not achieved

In June 2016, the Chief Executive of DHA instructed LHN Chief Executive Officers to implement other business related strategies where shortfalls in Transforming Health savings existed.

Three LHNs identified planned other business related strategies totalling \$121.2 million to meet other business related savings targets and mitigate the shortfall in Transforming Health savings.

As at 30 June 2017, DHA's June 2017 (interim) PPR indicated that actual other business related strategies achieved amounted to \$56.6 million, a shortfall of \$64.6 million (53.3%) against planned strategies. DHA Corporate Finance, through its PPR, has highlighted concerns about the viability and high risk nature of some other business related strategies in its monthly analysis of LHN financial positions during the year.

In the absence of sufficient productivity savings to fund program implementation costs, DHA needs to find other means to fund these costs and improve the financial sustainability of the health care system.

Recommendation

DHA should review the program experiences to help identify and establish mechanisms to improve financial sustainability. DHA should consider recommendations from our prior audit and the iPMO, and lessons it has identified, such as:

- developing clear and attainable financial benefit plans
- equipping staff with sufficient capability and resources to successfully plan and implement projects and deliver financial benefits

- incorporating work effort analysis into project planning processes to ensure that there are sufficient resources to deliver projects and benefits on time
- allowing sufficient time in projects plans for consultation and approval processes for bed closures and workforce reductions
- promptly implementing change requests and re-profiling the impact on financial benefits to enable timely identification of corrective actions.

As the program transitions to business as usual, DHA should embed these learnings into organisational standards (such as project methodology, policies and procedures, training materials etc) and apply learnings to future projects.

DHA's response

DHA indicated that Transforming Health is the largest health reform seen in South Australia and successful implementation of these vital changes requires skills and expertise not ordinarily found in a health agency. DHA has identified and acknowledged this and set itself on a path to enable its future workforce, including targeted investment in its people to address the following:

- Delivery Support: supporting the planning, project scoping, program packages, project management, and control of programs of work to be delivered.
- Planning: facilitating the development of new models of care with SA Health clinical engagement and clinical planning teams, to meet the future state intent of a reconfigured system. This includes definition of work, resources, and benefits by LHNs and supporting LHNs in translating commissioning (purchasing) requirements resulting from Transforming Health into planned changes in work practices.
- Delivery: leading the delivery of projects including supporting and coaching LHNs through the delivery stage and in realising planned benefits.
- Tooling: developing and embedding consistent system-wide frameworks and tools to enable and support LHN based project management teams in delivering reforms.

DHA also observed that:

- realising this investment is actively addressing our recommendations, laying strong foundations for future system reform, and producing clear outcomes evidenced through documented learnings from past experiences
- Transforming Health savings are a subset of total savings requirements to meet budget allocations. If Transforming Health savings cannot be achieved, mitigating strategies are required to ensure a balanced budget
- it is important to recognise that the primary objective of Transforming Health was to improve patient care, ensuring a quality health system that is patient-centred, safe, effective, accessible, efficient and equitable. The financial benefits were to be realised by improving the efficiency of the health system. In addition, it has provided SA Health with the foundations and capability to undertake ongoing service reform as part of business as usual.

4.2.4.2 Lack of planning for Transforming Health related strategies to realise future financial benefits

Throughout 2016-17, the iPMO and the PDSO observed a lack of planning for Transforming Health related strategies to realise the 2017-18 financial benefit target. The THSC also identified a need for LHNs to formulate strategies. Whilst there was growth in the value of Transforming Health project plans for 2017-18 resulting from approved change requests, these change requests only delayed the realisation of planned benefits in 2016-17 and did not identify additional strategies to achieve future benefit targets.

The financial benefit target for 2017-18 in the business case refresh was \$269.6 million. As at 30 June 2017, total planned benefits for 2017-18 identified were only \$140.1 million.

The 2017-18 State Budget indicates that although Transforming Health is nearing completion, strategies will continue to be pursued to manage expenditure growth in hospitals, including ensuring services and infrastructure are provided in the most efficient way to deliver quality health outcomes and productivity improvements.

Given the significant lead-times involved in the implementation of some projects to achieve benefits, planning strategies to realise benefits require early and rigorous attention. This will enable earlier identification of shortfalls in benefit targets and development of corrective action plans.

In the absence of benefit realisation strategies, benefits may not be successfully achieved in line with the business case and corrective actions may not be promptly identified.

Recommendation

DHA should give early and rigorous attention to developing benefit realisation strategies across the out years to address the goal of managing expenditure growth in hospitals and improving the financial sustainability of the health care system.

DHA's response

DHA noted that:

- LHNs are continually developing, reviewing and refining projects, strategies and initiatives for the realisation of current and future financial benefits. A degree of risk always exists around overall budget performance when underpinned by significant savings requirements in a dynamic and complex environment
- in the context of the 2016-17 SA Health Portfolio budget performance, DHA has confidence in its overall budget management strategies. It continues to actively monitor monthly the portfolio of projects, strategies and initiatives that collectively drives the financial sustainability of the health care system in the context of overall financial performance.

4.2.4.3 Program expenditure reporting limited to the current financial year

We noted that the budgetary and financial information provided to the THSC and Acting Deputy Chief Executive Transforming Health only captured a comparison of year to date expenditure against the current financial year budget and forecast. Program reporting did not contain total program life information comparing actual total program to date expenditure against the program to date budget and forecast.

Whilst we note that program operating expenditure for 2015-16 and 2016-17 has been favourable against budget, reporting on program to date performance would improve visibility over total program costs.

In the 2017-18 State Budget, from 2017-18 all funding from the Transforming Health subprogram to support clinical innovation service reforms has been redirected to the System Performance and Service Delivery subprogram. As Transforming Health nears completion, it remains important to track and report on the full program life costs for Transforming Health to ensure transparency and accountability.

Recommendation

The PDSO should review and revise budget and financial information provided to the THSC and Deputy Chief Executive Transforming Health to ensure that information provided includes a comparison of program to date actual expenditure against the program to date budget and forecast.

DHA should continue to separately track costs associated with implementing Transforming Health through to the program's completion.

DHA's response

DHA advised the following:

- The PDSO reviews Transforming Health program operational expenditure and targeted initiative funding monthly and meets monthly with the Acting Deputy Chief Executive Transforming Health to discuss the Transforming Health program financial performance.
- Any concerns about current financial year performance exceeding current financial year budget are identified and addressed at these monthly meetings both in the context of the current financial year and overall for the Transforming Health program. This practice will continue until the conclusion of the program.

4.2.4.4 Processes to address the Clinical Standards of Care are in progress

The Transforming Health Ministerial Clinical Advisory Committees developed 284 Clinical Standards of Care which, at the time, were determined necessary to provide a sustainable and quality based health care system to meet the future needs of South Australia. The initial business case approved by Cabinet in March 2015 indicated that 52 of these 284 standards were not achievable with the existing health service configuration and this informed the

need to transform the health care system.⁵

The standards provide guidance on achieving consistent quality care and are expected to be addressed through models of care projects and service reconfiguration.

A review of the number of standards being met was conducted in December 2016 and identified 42 standards not yet being met.

DHA advised that some of these standards cannot be achieved until service moves are complete, as it is necessary to have the services in the right place before models of care can be introduced. At the time of our audit, work was underway to embed the clinical standards within business as usual processes. The standards are being categorised and included in existing policies and guidelines where not already the case.

It is important that processes to address these standards are implemented to meet the goal of providing a sustainable and quality based health care system identified in the business case approved by Cabinet.

The clinical benefits are described and managed within the Clinical Benefits Framework. The Framework, dated July 2016, has not been updated to reflect the approach described above and the standards not achievable were not correctly identified and quantified in the Framework.

The lack of an up-to-date Clinical Benefits Framework may result in staff not being aware of what standards are required to be achieved and the approach to achieving them.

Recommendation

Once service moves are completed and models of care introduced, DHA should evaluate the progress made to achieve the 45 Clinical Standards of Care previously not achievable, and the goal of providing a sustainable and quality based health care system.

DHA should update the Clinical Benefits Framework to reflect the correct standards not met and the approach to addressing them.

DHA's response

DHA advised that:

- a process to embed the clinical standards within business as usual processes is currently underway, which will ensure they are used to inform the design of clinical services and infrastructure and are monitored through a range of business as usual processes. Using a more granular description of the standards this process places each statement in one of three categories – Principle, Standard or Clinical Service Capability statement. This will enable scheduled periodic review of achievement of the Clinical Standards of Care depending on the granular description and relevant review time frames

⁵ DHA indicated that the number of standards not achievable with the current health service configuration should have been 45 in line with the standards listed in the publication 'Delivering Transforming Health – Our Next Steps' (Appendix 4), SA Health 2015, viewed 4 September 2017, <<http://transforminghealth.sa.gov.au/wp/wp-content/uploads/2015/03/Delivering-Transforming-Health-Appendices.pdf>>

- the Clinical Benefits Framework is currently being updated and will include details of the monitoring processes established as well as providing a mechanism for reporting.

4.2.4.5 The iPMO has identified multiple opportunities to strengthen processes

The iPMO provides independent assurance on the program. Its responsibilities include:

- conducting independent program assurance
- providing strategic advice on the progress and delivery of Transforming Health
- analysing and monitoring the program budget and benefits realisation
- undertaking health check reviews.

The iPMO reports its observations and recommendations through the internal governance arrangements established for Transforming Health.

From our review of the iPMO's work, we noted the following issues and good practices. In response to our including these observations, DHA was concerned to provide added context. Additional information has been reproduced in the response that follows this commentary.

The iPMO performed four health checks during 2016-17. It noted increased maturity in project management practices throughout the year, however opportunities for improvement exist. Issues identified by the iPMO health checks included:

- lack of project manager experience and capability to deliver a large complex transformation project in LHNs in health checks up to February 2017. The iPMO acknowledged improvements in this area as the year progressed
- lack of understanding and ownership of financial benefits by project managers as financial benefits are being managed by LHN finance teams
- insufficient project plans identified to reach the 2017-18 financial benefits target
- a continued notable difference in self-assessments performed by project managers against the iPMO's assessment
- clinical targets have not been set for some projects and project managers lack knowledge about the Transforming Health Clinical Benefits Framework and processes for identifying and monitoring clinical benefits.

Monthly reviews of the program status by the iPMO also identified the following recurring issues during the year:

- some opportunities to improve information recorded in the project management tool Quickbase, which is regarded by the program as the 'single source of truth'
- lack of mitigating strategies to address shortfalls between actual/projected financial benefits and target financial benefits
- lack of strategies developed to address 2017-18 financial benefit targets.

The iPMO observed similar issues in monthly reviews performed in 2015-16.

We note that DHA has taken action during the year to progressively address the iPMO's findings.

Some good practices by LHNs observed by the iPMO include:

- project managers have demonstrated a good understanding of how their projects qualitatively align with Transforming Health objectives
- improvements in the quality of project information recorded in Quickbase
- risks and issues are being more actively managed within Quickbase by LHNs with assistance as required from the PDSO
- improved understanding of governance structures and reporting requirements across the program
- financial benefits have been identified and are mapped monthly
- other business related savings strategies have been identified to address shortfalls in program financial benefits.

DHA advised that it has also independently identified similar good practices and areas for improvement and captured these learnings in a lessons learned register.

Given the scale and pace of reform, and critical interdependencies between sites, failure to adequately address iPMO issues promptly places significant pressure on the program's ability to successfully deliver the intended benefits and outcomes.

Recommendation

DHA should continue to implement actions to address issues identified by the iPMO.

As the program transitions to business as usual, DHA should embed lessons learned from good practices and issues identified by the iPMO and SA Health into organisational standards (project methodology, policies and procedures, training materials etc) and apply learnings to future projects.

DHA's response

DHA responded that:

- while it acknowledges the findings following iPMO health checks, for context it is important to understand that health checks are an assessment carried out at a particular point in time
- while it acknowledges many of the findings noted in the early assessments of 2016-17, consideration of subsequent system maturity has demonstrated these perceived findings, some of which are not accurately reflected without appropriate context

- it will continue to address any material issues identified by the iPMO.

4.2.4.6 Risk and issue information could be improved

We identified that many risks and issues recorded in Quickbase did not identify the event, cause and consequence of the risk/issue in line with the convention prescribed by the Transforming Health Risk and Issue Framework and quick reference guide.

The PDSO indicated that the adequacy of risk and issue descriptions is variable and largely depends on the experience and skills of the project managers involved.

It is important that sufficient consideration is given to risk/issue events and their causes, and potential consequences, as these elements form the foundation for subsequent risk management phases.

A lack of comprehensive risk/issue information in Quickbase may result in users of this information, including those charged with governance, not properly understanding the nature and impact of risks/issues, and not being able to make reliable and informed decisions.

Recommendation

Risk facilitators within LHNs should regularly review new risks/issues identified to ensure that the event, cause and consequence are properly documented in Quickbase, in line with the Transforming Health Risk and Issue Framework.

DHA should reinforce these requirements with staff involved in risk identification and ensure that there are adequate resources and capability for the risk management function to operate effectively by providing training and education to strengthen the effectiveness of risk management.

DHA's response

DHA advised the actions that are in progress in response to these recommendations:

- Information text boxes have been added to the QuickBase risk entry page. These boxes provide instructions for the user on how to complete the risk description field, highlighting the need to include the event, cause and consequence of a risk.
- An education package for risk facilitators is in development for project managers and LHN Risk Facilitators.
- Using the above resources and through individual and small group training sessions, the PDSO will ensure all LHN Risk Facilitators and project managers are aware of their responsibility to review new risks/issues for description clarity. In turn, the PDSO will target risk descriptions when reviewing LHN risks and issues in governance reporting.

4.2.4.7 Management of Implementation Partner and iPMO contract variations

Implementation Partner contract extension executed after contract extension had commenced

Deloitte commenced as the Transforming Health Implementation Partner from 6 October 2015 for an initial term of 12 months. The contract was extended for 6 months commencing 6 October 2016 (contract extension).

The role of the Implementation Partner included being a key driving force in identifying, validating, planning and implementing the range of programs and projects needed to deliver Transforming Health outcomes.

We noted that:

- Cabinet approved the Minister for Health entering into the contract extension, in line with TI 8
- the contract extension was executed on 14 October 2016, nine days after the contract extension term commenced.

Executing the contract after the contract extension term has commenced exposes DHA to unnecessary business and legal risk.

Recommendation

DHA should ensure that contracts are executed prior to the contract term commencing.

DHA should ensure contract management processes allow for adequate time to obtain necessary approvals prior to contracts commencing.

DHA's response

DHA advised that the PDSO will ensure that any future contracts are executed prior to the contract commencing and that internal contract management processes allow for adequate time to obtain necessary approvals prior to contracts commencing.

No contract for the provision of Implementation Partner services after expiry of contract extension

The Implementation Partner contract extension expired on 5 April 2017.

We note that DHA made progress in 2016-17 to set up an appropriate PDSO structure and transfer skills from the Implementation Partner to SA Health employees to build internal capabilities for managing health reform programs into the future.

