Report of the Auditor-General

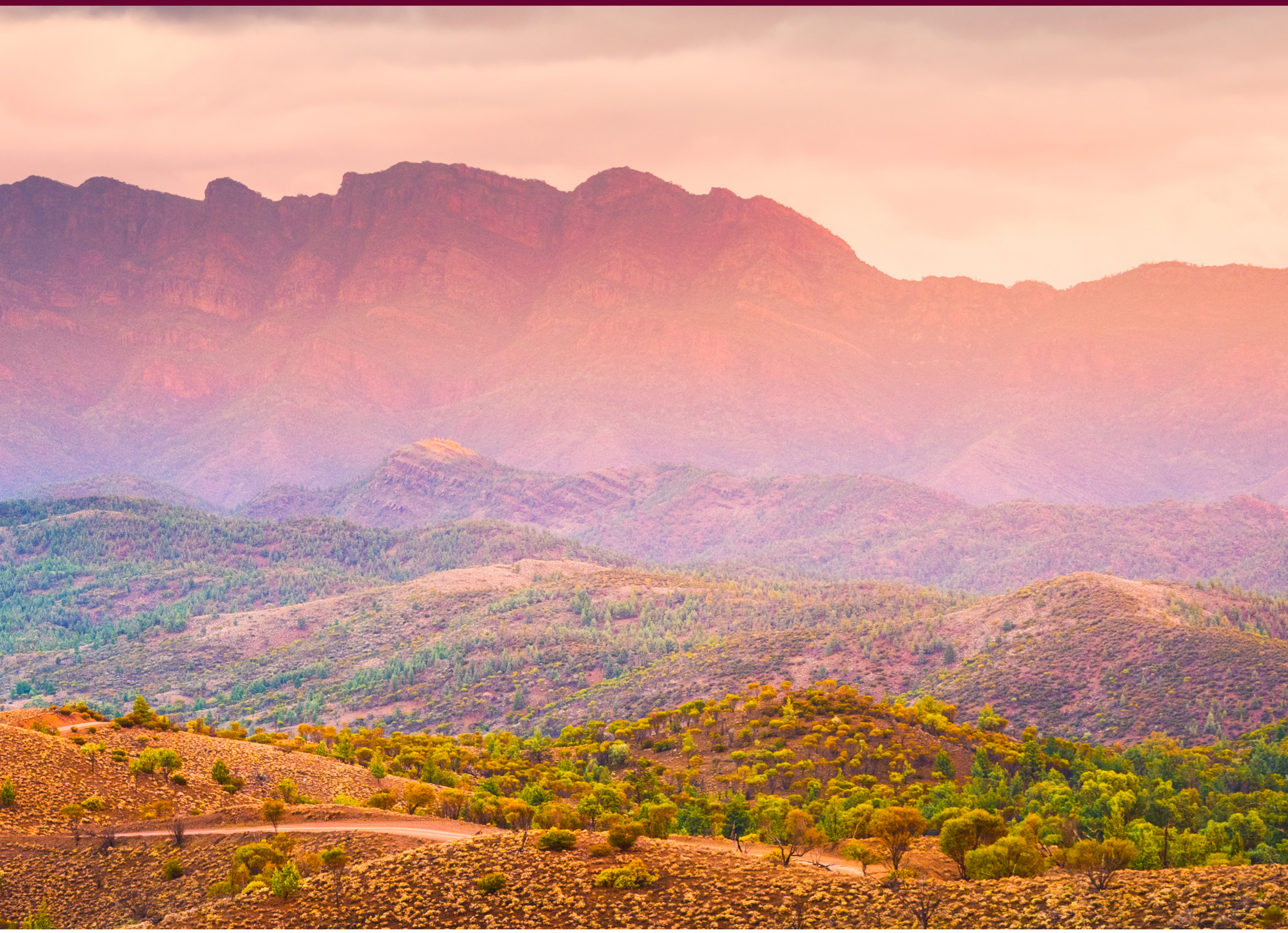
Audit Office of South Australia

Report 10 of 2024

Update to the Annual Report

for the year ended 30 June 2024

Department for Infrastructure and Transport



Government of South Australia

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Report of the Auditor-General

Report 10 of 2024

Update to the annual report for the year ended 30 June 2024 - Department for Infrastructure and Transport

Tabled in the House of Assembly and ordered to be published, 15 October 2024

First Session, Fifty-Fifth Parliament

By authority: T. Foresto, Government Printer, South Australia

2024

The Audit Office of South Australia acknowledges and respects Aboriginal people as the State's first people and nations, and recognises Aboriginal people as traditional owners and occupants of South Australian land and waters.

Audit Office
of South Australia

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9 October 2024

President
Legislative Council
Parliament House
ADELAIDE SA 5000

Speaker
House of Assembly
Parliament House
ADELAIDE SA 5000

Dear President and Speaker

Report of the Auditor-General:
Report 10 of 2024 *Update to the annual report for the year ended 30 June 2024 – Department for Infrastructure and Transport*

As required by the *Public Finance and Audit Act 1987*, I present this report to you.

Content of the report

On 30 September 2024 I delivered my annual report for the year ended 30 June 2024 to you. In it, I advised that we had only just received material information needed to complete the 2023-24 audit of the Department for Infrastructure and Transport (DIT). I also advised that our commentary on DIT's audited financial report for the year ended 30 June 2024 would be provided in a separate report to Parliament once the audit was completed.

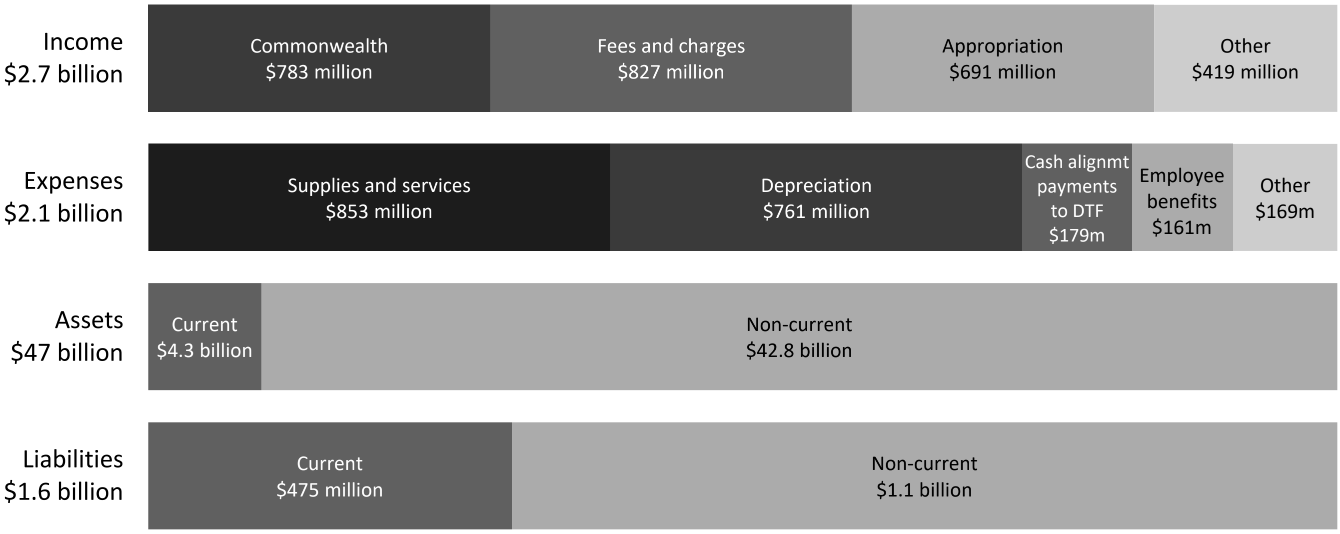
The DIT audit is now complete and this report provides that commentary.

