

**Report 9 of 2024**

Annual report

for the year ended 30 June 2024

Part B: Controls opinion





# Report of the Auditor-General

## Report 9 of 2024

Annual report  
for the year ended 30 June 2024  
Part B: Controls opinion

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First Session, Fifty-Fifth Parliament

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

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*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.*



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# 1 Executive summary

Controls opinion	<p>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, are sufficient to provide reasonable assurance that the financial transactions of the Treasurer and public authorities have been conducted properly and in accordance with law.</p>
Agencies included	<p>56 public authorities were included in the various areas of our controls opinion audit program. Our specific focus was on the agencies that processed material levels of financial transactions in the context of the whole-of-government for 2023-24.</p>
Key areas of review	<p>Our 2023-24 control reviews focused on several areas of financial transaction processing, particularly:</p> <ul style="list-style-type: none"><li>— procurement and contract management</li><li>— asset management (including the Across Government Facilities Management Arrangements (AGFMA))</li><li>— employment screening checks and ongoing monitoring</li><li>— staff performance management</li><li>— delegations and approvals.</li></ul>
Key outcomes	<p>The broad nature of my opinion under the <i>Public Finance and Audit Act 1987</i> (PFAA) is such that, in my opinion, issues would need to be very significant or fundamental to warrant modifying it.</p> <p>We identified several issues and common themes. Some are significant and some recurring, but we did not identify systemic weaknesses in controls across the SA Government.</p> <p>Some of our findings are of fundamental importance to good public financial administration. While they were identified at individual agencies, all public sector agencies should consider them to ensure they have sound financial management control practices in place.</p> <p>I again draw attention to the continuing significant contract management issues we identified at a number of agencies.</p>

Public authorities enter into significant outsourcing arrangements. This increases the need for them to clearly set frameworks and expectations for effective contract management, and to invest in the capability and capacity of their staff and IT resources to support effective management.

Outsourcing services does not remove from the public authority the risks of providing them. At times, it can increase these risks or introduce new ones. If the risks are not effectively managed through sound contract management, it could result in increased costs to the State and loss of services.

## Key issues

Key issues we identified:

- Contract management processes need to further improve to ensure contracts are managed effectively, risks are properly monitored and contract performance is properly assessed.
- Procurement processes need to improve, with instances of inadequate or missing documentation supporting key procurement decisions and processes.
- Asset management processes in large infrastructure agencies need to improve, with gaps in asset management planning and overseeing assets under contract arrangements.
- The AGFMA is not operating in line with the contract, with specific findings on the implementation of the arrangements with the current provider.
- Employment screening and monitoring needs to improve in several agencies.
- Staff performance management processes and workforce plans need to be consolidated and improved.
- Key payroll processing controls continue to need improvement.



## 2 Introduction

*Public Finance and Audit Act 1987*

### **36–Auditor-General’s annual report**

- (1) The Auditor-General must prepare an annual report that–
  - (a) states whether, in the Auditor-General’s opinion–
    - (iii) the controls exercised by the Treasurer and public authorities in relation to the receipt, expenditure and investment of money, the acquisition and disposal of property and the incurring of liabilities is sufficient to provide reasonable assurance that the financial transactions of the Treasurer and public authorities have been conducted properly and in accordance with law

Each year I issue an opinion on whether the controls exercised by the Treasurer and public authorities in relation to a range of financial transactions are sufficient to provide reasonable assurance that those transactions have been conducted properly and in accordance with law. This is a key responsibility of the Auditor-General under section 36 of the PFAA.

The PFAA empowers the Auditor-General to decide how to carry out their functions or exercise their powers under the PFAA, and the priority they give to any matter in doing so.

I continued to find significant gaps in the whole-of-government control environment in 2023-24, particularly for asset management, contract management, procurement and payroll. My predecessor has previously outlined the continuing significant contract management issues we have identified across many agencies and the consequential risks that arise from them.

Through our controls opinion audit program, financial statement audits, extended reviews and some of our performance audits, we have comprehensively reviewed individual agency controls.

In this chapter I explain my controls opinion responsibilities under the PFAA and our approach for 2023-24. Chapter 3 explains our controls opinion audit coverage and chapter 4 contains the significant control matters we identified this year.

We prepare our reports for the Parliament. We aim for them to also give all public sector agencies the opportunity to review them and consider our findings and recommendations, so that they can make changes to their own control environments if needed. Our goal is for our work to result in financial transactions being processed with a greater level of accountability and integrity across the public sector.

## 2.1 Background

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### 2.1.1 Controls are important

Each year billions of dollars are raised, spent and managed by the Treasurer and public authorities to deliver core services to South Australians. The public expects the financial management of these funds to be undertaken properly and in line with the law.

Public sector managers are responsible for effectively managing costs and controlling financial resources, operations and risk exposures within their agencies and for complying with relevant laws, regulations and instructions. The ability of an agency to operate properly and to report reliable, accurate and timely information is underpinned by having an effective control framework.

If controls exercised by the Treasurer and public authorities are not sufficient, agencies are exposed to increased risk in financial probity, propriety and delivering cost-effective public services.

## 2.1.2 The Auditor-General must express an opinion on controls

The Auditor-General has a statutory responsibility to express an opinion each year on the sufficiency of controls and how well they provide reasonable assurance that financial transactions of the Treasurer and public authorities were conducted properly and in accordance with law.

We define ‘properly’ as conforming to established standards of financial management practice.<sup>1</sup> We define ‘in accordance with law’ as complying with relevant Acts, regulations and Treasurer’s Instructions.

In performing our audit work for this opinion we use relevant criteria to assess whether controls are consistent with established standards of financial management practice and behaviour. The primary sources of these criteria are laws, regulations, instructions (such as Treasurer’s Instructions) and agency policies. Where these sources are absent, we consider 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 having regard to facts, evolving 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. However, there is still a significant amount of judgement involved, and auditors and management will sometimes disagree.

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 of the audit, an obligation under the PFAA and a professional responsibility under Australian Auditing Standards.

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<sup>1</sup> *The Macquarie dictionary* (2017) defines proper as ‘Conforming to established standards of behaviour or manners; correct or decorous’.

### 2.1.3 What the controls opinion means

The controls opinion is an independent opinion on whether the public can be reasonably assured that the government of the day is operating in their best interests when conducting financial transactions. This involves much more than getting the financial reporting right.

Consequently, our controls work focuses on the propriety of transactions – that they lawfully occurred and were properly administered to an appropriate standard for the transaction type, scale and effect.

Our audits conclude with a procedural fairness process where the audit issues we identified are subject to agency scrutiny to ensure they are factually correct, logically sound and presented fairly. This also gives us an opportunity to discuss the effect and practicality of our recommendations and any other relevant issues. Agency feedback from these discussions is considered and, where appropriate, reflected in our final audit management letters and reports.

The procedural fairness process results in auditors and management agreeing on most of our audit findings and recommendations. It is then up to agencies to determine whether to adopt our recommendations, having regard to their views of the risks, costs and benefits involved. Occasionally, they will put forward reasons for not accepting our recommendations. The primary differences in our views arise where agencies decide that their existing practices sufficiently address the risks involved.

Responses we receive from agencies to issues we raised in the current year are evaluated in the next audit. If we continue to disagree with an agency's response and have a different view, we re-raise the issue for further consideration.

## 2.2 Our approach

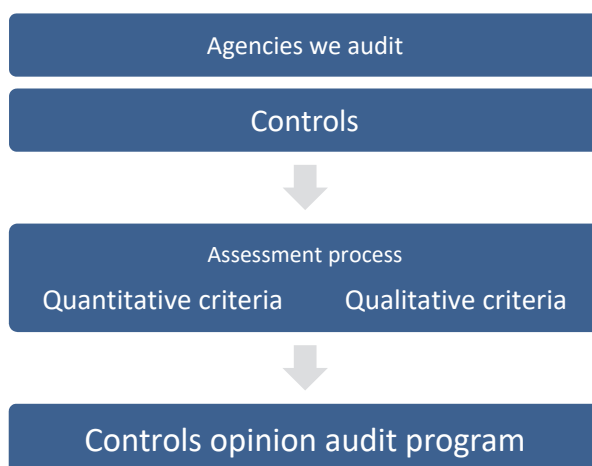
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### 2.2.1 Our 2023-24 controls opinion approach

Our 2023-24 approach to forming the controls opinion started from a whole-of-government perspective. The population we consider for the opinion is the agencies we are required to audit, including the general government sector, public financial and non-financial corporations and universities.