The PDSO advised that it experienced unexpected delays in recruiting a key PDSO role. As a result, the Implementation Partner continued to provide limited services to support this role until mid-June 2017.

The PDSO advised that a contract extension or variation was not executed to cover the provision of services during this extended period, and that the terms and conditions of services provided had been agreed through meetings with the Implementation Partner.

The absence of a documented contract arrangement may expose DHA to financial and legal risk. This practice also breaches the SA Health Contract Variation Policy Directive, which requires an interim contract or contract variation to be executed where services are required to be provided after the contract has expired.

Recommendation

DHA should ensure that a contract extension or variation is executed where services are required to be provided after the contract has expired, in line with the SA Health Contract Variation Policy Directive.

DHA's response

DHA commented that it experienced challenges recruiting this position, with the first and second recruitment attempts being unsuccessful. The second recruitment attempt identified a preferred applicant which was expected to align with the expiration of the Implementation Partner contract. As a result of unforeseen circumstances DHA had to advertise the position again. During this period it was in regular contact with the Implementation Partner to ensure this role was supported and the appropriate skills transition occurred following the successful recruitment to this position. The cost incurred during this extended period was within the approved budget spend and represented less than 0.2% of the total contract value.

iPMO quarterly performance reviews are not being conducted

DHA is not conducting the quarterly reviews of the iPMO's performance required by the original iPMO agreement. The PDSO advised that these quarterly reviews ended in November 2016 when the original agreement term ended. We note however that the contract extension and variation agreement did not vary the requirement to complete these quarterly reviews during the extended agreement term.

The PDSO advised that due to the significant reduction in scope during the contract extension period, formal reports were no longer required and regular reviews would take place as part of regular meetings between the iPMO, PDSO, and the Deputy Chief Executive Transforming Health.

It is important that the iPMO's performance is closely monitored to ensure that services and deliverables continue to be provided to the required standard and achieve the agreed contract outcomes. Recording performance discussions and outcomes is important as these may form the basis of any future action involving the service provided.

Recommendation

DHA should resolve the ongoing requirement for quarterly reviews under the original iPMO agreement with Ernst & Young and document any amended arrangements.

DHA's response

DHA advised that:

- the PDSO will ensure that the contract accurately reflects requirements
- amended arrangements will be documented
- the iPMO's performance is closely monitored through fortnightly meetings between the Deputy Chief Executive Transforming Health and the iPMO
- this arrangement will continue until the completion of the contract on 15 November 2017.

iPMO contract extension has not been disclosed as required by DPC

The iPMO contract extension was not published on the SA Government's Tenders and Contracts website (SA Tenders and Contracts) as required by DPC Circular PC027 'Disclosure of Government Contracts'.

SA Tenders and Contracts relies on information from agencies to keep the website up to date. Contract information remains on the website for the term of the contract or 12 months, whichever is longer. After this the information is archived.

We note that the iPMO contract was previously published, however DHA did not advise SA Tenders and Contracts of the revised contract end date when the extension option was exercised. As a result, the contract was archived on the SA Tenders and Contracts website and was no longer readily accessible.

Non-compliance with PC027 results in reduced transparency and accountability for contracts.

Recommendation

DHA should ensure that contract details published on the SA Tenders and Contracts website are updated to reflect revised contract terms when contracts are extended.

DHA's response

DHA confirmed that contracts loaded to the SA Tenders and Contracts website are disclosed in line with the nominated start and completion dates. It will ensure the information to advise contract managers that the contract must remain disclosed for any extension options exercised will be included in a fact sheet and disseminated to staff.

4.3 Legal compliance

4.3.1 Introduction and scope

When we reviewed governance arrangements in 2015, we found that over half the agencies reviewed had not implemented a structured or formal legal compliance framework or program to ensure compliance with legislative requirements. Further, several of these agencies had not allocated legal compliance to an appropriate area of management.

This year we reviewed the status of legal compliance systems in 19 agencies to determine whether their legal compliance processes provide reasonable assurance that they are complying with all applicable relevant legislation.

We consider that an effective legal compliance framework would include:

- a central corporate role that supports identifying relevant legislation, documenting the requirements of key provisions and assigning responsibility to identified officers
- formal processes for confirming that key provisions of legislation are assigned to officers and confirmation that this remains current
- documented policies and procedures that record actions needed for specific provisions of legislation, including reporting to the chief executive on significant action taken
- a process to ensure that compliance with legal and regulatory obligations is reviewed and breaches reported to the chief executive and an audit committee.

Non-compliance with legislative or regulatory requirements could lead to litigation and subsequent reputational or financial losses.

Our review focused on:

- whether agencies had developed a legal compliance governance framework.
- the processes by which agencies ensure legislative compliance
- the reporting in place for legislative compliance and any non-compliance.

4.3.2 Audit findings

We found that 13 of the 19 agencies reviewed had established a legal compliance framework incorporating processes and systems to capture the legislation applicable to the agency and assign responsibilities to appropriate officers to ensure that legislative obligations are complied with.

4.3.3 Agencies with a well developed and established legal compliance framework

RTWSA

RTWSA's legal compliance governance framework is embodied in its Corporate Governance Framework. It has been endorsed by the Board and is based on principles of better practice

governance. The framework is supported by a guideline that outlines the actions required to ensure that all relevant legislation is kept up to date and that compliance is managed by the assigned responsible officer.

Every six months a Governance, Risk and Compliance Report is presented to the Audit and Risk Committee.

SA Water

SA Water has well established legal compliance policies and procedures that are underpinned by its Legal Compliance Framework. They are designed to help ensure that SA Water has the capability to effectively identify and manage its compliance risks and obligations, including Treasurer's Instructions.

SA Water has up-to-date policies and procedures covering its legal compliance. It deals with State and Federal legislation and legally enforceable standards and codes, including the obligations and prohibitions imposed on SA Water by the Essential Services Commission of South Australia. A robust reporting regime to SA Water's audit committee is in place.

4.3.4 Agencies with no formal legal compliance framework

DCP

DCP has not developed a systematic approach for legal compliance monitoring and reporting to the chief executive.

As DCP is involved in a wide range of activities and subject to many legal and regulatory obligations, a legal compliance framework would help ensure it operates in line with these requirements.

We recommended that DCP establish and implement legal compliance mechanisms and systems to provide the chief executive with assurance that it complies with all applicable legislation. This should include consideration of:

- processes to capture key legal and regulatory provisions (including changes to them)
- mechanisms to assign legislative responsibilities/functions to employees
- legal compliance monitoring and reporting systems, including reporting of breaches
- the relationship between legal compliance processes and risk management practices.

DCP advised that an internal committee had been established to plan the development of a legal compliance framework, expected to be completed by October 2017.

PIRSA

While different divisions of PIRSA have processes for identifying and managing legislative compliance, there is no coordinated approach to:

- identifying legislative obligations and changes to them
- managing and monitoring legislative compliance
- identifying and reporting breaches of legislation
- establishing key performance indicators for legislative compliance.

We recommended that PIRSA develop a legislative compliance framework to ensure a consistent and coordinated approach to legislative compliance across PIRSA. It should include policies and procedures to outline how legislative obligations will be identified and managed across PIRSA, and responsibilities for achieving this.

PIRSA advised that it will consider the most appropriate method to develop a legislative compliance framework.

4.3.5 Agencies with a legal compliance framework that has not been implemented or is in development

DHA

We have previously recommended that DHA address the recommendations made in its April 2015 legislative compliance internal audit, including developing and implementing an overarching legislative compliance framework for SA Health.

Our follow-up in 2016-17 found that DHA had developed and approved a legislative compliance policy directive and guideline and had made progress towards implementing the policy. However, the legislative compliance framework is not implemented across SA Health and is due in 2017-18. Without a legislative compliance framework, SA Health may not detect and act on breaches of applicable legislation.

We recommended DHA implement the legislative compliance framework across SA Health, including developing legislative compliance registers and certification processes.

DHA's response indicated it had identified responsible officers across SA Health to champion and embed the framework at a business unit level. It indicated that it continues to work towards its first legislative compliance certification from 1 July 2018.

DECD

Last year we reported that DECD had no systematic approach for legal compliance monitoring and reporting to the chief executive. While a number of compliance programs existed for specific legal obligations they had not been captured or considered as part of a broader legislative compliance framework.

A legislative compliance policy was finalised and approved by the DECD Senior Executive Group in November 2016 and now forms part of DECD's governance framework.

In addition to the legislation directly committed to its Ministers, DECD is required to comply with numerous other legal requirements. We were informed the identification and assessment of these requirements remained outstanding. We understand it will be completed by the end of 2017 and note that this does not include the actual process of reporting to the chief executive.

It remains important that DECD continues to build on this process to complete and implement a robust legal compliance framework to provide the chief executive with assurance that DECD complies with all applicable legislation.

Attorney-General's Department (AGD)

In 2015-16 AGD developed a legislative compliance framework in response to past audit findings. The framework includes a legislative policy, procedure and register. We reviewed the implementation of the framework and noted that while there is an extensive register of legislation in place, there is currently no assessment and reporting of AGD's compliance with legislation.

AGD advised that it has started to develop a Sharepoint site to host legislation administered by the Attorney-General and will continue to develop the site to enable more accurate recording of information and better reporting capability. The site will also include an automatic review function, and the ability to report non-compliance and track compliance reporting.

Work will continue on the site, with training provided and procedures developed during 2017-18.

DPTI

We previously reported that DPTI had not established a formal legislative compliance framework or program.

In 2016-17 we found that DPTI made progress in establishing its legal compliance framework. A draft legal compliance policy and framework has been developed and includes procedures to manage organisation compliance with legislation.

We noted, however, that DPTI has not yet finalised and implemented an approved policy and procedure for the ongoing monitoring of legal compliance.

DPTI advised that its legislative compliance management policy is currently in draft and will be finalised and implemented across DPTI by the end of 2017.

4.4 National Disability Insurance Scheme

4.4.1 What is the National Disability Insurance Scheme?

In March 2013 the *National Disability Insurance Scheme Act 2013* was established.

The NDIS is an insurance based scheme, designed to change the way that support and care are provided to people with permanent and significant disabilities. The scheme seeks to create opportunities for people with disability to live 'an ordinary life' and provides support in line with defined and agreed criteria.

Historically, disability programs were funded and coordinated by each State or Territory, with monetary contributions provided by the Commonwealth Government under various agreements (eg National Partnership programs). Policy and funding criteria were set largely by each State, with Federal funding conditions, to determine how best to support people with disabilities and the most efficient model of service delivery.

In South Australia, DCSI coordinated these disability programs and used a network of non-government organisations and block funding grant programs (one amount paid to a service provider for multiple clients) to facilitate disability sector outcomes.

State based financial arrangements for the NDIS involve contractual payments between the SA and Commonwealth Governments to fund the scheme and provide individuals and registered providers the resources to assist those affected by defined disabilities. Various agreements set out the responsibilities of each party to ensure the scheme is transitioned and implemented effectively.

4.4.2 How significant is the National Disability Insurance Scheme?

The NDIS is currently being rolled out across Australia. When the full scheme is implemented on 1 July 2018, about 475 000 people with a disability will receive individual support programs funded by the National Disability Insurance Agency, the Commonwealth agency established to administer the scheme. Planned expenditure Australia-wide will exceed \$22 billion p.a. when fully implemented.

NDIS contractual payments between the SA (through DCSI) and Commonwealth Governments are estimated and agreed upon in bilateral agreements. Total NDIS expenditure by South Australia was forecast to total \$121 million for the year ended 30 June 2017. NDIS and service reform program related expenditure was \$70 million, which included employee benefits expenses of DCSI employees.

From 1 July 2018, when the NDIS is expected to be fully implemented, expected payments due by South Australia to the Commonwealth are scheduled to rise significantly to \$415 million and \$723 million in 2017-18 and 2018-19 respectively.

4.4.3 How has the National Disability Insurance Scheme been implemented in South Australia?

The National Disability Insurance Agency determines funding support policies and eligibility for Australians (subject to transition) and provides funding to approved private and government providers based on the choice of the individuals receiving assistance.

DCSI is currently one of these registered providers (subject to future service delivery and continuity decisions) and receives funding directly from the National Disability Insurance Agency for individuals who have transitioned to the NDIS. DCSI also continues to receive

funding for disability programs for people not yet eligible to transition to the NDIS, as well as funding for related reform program responsibilities.

The primary roles of each State under Heads of Agreement and bilateral agreements with the Commonwealth are to plan, assist, encourage and manage eligible participants to enter into NDIS plans and encourage eligible individuals to transition from historical disability programs run by each State to the Commonwealth NDIS. Inter-government bilateral agreements summarise the State's obligations, work programs, governance frameworks and forecast financial contributions of each party, subject to estimated and actual participation levels by individuals with disabilities.

The NDIS is being rolled out gradually between 2013 and 2019. Each State is rolling out the scheme differently.

From 2013 to 2016 South Australia trialled the scheme based on the following criteria:

- 1 July 2013 to 30 June 2014 – birth to five years
- 1 July 2014 to 30 June 2015 – birth to 13 years
- 1 July 2015 to 30 June 2016 – birth to 14 years.

For all other participants, the NDIS in South Australia will be implemented through a mix of age groups and geographic location, based on South Australian Disability Regions, in the following order until full implementation from 1 July 2018:

- people aged 15 to 17 commenced transition from 1 January 2017
- northern Adelaide, Barossa, Light and Lower North will commence transition from 1 July 2017
- Tea Tree Gully, Limestone Coast and Murray and Mallee will commence transition from 1 October 2017
- Fleurieu and Kangaroo Island, Southern Adelaide, Eyre and Western, Far North and Yorke and Mid North will commence transition from 1 January 2018
- Adelaide Hills, Eastern Adelaide and Western Adelaide will transition from 1 April 2018.

4.4.4 Scope of the 2016-17 National Disability Insurance Scheme review

Our 2016-17 audit considered DCSI's roles and achievements in implementing the NDIS. The scope of the review primarily focused on determining if DCSI had complied with its responsibilities under the scheme. It included ensuring that:

- State/DCSI agreed responsibilities are effectively managed in line with the executed Heads of Agreement and other bilateral agreements with the Commonwealth Government
- multilateral government frameworks and work programs are documented, SA Government/DCSI employees are appropriately represented on implementation groups and the NDIS transition is on schedule
- DCSI internal governance, management and reporting is adequate

- NDIS risks are identified, understood, mitigated where possible and effectively monitored and reported upon.

4.4.5 Audit findings

The audit identified areas where DCSI could improve its internal controls, governance and management related to the NDIS, including its management of financial contributions as the scheme continues to transition and be fully implemented in South Australia.

We recommended that DCSI:

- review risk registers, plans and treatments for the NDIS and further analyse, document and monitor developments to ensure that treated strategic risks are kept to an acceptable level
- further consider strategic NDIS risk profiles, especially risks related to market development, employment uncertainty and completing existing work programs against DCSI and NDIS objectives
- review emerging NDIS and other risks that should be included in the DCSI Strategic Risk Register Report that is provided to senior committees and executives
- address NDIS work program slippages against the requirements of the operational plan, and further consider risks and determine achievable actions and time frames to ensure NDIS implementation is successful
- consider observed NDIS risks and related recommendations made by the Productivity Commission and New South Wales Audit Office that may be of relevance in South Australia.