Yours sincerely

Andrew Blaskett
Auditor-General

Department for Infrastructure and Transport (DIT)

Financial statistics

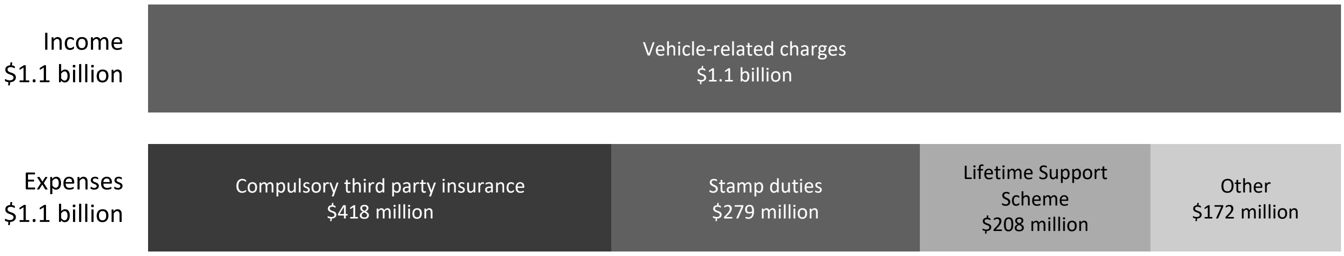


2,025
FTEs (excluding Rail Commissioner)

$2.3 billion
Capital expenditure

23,000 km
Roads managed

Administered items



Significant events and transactions

— The SA Government commenced the process to return the operation of trains and trams back to State control by January 2025 and July 2025, respectively.

— The revaluation of network assets resulted in an increase in their value of $1.3 billion, largely reflecting increased costs.

— The budget for the North-South Corridor River Torrens to Darlington project was revised to $15.4 billion. A procurement undertaken for the main works resulted in a preferred alliance partner being selected in August 2024.

— Land purchases for the North-South Corridor River Torrens to Darlington project totalled $375 million.

— Costs of completed projects for the Main South Road duplication of $327 million and for the Victor Harbor Road duplication of $119 million were recognised in assets.

Financial report opinion	**Unmodified**
Controls opinion findings	— The Across Government Facilities Management Arrangements (AGFMA) were not operating in line with the contract. — Performance and contract management controls need to improve. — Risk management processes need to improve in some areas. — Some contract procurement processes need to improve. — Asset management practices could improve.
Other audit findings	— Cash reconciliation processes could improve. — Documentation to support DIT's allocation of overhead costs for asset capitalisation could improve. — Documentation of judgements used to assess the carrying value of all material classes of fixed assets could improve. — Employee attendance controls for staff designated as excess could improve.

Functional responsibility

DIT is an administrative unit established under the *Public Sector Act 2009* and is responsible for transport systems and services and infrastructure planning and provision.

Scope of the audit

Audit of the financial report

Our audit program covered major financial systems to obtain sufficient evidence to form an opinion on the financial report and internal controls. Areas of audit attention in 2023-24 included:

- accounts payable
- payroll
- public transport contracts
- fees and charges, including motor vehicle, driver's licences and public transport
- income and expenditure for maintenance, property and building construction services
- accounts receivable
- bank reconciliations
- general ledger
- governance

- fixed assets, including capital works, road and rail network assets, and plant and equipment
- finance leases
- IT general controls.

We considered the work of DIT's internal auditors in designing and performing our audit procedures.

Controls opinion

As part of our overall controls opinion, which is discussed in Part B of this report, we reviewed controls over:

- facilities maintenance services managed by DIT for other SA Government agencies
- contract management for road maintenance and metropolitan public transport contracts
- asset management for selected road, marine and bus assets
- purchasing non-current assets, including procurement, contract management and project delivery
- construction on behalf of other SA Government agencies, including procurement, contract management and project management
- acquisition and disposal of land and buildings
- operating expenditure, including contract management for key operational contracts
- motor registration revenue
- expenditure of Commonwealth money
- bank accounts.

Audit findings

Communicating our audit findings

We communicated our audit findings in management letters to the Chief Executive. The main findings and DIT's responses are discussed below.

Controls opinion findings

DIT currently manages a number of significant service contracts. They include the AGFMA, road maintenance, transport and asset management arrangements. We found that DIT could improve its contract, performance and risk management in these areas. This is further discussed in our various controls opinion findings below.

The Across Government Facilities Management Arrangements were not operating in line with the contract

The AGFMA is an integral part of the SA Government's approach to maintaining, managing and improving building assets (including building fabric, plant and equipment). It is designed to enable the SA Government to identify the building work that needs to be done, negotiate a fair price, manage risk and maintain public records of work performed. Over 30 agencies participate in the AGFMA.

AGFMA background

In July 2021 the SA Government entered into a contract with Ventia Australia Pty Ltd (Ventia) for the provision of AGFMA services. The contract commenced on 1 December 2021.

The contract with all options (including GST) had an estimated total value of $4.2 billion over 11 years and seven months, with an initial term of five years and seven months and three optional extensions of two years each.

The AGFMA is a complex arrangement. Both DIT and the participating agencies have responsibilities under it, as does Ventia as the service provider. These roles and responsibilities are documented in the AGFMA Services Agreement (the contract), the memorandums of administrative arrangements with agencies and DIT's AGFMA contract management plan. Under the contract with Ventia, DIT remains the central policy and contract management agency.

As the AGFMA contract manager, DIT is responsible for having processes and controls to monitor and manage Ventia's compliance or non-compliance with its contractual obligations. DIT is also responsible for managing the risks to the SA Government of outsourcing the AGFMA to an external contractor.

Services provided under the AGFMA include preventative maintenance, replacement/refurbishment maintenance, works less than $150,000, breakdown maintenance and planned small construction works. DIT advised us that SA Government agencies paid about $514 million (GST inclusive) to Ventia in 2023-24 for services provided.

DIT's role as administrator is to:

- administer the AGFMA by managing the contract
- establish appropriate mechanisms to support participating agencies and agency representatives in their roles under the AGFMA
- provide advice to participating agencies to meet compliance and to support the maintenance of government assets
- manage the performance of the facilities management service provider (Ventia) in line with their contract and other obligations
- conduct audits and assurance activities, in line with the contractual obligations on Ventia operations and processes and to monitor KPI requirements and the accuracy and timeliness of the invoices Ventia issues.

Agencies are responsible for managing their designated locations, which includes:

- developing, maintaining and administering strategic asset management plans or procuring the services of Ventia to do this
- verifying that work has been carried out in line with requirements
- paying fees for services procured in respect of their assets
- collaborating with Ventia to finalise the annual works program and budget
- issuing work requests
- participating in relevant governance groups
- ensuring work, health and safety standards are met.

The AGFMA represents an important component of each participating agency's asset management system.

AGFMA current status

DIT has been working continuously with Ventia to improve service delivery under the contract, while also managing the contractual arrangements. Despite these considerable efforts, there are unresolved matters that mean the AGFMA arrangements are still not operating as intended. Remedying some of these issues will take significant work, including by Ventia, for such a complex arrangement.

In 2023-24, DIT worked with Ventia to improve the issues we identified in 2021-22 and 2022-23. However, we noted that there were still a range of issues reported by agencies using the AGFMA, including matters around the timing, quality and costs of works.

DIT has issued a number of contract breach notices to Ventia, and has requested improvement plans, cure plans and a core services stabilisation plan from Ventia to outline how issues will be addressed. There have also been work groups established to address outstanding matters.

In 2022-23 Ventia prepared a core services stabilisation plan and work groups such as the KPI business as usual work group were established. Although the plan and the KPI business as usual work group are no longer in place, DIT and Ventia are exploring other initiatives such as cure plans to address specific issues.

While Ventia has implemented improvements and has been responsive to changes requested for some areas, outstanding issues remain and agency frustrations continue. Considerable work is still required to provide an optimised AGFMA for all users. We are aware that DIT continues to work closely with Ventia to assist where it can, while also managing the contractual arrangements.

