Report of the
Auditor-General

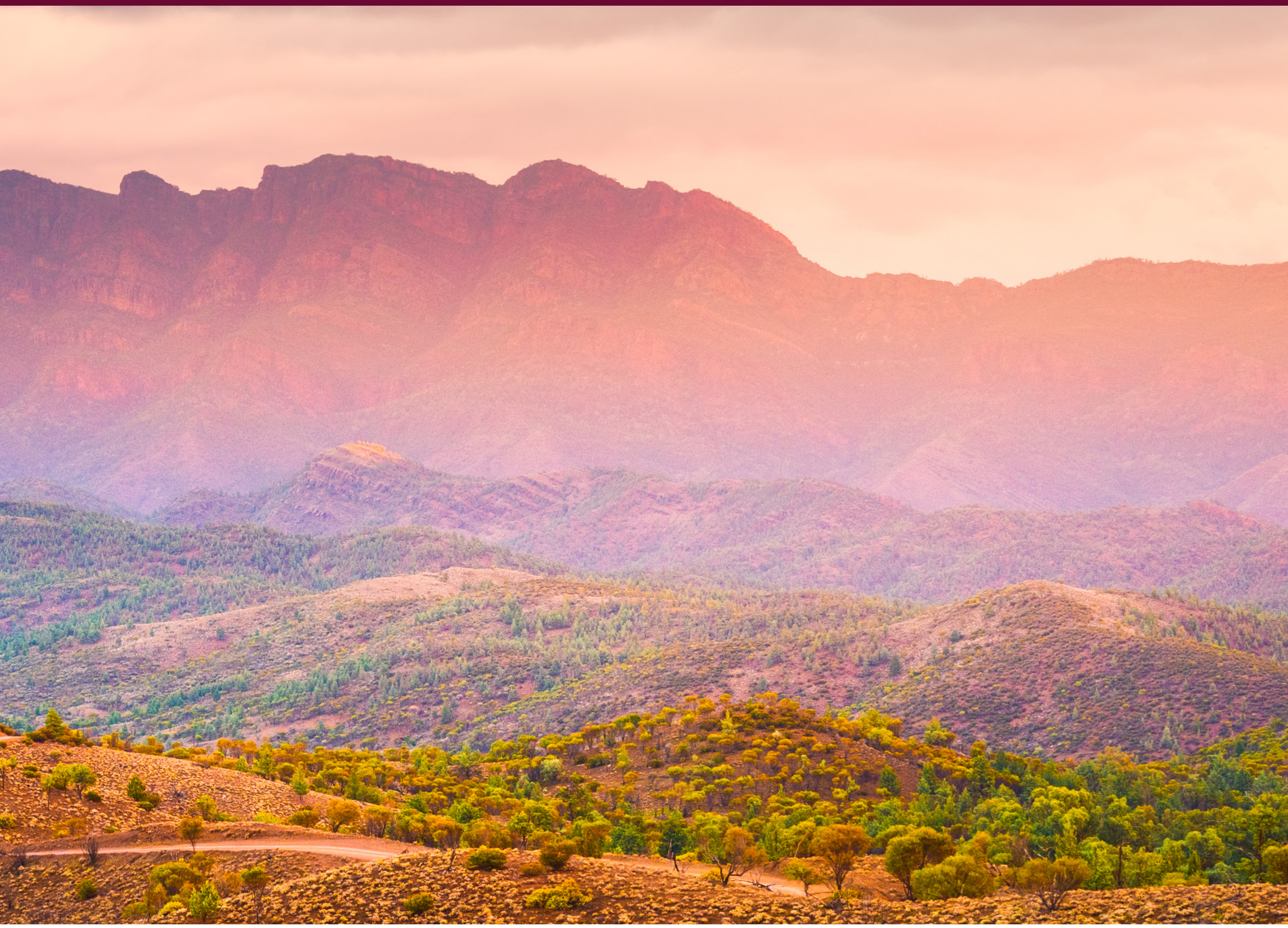
Audit Office
of South Australia

Report 9 of 2024

Annual report

for the year ended 30 June 2024

Part C: Agency audit reports



Government of
South Australia

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Report of the Auditor-General

Report 9 of 2024

Annual report
for the year ended 30 June 2024
Part C: Agency audit reports

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

www.audit.sa.gov.au

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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–

(i) the Treasurer's statements reflect the financial transactions of the Treasurer as shown in the accounts and records of the Treasurer for the preceding financial year;

(ii) the financial statements of each public authority reflect the financial position of the authority at the end of the preceding financial year and the results of its operations and cash flows for that financial year

Introduction

Part C: Agency audit reports is a summary of the audit outcomes for each agency included in this report. It features a snapshot of key agency information covering financial statistics, significant events and transactions, and whether the financial report opinion is unmodified or modified (qualified). The key matters causing any modification are noted. The snapshot is followed by commentary on financial administration matters for each agency that, in my opinion, are important to the Parliament and the SA Government. It also provides selected financial ratios and information for assessing the agency's financial performance and position, and significant financial transactions.

The financial reports of the agencies included in this report are available on the Audit Office of South Australia's website (www.audit.sa.gov.au).

Agencies not included in this report

Some agencies I audit have a financial year that ended before 30 June 2024. To improve the timeliness of reporting on their activities, I delivered a report to Parliament in June 2024, Report 7 of 2024 *Agency audit reports*, rather than waiting to include them in this annual report. Report 7 of 2024 summarises the audit outcomes for:

- Adelaide Oval SMA Limited
- Flinders University
- SACE Board of South Australia
- University of Adelaide
- University of South Australia.

I have published their financial statements on our website.

The Auditor-General exercises the discretion to exclude some agencies from this annual report. This decision is based on many factors, including:

- the materiality of an agency's financial operations
- its significance to the SA Government's operations and services
- the materiality of any impact it has on the public finances
- the timeliness of information
- the materiality of audit issues raised
- the public interest
- the timely completion of this report and meeting the statutory deadline to deliver it to the presiding members of Parliament.

A list of the public sector agencies not included in this report is provided in the annexure. I will report to Parliament on them later, with particular commentary on agencies where there:

- is a modified financial report opinion
- are significant matters raised by the audit
- are other matters that, in my opinion, need to be brought to the attention of the Parliament and the SA Government.

Their financial reports will be published on the Audit Office of South Australia's website as their audits are finalised.

Department for Infrastructure and Transport (DIT)

While DIT had finalised its financial report for the year ended 30 June 2024 at the time of this report, we had only just received material information that we needed to complete the audit. While we had requested this information from the SA Government earlier, we had not received a response. We will now complete the audit and our commentary on DIT's audited financial report will be included in a separate report to Parliament.

Independent Auditor's Report

Expressing an opinion on an entity's financial report by an independent professional auditor adds credibility to it and ensures that appropriate financial disclosures were made.

For the agencies that I am required to audit, I issue an Independent Auditor's Report on the financial report in line with professional requirements and standards. Our audits are performed in line with the *Public Finance and Audit Act 1987* (PFAA) and Australian Auditing Standards. The PFAA establishes the Auditor-General's independence. In conducting the audit, I ensure that the relevant ethical requirements of APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* have been met. I must also ensure that the audit evidence I obtain is sufficient and appropriate to provide a basis for the opinion I issue.

My audit objectives are to obtain reasonable assurance about whether a financial report as a whole is free from material misstatement and to issue an auditor's report that includes my opinion.

Reasonable assurance is a high level of assurance but is not a guarantee that an audit will always detect a material misstatement. Misstatements can arise from fraud or error and are considered material if, individually or collectively, they could reasonably be expected to influence the economic decisions of users of the financial report. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal controls.

I exercise professional judgement and maintain professional scepticism throughout the audit in line with Australian Auditing Standards. I also:

- identify and assess the risks of material misstatements in a financial report, design and perform audit procedures in response to those risks, and obtain sufficient and appropriate audit evidence as a basis for my opinion
- obtain an understanding of an agency's internal controls to design audit procedures, but not for the purpose of expressing an opinion on the effectiveness of those controls
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and disclosures made by chief executives
- conclude on chief executives' use of the going concern basis of accounting and whether a material uncertainty exists for events or conditions that may cause significant doubt about the agency's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention to the related financial report disclosures in my auditor's report or modify my opinion. My conclusion is based on the audit evidence obtained up to the date of the auditor's report. However, future events or conditions may also cause an agency to cease as a going concern
- evaluate whether the overall presentation, structure and content of the financial report gives a fair presentation of the underlying transactions and events.

Modified Independent Auditor's Reports

The opinion I give is usually unmodified, but if circumstances warrant it I will give a modified opinion. In extreme cases it may not be possible for me to express an opinion. When a modified opinion is given, the Independent Auditor's Report explains the reasons for the modification. This is also explained in the commentary on those agencies in this report.

This year there was a new disclosure requirement added to Treasurer's Instructions (Accounting Policy Statements) requiring Tier 1 agencies (agencies that apply the full disclosure requirements of Australian Accounting Standards) to report on the value of procurement with South Australian and non-South Australian businesses for 2023-24. The following agencies did not have an effective process to meet this new disclosure requirement and I modified their audit opinions for this:

- Adelaide Venue Management Corporation
- Department for Correctional Services
- Environment Protection Authority
- Department for Environment and Water

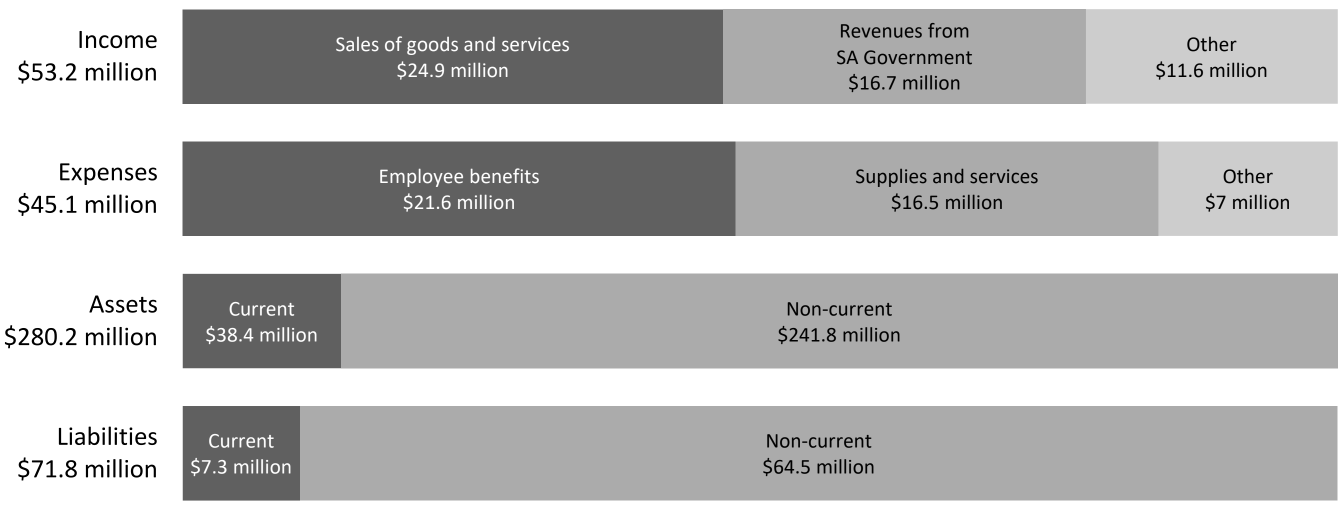
- Department for Health and Wellbeing (including consolidated entity):
  - Barossa Hills Fleurieu Local Health Network Incorporated
  - Central Adelaide Local Health Network Incorporated
  - Eyre and Far North Local Health Network Incorporated
  - Flinders and Upper North Local Health Network Incorporated
  - Limestone Coast Local Health Network Incorporated
  - Northern Adelaide Local Health Network Incorporated
  - Riverland Mallee Coorong Local Health Network Incorporated
  - SA Ambulance Service Inc
  - Southern Adelaide Local Health Network Incorporated
  - Women's and Children's Health Network Incorporated
  - Yorke and Northern Local Health Network Incorporated
- Lifetime Support Authority of South Australia
- South Australian Fire and Emergency Services Commission
- South Australian Water Corporation.

This is discussed further in Part A of this report.

I also drew attention to the inherent uncertainty in certain liabilities reported in the 2023-24 financial reports of the Lifetime Support Authority of South Australia and the Return to Work Corporation of South Australia, without modifying my opinions on them.

Adelaide Festival Centre Trust (AFCT)

Financial statistics



136
FTEs

584,000
Ticketed attendances

1.1 million
Total attendances

Significant events and transactions

- In June 2024 the AFCT acquired Adelaide Festival Centre complex assets from the Department of the Premier and Cabinet (DPC), including land, buildings and works of art for $93.6 million and part of the Festival Plaza for $45.5 million. These transfers were funded by equity contributions from the Department of Treasury and Finance (DTF) in 2022, 2023 and 2024.
- Land and buildings were revalued upward by $20.1 million.
- New employee agreements were approved, resulting in pay rate increases backdated to 2022.

Financial report opinion

Unmodified

Audit findings

- Financial and payroll systems user access controls need to improve.
- Bank reconciliation processes could be improved.

Functional responsibility

The AFCT is a body corporate established under the *Adelaide Festival Centre Trust Act 1971*. It is under the general control and direction of the Minister for Arts. The AFCT encourages and facilitates artistic, cultural and performing arts activities throughout the State. It also manages and maintains Her Majesty's Theatre and the Adelaide Festival Centre and its facilities.

Scope of the audit

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

- revenue from theatre hire, ticketing, events and other sales
- salaries and wages
- supplies and services
- fixed assets
- general ledger
- procurement practices.

We reviewed internal audit activities to assess the risks of material misstatement in the financial report and to design and perform our audit procedures.

Audit findings

Communicating our audit findings

We communicated our audit findings in a management letter to the Chief Executive Officer and Artistic Director. The main findings and the AFCT's responses are discussed below.

Financial and payroll systems user access controls need to improve

We found opportunities for the AFCT to improve user access controls over its financial and payroll systems. Reviewing user access helps to ensure that only authorised users can access sensitive financial data, reducing the risk of data breaches and unauthorised transactions. We found that:

- user access to the financial and payroll systems was not regularly reviewed
- monitoring of privileged user activity in the banking system was inadequate
- employees performing payroll review processes also had access to update and process pays.

The AFCT responded that it has addressed these findings through actions including implementing regular reviews of user permissions, removing unnecessary user access and changing staffing structures in some of its teams.

Bank reconciliation processes could be improved

Our review of cash and banking found that:

- bank reconciliations were not promptly performed and independently reviewed
- there were no daily payment limits in the online banking system.

The AFCT responded that it will ensure bank reconciliations are performed and reviewed promptly and would review and apply appropriate payment limits on its bank accounts.

Interpretation and analysis of the financial report

Highlights of the financial report*

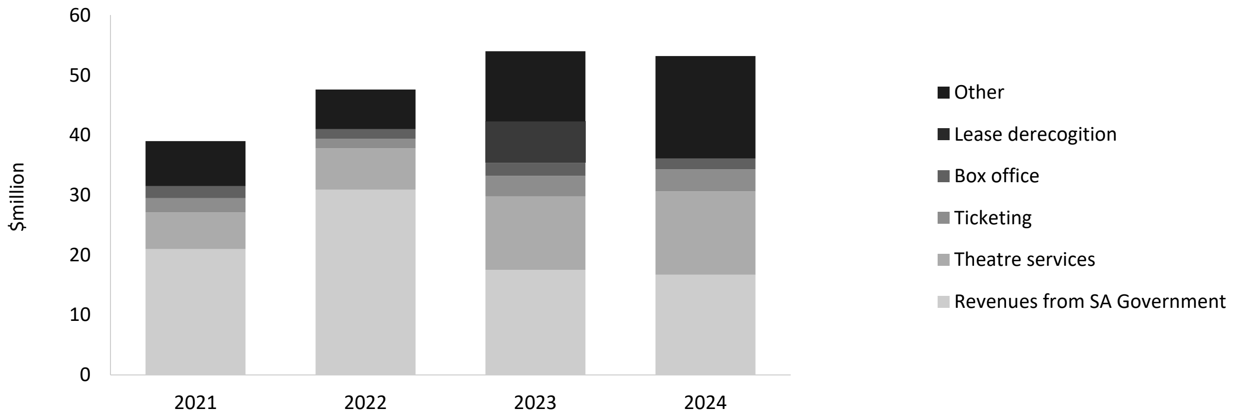
	2024 $million	2023 $million
Income		
Sales of goods and services	25	22
Revenues from SA Government	17	18
Gain on lease de-recognition	-	7
Other income	12	7
Total income	53	54
Expenses		
Employee benefits expenses	22	19
Supplies and services	16	17
Other expenses	7	5
Total expenses	45	41
Net result	8	13
Other comprehensive income		
Changes in revaluation surplus	20	-
Total comprehensive result	28	13
Net cash provided by (used in) operating activities	10	6
Net cash provided by (used in) investing activities	(143)	(2)
Net cash provided by (used in) financing activities	12	28
Assets		
Current assets	38	159
Non-current assets	242	82
Total assets	280	241
Liabilities		
Current liabilities	7	9
Non-current liabilities	65	64
Total liabilities	72	73
Total equity	208	168

* Table may not add due to rounding.

Statement of Comprehensive Income

Income

The AFCT's income for the four years to 2024 is shown in the following chart.



Revenues from SA Government

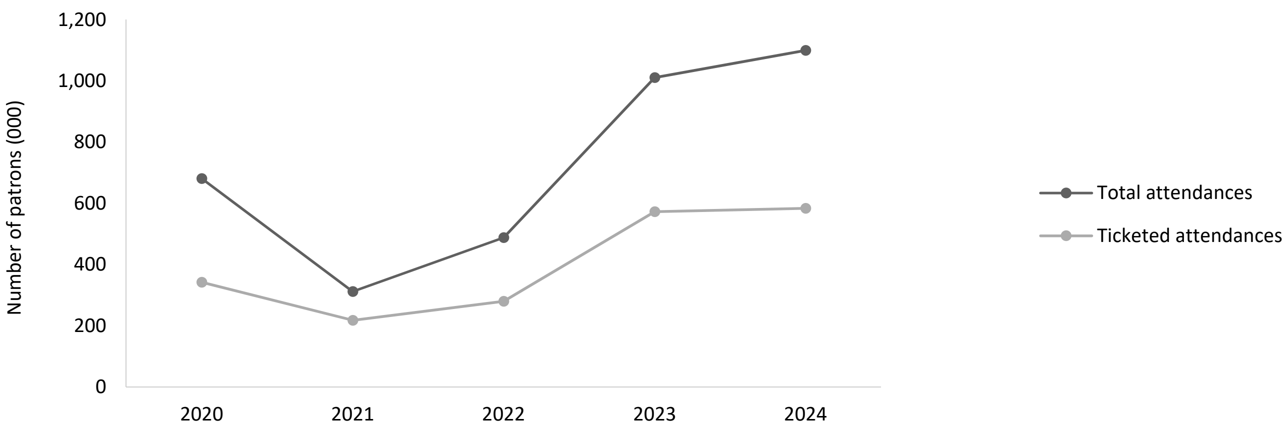
The AFCT relies on SA Government funding to support its operations, which accounts for 31% (33%) of its total income. SA Government grants, subsidies and transfers totalled $16.7 million in 2024, down by $891,000 from 2023.

The AFCT also received a $12.2 million ($27.6 million) equity contribution from DTF in June 2024 to fund the transfer of Adelaide Festival Centre complex assets and part of the Adelaide Festival Plaza from DPC.

Sales of goods and services

The AFCT's sales of goods and services increased by $2.7 million (12%) to $24.9 million in 2024.

The following chart shows the recovery in attendances in the last two years after the impacts of COVID-19 and theatre closures over the previous three years.



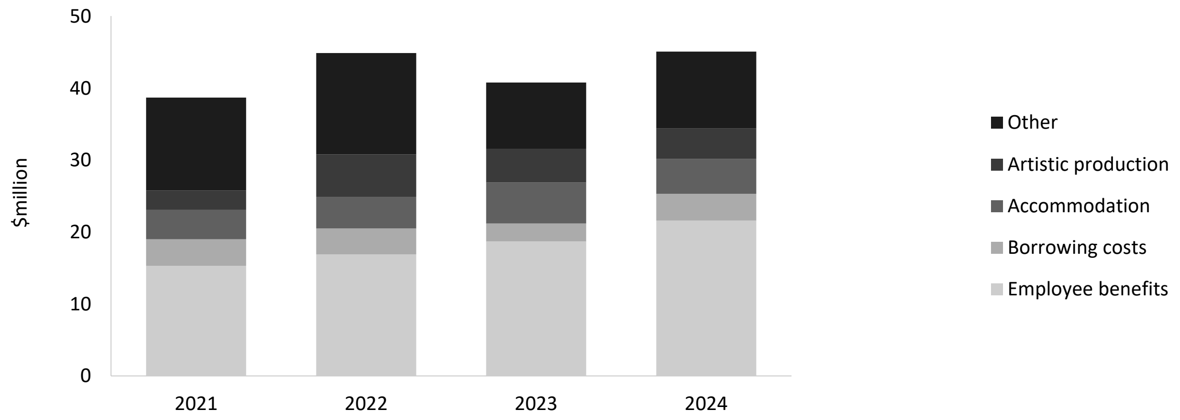
Other income

Other income increased by $4.4 million to $11.7 million, mainly due to:

- a $3.1 million increase in interest earned on higher cash balances at higher interest rates
- a $2.3 million increase in donations received by the Adelaide Festival Foundation. The Foundation is controlled by the AFCT and its financial activities are consolidated with the AFCT for financial reporting
- a $743,000 increase in sundry income
- partly offset by a $1.6 million reduction in insurance recoveries.

Expenses

The AFCT's expenses for the four years to 2024 are shown in the following chart.



The AFCT's expenses increased by $4.3 million to $45.1 million in 2024, mainly due to:

- a $2.9 million (16%) increase in employee benefits expenses to $21.6 million, which is 48% of total expenses. This increase reflects:
  - an increase in casual staff associated with increased theatre activity
  - the higher salary rates associated with new enterprise agreements, including back payments to July 2022
  - increases in long service leave and annual leave expenses
- a $1.2 million increase in interest paid on borrowings to $3.7 million
- a $716,000 increase in depreciation and amortisation costs to $2.5 million.

Statement of Financial Position

Current assets

The AFCT's current assets of $38.4 million ($159.1 million) include cash of $36.4 million ($156.8 million). The cash balance at 30 June 2023 included the $129.6 million in equity contributions from DTF to fund the transfer of the Adelaide Festival Centre complex assets and part of the Adelaide Festival Plaza from DPC, which occurred in 2023-24.

Non-current assets

The AFCT's non-current assets of $241.8 million largely comprise:

- property, plant and equipment of $223.9 million ($70.7 million)
- works of art of $14 million ($9.6 million).

Property, plant and equipment and works of art

Property, plant and equipment increased by $153 million (217%) to $223.9 million in 2024, mainly due to:

- the acquisition of the Adelaide Festival Centre complex assets from DPC for $88.8 million
- the acquisition of parts of the Festival Plaza public realm from DPC for $45.5 million
- a $20.1 million upward valuation of land and buildings
- partly offset by $2.4 million in depreciation.

Property, plant and equipment includes Her Majesty's Theatre land and buildings valued at $73.6 million ($65.3 million).

Works of art increased by $4.4 million (46%) to $14 million in 2024, mainly for items received from DPC as part of the Adelaide Festival Centre complex assets acquisition.

Liabilities

Liabilities decreased by $1.4 million to $71.8 million, and mainly comprise:

- a $61.6 million ($61.6 million) loan for the redevelopment of Her Majesty's Theatre
- $4.6 million ($4.1 million) in employee-related liabilities
- $2.1 million ($2.8 million) in payables
- $2.5 million ($3.3 million) of other liabilities, including venue hire deposits and income in advance.

Adelaide Oval Sinking Fund

Functional responsibility

Adelaide Oval SMA Limited (AOSMA) was established in December 2009 as a not-for-profit public company limited by guarantee. Its directors are appointed equally by the South Australian National Football League and the South Australian Cricket Association. AOSMA is not a public authority.

AOSMA manages, operates and maintains the Adelaide Oval stadium owned by the SA Government and the area closely surrounding it. Under the *Adelaide Oval Redevelopment and Management Act 2011* (the AORM Act), the Adelaide Oval Core Area is leased to the Minister for Infrastructure and Transport (the Minister) by the Corporation of the City of Adelaide. The Minister has subleased it to AOSMA until 2091.

The AORM Act requires AOSMA to establish a sinking fund (the Adelaide Oval Sinking Fund), out of which non-recurrent expenditure associated with AOSMA's sublease may be paid. The sinking fund is the pool of money that AOSMA is required to set aside, into which money is paid as approved or determined under the AORM Act, and out of which non-recurrent expenditure associated with the sublease may be paid.

Authority for audit

The AORM Act requires AOSMA to, before 1 September in each year, report to the Minister:

- the amount of money paid into, and out of, the sinking fund during the financial year ending on the preceding 30 June
- the amount of money proposed to be paid into, and out of, the sinking fund during the current financial year.

After receiving this report the Treasurer must consult with AOSMA and determine the amount of money to be paid into the sinking fund in the current financial year. AOSMA must comply with any determination by the Treasurer.

AOSMA must keep proper accounts of the sinking fund's revenue and expenditure, and the Auditor-General must audit the accounts of the sinking fund at least once a year and examine the matters under the AORM Act discussed above.

Scope of the audit

Our audit program involved:

- testing that the contributions and money paid into the fund for the period ended 30 June 2023 agreed to amounts approved by the Treasurer in the preceding year
- testing that the money paid out the fund for the period ended 30 June 2023 was for non-recurrent expenditure associated with the sublease and did not exceed the amount approved by the Treasurer in the preceding year

- ensuring AOSMA has reported to the Minister the expected contributions in and payments out of the fund for the period ended 30 June 2024 for Treasurer approval
- testing legislative compliance with other requirements of the AORM Act.

Audit findings

Communicating our audit findings

We identified areas where AOSMA could improve its internal controls over the sinking fund and communicated them in a management letter to AOSMA. Our findings and AOSMA's responses are discussed below.

Sinking fund is not invested in line with agreed arrangements

In January 2014, the Chief Executive of the Department for Infrastructure and Transport (DIT) confirmed, on behalf of the Minister, AOSMA's proposed administrative arrangements for the sinking fund. They included AOSMA investing the funds in the highest interest earning account available from the Commonwealth Bank of Australia (CBA). This was interpreted as meaning that most of the funds should be held in a term deposit, with an amount held at call to draw down for maintenance expenditure.

We noted that AOSMA had not invested any of the sinking fund money in a term deposit with the CBA. Instead, at 30 June 2023 AOSMA had invested 23% of the sinking fund in an online business saver account (at call for operating purposes), with the balance used to offset its group overdraft facility to minimise its borrowing costs.

While we accepted that AOSMA transferred into the fund a notional amount of interest earned on the money it held to offset its overdraft, AOSMA could not provide evidence that this notional interest transfer represented the highest interest available through the CBA.

AOSMA advised us that the notional interest transfer is at rates equal to or higher than the rates that the sinking fund would have otherwise earned if invested as agreed with the Minister. Further, AOSMA said that it regularly reviews its financial products in consultation with the CBA to ensure that it maximises returns on investments. However, AOSMA did acknowledge that its administrative arrangements for the sinking fund were set up over 10 years ago and that the documented arrangements need to be updated for current practices.

AOSMA's proposed administrative arrangements were agreed to by the Treasurer in January 2014. They were also documented in an Adelaide Oval Sinking Fund Protocol (the Protocol), prepared by DIT and endorsed by the Minister in September 2018. The Protocol outlines the establishment of a separate bank account and the following requirements:

> *AOSMA shall notify the Minister should AOSMA:*
> *a) change bank providers*
> *b) change the type of fund for the Sinking Fund account; or*
> *c) change the type of earnings fund used for the Sinking Fund account.*
>
> *AOSMA shall notify the Minister of any potential risks associated with a change pursuant to 3(7)(a)(b).*

We noted that AOSMA had not notified the Minister of the changes to its administration of the sinking fund, which includes holding a portion of the sinking fund balance in its group overdraft facility. AOSMA advised us that it had never formally agreed to support, or endorse, the arrangements set out in the Protocol as it was not a party to it. Despite this, it has recently engaged with DIT to review and update the arrangements, which will include updating the sinking fund investment approach.

AOSMA's record-keeping practices for the sinking fund need to improve

We noted that AOSMA needs to improve its accounting and record-keeping practices to ensure that it can readily ascertain the money comprising the sinking fund at any point in time.

The AORM Act requires AOSMA to keep proper accounts of the sinking fund's revenue and expenditure. To meet this obligation, sinking fund money should be held and recorded in a way that makes it clear at any time what money, and associated debits and credits, are attributable to the sinking fund.

We made findings that demonstrate the need for AOSMA to improve its accounting and record-keeping practices for the sinking fund.

Transfer of AOSMA cash into the sinking fund in error

In November 2022 AOSMA erroneously transferred $1.2 million of its own operating cash into the sinking fund online business saver account. It did not identify this error until August 2023, nine months after it occurred.