In response, DCSI advised that it:

- will analyse current risk registers and projects to ensure risks are adequately reviewed, recorded and mitigated
- will review its accepted level of strategic risk, commencing in 2017-18, and will continue to monitor strategic and emerging risks
- agreed that achieving on operational plan deliverables and time frames is a priority, but pointed out that operational plan elements are linked to national policy and joint responsibilities. Impacts on South Australia will continue to be addressed through established governance structures to manage critical issues.

4.5 Contract management

The public sector is an extensive user of private providers for services. These arrangements commit the State to payments annually exceeding \$2 billion for services including infrastructure provision and maintenance, transport and contract staffing.

Contract management is the process of managing a contractual relationship between a supplier and public authority to achieve the agreed outcomes, including addressing risks and disputes as they arise. It is important that responsible agencies have a structured and complete and timely approach to managing, reviewing and monitoring contractual obligations and risks associated with the procurements of goods/services.

Our past reviews of contract management at agencies identified matters where we found contract management arrangements were, in our view, insufficient. For example, my 2015-16 Annual Report set out a range of matters.

In 2016-17 we again reviewed contract management to determine whether contract management processes in government agencies provide reasonable assurance that the contracts are managed appropriately and good/services are being provided in line with the provisions of the contracts.

A sample of material contracts for goods/services were reviewed in 17 major government agencies with a focus on:

- compliance with policies and procedures
- contract management governance
- contract management performance and reporting
- contract variations and rollovers
- contract payments
- contract closure.

4.5.1 Summary of audit findings

Our review found instances where contract management practices were insufficient. The type of issues found were:

- the lack of an approved contract management framework or contract management plan
- improvements required in the nature and extent of documented policies and procedures governing contract management
- risk assessments and risk management plans not established for some contracts
- not all contract managers had attended the SPB contract management training or refresher training. Records of training attendance were not always maintained
- not all contracts had meaningful key performance indicators and/or deliverables against which contract performance could be measured. Some contract monitoring processes were not formalised and minutes of meetings or actions from meetings held with the contract provider were not always kept
- contract variations were approved and contract performance assessed prior to contract extensions granted, but there were instances where the evaluation supporting the extension was not provided

- invoices were checked to ensure they were paid in accordance with the contract and that work had been performed in accordance with the contract. There were instances found where invoices were not completely verified or verified promptly.
- evaluation of contracts after their closure was not always performed.

4.5.2 Detailed audit findings

4.5.2.1 Compliance with policies and procedures

Contract management framework

The SPB contract management policy requires public authorities to establish a contract management framework.

Our review found that agencies did not always have a contract management framework in place. In these agencies reference was made in policies and procedures to SPB contract management guidelines guidance.

Contract management plans

The SPB requires public authorities to ensure that, except for contracts that are once-off in nature and have minimal management tasks, an approved contract management plan is developed, implemented and monitored for all contracts valued at or above \$4.4 million and for any significant contracts below \$4.4 million.

A contract management plan addresses the key issues related to managing contracts and achieving their specified objectives and includes:

- documenting the key strategies, activities and tasks required to manage a contract
- ensuring both parties fulfil their obligations
- relating the procurement objectives to the acquisition plan
- reviewing the performance of the contract and monitoring the achievement of the contract outcomes.

Our review identified instances where a contract management plan had not been developed for significant contracts or where the plan did not adequately address the SPB contract management guidelines. Instances were identified where the contract management plans had not addressed:

- procurement descriptions and key deliverables
- roles and responsibilities for contract governance
- how contracts were to be monitored to ensure work was delivered in line with contract specifications and quality

- risk assessments and risk management plans
- insurance requirements
- dispute resolution or implementation approach
- contract completion, where the plan did not provide sufficient information on contract completion action items
- payment verification processes to ensure costing is reasonable for the work performed.

The absence of a comprehensive contract management framework or comprehensive management plan, including clearly defined responsibilities and expectations, may result in inconsistent practices and expose agencies to financial and services delivery risks. Poor contract management practices can impact value-for-money outcomes by not ensuring that all parties are meeting their contractual obligations.

Risk management

The SPB's risk management guidelines require agencies to monitor and review identified risks on an ongoing basis, including the effectiveness of treatments and mitigation strategies. Agencies should maintain records of identified risks and their treatments and/or mitigation strategies.

Our review found a number of contracts where the risks for the procurement and for the ongoing management of contracts had not been considered or documented. We also found there was insufficient documentation to demonstrate that the contract manager had monitored the risk treatments and mitigation of risks identified in the plan or reviewed the plan to identify new or emerging risks.

As a result, there is an increased risk that agencies may not have identified the risks associated with the contracts and may not have appropriate strategies to managing these risks through the contract term. This may lead to contractual problems that can be costly in time, money and reputation.

4.5.2.2 Contract management governance

Appointing a contract manager with adequate training and experience is important to achieving the agreed outcome by effectively managing the contractual relationship between a supplier and public authority.

The SPB's contract management guidelines require contracts valued at or above \$4.4 million to be managed by an adequately skilled and resourced contract manager. The contract manager must have completed the SPB's contract management training program (or similar) and have undergone refresher training every three years.

Our review found that contract managers had been formally appointed for all such contracts and contract managers were given the appropriate authority/delegation to fulfil their responsibilities of managing contracts.

However, in five of the 17 agencies reviewed we found that contract managers had not completed the SPB contract management training and/or undergone refresher training.

We also found that some agencies did not keep records of who had undergone the required SPB training.

Without appropriate training, contract managers may not have sufficient knowledge or skills to manage complex contracts. Where contractual obligations are not managed appropriately there is a risk that agencies will be exposed to additional costs or risks. There is also a risk that contracted levels of services will not be received unless appropriate levels of monitoring occur throughout the contract terms.

4.5.2.3 Contract management performance and reporting

Performance measures link to the original procurement objectives as documented in the contract. Effective performance measures tend to be outcome focused, can be measured objectively, are understood by all parties and reflect the key aspects of the contract.

Examples of performance measures include:

- targets to be met
- outcomes to be met
- key steps or milestones
- achieving payment deadlines
- client feedback or customer service metrics
- technical considerations
- quality, safety, environmental or social outcomes.

The SPB contract management policy requires agencies to establish, from the commencement of the contract, systems for collecting relevant data (financial, quality, safety or technical aspects of the supplier's performance), with the data discussed with all parties at regular contract management meetings. Qualitative data may also be collected, for example through client and user surveys.

Our review found:

- in most instances reporting processes had been established to monitor performance and ensure obligations had been met
- there was regular reporting of outcomes including key performance indicators
- there were regular meetings between the contract manager and the contractor. Minutes of meetings and/or documentation of outcomes/actions from meetings varied between contracts and agencies. At times, this documentation was not kept.

However, we did identify that for contracts managed by LHNs there was no central monitoring and reporting to ensure that mandatory contract management requirements were met, including if contract management plans were established, approved and implemented and if there was annual and post-contract review reporting. We also found

that for one of the contracts DHA managed, DHA could have developed a number measurable and objective key performance indicators to measure performance.

We found at DECD that key performance indicators had been recently introduced, as well as processes to monitor bus contracts. These processes had not been formalised. We also identified that there was no formal reporting of performance by bus contractors but the Minister could request a report from a contractor at reasonable intervals. Although formal meetings were held there were no minutes kept.

We found that, after almost four years, the SAHT has not implemented a reliable method of measuring multi-trade contractor (MTC) performance against the key performance indicators in MTC contracts. The SAHT did advise that it is generally happy with the quality performance of its MTCs. It also advised that a new performance management framework developed in consultation with the MTCs will be considered by MTCs in September 2017 and a proposed trial will commence in October 2017. The new framework and abatement methodology may require a contract variation and agreement by the MTCs.

Inadequate performance measures or inadequate monitoring of performance may prevent a measurable and benchmarked performance assessment and the ability to take corrective action.

4.5.2.4 Contract variations and rollover

The SPB contract management policy defines a contract variation as an addition or alteration to the original contract. Variations may be proposed by either party and may refer to adding, removing or changing an existing contract provision.

Procedures for varying and amending contracts are included in the contract and managed by the contract manager. All contract variations must be approved in writing in line with the contract and be approved by the appropriate delegate. An assessment of the proposed variation is to be made in terms of its impact on the contract deliverables, price, time frames, value-for-money outcomes, probity, transparency and accountability.

For the contracts we reviewed where there were contract variations, we found that they had been approved in line with the contract and approved by the appropriate delegate, except for one instance at the SAHT where the contract variation had not been approved by an authorised delegate.

The approval of contract variations by an appropriate delegated officer prevents unauthorised changes to the contract.

There were a number of contracts that were extended as an interim measure until a new contract was updated or to allow the agency to go out to market. In these instances, it was identified that the performance of the contractor had been assessed prior to approving the contract extension, except for DHA. In relation to two contract extensions, management's evaluation and decision-making regarding extension was not completed in time to

appropriately manage the end of the initial term of the contract. Also management did not provide documents supporting the evaluation and decision-making process for either extension and the service providers were not notified of the extension within the time frames specified in the contract.

A period without a formal instrument of agreement potentially impacts the agency's ability to manage contractual obligations and conditions, including price. Delays may also create uncertainty impacting the potential for contractual disputes, litigation and the service provider's ability to budget and locate resources effectively.

4.5.2.5 Contract payments

We examined invoices relating to the contracts reviewed and ensured they had been paid in line with the contract.

We identified that in most instances payments were made in line with the contract. Invoices were reviewed to ensure rates charged agreed to the contract rates and that the work had been performed in line with the contract. Payments were authorised in line with the agency's financial delegations.

When reviewing the payments for commercial care at DCP, we identified instances where rates charged were not checked to the contracted or quoted rates. Only high level reasonableness checks were performed on the levels of service provision, and invoices were certified as being correct without verifying rates charged.

Where invoices are not checked thoroughly by staff, the agency may pay for services not provided or may not be billed in line with the contracted terms, including price. Not checking invoices for accuracy may lead to agencies being overcharged and this not being detected promptly.

4.5.2.6 Contract closure

The SPB contract management policy states that a post-contract review report must be prepared for the appropriate senior manager (or where relevant, the governance committee) for contracts valued at or above \$4.4 million and for significant contracts below \$4.4 million (as determined by the public authority).

Most of the contracts reviewed had not expired during 2016-17. Of the contracts that did, we identified that for DHA, evaluation reports were not provided to support the decision to extend the contract and a letter of extension was not provided. Refer to commentary under section 4.5.2.4.

By not completing contract closure and evaluation documents and recording this information in a timely way, contract evaluation panels would not have access to current performance ratings to help to assess potential contractors based on their past performance.

4.6 Awarding project manager contracts for the Festival Plaza project State works

In 2016-17 we completed a review of the procurement and contract management arrangements for two contracts awarded to Mott MacDonald Pty Ltd (Mott MacDonald) to project manage the State works for the Adelaide Riverbank (Festival Plaza) project (Precinct Upgrade).

We found significant shortcomings in controls as these processes did not meet accepted standards of procurement and contract management practice and behaviour.

4.6.1 Background

Expressions of interest were sought to participate in revitalising the Adelaide Riverbank Precinct in January 2012, with subsequent requests for proposal issued from August 2012. The procurement process led to a development agreement with the Walker Corporation for the rights to develop a car park, office tower and retail building (executed in May 2016).

Mott MacDonald was engaged by DPTI to provide project management services for the State works associated with the Precinct Upgrade. The services commenced in May 2015, are contracted to end in June 2020 and include Adelaide Festival Centre works, redevelopment of the Festival Plaza public realm and precinct integration works.

The services to be provided by Mott MacDonald were contracted in two phases, totalling \$3.353 million, as follows:

- Part 1: concept for \$401 330
- Parts 2 and 3: design, documentation, tender, construction and review for \$2.952 million.

The timeline of key events for Part 1 and Parts 2 and 3 contracts is outlined in figure 4.9 below.

Figure: 4.9: Timeline of key events for Part 1 and Parts 2 and 3 contracts

Procurement timeline – Part 1 Project management services

Procurement process	Date
Mott MacDonald commenced providing project management services	May 2015
Chief Executive approved single offer approach and appointment	July 2015
Procurement plan approved	August 2015
Tender called	November 2015
Mott MacDonald completed Part 1 project management services	December 2015
Approval obtained to enter into written contract with Mott MacDonald	December 2015
Written contract executed between the Minister and Mott MacDonald	May 2016

Procurement timeline – Parts 2 and 3 project management services

Procurement process	Date
Mott MacDonald commenced providing project management services	December 2015
Chief Executive approved single offer approach	January 2016
Procurement plan approved	Not prepared
Tender called	January 2016
Mott MacDonald informed to commence services up to \$100 000	February 2016
Mott MacDonald informed to continue providing services up to a total limit of \$300 000	March 2016
Approval obtained to enter into written contract with Mott MacDonald	April 2016
Written contract executed between the Minister and Mott MacDonald	July 2016

4.6.2 Summary of findings

We found there were significant deficiencies in the procurement process used to engage Mott MacDonald. We also identified shortcomings in DPTI's contract management process and poor recordkeeping. Our main findings are summarised below.

4.6.2.1 Procurement

We found important procurement controls, including approvals, were not implemented or operating effectively. Consequently, for these transactions, DPTI cannot demonstrate that it:

- obtained value for money
- met accepted standards of probity, accountability and transparency in the procurement process used to engage Mott MacDonald.

DPTI did not adequately explain and evidence why it did not use a competitive tender process to engage Mott MacDonald

DPTI did not adequately document why it did not use a competitive tender process to engage Mott MacDonald.

DPTI relied on a single offer received in November 2015 from Mott MacDonald to procure their services. Competitive tendering helps to achieve value for money by enabling competition between suppliers and providing transparency.

The procurement plan and approvals for the single offer approach, which were prepared after Mott MacDonald was engaged, indicated that insufficient time was the reason for not undertaking a competitive tender process.

However, we noted that in January 2015 Mott MacDonald, in response to DPTI's invitation, wrote to DPTI outlining the project management services they could provide for the Precinct Upgrade. Mott MacDonald commenced providing these services in May 2015.

We therefore consider that there was sufficient time for DPTI to undertake a competitive tender process.

Comparative analysis of Mott MacDonald's single offer price was revised after receiving offer and did not support achieving value for money

To ensure value for money, DPTI procedures require a comparative analysis of the single offer price received. Our review noted that:

- DPTI could not provide documentation supporting a comparative analysis for Mott MacDonald's single offer price for Part 1 project management services
- DPTI's comparative benchmark price range for Parts 2 and 3 project management services:
 - was not based on a detailed costing of the specific project management services to be provided
 - was based on project management fees used for a similar project and used a number of uplift factors, including a large (96%) uplift factor to recognise differences with the comparison project and a 10% uplift factor for additional work. The basis and calculations used to derive these uplift factors were not adequately explained or evidenced
 - included a sole offer 15% cost premium. Had DPTI not applied this premium, Mott MacDonald's single offer price would have exceeded DPTI's comparative benchmark price range. There was no evidence to support the basis for applying the sole offer premium to the benchmark price range
 - was revised after receiving Mott MacDonald's single price offer. We found the offer exceeded the initial benchmark price range established to evaluate the single offer, however the reason for revising the benchmark was not disclosed to approval authorities.