Summary of AGFMA audit findings for 2023-24

Our 2023-24 audit program focused on following up our previous audit findings and understanding how DIT is managing the contract. We identified areas where DIT could improve its internal controls over AGFMA governance, risk management and contract management. We found that:

- DIT and Ventia are in ongoing discussions about cyber security matters Ventia had not provided DIT with evidence of its overall compliance with the South Australian Cyber Security Framework (SACSF), noting that an external review in 2022-23 identified cyber security weaknesses in a number of areas
- there are gaps in DIT's risk management processes for the AGFMA, with the risk register not being reviewed quarterly as intended and not including information for risks in areas such as cyber security, Ventia's compliance with SA Government procurement policies and the application of trade ceiling rates
- DIT does not have evidence that Ventia's systems include the minimum asset data requirements outlined in Premier and Cabinet Circular PC 114 *Government Real Property*
- DIT has not performed any formal audit and assurance work to review Ventia's controls over user access to its facilities management software, and Ventia has not provided DIT with evidence of user access reviews for this software
- DIT has not verified the KPIs reported in 2023-24.

We also identified areas where Ventia was not operating in line with the contract. This included:

- evidence that Ventia was engaging subcontractors who charge above the maximum trade ceiling rates established under the contract, with participating agencies charged at rates higher than those allowable for some work
- no evidence that Ventia had completed and finalised the data validation process, designed to ensure accurate data is recorded for the assets being managed
- the Annual Inspection and Data Audit Plan required by the AGFMA contract was not in place for 2023-24 and there was no other evidence provided to DIT that Ventia was conducting site/asset inspections for data purposes
- not all data is flowing to DIT's data warehouse from Ventia, as required by the contract
- Ventia's AGFMA risk register was incomplete and missing key information
- KPI credits were incorrectly calculated and applied to agency invoices
- Ventia is not complying with all applicable SA Government (Procurement SA (PSA)) procurement policies despite this being required by the AGFMA contract
- Ventia is not meeting KPI targets for achieving the required response and restoration times for breakdown jobs, and is not consistently completing preventative maintenance within required time frames
- DIT's AGFMA audit and assurance processes found instances where subcontractors in Ventia's subcontractor management system were not marked as compliant or were marked as compliant without sufficient documentation to support this.

DIT responded that it will continue to:

- work on assurance and compliance with Ventia against the SACSF. Ventia provided responses including its completion of the SACSF tool kit with a view on a series of equivalent and comparable controls from its Information Security Management System against each SACSF principle and requirement. In addition, DIT has done an assessment and agreed a set of requirements with Ventia that will progress through an external consultant to review the applicability of the SACSF and determine Ventia's compliance with the applicable requirements
- monitor and review to ensure risks are appropriately documented in DIT's AGFMA risk register. Consideration will be given to Ventia's identified controls and treatments when defining the risks, controls and treatments considered in the register
- work with Ventia on access to minimum data and demonstrating how data has been input and maintained to achieve the required level and to ensure that asset data in Ventia's systems is complete, accurate and up to date. Verification activities continue through assurance and audit functions, with identified issues reported to Ventia for rectification, and with escalation through contractual notices as required
- monitor and update its AGFMA risk register throughout the contract term and, where appropriate, reported risks to the relevant governance body. DIT will determine if the current register review frequency accurately reflects its business practices and requirements, and will update it accordingly
- apply its contract management responsibilities to drive improvement, including all formal contracted mechanisms for potential breaches, such as formal notices and KPI abatements, being applied

- monitor and apply consistent review and feedback on Ventia's reported KPI results. KPIs relating to unsafe assets and legislated maintenance are included in the KPI framework. DIT will continue to monitor KPIs and ensure information on preventative maintenance and unsafe assets is provided to participating agencies through regular meetings. DIT has been working with Ventia to have a consistent approach to agency meetings and ensure contractual requirements for these meetings are covered
- review Ventia's subcontractor monitoring program and system records, and conduct assurance activities on the information in the program and subcontractors. Outcomes of these activities will continue to be provided to Ventia to rectify within time frames specified by DIT and will include progress reporting on non-finalised actions. Results will be considered for inclusion to governance groups as part of regular reporting.

Further, DIT has continued to apply guidance, contract management advice and escalation to Ventia:

- for the timely supply of an appropriate annual inspection and data audit plan (DAP). DIT continues to work with Ventia to ensure that the full data under the AGFMA contract is flowing through to the DAP and performs assurance activities over the completeness and accuracy of this data
- for the timely supply of assurance that user access controls implemented by Ventia are effective. DIT and Ventia conducted a system user access and delegations review in July 2023, and sent information to agencies for review and reminded them of their obligations to update Ventia of changes to system users. DIT received an updated user access and delegation list in June 2024, and will review it to determine if any changes are needed
- to ensure that Ventia updates its risk register throughout the contract term. DIT will continue to monitor and include risks arising during the term or identified during audit or assurance activities and, where appropriate, they will be reported to the relevant governance body
- to ensure Ventia progresses and finalises the outcomes of the 2022-23 procurement review. DIT will work with Ventia to ensure identified risks or process issues are addressed through a corrective action plan
- to understand the potential magnitude of subcontractor overcharges, including escalation of requests if required. Trade ceiling rates continue to be a point of discussion in ongoing commercial discussions, with DIT working with Ventia on its understanding of its trade ceiling rate obligations and the impact to agencies of the potential overcharges. DIT will continue to monitor potential overcharges through assurance and audit functions, and will continue to review its processes to ensure monitoring of trade ceiling rates is included
- to come to an agreed position where there is a difference of opinion in the calculation of KPI results. DIT will continue to audit and review each monthly KPI calculation, and work with Ventia to ensure the correct KPI credit amount is applied and, where applicable, returned to agencies
- to drive improvement. This includes all formal contracted mechanisms under the contract for potential breaches being applied, including formal notices and KPI abatements. DIT has applied abatements for the performance deliverables not met, has received and reviewed the backing data behind KPI calculations, and has again met with Ventia to discuss the data and how it calculates KPIs.

Improvement required in road maintenance contract and performance management controls

In July 2020 the Commissioner of Highways executed four road maintenance contracts for a total of up to $5.1 billion (GST inclusive) over a potential contract period of 13 years. Routine services under these contracts commenced in November 2020. The Commissioner of Highways retains oversight of the strategic asset management of the road network.

In 2022-23, we noted that while DIT had established a framework and structure for managing the road maintenance contracts, its contract management controls were not operating effectively.

In 2023-24 we noted a number of matters that continue to impact the effectiveness of DIT's management of these contracts, including that:

- the contract management framework used for the road maintenance contracts does not comply with Treasurer's Instruction 18 *Procurement* (TI 18), as DIT is using the civil construction contract management framework to manage them
- the controls in place to track and monitor compliance with contract obligations are not effective
- DIT did not prepare an annual performance evaluation of contractor performance
- KPI documentation, measurement, enforcement and verification is not implemented
- processes to prioritise maintenance works for the safety of road users need to be documented
- tracking and monitoring of ordered services could improve
- risk management processes and documentation could improve
- new operating models for the road maintenance contracts have not been implemented for an underperforming contractor
- DIT could not provide depot maintenance plans for road depots leased to the road maintenance contractors
- monthly reporting from contractors does not comply with contract requirements.

In 2022-23, we raised with DIT that it was not complying with TI 18 for its contract management approach. In response, DIT sought approval from its Chief Executive to apply the civil construction contract management framework to these contracts. However, DIT's Chief Executive does not have the authority to exempt DIT from TI 18 requirements, as that authority lies with the Treasurer or his delegate.

DIT responded that it is of the view that adopting the civil construction contract management framework is appropriate, noting that the scope of works under the road maintenance contracts aligns closely with civil construction. Further, DIT noted that PSA's contract management policy has not been approved and communicated to agencies for application to construction contracts.