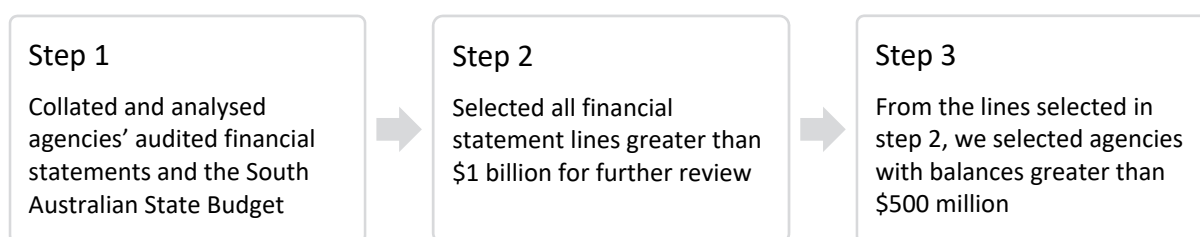
To produce our 2023-24 controls opinion audit program, we considered key quantitative and qualitative factors.

**Figure 2.1: Developing our controls opinion audit program**



When considering what was quantitatively significant we performed the following steps.

**Figure 2.2: Determining quantitative significance**



We then considered qualitative factors to identify any areas that were not quantitatively material but warranted review for other reasons. These qualitative factors were based on our agency audit experience as well as economic and social factors, and included:

- public sector governance practices
- new developments
- matters of public interest
- expectations of Parliament
- significant new systems/initiatives
- past audit findings.

The agencies and areas we identified formed the 2023-24 controls opinion audit program, which is explained in chapter 3. We discuss the significant findings from our audit work in chapter 4.

## 2.2.2 What controls to audit

We aim to audit the controls exercised by the Treasurer and public authorities that most directly influence whether a financial transaction is conducted properly and lawfully.

Financial transactions usually go through many steps. Each has a purpose that can range from planning for a transaction (such as preparing a business case) through to executing the transaction (such as confirming receipt of goods and approving the expenditure). These steps are typically described as the financial systems that transactions go through.

Not all steps have the same importance in ensuring a transaction is conducted properly and lawfully.

To ensure we achieve the best coverage from our resources, we prioritise based on the risk assessments we perform. Part of our strategy for reviewing controls is to cycle through systems as our risk assessments change from year to year – an area we focus on in one year may not have the same focus in the next. We might review specific areas of planning for transactions in some years, where in others we might review the process for performing certain types of transactions.

Chapter 3 explains what we decided to review in 2023-24.

# 3 Coverage

This chapter explains our areas of focus for the 2023-24 controls opinion. It outlines the agencies we audited, the types of transactions we focused on and the key areas we reviewed.

Not all agencies we audit are included in our controls opinion work, but this does not mean that we have not reviewed their control environments. Australian Auditing Standards require us to gain an understanding of each agency’s control environment and, where appropriate, to test controls as part of our financial audits. The more significant findings we identify through these financial audits are discussed in Part C for the agencies included in this annual report, and in a separate report we will release later for the agencies that are not in this report.

In any year we might also conduct extended reviews that inform the whole-of-government controls opinion. We also conduct several performance audits a year, which sometimes involve reviewing controls. We provide individual reports to Parliament on the outcomes of these audits.

## 3.1 Revenue coverage

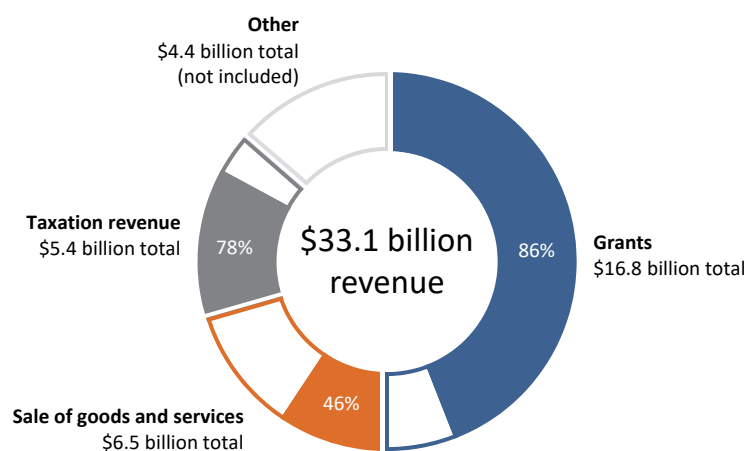
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The agencies we audit received around \$33.1 billion in 2023-24. Applying sound financial management practices and complying with legislation in receiving this money are fundamental to these agencies being able to deliver their outcomes.

We reviewed revenue across these agencies and applied our quantitative and qualitative factors to identify where we would focus our 2023-24 controls opinion work.

Overall, we reviewed selected controls for \$21.7 billion of revenue transactions. Figure 3.1 shows our coverage across the different types of revenue.

**Figure 3.1: Revenue covered by our controls opinion audit in 2023-24**



In addition to these areas, we reviewed selected controls over receipts to the Consolidated Account, special deposit accounts and deposit accounts (see section 3.5).

### 3.1.1 Key areas of coverage

#### Taxation revenue: \$4.2 billion reviewed

We reviewed selected controls over payroll tax, stamp duties on conveyances and motor vehicle registration transactions. This revenue is raised and collected by the Department of Treasury and Finance (DTF) and the Department for Infrastructure and Transport (DIT).

#### Grant revenue: \$14.4 billion reviewed

We reviewed selected controls relating to Commonwealth grant revenue including GST receipts and Commonwealth specific purpose payments. This revenue is received by DTF and the Department for Health and Wellbeing (DHW).

#### Sale of goods and services revenue: \$3 billion reviewed

We reviewed selected controls over transactions for:

- water and sewerage rates at the South Australian Water Corporation (SA Water)
- insurance premiums at the Return to Work Corporation of South Australia (RTWSA)
- rental income at the South Australian Housing Trust (SAHT)
- ticket sales for the Lotteries Commission of South Australia.

## 3.2 Expenditure coverage

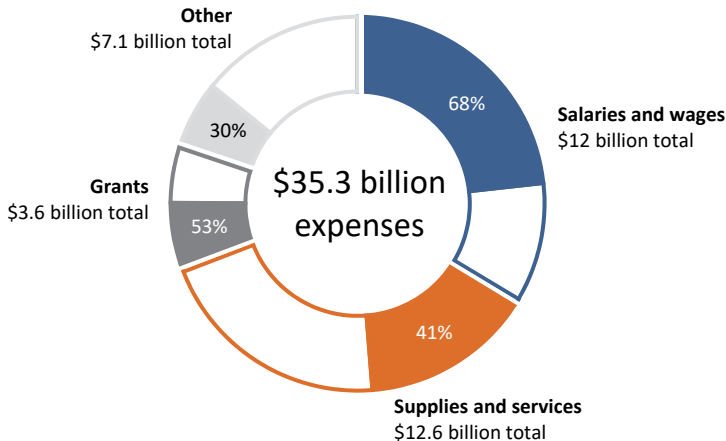
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The agencies we audit spent around \$35.3 billion in 2023-24. Applying sound financial management practices to this expenditure and ensuring it is spent in line with the law are fundamental to these agencies being able to deliver their outcomes.

We reviewed expenditure across these agencies and applied our quantitative and qualitative factors to identify where we would focus our 2023-24 controls opinion work.

Overall, we reviewed selected controls for \$17.3 billion of expenditure transactions. Figure 3.2 shows our coverage across the different types of expenditure.

**Figure 3.2: Expenditure covered by our controls opinion audit in 2023-24**



In addition to these areas, we reviewed selected controls over payments from the Consolidated Account, special deposit accounts and deposit accounts (see section 3.5).