Calculating interest earned on AOSMA funds in sinking fund bank account

AOSMA estimates it earned $16,800 in interest on the sinking fund money it held in the online business saver account. We could not determine whether this transfer of interest fairly represented what the money could have earned in a high interest CBA account.

Calculating interest earned on sinking fund money used in offsetting arrangements

AOSMA estimates that the sinking fund earned $190,400 in notional interest on the money used to offset AOSMA's overdraft group facility. Due to the complexity of AOSMA's notional interest spreadsheet, it is difficult for us to determine the interest rate AOSMA applied and paid on this balance.

We recommended that AOSMA should:

- separately record the balance of money held in the sinking fund
- cease the existing offsetting arrangements for the sinking fund money held in an at-call account
- maintain appropriate evidence to support transactions impacting the sinking fund. This includes performing monthly bank reconciliations for all sinking fund balances to ensure the completeness and accuracy of financial information in the report on the sinking fund operations that AOSMA provides to the Minister and Treasurer.

AOSMA responded that it has established and maintains separate CBA bank accounts and separate accounts in the general ledger for the sinking fund. It acknowledged that in 2022-23 there was an instance of a duplicate transfer of AOSMA funds into the sinking fund, which it identified and corrected this, although not until several months later. It has elected to continue to use the offsetting arrangement, as it believes that this currently represents the optimal use of both sinking fund and AOSMA cash. AOSMA will, however, update DIT on this arrangement.

Processes have not been adequately documented in a policy or procedure

We noted that AOSMA's cash management policy does not reference the administrative arrangements for the sinking fund agreed between AOSMA and the Treasurer and Minister and documented in correspondence between the parties in January 2014.

The policy states that the use of sinking fund money to offset an overdraft group facility may be considered, however interest must be paid into the sinking fund at agreed interest rates for the use of these funds. It does not specify the processes to be followed or the parties to be involved in setting the agreed interest rates.

AOSMA advised us that its management determines a notional interest rate based on the CBA rates for AOSMA's overdraft group facility. Notional interest is applied daily to the group facility balance and a portion is calculated monthly and paid into the sinking fund, with a true-up process performed at year end.

AOSMA's sinking fund notional interest calculation spreadsheet is complex to navigate, which makes it difficult to determine the interest rate applied and paid by AOSMA into the sinking fund on the balance being used to offset the overdraft group facility. There are no documented instructions or guidance on how to use this calculation spreadsheet.

We recommended that AOSMA update its cash management policy to reflect the processes it has agreed with the Minister for the investment of the sinking fund. Where offsetting is accepted by the Minister, AOSMA should improve its controls over the sinking fund notional interest calculation spreadsheet to remove unnecessary complexity and ensure clear guidance is provided to staff.

AOSMA responded that it will review and update its cash management policy, noting that it has already made improvements to the sinking fund notional interest calculation spreadsheet and the documented instructions.

Further commentary on operations

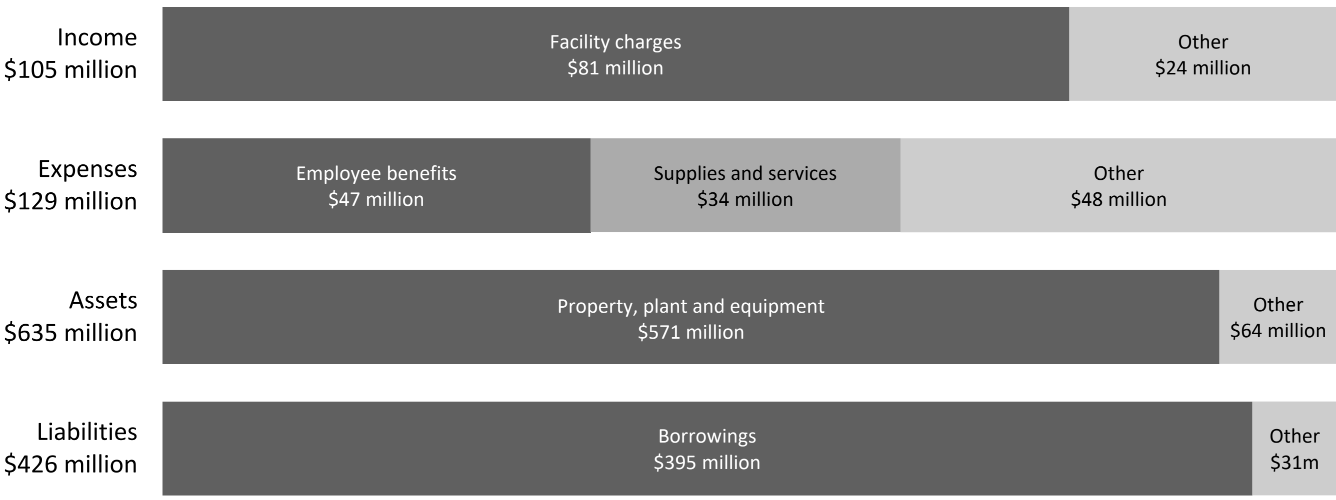
Sinking fund

AOSMA obtained a report from a project consultant that provides an estimate of the Adelaide Oval's non-recurrent expenditure over a 50-year period, which informs the required annual sinking fund contribution.

The balance of the sinking fund as 30 June 2023 was $9.1 million. AOSMA's contributions into the sinking fund were $3.4 million in 2022-23, offset by $2.3 million of capital replacement expenditure paid out of the sinking fund. Interest income of $296,000 was earned during the year.

Adelaide Venue Management Corporation (AVMC)

Financial statistics

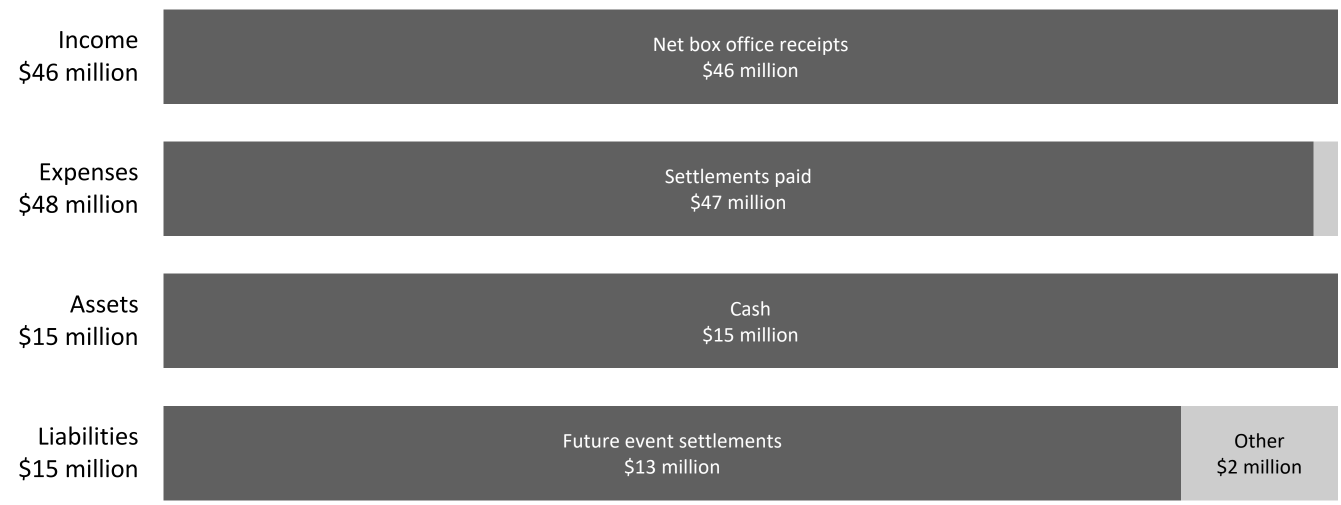


488
FTEs

803
Events and functions

942,939
Patrons

Administered items



Significant events and transactions

- Income and expenses rose as the number of events, functions and patrons increased.
- The AVMC experienced a net loss of $24 million for 2024, reflecting that its profit from trading activities is insufficient to cover the costs of its property management activities.

Financial report opinion	**Modified** The AVMC did not have an effective process to meet the disclosure requirements of Treasurer's Instructions (Accounting Policy Statements) for reporting the value of procurement with South Australian and non-South Australian businesses for 2023-24. This is discussed further in Part A of this report.
Controls opinion findings	No significant findings.
Other audit findings	— The AVMC's banking policy could be improved. — Daily payment limits in the AVMC's online banking systems significantly exceed its requirements.

Functional responsibility

The AVMC was established by Regulations under the *Public Corporations Act 1993*. It is responsible to the Minister for Tourism.

The AVMC's main function is to manage and operate the Adelaide Convention Centre, the Adelaide Entertainment Centre and Coopers Stadium (which is subject to a lease from the Minister for Recreation, Sport and Racing).

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. Areas of audit attention in 2023-24 included:

- revenue from events, functions, restaurant, bars and car parks
- salaries and wages
- expenditure on supplies and services
- cash management procedures and monthly bank reconciliations
- general ledger.

We gained an understanding of the AVMC's control environment and key financial systems, and analysed transactions to assess the risk of material misstatement to its financial statements.

Controls opinion

We reviewed controls over asset management and the use of deposit accounts as part of our overall controls opinion, which is discussed in Part B of this report.

Audit findings

Communicating our audit findings

Controls opinion findings

There were no significant findings for our controls opinion work on the AVMC.

Other audit findings

The AVMC's banking policy could be improved

We noted that the AVMC's banking policy could be strengthened by:

- documenting the expected frequency for user access reviews
- assigning responsibility for performing these reviews
- identifying the required access restrictions to the AVMC's EFT payment file
- documenting expectations for reviewing audit logs for administrator accounts to ensure legitimate user activity.

The AVMC responded that it will update its banking policy.

Daily payment limits in the AVMC's banking systems significantly exceed requirements

The AVMC recently opened an ANZ operating account as part of the whole-of-government transition to ANZ banking services. Its existing Commonwealth Bank account remains open until all merchant facilities have transitioned to ANZ.

We noted that three AVMC employees have a daily payment limit in the ANZ operating account that significantly exceeds the daily payment limit of $5 million documented in its banking policy. The AVMC has not established any daily payment limits in its Commonwealth Bank account.

While the banking policy allows these employees to exceed the $5 million limit for specified purposes, the AVMC advised us that these purposes are unlikely to exceed $10 million on any day. This may be a more reasonable daily payment limit for these three employees.

While the AVMC has mitigating controls that reduce the likelihood of error, establishing daily payments limits would strengthen its controls over its online banking systems without significant business impact.

The AVMC responded that it has now reduced the maximum daily payment limit for its ANZ operating account. The Commonwealth Bank payment limit will remain as is, with the account expected to be closed soon.

Interpretation and analysis of the financial report

Highlights of the financial report*

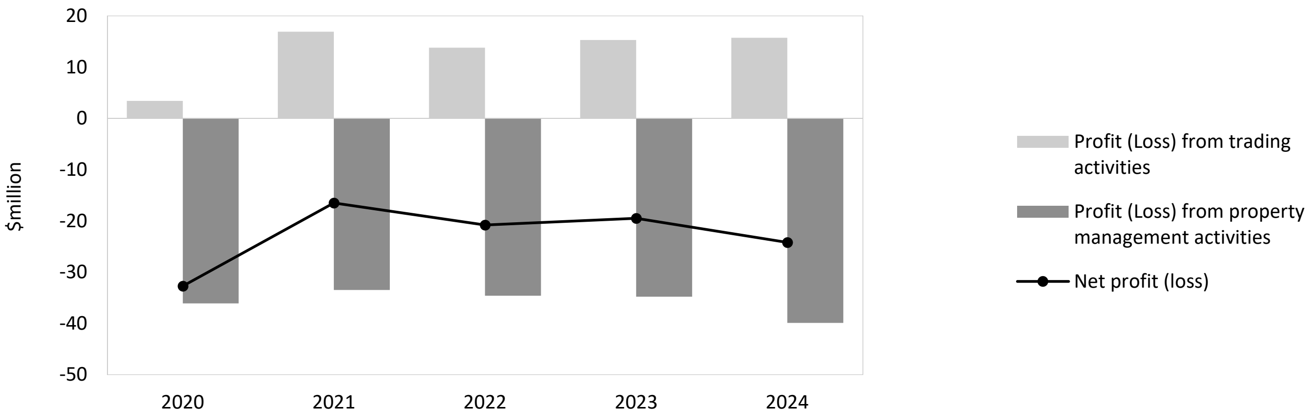
	2024 $million	2023 $million
Trading activities		
Expenses	71	61
Income	87	76
Profit (Loss) from trading activities	16	15
Property management activities		
Expenses	58	52
Income	18	17
Profit (Loss) from property management activities	(40)	(35)
Net profit (loss)	(24)	(20)
Other comprehensive income		
Change in asset revaluation surplus	-	69
Total comprehensive result	(24)	49
Net cash provided by (used in) operating activities	15	16
Net cash provided by (used in) investing activities	(10)	(14)
Net cash provided by (used in) financing activities	(2)	(2)
Assets		
Current assets	64	60
Non-current assets	571	598
Total assets	635	658
Liabilities		
Current liabilities	21	20
Non-current liabilities	404	404
Total liabilities	426	423
Total equity	209	235

* Table may not add due to rounding.

Statement of Comprehensive Income

The AVMC recorded a net loss of $24.2 million ($19.7 million).

The following chart shows the AVMC's profits (losses) from trading and property management activities and net profits (losses) for the five years to 2024.



The AVMC recognised a net loss of $32.7 million in 2020, driven largely by the minimal profit from trading activities in that year due to COVID-19. Profits from trading activities have recovered markedly since 2020. In 2021 and 2022 they included significant proceeds from business interruption insurance claims ($26.4 million in 2021 and $20.7 million in 2022).

Profits from trading activities in 2024 reflect a significant increase in events, functions and patrons.

As the chart shows, these profits are not sufficient to cover the AVMC's losses from its property management activities. Its accumulated deficits increased to $64.9 million in 2024, reflecting that the government funding it received is not sufficient to support capital replacement.

Profit from trading activities

The AVMC's income from trading activities was $87 million, up $11 million from 2023.

Income from trading activities mainly comprised catering revenue of $38.8 million, up by $2.8 million, and venue hire revenue of $14.4 million, up by $1 million. The AVMC held 803 events and functions in 2024 (a 7.5% increase from last year) attracting 942,939 patrons (a 21.2% increase).

Expenses from trading activities were $71.3 million, up $10.4 million from 2023. They mainly comprised employee benefits expenses of $43.8 million, up by $6.6 million, and supplies and services expenses of $23.5 million, up by $3.6 million. The increase in expenses for 2024 reflect the greater number of events and functions held, and improved patronage.

Loss on property management activities

The loss on property management activities was $39.9 million, a $5.1 million deterioration from the prior year. This largely reflects a $5.6 million increase in total expenses from property management activities, driven by a $4.3 million increase in depreciation. The higher depreciation was a result of a $68.9 million revaluation upwards for property, plant and equipment in 2023.

The AVMC is fully compensated for its borrowing costs by funding from the SA Government. The $16.7 million funding it received in 2024 also contributed to property management activities associated with site maintenance of the Adelaide Convention Centre common areas and the Riverbank Precinct.

Statement of Financial Position

Property, plant and equipment of $571.1 million represents 90% of total assets and includes land and buildings of $533.1 million, right-of-use land valued at $12.5 million and plant and equipment of $21.6 million. The AVMC's main assets are the Adelaide Convention Centre and the Adelaide Entertainment Centre buildings. It leases Coopers Stadium from the Minister for Recreation, Sport and Racing for an annual payment of $1.

Cash and cash equivalents were $57.1 million ($53.3 million) as at 30 June 2024.

Liabilities as at 30 June 2024 totalled $425.8 million ($423 million) and comprised mainly borrowings from the SA Government of $382.3 million, contract liabilities of $14.1 million, lease liabilities of $13.2 million and payables of $5.5 million.

The AVMC's borrowings from the South Australian Government Financing Authority, which are fully drawn down, will mature in 2030.

Administered items

Event funds

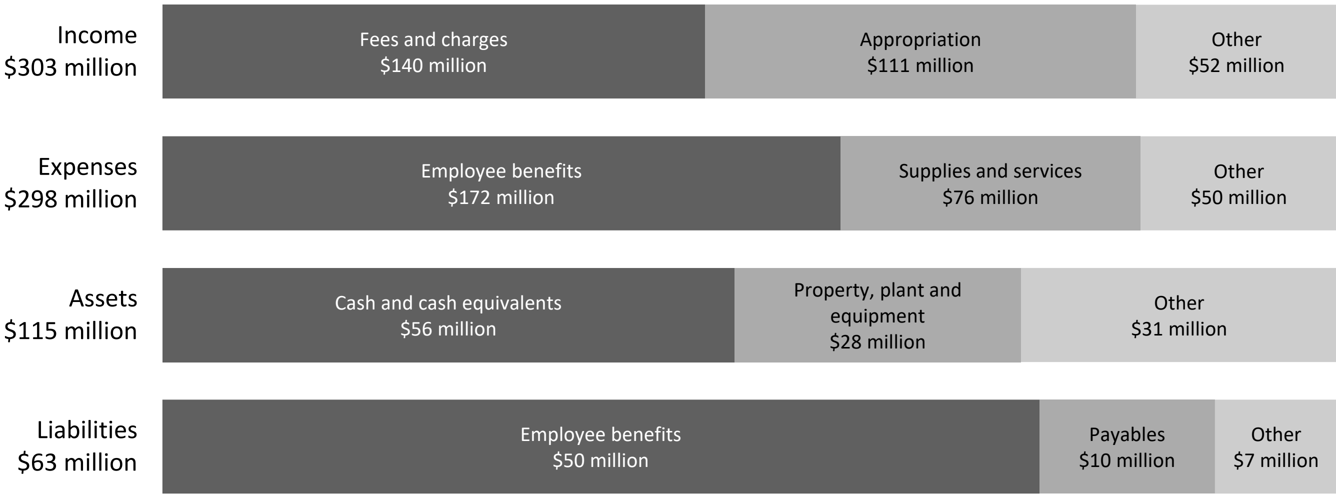
The AVMC administers, but does not control, gross box office receipts from its ticketing agency. These receipts are held in a separate event funds bank account. Settlement occurs after each event through the payment of funds held to promoters, the AVMC and other service providers. Total event fund administered revenues for the year were $46.3 million ($35.1 million), and event fund administered expenses were $46.6 million ($33.2 million). The balance of event funds held in trust as at 30 June 2024 was $13.4 million ($13.7 million).

Coopers Stadium Upgrade project funds

In 2021 the Office for Recreation, Sport and Racing transferred funding of $45 million to the AVMC for the Coopers (Hindmarsh) Stadium Upgrade through a memorandum of administrative arrangement. The AVMC is responsible for all aspects of project management and delivery of the upgrade. As at 30 June 2024 the AVMC had spent $43.2 million of the funding. It expects to complete the project in 2025 within the remaining $1.8 million.

Attorney-General's Department (AGD)

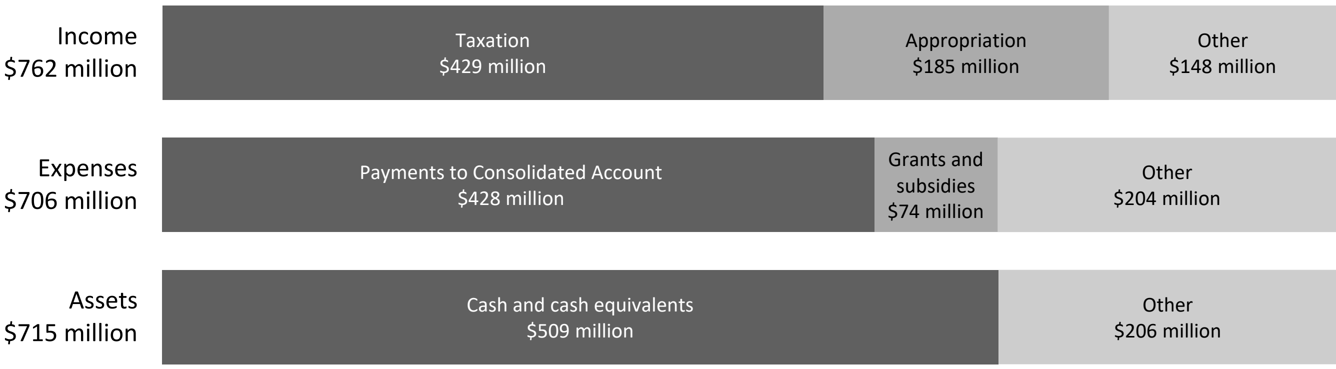
Financial statistics



1,443

FTEs

Administered items



Significant events and transactions

- AGD made $428 million in payments to the Consolidated Account from taxation revenue.
- AGD entered into a new contract for the State Rescue Helicopter Service.
- A new bonds management system was implemented.

Financial report opinion **Unmodified**

Controls opinion findings	No significant findings.
Other audit findings	— Outstanding unclaimed residential tenancy bonds continues to rise. — The implementation of a new bond management system has highlighted a number of legacy issues that need to be addressed.

Functional responsibility

AGD is an administrative unit established under the *Public Sector Act 2009*. It's objectives are to help create an inclusive, safe and fair South Australia. It promotes justice by protecting rights and holding people to account according to the law, improving safety and contributing to an efficient and fair justice system.

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. Areas of audit attention in 2023-24 included:

- payroll
- expenditure
- general ledger
- cash
- grant funding received from the Commonwealth Government
- fines revenue
- legal services revenue
- Crown Solicitor's Trust Account receipts and payments
- corporate governance
- IT general controls
- gaming tax revenue
- births, deaths and marriages revenue
- bond lodgements and refunds.

We reviewed internal audit activities in planning and conducting our audit. No reliance was placed on the work of internal audit.

Controls opinion

We reviewed controls over bank accounts as part of our overall controls opinion, which is discussed in Part B of this report.

Audit findings

Communicating our audit findings

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

Controls opinion findings

There were no significant findings for our controls opinion work on AGD.

Other audit findings

Consumer and Business Services (CBS) – Residential Tenancies Fund (RTF)

Bonds lodged with the RTF totalled $266 million at 30 June 2024.

Unclaimed bonds

The *Residential Tenancies Act 1995* requires the Commissioner for Consumer Affairs to repay bonds lodged with CBS. If a bond refund is undisputed and applied for in a form approved by the Commissioner, it is paid to either the landlord or the tenant.

Although CBS has implemented a number of actions in the past to manage and reduce the balance of unclaimed bonds, the value and number of unclaimed bonds older than 12 months increased by $1.4 million to $17.1 million.

CBS will continue to work through the issue of these unclaimed bonds by identifying the claimant or transferring to unclaimed money.

Bonds reconciliation review and the implementation of OneCBS

The RTF is administered by the Commissioner for Consumer Affairs. CBS is responsible for managing residential tenancy bonds, including the receipt and payment of security bonds. The associated financial reconciliation processes were managed using a number of legacy systems which have now been replaced by a new bonds management system.

Implementing this new system highlighted areas for improvement and legacy issues that need to be addressed. CBS is working through these issues.

Interpretation and analysis of the financial report

Highlights of the financial report – controlled items

	2024 $million	2023 $million
Income		
Revenue from fees and charges	141	125
Appropriation	111	117
Recoveries	26	26
Commonwealth-sourced grants and funding	19	19
Other	6	5
Total income	303	292
Expenses		
Employee benefits expenses	172	170
Supplies and services	76	67
Grants and subsidies	33	29
Other	17	20
Total expenses	298	286
Net result	5	7
Total comprehensive result	5	7
Net cash provided by (used in) operating activities	7	14
Assets		
Current assets	78	74
Non-current assets	37	34
Total assets	115	108
Liabilities		
Current liabilities	30	28
Non-current liabilities	33	33
Total liabilities	63	61
Total equity	52	47

Statement of Comprehensive Income

Income

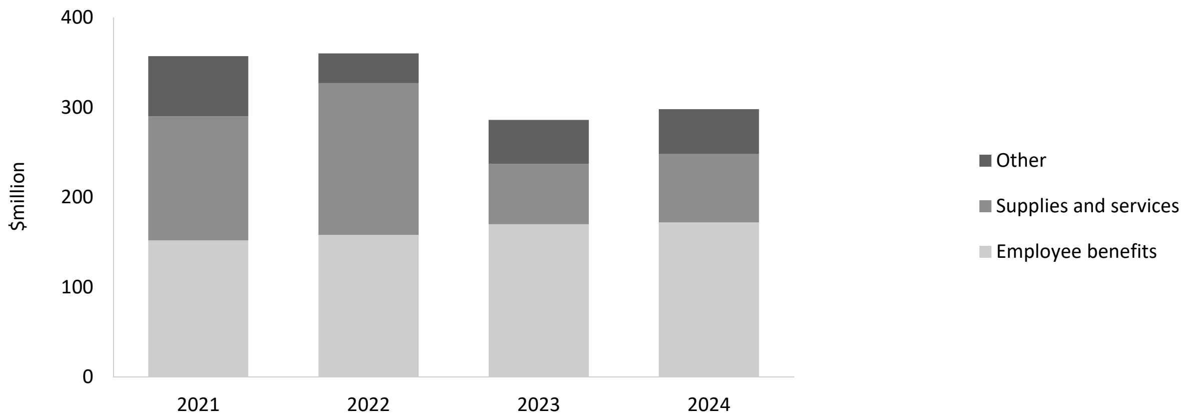
AGD collected $141 million ($125 million) in fees and charges and received $111 million ($117 million) in appropriation in 2023-24. This represents 84% (86%) of its total income.

Fees and charges collected mainly comprised $48 million of licence and regulatory fees, $27 million of Crown Solicitor's Office legal services fees, $39 million for the SafeWork SA prescribed fee and $14 million of network services fees.

Increases in fees and charges relate to additional work health and safety collections by SafeWork SA ($5.6 million), legal services fees ($3 million) and CBS revenue from the RTF ($1.6 million). Appropriation decreased in 2024 as no funding was required for targeted voluntary separation packages (TVSPs).

Expenses

Total expenses increased by $12 million to $298 million in 2023-24. The following chart shows AGD's main expenses for the four years to 2024.



Employee benefits expenses totalled $172 million in 2023-24, representing 58% of total expenditure. They increased by $2 million, with the main movements due to:

- salaries and wages, up $4.6 million, and long service leave, up $2.8 million, mainly due to enterprise bargaining increases and the net effect of actuarial assumptions in the calculation of the long service leave liability
- TVSP payments, down $6.7 million.

Supplies and services expenses totalled $76 million ($67 million). The main components, representing 59% (58%) of the total, were:

- accommodation charges of $25.8 million ($24.5 million)
- ICT expenses of $19.2 million ($14.6 million).

Statement of Financial Position

Assets

Total assets increased by $7 million to $115 million. The increase was mainly due to:

- intangible assets of $4.9 million associated with the new bond management system project
- receivables, up $5.4 million mainly due to an increase in receivables from SA Government entities.

These increases were offset by decreases in:

- cash, down $2.1 million
- property, plant and equipment, down $1 million due to the depreciation of plant and equipment.

Liabilities

Liabilities increased by $2 million to $63 million. This was mainly due to employee benefits liability, up by $3.5 million due to the net effect of actuarial assumptions in the calculation of the long service leave liability.

Highlights of the financial statements – administered items

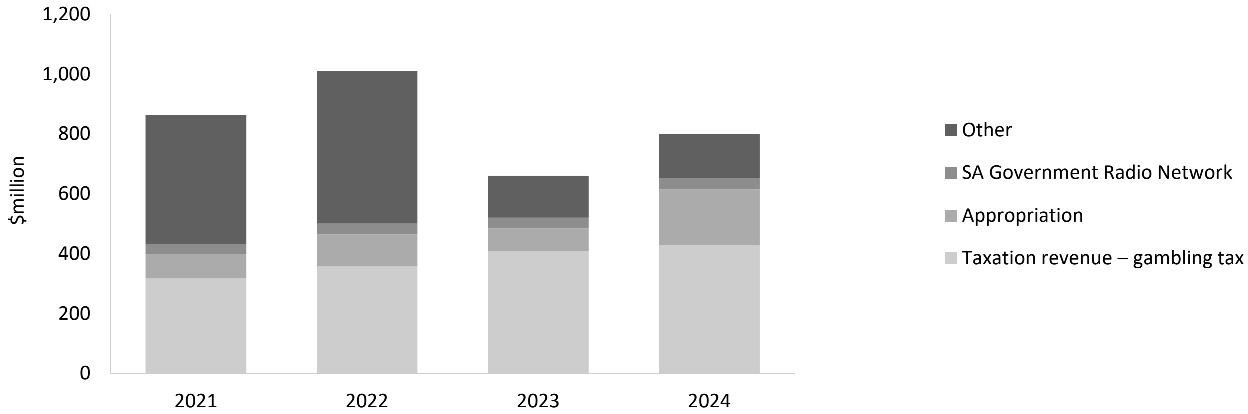
AGD has a range of administered activities that are detailed in its administered financial statements.