We met with DIT early in 2023-24 and advised it that it was required to comply with TI 18 and the PSA framework, noting that DIT's Chief Executive did not have the authority to exempt DIT from that requirement. We subsequently met with PSA, which is responsible for TI 18 and any related exemptions or modifications on behalf of the Treasurer. PSA agreed that its contract management policy should be applied to the road maintenance arrangements as they were not the types of contracts to which a construction contract management approach could be applied without an exemption from PSA.

Despite these discussions with DIT, its approach to managing these contracts has not changed and DIT has not sought an exemption from TI 18. As such I consider that DIT is in breach of the TI 18 requirements in relation to this matter.

DIT further responded that:

- it will not continue to maintain an obligations register and considers that the contract management plan and contract itself are sufficient controls to track and monitor the contractors' obligations under the road maintenance contracts
- draft contractor performance reports have been prepared for all contracts with one exception. Going forward, DIT will ensure that annual contractor performance reviews are undertaken as close as possible to the conclusion of each period
- it has fully considered appropriate changes to the key results areas framework and will shortly implement a revised framework
- it has developed a risk management plan which will be a critical input into the prioritisation of road maintenance tasks
- it is in the process of scoping the functionality for managing work orders in its new maintenance management system
- it will update its processes to review contractors' risk management plans quarterly and ensure contractors' monthly reports appropriately report on risks. Any deficiencies identified will be promptly notified to the contractor. In addition, DIT will schedule quarterly reviews of the risk register to identify and assess significant and emerging risks associated with the road maintenance contracts
- it continues to actively review the performance of one underperforming contractor and is determining a proposed approach to resolve the current contractual issues
- in May 2024, it issued written notices requesting contractors to submit annual maintenance plans for road depots that are leased to them. DIT will ensure compliance with these notices and will continue to conduct and document regular depot inspections
- it will review and update its processes to ensure that any issues with a contractor's monthly report are promptly notified to the contractor. The contractor's performance will be considered by DIT when it determines whether to exercise an extension option under the contract.

Opportunities to improve asset management practices were noted

Road asset management

DIT's road and structures network assets were valued at $32 billion at 30 June 2024 and comprise the following assets:

- sealed roads
- the road corridor, which includes signs and safety barriers
- unsealed roads
- bridges and structures
- electrical assets, which include lighting and traffic signals
- data and systems, which include asset and traffic information.

As we have previously reported, DIT commenced a restructure of its asset management framework in 2020-21 to provide a whole-of-department approach to transport asset management to align with the requirements of ISO 55001:2014 *Asset management – Management systems – Requirements* (ISO 55001). Since adopting this approach, DIT has developed and approved:

- an asset management policy for transport assets, which provides a high-level statement of DIT's commitment to asset management

- an asset management framework that allocates the responsibilities of asset owners at each stage of the asset life cycle, provides an overview of the policies, goals and procedures necessary for transport asset management and aims to align these elements department-wide to enable the consistent management of transport assets.

At the time of our 2023-24 audit DIT was in the process of documenting its asset management strategy, which we are advised will provide detail on how DIT has or is planning to align with the requirements of ISO 55001. This includes:

- providing strategic direction to the development of AMPs for asset groups
- outlining strategic opportunities and options
- alignment with DIT's strategic objectives
- a summary of long-term forecasts and financial funding needs.

In 2022-23 we made some recommendations about how DIT's approach to road asset management could be improved. In 2023-24 we found that it had made progress against each of these items, but noted further areas for improvement as:

- road asset management risk registers were not yet complete
- approaches for managing transport assets were not completely documented
- the harmonisation of criticality measures across DIT could be improved.

DIT responded that:

- it is developing its risk register and risk management plan for road corridor maintenance (for road and bridges) in line with its enterprise risk management framework and risk management policy and was expecting this to be finalised and approved in June 2024. The risk register and risk management plan will undergo an annual review
- the strategic AMP for its road and bridge assets is progressing and is expected to be completed by the end of 2024
- the AMP for its road corridor assets, including road, drainage, roadside, structures and mechanical and electrical assets, is progressing and is expected to be completed by the end of 2024
- as part of developing its strategic AMP, DIT is currently developing a new strategic investment approach that will include a strategic investment statement for the road and bridge asset portfolio. In addition DIT will finalise a decision-making framework and ensure alignment and best practice between the strategic AMP and the AMPs. This process will be used to identify the funding requirements based on optimised lifecycle costing.

Marine asset management

DIT is responsible for managing marine assets with a written down value of $497 million at 30 June 2024.

As noted in prior years, DIT has established a framework for managing its assets that includes:

- an asset management policy that provides a high-level statement of organisational commitment to asset management
- documented asset management objectives that describe what asset management is to achieve
- a comprehensive strategic AMP for road and marine assets, which includes details on how DIT has, or is planning to, align with the requirements of ISO 55001, provides strategic direction to developing AMPs for asset groups, establishes levels of service, and summarises long-term forecasts and financial funding needs

- AMPs that aim to describe the asset management practices applied to specified groups of assets and include specific levels of service, key assets, risks and their mitigation, financial forecasts and improvement actions.

In 2023-24, the strategic AMP for roads and marine assets still provides the strategic direction for managing both asset types until it is further considered and revised.

This year we found that while DIT was improving its management of marine assets, specific asset management practices were still being refined, developed and implemented. We noted the following areas where improvement was still required:

- There is no evidence that DIT is enforcing compliance with the Port Bonython Jetty maintenance agreement by Santos Limited.
- DIT did not record asset condition indicators in its marine data system.
- DIT is not monitoring or reporting asset performance measures.
- The AMP does not report on customer levels of service.

DIT responded that:

- future arrangements for an expanded multi-user framework that will support the export of hydrogen-related products through Port Bonython are currently being explored with commercial partners. Until there is clarity around the multi-user operating model for this facility, an informed decision on fit-for-purpose future maintenance arrangements cannot be made
- it is in the process of carrying out formal condition assessments for its marine assets. It has also developed standardised data input templates to ensure all condition inspections are systematically recorded in a consistent and standardised way, and subsequently stored in its marine asset database
- it is reviewing marine asset performance levels and evaluating effective methods to measure their actual performance. These measures will then be recorded against KPIs in the AMP. The KPIs are listed in the marine AMP and will be formally reviewed in consultation with key stakeholders.

Metropolitan transport asset management

DIT is responsible for managing rail and bus track assets with a written down value of $3.6 billion and trains, trams and buses with a written down value of $684 million at 30 June 2024.

In 2023-24 we focused on aspects of its contract management processes to oversee the maintenance activities performed by contractors on bus-related assets.

Since 2000, bus passenger transport services in metropolitan Adelaide have been entirely outsourced. They are currently provided by four private companies, with the service contracts awarded for six contract areas. The value of the bus and tram service contracts is $3 billion (inclusive of GST) over a potential 10-year term to 30 June 2030.

In 2023-24 we noted that:

- DIT had not prepared a public transport strategic AMP or AMPs for each class of bus-related assets
- the bus contractor AMPs do not comply with contract requirements
- the asset data system for bus depots is not complete

- the asset data system for bus interchange assets has not been established
- there is a backlog of bus depot preventative maintenance tasks requiring completion.

DIT responded that:

- it has allocated a dedicated resource to prepare AMPs for bus infrastructure including depots, interchanges, stabling yards, 'Park n Rides' and other ancillary bus asset classes in 2024-25
- contractor AMPs will be reviewed and DIT will work with each contractor to ensure the AMPs comply with contract requirements by June 2025
- it is reviewing systems to provide an asset management tool to record, track and monitor bus depot asset data, including financial information
- it has engaged professional services to capture detailed asset listings for DIT bus interchanges in 2024-25
- bus operators are advising DIT through monthly contract reporting when any high or medium backlog maintenance activities are actioned at DIT-owned bus depots. DIT will continue to audit all depots quarterly, to sight operators' maintenance activities and record status updates on previously noted maintenance backlogs.