Key procurement processes implemented and approvals obtained after services commenced

DPTI did not undertake a rigorous and transparent procurement process before engaging Mott MacDonald. We found key procurement processes were only implemented, and approvals obtained, after Mott MacDonald had commenced providing services. For example:

- the procurement plan for Part 1 project management services was approved up to three months after Mott MacDonald commenced providing services, and a procurement plan was not prepared for Parts 2 and 3 project management services
- the Chief Executive approved the single offer approach and appointment for Part 1 project management services two months after Mott MacDonald commenced providing these services, and Mott MacDonald's single offer approach for Parts 2 and 3 one month after services commenced

- tender documents were issued for Part 1 in November 2015, six months after Mott MacDonald commenced providing services, which were completed in December 2015
- tender documents were issued for Parts 2 and 3 in January 2016, approximately one month after Mott MacDonald commenced providing services.

In addition, supporting documentation provided to procurement approving authorities did not mention that Mott MacDonald had already commenced providing project management services.

The instructions and approval to incur expenditure prior to commencing services were not documented

The instructions for Mott MacDonald to commence services and the approval to incur expenditure prior to them commencing project management services for both Part 1 and Parts 2 and 3 was not documented.

TI 8 requires prior approval by an officer with contract authorisation before a public authority can incur expenditure through contractual arrangements.

Further, we noted the documented authorisation to enter into formal instruments of agreements for:

- Part 1 occurred in December 2015, after Mott MacDonald had finalised the services
- Parts 2 and 3 occurred in April 2016, four months after Mott MacDonald commenced providing services.

Work commenced before the full contract value was approved

Approval to enter into a contract with Mott Macdonald for Parts 2 and 3 was obtained in three parts as follows:

- the Manager Strategic Sourcing approved limited works up to \$100 000 in February 2016 and the Acting General Manager Project Delivery approved further works of \$200 000 in March 2016, increasing the total limit of approved works to \$300 000
- the Minister for Transport and Infrastructure approved the full contract sum of \$2.952 million on 20 April 2016.

Allowing Mott MacDonald to commence works prior to obtaining approval for the full scope of project management services limited the effectiveness of the approval framework contained in TI 8.

We consider that DPTI should have gained approval from the Minister for the total value of the contract in accordance with TI 8, before Mott MacDonald commenced work.

4.6.2.2 Probity

DPTI did not have an effective process to identify actual or potential conflicts of interest for contractors.

Our review found that Mott MacDonald's engagement by the Walker Corporation to provide engineering services for the Precinct Upgrade represented a conflict of interest for Mott MacDonald. We found that this conflict was not identified, documented, considered or managed by DPTI before engaging Mott MacDonald.

DPTI engaged a probity advisor, after it engaged Mott MacDonald, to review how Mott MacDonald managed the conflict of interest. The need to engage the probity advisor to perform this review, the costs of the engagement and the associated probity risks could have been avoided or more effectively managed had the conflict of interest been identified and assessed as part of the procurement planning and evaluation process.

DPTI should ensure it has policies and procedures for identifying, assessing and managing actual or perceived conflicts of interest for contractors tendering for State funded works. This will ensure identified conflicts can be considered and decisions taken before contracting.

4.6.2.3 Contract management

Mott MacDonald commenced providing project management services without having executed a written contract. Specifically, Mott MacDonald commenced providing project management services for:

- Part 1 in May 2015, but did not execute a written contract until May 2016, six months after Mott MacDonald finished providing Part 1 project management services for which they were paid \$401 330
- Parts 2 and 3 in December 2015, but did not execute a written contract until July 2016. Mott MacDonald were paid \$771 391 prior to contract execution.

We also found:

- DPTI did not advise Mott MacDonald the key deliverables and contractual requirements in writing before Mott MacDonald commenced providing services for Part 1. We noted a service matrix outlining deliverables was issued to Mott MacDonald in November 2015, five months after they commenced providing services
- Mott MacDonald did not provide for Part 1:
 - regular reports on the project covering project status, performance of key deliverables and issues of concern including management actions
 - monthly compliance statements on the performance of key deliverables
- the then Project Director's assessment (for Part 1 services) of work completed to support payment authorisation was not documented, and DPTI did not verify the accuracy of the June 2015 invoice.

4.6.3 Response from the Department of Planning, Transport and Infrastructure

DPTI indicated that a number of our findings and recommendations relate to strict compliance with established DPTI procurement and contract management policies and procedures. DPTI further advised that a range of initiatives already underway are seeking to address isolated instances of non-compliance such as those identified by our audit, including:

- centralisation of contract management functions for strategic contracts
- training programs to raise awareness and competencies in procurement and contract management
- reviewing and updating policies and procedures
- strengthened advisory services within the DPTI Procurement and Contracting Group.

DPTI advised that our findings and recommendations about managing conflicts of interest will be addressed through changes to procedures, tender documentation and standard contracts, which will be implemented by December 2017.

Finally, for several of our findings and recommendations, DPTI clarified its view or held an alternative viewpoint. These were as follows:

- DPTI agrees that the basis for pursuing a sole source strategy was not fully documented however it considers that it explained to us that a sound basis did exist. This included the detailed knowledge of the precinct and complex interfaces already held by Mott MacDonald, coupled with the skill set offered by Mott MacDonald's Project Director for a project of this nature.
- For contracts where a formal performance evaluation is required this will be documented. For other contracts where substandard performance is experienced this will be actively managed as part of the contract management process.

4.7 Across Government Facilities Management Arrangements

4.7.1 Across Government Facilities Management Arrangements are important

The AGFMA is an integral part of maintaining, managing and improving government building assets (including building fabric, plant and equipment).

Over 30 agencies participate in the AGFMA.

The AGFMA is administered by DPTI, with facilities services provided by the following two facilities management service providers (FM service providers):

- DPTI’s Facilities Services (FS) unit provides services to southern metropolitan and country regions.
- Spotless Services Pty Ltd (Spotless) – contracted by DPTI – provides services to the central and northern metropolitan regions.

In 2016-17 government agencies spent a total of \$244 million through the AGFMA, with \$139 million spent through Spotless and the remaining \$105 million through DPTI’s FS unit.

While the AGFMA is financially significant, just as importantly, these arrangements are designed to ensure government building assets are effectively and efficiently maintained to support the delivery of services to the South Australian public.

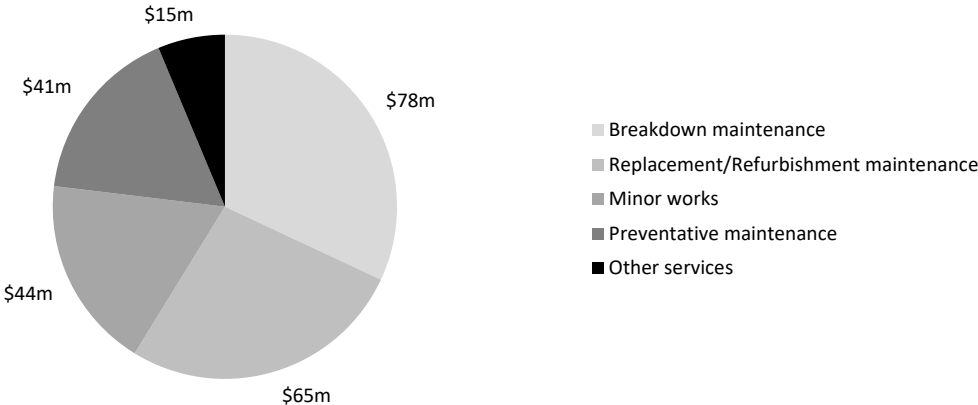
4.7.2 Summary of services provided through Across Government Facilities Management Arrangements

AGFMA services can be broadly categorised into mandated and non-mandated services.

Mandated services include preventative maintenance, replacement/refurbishment maintenance, minor works less than \$150 000 and breakdown maintenance. Non-mandated services are those that are carried out at the agency’s discretion and include small construction works, property service (cleaning, security, waste management, etc) and handyperson maintenance.

Figure 4.10 shows the 2016-17 expenditure by service.

Figure 4.10: AGFMA expenditure by service



DPTI’s role, as administrator, is to:

- maintain and develop information and communications technology support systems to administer and verify the performance of the FM service providers

- audit FM service provider performance to monitor whether services are delivered in line with service delivery expectations
- assist agencies in the annual planning process by providing works planning and designated location management support services
- provide information to assist with legislative compliance
- complete benchmark studies to measure performance and target areas for improvement
- manage systems, payments, ongoing development and refinement of the AGFMA
- coordinate and resolve disputes.

Agencies are responsible for managing their designated locations, which includes:

- portfolio and asset planning
- specifying their service needs and detailed statements of requirements, in consultation with the FM service providers
- collaborating with the FM service providers and DPTI to finalise the annual works program and advising the allocations within the agency's annual budget
- issuing work requests
- verifying that work has been carried out in line with requirements and approving FM service provider claims for payment
- setting priorities in line with government policy, and managing the funds allocated to works
- ensuring that work health and safety standards are met.

Each designated location has a nominated agency representative who is the key point of contact for the FM service provider at that agency and is responsible for determining required works, placing orders and monitoring progress.

Because of the scope and complexity of the AGFMA, DPTI (as contract administrator) and participating agencies must work collaboratively to ensure government assets are effectively and efficiently maintained.

To support this necessary collaboration, a Facilities Management Governance Group has been established as the governance group for the AGFMA. It comprises senior officers from the participating agencies, and its purpose includes:

- contributing to across government strategies and approaches to facilities management
- providing oversight of services and outcomes of the AGFMA

- providing oversight of the financial and technical performance of the FM service providers
- measuring and ensuring value for money is achieved in providing facilities management services
- providing advice to the SA Government on the AGFMA and associated risks and opportunities.

4.7.3 Key findings from Across Government Facilities Management Arrangements audit reviews in 2016-17

4.7.3.1 Department of Planning, Transport and Infrastructure's administration of Across Government Facilities Management Arrangements requires improvement

In 2015-16 we reviewed DPTI's administration of the AGFMA and found that it had not established a contract management framework and had not finalised a comprehensive contract management plan for the current contract. We also noted:

- service level agreements with client agencies were not finalised and executed
- the composition of the Facilities Management Governance Group approved by Cabinet was not finalised
- the external audit process for the outsourced provider's transactions did not include all types of work performed, with 62% (\$78 million) of transactions not subject to the external audit coverage in 2015-16
- the organisational structure of the unit overseeing the contract had only recently been finalised and some key facilities management function positions were not filled
- subcontractors used by the outsourced provider were not approved by the AGFMA Unit as required by the contract. Approximately \$115 million worth of work was undertaken by subcontractors in 2015-16.

Our follow-up in 2016-17 found that DPTI had implemented a contract management plan and addressed several of the issues raised in the prior year. However, we found some of the processes and practices to ensure key requirements of the contract are met were still being established and/or finalised. Our main observations for 2016-17 were as follows:

- SLAs between DPTI and client agencies were not completed and signed, increasing the risk that the facilities management arrangements are inefficient or ineffectively managed because DPTI and client agencies are unclear on their respective roles, rights and responsibilities.
- Independent audits to ensure facilities management jobs are accurate and valid did not include all types of work performed and did not ensure rates charged were in line with the rates negotiated with the subcontractor. Approximately 66% of financial activity was not subject to DPTI's audit coverage, increasing the risk that performance issues and incorrect charging are not identified and actioned.

- Subcontractors used by Spotless were not approved by the AGFMA Unit as required by the SA Government’s contract with Spotless, and the details of Spotless’ audits on subcontractor certificates, licences and clearances were not reviewed. Consequently, there is a risk that Spotless subcontractors may not have all necessary certifications, licences and clearances, to the extent required by law or by the policy of the relevant agency, to be entitled to perform the tasks they were engaged for.
- The independent audits of the internal DPTI facilities management provider were not reported to the governance group responsible for overseeing the AGFMA. As a result, action may not be taken to address the issues raised.

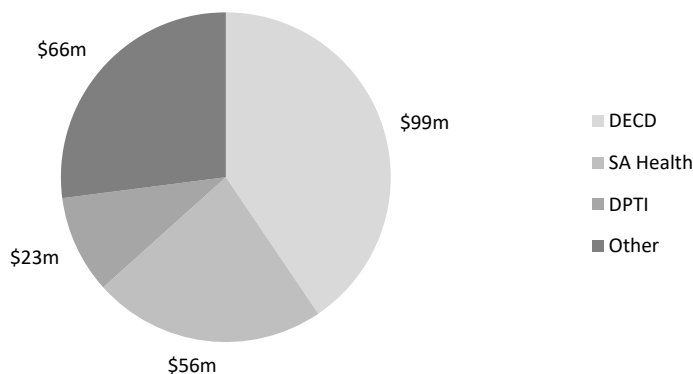
DPTI has advised that it had, or would, implement appropriate corrective actions including:

- reissuing updated SLAs to agencies by September 2017
- implementing an expanded audit framework in 2017-18 and reporting the results of audits of the internal DPTI facilities service provider to the Facilities Management Governance Group from August 2017.

4.7.3.2 Agency management of their responsibilities also needs to improve

Figure 4.11 shows that SA Health and DECD are the largest individual users of the AGFMA.

Figure 4.11: AGFMA expenditure by agency



While over 30 agencies participate in the AGFMA, SA Health and DECD together represented 64% of the total government spend in 2016-17.

DPTI, as an owner of significant government building assets, accounted for 9% of total AGFMA expenditure in 2016-17. All other participating agencies together comprise the remaining 27%.

A significant number of invoices are automatically approved for payment

Agencies are required to certify goods and services received from the FM service providers prior to payment. In previous years we have reported that an unacceptably high percentage of charges are automatically approved for payment without being certified by the agencies receiving the service.

Paying suppliers based on automatically approved works increases the risk that payments are made for goods and services not provided, or for work not completed to the required standard. From May 2016 DPTI made system changes that generate an automatic reminder email to agency approvers. This initiative has supported a significant reduction in the number of automatically approved payments.

Figure 4.12 shows the decrease in the value of automatically approved claims since 2015-16:

Figure 4.12: Automatically approved claims

Client	July 2016 to June 2017		July 2015 to June 2016	
	\$'million	%	\$'million	%
DECD	42.1	42.3	69.7	72.7
SA Health	1.9	3.4	16.9	31.5
Others	3.2	3.5	3.7	5
All clients	47.2	19	90.3	40.3

While significantly better than last year, the level of automatically approved claims for DECD remains high in comparison to other government entities.