	2024 $million	2023 $million
Income		
Taxation revenue	429	409
Appropriation	185	75
Commonwealth-sourced grants and funding	25	23
Recoveries and other income	19	21
SA Government Radio Network	38	36
Victims of Crime levies	42	40
Other	24	13
Total income	762	617
Expenses		
Payments to Consolidated Account	428	407
Grants and subsidies	74	43
Victims of Crime payments	30	50
Intra-government transfers	21	20
SA Government Radio Network	24	23
Other	129	65
Total expenses	706	608
Net result	56	9
Total comprehensive result	56	13
Net cash provided by (used in) operating activities	86	43
Assets		
Current assets	553	501
Non-current assets	162	83
Total assets	715	584
Liabilities		
Current liabilities	82	65
Non-current liabilities	61	3
Total liabilities	143	68
Total equity	572	516

Statement of Administered Comprehensive Income

Income

The following chart shows the main sources of AGD's administered income for the four years to 2024.



Total administered income increased by $145 million to $762 million ($617 million), with 81% of this income being taxation revenue ($429 million) and appropriations ($185 million). Appropriations increased by $110 million due to $27.8 million in Legal Services Commission funding, $59.5 million in claims and $15.4 million for State Rescue Helicopter Service funding. The taxation increase of $20.2 million mainly reflects higher gaming machine revenue. Grants and subsidies increased by $8 million due to funding for claims.

Expenses

Total administered expenses increased by $98 million to $706 million, with 71% of this expenditure being payments to the Consolidated Account and grants and subsidies.

Payments to the Consolidated Account of $428 million increased by $20.2 million due to higher gaming machine revenue. Grants and subsidies increased by $30.6 million to $74 million due to an increase in funding to the Legal Services Commission. The State Rescue Helicopter Service received additional funding of $4.1 million due to a new contract.

Statement of Administered Financial Position

Assets

Total assets increased by $131 million to $715 million. This was due to increases in cash and cash equivalents of $50 million and property, plant and equipment of $79 million from the right-of-use helicopter asset for the new State Rescue Helicopter Service contract.

Liabilities

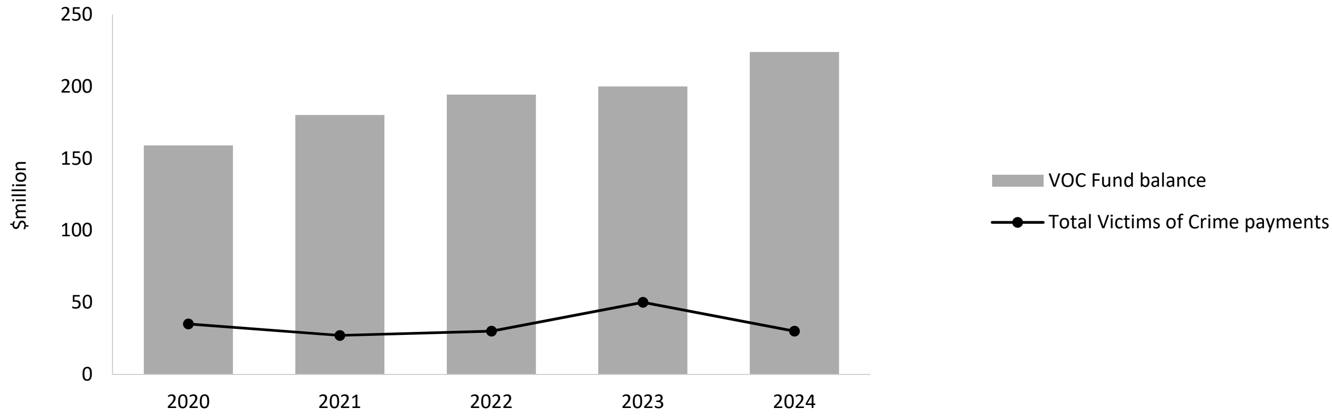
Total liabilities increased by $75 million to $143 million, mainly due to the new lease liability for the State Rescue Helicopter Service.

Further commentary on operations

Victims of Crime Fund (VOC Fund)

AGD is responsible for administering the *Victims of Crime Act 2001* (VOC Act). The VOC Fund is reported in its administered financial statements with a balance of $223.9 million ($200.4 million) at 30 June 2024.

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



The maximum compensation claim that can be awarded under the VOC Act is $129,000, in addition to costs and disbursements. A claim can succeed without a known offender. Compensation is paid where an offence has been admitted or proven beyond reasonable doubt. In cases where nobody is charged with an offence, the applicant's evidence must be corroborated. Where an offence has not been established, the Attorney-General has discretion to make an ex gratia payment to the claimant.

Recoveries from offenders

The VOC Act empowers the Attorney-General to recover the cost of compensation payments from offenders who were convicted of the related offence. Recovery is difficult, as most compensation claims are for unknown offenders or where the offender is known and their capacity to pay is limited. This is demonstrated by the following data:

- The amounts recovered directly from offenders during the year totalled $1.7 million ($1.2 million).
- Outstanding amounts subject to a judgement that are being actively managed fell by only $200,000 to $13.3 million.

A further $8.1 million ($5.9 million) was recovered from offenders under the *Criminal Assets Confiscation Act 2005*.

A levy is imposed by the VOC Act on all people convicted of offences and on expiation notices. Total Victims of Crime income for 2023-24 was $64.9 million ($60.7 million) and included Victims of Crime levies of $41.5 million ($40.4 million) and revenues from the SA Government of $10.1 million ($9.8 million).

Payments from the Victims of Crime Fund

Victims of Crime expenses for 2023-24 totalled $41.9 million ($61.4 million) and included:

- victim compensation and legal payments of $30 million ($50 million)
- grants of $7.7 million ($7.5 million)
- legal and other costs incurred in administering the VOC Fund of $4.7 million ($3.9 million).

There was a $23.5 million increase in the VOC Fund balance in 2023-24.

Taxation

Taxation revenue totalled $428.8 million ($408.6 million) in 2023-24. It mainly comprises gaming machine tax totalling $425 million ($405 million).

Gaming machine administration

The *Gaming Machine Act 1992* (GM Act) provides that the Liquor and Gambling Commissioner is responsible for scrutinising the operations of all gaming machine licensees.

Under the GM Act, the operation of gaming machines in licensed premises must return winnings to players of not less than 85% for machines installed before 31 May 2001, and 87.5% for machines installed after that. A prescribed percentage of the net gambling revenue is then paid to the Treasurer (Consolidated Account).

In July 2011 a trading system was introduced to allow eligible people to purchase and sell gaming machine entitlements. Full details are prescribed in the Gaming Machines Regulations 2005. Under this trading system, the purchase price of a gaming machine entitlement is not fixed. This means that when a trading round is announced, an eligible person can submit a written offer to:

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

The following table summarises gaming machine activity for the four years to 2024.

	2021 Number	2022 Number	2023 Number	2024 Number
Machines installed as at 30 June	11,698	11,618	11,706	11,734
	$million	$million	$million	$million
Turnover	8,683	9,437	10,453	10,875
Amount won	7,914	8,606	9,536	9,920
Net gambling revenue	770	831	918	956
Tax	320	356	405	425

Independent Gaming Corporation Limited (IGC)

The Liquor and Gambling Commissioner has granted the Gaming Machine Monitor licence to the IGC under the GM Act. Under this licence the IGC monitors the operations of gaming machine licensees.

The GM Act specifically provides for the accounts and operations of the IGC to be audited by the Auditor-General. The 2023-24 audit is complete and we issued an unmodified Independent Auditor's Report for IGC's financial report.

Residential Tenancies Fund

The *Residential Tenancies Act 1995* (RT Act) is administered by the Commissioner for Consumer Affairs. The RTF consists of security bonds received by the Commissioner and other amounts paid into the RTF under the RT Act. The Commissioner will refund security bonds from the RTF under the RT Act.

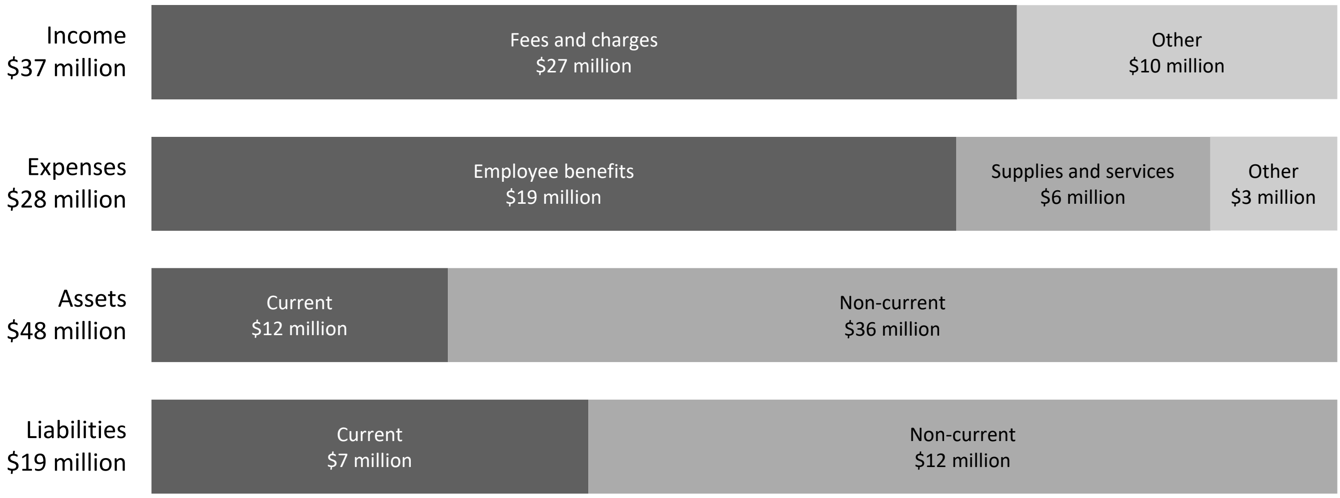
Income derived from investing the RTF is applied to the costs of administering and enforcing the RT Act, educating landlords and tenants about their statutory and contractual rights and obligations, and certain functions of the South Australian Civil and Administrative Tribunal.

Security bonds received by the Commissioner in 2023-24 decreased by $17.1 million to $106.8 million ($123.9 million). Security bonds refunded increased by $7.2 million to $110.3 million ($103.1 million). The value of bonds held as at 30 June 2024 was $266 million ($269 million) and the value of unclaimed bonds was $17.1 million ($15.7 million).

Investment funds totalling $327 million are held by the Public Trustee in common funds. They are exposed to movements in the value of the underlying common fund assets. Investments increased by $8.8 million in 2023-24. $13.8 million in additional investment income earnings and a net gain on the revaluation of investments were offset by a $5 million withdrawal of funds.

Public Trustee

Financial statistics



198
FTEs

$2 billion
Trust funds under management

7,883
Trusts under administration

Significant events and transactions

- An equity contribution of $3.9 million was received from the Department of Treasury and Finance for the new financial system.
- $6.6 million of community service obligations (non-commercial activities) were provided to the South Australian community.

Financial report opinion

Unmodified

Audit findings

No significant findings.

Functional responsibility

The Public Trustee is a body corporate established under the *Public Trustee Act 1995*. Its powers and functions are established by this Act. The Public Trustee administers the estates of deceased and protected people who need asset management assistance, prepares wills, provides investment services and arranges legal representation and advice.

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. The 2023-24 audit covered the Public Trustee's corporate, trust and Common Fund operations. Areas of audit attention included:

- corporate governance
- procurement
- expenditure
- revenue
- payroll
- client assets
- cash and investments
- information technology.

We reviewed internal audit activities in planning and conducting our audit. We did not rely on the work of internal audit.

Controls opinion

We reviewed controls over investments and bank accounts as part of our overall controls opinion, which is discussed in Part B of this report.

Audit findings

We did not identify any audit findings that needed to be communicated to the Public Trustee.

Interpretation and analysis of the financial report

Highlights of the corporate financial report

	2024 $million	2023 $million
Income		
Fees and charges	27	25
Community service obligations	7	6
Other revenues	3	2
Total income	37	33
Expenses		
Employee benefits	19	17
Supplies and services	6	6
Other expenses	3	3
Total expenses	28	26
Net result before income tax equivalents	9	7
Income tax equivalent	3	2
Net result after income tax equivalents and total comprehensive result	6	5

	2024 $million	2023 $million
Net cash provided by (used in) operating activities	8	7
Assets		
Current assets	12	10
Non-current assets	36	33
Total assets	48	43
Liabilities		
Current liabilities	7	6
Non-current liabilities	12	14
Total liabilities	19	20
Total equity	28	23

Statement of Comprehensive Income

Income

Fees and charges are the main source of income and principally comprise management fees for investments in Common Funds and commissions for managing estates.

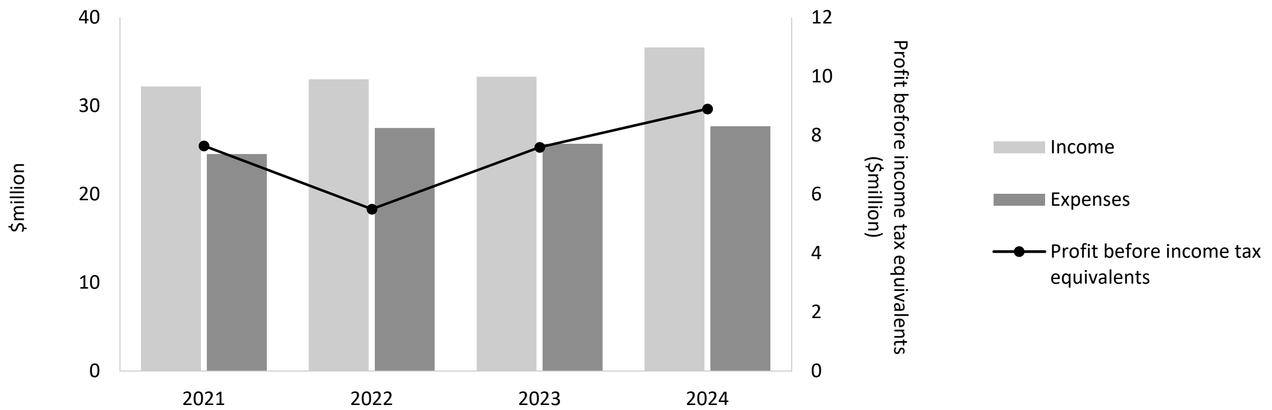
Community service obligation funding increased by $600,000 to $6.6 million due to growth in customer numbers in 2023-24. This funding is received by the Public Trustee to compensate it for providing non-commercial services to the South Australian community on behalf of the SA Government.

Expenses

Employee benefits account for 69% of total expenses and increased by $2 million to $19.2 million in 2023-24.

Net result

The following chart shows the Public Trustee's income, expenses and profit before income tax equivalents for the four years to 2024.



Statement of Financial Position

Assets

Financial assets of $18.7 million represent 39% of total assets.

Intangible assets increased by $4 million to $7.7 million due to work in progress of $4.4 million for the new financial system, offset by $400,000 in amortisation expenses.

Liabilities

Total liabilities mainly comprise financial liabilities of $10.6 million (55%) and employee benefits of $5.6 million (29%). The financial liabilities are the lease liability for accommodation and motor vehicle leases, recognised under AASB 16 *Leases*.

Interpretation and analysis of Statement of Trusts being Administered

The value of trust funds administered by the Public Trustee at 30 June 2024 was $2 billion ($1.9 billion). The table below shows the number and value of trust funds under administration for the last two years.

	2023 Number	2024 Number	2023 $000	2024 $000
Deceased estates	1,170	1,187	203,746	192,270
Trusts	1,089	1,174	151,382	161,923
Administration matters	235	214	40,135	40,336
Court award orders	726	728	445,482	467,800
Protected estates	4,256	4,375	483,885	570,681
Workers compensation awards	4	4	0	40
Powers of attorney	214	197	59,372	51,865
Investors	4	4	514,037	538,015
Total	7,698	7,883	1,898,039	2,022,930

Of the total funds being administered, 60% (62%) were invested in the Common Funds, with the remaining 40% (38%) represented by other estate assets. The two largest categories of estate assets are real estate assets of $492 million ($438 million) and superannuation of $236 million ($207 million).

Further commentary on operations

Common Fund financial reports

The Public Trustee operates seven Common Funds through which client funds are invested. They are:

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

Analysis of Common Fund key figures

The Common Funds' assets totalled $1.2 billion in 2023-24, increasing by $43.3 million from $1.17 billion. Movements in Common Fund assets reflect movements in investment markets and in total funds invested as a result of changes to the number and value of estates under administration each year.

The following table summarises the annual net operating result and value of assets held for each Common Fund at 30 June 2024 and 30 June 2023.

	Net operating result		Total assets	
	2023	2024	2023	2024
Common Fund	$000	$000	$000	$000
Cash	10,891	21,323	*539,973	532,453
Short-term Fixed Interest	1,071	2,612	66,843	74,490
Long-term Fixed Interest	1,415	3,924	92,461	99,915
Overseas Fixed Interest	27	2,355	69,475	75,939
Australian Shares	18,917	12,755	175,776	183,898
Overseas Shares	21,347	22,395	148,615	171,049
Property	1,865	1,473	144,418	148,907

* Includes $49 million ($51 million) deposited by other Common Funds.

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

The table below details the performance of each SIS and its performance against the Public Trustee's established benchmarks at 30 June 2024. The Public Trustee's investment returns ranged from 3.79% for Cash to 11.14% for Equities, net of fees. Overall the Public Trustee's investment strategies continue to perform soundly over the long term. Ten-year returns stand at 1.74% for Cash to 7.84% for Equities, net of fees. Due to the recent high levels of inflation (CPI) and market volatility, some investments trail CPI-based objectives over their suggested time frames. This may continue in the short term, while inflation remains high.

These figures were provided by the Public Trustee and are unaudited.

		1 year	3 years	5 years	7 years	10 years
Standard investment strategy		%	%	%	%	%
Cash	Performance	3.79	1.92	1.38	1.52	1.74
	Benchmark	3.34	1.44	0.64	0.71	0.86
Capital stable	Performance	4.85	1.34	2.01	2.49	3.02
	Benchmark	4.92	1.02	1.79	2.60	2.92
Balanced	Performance	5.65	1.72	3.03	3.77	4.46
	Benchmark	6.23	2.09	3.13	4.30	4.63
Growth	Performance	6.75	2.29	4.10	4.90	5.61
	Benchmark	7.89	3.22	4.68	5.75	5.92
Equities	Performance	11.14	3.45	6.61	7.27	7.84
	Benchmark	13.87	5.76	7.91	8.71	8.43

Net operating result

The table below shows the net operating results for each fund for the past two years, together with the rate of return achieved by the fund.

	Net operating result		Return*	
	2023	2024	2023	2024
Common Fund	$000	$000	%	%
Cash	10,891	21,323	3.24	5.10
Short-term Fixed Interest	1,071	2,612	2.79	4.87
Long-term Fixed Interest	1,415	3,924	2.63	5.25
Overseas Fixed Interest	27	2,355	1.17	4.35
Australian Shares	18,917	12,755	12.88	8.73
Overseas Shares	21,347	22,395	18.12	16.52
Property	1,865	1,473	2.58	2.37

* The rates of return figures were provided by the Public Trustee and are unaudited.

The Reserve Bank of Australia continued to increase the cash rate from 4.1% in July 2023 to 4.35% in June 2024, with the expectation to return inflation to 2-3% over time.

All investments for the Common Funds are valued at market value, being market price at the reporting date.

The net operating results for the Cash, Short-term Fixed Interest and Long-term Fixed Interest Common Funds were impacted by:

- increases in interest revenue to $28.7 million ($17.5 million) due to higher interest rates paid on investments in 2023-24. This is consistent with the average balance of cash held during the year and increased returns available in the current market
- trust distributions of $2.8 million ($2.2 million) for the Long-term Fixed Interest Common Fund. Distribution amounts vary depending on individual fund manager investment and distribution strategies and market performance.

The net operating result of the Overseas Fixed Interest Common Fund was impacted by increases in trust distributions of $1 million and a net gain on financial assets of $1.2 million.

The net operating result of the Australian Shares Common Fund was $12.8 million, The net gain on financial assets was $2.6 million in 2023-24 compared to a $10.8 million net gain on financial assets in 2022-23. Trust distributions increased by $1.8 million to 11.4 million.

The net operating result of the Overseas Shares Common Fund was $22.4 million, impacted by:

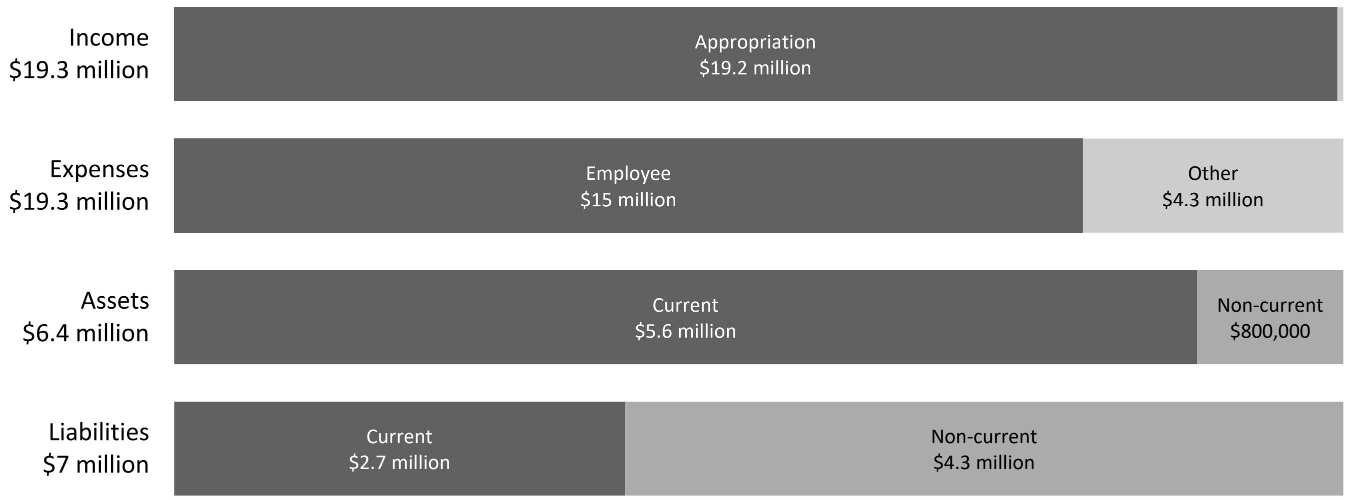
- trust distributions of $5.3 million
- the net gain on financial assets of $18.1 million in 2023-24 compared to a $20.8 million net gain on financial assets in 2022-23.

The net operating result of the Property Common Fund decreased by $390,000 to $1.5 million, impacted by:

- the net loss on financial assets of $1.9 million in 2023-24 compared to a $400,000 net loss on financial assets in 2022-23
- trust distributions increasing by $900,000 to $4.8 million.

Auditor-General’s Department

Financial statistics



121
FTEs

14
Reports to Parliament

176
Audits

Financial report opinion	**Unmodified**

Functional responsibility

The Auditor-General’s Department operates to help the Auditor-General discharge their statutory audit mandate.

Audit findings and comments

Under section 35(1) of the *Public Finance and Audit Act 1987*, the Governor appointed BDO Audit (SA) Pty Ltd as the Department’s auditor on the Treasurer’s recommendation.

BDO Audit (SA) Pty Ltd advised us that there were no audit findings to bring to our attention.

Interpretation and analysis of the financial report

Highlights of the financial report

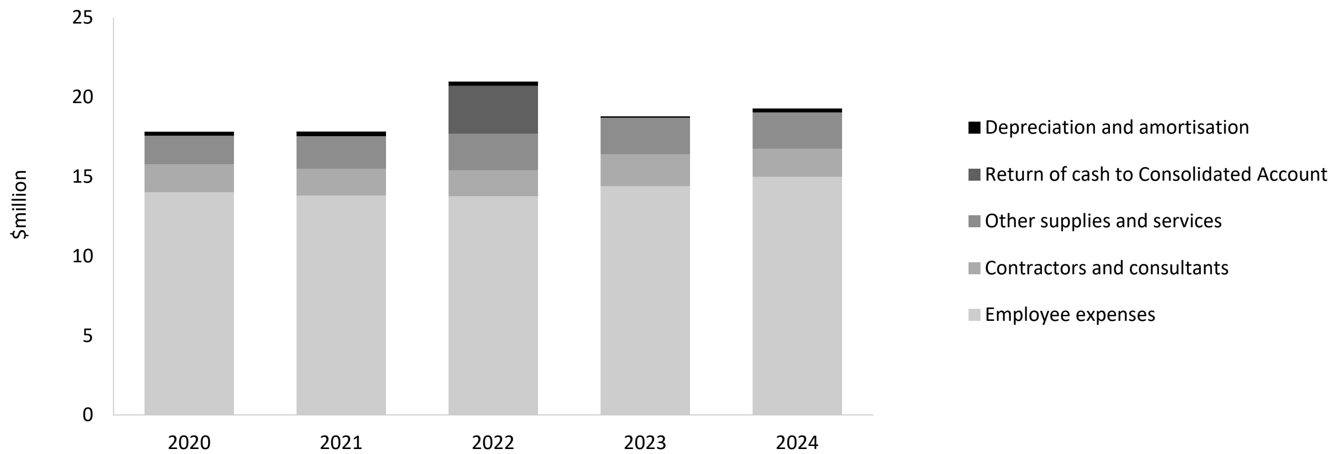
	2024 $million	2023 $million
Income		
Appropriation	19.2	18.8
Other	0.1	0.1
Total income	19.3	18.9
Expenses		
Employee expenses	15.0	14.4
Supplies and services	4.0	4.3
Other expenses	0.3	0.1
Total expenses	19.3	18.8
Net result	0.0	0.1
Net cash provided by (used in) operating activities	0.6	0.3
Assets		
Current assets	5.6	5.5
Non-current assets	0.8	0.6
Total assets	6.4	6.1
Liabilities		
Current liabilities	2.7	2.7
Non-current liabilities	4.3	4.0
Total liabilities	7.0	6.7
Total equity	(0.6)	(0.6)

Statement of Comprehensive Income

The Department relies on SA Government appropriations to fund its operations. We charge fees for audits, which is permitted by the *Public Finance and Audit Act 1987*. We do not retain or control these fees, as we pay them into the SA Government's Consolidated Account as we receive them. We raised $16.8 million in audit fees in 2023-24.

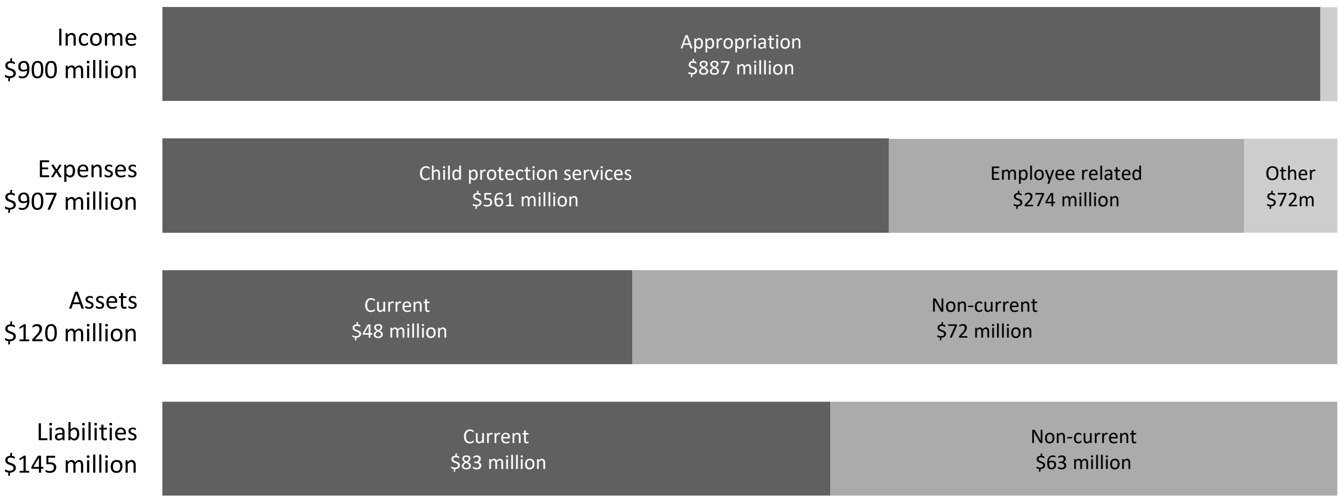
Expenses

Our total expenses for 2023-24 were $19.3 million, up from last year. The following chart shows our main expenses for the five years to 2024.



Department for Child Protection (DCP)

Financial statistics



2,416
FTEs

4,891
Children and young people in care

Significant events and transactions

— Child protection service costs exceeded the original 2023-24 State Budget estimate by $110 million (24%). DCP received additional appropriation funding to support this cost pressure.

— DCP recognised net liabilities of $25 million at 30 June 2024. Current liabilities of $83 million exceeded current assets of $48 million.

— DCP revalued land, residential properties and leasehold improvements upwards by $4.8 million.