Construction work on behalf of other SA Government agencies for 2023-24

In 2023-24 DIT spent $795 million on construction work on behalf of other SA Government agencies. We noted that:

- evaluation panel changes were not always properly approved before members signed the evaluation report
- conflict of interest declarations were not always approved before evaluation processes started
- probity plans were not developed for all projects and there was a lack of guidance about the need for probity plans in DIT policies and procedures
- project management plans for two of the sampled projects were not approved
- DIT's contract management practices do not align with PSA's best practice
- no risk management plan was developed and there was a lack of evidence that project and contract risks were being appropriately managed for a project we selected.

DIT responded that it:

- will ensure that any changes to the evaluation panel are approved by the delegate in line with its policy and as set out in the acquisition plan, before the evaluation panel signs the tender assessment report
- is reviewing its confidentiality and conflict of interest practices to ensure declarations are signed by evaluation panel members before any evaluation meetings start
- is reviewing its probity policy to ensure appropriate guidance is given about when a procurement probity plan is required
- is reviewing its practices to ensure project management plans are developed, approved and implemented by project managers before projects commencement
- is finalising a new contract management framework to better align with PSA requirements

- is reviewing its practices to ensure compliance with its guide to risk reporting for building projects and its risk management policy. DIT will ensure risk management plans are developed for projects to ensure the approach to risk management is documented and accepted by project teams. It will regularly review and update project and contract risks registers, and maintain evidence that risks are being regularly monitored.

Accounts payable and expenditure for 2023-24

In 2023-24, DIT's supplies and services expenses totalled $853 million.

We noted that DIT:

- did not develop and approve contract management plans before the contract commencement date for all contracts
- had not reviewed its delegations and authorisations register as required by Treasurer's Instruction 8 *Financial Authorisations* (TI 8)
- did not undertake post-sourcing reviews for complex and strategic procurements
- did not undertake post-contract reviews promptly for all relevant procurements.

DIT responded that:

- it would review its current processes and, where necessary, introduce additional compliance reviews
- it would include a review its delegations and authorisations register in its annual audit program, ensuring TI 8 requirements are met
- it has created a post-sourcing review template and added it to its procurement checklist. In addition, the procurement team has been reminded of policy and guideline requirements, which include post-sourcing reviews
- post-contract reviews will be included in the review of its current processes.

Other audit findings

Employee attendance controls for excess staff need improvement

In 2023-24 DIT's employee benefits expenses for excess staff and other employees assigned to the Project Hub and Assessment Centre (PHAC) totalled $18 million.

We found that DIT could improve its controls to monitor and certify employee attendance for employees in the PHAC.

DIT responded that it will revise its timesheet approval process to include a review of each timesheet to ensure the proper approval has been given before information is sent to the payroll team for processing.

DIT does not have a clear method to assign direct overhead charges to specific capital projects in line with AASB 116 *Property, Plant and Equipment*

In 2023-24 DIT capitalised overheads totalling $87 million to various projects. Its overhead allocation model uses a pooling method to allocate business support charges to business units, and then spreads the costs allocated to each business unit across projects delivered by that unit.

It is likely that capital projects will attract some expenditure, other than direct payments to contractors, that can be considered directly attributable to that project. One example of this is project manager and supervisor salaries.

However, the pooling method DIT uses leads to the allocation of costs that appear to be too remote from the specific project, and do not appear to be in line with the AASB 116 requirements, which allow costs that are directly attributable to bringing an asset to use to be capitalised, but not general or administrative overheads.

DIT responded that it will review the level of documentation for its overhead allocation model, with a view to ensuring that the evidence of overhead allocations is within the requirements of AASB 116.

Cash

DIT's cash and cash equivalents at 30 June 2024 totalled $3.9 billion.

We found that:

- updates to DIT's draft cash and banking policy are needed
- the quarterly review of authorisers did not include all authorisers and administrators for the DIT ANZ Transactive banking environment.

DIT responded that:

- its cash and banking policy has been amended and submitted to Executive for approval. It expects that the policy will be operational by the next quarterly review, due in October 2024
- the next quarterly review for the period ended September 2024 (due in October 2024) will incorporate user access reviews across all the banking applications DIT uses.

Metroticket revenue

Metroticket revenue totalled $90 million in 2023-24.

We found that:

- reconciliations between sales channels (BPOINT, MetroCard Agent and EFTPOS) and the bank were not performed promptly and are not subject to independent review
- user access reviews, including for privileged user access, for the MetroCard revenue recognition system were not performed in line with DIT policy.

DIT responded that:

- it has updated its dashboard to reflect the due date of reconciliations that align with Treasurer's Instructions 6 *Statutory Accounts and Banking*. It will update it procedures by the end of October 2024 to reflect these requirements. DIT has also implemented a process to independently review and approve its monthly financial reconciliations. Procedures will be updated by the end of October 2024 to reflect these changes

- quarterly and yearly user access reviews are currently being conducted. Procedures will be reviewed and updated and controls put in place by February 2025 to ensure time frames are being met. DIT is currently reviewing its processes to ensure terminated staff have their access removed immediately. It will review and update its ticketing user access procedure by February 2025.

Fixed assets

Fixed assets as at 30 June 2024 totalled $43 billion.

We found that:

- the review processes DIT performs to ensure that operating costs are not capitalised are not effective
- fair value assessments are not performed for all material asset classes each year
- the book value of asset replacements is not written off when network assets are replaced.

These issues could lead to asset carrying amounts being materially different from fair value.

DIT responded that:

- it will develop an annual declaration for all asset managers which will document their consideration of key indicators of material changes to assets under their custodianship. It will also reinstate asset management forums as an opportunity for asset managers to consider and discuss key indicators across assets under their custodianship and the potential impacts to DIT
- it will review its processes and identify specific asset classes to document how to comply with the requirements of AASB 116 for replacements
- its finance team works closely with project managers on performing comprehensive monthly reviews of actual costs incurred against capital project budgets. Given the robust monitoring in place, DIT will consider options to further improve whether costs are correctly categorised as operating in nature.

Information technology general controls review

We identified the following areas where DIT could improve its IT general controls approach:

- inadequate patch management across the Masterpiece financial system environment
- weaknesses in Active Directory password management
- inadequate review of privileged user accounts and activities for the TRUMPS application.

DIT responded that it:

- will be upgrading Masterpiece to the highest supported versions of the Solaris operating system and Oracle database server
- will commit to ensuring that its legacy service accounts action treatment plan is fully acquitted, based on the completed 2023-24 internal review of these remaining service accounts
- will ensure it completes retrospective compliance activities and will regularly review user accounts going forward.

Interpretation and analysis of the financial report

Highlights of the financial report

	2024 $million	2023 $million
Income		
Appropriation	691	756
Fees and charges	827	789
Commonwealth-sourced grants and funding	783	839
SA Government grants, subsidies and transfers	94	152
Sale of goods and services	37	39
Rental income	218	198
Other income	69	69
Total income	2,719	2,842
Expenses		
Employee benefits expenses	161	151
Supplies and services	853	865
Depreciation and amortisation	761	728
Grants and subsidies and SA Government transfers	114	104
Surplus cash paid to the Department of Treasury and Finance	179	231
Other expenses	55	58
Total expenses	2,123	2,137
Net result	596	705
Other comprehensive income		
Changes in revaluation surplus	1,366	2,401
Total comprehensive result	1,962	3,106
Net cash provided by (used in) operating activities	1,639	1,666
Net cash provided by (used in) investing activities	(2,235)	(1,930)
Net cash provided by (used in) financing activities	176	178
Assets		
Current assets	4,252	4,636
Non-current assets	42,784	40,145
Total assets	47,036	44,781
Liabilities		
Current liabilities	475	487
Non-current liabilities	1,078	1,050
Total liabilities	1,553	1,537
Total equity	45,483	43,244

The following information shows the breadth and scale of DIT's activities, identifying 2023-24 operating expenses by activity and the value of fixed assets held to support these activities.