### 3.2.1 Key areas of coverage

#### Supplies and services: \$5.2 billion reviewed

We reviewed selected controls over supplies and services (also referred to as goods and services) expenditure transactions for:

- SA Health – Department for Health and Wellbeing (DHW), CALHN, SALHN and NALHN
- Department for Education
- DIT
- Department for Child Protection
- whole-of-government procurements.

We also reviewed selected controls at Shared Services SA (SSSA) over the processing of around 3.1 million invoices a year on behalf of many agencies.

Our review focused on:

#### **Delegations and approvals**

Ensuring expenditure is authorised in line with approved delegations reduces the risk of incurring expenditure that does not achieve value from spending public money.

#### **Procurement and contract management**

Sound procurement and contract management practices are fundamental to financial management, reaffirming public confidence that procurements and contract management will achieve value for money, will be conducted ethically and will have an appropriate level of probity, accountability and transparency.

#### Salaries and wages: \$8.2 billion reviewed

Over \$8.2 billion of salaries and wages are paid annually across the agencies we audit, to over 118,000 staff. We reviewed selected controls over salaries and wages transactions at:

- South Australia Police
- Department for Education
- University of Adelaide
- SA Health – CALHN, SALHN and NALHN.

We also reviewed selected controls at SSSA over processing salaries and wages transactions on behalf of a large number of agencies.



Our review focused on:

**Workforce planning**

Adequate planning helps agencies to achieve their objectives and prepare for future business needs. It helps minimise the additional premium costs of using temporary staffing solutions for staff shortfalls.

**Performance management processes**

Effective performance management systems ensure employees are aware of their expected performance standards and whether they are on track to achieve them. Active management of performance helps agencies to achieve their objectives and further develop their staff.

**Hiring processes including employment screening checks**

Adequate checks during the hiring process and subsequent monitoring ensure agencies comply with applicable legislation, reducing risks to staff and the public.

**Review of payroll reports**

Effective reviews of key payroll reports reduce the risk that payments are made at incorrect rates or for work not performed, and that leave is incorrectly or incompletely recorded, resulting in potential financial loss to the agency.

**Interest expenses: \$2.1 billion reviewed**

We reviewed selected controls over interest expense transactions processed by the South Australian Government Financing Authority (SAFA).

**Maintenance expenditure: \$514 million reviewed**

We reviewed selected controls over maintenance expenditure incurred under the AGFMA. This arrangement is significant given the value of assets it maintains and the number of agencies involved. The public authorities under this arrangement that we reviewed were:

- Department for Education
- DIT
- SA Health – CALHN, SALHN and NALHN
- TAFE SA
- Department for Correctional Services.

We reviewed DIT's management of the AGFMA, including the arrangements with Ventia Australia Pty Ltd (Ventia), the contracted provider of maintenance services for this arrangement.

**Grant expenses: \$1.9 billion reviewed**

We reviewed selected controls over grant expenditure by the Department for Education (which it refers to as transfer payments).

Other expenses: \$808 million reviewed

We reviewed selected controls over National Disability Insurance Scheme (NDIS) contributions made by the Department of Human Services.

### 3.3 Asset coverage

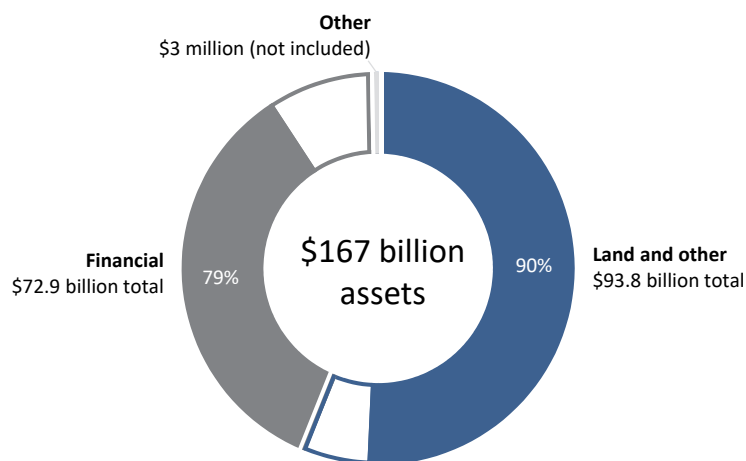
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The agencies we audit have assets worth around \$167 billion. Applying sound financial management practices in the investment of money and the acquisition and disposal of assets, and ensuring it is performed in line with the law, are fundamental to these agencies delivering their outcomes.

We reviewed the asset balances held and applied our quantitative and qualitative factors to identify the agencies and balances we would audit for the 2023-24 controls opinion.

Overall, we reviewed selected controls for \$142.5 billion of assets. Figure 3.3 shows our coverage across the different types of assets held.

**Figure 3.3: Asset covered by our controls opinion audit in 2023-24**



#### 3.3.1 Key areas of coverage

Land: \$14.4 billion reviewed

We reviewed selected controls over land assets at:

- SAHT
- Department for Environment and Water
- Department for Education
- TAFE SA
- DIT.

We focused our review on asset management planning and approvals for the acquisition, use and disposal of land, as well as compliance with legislative requirements.

## Heritage assets: \$825 million reviewed

We reviewed selected controls over the acquisition, disposal and stocktake processes for the Art Gallery of South Australia's heritage assets.

## Investments: \$53.7 billion reviewed

We reviewed selected controls over investments at:

- SAFA
- RTWSA
- Superannuation Funds Management Corporation of South Australia (Funds SA) – for investments managed on behalf of superannuation funds and other entities.

Our focus included governance arrangements, appointing and managing external fund managers, approving new investments, managing settlements, monitoring and managing asset allocations and monitoring compliance with specific policies and procedures.

We also reviewed selected controls over \$1.2 billion of investments held in the Public Trustee's common funds. These are investments managed by the Public Trustee on behalf of members of the public and organisations. We have not listed the Public Trustee's investments in figure 3.3 as they are not considered to be assets of the Public Trustee. They are held in trust. We reviewed whether they are managed properly and in line with the law because of their quantitative significance, the purpose of this investment portfolio and the SA Government's responsibility as manager of assets in trust. Our areas of focus were similar to those for SAFA, Funds SA and RTWSA.

## Loans and advances: \$3.9 billion reviewed

We reviewed selected controls at HomeStart Finance and the Local Government Finance Authority of South Australia over issuing and approving loans and advances in line with policies, procedures and legislative requirements.

## Inventories: \$612 million of land inventory reviewed

We reviewed selected controls at the Urban Renewal Authority for transactions relating to the acquisition, holding, development and sale of land. Areas of review included planning and approval for acquisitions, holding, developing and disposing of land inventories, procurement and contract management processes for the development of land and the associated compliance with legislative requirements.

## Asset management

**Infrastructure assets:  
\$46.3 billion reviewed**

**Buildings and improvements:  
\$22.7 billion reviewed**



### The link between this work and the expenditure controls opinion program

We reviewed selected controls over maintenance planning and expenditure, including expenditure under AGFMA arrangements for several agencies listed in section 3.2.1.

Proper asset management practices are fundamental to South Australia’s long-term financial sustainability. Full knowledge of the type, performance, cost and age of assets is needed to make proper and fully informed decisions about asset renewal, maintenance and replacement. This increases the likelihood that government assets will effectively support the delivery of key public services, the State’s development and the needs of the public.

We reviewed asset management practices over infrastructure, buildings and improvement assets at the following public authorities:

- DIT
- Department for Education
- SA Health – DHW, CALHN and SALHN
- Department for Correctional Services
- SA Water
- SAHT
- Adelaide Venue Management Corporation
- TAFE SA
- University of Adelaide
- Flinders University
- University of South Australia
- Office for Recreation, Sport and Racing.

We evaluated agency asset management practices using the DIT-developed Strategic Asset Management Framework (SAMF) as guidance. It aligns with a recognised best practice approach – the International Standard on asset management (ISO 55000).

The focus of our controls work over asset management in 2023-24 was that:

- governance arrangements were in place
- risk management practices were in place
- asset condition monitoring was occurring
- adequate asset data was maintained
- maintenance and renewal programs were in place.