— The number of children and young people in residential non-family-based care continues to grow proportionality faster than those in family-based care. In 2023 South Australia had a lower proportion of children and young people in family-based care than the Australian average and most other jurisdictions.

— DCP developed an approach to financial and service optimisation in 2023-24, which in part focuses on workforce strategies and increasing the proportion of children and young people in family-based care.

Financial report opinion

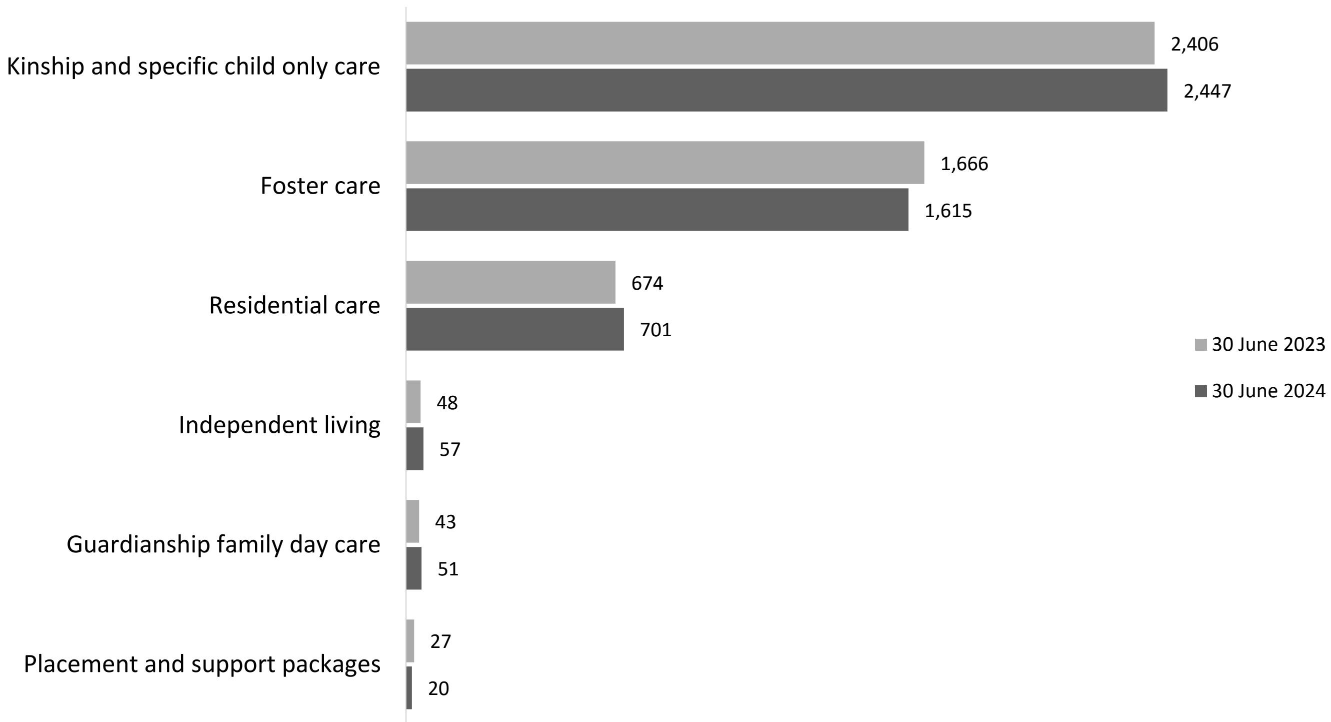
Unmodified

Controls opinion findings	— Improvements are needed to ensure temporary agency staff expenditure is authorised and effectively managed. — DCP's procurement for $501 million in family-based care services contracts did not meet the requirements of Treasurer's Instructions, and there are opportunities to improve future procurements.
Other audit findings	— Carer reviews required by legislation were overdue. — There were delays in the review of important payroll reports. — IT controls for the Connected Client and Case Management System (C3MS) need to improve.

Functional responsibility

DCP is an administrative unit established under the *Public Sector Act 2009*. Its objective is to care for and protect children and young people who have been abused and/or assessed as being at risk of harm within their families, or whose families do not have the capacity to protect them.

The number of children aged under 18 years in care increased by 27 (0.6%) to 4,891 at 30 June 2024. The chart below shows the number of children and young people (0 to 17 years old) in out-of-home care by care type at 30 June 2023 and 30 June 2024.



Source: Number of children in care at 30 June was sourced from DCP and is unaudited.

The Commonwealth Productivity Commission's *Report on Government Services 2023* reported that, on average, South Australia's out-of-home care cost was $376 per night placement, equating to around $136,000 per child per year in 2023. 2024 cost data was not available at the time of this report.

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. Areas of audit attention in 2023-24 included:

- expenditure, including child protection services
- payroll
- property, plant and equipment
- general ledger
- procurement and contract management
- carer reviews.

We reviewed internal audit activities in planning and conducting the audit.

Controls opinion

We reviewed controls over expenditure, including procurement and contract management, as part of our overall controls opinion, which is discussed in Part B of this report.

Audit findings

Communicating our audit findings

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

Controls opinion findings

Improvements are needed to ensure temporary agency staffing expenditure is authorised and effectively managed

In March 2020 DCP establish panel deeds with three non-government organisations (NGOs) for the supply of temporary agency staff to support staffing needs in DCP residential care facilities. The deeds require the contractors to maintain a pool of suitably qualified and experienced agency staff to meet DCP's staffing needs. The cost for these services includes an agreed hourly employee payment and a gross margin for the provision of services.

DCP's temporary agency staffing costs have increased significantly in recent years. In the three years to 30 June 2024, DCP spent over $300 million on temporary agency staff.

We reviewed DCP's controls over temporary agency staff costs and made the following findings.

DCP did not seek revised contract authorisation when its actual spend exceeded the approved contract value

DCP has significantly exceeded the approved contract value for its temporary agency staff panel deeds, but has not sought a revised contract authorisation from either the SA Government or the Minister.

Treasurer's Instruction 8 *Financial Authorisations* (TI 8) establishes the framework for the approval of expenditure for public authorities. It requires a public authority to obtain contract authorisation from someone authorised under TI 8 before incurring expenditure through contractual arrangements. Who can authorise it depends on the value of the contract. In this case, as the potential total value of the services was $43 million, TI 8 required the contract authorisation of either the SA Government or the Minister.

DCP staff advised us that contract authorisation for the deeds was provided by the SA Government in December 2019.

While DCP had estimated that it would spend $43 million over the five-year arrangement, in each of 2023 and 2024 DCP spent in excess of two times the original estimated five-year approved contract value. DCP requested that we do not disclose the total value of temporary staff services so that it does not compromise a new procurement process which is scheduled to start soon.

Good governance principles would suggest that DCP, once it determined that the value of services provided under the panel deeds was likely to exceed the original approval, should have sought revised contract authorisation from the SA Government. This would have provided the SA Government with the opportunity to reflect on the circumstances driving the additional spending in approving, or not approving, the new potential spend.

We recommended that DCP seek revised contract authorisation for the new potential value of services to be acquired under the temporary agency staff panel deeds. We also recommended that it establish mechanisms to identify where its contract spend is expected to exceed its contract authority on any other contracts and ensure the revised amount is approved by an authorised officer.

DCP is not proposing to act on these recommendations, citing advice it received from the Department of Treasury and Finance (DTF) in August 2024. DTF advised DCP that there was not current requirement under TI 18 for DCP to seek further contract approval, because the panel arrangement did not have a contract value specified. We discuss this further in Part A of this report.

When engaging temporary agency staff, DCP did not compare value for money between suppliers before selecting a supplier

The panel deeds require that, before engaging temporary agency staff to fill shifts, DCP performs a secondary procurement assessment that includes seeking one or more quotes, taking into account geographic coverage, capacity, specialist need and estimated cost.

Our testing found that DCP did not obtain quotes from suppliers and there was no documented analysis comparing value for money between suppliers prior to selecting one to fill required shifts. We recommended that DCP implement the required secondary procurement processes, which are consistent with the procurement principles detailed in Procurement SA's (PSA's) governance policy, including the need to ensure value for money.

DCP accepted this finding and said that it will review its secondary procurement process for these arrangements.

Approval not obtained before engaging temporary staff

The panel deeds provide that a contract for services is formed when each party has signed a work statement containing details of the shift to be filled. Our testing of a sample of invoices found that work statements were not signed by either party. We found that DCP does not provide the contract authorisation required by TI 8 before incurring these costs. We also found that staff responsible for booking temporary agency staffing did not have contract authority under DCP's financial delegations.

DCP accepted this finding and said that it will review its financial authorisations to ensure approvals are granted by appropriate staff before expenditure is incurred.

Temporary agency staff overtime not approved in advance or verified prior to payment

Our review of a sample of temporary agency staff invoices noted that more than 30% of the costs charged were for overtime.

The deeds between DCP and the suppliers prohibit the contractor from applying any overtime rates without written approval being given before staff begin working overtime. We found that DCP did not have controls or processes to ensure that:

- overtime is approved in writing before work commences
- overtime charges on invoices were verified to records that confirmed overtime rates were required.

Our testing confirmed that written approval for overtime shifts was not obtained and overtime was not verified prior to payment.

DCP acknowledged these findings and accepted them in principle. DCP advised us that it is reviewing its processes for engaging temporary staff, approving shifts that incur overtime rates and verifying invoices, and that it will adjust the contractual arrangements when the current contract expires in February 2025.

DCP also indicated that its central rostering team considers a number of factors in assessing its needs and that the dynamic nature of child and young person needs presents practical challenges, including that there are some circumstances that do not permit overtime approval to be given in writing in advance.

Overtime and night shift payments were incorrectly paid

The panel deeds specify that the fee arrangements aligned with the South Australian Public Sector Enterprise Agreement. We found instances where overtime and night shift payments for temporary agency staff were not consistent with these arrangements. For example, there were:

- payments at double time where time and a half was applicable
- payments for night shift when day shift was applicable.

DCP responded that it will clarify the application of overtime and day/night rates with its providers.

DCP's procurement for $501 million in family-based care services contracts did not meet the requirements of TI 18, and there are opportunities to improve future procurements

We reviewed DCP's compliance with the South Australian Government Procurement Framework, which consists of TI 18 and supporting policies approved by the Treasurer and administered by Procurement SA (PSA).

Our review focused on DCP's procurement of its family-based care services (FBCS) arrangements. This is a core support service outsourced to NGOs and managed by DCP. The procurement resulted in 19 contracts with 11 existing service providers. The base contract term is three years, with two three-year extension options (total contract term of nine years), with a total contract value across the 19 contracts of $501.4 million (GST inclusive).

Our review of this procurement raised the following findings.

DCP did not approach the market and its procurement processes did not demonstrate how it achieved the SA Government's procurement principles

TI 18 defines an approach to market to mean the formal process of notifying one or more potential suppliers of a procurement opportunity and inviting them to submit a response, quote, proposal or offer. This did not occur when DCP extended its arrangements with its existing FBCS providers. Instead these existing providers were asked by email to confirm their intent to continue to provide services under existing terms and conditions. They were not asked to submit a response, quote, proposal or offer.

By limiting its approach to existing contractors, requesting only that they agree to continue to provide services under the existing arrangements, DCP limited its ability to achieve the procurement principles in PSA's procurement governance policy. These principles include a commitment to achieving value for money by optimising the balance between cost and quality, and stimulating innovation and new businesses to improve the way goods or services are delivered.

The procurement approach DCP used also limited its ability to meet the primary objectives documented in its FBCS acquisition plan, which included increasing FBCS market capacity and improved service delivery.

DCP did not entirely agree with this finding, citing verbal advice that it received from PSA that emails may be an appropriate mechanism for approaching the market. DCP subsequently sought written advice from PSA.

In that advice, PSA made it clear that while the use of email may serve as a means of communication, it does not inherently satisfy the requirements of a formal market approach, unless it is structured for a more formal process. This includes ensuring that:

- the email explicitly invites suppliers to submit quotes or alternative proposals, rather than inquiring about their willingness to renew existing contracts
- the email should outline a clear, structured submission process, including a timeline for responses and the criteria that submissions will be evaluated to ensure transparency
- the process should be well-documented, including records of communications and decisions
- a formalised approach, even when conducted via email, signals to suppliers that the process is competitive and requires their best offers and ensures the government would be seeking a value for money outcome.

DCP's email with its suppliers, provided in May 2023, did not deliver against these critical factors. Its approach:

- identified the expiration date for existing contracts (30 June 2023)
- proposed a new contract term of a maximum of nine years (an initial three years plus two extension options of three years)
- requested confirmation on the supplier's intent to continue services by 12 May 2023
- noted DCP's intent for further discussions.

DCP's email to existing suppliers does not satisfy the requirements of a formal market approach as outlined by PSA in its written advice.

DCP acknowledged that for future procurements it will aim to apply a structured and formal process that aligns with its governing documents and the PSA's sourcing policy and procedure. This will include that its acquisition plans detail the market approach methodology, communication and proposal requirements for providers, and procurement time frames.

More evidence needed to support why DCP did not undertake an open market approach

DCP's acquisition plan for FBCS noted that a direct or limited market approach was selected because of the risk to public health and safety, and the need for continuity of essential services to children and young people at risk. However the acquisition plan contained limited information to support these assertions.

The use of a direct or limited market approach could compromise DCP's chances of achieving value for money and best service outcomes, and stimulating innovation and new business, through its procurement processes.

We recommended that DCP's future market evaluations provide clear evidence supporting the Chief Executive's decision that a direct or limited market approach is warranted.

DCP's response detailed its reasons for selecting a limited market approach and noted that this was approved by the Chief Executive in line with PSA's planning policy. It indicated that its decision-making for future procurements will be clearly recorded. It also indicated that it had released an open market, competitive and transparent procurement process to increase its FBCS provider cohort in August 2024.

Short time frames impacted NGO providers and likely DCP's ability to ensure best procurement outcomes

DCP's acquisition plan for the FBCS procurement was not finalised and approved in a time frame designed to ensure an effective procurement process. It was approved about two months before existing contracts were due to expire on 30 June 2023. DCP approached its current providers by email on 3 May 2023, advising them of the proposed contract terms and requesting they respond to confirm their intent to continue services within eight business days. Respondents were advised of their successful selection on 19 June 2023, just two weeks before the existing contracts expired.

PSA's contract extension guideline states that a minimum of six-months' notice of any extension should be given to existing suppliers. Short notice to providers may impact an NGO's ability to plan and resource its operations, including securing the staff needed to support carers of the children and young people who rely on their services. DCP's post-sourcing review noted that providers had expressed concerns over the time they were given to confirm their intent to renew contracts and DCP's inability to execute contracts before the 30 June 2023 expiry of existing arrangements.

DCP responded that its procurement and contracting team will regularly review its forward procurement plan to identify and act on expiring contracts and report to its Committee for Procurement Governance on a periodic basis.

Contracts signed after service start date causing payment delay

The new FBCS contracts were signed in August 2023, after the 30 June 2023 expiry of existing contracts. Consequently, family-based care services were provided without a contract and payments to providers for the first quarter of 2023-24 were delayed. We have previously reported our concerns that delays in DCP's procurement planning processes could impact the effective transition of services.

DCP responded that it is strengthening its controls and processes to ensure contracts with an upcoming expiry date are reviewed in a timely manner.

Delays developing and implementing FBCS contract management

We noted that DCP did not establish a documented contract management plan for one of its FBCS providers until 10 months after the contract commenced. Contract management plans detail the key strategies, activities and tasks required to effectively manage contracts. They provides a systematic and accountable method to ensure both parties fulfil their contractual obligations.

The FBCS contracts are high value. Their deliverables were assessed as critical to DCP's core operations and contract failure could likely be detrimental to children and young people's safety.

DCP responded that it had reminded its Service Contracts and Licensing team of the requirement to establish and implement contract management plans from the commencement of a contract. It also indicated that it would ensure approved acquisition plans include a requirement to develop contract management plans within required time frames.

Direct market approach to a non-South Australian business not approved in line with TI 18

Treasurer's Instruction 18 *Procurement* (TI 18) requires approval from the Chief Executive to approach the market for a procurement above $55,000 that involves a direct market approach to a non-South Australian business.

We reviewed the procurement of a short-term emergency placement service with a non-South Australian business. It was a direct market approach with a total value of $236,000. The Chief Executive did not approve the procurement approach for these services until after the procurement was complete and the service had commenced.

DCP accepted this finding and said that it will review its procedure for emergency arrangements with non-panel service providers to ensure it aligns with Tl 18 and PSA requirements. It also indicated that it will seek an exemption from DTF to enable the Deputy Chief Executive to approve the engagement of non-South Australian businesses for emergency placement arrangements.

Other audit findings

Carer reviews required by legislation overdue

DCP's management reporting for May 2024 noted that 15% of its approved carer reviews were overdue. The *Children and Young People Safety Act 2017* requires the Chief Executive to regularly review all approved carers.

Delayed review impairs DCP's ability to:

- identify carers who do not meet mandatory requirements and essential training
- support carers with the information and training they require
- identify and action concerns in a timely matter.

DCP accepted this finding and indicated that processes are in place to mitigate the risk associated with outstanding carer reviews at any point in time, including that:

- carer reviews are triaged, prioritising reviews based on likelihood of vulnerability and/or risk
- it maintains quarterly reporting of working with children check records.

DCP indicated that it had developed internal work instructions to improve its practices in this area.

Delays in the review of important payroll reports

We noted significant delays in management's review of fortnightly bona fide reports and monthly leave return reports. The prompt review of these reports is critical to ensuring employee payments are valid and leave taken is recorded.

DCP responded that it will remind all managers and executives of the importance of reviewing and approving bona fide certificates and monthly leave returns in line with its policy.

IT controls for C3MS need to improve

C3MS is a primary operational support system used by DCP and the Department of Human Services to record and provide client case information, including correspondence, actions and decisions.

In 2023-24, we reviewed the IT general controls applied to C3MS. This included password management, privileged user access, user onboarding and offboarding, user access review, audit logging, change management, patch management, backup management, disaster recovery management and job scheduling and monitoring.

We identified some areas of weakness where controls could be improved, including patch management and user offboarding. These weaknesses may increase the potential for malicious activity by users within the system and inappropriate changes to its data.

DCP responded positively to our findings and agreed to take appropriate remedial action. The key issues were expected to be addressed by December 2024.

Interpretation and analysis of the financial report

Highlights of the financial report*

	2024 $million	2023 $million
Income		
Appropriation	887	781
Other	13	12
Total income	900	793
Expenses		
Employee related expenses	274	263
Child protection services	561	476
Supplies and services	63	65
Other	9	7
Total expenses	907	811
Net result	(7)	(18)
Changes in revaluation surplus	5	17
Total comprehensive result	(2)	-
Net cash provided by (used in) operating activities	11	(5)
Assets		
Current assets	48	36
Non-current assets	72	66
Total assets	120	103
Liabilities		
Current liabilities	83	70
Non-current liabilities	63	60
Total liabilities	145	130
Total equity	(25)	(27)

* Table may not add due to rounding.

Statement of Comprehensive Income

Income

Revenues from the SA Government

DCP is predominantly funded by appropriation, which accounts for 99% of its total income.

Appropriation from the SA Government was $887 million in 2024, an increase of $106 million (14%) from 2023. It includes:

- $792 million in appropriation under the *Appropriation Act 2023*
- $95 million in receipts from the Governor's Appropriation Fund (GAF) approved by the Treasurer in May 2024 to meet the cash impact of unbudgeted spending associated with out-of-home care costs and to ensure sufficient working cash. These receipts did not provide DCP with additional expenditure authority. Additional expenditure authority was addressed through the 2024-25 State Budget, which provided $70 million in supplementation for 2023-24 to support an increase in the number of children and young people in non-family-based care.

Expenses

Employee related expenses

Employee related expenses increased by $12 million (4%) to $274 million and accounted for 30% of total expenses in 2024. Total FTEs increased by 114 (5%) to 2,416 as at June 2024.

Child protection services

Child protection services are payments to carers and NGOs and other expenses for the provision of out-of-home care for children and young people. It includes the cost of engaging temporary agency staff to support the staffing needs in DCP residential care facilities. It does not include DCP's internal costs, such as employee benefits and accommodation expenses.

Child protection services expenses increased by $85 million (18%) to $561 million, of which $420 million ($355 million) was for services contracted to NGOs, including in excess of $100 million for temporary agency staff.

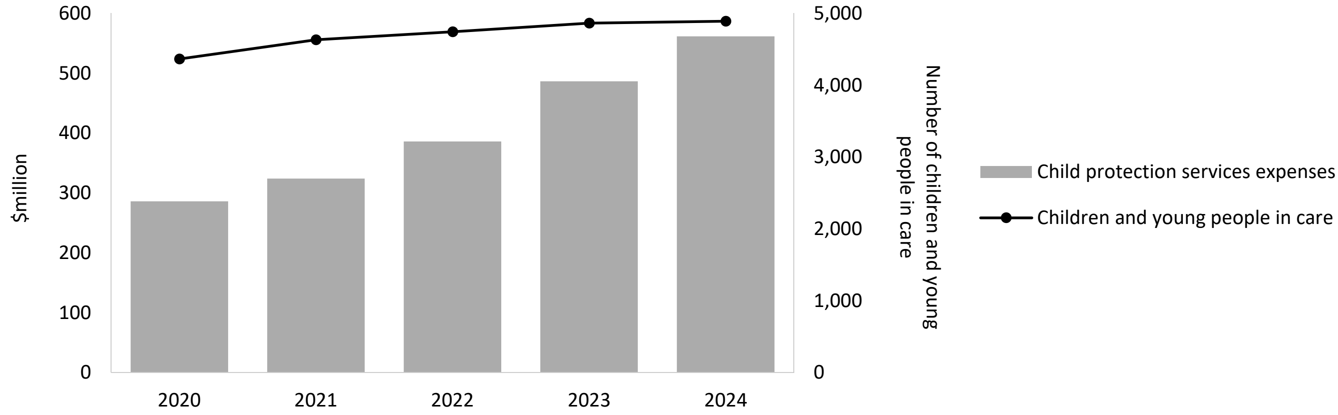
Contracted child protection services comprise:

- non-family-based care, which increased by $55 million (19%) to $338 million
- family-based care services, which increased by $4 million (8%) to $60 million
- family support services, which increased by $4 million (42%) to $14 million
- advocacy and support services, which increased by $2 million (31%) to $8 million.

Carer payments and client-related costs increased by $20 million (17%) to $142 million. They include payments to kinship and foster carers and contributions to the incidental costs of caring for children and young people.

The growth in the cost of child protection services is driven by both increased numbers of children and young people in care and by the type of out-of-home care placement.

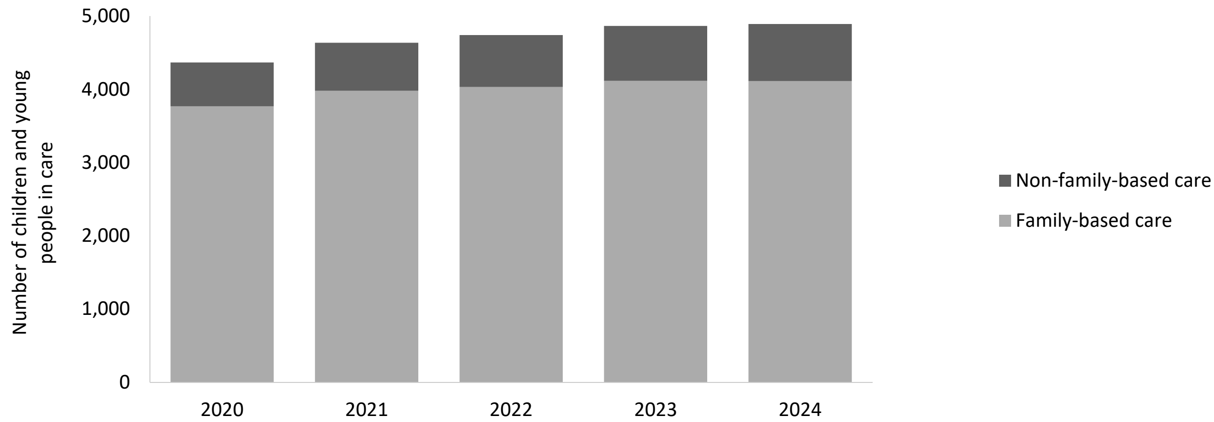
While the chart below shows a 96% increase in child protection services expenses over the past five years, it also demonstrates that these expenses have grown faster than the increase in the numbers of children and young people in care, which have grown by 12% in the same period.



Source: Number of children and young people in care was sourced from DCP and is unaudited.

Out-of-home care is provided as either family-based (foster, kinship and guardianship family day care) or non-family-based (residential care and independent living). Family-based care is DCP's preferred placement option, as most children do best in family-based settings. Non-family-based care is used where family-based care is not suitable or available.

At 30 June 2024 there were two fewer children and young people in family-based care than at 30 June 2023, compared with a 3% (29 children and young people) increase in non-family-based care over the same period. The chart below shows the number of children by placement type for the past five years.

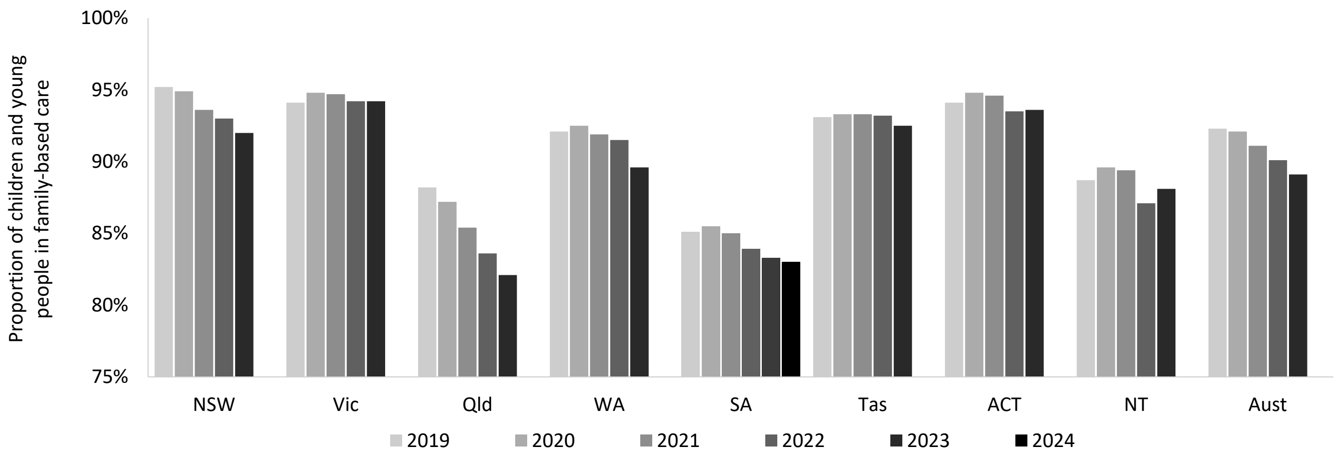


Source: Number of children in care at 30 June was sourced from DCP and is unaudited.

While non-family-based care placements of 778 make up only 16% of children and young people in care at 30 June 2024, it is significantly more costly to provide than family-based care and is the main driver of the significant growth in child protection services costs.

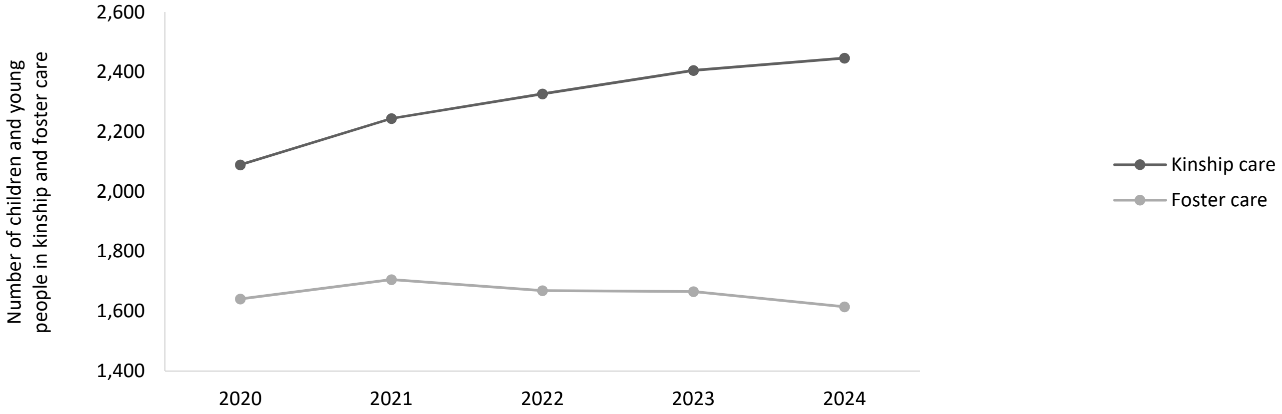
Expenditure on children and young people in non-family-based residential care can be up to 10 times more than those in family-based care. The Commonwealth Productivity Commission's *Report on Government Services 2024* reported that in jurisdictions where data was available, annual costs per child were considerably higher for residential care (ranging between $561,000 and $1.1 million in 2023) compared to non-residential care (ranging between $51,000 and $67,000). At the time of this report cost data was not available for 2024.