We have raised the extent of automatically approved payments with DECD over many years. In 2016-17 we contacted a number of schools with a high level of automatic payments to understand the issues or barriers that impact on site approvals. Some staff:

- advised they were unaware of the expectation to approve claims in DPTI’s asset management system FAMIS, before payment
- indicated they deliberately did not approve claims due to the automatic payment function
- advised they had not received the FAMIS email reminders.

DECD advised that since our audit it had performed targeted analysis of monthly payment details to determine the top 10 sites with the most automatically approved payments. DECD advised that a strategy to identify and communicate with the 10 sites with the most automatic payments each month would be implemented from term 4 of the 2017 school year.

SA Health’s internal audit team reviews Across Government Facilities Management Arrangements

In 2016-17 SA Health’s internal audit reviewed the AGFMA to assess the management framework and management practices adopted for facilities management across SA Health. The review considered:

- governance, roles and responsibilities and reporting, with reference to better practice
- general processes and controls
- overhead allocation
- controls over after hours call-outs
- resolution of high risk events.

Internal audit concluded that controls over facilities management processes at LHNs were largely ineffective.

The internal audit identified 12 findings, with the following matters rated by SA Health as high risk:

- SA Health representatives are unclear on the respective roles and responsibilities of the AGFMA parties and the services it must have delivered through the AGFMA. Internal audit noted that while a draft SLA with DPTI exists, there are further opportunities to tailor the agreement to suit SA Health's requirements and reflect current contracted arrangements.
- LHNs require additional information from FM service providers to track whether individual assets have been appropriately serviced (preventative maintenance). This is particularly relevant for biomedical equipment, where detailed service records must be maintained for hospital accreditation. This information is also important for LHNs to check that they only pay for services actually received.
- Performance criteria for the timely actioning of breakdown maintenance requires improvement. The performance of FM service providers is currently measured from the time a job is raised to the time that the FM service provider or contractor attends the site. This measure does not, however, consider the time to rectify the breakdown. In SA Health's view, performance measures based on job completion are more appropriate.

DPTI has recognised this limitation, noting however that IT system and user limitations currently preclude accurately measuring the time frames for completed jobs. We understand that reliably measuring the time to complete jobs would require a consistent approach to recording this data, and require agency users to check its accuracy.

- SA Health has not developed a formal coordinated approach for internally managing the AGFMA arrangements. Internal audit recommended that SA Health develop a contract management plan (or similar) for identifying and consolidating strategic issues across DHA and LHNs, and for escalating these to the DPTI contract manager.
- Many LHNs have not established a process to assess and review breakdown maintenance claims from FM service providers before payment. Internal audit noted that 32% of 2015-16 claims were automatically system approved. LHN staff had not verified that work was complete and the claims were accurate before automated system approval.

4.7.4 Continued collaboration between Department of Planning, Transport and Infrastructure and participating agencies is required

The recent improvement in the volume of automatically paid claims has highlighted the importance of continued collaboration between the AGFMA participants.

DECD's volume of automatically paid claims dropped from 73% to 42% in 2016-17 following the introduction of two key initiatives:

- DPTI implemented an email reminder function in FAMIS to email sites 15 days before claims are automatically paid, reminding them to review and approve them.
- DECD published new procedures outlining site responsibilities for approving FAMIS charges.

While the volume of DECD automatically paid claims remains high, this is a marked improvement in 12 months.

Some of the issues raised by SA Health's internal audit, particularly those on clarity of roles and responsibilities, tracking preventative maintenance and setting performance criteria for breakdown maintenance, demonstrate the need for DPTI and SA Health to use the existing AGFMA governance structures and communication protocols to improve the effectiveness and efficiency of these arrangements.

4.8 Consistency of government industry assistance processes

4.8.1 A formal whole-of-government industry assistance framework for consistent program management

We reviewed controls over industry assistance within a number of agencies and at the whole-of-government level. This included understanding the approach to initiating and assessing industry assistance programs. In performing this review, we identified an opportunity to improve how industry assistance programs are initiated and managed across government.

Our review indicated government agencies, including SAFA and DSD, have established their own formal procedures and controls covering industry assistance grant and contract management processes.

However, these procedures only cover the contract management phase of industry assistance arrangements and do not specify the processes to be followed in initiating, prioritising and assessing potential industry assistance programs and schemes.

As a result, there may be a lack of clarity about agency roles and responsibilities in performing these functions. This may potentially result in ineffective and inconsistent practices being adopted across government.

To communicate the SA Government's expectations on these areas, there is value in establishing a whole-of-government industry assistance framework.

This framework could provide guidance on the purpose of industry assistance in the South Australian context, including:

- an overarching rationale for why direct industry assistance should be used
- the circumstances in which the use of direct industry assistance is justified
- the principles or guidelines around when it is appropriate to provide public money to private businesses for the purpose of industry development.

The framework could also provide guidance on the roles and responsibilities of DTF, SAFA and other government agencies involved in industry assistance for areas such as:

- identifying and prioritising industry assistance schemes and programs
- establishing clear measurable objectives, outputs and outcomes for schemes and programs
- performing due diligence, evaluation processes and risk assessments on proposed schemes and programs
- ongoing monitoring of industry schemes and programs
- centralised reporting of the nature and amount of all assistance provided by government agencies to industry.

This framework will help to ensure a consistent approach is adopted across government for industry assistance and that specialist expertise in this area within certain agencies is fully utilised. It will also ensure there are clear lines of responsibility and accountability for ensuring the effectiveness of industry assistance programs and schemes across government.

The implementation of the framework may require DTF, as a central agency, to liaise with other government agencies that play a significant role in initiating and managing industry assistance, such as SAFA, DSD and PIRSA.

DTF responded that it will consider developing and establishing a whole of government industry assistance framework in 2017-18 to ensure that a consistent approach is adopted across government for all industry assistance programs and schemes.

5 Financial reporting by agencies

5.1 Financial statements must present a true and fair view

All public authorities are required to prepare financial statements that present a true and fair view, and comply with Australian Accounting Standards and Treasurer's instructions.

Preparing financial statements that present a true and fair view is not achieved through a strict application of all accounting standards. Significant judgement must be applied to determine what information is of most value to users of financial reports, and how to ensure this is not obscured by 'boiler-plate' disclosures of all accounting standard requirements.

The need for effective reporting is a topic of global interest. Better Communication in Financial Reporting (previously described as the disclosure initiative) is a theme underlying many projects of the International Accounting Standards Board. We have now seen the first changes resulting from this initiative incorporated into Australian Accounting Standards.

5.2 There is natural tension between application of judgement and being as efficient as possible in preparing financial reports

Many public authorities use Shared Services SA as a service provider for financial accounting, which may include Shared Services SA accountants drafting their financial statements.

Using a service provider to prepare financial statements does not remove any responsibility from agencies for preparing financial statements that present a true and fair view.

Systems, models and reporting tools, including the model financial statements issued by DTF, are time-saving ways to prepare financial statements. However, in using such tools, care needs to be taken to manage the risk of reticence to vary their application. What is of critical importance to users of one agency's statements may be merely clutter in another's, and a model cannot conclude for preparers what is of most importance for their financial report.

Whether or not these tools are used by agencies, full and timely engagement by senior agency staff in issues affecting the content of the financial report is essential. I consider that improvement is needed in this area.

5.3 Adoption of reduced disclosure requirements

Australian Accounting Standards provide two tiers of financial reporting: one with full disclosures and one with reduced disclosure requirements. Areas of reduced disclosure include financial instruments and detailed information about the valuation of assets. The Australian Accounting Standards Board is considering increasing the relief provided under reduced disclosure requirements.

This is the second year that the Treasurer's Instructions have allowed certain public authorities to adopt reduced disclosure requirements. More than 60 public authorities now have the option to do so. I consider this initiative a positive step for financial reporting in the SA Government.

Australian Accounting Standard AASB 1053 'Application of tiers of Australian Accounting Standards' notes that entities applying reduced disclosure requirements may include additional disclosures using tier 1 reporting requirements as a guide if, in their judgement, such additional disclosures are consistent with the objective of general purpose financial statements. As discussed above, preparing financial statements that present a true and fair view requires judgement and this is no less for those entities applying reduced disclosure requirements.

5.4 Changes to accounting standards applicable this year

5.4.1 AASB 101 'Presentation of financial statements'

AASB 101 sets out requirements for the basic form and content of financial reports. As part of the International Accounting Standards Board's Better Communication in Financial Reporting initiative, various amendments to AASB 101 are now applicable, including:

- a specific requirement that an entity shall not reduce understandability of its financial statements by obscuring material information with immaterial information
- clarification that an entity need not provide a specific disclosure required by an Australian Accounting Standard if the information resulting from that disclosure is not material.

These changes provide further impetus for applying judgement in preparing disclosures in financial reports. As I have highlighted in previous Reports to Parliament, financial reports are an important communication tool for entities. Clarity of message is important for financial reports to meet the needs of users. Reducing clutter in financial reports is important, but equally so is ensuring there is sufficient information about the main areas of risk and significant judgements made by report preparers.

Some Australian Governments have used the amendments to AASB 101 as an opportunity to revitalise their financial statements, resulting in an entirely new look and feel. While some changes to the DTF model financial statements have reduced clutter and provided more holistic discussion within individual notes, I encourage DTF to undertake a broader review to ensure that financial reporting by public sector entities in this State remains consistent with contemporary practice and continues to fulfil the needs of users.

5.4.2 AASB 124 'Related party disclosures'

The Australian Accounting Standards Board extended the scope of AASB 124 to apply to not-for-profit public sector entities for the first time in 2016-17.

The objective of this standard is to ensure that an entity's financial statements contain the disclosures necessary to draw attention to the possibility that its financial position and profit or loss may have been materially affected by the existence of related parties, and by transactions with such parties. Its purpose is not to assess the probity of transactions with such parties.

AASB 124 requires disclosures of related party relationships, related party transactions and resulting balances. This includes disclosure of compensation paid to key management personnel during the financial year.

5.4.2.1 Who are related parties?

The definition of a related party in AASB 124 is complex. However, I would describe there being two key types of related parties: related people and related entities.

Related people include an entity's key management personnel (KMP), the KMP of the entity's parent, and any of these KMP's close family members. A parent is an entity that has control of another entity.

Related entities include those within the group – that is:

- the parent entity and any other entities controlled by that parent
- entities that are jointly controlled by any entity within the group
- associates of any entity in the group (that is, entities over which a member of the group has significant influence, but not control).

In addition, entities controlled or jointly controlled by any of the 'related people' as described above will be related parties.

5.4.2.2 Processes and controls were required to collect and evaluate information about related parties

Effective controls over the financial reporting process are necessary to prepare financial reports that comply with accounting standards and Treasurer's Instructions.

Applying AASB 124 required new processes and controls to identify:

- who are KMP
- who are the KMP's close family members
- what are the relevant business interests of those people
- all entities within the SA Government, and making the identity of these entities available to preparers of financial reports
- information about transactions with related parties.

For any government:

- the number of related parties will be significant due to all entities within the government being related parties of each other
- it is inevitable that many transactions between these entities will occur (including disbursement of appropriations, lease payments and grants)
- related people and entities will nearly always transact with government (for example through paying for a driver's licence, land tax or payroll tax).

DTF provided guidance to agencies as to what sorts of transactions may be material, which helped to focus data collection on areas that might have a material impact on financial reports.

5.4.2.3 Identifying key management personnel

The Australian Accounting Standards Board's guidance for applying AASB 124 to not-for-profit public sector entities helped DTF to identify that all Ministers are KMP of the government. As the government is the parent of all government entities, Ministers are related parties of every entity within government – whether or not an entity relates to that Minister's portfolio.

Each entity within government needed to identify their own KMP. This required determining who has authority and responsibility for planning, directing and controlling the activities of the entity, whether directly or indirectly. Concluding on this is a matter of judgement, as is considering when people acting in certain positions for a period of time might meet the definition of KMP.

5.4.2.4 Identifying close family members of key management personnel and relevant business interests

The identity of close family members of KMP is relevant for preparers of financial reports in identifying what transactions may have occurred between those people and agencies, as well as identifying relevant business interests of KMP and those family members.

5.4.2.5 Information supplied by Ministers in their capacity as KMP of the government

Although there is a degree of overlap between information required for the purposes of AASB 124 and that required to be supplied to Parliament under the *Members of Parliament (Register of Interests) Act 1983*, additional information is required by AASB 124 to what must be supplied under that Act.

DTF, in preparing the whole-of-government financial report, adopted the approach of obtaining this information through declarations from Ministers. Procedures were established by DTF to ensure that information gathered was stored and communicated in a way appropriate for such personal information.

I support the use of declarations as the most efficient and effective way of obtaining the necessary information. All Ministers provided declarations, which were analysed by DTF staff. Processes were established to ensure that any information in these declarations

relevant to agencies in preparing their financial reports would be supplied on a need-to-know basis.

5.4.2.6 Information supplied by agency KMP

I wrote to agencies during the financial year asking them to advise:

- who they had identified as their agency's KMP
- the identity of other related parties specific to the agency
- their policies and processes to identify and capture related party transactions.

Most agencies responded that they would seek information from their KMP through declarations. Some agencies sought declarations early in the financial year, while others did not take such prompt action. Some agencies chose not to seek the names of close family members of their KMP, or the names of relevant business interests. All agencies reported in this Report provided the required declarations. For other agencies not in this Report, a few KMP are refusing to provide this information. Without it, additional processes must be performed by agencies to satisfy themselves that they have detected related party transactions. This is an inefficient method of preparing the necessary disclosures.

As well as certifying that the financial statements have been prepared in line with the reporting framework, the certificate required by section 23 of the PFAA must include a statement as to the effectiveness of the internal controls employed by the authority for the financial year over its financial reporting and its preparation of the financial statements.

Without obtaining information from KMP about their close family members and relevant business interests, it is difficult for agencies to employ effective controls over the financial reporting process with respect to this disclosure requirement.

Further, in most instances controls were not implemented at the beginning of the financial year. In some cases, KMP employed earlier in the financial year were no longer employed when the controls were implemented. It was not always possible to obtain declarations from those people.

This reiterates to agencies the need for early planning with respect to new and revised accounting standards and adequate liaison with stakeholders. With earlier planning, some of the issues experienced could have been resolved.

This experience is worthy of reflection in preparing for the upcoming changes to accounting standards.

5.4.3 AASB 1056 'Superannuation entities'

AASB 1056 replaced AAS 25 'Financial reporting by superannuation plans' this financial year. AASB 1056 requires significantly different presentation of financial statements as well as different recognition and measurement principles. The impact of these changes are outlined in the section titled 'Superannuation sector activities' in Part B of this Report.

5.5 Upcoming changes to accounting standards

5.5.1 Substantial changes to accounting standards are coming and early attention is needed

In 2018-19 and 2019-20, a number of new Australian Accounting Standards will see the most significant changes to financial reports in over a decade. These standards are:

- AASB 9 'Financial instruments'
- AASB 16 'Leases'
- AASB 1059 'Service concession arrangements: grantor'
- AASB 15 'Revenue from contracts with customers'
- AASB 1058 'Income of not-for-profit entities'.