Roads and marine	$761 million in operating expenses	$32.7 billion in fixed assets
SA Public Transport Authority	$707 million in operating expenses	$4.5 billion in fixed assets
Across-government services	$287 million in operating expenses	$3.1 billion in fixed assets
Delivery of transport projects	$37 million in operating expenses	$1.7 billion in fixed assets
Infrastructure planning and policy	$71 million in operating expenses	$611 million in fixed assets
Road safety	$74 million in operating expenses	$3 million in fixed assets

Note: The net loss or gain on the disposal of non-current assets is recognised by activity in the information above.

Statement of Comprehensive Income

Income

Income totalled $2.7 billion. It includes appropriations of $691 million ($756 million) and SA Government grants, subsidies and transfers of $94 million ($152 million). DIT's revenue sources (excluding appropriation and intra-government transfers) are shown in the following information, which demonstrates the importance of Commonwealth revenues (used largely for capital projects) and the significance of fees charged for motor registrations.

$2 billion in revenue

(excluding appropriation and other SA Government transfers)

Fees and charges **$827 million**		Commonwealth revenues **$783 million**		Other revenues **$325 million**	
$604m	Motor registrations	$352m	North-South Corridor – River Torrens to Darlington	$168m	Office accommodation
$76m	Drivers licence fees	$98m	Princes Highway Corridor	$30m	Government employee housing
$90m	Metrotickets	$51m	Fleurieu Connections Improvement Package		
		$36m	South Eastern Freeway Upgrade		

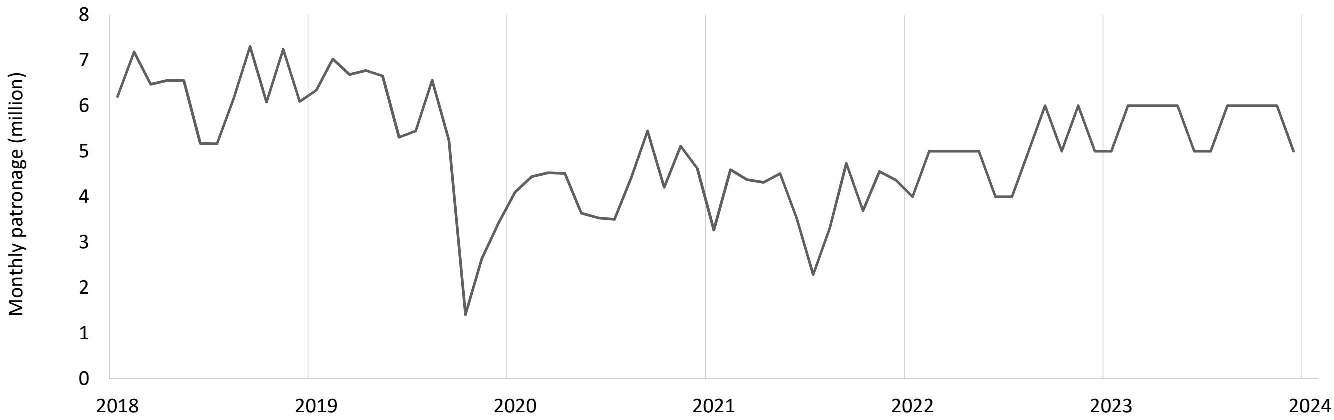
Total income decreased by $122 million (4%) to $2.7 billion, due mainly to:

- appropriation and SA Government grants, subsidies and transfers decreasing by $123 million. This included a decrease in contingency funding of $55 million. In 2022-23, DIT received $59 million of contingency funding for repairs to roads due to damage caused by ex-Tropical Cyclone Tiffany

- Commonwealth-sourced funding decreasing by $56 million. This funding is largely received to support major road and public transport capital projects. The scope and timing of capital projects varies from year to year
- fees and charges increasing by $38 million. This increase was due to variations in individual revenue lines, with motor registration charges increasing by $34 million (6%) due mainly to fee increases of 5% for non-heavy vehicle registrations and 1.8% growth in vehicle registrations.

The impact of COVID-19 on patronage and Metroticket income

For the three years to 30 June 2022 Metroticket income decreased by $37 million (36%), reflecting reduced patronage due to COVID-19. Income increased by $21 million (37%) in 2022-23 and a further $12 million (15%) in 2023-24. The chart below shows the monthly total patronage trends.

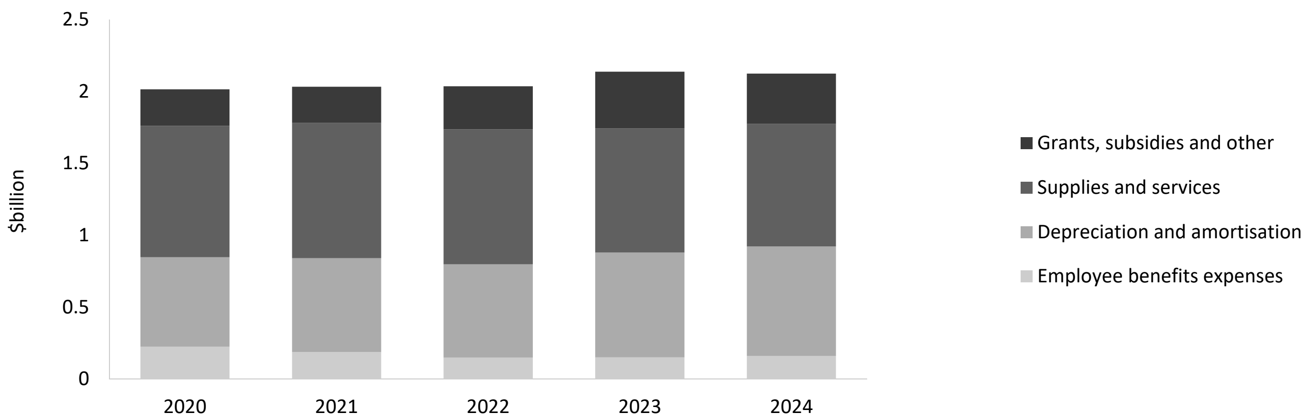


Patronage declined sharply in March and April 2020 (down about 77% in April), and while it has increased since then, 2023-24 patronage levels remain about 11% below 2018-19 levels.

The number of public transport initial boardings was 62.2 million in 2018-19 compared to 55.7 million in 2023-24.

Expenses

DIT's major expenses for the five years to 2023-24 are shown in the following chart.



Expenses for the year totalled $2.1 billion ($2.1 billion) and are due mainly to:

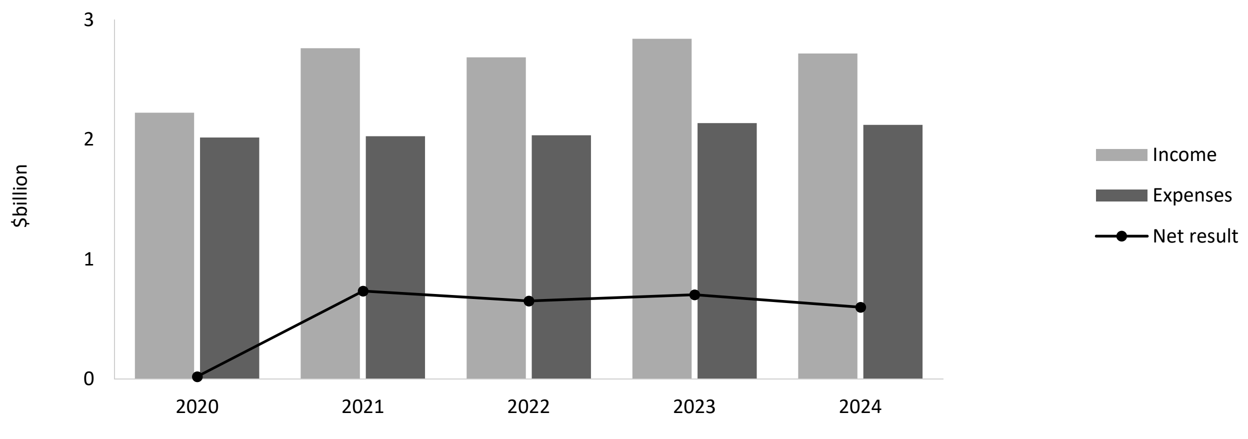
- supplies and services expenses of $853 million (40%), of which $447 million was for public transport service contract payments, $226 million was for operating costs of major infrastructure maintenance and other service contracts and $56 million was for property expenses
- depreciation and amortisation expenses of $761 million (36%), of which $532 million was for network assets, $96 million was for right-of-use assets, $67 million was for buildings and facilities and $62 million was for plant and equipment
- cash alignment payments to the Department of Treasury and Finance (DTF) of $179 million (9%)
- employee benefits expenses of $161 million (8%)
- grants, subsidies and SA Government transfers of $114 million (5%)
- other expenses of $55 million (3%), of which $30 million relates to borrowing costs.

Total expenses decreased by $14 million. The more notable movements in expenditure were as follows:

- Cash alignment payments to DTF of $179 million were made in 2023-24, compared to $231 million in 2022-23.
- Supplies and services expenses decreased by $12 million. This is mainly due to a decrease in major infrastructure maintenance contracts of $24 million, largely due to increased maintenance in certain areas in 2022-23 and a decrease in disaster recovery work in 2024, offset by an increase in other service contracts involving a number of projects.
- Depreciation and amortisation expenses increased by $33 million (5%) to $761 million. This is mainly due to an increase in the depreciation expense for network assets of $35 million due to revaluations of the road network, and rail and bus tracks.

Net result

The following chart shows DIT's income, expenses and net result for the five years to 2024.



In 2023-24 DIT recorded a net result of $596 million ($705 million). Significant factors in the movement of the net result over the past five years have been:

- the value of Commonwealth and SA Government funding for major infrastructure projects being recognised as income, which varies each year depending on the size, nature and timing of approved major capital works
- cash alignment payments to DTF varying from year to year, with $179 million paid in 2023-24, $231 million paid in 2022-23, no payment in 2021-22 and varied amounts in other years.

Statement of Financial Position

DIT’s total assets at 30 June 2024 were $47 billion ($45 billion) and are discussed below.

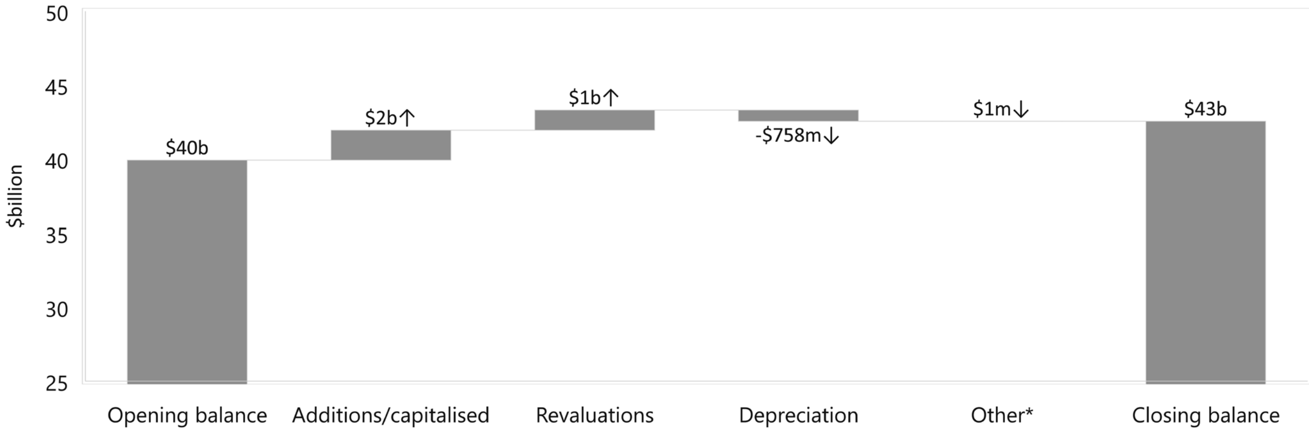
DIT’s liabilities totalled $1.6 billion ($1.5 billion) and mainly comprised lease liabilities of $1.1 billion ($1.1 billion), payables of $297 million ($317 million) and employee-related liabilities of $84 million ($80 million). The movement in liabilities largely reflects a decrease in payables of $20 million, offset by an increase in lease liabilities of $29 million.

Cash

DIT’s cash amounted to $3.9 billion ($4.3 billion) and includes $3.3 billion ($3.8 billion) held in the Highways Fund established under the *Highways Act 1926*.

Fixed assets

DIT’s fixed assets totalled $43 billion ($40 billion) and include network assets of $35 billion ($33 billion), land, buildings and facilities of $4 billion ($4 billion), capital works in progress of $2 billion ($1.7 billion) and plant and equipment of $773 million ($741 million). The following chart shows the movement in fixed assets during the year.



* Includes disposals, donated assets, right-of-use asset re-measurements and assets transferred to held for sale.

Network assets

Network assets amounted to $35.3 billion ($33.4 billion) and represent 82% of total non-current assets. They comprise roads with a written down value of $27.7 billion (79%), structures with a written down value of $4 billion (11%) and rail and bus track assets with a written down value of $3.6 billion (10%).

The written down value of network assets increased by $1.9 billion to $35.3 billion. The main movements were:

- a revaluation increment of $1.3 billion. The increment arose mainly due to an increase in the costs of factors used as inputs to the revaluation methodology such as labour, plant, material and subcontractor costs
- the capitalisation of network projects totalling $1.1 billion, comprising $898 million for roads, $139 million for structures and $27 million for rail and bus track assets
- depreciation expense of $532 million, comprising $358 million for roads, $76 million for structures and $97 million for rail and bus track assets.

For many years DIT has had the Treasurer’s approval to value its roads and structure assets using an internally developed revaluation methodology. The revaluation methodology and rates were last updated in 2019-20 and this was discussed in my annual report for that year. DIT's accounting policy is to review the revaluation methodology every five years, with intervening annual revaluations based on road component and structures unit rates provided by an independent external estimator each year.

Capital works in progress

The value of capital works in progress increased by $327 million to $2 billion. The major movements in capital works are shown in the following table.

Projects	Carrying amount 01.07.23 $million	Additions $million	Transfer to assets $million	Closing balance 30.06.24 $million
Gawler Line Electrification and Modernisation*	29	35	64	-
Road maintenance stimulus packages	190	6	121	75
North-South Corridor River Torrens to Darlington	274	699	376	597
Metropolitan intersection upgrade program**	34	28	53	9
Augusta Highway duplication	174	87	84	177
Sealing Strzelecki Track	79	7	46	40
Princes Highway	36	51	26	61
South Eastern Freeway upgrade	27	103	-	130
Victor Harbor Road duplication	89	40	119	10
Adelaide Hills program	19	35	-	54
Main South Road duplication	212	200	328	84

* Includes rail cars.

** Includes seven intersection upgrades: Cross and Fullarton Roads; Glen Osmond and Fullarton Roads, Goodwood, Springbank and Daws Roads; Grand Junction and Hampstead Roads; Main North, McIntyre and Kings Roads; Main North Road and Nottage Terrace; Portrush and Magill Roads; and the Torrens Road Ovingham level crossing.