The chart below shows that South Australia has a lower proportion of children and young people in family-based care (83.3% in 2023) than the Australian average (89.1%) and most other jurisdictions.



Source: 2019–2023 data based on the Commonwealth Productivity Commission's *Report on Government Services 2024.* 2024 data provided by DCP and unaudited.

The following chart shows the number of children and young people in family-based care, demonstrating the growth in kinship care numbers and the continued decline in foster care placements.

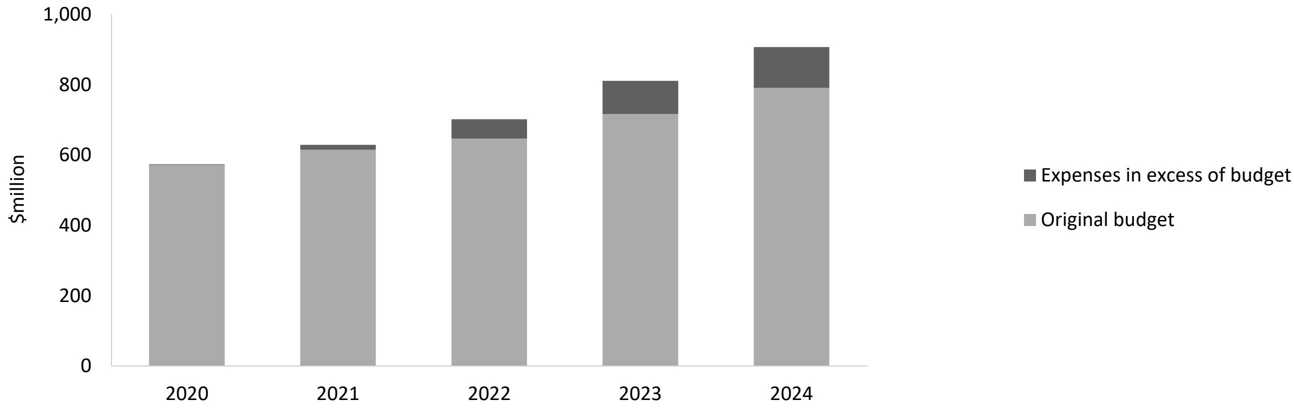


Source: Number of children in kinship and foster care was sourced from DCP and is unaudited.

Comparison of actual expenses to original budget

In 2024 total expenses exceeded the original budget by $116 million (15%), compared to $94 million (13%) in 2023. This includes child protection services exceeding the original budget by $110 million ($81 million). Note 1.3 of DCP's financial report provides budgetary reporting information.

The chart below shows that total expenses exceeded the original budget for the five years to 2024.



Additional expenditure from the original budget is impacted by the differences between actual and budgeted numbers of children and young people:

- entering care
- in higher cost non-family-based care, including residential and specialist residential care.

Statement of Financial Position

Assets

Current assets increased by $11 million to $48 million as at 30 June 2024. Cash of $39 million ($30 million) makes up 81% of current assets.

Property, plant and equipment increased by $6 million to $72 million due mainly to upward revaluations of $5 million and asset additions of $7 million, partially offset by depreciation of $6 million.

Liabilities

Liabilities principally comprise:

- employee related liabilities of $70 million ($65 million)
- the provision for workers compensation, which decreased by $2 million (7%) to $32 million. Workers compensation was estimated by an independent actuary as at 30 June 2024
- trade payables and accrued expenses of $36 million ($27 million). Most payables relate to care-related services provided but not paid at 30 June.

Equity

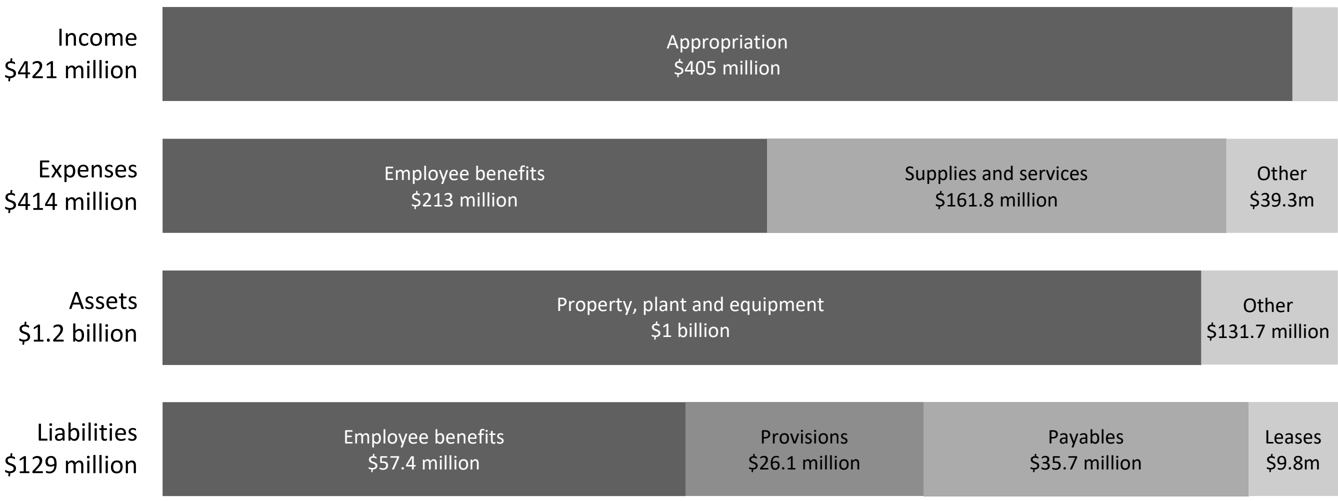
DCP recognised net liabilities at 30 June 2024 of $25 million. They comprise accumulated losses (retained earnings) of $64 million, partially offset by asset revaluation surpluses of $31 million and contributed capital of $8 million. Asset revaluation surpluses represent the accumulation of increases in the fair value of property, plant and equipment since acquisition.

Current liabilities of $83 million exceeded current assets of $48 million. DCP is funded to meet expected cash flows for its current program delivery. Note 10.2 of its financial report provides information about liquidity risk.

In 2023-24, DCP received a capital contribution from the SA Government of $3.8 million.

Department for Correctional Services (DCS)

Financial statistics



1,959 FTEs	3,184 Average prisoner numbers	$1 billion Value of land and buildings

Significant events and transactions	The Cadell Training Centre dairy and processing facility upgrade was completed and officially opened in May 2024. Total capital expenditure spent on this project was $12.4 million.
Financial report opinion	**Modified** DCS did not have an effective process to meet the disclosure requirements of Treasurer's Instructions (Accounting Policy Statements) for reporting the value of procurement with South Australian and non-South Australian businesses for 2023-24. This is discussed further in Part A of this report.
Controls opinion findings	No audit findings.
Other audit findings	Opportunity to strengthen banking controls by regularly reviewing audit logs.

Functional responsibility

DCS is an administrative unit established by the *Public Sector Act 2009*. It is responsible to the Minister for Police, Emergency Services and Correctional Services.

DCS's objective is to provide rehabilitation and repatriation services, custodial services and services for offenders in South Australia including:

- custodial services – secure containment and supervision for adults on remand and those sentenced to custodial sanction
- community-based services – managing and supervising offenders in the community on probation, parole, home detention and supervised bail
- rehabilitation and reparation services – educational, vocational and rehabilitative activities to address offending behaviour.

Scope of the audit

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

- fixed assets
- payroll and employee benefits
- supplies and services expenditure
- cash, including reviewing the new ANZ banking control environment
- revenue (appropriations)
- general ledger functions.

We reviewed internal audit activities to assess the risks of material misstatement in the financial report and to design and perform audit procedures. We did not rely on any internal audit work for our opinion.

Controls opinion

We reviewed controls over DCS's asset management (buildings and improvements) and deposit accounts as part of our overall controls opinion, which is discussed in Part B of this report.

Audit findings

Communicating our audit findings

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

Controls opinion findings

No controls opinion findings were raised in 2023-24.

Other audit findings

Opportunity to strengthen banking controls by regularly reviewing audit logs

We reviewed DCS's controls over its banking environment following the transition of the whole-of-government banking system to ANZ.

We found that privileged administrator-level changes in the ANZ Transactive banking system are not reviewed by someone independent of the system administration function. Privileged users can create, delete and modify accounts in ANZ Transactive, as well as create new roles and change existing profiles. Regular review of privileged user activity by someone independent of this function would strengthen DCS's controls over fraud.

We recommended that DCS amends its policy to require the regular review of ANZ Transactive privileged user audit logs by someone independent of the system administration function.

DCS advised us it captures user access changes through its quarterly bank signatory/user review. It has amended the review to include a check of the user activity report for changes to account or transaction limits and to dual authorisation arrangements.

Interpretation and analysis of the financial report

Highlights of the financial report*

	2024 $million	2023 $million
Income		
Appropriation	405	376
Sale of goods	8	7
Other income	9	9
Total income	421	393
Expenses		
Employee benefit expenses	213	214
Supplies and services	162	147
Other expenses	39	28
Total expenses	414	389
Net result	7	4
Other comprehensive income		
Changes in asset revaluation surplus	-	165
Total comprehensive result	7	169
Net cash provided by (used in) operating activities	46	32
Net cash provided by (used in) investing activities	(27)	(47)
Net cash provided by (used in) financing activities	(2)	(2)
Assets		
Current assets	122	103
Non-current assets	1,033	1,034
Total assets	1,154	1,137

	2024 $million	2023 $million
Liabilities		
Current liabilities	70	53
Non-current liabilities	59	66
Total liabilities	129	119
Total equity	1,025	1,018

* Table may not add due to rounding.

Statement of Comprehensive Income

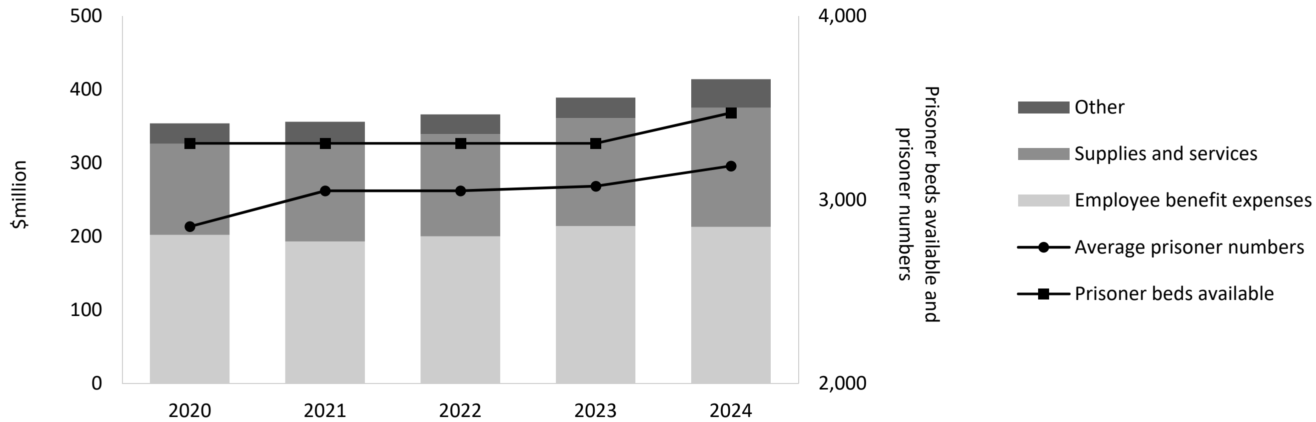
Income

Total income increased by $28.5 million to $421.3 million.

DCS relies on SA Government appropriations to fund its operations and investing activities. Appropriations increased by $28.6 million, reflecting the need for an increase in operating funding for the additional 270 beds constructed at the Yatala Labour Prison in 2022-23.

Expenses

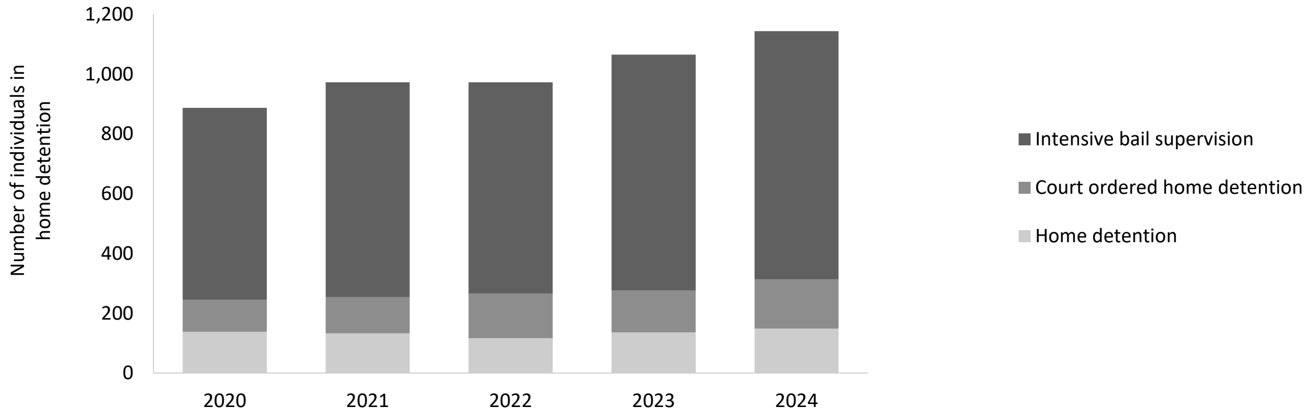
DCS's main expenses and average prisoner numbers for the five years to 2024 are shown in the chart below.



Source: Prisoner information was provided by DCS and is unaudited.

Total expenses have increased by $60 million (17%) since 2020. Average prisoner numbers increased by 330 (11.6%) over the same period. They increased by 110 in 2024 to 3,184. At 30 June 2024 there were 901 prisoners held in contractor-operated prisons (Mount Gambier Prison and the Adelaide Remand Centre).

The numbers of individuals in home detention at 30 June 2024 increased by 7.4% to 1,144. It includes people in home detention, intensive bail supervision and court ordered home detention. The increase was mainly in intensive bail supervision numbers.



Employee benefit expenses

Employee benefit expenses fell by $1.1 million to $213 million, due mainly to:

- a $5.1 million decrease in workers compensation expenses, reflecting a decrease in the provision (see 'Provision for workers compensation' below)
- a $3.9 million decrease in additional compensation expenses, reflecting a decrease in the additional compensation provision (see 'Additional compensation provision' below)
- a $4.9 million increase in salaries and wages and associated $1.6 million increase in employment on-costs (superannuation and payroll tax). This was primarily driven by Enterprise Agreement salary increases of 1.5% and an increase in the superannuation rate paid to staff from 10.5% to 11%. While FTEs fell by 2% from 2,004 to 1,959, this saw an increase in overtime incurred to cover vacant operational positions
- a $1.8 million increase in long service leave expenses due to the increase in the long service leave liability. Movements in the long service leave expense are impacted by relative movements in the long service leave liability each year.

Supplies and services expenses

Supplies and services expenses increased by $15 million to $162 million following:

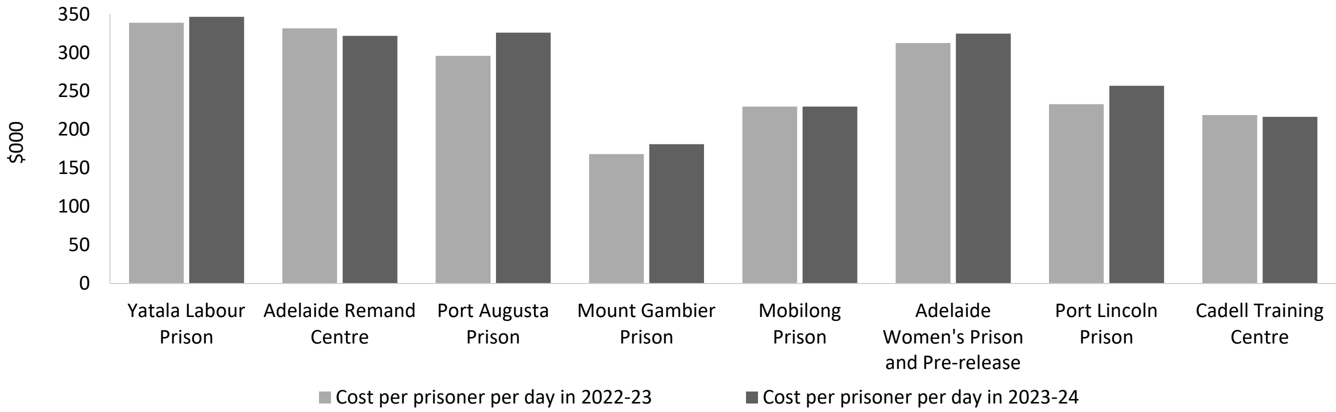
- a $7.7 million growth in contract expenditure, due mainly to annual price escalations on the following contracts:
  - Mt Gambier Prison management contract
  - Adelaide Remand Centre management contract
  - Prisoner Movement contract
  - Home Detention Integrated Support Services and Bail Support Program
  - Home Detention Electronic Monitoring.

  The annual cost escalation on these contracts ranged from 4.21% to 7.9%
- a $1.6 million increase in information technology and communication charges, mostly attributable to iSAFE project costs relating to the development of a new offender management system
- a $1.3 million increase in offender-related costs related to an increase in daily average prisoners
- a $1.3 million increase in accommodation expenses, mostly attributable to breakdown maintenance costs, new cleaning contracts entered into across all sites and the expansion of prison accommodation at Yatala Labour Prison and Adelaide Women's Prison

- an $806,000 increase in travel costs, due largely to increased travel for the Cross Borders program and costs for temporary staff seconded to the Port Augusta and Port Lincoln Prisons.

Annual cost per daily average occupancy per facility

The following chart shows the cost per prisoner per day of managing each facility in 2023 and 2024. The figures include all direct and indirect operating costs. Indirect costs are allocated to prisons based on either a percentage of total salaries, a percentage of total beds or a percentage of total direct costs.



Source: Data was supplied by DCS and is unaudited.

The chart illustrates the cost differences between facilities.

Across all facilities the cost per prisoner per day increased on average by 3.91% in 2024, ranging from a 1% decrease at the Cadell Training Centre to 10% increases at the Port Lincoln and Port Augusta Prisons. The variation in cost increases is largely affected by infrastructure charges at each site through increased depreciation expenses. For example, Port Lincoln and Port Augusta Prisons both incurred additional depreciation in 2024 resulting from the asset valuation performed in 2023, which increased building and infrastructure values. Other cost pressures for 2024 related to staffing, general price indexation increases for goods and services, and increased costs related to higher prisoner numbers.

DCS advised us that there were several factors influencing the costs of running South Australian prisons:

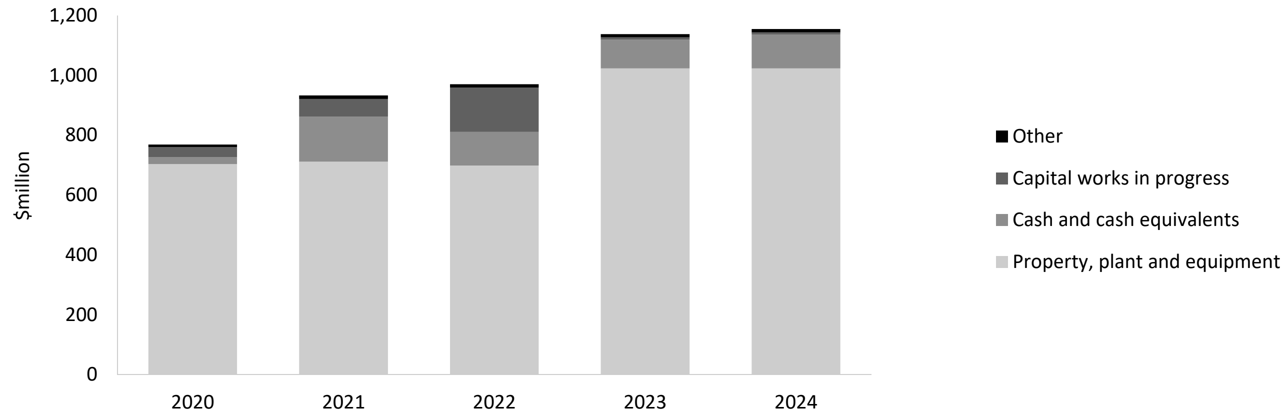
- the security level of prisoners, which influences the cost of managing each facility. South Australian prisons have varied security requirements rated as high, medium and low security. Higher security requirements generally increase the cost of running a prison. The Adelaide Remand Centre, Port Augusta Prison and Yatala Labour Prison have mainly high and medium security prisoners. The Cadell Training Centre (low security prisoners), Mobilong Prison (medium and low security prisoners), Mount Gambier Prison (medium and low security prisoners) and Port Lincoln Prison (medium and low security prisoners) have the lowest cost per prisoner. The Adelaide Women's Prison accommodates all security profiles
- the built environment of the prison. For example, the design of prisoner accommodation, visitor centres and admissions areas can impact staffing levels, which then impact cost. Cell-based accommodation as opposed to residential-type accommodation also influences the cost per prisoner, as does ageing infrastructure at sites like the Yatala Labour Prison
- work practices and staffing levels, which vary at each site. For example, there are variations at prison sites in the number of correctional officers required to escort prisoners within the facility and the number of correctional staff required to monitor prisoners

- the role and function of the prison, which can vary based on factors including out-of-cell hours, the level of industry activity at each site, the level of prisoner employment and whether it is an open campus (eg the Mobilong Prison).

Statement of Financial Position

Assets

DCS's major asset balances for the five years to 2024 are shown in the following chart.

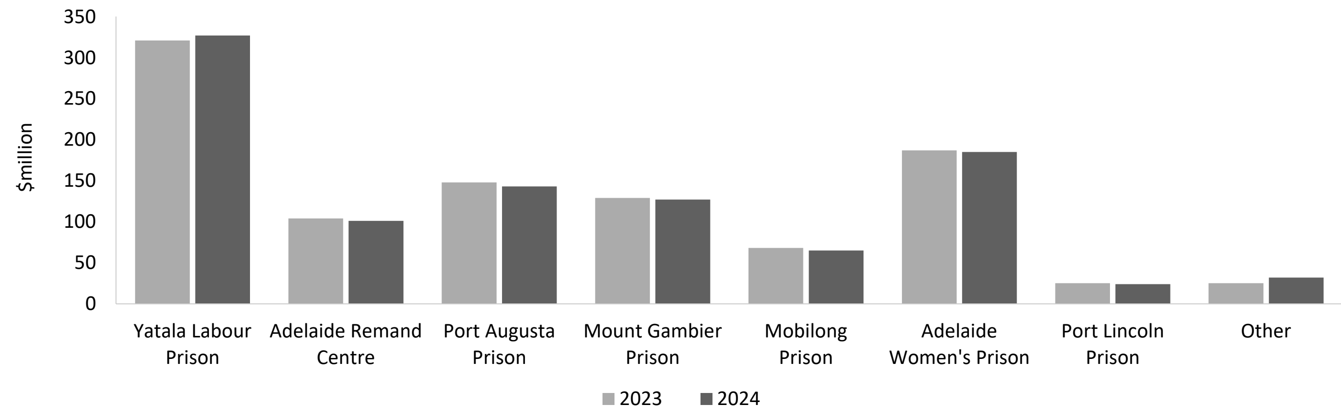


Total assets increased by $17.2 million to $1.2 billion, mainly associated with a $17.6 million increase in cash. The large increase in 2023 was due to the $165 million upwards revaluation of land and buildings at fair value.

Property, plant and equipment

The main item of DCS's Statement of Financial Position is property, plant and equipment, representing 89% of total assets. Property, plant and equipment remained at $1 billion in 2024. Almost all of this balance relates to land and buildings.

The following chart shows asset values for DCS's land and buildings for the last two years.



Land and buildings remained at $1 billion but reflected the following movements:

- transfers from capital works in progress for major projects completed during the year totalling $30.9 million and including:
  - $14.9 million for completion of the prisoner movement works and laundry upgrade at Yatala Labour Prison. The laundry upgrade was required to service the additional 270 beds at Yatala and was operational from 26 June 2024

- — $12.4 million for the completion of the Cadell Training Centre dairy and processing facility upgrade to increase processing capacity and boost milk supply to the South Australian community. This involved the installation of advanced monitoring systems and automated cleaning systems to ensure cleaning and pasteurisation processes are streamlined and carried out effectively

- offset by depreciation expenses of $33.3 million.

Capital works in progress

At 30 June 2024 capital works in progress totalled $7 million. This includes $2.9 million for building upgrades in the Port Augusta Prison's high security units, $1.7 million to transition the Adelaide Women's Prison electronic security systems from analogue to digital and $465,000 for 40 additional beds as part of the Adelaide Women's Prison expansion project.

Cash and cash equivalents

Cash and cash equivalents increased by $17.6 million to $113.1 million. This largely reflects expenditure carryovers into 2024-25 of $16.3 million, which included $10.5 million for capital works such as the Port Augusta high security upgrade, Yatala Labour Prison 270 bed expansion and the Port Augusta Community Corrections Centre refurbishment, and $5.8 million for the iSAFE project, Cross Borders Reintegration Program and the Aboriginal Cultural Program.

Cash includes $75.5 million held in the Accrual Appropriation Excess Funds Account. The use of funds held in this account must be approved by the Treasurer. No cash alignment transfers to the Department of Treasury and Finance were made in 2023-24.

Liabilities

Total liabilities increased by $10 million to $129 million due to:

- a $14.5 million increase in payables, which includes a $5.6 million increase in amounts accrued for the supervision of offenders while at hospital under the South Australian Prisoner Movement and In-Court Management contract, and an increase of $2.4 million accrued for capital works projects mostly at the Yatala Labour and Port Augusta Prisons

- a $1.6 million increase in employee-related liabilities, largely reflecting changes in actuarial assumptions for the long service leave provision (increase in salary inflation rate offset by increase in the discount rate) and annual leave provision (the impact of inflation was offset by the reduction in FTEs)
- offset by total provisions decreasing by $6.4 million to $26.1 million. DCS's provisions relate to workers compensation and additional compensation (discussed below).

Provision for workers compensation

South Australian public sector employees who have suffered work-related injuries are entitled to benefits under the *Return to Work Act 2014*. The workers compensation provision is based on an actuarial assessment of the outstanding liability as at 30 June 2024 provided by a consulting actuary engaged by the Office of the Commissioner for Public Sector Employment.

DCS's workers compensation liability decreased by $2.7 million to $25 million, primarily due to a reduction in workers compensation payments made in 2024 compared to 2023.

Additional compensation provision

The additional compensation provision, introduced in 2018, provides continuing benefits to workers who have suffered eligible work-related injuries and whose entitlements have ceased under the *Return to Work Act 2014*. Eligible injuries are non-serious injuries suffered in circumstances that involve, or appear to involve, the commission of a criminal offence, or that arose from a dangerous situation.

The additional compensation provision as at 30 June 2024 was estimated by an actuary engaged by the Office of the Commissioner for Public Sector Employment on behalf of all affected agencies across the public sector. The liability comprises an estimate for known claims and an estimate of incurred but not reported applications.

As at 30 June 2024 the additional compensation provision was estimated at $1.1 million, down from $4.8 million the previous year.

There is a significant degree of uncertainty associated with the estimate of the additional compensation provision. In addition to the general uncertainties associated with estimating future claim and expense payments, the provision is impacted by the absence of claims history and the evolving nature of the interpretation of, and evidence required to meet, eligibility criteria. Given these uncertainties, the actuary has noted that the actual cost of additional compensation claims may differ materially from the estimate.

Statement of Cash Flows

The following table summarises DCS's net cash flows for the five years to 2024.

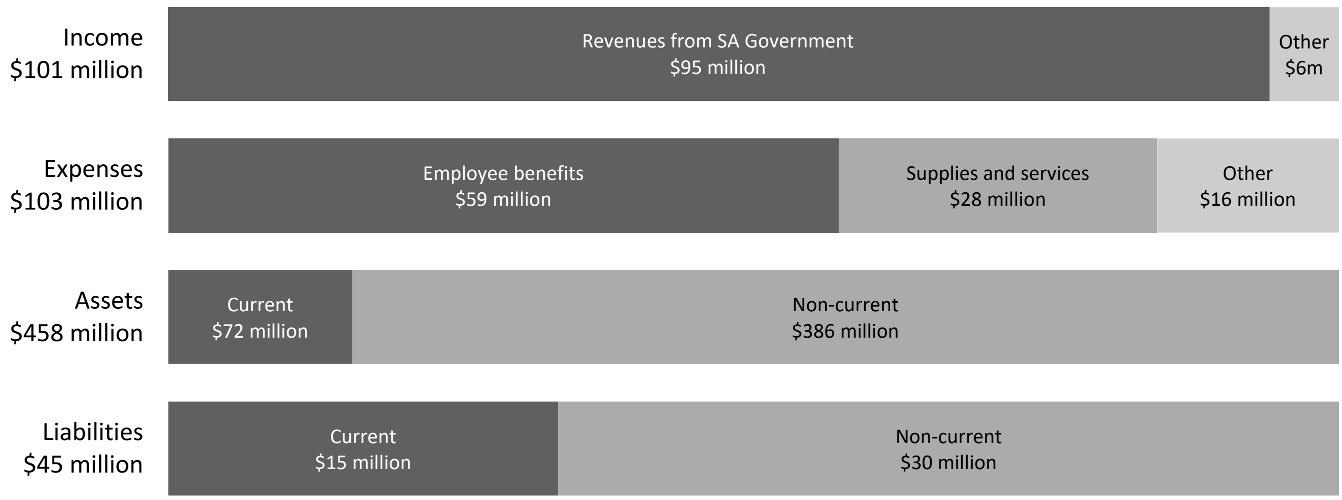
	2020 $million	2021 $million	2022 $million	2023 $million	2024 $million
Net cash flows					
Operating	42	155	97	32	46
Investing	(36)	(26)	(134)	(47)	(27)
Financing	(2)	(2)	(1)	(2)	(2)
Change in cash	4	127	(39)	(17)	18
Cash at 30 June	24	151	112	95	113

Note: Table may not add due to rounding.