Implementation will require significant and early commitment by accounting professionals to determine the data requirements and potential impact. Further, policy development by DTF will be required in a number of areas to ensure a consistent approach within government. The number of decisions required to enable implementation of the standards should not be underestimated, nor should the complexities of data collection and analysis.

Accounting standards require disclosure of the impact upcoming standards are expected to have on future financial reports. I expect agencies to work towards providing quantified information about the potential impact of these new standards in next year's financial reports, as this marks the beginning of the comparative period affected for many of these standards.

The beginning of the comparative period (prior year) is of relevance for new and revised accounting standards because this is often the date at which the change is implemented. For example, new lease accounting treatment applicable to 30 June 2020 financial reports may, depending on policy choices, be reflected in that report as occurring at 1 July 2018. Sometimes, transitional options allow changes to be reflected in the current period only. Policy choices such as these transitional options are becoming increasingly urgent.

It is necessary for DTF and agencies to develop project plans for implementing these standards as soon as possible, to enable appropriate management oversight and monitoring to occur. I will monitor progress closely over the coming year and intend to report on progress in my next Annual Report to Parliament.

5.5.2 Accounting for financial instruments will change: AASB 9

AASB 9 will apply to 30 June 2019 financial reports.

The degree to which agencies will be affected by AASB 9 will vary. Agencies must assess their exposure to changes and respond accordingly.

5.5.3 All leases will be recognised on balance sheet: AASB 16

From 2019-20 all leases will require recognition of a right-to-use asset and lease liability on lessee's balance sheets. The distinction between operating and finance leases will disappear. Previously, only finance leases were recognised on the balance sheet.

In addition to increasing the assets and liabilities of lessees, the timing of expense recognition will change. Under AASB 16, finance charges are recognised. Finance charges are higher earlier in the lease period, when the lease liability is higher, and reduce during the lease term. This differs from the current recognition of expenses related to operating leases, which usually sees expenses recognised evenly in each year of the lease term. Due to the prevalence of operating leases of property within government, I expect expenses reported by many agencies to be affected by AASB 16's requirements.

In conjunction with new revenue accounting standards, not-for-profit entities must recognise peppercorn and other below-market leases at fair value. Previously, there was a lack of clarity as to whether this was necessary, and a range of practices has been applied throughout Australia.

The new lease accounting model is far more complex than existing accounting for operating leases. To enable leases to be accounted for, agencies will need to undertake a significant amount of data collection and determine appropriate methods for calculating the amounts to be recognised. A number of key inputs will require a high level of judgement and are likely to require information from people outside of finance departments. Further, assumptions related to the lease must be revisited and changes may trigger significant recalculations. Some agencies may need to implement software to support accounting for leases.

Agencies also need to consider and potentially review delegations for entering any leases, and related decisions such as taking up optional extension periods. Data flows will need to ensure that financial accountants are informed of all such decisions.

It is essential that agencies identify all contracts that may contain leases early, as significant time may be required to identify, retrieve and assess this information.

5.5.4 New service concession arrangements standard to account for public private partnerships: AASB 1059

Service concession arrangements are entered into by public and private sector entities to develop and deliver major infrastructure assets for public services. The private sector operator may charge the public sector grantor for the services, or may be permitted to charge users. This standard will therefore apply to many PPPs.

AASB 1059 is expected to have significant impact on public sector balance sheets and will require reassessment of the accounting for many existing contractual arrangements.

This standard was released in July following a long period of exposure drafts and deliberations and will apply to 30 June 2020 financial reports.

5.5.4.1 Determining which public private partnership arrangements are captured by AASB 1059 is an immediate priority

AASB 1059 will apply to arrangements that involve an operator providing public services related to a service concession asset for a specified period of time, and managing at least some of those services.

As a result, governments will need to assess whether AASB 1059 applies to both assets provided by the private sector as well as publicly-owned assets upgraded by the private sector.

Determining which arrangements will be captured by AASB 1059 will involve a high degree of judgement. I consider this determination necessary before 1 July 2018, the beginning of the comparative period.

5.5.4.2 Policy must be developed by the Department of Treasury and Finance to support implementation of AASB 1059

A number of policy choices available under AASB 1059 must be made by DTF.

AASB 1059 permits service concession assets to be measured at either cost or fair value subsequent to initial recognition. The Accounting Policy Framework requires that non-financial non-current assets are held at fair value subsequent to recognition. This policy choice of the Treasurer facilitates the preparation of whole-of-government financial reports that align with measurement techniques required for Government Finance Statistics.

However, the complexities of service concession arrangements mean that particular thought should be given as to whether this Accounting Policy Framework requirement should be applied to assets captured by AASB 1059. It may be that the benefits of permitting agencies to carry such assets at cost outweigh the costs of developing an approach to ensuring the carrying amount of such assets does not materially differ from fair value at the whole-of-government level. This is a matter for the Treasurer and DTF, however the implications on agencies in capturing information about the assets at 1 July 2018 mean such a decision is relatively urgent.

Service concession assets, where reported at fair value, must be measured using the cost approach under AASB 13 'Fair value measurement'. The cost approach (also known as current replacement cost) requires consideration of what the market considers it would cost to replace an asset. Policy is required regarding which costs should be taken into consideration so that valuers can be given appropriate instructions. This is another area for early consideration by DTF, as there are particular complexities in identifying which costs a market would consider in valuing a service concession asset.

5.5.4.3 Under AASB 1059 the timing of asset recognition will change

AASB 1059 uses a control approach to determine whether the government should recognise a service concession asset and associated liability. This differs from the risk and rewards approach under lease accounting which has often be used for PPPs, including the new RAH

and the schools PPPs for DECD. A consequence of this differing approach is that assets constructed as part of a service concession arrangement will come onto the balance sheet of the government as they are constructed, rather than at the point of completion. This will need to be factored into forward planning for PPPs.

5.5.5 The timing of revenue recognition may change under AASB 15 and AASB 1058

AASB 15 applies to for-profit entities for the first time in 2018-19.

AASB 15 moves away from the concept of reciprocal transfers, and instead requires key determinations to be made including whether agreements are enforceable, whether performance obligations exist and how to allocate the transaction price to those performance obligations.

The Australian Accounting Standards Board undertook significant work to determine how principles in AASB 15 might be applied to non-contractual income received by not-for-profit entities. As a result, AASB 1058 has been issued. This standard will apply to 2019-20 financial reports, with the application date of AASB 15 being deferred to 2019-20 for not-for-profit entities, so the two standards can be adopted at the same time.

AASB 1058 requires revenue recognition where the amount paid to acquire an asset (including cash) is significantly less than fair value of the asset received, if the reduction in price was provided to further the not-for-profit entity's objectives.

Accordingly, analysis will be necessary on receipt of assets (including inventory) and at the inception of leases as to what fair value/market terms and conditions might be, and whether these significantly differ from the amount paid. Estimating the fair value of these assets will require judgement, and agencies may need to engage valuation experts.

For example, where property is leased at substantially below market rates, including at peppercorn amounts, consideration is necessary as to whether that discounted rate was provided to further the lessee's objectives. If so, the difference between the fair value of the lease asset and any lease liability is recognised immediately as income.

The degree of impact of AASB 15 and AASB 1058 will vary for entities within the SA Government. Unlike the upcoming AASB 16, it is not possible to generalise about likely effects across government. It is possible that the new revenue standards will see some revenue recognised on receipt of payment (which may be up-front), some revenue deferred until the end of projects, some spread evenly throughout arrangements, and some pegged to achievement identified performance obligations.

Analysis of contracts and other similar agreements can be time-consuming and require significant interpretation. It is important that over the coming year, agencies consider their sources of revenue and identify where they need to perform such analysis.

5.6 Local government: examination update

5.6.1 Background

Section 32(1) of the PFAA gives the Auditor-General the discretion to examine the:

- accounts of a publicly funded body, including one that has ceased to exist, and the efficiency and economy of its activities
- accounts relating to a publicly funded project, including one that has ceased to exist, and the efficiency and cost-effectiveness of the project
- accounts relating to a local government indemnity scheme (scheme) and the efficiency and cost effectiveness of the scheme.

Section 32 of the PFAA also enables the Treasurer or the Independent Commissioner Against Corruption to request the Auditor-General to conduct an examination under section 32(1).

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

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

Under the PFAA, the Auditor-General is not the auditor of any council. I therefore do not provide an audit opinion on the financial reports of the councils and the schemes, or on the controls exercised by each council. These audit opinions are provided by the auditors appointed by each council and for each scheme.

The PFAA requires a report to be prepared after making an examination under section 32 and copies of the report delivered to the Parliament. All completed examinations for the local government sector will accordingly be separately reported.

5.6.2 Status of section 32 examinations

In 2016-17 we completed and reported on the following examinations:

- Examination of the Brown Hill and Keswick Creeks Stormwater Management project: November 2016
- Examination of governance in local government: February 2017
- Examination of governance in local government: June 2017.

In addition, on 1 May 2017 the Treasurer, the Hon Tom Koutsantonis MP, requested that the Auditor-General examine the accounts of the District Council of Coober Pedy under section 32(1)(a) of the PFAA. At the time of this Report our examination of the District Council of Coober Pedy is in progress.

5.6.3 Summary of the section 32 examination – Brown Hill and Keswick Creeks Stormwater Management project

The Brown Hill and Keswick Creeks (BHKC) catchment area is considered to have the highest flood risk of all urban catchments in South Australia.

In December 2006, the BHKC Flood Mitigation Study: Flood Management Master Plan (2006 Master Plan) was released. The primary focus of this plan was flood risk management of the BHKC catchment and involved a three stage process comprising technical assessment, consultation and a detailed assessment of preferred options.

The BHKC project was then established to address the flood risk. This is a significant and complex cross-boundary project involving works across five council areas (the catchment councils).

The catchment councils have collaboratively prepared a majority community accepted and council agreed, whole-of-catchment draft 2016 BHKC Stormwater Management Plan. This draft plan was submitted to the Stormwater Management Authority (SMA) for approval in March 2016 and has since been approved. This is the first time that an agreed plan has been achieved for the whole BHKC catchment. Arriving at this point has, however, taken some nine years since the 2006 Master Plan was released.

Our examination of this project identified areas in project governance and administrative arrangements that required improvement. We also made some observations on administrative processes. Our examination raised the following findings:

- inadequacy of governance arrangements for complex and controversial projects
- project authority needed to be clearly defined
- investigations undertaken during public consultation process
- breach of agreed public consultation principles – inconsistent and inappropriate messages
- inadequate documentation of supporting roles and responsibilities
- lack of documented assessment and management of risks
- a comprehensive project plan was needed for the BHKC project
- improvements needed to monitor project performance
- lack of documented analysis of consultancy reviews

- the 2012 BHKC Stormwater Management Plan did not comply with the relevant guidelines
- inadequate documentation of the SMA's assessment of the 2012 BHKC Stormwater Management Plan
- inadequate strategic action to achieve timely outcomes
- lack of long-term financial planning.

The councils and the SMA did not agree with all of our findings or recommendations. Their detailed responses are in the Report on the examination.

Our examination also highlighted several challenges to finalising the project and ultimately mitigating the flood risk to an acceptable level. To avoid ongoing delays, establishing an efficient and effective project governance structure was required. Finalising the funding arrangements was also a key challenge.

We concluded that addressing these issues and challenges will require continued collaboration, timely agreement of the catchment councils on key matters and the improvement of project management practices. In my opinion, these principles should also be applied to other potentially divisive projects that require collaboration and funding from multiple councils.

5.6.4 Summary of the section 32 examinations – governance in local government

We examined the governance arrangements in local government of three publicly funded bodies: two councils (City of Marion and The Barossa Council) and a regional subsidiary (Adelaide Hills Waste Management Authority). The outcome of this examination was communicated in two separate reports.

The purpose of our examination was to determine whether the council's and the Adelaide Hills Waste Management Authority's activities were being managed efficiently and economically through a sound governance and accountability framework. Key principles of good governance that this examination focused on included administrative arrangements, management and oversight, transparency and accountability, and conduct.

Overall, we concluded that all three publicly funded bodies had implemented adequate governance and accountability frameworks to efficiently and economically manage their activities. However, we did note areas where governance and accountability should be strengthened. This included improvements in performance management and reporting, risk management, and implementing legal compliance and fraud risk management frameworks.

Our examination highlighted the importance of all publicly funded bodies, councils and their regional subsidiaries ensuring that the primary aspects of their governance arrangements are current, relevant and achieving their intended purpose.

5.7 Supplementary reporting 2016-17

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

Specific and general matters for supplementary reporting include:

- the State finances and related matters
- the new RAH
- a grant to the One Community organisation
- Adelaide Riverbank (Festival Plaza) development
- various public sector information and communications technology systems
- certain public sector infrastructure and other projects.

For completeness, 2015-16 Supplementary Reports tabled in 2016-17 were:

- Report of the Auditor-General – Supplementary report: The Torrens Road to River Torrens South Road Upgrade Project: June 2017
- Report of the Auditor-General – Supplementary report: Enterprise Pathology Laboratory Information System: June 2017
- Report of the Auditor-General – Supplementary report: Consolidated Financial Report review: March 2017
- Report of the Auditor-General – Supplementary report: Health information technology systems: November 2016
- Report of the Auditor-General – Supplementary report: Security management of information systems: November 2016
- Report of the Auditor-General – Supplementary report: RevenueSA Information Online system: October 2016
- Report of the Auditor-General – Supplementary report: State finances and related matters: October 2016.