### **Capital projects (work in progress)**

We reviewed a sample of significant capital projects at the following public authorities:

- DIT (in its own right and managing projects on behalf of other agencies)
- CALHN
- SA Ambulance Service Inc
- Women’s and Children’s Health Network.

Our focus was on project delivery, procurement and contract management practices and ensuring proper approvals were obtained at key stages of the project.

## **3.4 Liabilities coverage**

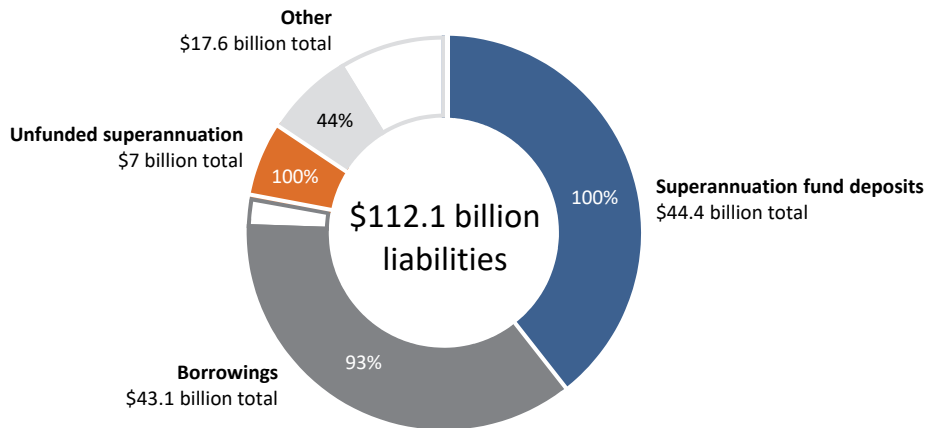
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The agencies we audit have around \$112.1 billion of liabilities. Applying sound practices to incurring and managing liabilities is critical to good financial management. The incurring of liabilities must also comply with the law.

We applied our quantitative and qualitative criteria to identify the agencies and balances we would audit for the 2023-24 controls opinion.

Overall, we reviewed selected controls for \$99.5 billion of liabilities. Figure 3.4 shows our coverage across the different types of liabilities held.

**Figure 3.4: Liabilities covered by our controls opinion audit in 2023-24**



### 3.4.1 Key areas of coverage

#### Borrowings: \$40.2 billion reviewed

SAFA is the State’s central borrowing authority. It manages most of the State’s debt and implements the SA Government’s debt management policy as determined by the Treasurer. We reviewed selected controls over SAFA’s borrowings, including ensuring that proper approvals are given for new borrowings and that monitoring and risk management processes are in place to ensure borrowings remain within approved limits.

We considered similar controls over borrowings at HomeStart Finance and SA Water. We reviewed selected controls over financial lease payments at CALHN for the arrangements with Celsus for the Royal Adelaide Hospital.

#### Superannuation fund deposits: \$44.2 billion reviewed

We reviewed selected controls at Funds SA for investments held on behalf of superannuation and other funds.

#### Unfunded superannuation liability: \$7.2 billion reviewed

Unfunded superannuation is reported in the consolidated financial report. We reviewed selected controls to ensure the completeness and accuracy of data used in individual scheme valuations and that the actuaries’ calculated valuations are reasonable.

#### Employee benefit liabilities: \$884 million reviewed

We reviewed selected controls at the Department for Education over the management of leave, accuracy of leave recorded and valuation of leave liabilities.

## Outstanding claims: \$6.9 billion reviewed

We reviewed the Claims Agent Assurance Program in place at RTWSA. This program ensures claim payments are properly approved and made in line with legislative requirements.

We also reviewed selected controls at the Lifetime Support Authority of South Australia and SAFA over the acceptance and payment of claims, and the reinsurance arrangements for the Motor Accident Commission.

## 3.5 Treasurer's statements

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The Treasurer's statements are prepared annually as required by section 22 of the PFAA. They reflect transactions of the Treasurer as shown in the Treasurer's accounts and records. The main public accounts are the Consolidated Account, special deposit accounts and deposit accounts established under the PFAA.

We reviewed controls over key areas of these statements, including receipts to and payments from the Consolidated Account (Statement A), the indebtedness of the Treasurer (Statement I) and the special deposit accounts (Statement F) and deposit accounts (Statement G). Specific areas of coverage included access to key systems, approvals, compliance with key requirements of the PFAA and Treasurer's Instructions, and the accurate recording of transactions.

At an agency level we reviewed several special deposit and deposit accounts. We ensured agencies had controls to ensure these accounts operated only in line with approved purposes and that they complied with key requirements of the PFAA and Treasurer's Instructions (such as performing regular reconciliations).

# 4 Outcomes

This chapter details the significant outcomes informing the 2023-24 controls opinion.

Further details of the individual controls opinion audit findings we identified through our audits are provided in our commentary on individual agencies in Part C of this annual report.

## 4.1 Contract management

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### 4.1.1 Summary of findings and recommendations

#### **What we found**

We reviewed a sample of significant contracts and found, across the agencies we reviewed, an ongoing need to improve contract management practices. We found:

- instances where contract management plans were not in place, were outdated or did not address all key areas of contract management, or were not approved before the contract commencement date
- that contract management practices did not always ensure key contract and legislative requirements were met
- that contract management processes did not always demonstrate a clear understanding of risks to the agency, how they were managed, and whether the responses were effective, tracked and documented
- that contract management practices did not always ensure that all aspects of the arrangements were assessed through appropriate measurement, reporting of KPIs and annual reviews
- that contract registers were incomplete, not updated or did not agree to executed contracts
- instances where contract meetings with suppliers were not held or were held with no documented outcomes
- instances where the agency's application of contract management differed from Procurement SA's recommended approach
- that key documents required for the contract management phase of a project were not always prepared and submitted promptly to those charged with governance of the project
- that contract management reporting did not always have sufficient evidence to support contract activities performed by the supplier occurring at the right times

- an instance of a contractor not performing in line with contracted service levels
- that contract closure assessments, post-contract reviews and timely reporting to governance on the outcomes did not always occur
- that there was no evidence of contract managers completing mandatory contract management training in some cases
- an instance where an agency was not effectively monitoring or appropriately approving expenditure incurred under a contract.

Several of these findings represented non-compliance with TI 18 and Procurement SA policies and procedures.

There were also significant findings from our review of the AGFMA (see section 4.4.1).

Given past issues with contract management for the arrangements with Frontier covering payroll processing for the SA Government, we performed additional work on data security in outsourced contract arrangements at selected agencies. We found:

- that data security requirements in the contract did not exist or could be improved
- no evidence of review when third-party developers access the production environment of a system, and no process to review third-party user access to systems
- no evidence of a non-disclosure agreement between one agency and a system contractor
- instances where contract management plans were not in place, were outdated or did not address all key areas of contract management
- no evidence that agencies using one key across-government system were told that their data would be stored overseas
- no evidence that data provided to developers was appropriately masked to secure sensitive information.

### **What public authorities should do**

Regardless of the nature of the contract, it is important for agencies to take an active role in improving their contract management practices by:



<p><b>Having comprehensive policies and procedures</b></p> <p>that are communicated to staff and that reflect contract management processes specific to the agency, while also reflecting the requirements of the revised procurement and contract management framework and other relevant guidelines</p>	<p><b>Implementing contract management plans</b></p> <p>that accurately reflect the contract requirements, implemented before contract commencement, as well as meet the SA Government framework requirements and other applicable rules and guidelines</p>
<p><b>Contract management data security</b></p> <p>should be incorporated into the contract in line with the South Australian Cyber Security Framework and having evidence of active monitoring being performed to ensure compliance</p>	<p><b>Identifying responsible contract managers</b></p> <p>clearly identifying staff who are responsible for contract management and the expectations attached to their roles, and providing support and training to them</p>
<p><b>Actively managing contracts</b></p> <p>to ensure deliverables occur as contracted and performance indicators or targets are effectively monitored</p>	<p><b>Having access to up-to-date contract price schedules</b></p> <p>ensuring staff responsible for approving charges under contract arrangements can verify that the agency is paying the correct amount</p>
<p><b>Having evidence to support their contract management activities</b></p> <p>eg minutes of meetings, copies of correspondence</p>	<p><b>Having contract registers</b></p> <p>to understand the contracts they are party to</p>

### 4.1.2 Background

Contracting by the SA Government takes many forms. Contracts can relate to ongoing purchasing arrangements, outsourced service delivery, managing assets and ongoing maintenance arrangements (for assets, software, buildings or plant and equipment).