In 2024 cash increased by $17.6 million, with investing cash outflows reducing as significant capital spending programs are completed. Since 2019, capital expenditure has been funded through operating cash through appropriation.

Courts Administration Authority (CAA)

Financial statistics



Administered items

588 Total FTEs

85 Administered FTEs

Significant events and transactions	The CAA engaged a Certified Practising Valuer to conduct a desktop valuation of its land and buildings as at 30 June 2024, resulting in a $60.4 million increase in their value.
Financial report opinion	**Unmodified**
Controls opinion findings	No significant findings.
Other audit findings	— Bank reconciliations were not timely. — User access reviews were not performed for some bank accounts. — The review of payroll changes could be improved. — ICT risk register processes could be improved. — The review of user access to the Electronic Court Management System could be improved.

Functional responsibility

The CAA was established under the *Courts Administration Act 1993*. It is constituted of the State Courts Administration Council, the State Courts Administrator and other staff of the State Courts Administration Council.

The CAA is independent of the control of Executive Government. Its function is to provide courts with the administrative facilities and services needed for the proper administration of justice.

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. Areas of audit attention in 2023-24 included:

- revenue
- expenditure
- payroll
- cash management
- risk management
- property, plant and equipment
- financial accounting
- trust accounts
- IT general controls.

We reviewed internal audit activities in planning and conducting our audit. We did not rely on the work of internal audit.

Controls opinion

We reviewed controls over bank accounts as part of our overall controls opinion, which is discussed in Part B of this report.

Audit findings

Communicating our audit findings

We communicated our audit findings in a management letter to the State Courts Administrator. The findings and the CAA's responses are discussed below.

Cash management

Bank reconciliations were not timely

In June 2024, we found that the CAA was working on a backlog of bank reconciliations, with the last completed reconciliation being for February 2024.

When bank reconciliations are not performed promptly it increases:

- the CAA's vulnerability to fraud, misappropriated funds, unapproved withdrawals and errors, which may result in financial loss
- the risk of misstatement in the financial statements, as transactions may be incomplete and inappropriately recorded in the general ledger.

The CAA subsequently advised us that it had completed all 2023-24 bank reconciliations in July 2024 and had implemented monthly approval deadlines.

User access reviews were not performed for CBA bank accounts

The CAA's user security procedures require user access to CBA accounts to be reviewed in June and December each year. This involves confirming that users with access are appropriate and cheque signatories are up to date.

In 2023-24, the CAA's CBA bank accounts were active until they were transitioned to the ANZ in February 2024 and then closed in May 2024. A user access review should therefore have been performed for them in December 2023. However, we found that the CAA did not perform any user access reviews for its CBA accounts in 2023-24.

Not performing user access reviews increases the risk of inappropriate access to the CAA's bank accounts. This increases its vulnerability to fraud, misappropriated funds, unapproved withdrawals and errors, which may result in financial loss.

The CAA responded that it is now performing the six-monthly user access reviews required by its procedures. It also plans to make them quarterly.

Payroll

Payroll masterfile changes should be independently reviewed

The CAA's controls over payroll masterfile changes could be strengthened by introducing an independent review of a system audit report that shows all changes made to the payroll masterfile.

Undetected and unauthorised changes to the payroll masterfile can result in avoidable errors or financial loss.

The CAA responded that it would introduce a quarterly check of payroll masterfile changes by someone independent of the payroll team.

Payroll data changes should be independently reviewed

The CAA's controls over payroll data changes, such as extra hours, overtime, on-call allowances and leave, could be strengthened by having someone independent of the payroll team review these changes.

Not independently reviewing payroll data changes increases the risk of incorrect payroll payments being made.

The CAA responded that payroll data changes are now reviewed by someone independent of the payroll team.

IT general controls

ICT risk register processes could be improved

Last year the CAA engaged a service provider to develop a disaster recovery plan. This process identified risks and mitigation strategies that were not incorporated into the CAA's ICT risk register.

This year we found that the register had not been updated since March 2023 and the risks identified in 2022-23 were still missing from the register.

Where risk registers are not up to date, their effectiveness in managing and monitoring risk can be compromised.

The CAA responded that a formal program of risk reviews has been developed and six-monthly IT risk review meetings have been scheduled.

The review of user access to the Electronic Court Management System (ECMS) could be improved

The ECMS contains sensitive data that needs to be appropriately restricted. We previously reported that the ECMS user access control environment had:

- no processes to ensure specific ECMS user access levels are reasonable
- multiple ECMS user profiles that should have been disabled.

In response, the CAA advised us that it considered this a low-risk issue as all user accounts are password protected, but that it would improve its user access controls.

In 2023-24, the CAA advised us that a new process for monthly reviews of ECMS user access was being finalised for implementation by the end of the year.

Interpretation and analysis of the financial report

Highlights of the financial report – controlled items

	2024 $million	2023 $million
Income		
Revenues from SA Government	95	94
Fees and charges	3	3
Other revenues	3	2
Total income	101	99
Expenses		
Employee benefits expenses	59	55
Supplies and services	28	27
Other expenses	16	13
Total expenses	103	95
Net result	(2)	4

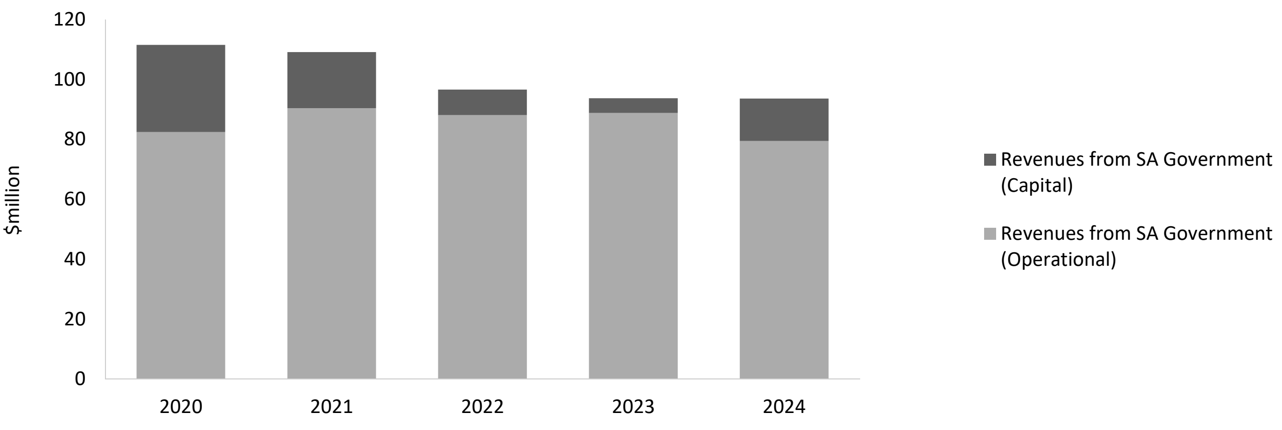
	2024 $million	2023 $million
Net cash provided by (used in) operating activities	14	12
Assets		
Current assets	72	61
Non-current assets	386	335
Total assets	458	396
Liabilities		
Current liabilities	15	11
Non-current liabilities	30	31
Total liabilities	45	42
Total equity	413	354

Statement of Comprehensive Income

The CAA's expenses reflect the cost of performing its statutory responsibilities, including collecting administered income such as fines and court fees on behalf of the SA Government. This income is directly credited to the Consolidated Account and is reported under administered income.

Income

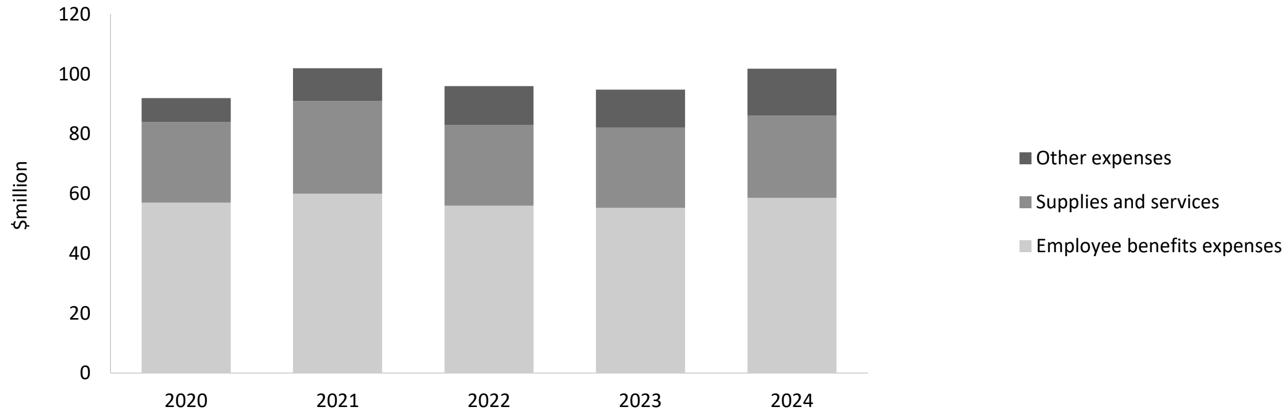
The CAA is mainly funded by operational and capital funding from the SA Government. In 2023-24, its revenues from the SA Government accounted for 94% (95%) of its total income. The following chart shows the revenue the CAA received from the SA Government for the five years to 2024.



Revenues from the SA Government increased by $1 million (1%) to $94.5 million in 2023-24, mainly reflecting the CAA's increased capital funding approvals for the Sir Samuel Way Facade project.

Expenses

In 2023-24 total expenses increased by $8 million (8%) to $103 million. The following chart shows the CAA's main expenses for the five years to 2024.



In 2023-24, total expenses mainly comprised:

- employee benefits expenses of $58.5 million (58%)
- supplies and services of $27.6 million (27%).

The increase in expenses was mainly due to:

- an increase of $3.3 million (6%) in employee benefits expenses
- an increase of $636,000 (2%) in supplies and services
- a payment of $3 million (100%) to the Consolidated Account.

Statement of Financial Position

Land and buildings totalling $337 million ($287 million) account for 87% (85%) of the CAA's non-current assets. The $60.4 million increase in the value of land and buildings resulted from a desktop valuation undertaken at 30 June 2024, and reflects the current property market conditions. The valuation was performed by a Certified Practising Valuer.

Cash and cash equivalents totalling $70.7 million ($57.3 million) account for 97% (93%) of current assets. Cash comprises deposits with the Treasurer, including $30.9 million ($23.4 million) held in the Accrual Appropriation Excess Funds Account. The funds held in this account are not available for general use and can only be accessed with the Treasurer's approval.

Highlights of the financial report – administered items

	2024 $million	2023 $million
Income		
Revenues from SA Government	49	47
Court and transcript fees and other	28	25
Total income	77	72
Expenses		
Judicial benefits expenses	49	46
Payments to the Consolidated Account	27	25
Other expenses	1	1
Total expenses	77	72
Net and total comprehensive result	0	0

	2024 $million	2023 $million
Net operating cash provided by (used in) administered activities	(7)	112
Assets		
Current assets	200	208
Non-current assets	1	1
Total assets	201	209
Liabilities		
Current liabilities	199	208
Non-current liabilities	10	9
Total liabilities	209	217
Total equity	(8)	(8)

Statement of Administered Comprehensive Income

Income

Court and transcript fees

The CAA raises and collects court and transcript fees then pays them into the Consolidated Account. In 2023-24 $27 million ($24.7 million) was raised, collected and transferred. The $2.3 million (9%) increase from last year is mainly due to fee rises and increased collections.

Revenues from SA Government

In 2023-24 the CAA received revenues of $49.3 million ($46.9 million) from the SA Government to fund its judicial benefits expenses.

Expenses

Payments to the Consolidated Account of $27 million mainly comprise court and transcript fees as described above. Judicial-related expenses were $48.6 million ($46.3 million), up by 5% from last year.

Statement of Financial Position

The CAA receives money into trust accounts on behalf of parties involved in court matters and also makes payments to parties as determined by the Courts. In 2023-24 total administered assets and liabilities both decreased by $8.5 million.

Further commentary on operations

Total cost of services for the administration of justice through the courts system

The total service cost for the administration of justice through the courts system (CAA and Judicial Officer costs only) is made up of the expenses and income in the CAA's controlled and administered financial reports.

For 2023-24 total expenses, excluding payments to the Consolidated Account, were $149 million ($142 million) and total income, excluding revenues from the SA Government, was $34 million ($31 million), with the SA Government providing $144 million ($141 million) towards the cost of the courts system.

Sale of non-current assets held for sale

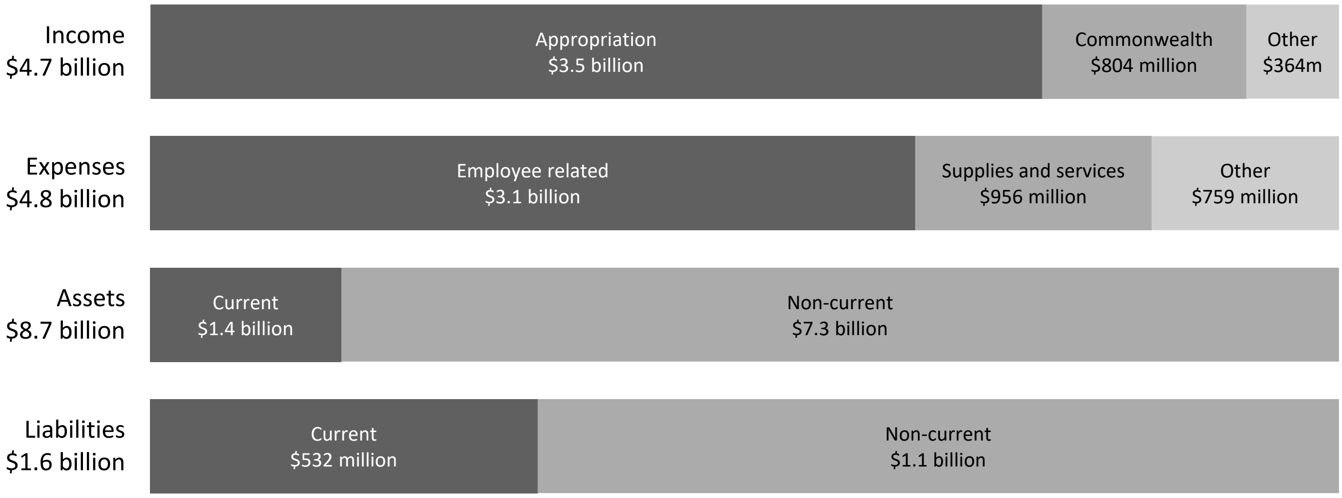
In 2019, the CAA declared the Holden Hill courthouse and land as surplus to its needs and recognised them as non-current assets held for sale. They were measured at carrying value because their carrying values were less than their fair values less costs of sale.

In 2023-24, these assets were sold under the requirements of the Premier and Cabinet Circular PC 114 *Government Real Property Management*.

The gross proceeds from the sale totalled $4 million. Costs of $1 million were payable at 30 June 2024 to the Department for Infrastructure and Transport for managing the sale on behalf of the CAA. These costs mainly related to the separation of services for the site. A gain on the sale of $571,000 was recognised in other comprehensive income in 2023-24.

Department for Education (Education)

Financial statistics

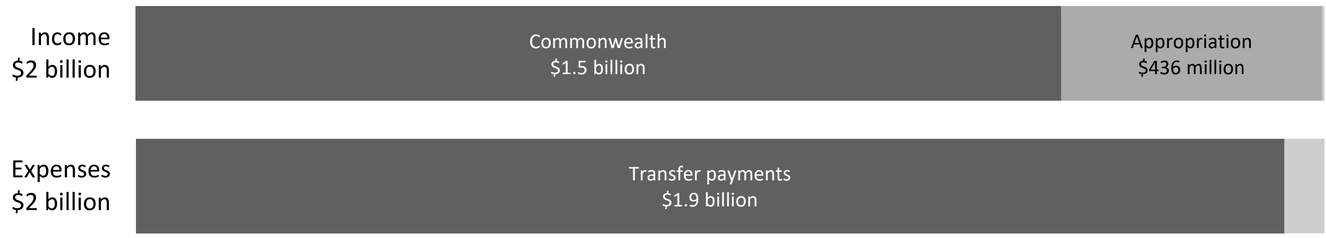


26,062
FTEs

170,613
FTE students in public schools in term 1, 2024

894
Public school and preschool sites

Administered items



Significant events and transactions

- Land, buildings and improvements were revalued upward by $582 million.
- $83 million in back pay was paid to employees under the new South Australian School and Preschool Education Staff Enterprise Agreement 2024.
- Education continued to roll out its new Education Management System to school and preschool sites.
- From 1 June 2024, 18 staff transferred to the newly established Office for Early Childhood Development.
- The Commonwealth Government’s National School Reform Agreement was extended by 12 months and is now set to expire on 31 December 2024.

Financial report opinion	**Unmodified**
Controls opinion findings	— Controls over facilities management arrangements need strengthening. — Improvements in asset management are needed. — There are opportunities to improve employee-related controls. — Procurement and contract management controls need attention.
Other audit findings	Improvements to payroll system IT controls are needed.

Functional responsibility

Education is an administrative unit established under the *Public Sector Act 2009* and responsible to the Minister for Education, Training and Skills.

Education's main functions

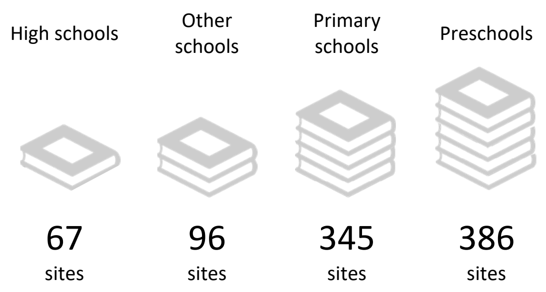
$2.6 billion	to operate public schools and preschools* →	170,613 Student FTEs**	↓ 0.5%	
$1.9 billion	to support private schools →	104,911 Student enrolments***	↑ 1.7%	
	employing →	26,062 Staff FTEs	costing →	$3.1 billion annually
	maintaining →	894 Sites	worth →	$7 billion

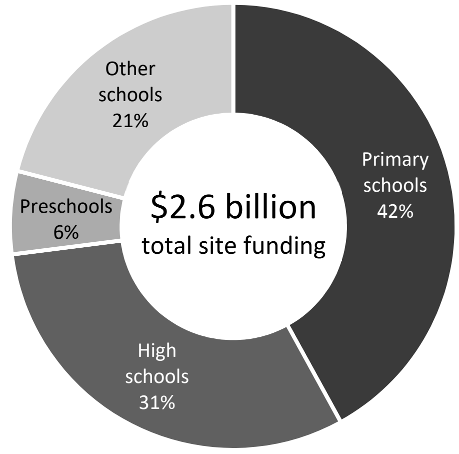
* Comprises an allocation of costs incurred by Education on behalf of schools and preschools (excludes salary and wage on-costs).
** Student FTEs as at February 2024 not including preschool student FTEs.
*** Student enrolments as at 4 August 2023 reported by the Australian Bureau of Statistics. 2024 numbers are not available.

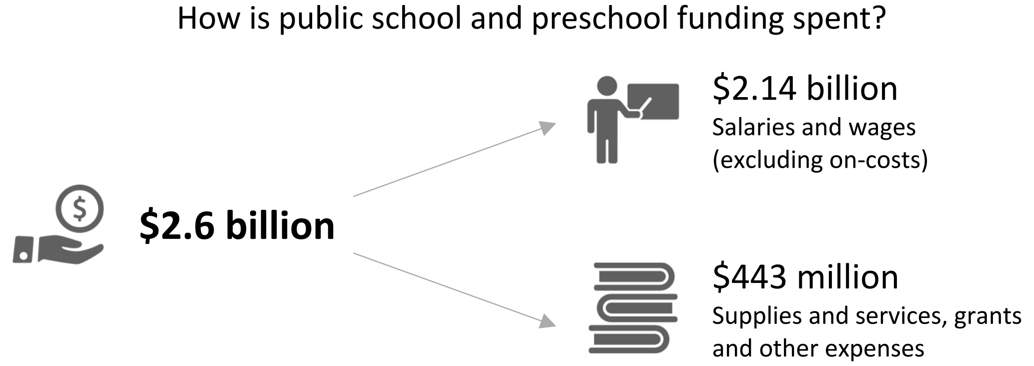
Education funding arrangements

The National School Reform Agreement between the Commonwealth and the States sets out the funding model for both public and private education. It was initially set to expire in December 2023 but was extended by 12 months to allow time for a comprehensive review. The State has also entered a bilateral agreement with the Commonwealth that sets out the State's specific actions to improve student outcomes and minimum state funding contribution requirements, as a condition of receiving Commonwealth school funding.

Government operational funding public schools and preschools





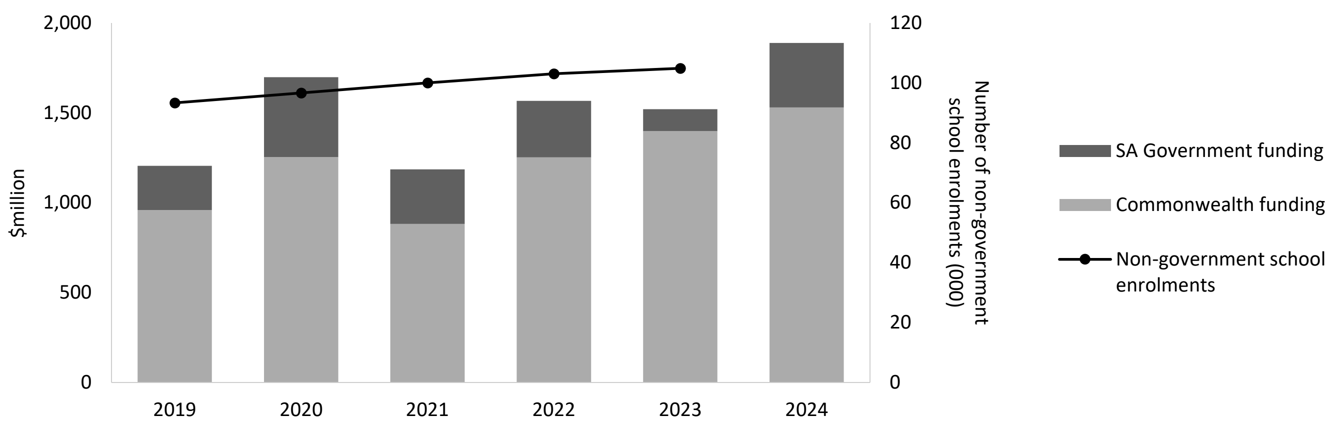


Salaries and wages make up 83% of public school and preschool spending. Operational payments to and on behalf of public schools and preschools are funded by SA Government appropriation and $754 million of Commonwealth Government grants.

Funding to support non-government schools

Education administers the Commonwealth and SA Governments' funding to non-government schools. The transfers (payments) are based on an enrolment census in term 3 and the needs of the school and its students. The funding entitlement of each non-government school is determined by the Commonwealth Government.

The following chart shows the composition of private school funding as reported in Education's administered financial report.

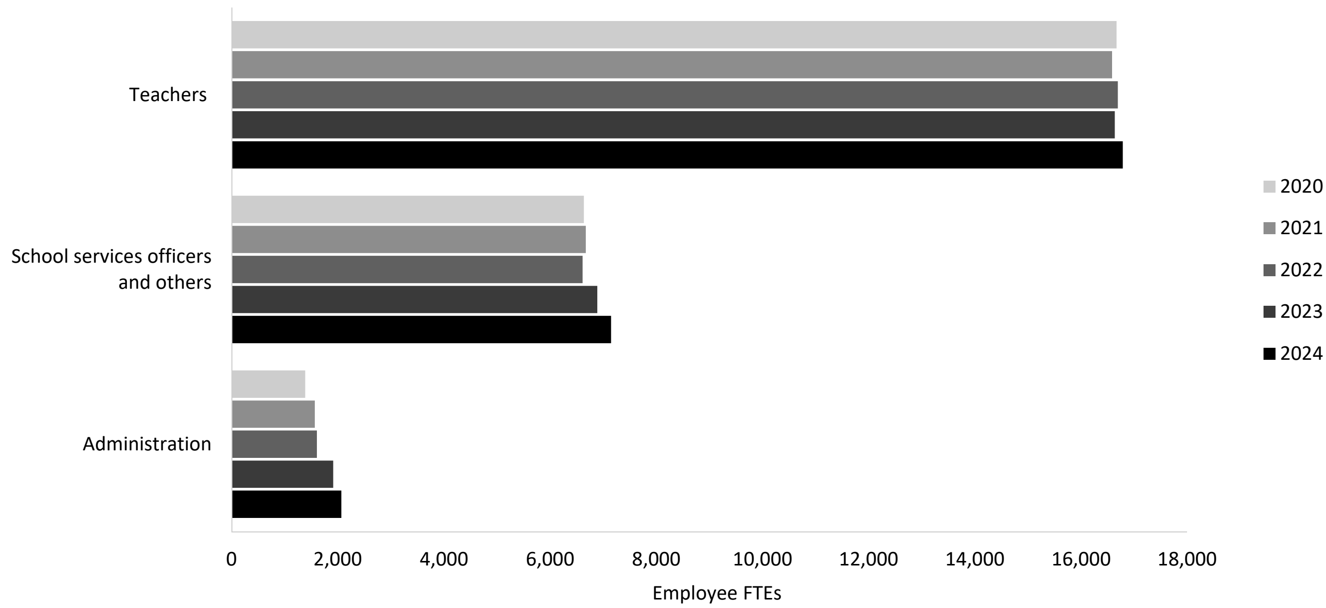


In 2024 private schools were funded by $359 million ($121 million) in SA Government appropriations and $1.5 billion ($1.4 billion) in Commonwealth Government grants. The lower SA Government funding in 2022-23 reflects the bringing forward of funding from 2022-23 into 2021-22 to help non-government schools as part of the SA Government's COVID-19 response. Similarly, funding for 2019-20 includes amounts brought forward from 2020-21 to help schools manage the impact of COVID-19.

Commonwealth and State funding to non-government schools has increased by 54.1% since 2019 at an average of 10.8% per annum.

Employees

Education's employee numbers are spread across the following employment categories



In 2024 employee expenses were $3.1 billion and FTEs increased by 2% (2%) to 26,062.

Assets

Education owns $7 billion of property assets including $2.4 billion of land, $4.4 billion of buildings and improvements and $166 million of right-of-use building assets.

In 2024 Education's capital investment program, included construction works of $212 million. During the year $294 million of buildings and improvements were completed and transferred out of capital works in progress.

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. Areas of audit attention in 2023-24 included:

- expenditure

- payroll
- procurement and contract management
- property, plant and equipment
- asset management
- grants
- general ledger
- governance.

We reviewed internal audit activities to assess the risks of material misstatement in the financial report and to design and perform audit procedures. We made use of the internal audit work performed on government schools, which was performed by contractors appointed, managed and monitored by Education's internal audit.

Controls opinion

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

- supplies and services (including procurement and contract management)
- minor works and maintenance expenditure
- employee benefit expenses and liabilities
- buildings and improvements
- bank accounts.

Audit findings

Communicating our audit findings

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

Controls opinion findings

Controls over facilities management arrangements need strengthening

We reviewed Education's management of its asset repairs and maintenance, including its management of arrangements under the Across Government Facilities Management Arrangements (AGFMA). The AGFMA is a Cabinet-mandated framework for the provision of facilities services to SA Government funded agencies across the public sector, including Education. It is mainly for:

- planned services (preventative maintenance, replacement, refurbishment and minor works) delivered through annual service delivery plans
- unplanned services (breakdown maintenance, replacement and refurbishment).

Our review focused on controls established by Education to manage the AGFMA facilities management service provider's (FMSP's) performance against its service delivery plans and that Education met its responsibilities and obligations under the AGFMA.