6 Summary of selected financial disclosures

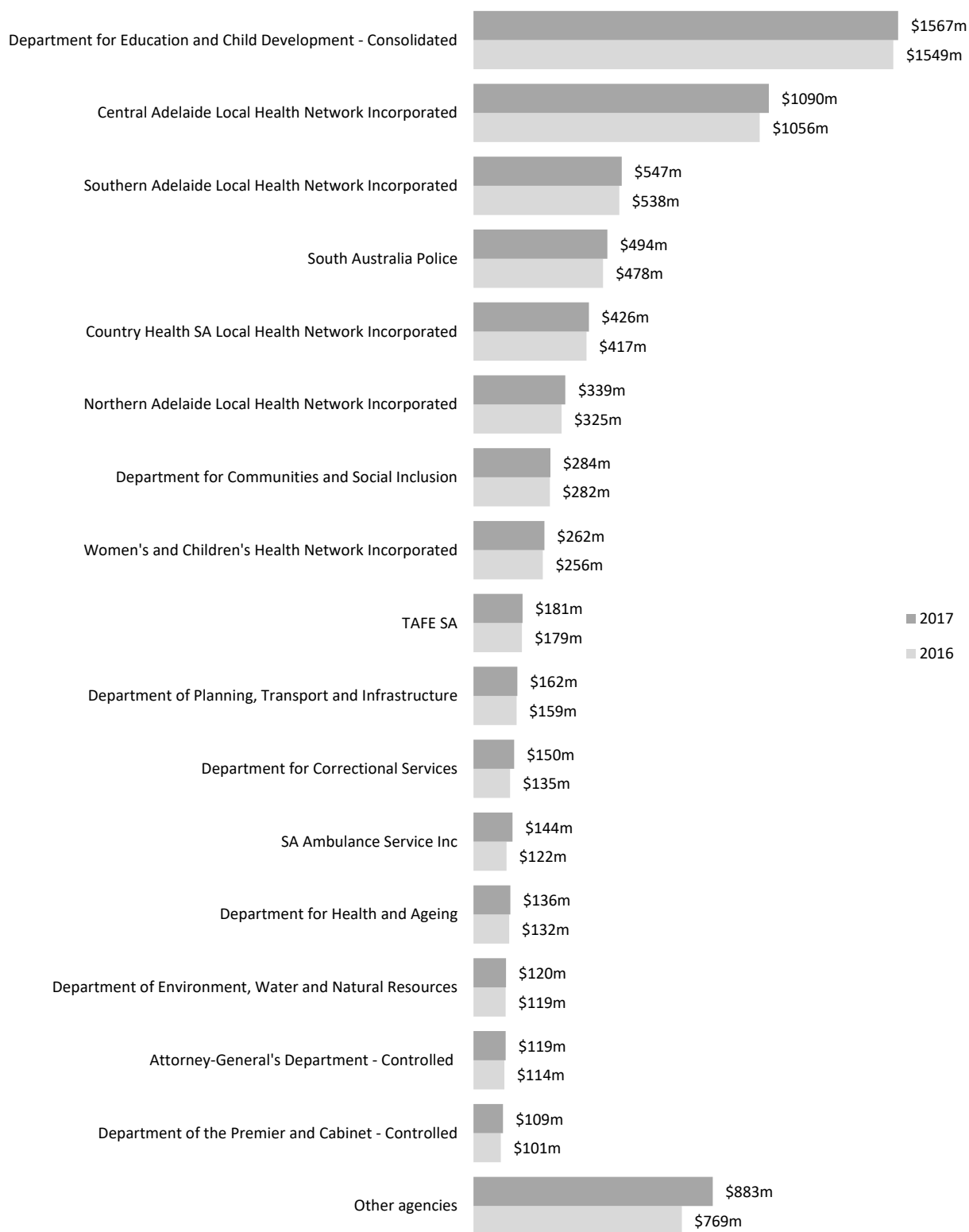
The following selected financial disclosures are taken from the published financial reports in the Appendix to this Annual Report. Readers are referred to the Appendix for the details for individual agencies. The data does not encompass all public sector agencies.

The information is provided to give an overview of the level of financial activity for each area. It represents the more material balances in financial reports or items that are typically of public interest. While audited, audits of financial reports provide assurance that there is not material error. An audit does not ensure complete consistency in the transactions that agencies include in these items.

6.1 Salaries and wages expense

Salaries and wages expense in 2016-17 was \$7 billion (\$6.7 billion) and is a major proportional expense of public sector operations.

Figure 6.1: Salaries and wages expense



6.2 Remuneration of employees disclosures

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

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

Figure 6.2: Remuneration of employees disclosure

Agency	Employee remuneration	Employee remuneration	Employee remuneration	Employee remuneration
	2016-17 \$'000	2016-17 Number	2015-16 \$'000	2015-16 Number
Central Adelaide Local Health Network Incorporated	328 674	1 170	312 602	1 111
Southern Adelaide Local Health Network Incorporated	151 883	554	114 453	533
South Australia Police	108 900	651	76 300	463
Northern Adelaide Local Health Network Incorporated	95 034	335	89 750	312
SA Ambulance Service Inc	86 485	475	50 992	297
Department for Education and Child Development	72 200	415	83 000	473
Women's and Children's Health Network Incorporated	67 262	249	62 621	221
Courts Administration Authority – Administered	37 200	88	36 100	88
Country Health SA Local Health Network Incorporated	36 038	132	28 867	107
Attorney-General's Department	33 500	153	34 000	157
South Australian Water Corporation	24 700	130	24 200	131
Department for Health and Ageing	18 211	79	18 313	81
South Australian Fire and Emergency Services Commission	16 900	98	10 400	57
Department of Planning, Transport and Infrastructure	15 200	75	17 200	80
Department of State Development	13 700	63	19 900	87
Other	115 545	534	115 773	531
Total	1 221 432	5 201	1 124 471	4 729

6.3 Employee benefits liabilities

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

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

Total employee benefits liabilities in 2016-17 were \$2.882 billion (\$2.922 billion).

Figure 6.3: Employee benefits liabilities

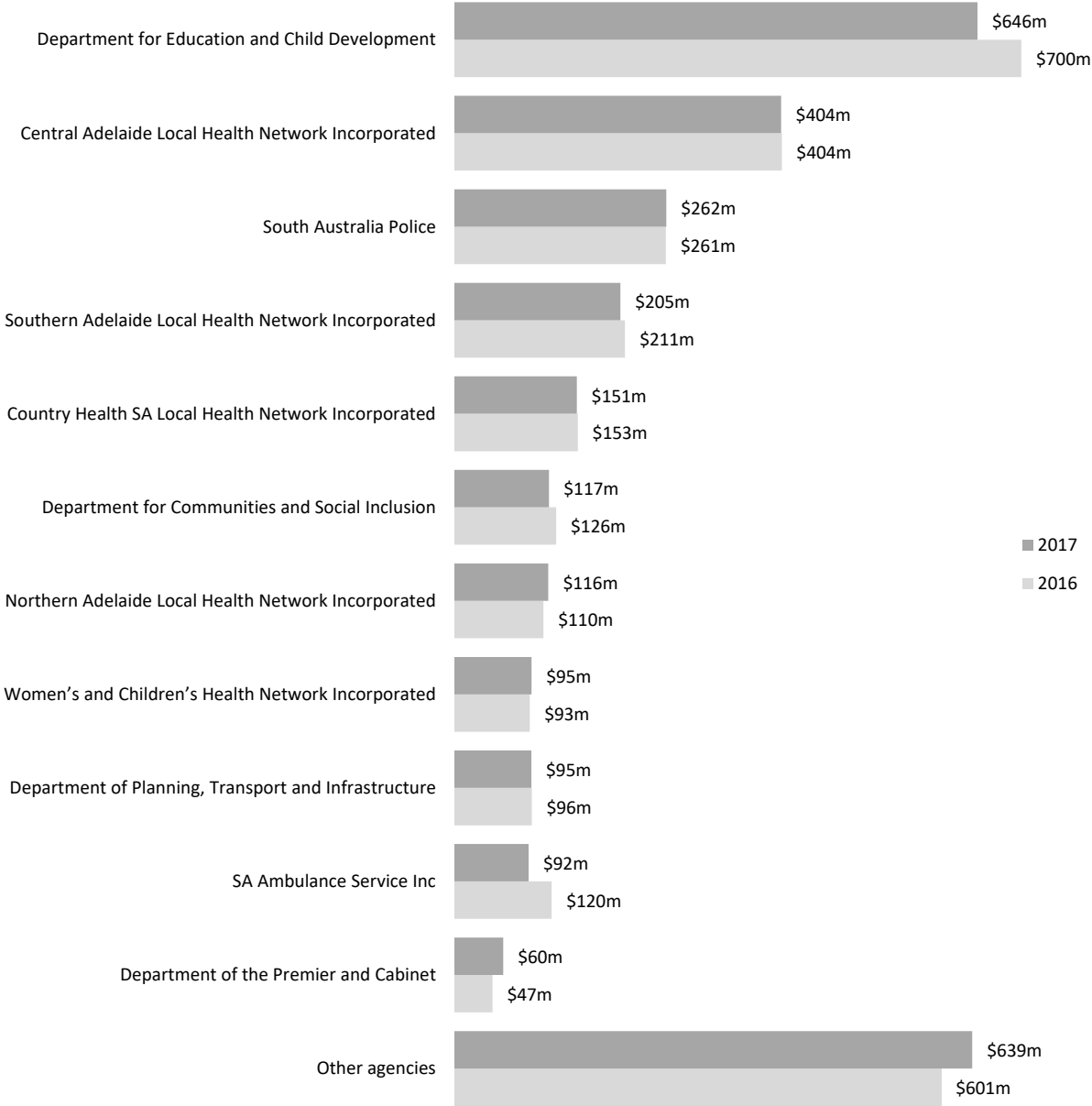


Figure 6.4 provides a breakdown of the significant components of that liability.

Figure 6.4: Components of employee benefits liabilities

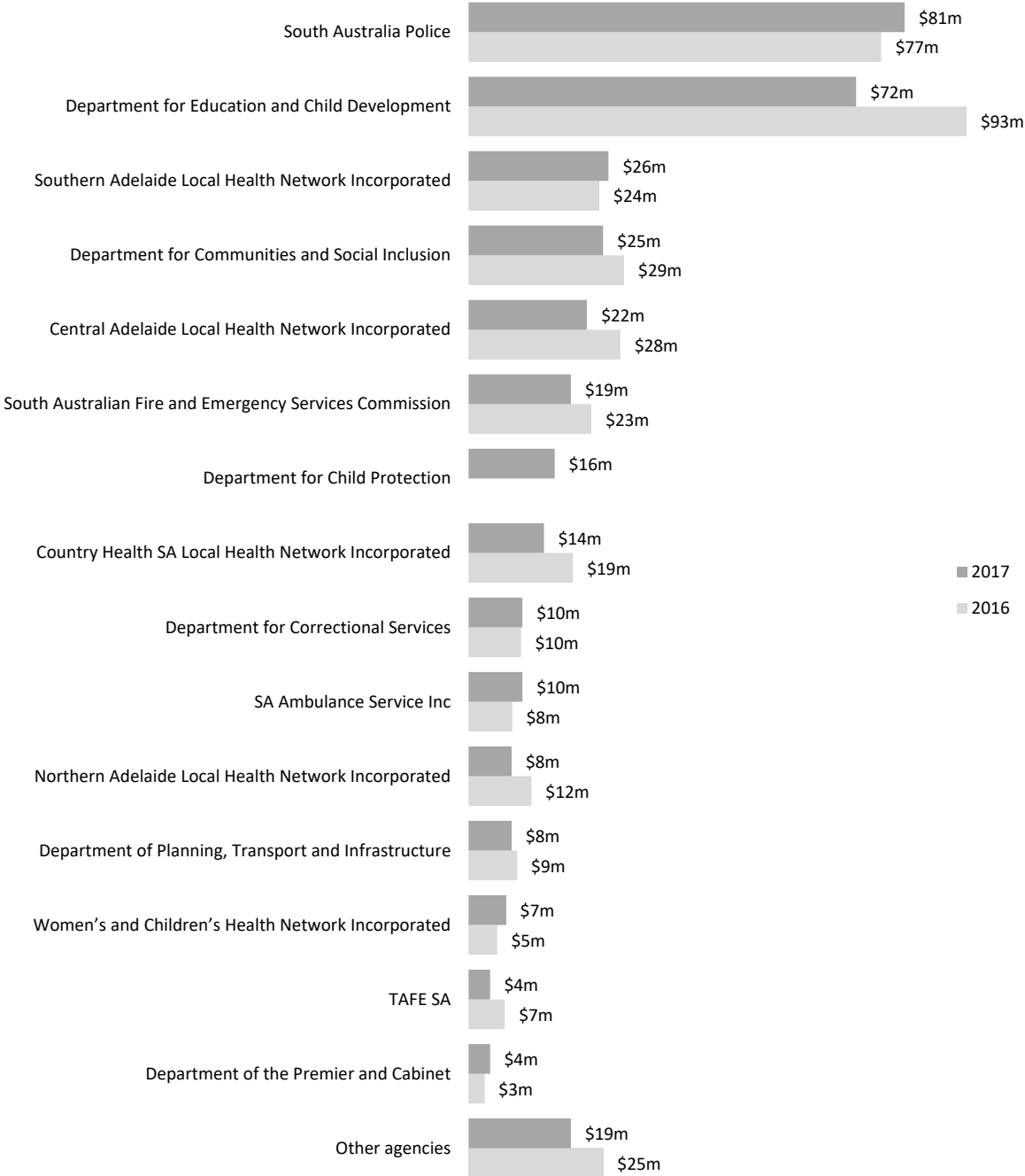
Agency	Employee benefit type	Employee benefits 2016-17 \$'000	Employee benefits 2015-16 \$'000
Department for Education and Child Development Central Adelaide Local Health Network Incorporated	LSL	498 652	551 564
South Australia Police	LSL	247 293	250 486
Southern Adelaide Local Health Network Incorporated	LSL	203 270	197 451
Department for Education and Child Development Central Adelaide Local Health Network Incorporated	LSL	121 532	122 100
Department for Education and Child Development Central Adelaide Local Health Network Incorporated	AL	110 768	116 106
Country Health SA Local Health Network Incorporated	AL	116 501	107 304
Country Health SA Local Health Network Incorporated	LSL	94 685	95 026
Department for Communities and Social Inclusion	LSL	73 989	77 593
Department of Planning, Transport and Infrastructure	LSL	72 776	74 003
Northern Adelaide Local Health Network Incorporated	LSL	68 995	66 985
Southern Adelaide Local Health Network Incorporated	AL	64 543	61 519
Women's and Children's Health Network Incorporated	LSL	61 448	61 963
SA Ambulance Service Inc	LSL	38 641	37 590
TAFE SA	LSL	45 269	49 809
Country Health SA Local Health Network Incorporated	AL	43 823	41 130
Department of the Premier and Cabinet	LSL	43 383	34 909
Other		976 583	976 006
Total		2 882 151	2 921 544

6.4 Workers compensation

The workers compensation provision is an actuarial estimate of the outstanding liability as at 30 June 2017 provided by a consulting actuary engaged through the Office for the Public Sector. The provision is the estimated cost of ongoing payments to employees as required under current legislation. In 2016-17 liabilities for serious injury claims were specifically allocated to the employing agency for the first time.

Total workers compensation provisions in 2016-17 were \$346 million (\$371 million).