For 2023-24, agency contract management practices should reflect public sector rules such as those established by the PFAA, *Public Sector Act 2009*, Procurement SA, and Treasurer’s Instructions.

TI 18 applies specifically to procurement and contract management practices. It is supported by a policy framework that includes a governance policy, procurement planning policy, sourcing policy, contract management policy and subordinate schedules. Public authorities are responsible for having systems, processes and procedures to comply with this new framework.

Treasurer's Instruction 28 *Financial Management Compliance Program* also contains expectations that chief executives will ensure:

- contractor/supplier performance against orders, contracts, service level agreements (including outsourced services and public private partnership contracts) or equivalent is regularly monitored and reviewed to ensure services are received and payments are made in line with what was approved
- reductions in payments (abatements) are promptly applied in line with contract arrangements where a failure that attracts an abatement occurs.

Public authorities enter into significant outsourcing arrangements. This increases the need for them to clearly set frameworks and expectations for effective contract management, and invest in the capability and capacity of their staff and IT resources to support effective management.

Outsourcing services does not remove from the public authority the risks involved in providing them. At times, it can increase the risks or introduce new ones. If the risks are not effectively managed through sound contract management, it could result in increased costs to the State and loss of services.

Our contract management findings are discussed in the following sections.

#### **4.1.3 Contract management plans were incomplete, not documented or not used for a number of significant contracts we reviewed**

We reviewed what plans agencies had in place to effectively manage several significant contracts.

A contract management plan is an important tool in managing a significant contract. All contracts rated as either complex or strategic require a contract management plan to be in place by no later than the contract commencement date. It should contain key information about how the contract will be managed over its term to ensure value for money is achieved. It can be supported by a range of other plans, such as risk management, transition and probity plans.

Where there is no structured and effective approach to managing, reviewing and monitoring contract obligations and risks, there is an increased risk that contractors will fail to deliver the contracted services in line with specifications, regulations and laws. If the contract relates to the maintenance of an asset, it may lead to the asset not meeting the desired level of service or the useful life of the asset being reduced.

We once again found many instances where contract management plans did not exist, were outdated, were not approved at the right time or did not address key areas of contract management.

#### 4.1.4 Improvement required when monitoring compliance and performance measures in a contract

We reviewed how selected public authorities monitored compliance and performance associated with the effective delivery of services under contracts. Actively monitoring contract deliverables and performance enables public authorities to manage identified risks, ensure performance is in line with expectations and respond to disputes and other issues as they arise. Without it, the risk that the contract objectives are not achieved increases.

Typical performance measures that may be monitored include targets, key milestones, service metrics and technical considerations. They will differ depending on the requirements and risks of the contract. Some may link directly to the contract and could result in financial costs if not met.

Contracts often provide for contractor self-reporting on the performance of services under the contract. Relying on this reporting alone is not sufficient. A level of review by the public authority is needed to ensure the reporting is accurate, supported by evidence, complete and valid. The framework states that any information used to assess the supplier's performance should be accurate, fair and verifiable. This is particularly the case if it is used to justify actions under the contract, such as withholding payment or penalties being applied. For strategic and complex contracts, independent assessments, evaluations or periodic audits may help to determine whether performance measures have been met.

In some instances, the contracts relate to public authority-owned assets and their maintenance. If the services provided under the contract are not actively monitored, it may result in safety risks to both agency employees and the users of the assets, as well as the inefficient and/or ineffective use of public money.

In a sample of contracts we reviewed, we again found instances where monitoring contract performance needed to improve, including:

- opportunities to strengthen agency documentation of processes for recording, monitoring and reporting on contract obligations and performance
- regular reports outlining plans, progress, reviews and performance of the contract that were not provided, not followed up, inadequate or not verified by the agency
- instances where agencies relied solely on information provided by the supplier to support the achievement of KPIs and other delivery plans, with no process to validate the claims or ability to assess the adequacy of what was provided
- instances where contract obligations were not performed, monitored or enforced

- an instance where abatements were not applied when supplier performance did not meet requirements.

## 4.2 Procurement

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### 4.2.1 Summary of findings and recommendations

#### **What we found**

Our audit of a sample of goods, services and asset procurements found that public authorities need to better manage their procurement planning and evaluation processes.

We found instances where:

- a contract was signed after the services started
- agencies did not comply with key reporting and review requirements of Treasurer's Instructions, Procurement SA and Tenders SA
- procurement authorisation listings were not updated or reviewed
- key records were missing, incomplete or inadequate, including complexity assessments
- key information was inconsistent between different procurement documents and procurement reporting required by TI 18, including the purchase recommendation
- the contract value was not specified in a number of contracts. During the procurement process the supplier provided their average annual volume and intended fixed price for the service with no limit on the total contract value specified
- reporting of TI 18 breaches to DTF was incomplete
- conflict of interest documents and confidentiality agreements could not be located or were not completed
- post-sourcing reviews were not performed.

Several of these findings represented non-compliance with TI 18 and Procurement SA policies and procedures.

#### **What public authorities should do**

To comply with the framework and maintain sound procurement practices, agencies should:

**Document and communicate policies and procedures**

ensure their policies and procedures for procuring supplies, services and assets are clearly documented, approved by senior management and communicated, and that staff adhere to them

**Identify and respond to procurement risks**

ensure procurement risks are identified and appropriately responded to, to ensure adequate recordkeeping so that evidence of conflicts of interest, key decisions, approvals, etc is documented and retained

**Documents to support key decisions**

ensure procurement documentation, including key plans, reports and change in approach, adequately supports key procurement decisions

**Obtain approvals during the procurement process**

obtain approvals at the relevant stage by the right people, in line with the framework requirements or agency policies and procedures

**Provide training**

increase the capability of their procurement staff through adequate training on framework requirements and risk management principles

## 4.2.2 Background

Each year public authorities procure billions of dollars' worth of goods, services and assets.

For 2023-24, procurement practices should reflect public sector rules such as those established by the PFAA, *Public Sector Act 2009*, Procurement SA and Treasurer's Instructions. TI 18 is the principle source of procurement rules.

All procurements should adhere to the principles in the applicable frameworks. Where they do not, it could result in procurement that is too expensive, is not value for money or does not achieve the intended outcomes. This, in turn, can damage public confidence in the effectiveness of the procurement process to operate in the public interest.

## 4.3 Asset management – infrastructure, buildings and improvements and heritage assets

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### 4.3.1 Summary of findings and recommendations

**What we found**

Our audit of asset management at agencies that manage significant infrastructure portfolios and heritage assets found some areas where improvement is required, including:

- continued opportunities to improve asset management policies, plans and frameworks
- instances where risks identified for significant asset classes were not effectively recorded and managed

- opportunities to improve the measuring, monitoring and reporting of service levels and performance measures for assets, particularly when they were managed under a contract
- an instance where an agency had not ensured that an asset class was maintained in a safe, fit-for-purpose condition
- an instance of non-compliance with Australian building standards that was not addressed promptly
- criticality ratings not being consistently applied to assets, and the methodology behind this not being documented
- instances where asset condition assessments were overdue, incomplete or not recorded in the asset system
- reporting to governance that was inconsistent with the approved plan or not occurring
- missing key asset management controls, including reconciliations and system user access controls
- opportunities to strengthen the evidence supporting the adequacy of maintenance works performed under contract arrangements
- opportunities to improve the oversight of significant assets under contract arrangements (see contract management issues raised in section 4.1.1).

Our audit of asset management over infrastructure, buildings and improvements for agencies who participate in the AGFMA focused on the AGFMA arrangements (see findings in section 4.4.1).