No approved plan for preventative maintenance services

We noted that Education did not have an agreed annual service delivery plan (ASDP) with the SA Government's AGFMA facilities management service provider (Ventia) for 2023-24. Last year we reported that the 2022-23 ASDP was not approved, and Education advised us of its intention to approve the ASDP by 31 May each year. In July 2024, Education had not approved its 2024-25 ASDP.

Education's review and approval of the ASDP is key to ensuring:

- all applicable assets are captured on the plan
- mandated planned maintenance services are completely and accurately captured
- the timing and extent of the agreed services meet the minimum mandatory technical and legislative requirements
- services are consistent with Education's strategic asset management policy and priorities.

Education responded that while its 2022-23 and 2023-24 ASDPs were not approved, it worked with its FMSP (Ventia) to determine the accuracy and validity of both plans. It expects to endorse its 2024-25 ASDP by 30 September 2024 and intends to review and approve future ASDPs by 31 May each year, in line with the responsibilities under its memorandum of administrative arrangements with the Department for Infrastructure and Transport.

No planned performance processes

Education does not have a performance management plan for its AGFMA arrangements. We have been reporting this since 2022, and it may prevent Education from identifying and resolving problems with its facilities management and maintenance activities. This could impact the longevity, usability and safe use of its assets, including those at school sites.

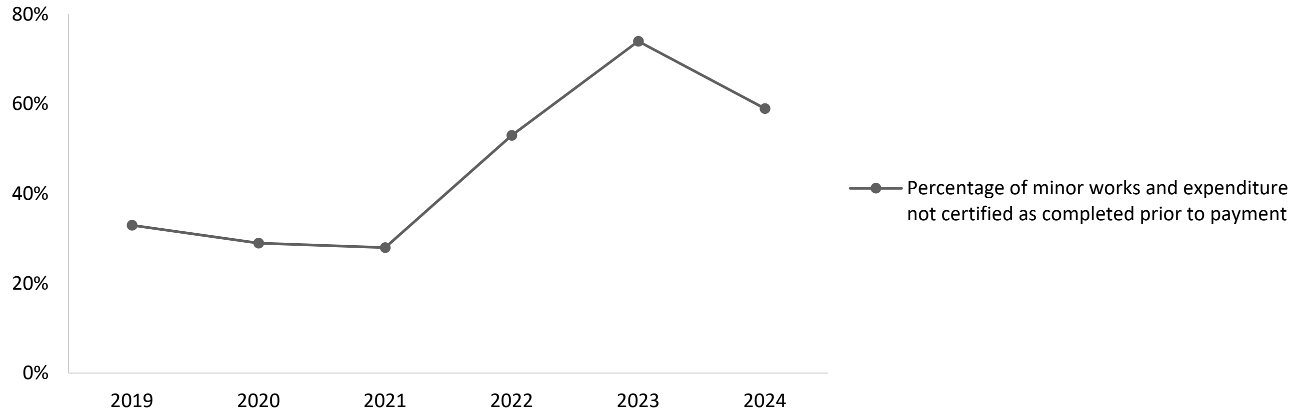
Education responded that it would develop a performance management plan to manage its AGFMA arrangements by 30 June 2025. In the interim, it has initiated monthly meetings to monitor Ventia's overall performance.

Approval of jobs for payments

We found that Education did not ensure that all minor works, maintenance and repair jobs performed under the AGFMA were completed by Ventia before paying for them. We have reported similar concerns for many years.

Any job type logged in Ventia's system for less than $5,000 is automatically approved for payment within 10 business days of completing the services. This occurs regardless of whether it has been certified by site staff as completed and meeting the required standard.

Our review for the period from July 2023 to March 2024 found that 59% of jobs were paid without an authorised officer at the site confirming the job was completed as expected. This was an improvement on 2022-23 when we found that 74% of jobs were paid without review. It is important that Education only pays for jobs that are complete. The following chart shows the percentages of jobs automatically approved in Ventia's system. Despite the improvement in 2023-24, the number remains significantly higher than before the current AGFMA arrangements were introduced in 2021-22.



Education indicated that it had developed a process to target and manage specific sites of concern based on auto-approval data and statistics provided by Ventia. Education also indicated that it had published information on approving invoices and recommended that its delegates approve invoices weekly in line with their financial responsibilities.

Unresolved system and performance issues

At the time of our audit, Education had raised 101 unresolved IT system and performance issues with Ventia. We noted that Education had not allocated a risk or priority to these issues, and had not established monitoring and reporting protocols. We also reported this concern last year.

Education responded that it monitors system issues, but indicated that progress to resolve them was slow. It has implemented a new tracking system to more formally record issues, which it reviews at monthly meetings with Ventia.

Management of system access

Consistent with findings we reported in 2022 and 2023, in 2024 we found that:

- employees without delegated authority had access to Ventia's system to create breakdown or reactive maintenance work orders
- Education had not formally considered the risks associated with access controls
- Education had not developed a policy or framework governing system access.

Education responded that it has aligned access rights with financial delegations, including drafting changes to its delegation instrument, and was documenting control measures necessary to ensure compliance with Treasurer's Instructions. It will communicate access requirements on its AGFMA intranet pages and through reminder emails to staff.

Improvements for asset management are needed

Education owns $7 billion of buildings and improvements, across 894 sites. Sound asset management strategies, plans and information are important for ensuring these assets are properly managed and maintained, and that future capital works are based on need and sound reasoning.

Since 2020 we have reported our concerns about Education's asset management processes, including that it had not finalised its infrastructure plan. The SA Government announced Education's 20-year infrastructure plan in June 2024. It outlines the model for future asset investment and asset management, including the following objectives:

- meeting demand – including decisions for new schools based on population growth and enrolment pressure
- leveraging and integrating new infrastructure – decisions to target uplift of existing schools will be based on learning improvement, local context and population growth
- maintaining assets – decisions to sustain existing assets will be based on prioritising site upgrades, reducing safety risk to school or preschool communities, and addressing substandard amenities or learning areas.

The infrastructure plan is the latest in a group of asset planning frameworks, methodologies and plans released in recent years to inform Education's infrastructure decisions and strategies. They include:

- the 20-year infrastructure plan
- a strategic asset management framework
- an asset implementation prioritisation methodology
- planning standards.

Given the timing of the release of the infrastructure plan, our 2023-24 audit did not consider Education's approach to infrastructure planning. We will consider this in future audit programs.

Effective asset management also requires an asset information strategy and system that provide complete records about the assets the agency owns, including their condition, maintenance and renewal activities, funding needs and how the asset's performance will be measured. We have previously reported gaps in Education's asset information strategy, standards and asset condition assessments. Our follow-up in 2024 found that gaps in asset information that still had not been addressed:

- Education had not developed an asset information strategy or asset information standards and guidelines. These would help to ensure that asset information is accurate, complete and maintained to a standard that allows for sound asset maintenance and capital works decisions by management.
- Education had not identified specific performance measures or service levels for its assets. As a result, it could not determine the appropriate level of activities, resources, responsibilities and time frames for achieving its asset management objectives. This may also impact Education's ability to effectively prioritise asset maintenance and renewal, and could lead to deterioration of its assets.
- Education, through its FMSP, had not completed its data verification and condition assessment processes for school buildings and facilities. As a result, Education is unclear on the condition of these assets, meaning that the probability and consequence of asset failure cannot be defined. This may impact Education's ability to appropriately plan and prioritise asset maintenance and renewal.

Education advised us that Ventia was delayed in completing several asset management and asset information tasks, impacting its ability to produce a complete set of asset data, with accurate condition ratings and lifecycle forecasting. Education will develop a performance management plan to manage the arrangements by 30 June 2025. It has also initiated formal monthly meetings to monitor Ventia's overall performance.

Opportunities to improve employee-related controls

Employee related expenses were $3 billion in 2023-24 for 26,062 FTEs, representing 64% of total expenses. We reviewed Education's controls to ensure payments were only made to valid employees and for time worked. We also considered its workforce planning, staff appointment processes and employee performance management.

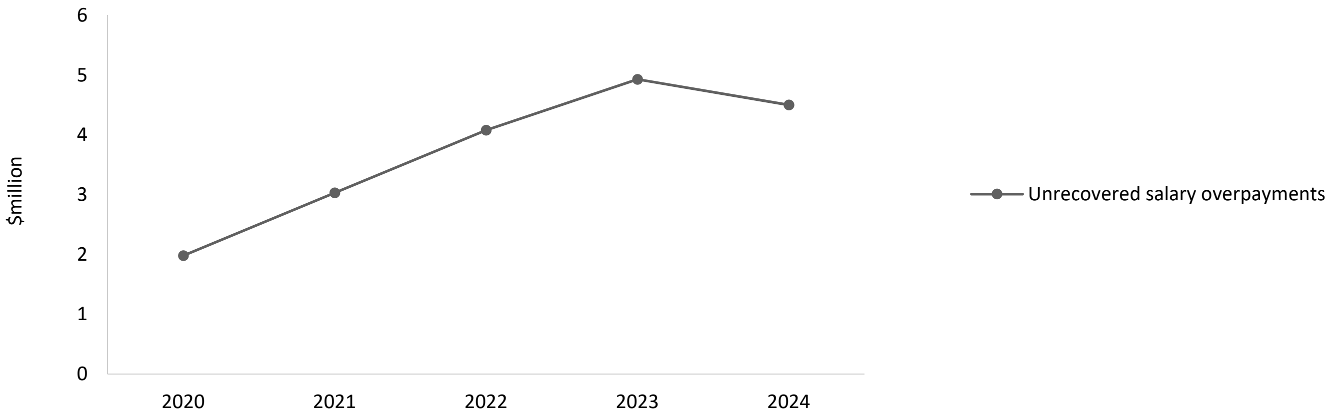
Workforce planning being developed

In recent years we reported that Education had experienced delays in developing and implementing elements of its workforce strategy. In June 2024, Education was in the early stages of developing a changed approach to its workforce strategy.

Education responded that its workforce strategy is being refreshed to better align with its new strategy for public education. The strategy will be designed to meet its current and emerging workforce needs. Where appropriate, previous workforce initiatives will be incorporated into the revised strategy, which Education expects to complete by the end of 2024. Education also advised us that it incorporates workforce planning into the regular functions of its People and Culture division.

Unrecovered salary overpayments remain high

The following chart shows the accumulated value of unrecovered salary overpayments over the last five years.



Unrecovered salary overpayments decreased by $430,000 (9%) to $4.5 million at 30 June 2024. In 2023-24 Education wrote off $900,000 of overpayments relating to long outstanding country incentives zone allowance payments. The write-off was approved by the Treasurer.

Education has impaired $600,000 of the balance of unrecovered salary overpayments at 30 June 2024 as doubtful of being recovered.

Salary overpayments were mainly caused by late applications for leave without pay and reductions in time, and delays updating the payroll system for separations.

Education advised us that it has established a working group to investigate outstanding debts and a dedicated resource to investigate outstanding salary debts, identify trends and address the root causes of overpayments. It indicated that a portion of the outstanding debts are managed through repayment arrangements.

39% of employee performance development plans were overdue

In recent years we have reported that many of Education's employee performance development plans were not reviewed as required by Commissioner for Public Sector Employment and Education policy. Our 2024 review found that 39% of Education's employee performance development plans were overdue.

Education provided us with an update on its strategies to reduce the number of overdue performance development plans, including that it has:

- introduced a new performance development framework and template
- communicated to staff the importance of performance development conversations
- introduced biannual reviews of sites and divisions where there are high numbers of employees with overdue plans.

Procurement and contract management controls need attention

Procurement

Our review focused on Education's implementation of the procurement arrangements under Treasurer's Instruction 18 *Procurement* (TI 18). We also reviewed the procurement of services to deliver the Australian Government-funded National Student Wellbeing Program to South Australian Government Schools.

— *Insurance limits lower than recommended*

Procurement SA's Procurement Planning Policy requires a public authority's procurement planning documents to identify the type and minimum level of insurance coverage contractors must have, referring agencies to South Australian Government Financing Authority (SAFA) guidance on insurance coverage.

We found that the acquisition plan for the National Student Wellbeing Program panel contract required contractors to have public liability insurance of $20 million. The plan did not document how the procurement team considered the SAFA guidance, which suggests a public liability insurance limit of $50 million or higher if there is exposure involving children. We reported similar concerns on the insurance limits applied to other procurements last year.

We recommended that Education review the insurance cover on this contract and ensure that future acquisition plans adequately document decisions about public liability insurance requirements.

Education responded that, in July 2024, it established an insurance guideline in consultation with SAFA. It will review the public liability insurance cover against its new guideline for all strategic contracts valued above $5 million executed in 2023-24, including the National Student Wellbeing Program panel contract.

Contract management

Our review focused on Education's implementation of contract management arrangements under TI 18.

— *Contract management improvements needed for internet management services contract*

Last year we reported our concerns about Education's management of its Internet Management Services contract. One concern was that Education had not held contractually required operational and review meetings with the supplier. The supplier is required to deliver specified networking infrastructure and associated services to provide uninterrupted internet connectivity and management service to public schools.

While Education advised that the required monthly operational meetings occurred in 2023-24, we found that minutes only existed for a June 2024 meeting. We also found that it did not hold the required quarterly service review meetings until the last quarter.

Education responded with its actions to address this finding, including reminding contract managers of their contract management obligations, which include preparing minutes for contract management meetings.

Other audit findings

Improvements required to payroll system IT controls

Valeo is Education's major payroll system and is used to pay $3.1 billion to more than 26,000 employees. It is the largest IT system managed by Education.

In 2023-24, we reviewed the IT general controls applied to Valeo. This included password management, privileged user access, user onboarding and offboarding, user access review, audit logging, change management, patch management, backup management, disaster recovery management, and job scheduling and monitoring.

We found that Education had not conducted disaster recovery testing for Valeo, which we also raised last year.

Failure to conduct regular disaster recovery testing increases the risk that Education would not be able to recover Valeo within its maximum allowable outage time, in the event of a disaster or system failure.

Education responded positively to our findings and recommendations, with remedial actions expected to be completed by February 2025.

Interpretation and analysis of the financial report

Highlights of the financial report – consolidated*

	2024 $million	2023 $million
Income		
Appropriation	3,497	3,300
Commonwealth sourced funding	804	794
Other	364	321
Total income	4,665	4,415

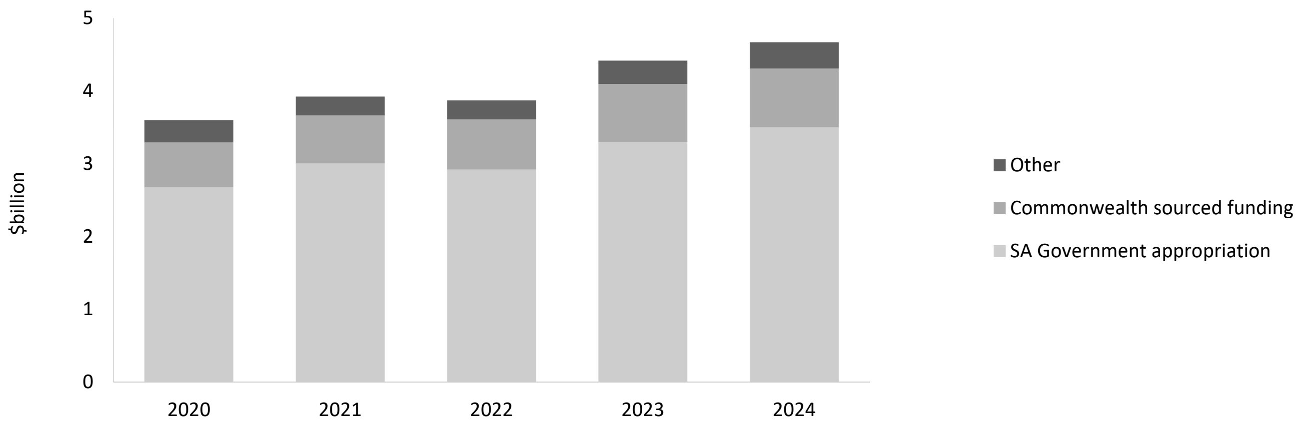
	2024 $million	2023 $million
Expenses		
Employee related	3,076	2,830
Supplies and services	956	886
Other	759	642
Total expenses	4,791	4,358
Net result	(127)	57
Other comprehensive income		
Changes in revaluation surplus	582	428
Total comprehensive result	455	484
Net cash provided by (used in) operating activities	(24)	396
Net cash provided by (used in) investing activities	(253)	(203)
Net cash provided by (used in) financing activities	92	123
Assets		
Current assets	1,407	1,581
Non-current assets	7,247	6,616
Total assets	8,654	8,197
Liabilities		
Current liabilities	532	676
Non-current liabilities	1,090	1,063
Total liabilities	1,622	1,740
Total equity	7,032	6,457

* Table may not add due to rounding.

Statement of Comprehensive Income

Income

Total income increased by $250 million (6%) to $4.7 billion. The main income sources for the five years to 2024 are shown in the following chart.



Revenues from the SA Government

Education is predominantly funded by appropriation, which accounts for 75% of its total income. Appropriation from the SA Government was $3.5 billion in 2024, an increase of $197 million (6%) from 2023. Education also received $119 million ($132 million) from the SA Government as an equity contribution under the *Appropriation Act 2023*.

Commonwealth sourced grants and funding

Commonwealth sourced grants and funding increased by $10 million (1.3%) to $804 million and principally comprised:

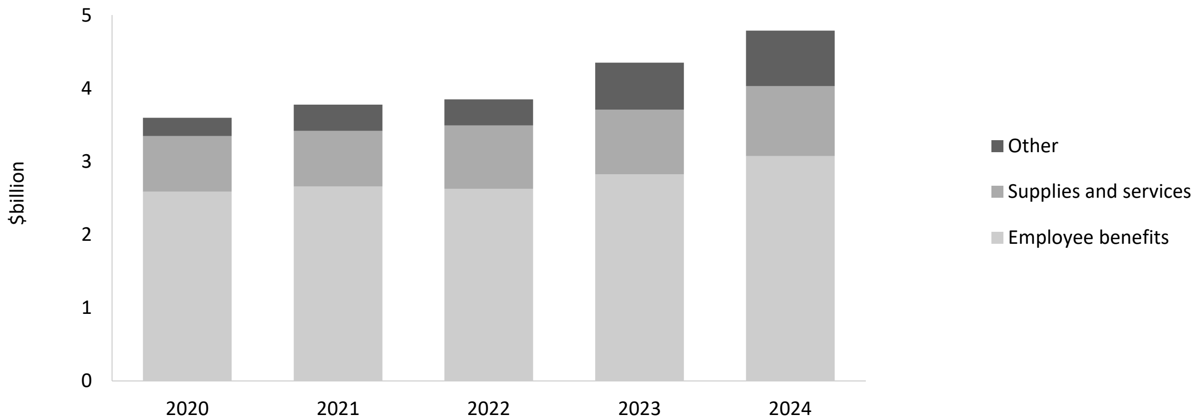
- National Schools Reform Agreement funding, which increased by $46 million to $748 million. This is a joint agreement between the Commonwealth, States and Territories to lift student outcomes across Australian schools
- an additional $16 million in National Skills Agreement funding, which commenced in January 2024
- Preschool Reform Agreement funding, which decreased by $23 million to $6 million mainly due to funding intended for 2023-24 being provided in 2024-25
- 12 Month Skills Agreement – Fee Free TAFE funding, which decreased by $3 million to $21 million
- Student Wellbeing Boost one-off funding in 2022-23 which decreased by $9.9 million to $201,000 this year
- the wind-up of the Job Trainer program, which was $13.8 million in 2022-23 and $0 in 2023-24.

Sale of goods and services

The sale of goods and services increased by $7 million to $171 million. The largest component is student-related fees and charges of $127 million, which increased by $8 million in 2024.

Expenses

Education's main expenses for the five years to 2024 are shown in the following chart.



Total expenses increased by $433 million (10%) to $4.8 billion in 2024.

Employee related expenses

Employee related expenses increased by $246 million (9%) to $3.1 billion and make up 64% of total expenses. The increase was mainly due to:

- an increase of $196 million (8%) in salaries and wages (including annual leave and superannuation). Contributing to the increase were salary rate increases, including those from enterprise bargaining. In May 2024 Education processed $83 million in back pay to May 2023 under the new agreement. Also contributing to the increase in salaries and wages was an increase of 558 FTEs (2.2%) and a 0.5% increase in the superannuation guarantee rate to 11.5%
- a $63 million increase in long service leave expense that partly reflects the impact of actuarial assumptions in 2023 and 2024, including discounting expected future long service leave payments and predicted salary growth rates.

Supplies and services

Supplies and services increased by $70 million (8%) to $956 million, with the movement comprising:

- a $49 million increase (23%) in minor works, maintenance and equipment expense to $261 million. Higher costs in 2024 included costs to meet breakdown, critical and immediate minor work needs
- a $6 million (15%) increase in utilities to $48 million
- a $5 million (18%) increase in vehicle and travelling expenses to $35 million.

Grants and subsidies

Grants and subsidies increased by $23 million to $441 million, due mainly to an $18 million increase in recurrent grant payments to TAFE SA, which totalled $243 million in 2024.

Statement of Financial Position

Current assets

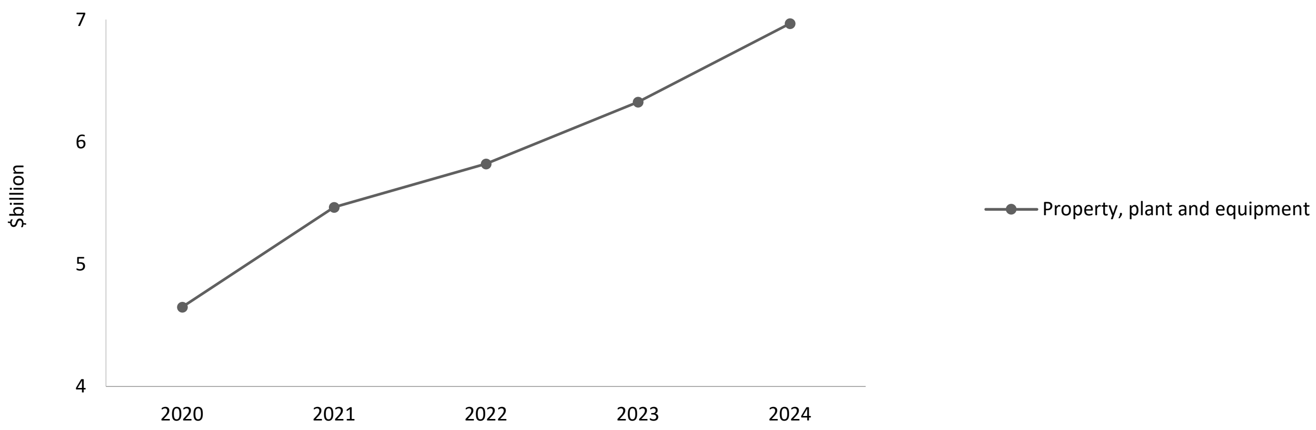
Cash and cash equivalents decreased by $185 million (12%) to $1.3 billion and make up 93% of Education's total current assets of $1.4 billion.

Non-current assets

Property, plant and equipment increased by $643 million to $7 billion. Contributing to the increase were:

- a $180 million increase in the value of land due to revaluation – land is revalued annually by the Valuer-General
- a $401 million increase in the value of buildings and improvements due to revaluation – buildings and improvements were last revalued in 2021
- $212 million new capital works
- $4 million of assets recognised for the first time
- all partially offset by depreciation of $154 million.

The following chart shows that Education's property, plant and equipment has grown significantly in the last five years. Growth in 2021 and 2022 was mainly due to the significant Sustainable Enrolment Growth and new schools capital works programs. Asset revaluations significantly contributed to growth in 2023 and 2024.



The most significant capital projects in 2024 were the new technical colleges, the Morialta Secondary College and additional accommodation for the Adelaide Botanic High School. The growth in 2024 reflects asset revaluations and these continuing capital works.

Liabilities

Education's total liabilities were $1.6 billion at 30 June 2024 and mainly comprise:

- $884 million ($802 million) in employee-related liabilities, making up 54% (46%) of total liabilities
- $379 million ($388 million) in financial liabilities for obligations under leases, mainly for facilities provided under public private partnership (PPP) agreements, making up 23% (22%) of total liabilities
- $101 million ($123 million) in the provision for workers compensation, which accounts for 6% (7%) of total liabilities
- $135 million ($135 million) in other liabilities. These include a $115 million ($118 million) equipment service rights liability for the provision, maintenance and replacement of equipment under Education's PPP arrangements
- $92 million ($263 million) in creditors and accrued expenses. Payables at 30 June 2023 included $142.5 million payable to the Consolidated Account. A similar liability did not exist at 30 June 2024.

Administered items

Education administers certain funds on behalf of the Minister for Education, Training and Skills. Funds are received from the Commonwealth and SA Governments and used mainly to pay:

- $1.9 billion ($1.5 billion) in transfers and grants to private schools
- $16 million ($15 million) in Commonwealth child care subsidies for family day care
- $17 million ($17 million) for an operating grant to the SACE Board of South Australia
- $19 million ($18 million) for student travel concessions on transport services to the Department for Infrastructure and Transport.

Transfers and grants to non-government schools were lower in 2023, as funding from July 2023 was brought forward and paid to schools in June 2023 to help them manage the impact of the COVID-19 pandemic.

Further commentary on operations

Office for Early Childhood Development

Effective 1 June 2024, 18 staff transferred to the newly established Office for Early Childhood Development, resulting in a transfer out of $564,000 in employee-related liabilities and $564,000 in cash.

After balance date machinery of government change

Effective 1 July 2024, the employees and functions of the Skills SA division of Education transferred to the Department of State Development.

Public private partnerships

Education has two PPP agreements for the financing, design, construction and maintenance of eight schools in the Adelaide metropolitan area. These are long-term arrangements that extend to 2040 (Educations Works New Schools PPP) and 2049 (SA Schools PPP).

Over the period of the agreements, Education pays the operators financing costs and payments for the ongoing operation and maintenance of the facilities.

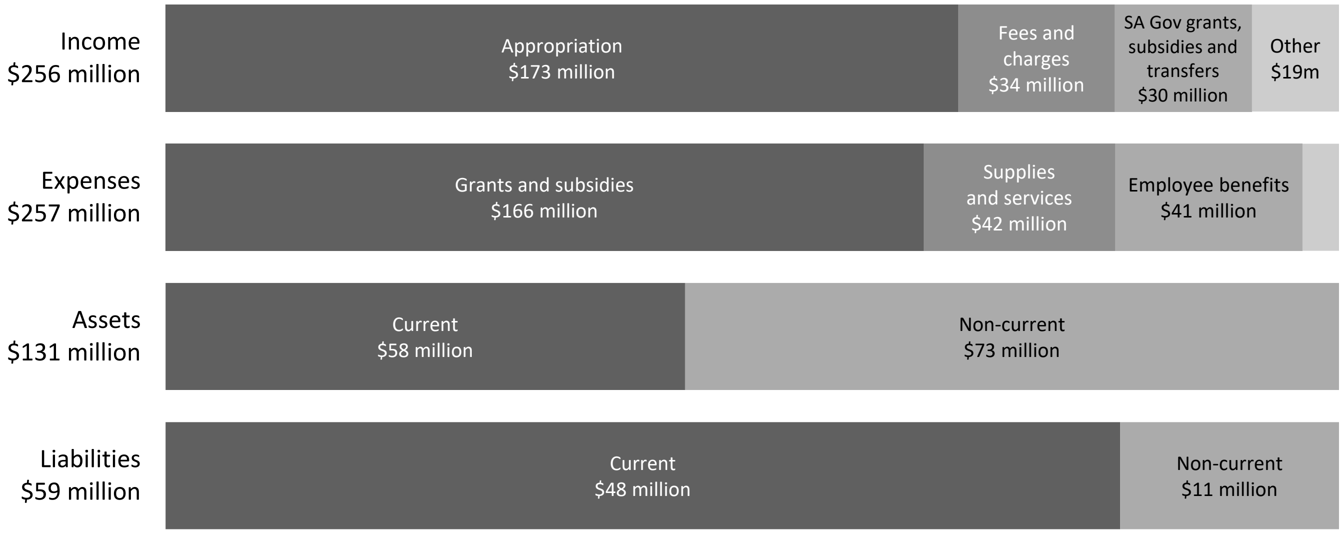
Major PPP assets, liabilities and expenses included in Education's financial report are:

- $219 million in building and improvement assets
- $161 million in right-of-use building assets
- $106 million in equipment service right intangible assets
- $365 million in financial liabilities
- $115 million in equipment service right liabilities
- $26 million in payables
- $13 million in service fees
- $12 million in depreciation and amortisation expenses
- $33 million in borrowing costs.

Unrecognised future operational and maintenance contractual commitments of the PPPs are $295 million.

Department for Energy and Mining (DEM)

Financial statistics



Administered items

307
FTEs

Significant events and transactions	— Appropriation of $173.3 million included $136.7 million that was subsequently transferred to the Office of Hydrogen Power South Australia to implement the Hydrogen Jobs Plan and Port Bonython Hydrogen Hub. — DEM collected royalty revenue of $422.5 million, which was subsequently paid to the Consolidated Account.
Financial report opinion	**Unmodified**
Audit findings	No audit findings.