Figure 6.5: Workers compensation provisions

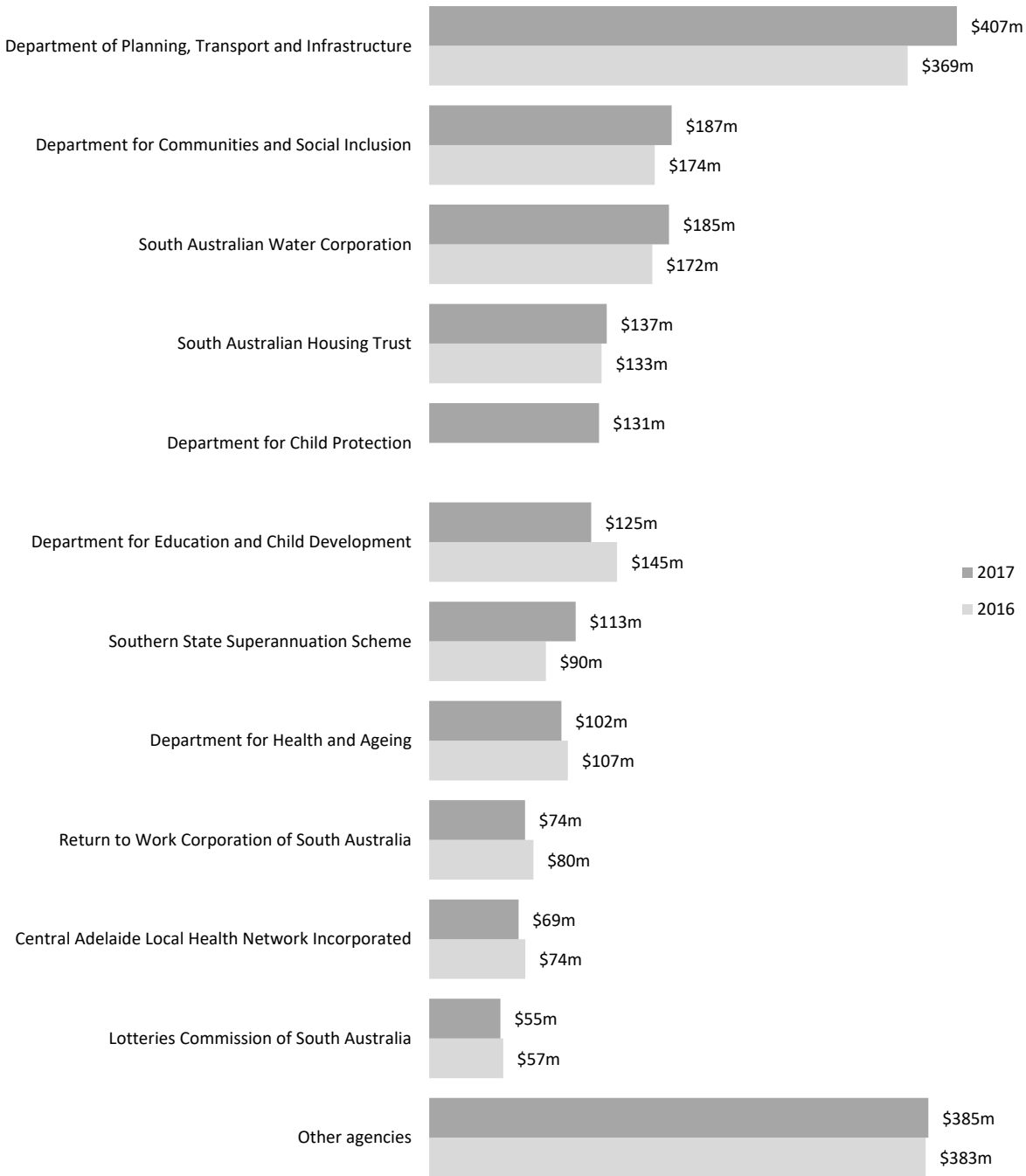


6.5 Outsourced/Service contracts

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

Outsourced contracts expenses in 2016-17 were \$2 billion (\$1.8 billion).

Figure 6.6: Outsourced contracts expenses

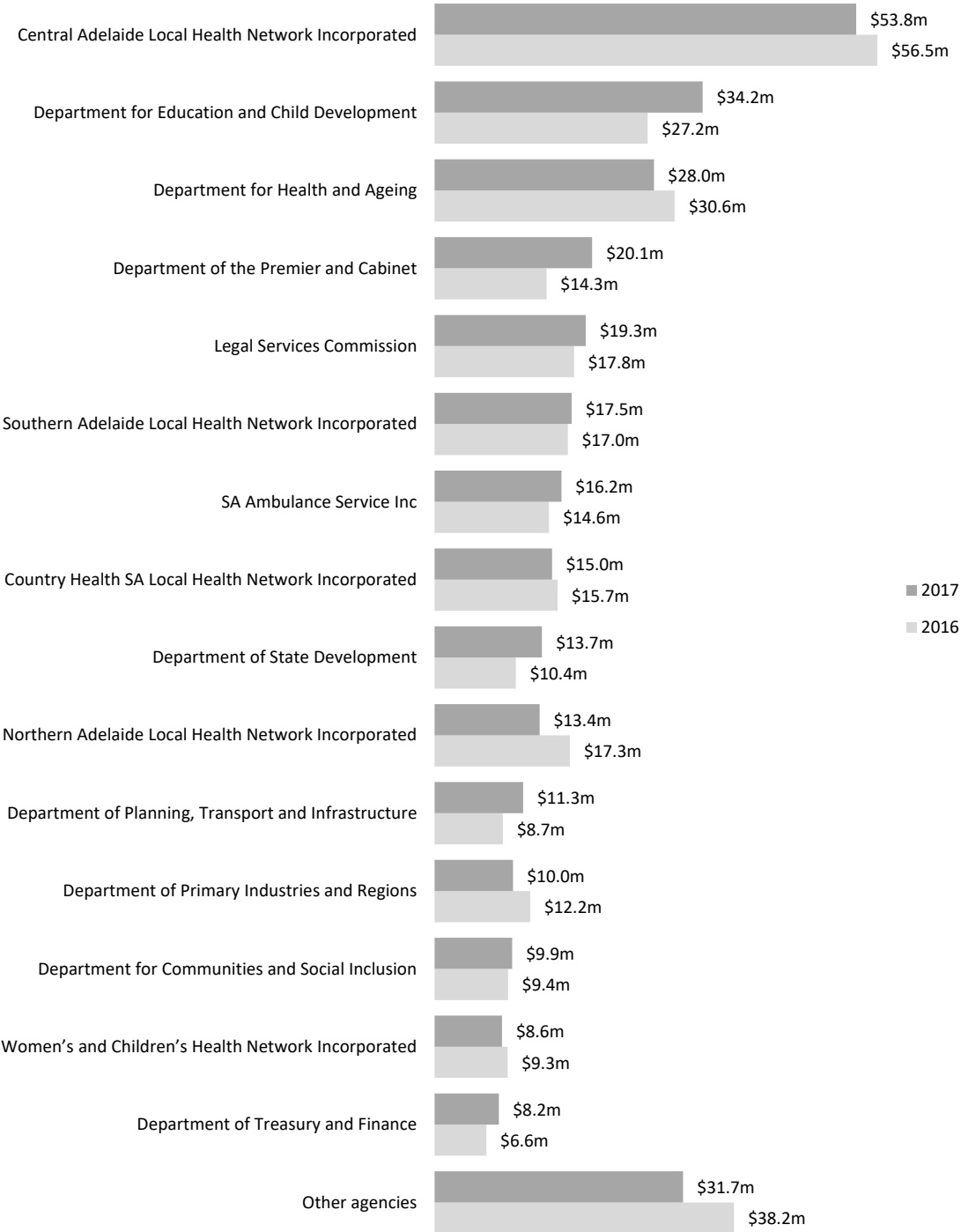


6.6 Contractors and temporary staff

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

Contractors and temporary staff expenses in 2016-17 were \$310.9 million (\$305.7 million).

Figure 6.7: Contractors and temporary staff expenses

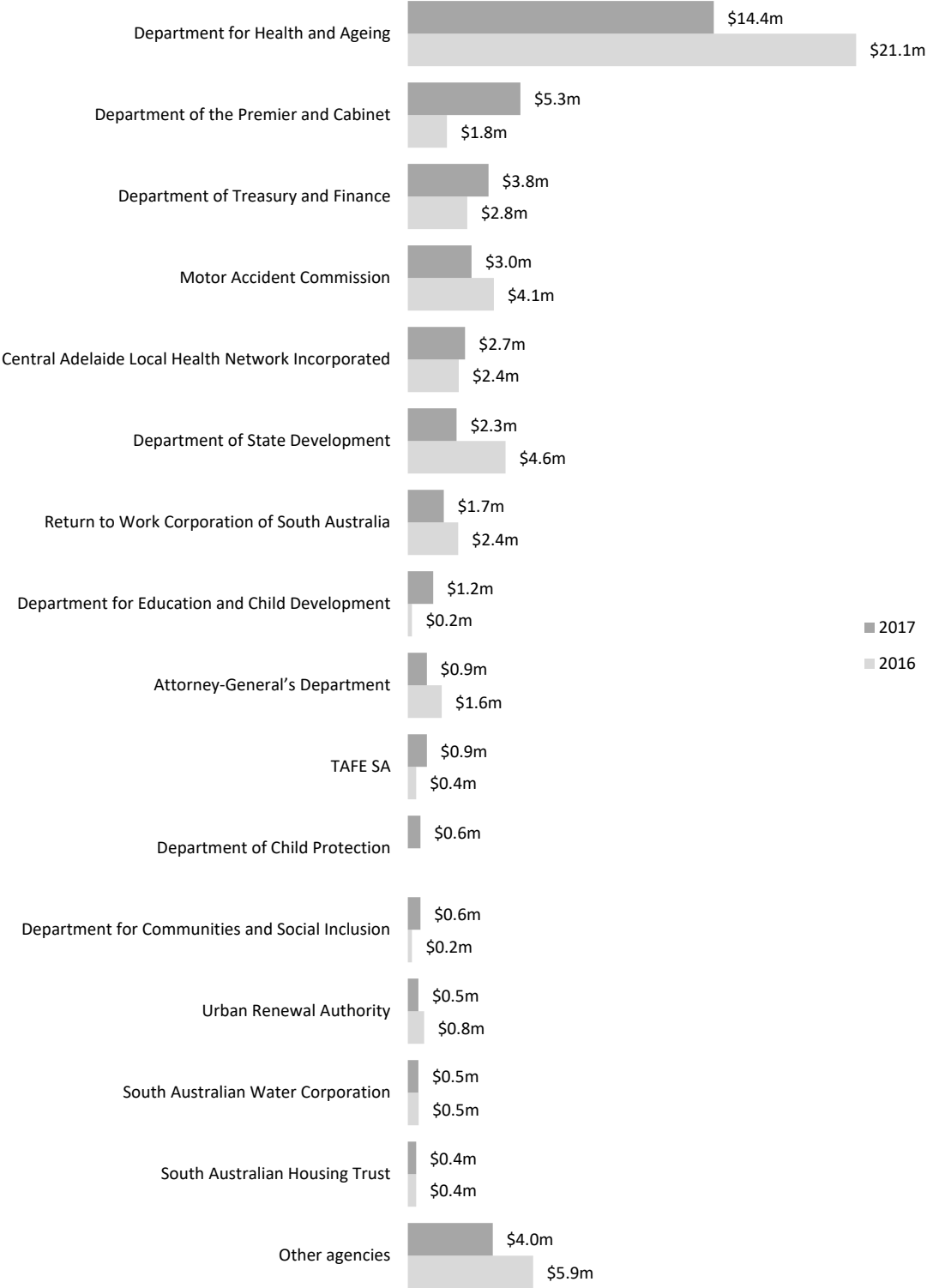


6.7 Consultants

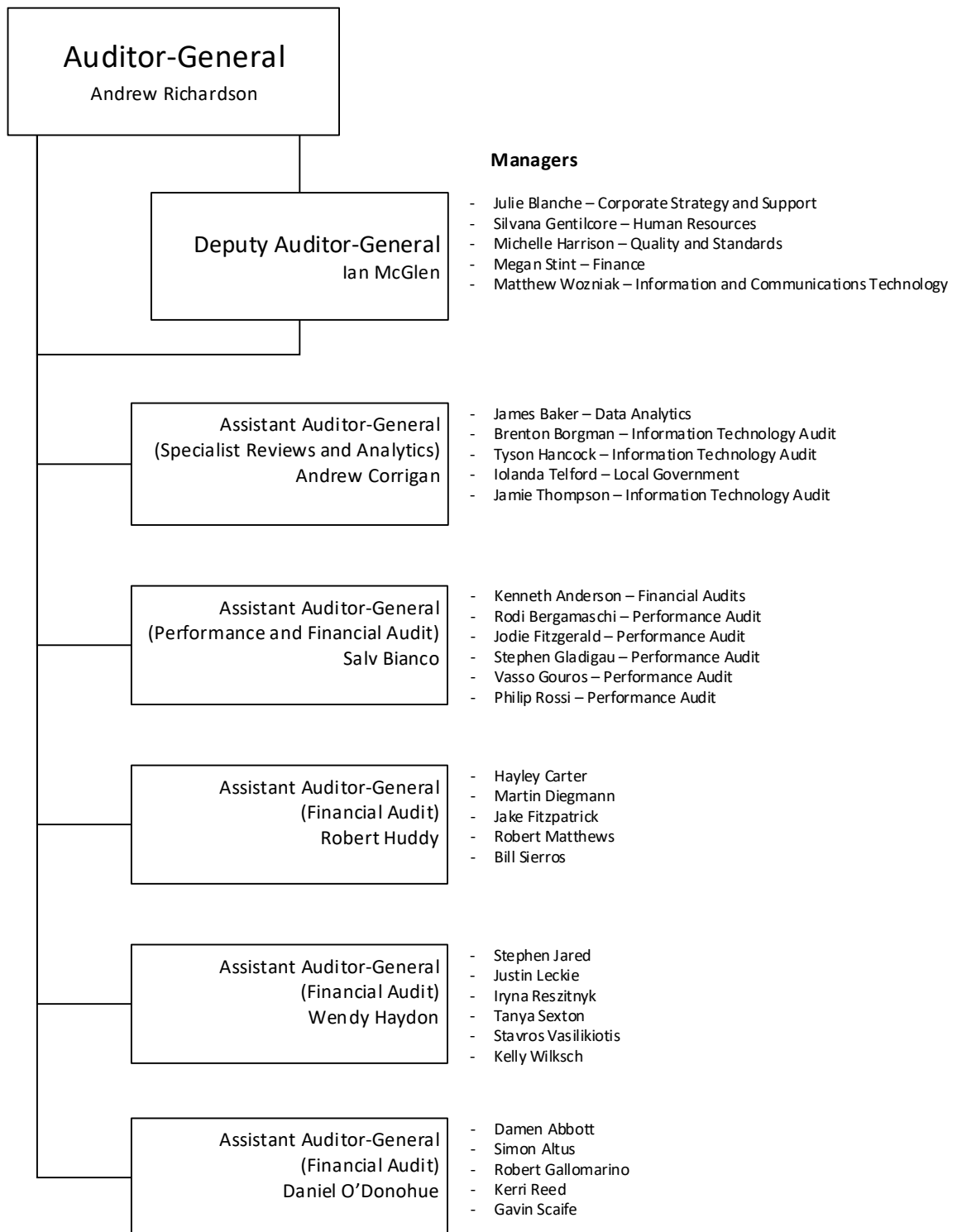
APF II, APS 4.5 requires expenses incurred as a result of engaging consultants (as reported in the Statement of Comprehensive Income) to be disclosed in the explanatory notes.

Consultants expenses in 2016-17 were \$43 million (\$49.2 million).

Figure 6.8: Consultants expenses



7 Management structure of the Auditor-General's Department



8 Agencies audited and not included in this Annual Report

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

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