### **What public authorities should do**

Large infrastructure agencies and significant asset management entities should:

#### **Review and update their asset management policies, plans and frameworks**

ensure their policies, procedures, plans and frameworks for procuring supplies, services and assets are clearly documented and communicated, and that staff adhere to them

#### **Clearly communicate roles and responsibilities**

clearly communicate to staff their roles and responsibilities for asset management and provide them with adequate training to build their asset management capability

#### **Monitor controls**

ensure adequate monitoring controls are in place for assets managed under contractual and non-contractual arrangements

#### **Regularly report on risks**

ensure risks are identified, appropriately managed and reported on regularly to governance

#### **Identify, measure and report service levels and performance measures**

ensure the levels of service and performance measures for assets are identified, measured and reported to ensure they deliver on service expectations

Agencies who participate in the AGFMA should:

<p><b>Develop asset management policies, plans, procedures and frameworks based on reliable data</b></p> <p>continue to develop their asset management policies and plans and ensure they are adequate for the size, complexity and nature of the assets they own. Plans should be based on reliable and up-to-date data that is subject to regular review</p>	<p><b>Clearly communicate roles and responsibilities</b></p> <p>clearly communicate to staff their roles and responsibilities for asset management and provide them with adequate training to build their asset management capability</p>
<p><b>Liase with Ventia and DIT</b></p> <p>continue to liase with Ventia and DIT to finalise the roles and responsibilities of all parties in the AGFMA</p>	

### 4.3.2 Background

The agencies we audit are responsible for over \$65.4 billion in infrastructure, buildings and improvements.

Asset management continues to be a key focus of our controls opinion audit program. Asset management is the coordinated activity of an organisation to realise value from its assets. It is the practice of organising, planning, designing and controlling the acquisition, care, refurbishment and disposal of assets to support the delivery of services. It involves balancing costs, opportunities and risks against the desired or optimal performance of assets. This balancing process may need to be considered over various time frames and against stakeholder needs and expectations.

Unlike some other Australian jurisdictions, there is currently no mandatory asset management framework for assets owned by the SA Government. We therefore evaluated agency asset management practices using DIT’s SAMF (developed to support the AGFMA) as a guide. It is aligned to the recognised best practice approach – ISO 55000. The SAMF is based on building assets – it does not cover other types of assets and compliance is not mandatory.

We also used guidance on the application of ISO 55000 provided by the Institute of Public Works Australasia in its *International Infrastructure Management Manual*. We considered each agency’s size, operations and complexity when reviewing their practices against these guidelines.

Our review covered agencies that manage their own asset maintenance and have extensive infrastructure portfolios, such as SA Water, DIT, SAHT and the Urban Renewal Authority. The three South Australian public universities were included as they manage their own assets. The Art Gallery Board manages \$825 million of heritage assets, which has been included due to its significant value in the context of the whole of government.

We reviewed asset management at agencies that participate in the AGFMA, including the Department for Education, SA Health, TAFE SA and the Department for Correctional Services. The asset management practices of these agencies were impacted by the transition to the new AGFMA provider, Ventia, in 2021-22. This transition and its ongoing impact continues. Our AGFMA findings are in section 4.4.1.

We also followed up individual agencies' progress on documenting their asset management policies and procedures.

Our asset management findings are discussed in the following sections. We also noted significant matters relating to significant infrastructure assets maintained under contract arrangements, such as jetties, heavy and light rail and some buildings. Some of these issues relate to contract management and are discussed in section 4.1.1.

### 4.3.3 Governance arrangements still need to improve

Documented asset management policies and plans are critical to agencies aligning their asset management activities and the outputs from their assets with their objectives. Agencies need to clearly set their asset management objectives to make properly informed strategic decisions about acquiring, operating, maintaining and disposing of assets. Not having documented policies and plans increases the risk that agencies fail to cost effectively manage their assets or fail to deliver planned services.

These policies and plans are described in DIT's guidance in the SAMF on the expected level of asset management planning. The intention is that they address:

- the principles the agency intends to apply to asset management to achieve its organisational objectives (asset management policy)
- the agency's asset management objectives, practices and action plans for asset management improvement (asset management strategy)
- the agency's approach to implementing its asset management strategies (asset management plan).

#### 4.3.3.1 Large infrastructure agencies

In prior years we have identified opportunities for agencies to improve their documented asset management policies, plans and frameworks. This year there were again opportunities for individual agencies to improve. These include finalising asset management policies and plans, and improving key information about risk management, condition monitoring, levels of service, maintenance and performance for some asset types.

#### 4.3.3.2 Agencies that participate in the AGFMA

In 2018-19 we found that several of the agencies that participate in the AGFMA did not have documented asset management policies and plans. We continue to find that agencies are still developing their asset management policies and plans and that they are not finalised and implemented.

In 2019-20 we conducted a performance audit, reported in Auditor-General's Report 9 of *2020 Education capital works: planning and governance*, on the Department for Education's capital works program. We identified opportunities for the Department for Education to improve its asset management policies and plans to better inform the prioritisation of capital works programs and their alignment with the Department's strategic objectives. This is still a work in progress, with the Department for Education releasing its 20-year infrastructure plan



in June 2024. The plan covers meeting demand, leveraging and integrating new infrastructure and maintaining assets. The Department for Education is still developing new asset management policies and plans to support the infrastructure plan. Due to the timing its release, the plan was not considered in our 2023-24 asset management audit.

#### 4.3.4 Opportunities to continue to improve the identification, measurement and reporting of levels of service and performance measures

Defining, establishing and measuring levels of service and performance measures is important for asset management planning and decision-making. This information should provide an understanding of:

- the levels of service customers require and their willingness to pay
- the technical levels of service required
- actual asset performance and capability to deliver those levels of service.

Deficiencies in the process to establish desired levels of service, and in monitoring actual asset performance against targets, may lead to the planned/actual services delivered by a public authority not meeting the levels expected by key stakeholders.

The absence of reporting on performance measures may impact an agency's ability to prioritise asset maintenance and renewal.

##### 4.3.4.1 Large infrastructure agencies

Our review of the management of levels of service and performance measures at agencies identified opportunities to improve. For some asset classes, agencies need to ensure that asset management plans define all desired levels of service, and that actual performance is monitored and reported on regularly.

#### 4.3.5 Condition assessments were not performed or were performed but not recorded in asset systems

Assessing the condition of an agency's properties is critical to properly informing its future maintenance and infrastructure costs and future asset management plans. Without these assessments there is an increased risk of assets not being in the condition expected by the agency and decisions about asset management planning being based on incorrect or inadequate information.

Not knowing the condition of an asset and then properly responding through adequate maintenance and renewal activities may increase the safety risk to users, decrease the life of the asset and increase maintenance costs.

##### 4.3.5.1 Large infrastructure agencies

We found opportunities to improve the asset condition monitoring of large infrastructure agency asset portfolios. They included:

- ensuring the criticality and condition of assets under contract arrangements are assessed and documented
- ensuring condition assessments are up to date, noting that condition assessments for some assets at one agency were overdue
- ensuring results of visual inspections and condition assessments are recorded in asset data systems.

## 4.4 Across Government Facilities Management Arrangements

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### 4.4.1 Summary of findings and recommendations

#### **What we found**

Our overall assessment for 2023-24 is that the AGFMA arrangements were not operating in line with the contract and that contract objectives are not being achieved, increasing the risks for quality, value for money and ensuring asset risks are appropriately managed.

Our 2023-24 work found that DIT had been working extensively with Ventia to improve the performance of the arrangements. Notwithstanding this effort, there were areas where DIT could improve its internal controls over AGFMA governance, risk management and contract management. We found:

- that DIT was in ongoing discussions with Ventia about cyber security, as Ventia had not provided DIT with evidence of its overall compliance with the South Australian Cyber Security Framework
- 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 and trade ceiling rates
- that DIT did not have evidence that Ventia's software contains the minimum data sets required by Premier and Cabinet Circular PC 114 *Government Real Property Management*
- that no reviews of user access to Ventia's systems had been performed
- that Ventia was not procuring trade-based services in line with government procurement policies
- that KPIs reported in 2023-24 had not been verified by DIT.