Land, buildings and facilities

Land, buildings and facilities increased by $434 million to $4.5 billion, with the main movements due to:

- additions and transfers from capital works of $581 million, which include:
    - land purchased for construction projects of $410 million, including $375 million for the North-South Corridor River Torrens to Darlington project
    - $100 million for right-of-use assets associated with new office accommodation lease agreements, which included $50 million for the Bragg Centre
- depreciation expense of $162 million, of which $95 million was for right-of-use assets and $67 million for buildings.

Plant and equipment

Plant and equipment totalled $773 million, an increase of $32 million from last year. The main movements for the year were:

- asset additions and transfers from capital works in progress of $54 million, which included $40 million for trains purchased as a part of the Gawler line electrification
- revaluation increments of $46 million for bus depots, patrol boats and metropolitan rail rolling stock
- depreciation expense of $64 million.

Statement of Cash Flows

Cash decreased by $420 million to $3.9 billion.

Cash flows provided by operating activities decreased by $27 million to $1.6 billion, due mainly to decreases in the level of funding received from the Commonwealth and SA Governments, offset by a net increase in construction work performed on behalf of other SA Government agencies.

The level of government funding is impacted by the timing and scope of capital projects.

The net cash used in investing activities increased by $305 million to $2.2 billion, reflecting capital projects approved by government.

The net cash flows provided by financing activities remained consistent in 2023-24 at $177 million. This included an equity contribution from the SA Government under the *Appropriation Act 2023* of $277 million ($277 million). These contributions are recognised in the Statement of Changes in Equity rather than in income. In addition, DIT received $16 million from the repayment of finance lease receivables. This was offset by the repayment of lease liabilities of $117 million, primarily for office accommodation leases.

Administered items

DIT is responsible for managing a range of activities on behalf of the SA Government. These activities are identified as administered items and reported separately where, for example, DIT does not control them but is responsible for transferring amounts to other eligible beneficiaries. In 2023-24 DIT was responsible for administering the following activities.

Administered items 2023-24

$208 million

Lifetime Support Scheme levy collected with motor vehicle registrations and paid to Lifetime Support Authority of South Australia

Compulsory third party insurance and related amounts collected with motor vehicle registrations paid to

$110 million
CTP Regulator

$308 million
Private insurers

Main administered items are collections associated with:

Motor vehicle transactions $1.1 billion

- Motor vehicle registrations
- Stamp duties
- Lifetime Support Scheme levy
- Emergency Services levy

$81 million

Collected with motor vehicle registrations and paid to DTF for the Hospital Fund

$49 million

Emergency Services levy collected with motor vehicle registrations and paid to South Australian Fire and Emergency Services Commission

$279 million

Stamp duties on motor vehicle purchases paid to DTF

Administered income increased by $25 million to $1.1 billion. There was an increase in charges collected associated with vehicle registrations of $20 million, mainly for stamp duties on vehicle purchases of $31 million and Lifetime Support Scheme levies of $19 million, offset by a decrease in compulsory third party insurance of $31 million due to SA Government reforms that resulted in a 6% decrease in rates.

Further commentary on operations

Road maintenance backlog

DIT's strategic asset management plan for road and marine assets identifies its responsibilities for planning, building, maintaining and operating roads safely and efficiently, and meeting the needs of stakeholders, customers and users in an affordable manner. To help achieve these responsibilities, DIT aims to align its asset management practices with the international standard on asset management.

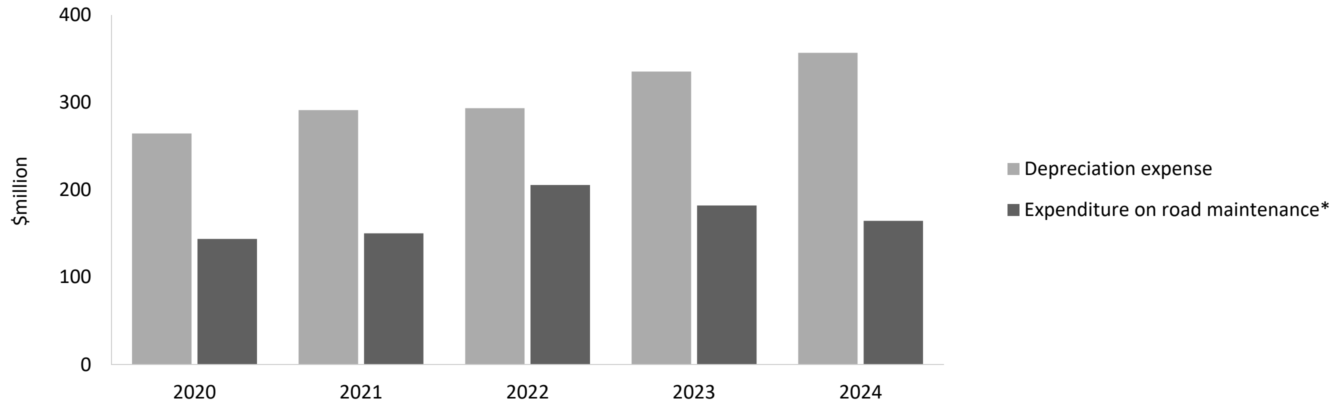
Our controls audits over the last five years have included high-level reviews of various aspects of DIT's road asset management practices. Our observations are provided above and in our previous reports. As part of DIT's asset management processes it periodically obtains, collates and estimates the extent of the road network assets that are overdue for maintenance and rehabilitation work – its maintenance backlog. Estimation is based on available asset information and condition data relative to the expected level of service from the assets.

South Australia's road network includes approximately:

- 13,500 km of sealed roads
- 9,400 km of unsealed roads
- 742 bridges
- 844 major culverts
- 36,000 road lights
- 898 traffic signals
- 99,000 electrical assets
- 12 River Murray ferries.

DIT reported that its 2023-24 road maintenance expenditure, which includes rehabilitation and resealing of the existing network, was approximately $164 million. This excludes repair of the existing network included in new capital programs or projects. The replacement value of DIT's road assets at 30 June 2024 was $45 billion, with a written down value of $32 billion.

The chart below shows that depreciation expense has exceeded road maintenance expenditure over the last five years.



* Road maintenance expenditure is unaudited.

Over the last five years, total road depreciation expense was $1.5 billion whereas expenditure on road maintenance was $846 million, or 56% of the depreciation expense, declining to only 46% of total depreciation in 2023-24.

Road maintenance expenditure should be matched yearly to the depreciation of the road network to prevent deterioration of the existing network and avoid higher expenditure in future years.

Last year we reported that DIT estimated that the rough order of magnitude of expenditure required to repair roads that were in very poor condition as at December 2022 was $1.9 billion, up from an estimated $1.5 billion in 2020.

Expenditure required to repair specific maintenance defects on the roads such as surface defects, edge break repairs, overhanging vegetation, blocked drains and damaged infrastructure was estimated at $440 million as at February 2023 and had grown to an estimated $608 million by December 2023.

Insourcing of rail

The SA Government has commenced the process of transitioning the operation of the State's trains and trams by 31 January 2025 and July 2025, respectively. Amended arrangements have been signed with the train operator, Keolis Downer Adelaide (KDA).

Under the agreement with KDA, customer service and security management will be provided by KDA until June 2027. KDA will also manage the maintenance of trains and infrastructure until the extended end date of 2035.

River Torrens to Darlington Project

The River Torrens to Darlington (T2D) Project covers the remaining 10.5 km section of the North-South Corridor from the River Torrens to Darlington. It will create a 78 km non-stop, traffic light-free motorway between Gawler and Old Noarlunga.

The aim of the T2D Project is to improve Adelaide's transport network, helping to stimulate economic growth while sustaining liveability and delivering long-term benefits for all South Australians. It will deliver a 10.5 km motorway comprised of tunnels, lowered and surface-level roadway and underpasses at key intersections.

The T2D Project is to be completed in 2031, has a revised budget of $15.4 billion and will be 50% funded by the Commonwealth Government. The procurement phase for the main works packages commenced in early 2023 and a preferred alliance partner was selected in August 2024.