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

- evidence that Ventia was charging for some work at rates higher than the maximum trade rates set through the arrangements

- no evidence of Ventia's completion and finalisation of the data validation process, a process designed to ensure accurate data is recorded for assets being managed
- KPI credits being incorrectly calculated and applied to agency invoices
- preventative maintenance and legislative maintenance not being completed within agreed time frames
- breakdown maintenance response and resolution times set out in the contract not being met
- difficulties in viewing and accessing evidence of subcontractor compliance with specific requirements
- instances where subcontractors used by Ventia did not hold all required qualifications, licences or certificates for the work performed
- not all data required to be provided to DIT is flowing to DIT's data warehouse from Ventia.

For agencies who participate in the AGFMA, we found instances where:

- asset management plans, policies and frameworks necessary for the sound financial management of buildings and improvements did not exist or were still being developed and not implemented
- memorandums of administrative arrangements with DIT outlining roles and responsibilities under the AGFMA were not finalised
- asset data verification and condition assessments were not complete
- annual service delivery plans for planned maintenance with Ventia were delayed in being approved or had not been approved
- service delivery plans were not updated to reflect new assets
- some services procured through AGFMA arrangements were not in line with government procurement policies
- there was no performance management or monitoring of issues for AGFMA arrangements, including specific performance measures and service levels
- asset information strategy or asset information standards guidelines were not developed
- there were opportunities to improve the alignment of financial authorisations in the AGFMA maintenance system with agency-approved financial authorisations
- invoices related to AGFMA arrangements were not approved on a timely basis or were not approved (see accounts payable and approvals issues raised in section 4.6.1).

### What public authorities should do

The AGFMA’s success depends on all stakeholders understanding their responsibilities, implementing processes to meet them, actively managing the services provided by Ventia, and ensuring that asset information is accessible, secure and properly maintained.

DIT is the lead agency for the AGFMA. It has a key role in managing these arrangements in conjunction with the participating agencies. DIT has outlined actions it will take in response to our findings. They will be detailed in our commentary on the DIT audit in our upcoming update to this annual report.

Agencies participating in the AGFMA should continue to:

<b>Revisit/Improve their asset management controls</b> to ensure they receive effective facilities management services for their assets	<b>Clearly communicate roles and responsibilities</b> clearly communicate to their staff their roles and responsibilities and provide them with adequate training	<b>Actively work with DIT and Ventia</b> actively work with DIT and Ventia to ensure they are clear about their roles and responsibilities
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### 4.4.2 Background

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 for it, manage any risks and maintain public records of work performed. More than 30 agencies participate in the AGFMA.

We include the AGFMA in our controls opinion audit program due to its significance in terms of the large maintenance expenditure incurred by agencies, the value of the assets maintained and the number of participating agencies.

In June 2020 the SA Government approved the establishment of a fully outsourced service delivery model for the AGFMA. The contract was awarded to Ventia in July 2021 and commenced in December 2021, with transition arrangements in place from July to November 2021. Both DIT, which administers the new AGFMA model, and participating agencies continue to have active responsibilities under these new arrangements.

## 4.5 Salaries and wages expenditure

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### 4.5.1 Summary of findings and recommendations

**What we found**

Our audits of controls over salaries and wages expenditure identified opportunities to improve:

- employment screening practices, with instances in agencies where employees did not hold valid clearances, such as working with children clearances, but were working with vulnerable groups

- the hiring process, with instances of new hires starting work with no employment contract in place
- compliance with immunisation policy requirements, as employees in two agencies continued to work without evidence of immunisation
- performance management processes, with a large number of outstanding reviews across multiple agencies
- workforce planning, with differing maturity levels continuing to exist at agencies
- the recording and management of leave
- key payroll processing controls.

## What public authorities should do

Agencies should:

### Clearly monitor employment screening checks and controls

clearly document which positions require employment screening checks (eg working with children and aged care clearances) and implement effective monitoring controls to ensure employees in those positions hold valid and up-to-date checks

### Improve their performance management systems

continue to improve performance management systems to ensure staff are trained and understand their roles and responsibilities and whether they are meeting them, and to manage staff who need to improve their performance

### Identify key risks in their payroll processing environment

identify key risks over the validity, accuracy and completeness of payments and ensure they implement effectively designed controls to mitigate them

### Implement controls to record leave taken and approved

implement controls to ensure all leave taken is recorded and approved in the system they use and make sure any excessive or negative leave is effectively managed

### Improve documentation

to monitor compliance with required immunisation policy requirements

### Improve hiring processes

to ensure contracts are in place before employment starts

### Implement or monitor workforce plans

implement or monitor workforce plans appropriate to the complexity, scope and nature of their operations and ensure they align with the agency's objectives

## 4.5.2 Background

The largest type of expenditure incurred by the agencies we audit is salaries and wages. Collectively they employ around 118,000 staff and pay over \$12 billion in salaries and wages every year.

Proper financial management of salaries and wages expenditure starts with planning how many staff to employ, hiring those staff, and paying and managing them until the end of their employment. There are many transactions through this cycle and a diverse range of legislative requirements, government frameworks and enterprise agreements that need to be complied with.

Our salaries and wages findings are discussed in the following sections.

#### **4.5.3 Employment screening practices and ongoing monitoring require significant improvement**

This year we continued to focus on the identification and management of positions in organisations that require clearance checks, such as working with children and aged care clearances. These checks are fundamental to ensuring that an agency meets community expectations in the hiring and ongoing employment of staff in line with applicable legislative requirements. This is particularly important when employees are working with vulnerable members of the public.

Some workers, such as those in health care, also have job-related requirements regarding immunisations. We considered these requirements when reviewing compliance with ongoing screening and monitoring.

We continue to find that agencies need to improve their employment screening and monitoring practices. We found:

- instances where employees without current children and aged care clearances were working with children or the elderly
- an instance where the required accreditations may have lapsed due to the delayed timing of annual compliance reviews to monitor staff working in positions requiring an aged care check
- an instance where policies for criminal history screening were not finalised
- an instance where compliance monitoring for vaccination requirements had not been completed.

#### **4.5.4 Performance management reviews continue to need improvement**

Performance management is fundamental to ensuring an agency meets community expectations and delivers services effectively and efficiently. Effective performance management systems ensure staff understand their individual roles and responsibilities, and how they will achieve them. If an agency is paying an employee for work that is not being performed or not being performed to the level expected, it is not properly managing its salaries and wages expenditure.

The importance of performance management is recognised in various requirements that reinforce the need for agencies to establish and administer effective performance management and development systems. These include:

- the *Public Sector Act 2009*
- Direction of the Premier: *Performance Management and Development*
- Commissioner for Public Sector Employment guidelines.

We began auditing performance management reviews in 2018-19. We continue to find overdue performance reviews in most of the agencies we review. In 2023-24 we saw an improvement in the number of overdue performance reviews in some agencies, while others were still working to increase their compliance with applicable frameworks.

#### 4.5.5 Differing levels of workforce planning maturity

Workforce plans help to ensure that there is an appropriate workforce to deliver an agency's outcomes. Without the right workforce, an agency might need to hire temporary resources, at a premium cost, to deliver against its objectives. It may compromise the effective delivery of outcomes if resources cannot be found in short time frames and heavy reliance is placed on current resources to deliver above and beyond, at a premium cost (overtime), potentially resulting in burnout and an already fatigued workforce going forward.

The effectiveness of an agency's future business planning also depends on having a clear understanding of its workforce needs and costs, given the significance of its workforce input to achieving its objectives.

In 2023-24 we found that there were differing levels of workforce planning maturity across the agencies we reviewed. One agency was still working to bring the elements of its plan (including governance) together into consolidated workforce plans while another was still developing its workforce planning strategy.

#### 4.5.6 Some key payroll processing controls need to improve

Typical payroll processing environments include input checks (approval of timesheets, rosters, supporting documentation, etc) and output checks (bona fide reviews, payroll exception reports, etc) to ensure salaries and wages expenditure recorded in financial systems and paid is valid, accurate and complete. The appropriate design and implementation of these controls is fundamental to ensuring that proper financial management of salaries and wages expenditure is occurring.

In previous years we have reported instances in several agencies where these checks were not occurring as designed or where their implementation did not meet management's expectations. In 2023-24 we reviewed key controls in the payroll processing environments of selected agencies and again found instances where:

- timesheets were not properly approved
- key payroll reports (bona fides and annual leave returns) were not reviewed, or the review was not adequate or not performed promptly
- rostering practices were inconsistent
- annual leave monitoring and recording needed to improve
- adequate supporting documentation could not be provided for some transactions.

SSSA advised us that it is actively managing \$7.9 million in outstanding overpayments on behalf of agencies that has resulted from agencies providing information to SSSA too late to be reflected in the next pay run.

## 4.6 Accounts payable and approvals

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### 4.6.1 Summary of findings and recommendations

#### What we found

Our audit of controls over accounts payable and approvals found:

- that multiple agencies did not perform checks, or reviews were incomplete, to ensure the agency-approved financial authorisations agreed to their financial system authorisation limits
- that for some AGFMA participating agencies, the authorisation limits in the maintenance system did not align to agency-approved financial authorisations
- instances of purchase orders not being used when required by agency policies and procedures
- instances at one agency of delays in approving invoices relating to maintenance services provided
- instances where contracts were not established for regular services, approval of contracts, execution and variations were not in line with approved financial authorisations
- an instance where an agency was not properly approving expenditure incurred under the contract for maintenance services
- an instance where an agency did not perform adequate checks on invoice data before payment.

#### What public authorities should do

Agencies should:

##### Provide training for roles and responsibilities

ensure staff are aware of their roles and responsibilities and are provided with relevant training

##### Perform checks in processing invoices

ensure comprehensive checks are performed on the processing of invoice data and the addition of new vendors

##### Reinforce the importance of financial authorisation controls

continue to reinforce the importance of controls to ensure agency-approved financial authorisations agree to online financial authorisation limits set in financial systems

##### Perform comprehensive checks on transactions

ensure comprehensive checks on transactions and manual payments processed outside of normal financial authorisation limits, such as super/special delegate capacity and manual payments, are completed



### **Comply with policies and procedures**

ensure agency policies and procedures are complied with

## **4.6.2 Background**

Each year millions of invoices are processed by and for public authorities. SSSA alone processed 3.1 million payments in 2023-24. Having a high number of suppliers inherently increases the risk of fraud. To minimise this risk, public authorities need to assess their processing environments, including those at SSSA where applicable, and ensure they have appropriate controls in place. This is required by the Treasurer's Instructions.

These invoices amount to billions of dollars of public money spent by public sector employees who have been given approval through a delegated authority to transact on behalf of a public authority. Financial authorisations provide a structured framework for approving payments. They should reflect public sector rules that govern this activity, such as those established by the PFAA, the *Public Sector Act 2009* and Treasurer's Instructions. The consequences of deliberately misapplying delegated authorities are potentially severe for individuals.

Another key step in the accounts payable process is agreeing invoices back to purchase orders raised and ensuring that goods and services are received, as requested, before payment. If purchase orders are not raised when required, it may be difficult for an agency to manage its ongoing commitments. If the invoice is not agreed back to the purchase order and goods and services are not confirmed as received, a public authority may be paying for goods and services that are not required or not received.

All agencies will deal with some suppliers regularly for day-to-day goods and services. Establishing contracts for significant or regular spend is an effective way of ensuring certainty of arrangement conditions and price. It may also lead to better pricing (for volume) and service provision (economies of scale). This enables agencies to understand their costs with more certainty and make appropriate financial decisions based on this knowledge. It helps suppliers to understand the level of goods and services required, which helps them plan to ensure availability. Establishing contracts also provides a basis for measuring performance, enabling agencies to have certainty over what they receive.

The findings in section 4.6.1 are isolated instances where agencies could improve their accounts payable processes. Findings relating to financial limits established in systems where expenditure is incurred highlight the importance of ensuring those limits reflect chief executive approved authorisation limits, to ensure that only appropriate expenditure is incurred by the agency.

## **4.7 Capital projects – project delivery and management of construction projects**

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Each year, agencies we audit undertake significant construction projects. Most are undertaken by agencies for which this is a core activity. The SA Government's infrastructure agency, DIT,

is responsible for managing construction projects in the civil and building (commercial) construction sectors. SA Water, SAHT and the Urban Renewal Authority are the primary infrastructure agencies, having the expertise to undertake construction projects.

For 2023-24, construction projects should comply with public sector rules such as those established by the PFAA, Procurement SA, Premier and Cabinet Circulars and Treasurer's Instructions. In 2020, Infrastructure SA released its independent assurance framework, with the aim to improve the planning, prioritisation, operation and implementation of major SA Government infrastructure projects.

In 2023-24 we reviewed selected controls over aspects of infrastructure planning and investment, project delivery and management. We identified instances where agencies could improve their controls, including:

- the need to ensure that key documents outlining who is responsible and accountable and the level of consultation required at key steps in the project lifecycle are prepared and approved in a timely manner
- one agency whose policy on probity planning for a project could be improved
- an instance where there was inadequate risk management planning for a project by an agency that also lacked evidence of project and contract risks being appropriately managed.

We also noted matters relating to procurement and contract management for some aspects of the projects we reviewed. Procurement management issues are discussed in section 4.2.1 and contract management issues are discussed in section 4.1.1.

## 4.8 Revenue

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The agencies we audit receive around \$33.1 billion of revenue annually, about half of which is from Commonwealth grants. The types of revenue include taxation, grants and revenue from selling goods and services.

The proper financial management of revenue includes raising revenue under legislation, grant programs or through the provision of goods or services. The revenue process has many steps, including identifying the revenue to be raised, entering and managing agreements, billing the customer, debt management and receipting the revenue. We considered a range of criteria when performing our audits, including the applicable legislative framework supporting the revenue, Treasurer's Instructions and agency financial policies and procedures.

The revenue processes we reviewed were generally operating effectively. However, we did identify opportunities to improve the management of revenue in some agencies. They included:

- performing checks against eligibility criteria, and evidencing this check, to ensure adjustments to revenue raised are appropriate

- reviewing evidence of checks to ensure lottery game rules are compliant and there is sufficient oversight over compliance monitoring activities to detect unauthorised tickets for lottery draws.

## 4.9 Special deposit and deposit accounts

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Special deposit and deposit accounts are established under the PFAA. The Treasurer approves the establishment and purpose of each account. The use of these accounts should reflect the approved purpose (for special deposit accounts) and the requirements of the Treasurer's Instructions.

We found that the controls over the operation of these accounts were generally satisfactory. However, we did identify some isolated instances where agencies could improve their management of deposit accounts, including that:

- accounts should be regularly reconciled and reviewed in a timely way
- funds should not become overdrawn
- policies and procedures governing these accounts should be regularly maintained for accuracy and relevance.

## Appendix – Abbreviations used in this report

A number of acronyms and abbreviations are used throughout this report. Most are summarised here.

AGFMA	Across Government Facilities Management Arrangements
CALHN	Central Adelaide Local Health Network Incorporated
DHW	Department for Health and Wellbeing
DIT	Department for Infrastructure and Transport
DTF	Department of Treasury and Finance
Funds SA	Superannuation Funds Management Corporation of South Australia
KPI	Key performance indicator
NALHN	Northern Adelaide Local Health Network Incorporated
NDIS	National Disability Insurance Scheme
PC 114	Premier and Cabinet Circular PC 114 <i>Government Real Property Management</i>
PFAA	<i>Public Finance and Audit Act 1987</i>
RTWSA	Return to Work Corporation of South Australia
SA Health	Department for Health and Wellbeing and associated local health networks
SAFA	South Australian Government Financing Authority
SAHT	South Australian Housing Trust
SALHN	Southern Adelaide Local Health Network Incorporated
SAMF	Strategic Asset Management Framework
SA Water	South Australian Water Corporation
SSSA	Shared Services SA
TI 18	Treasurer’s Instructions 18 <i>Procurement</i>
Ventia	Ventia Australia Pty Ltd