Functional responsibility

DEM is an administrative unit established under the *Public Sector Act 2009*. Its main functions include responsibility for delivering affordable, reliable and secure energy supplies, and regulating the mining and energy sectors.

Scope of the audit

Audit of the financial report

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

- expenditure, including grants and accounts payable
- revenue from fees and charges
- employee benefits and payroll processing
- administered royalty revenue
- property, plant and equipment
- cash management, including bank reconciliations
- general ledger.

Controls opinion

We reviewed controls over bank accounts as part of our overall controls opinion, which is discussed in Part B of this report.

Audit findings

There were no findings from our audit of DEM.

Interpretation and analysis of the financial report

Highlights of the financial report

	2024 $million	2023 $million
Income		
Appropriation	173	25
SA Government grants, subsidies and transfers	30	26
Fees and charges	34	33
Sales of goods and services	6	5
Other income	12	9
Total income	256	98

	2024 $million	2023 $million
Expenses		
Grants and subsidies	166	52
Supplies and services	42	39
Employee benefits	41	43
Cash alignment transfers to Consolidated Account	2	44
Other expenses	6	6
Total expenses	257	183
Net result	(2)	(85)
Net cash provided by (used in) operating activities	7	(69)
Assets		
Current assets	59	62
Non-current assets	73	64
Total assets	131	125
Liabilities		
Current liabilities	48	40
Non-current liabilities	12	12
Total liabilities	59	52
Total equity	72	74

Note: Table may not add due to rounding.

Statement of Comprehensive Income

Income

Appropriations of $173.3 million and SA Government grants, subsidies and transfers of $30.4 million account for 80% of DEM's total income.

Appropriations increased by $148.6 million in 2023-24, primarily reflecting funding received for the Office of Hydrogen Power South Australia (OHPSA), an office attached to DEM. In 2023-24 DEM transferred $136.7 million to OHPSA.

Revenue from SA Government grants, subsidies and transfers increased by $4.3 million to $30.4 million, mainly due to:

- $9.8 million transferred from the Department of Treasury and Finance (DTF) contingency fund for OHPSA to ensure the Hydrogen Jobs Plan and Port Bonython Hydrogen Hub key deliverables are met
- a $2.6 million reduction in funding from the Green Industry Fund, reflecting the wind-down of the Home Battery Scheme
- a $1.5 million reduction in targeted voluntary separation packages paid
- a $1.4 million reduction in other intra-government transfers.

DEM also received $33.9 million ($32.9 million) in fees and charges revenue. This mainly comprises fees associated with mining and petroleum licences of $32.3 million ($30.8 million).

Expenses

Expenses increased by $73.8 million to $257.2 million, mainly due to:

- grants and subsidies expense increasing by $114.8 million to $166.5 million, due mainly to additional funding provided to OHPSA – $136.7 million in 2023-24 compared to $12 million in 2022-23
- supplies and services expenses increasing by $2.5 million to $41.9 million, due mainly to a $1.6 million contribution to the Department of the Premier and Cabinet for the Upper Spencer Gulf advertising campaign
- a $41.7 million reduction in the return of cash to the Consolidated Account.

Grants and subsidies

DEM manages a number of grant processes and other schemes designed to meet its objective of delivering affordable, reliable and secure energy supplies. The expenses for these schemes are mainly reported under grants and subsidies, with some reported in supplies and services. Some of the more significant grant schemes are discussed below.

Office of Hydrogen Power South Australia

OHPSA was established as an attached office of DEM in May 2022 by the *Public Sector (Establishment of Attached Office) Proclamation 2022.* It oversees the Hydrogen Jobs Plan to deliver significant hydrogen infrastructure near Whyalla by the end of 2025 and facilitate the Port Bonython Hydrogen Hub development to accelerate the growth of a hydrogen industry in South Australia.

As an attached office, DEM provided operational funding to OHPSA in the form of intra-government transfers totalling $136.7 million in 2023-24.

Remote Area Energy Supply (RAES) scheme

This scheme aims to provide a safe, reliable and cost-effective electricity supply to homes and businesses in remote South Australian towns. It provides electricity to around 3,400 customers across 25 remote townships and Aboriginal communities, including via deed of grant arrangements with electricity providers in Coober Pedy, Andamooka and Yunta. Total grant payments under the RAES scheme in 2023-24 were $7.5 million ($7.4 million).

Jobs and Economic Growth Fund projects

These projects mainly relate to the statewide electric vehicle charging network and the Accelerated Discovery Initiative.

The SA Government awarded a grant of $12.4 million to the RAA to construct and operate an electric vehicle charging network. The grant is designed to support the transition to electric vehicles and secure private investment for the network. Construction commenced in late 2022. At 30 June 2024, 96% of the network was complete with four remaining sites outstanding. The RAA is expected to complete the network by the end of 2024. Grant payments under this scheme for 2023-24 were $4 million.

Virtual power plant

The SA Government is working with Tesla through the Renewable Technology Fund to develop a network of up to 50,000 home solar photovoltaic and battery systems across South Australia, working together to form a virtual power plant.

The aims of the virtual power plant are to:

- lower energy prices
- increase grid stability
- provide protection during a grid outage
- increase customers' visibility of their energy use
- support South Australia's transition to a renewables-based economy.

Phase 4 of the virtual power plant commenced in July 2023, with installations forecast to continue until February 2025. This will expand the virtual power plant to a further 3,000 systems, bringing the total number of homes involved to 7,100.

As at 30 June 2024, 1,400 of the 3,000 Phase 4 installations were completed, taking the total installations of virtual power plant systems to 5,500.

Grid Scale Storage Fund

This fund aims to accelerate the roll-out of grid-scale energy storage infrastructure and help address the intermittency of South Australia's electricity supplies. The fund is intended to provide up to $50 million in grants.

Grant applications closed in February 2019 and two grant deeds have been executed:

- the Hornsdale Power Reserve Expansion, with a commitment for $15 million to be paid over five years. Grant payments commenced in 2020-21 and $9.8 million has been paid to date

- the Virtual Power Plant Expansion, with a commitment for $10 million to be paid over five years. Grant payments commenced in 2020-21 and $7.3 million has been paid to date.

In the 2022-23 State Budget, the SA Government announced that the Grid Scale Storage Fund would be discontinued from 2025-26 and the budget was reduced by $20 million. DEM will continue to fund the existing commitments.

Supplies and services

Supplies and services increased by $2.5 million in 2023-24 to $41.9 million.

Emergency generation and storage expenses, which make up $4.2 million of supplies and services expenses, are associated with the operation of the Hornsdale Power Reserve.

A previous energy policy established the Hornsdale Power Reserve, then the world's largest lithium ion battery. It is installed in South Australia under an agreement between French renewable energy company Neoen, US sustainable energy company Tesla and the SA Government. Its stated aim is to provide a battery storage facility to stabilise the South Australian electricity grid, facilitate integration of renewable energy in the State and help to prevent load-shedding events.

The Hornsdale Power Reserve was expanded by 50% from 100MW to 150MW in March 2020.

Statement of Financial Position

Cash represents 40% (45%) of DEM's total assets and decreased by $2.6 million to $53.1 million as at 30 June 2024. In 2023-24 DEM returned $2.1 million in surplus cash to the Consolidated Account.

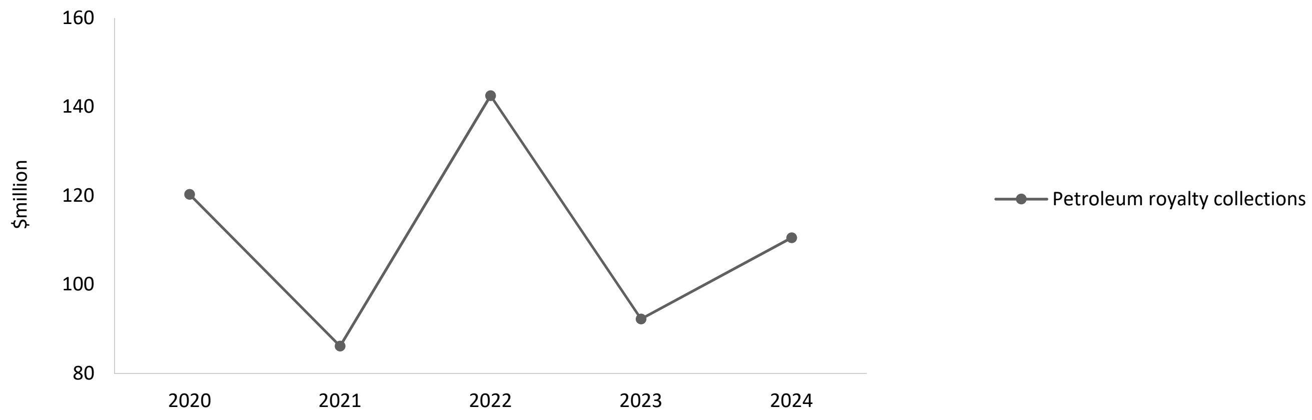
Property, plant and equipment, which represents 45% (45%) of total assets, increased by $3.3 million to $59.6 million. This includes $4.1 million in capital works associated with the Renewable Integration Central Power House project and the Remote Area Energy Supply Scheme generator replacement program. Other key movements include other asset acquisitions of $2.3 million and depreciation expenses of $3 million.

Total liabilities include security deposits of $25 million ($24 million), which are received by DEM to ensure that mining operators rehabilitate mine sites at the end of their operation. Further securities are held in the form of bank guarantees and are reported under contingent assets, valued at around $365 million in 2023-24.

Administered items

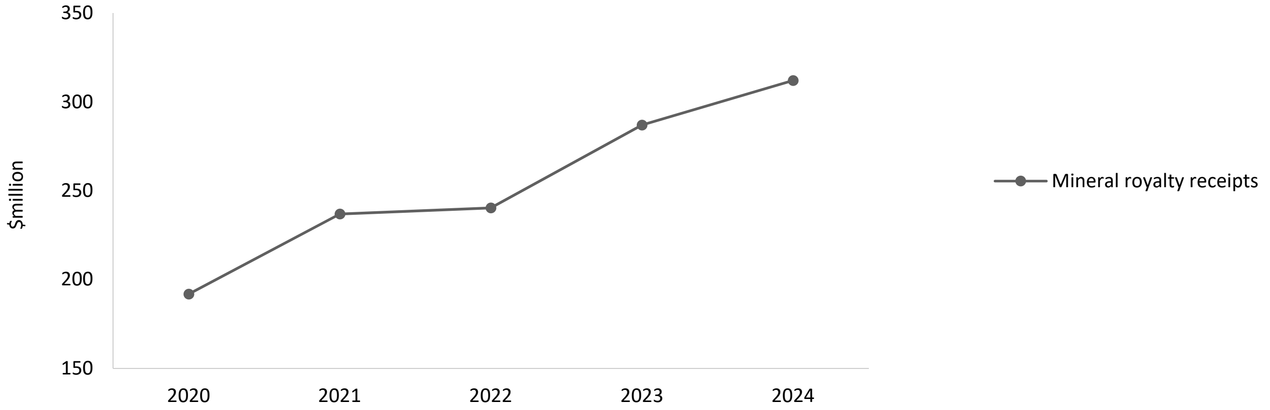
DEM is responsible for administering the collection of royalties levied on mineral and petroleum production on behalf of the SA Government. In 2023-24 it administered the collection of $422.5 million ($379.2 million) in royalties, and paid this to the Consolidated Account.

The charts below show royalty receipts over the last five years.



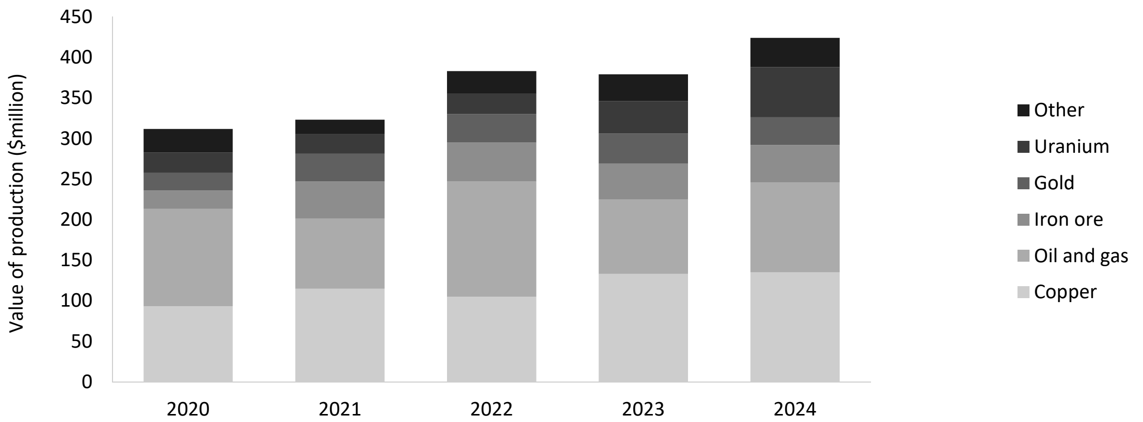
Petroleum royalty collections decreased in 2020-21 following a fall in worldwide oil prices and the effects of the COVID-19 pandemic. In 2021-22 they rose significantly due to the increase in worldwide oil prices. The significant decrease in 2022-23 was largely due to lower production levels compared to 2021-22, which more than offset pricing improvements for crude oil and gas.

2023-24 saw a recovery in petroleum royalties due to higher production levels and timing impacts of royalty payments received.



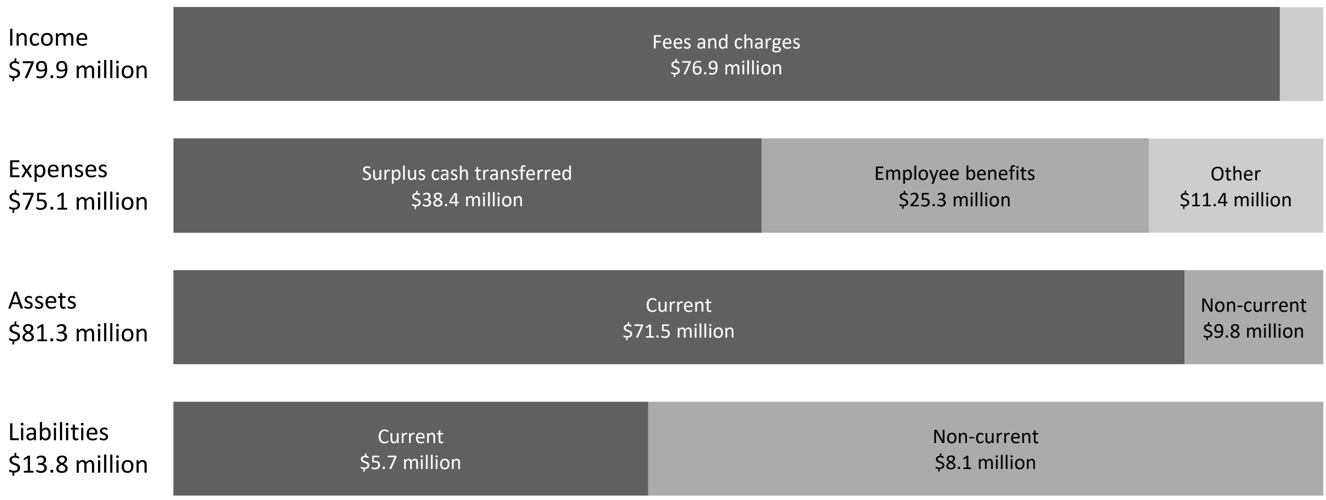
Mineral royalty receipts have increased over the last five years. The price for iron ore and copper increased steadily in both 2020-21 and 2021-22, although the 2021-22 result reflected a decrease in copper production at Olympic Dam. In 2022-23, mineral royalties increased largely due to higher production levels for copper, iron ore and uranium. The 2023-24 increase was driven by strong commodity pricing, in particular for copper and uranium.

The chart below shows royalty revenue from various commodities over the past five years. In 2023-24 copper made up 32% of the total, with oil and gas providing a further 26%.



Environment Protection Authority (EPA)

Financial statistics



200
FTEs

Significant events and transactions

- The EPA collected $106.7 million in waste levies, of which $51.7 million was transferred to the Green Industry Fund (Green Industries SA).
- Surplus cash of $38.4 million was returned to the SA Government under the cash alignment policy, with the EPA having returned $132.6 million over the past four years.
- The EPA entered a lease for a new warehouse located at Gillman for an initial term of 10 years. At inception this arrangement increased the EPA's lease liabilities and right-of-use assets by $3.2 million.

Financial report opinion

Modified

The EPA did not have an effective process to meet the disclosure requirements of Treasurer's Instructions (Accounting Policy Statements) for reporting the value of procurement with South Australian and non-South Australian businesses for 2023-24. This is discussed further in Part A of this report.

Audit findings	—	No legislative compliance framework to help monitor compliance with legal and regulatory obligations.
	—	Controls for the prompt removal of terminated staff access to key EPA systems need to improve.

Functional responsibility

The EPA is South Australia's primary environmental regulator for the control and minimisation of pollution and waste. It is responsible for protecting and enhancing air and water quality, and for controlling pollution, waste and environmental noise.

The EPA financial reporting entity comprises:

- a statutory authority with an appointed board established by the *Environment Protection Act 199*3 (EP Act)
- an administrative unit, also named the EPA, established under the *Public Sector Act 2009*
- the Environment Protection Fund established under the EP Act.

The EP Act permits the statutory authority to use the services of the administrative unit's employees and facilities. The administrative unit is also responsible for radiation protection functions under the *Radiation Protection and Control Act 1982*.

Under the EP Act, the Chief Executive of the administrative unit is also taken to be the Chief Executive of the statutory authority. The Chief Executive is subject to the control and direction of the Minister in relation to the activities of the administrative unit, and is subject to the control and direction of the Board in giving effect to its policies and decisions under the EP Act.

Scope of the audit

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

- waste levies revenue
- licence fee revenue
- accounts payable
- payroll
- fixed assets
- cash
- general ledger.

Audit findings

Communicating our audit findings

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

Audit findings

No legislative compliance framework

The EPA operates in a complex legislative environment, and we found that it does not have a formal legislative compliance framework.

An effective legislative compliance framework helps an organisation to identify, assess and comply with all of its legislative requirements, and mitigates regulatory risk.

The EPA accepted our finding, noting that it had started to develop a legislative compliance policy and register and expected to finish it by September 2024.

Controls for the timely removal of terminated staff access to key EPA systems need to improve

We identified instances where former employees retained access to key EPA systems.

We reviewed the EPA's policy on user access to key EPA systems and found that it does not specify:

- how the EPA ensures user access to critical systems is promptly revoked
- the frequency with which user access reviews over critical systems must be performed.

The EPA responded that its user access policy is under review.

Interpretation and analysis of the financial report

Highlights of the financial report*

	2024 $million	2023 $million
Income		
Fees and charges	77	72
Other revenues	3	2
Total income	80	74
Expenses		
Surplus cash transferred to the Consolidated Account	38	35
Employee benefits expenses	25	24
Supplies and services	10	9
Other expenses	2	1
Total expenses	75	68
Net result	5	6
Net cash provided by (used in) operating activities	4	7

	2024 $million	2023 $million
Assets		
Current assets	72	67
Non-current assets	10	6
Total assets	81	73
Liabilities		
Current liabilities	6	5
Non-current liabilities	8	5
Total liabilities	14	10
Total equity	68	63

* Table may not add due to rounding.

Statement of Comprehensive Income

Income

Total income increased by $5.6 million to $79.9 million, with solid waste levies comprising 67% of this amount.

Solid waste levies are discussed further under ‘Administered items’ and ‘Further commentary on operations’ below.

Expenses

Total expenses were $75.1 million ($68.3 million), with $38.4 million in surplus cash paid to the Consolidated Account under the SA Government’s cash alignment policy.

$132.6 million of surplus cash returned to the Consolidated Account over four years

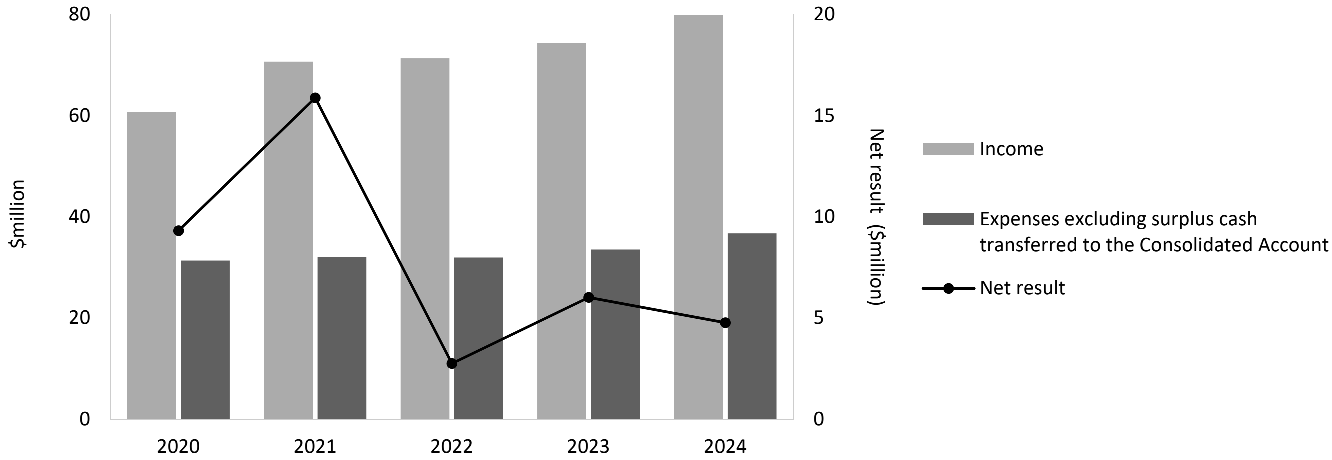
The EPA has achieved operating surpluses and generated surplus cash from operations for a number of years. It has returned $132.6 million to the Consolidated Account over the past four years under the cash alignment policy, as shown in the following table.

	2021 $million	2022 $million	2023 $million	2024 $million
Surplus cash transferred to the Consolidated Account	22.8	36.6	34.8	38.4

Net result

The chart below shows the net result for the five years to 2024.

Over this period the EPA funded its operations entirely by raising fees and charges and did not require any appropriation funding from the Consolidated Account.



Since 2019 the EPA's annual income has significantly exceeded its underlying expenses, excluding surplus cash transferred to the Consolidated Account.

For the last two years the return of surplus cash was the EPA's largest expense item. The chart indicates that without significant changes to its income and expenses, the EPA will either accumulate cash or continue to be able to make significant returns of cash to the Consolidated Account.

Statement of Financial Position

Current assets – cash and cash equivalents

Cash and cash equivalents of $58.9 million ($57.2 million) represent 72% (79%) of total assets. These balances include the Environment Protection Fund deposit account of $24.5 million ($17.7 million).

Use of the money held in the Environment Protection Fund requires the Minister's approval and must be consistent with the requirements of the EP Act. No expenditure was approved by the Minister for 2023-24.

Current assets – receivables

Receivables increased by $3.2 million to $12.6 million ($9.4 million), due mainly to a $1.9 million increase in debtors invoiced late in the year. This largely reflects timing differences in the receipt of licence fees.

Non-current assets

Intangible assets make up 35% of total non-current assets. The licencing administration management program, environment licensing forms and general environment information systems are the dominant items.

Property, plant and equipment increased by $4 million and comprise the remaining 65% of total non-current assets. The increase is mainly due to the recognition of a $3.1 million right-of-use asset for a new warehouse lease.

Administered items

The EPA's administered activities comprise solid waste levies collected and transferred to the Green Industry Fund.

The EPA receives solid waste levies from waste depots under the EP Act. There was a 5% increase in solid waste levy rates from July 2023, after an increase of 2% from July 2022. Since July 2016 the solid waste levy rate in the metropolitan area has increased by 152%.

From 1 July 2023 the solid waste levy was $78 per tonne for the metropolitan area and $156 per tonne for country areas.

The *Green Industries SA Act 2004* requires the EPA to transfer 50% of these levies to the Green Industry Fund. Of the 50% the EPA retains, 45% is used to support its daily operations and 5% is transferred to the Environment Protection Fund.

The EPA transferred $51.7 million ($47.4 million) to the Green Industry Fund during the year.

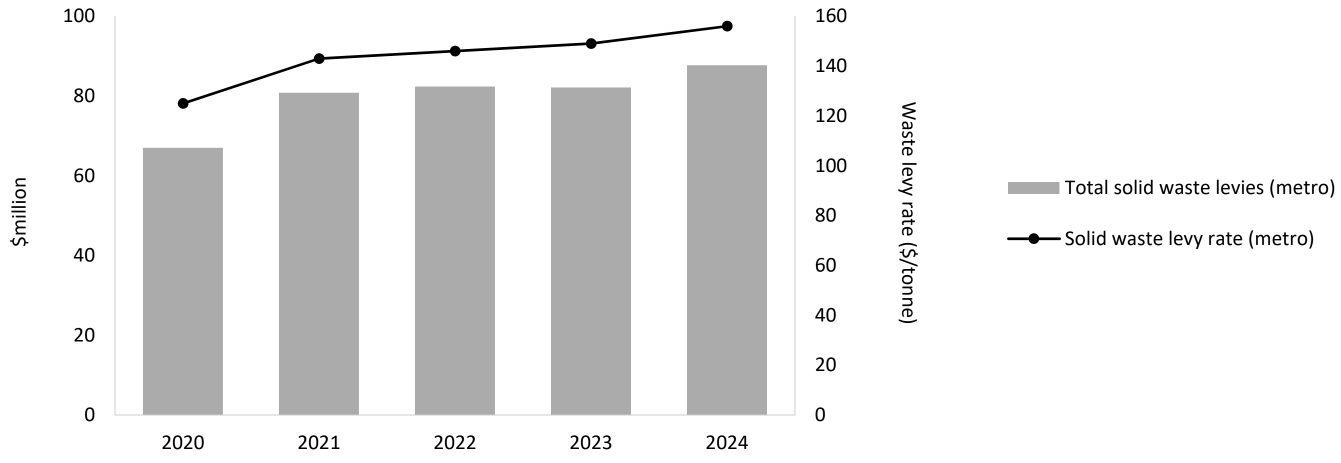
Further commentary on operations

Waste levies

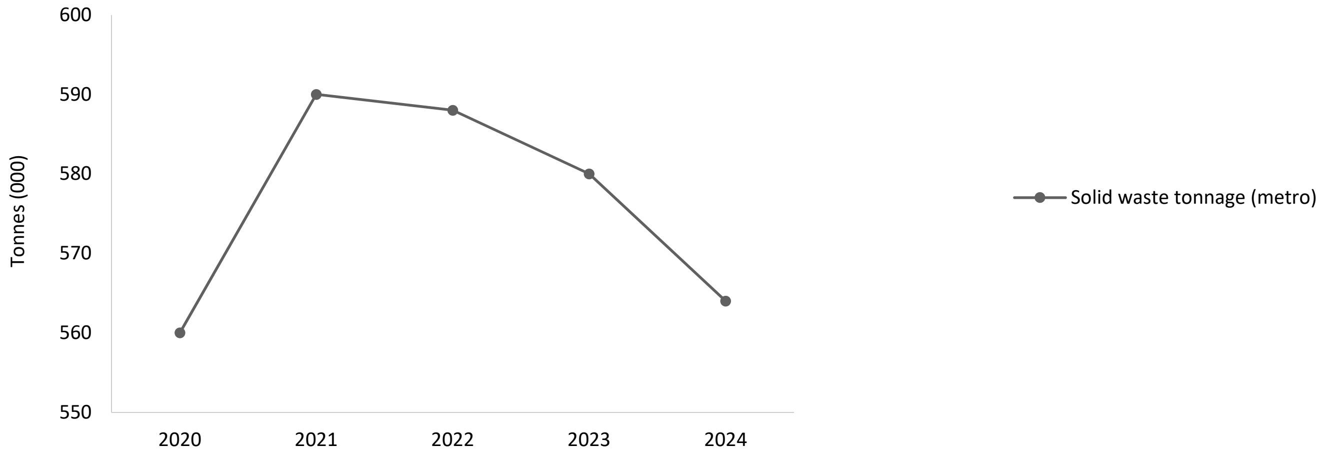
Total solid waste levies collected by the EPA (controlled and administered) increased by $8 million (see notes 2.1 and 8.4 of the EPA's financial report), up 8% on the previous year. The increase is due to a 4.7% rise in the waste levy for 2023-24 and a decrease in the levy waiver applicable to shredder floc. Shredder floc is the residual waste from shredding scrap metal. In 2023-24 the levy waiver was reduced from 50% to 25%, resulting in an increase in levy revenue of $1.9 million.

Solid waste tonnage decreased by 12,000 tonnes to 795,000 tonnes (807,000 tonnes).

For the last five years solid waste levies collected in metropolitan Adelaide have accounted for at least 82% of the total solid waste levies collected by the EPA. The following chart shows the waste levies collected in metropolitan Adelaide and the applicable waste levy rate for the five years to 2024.

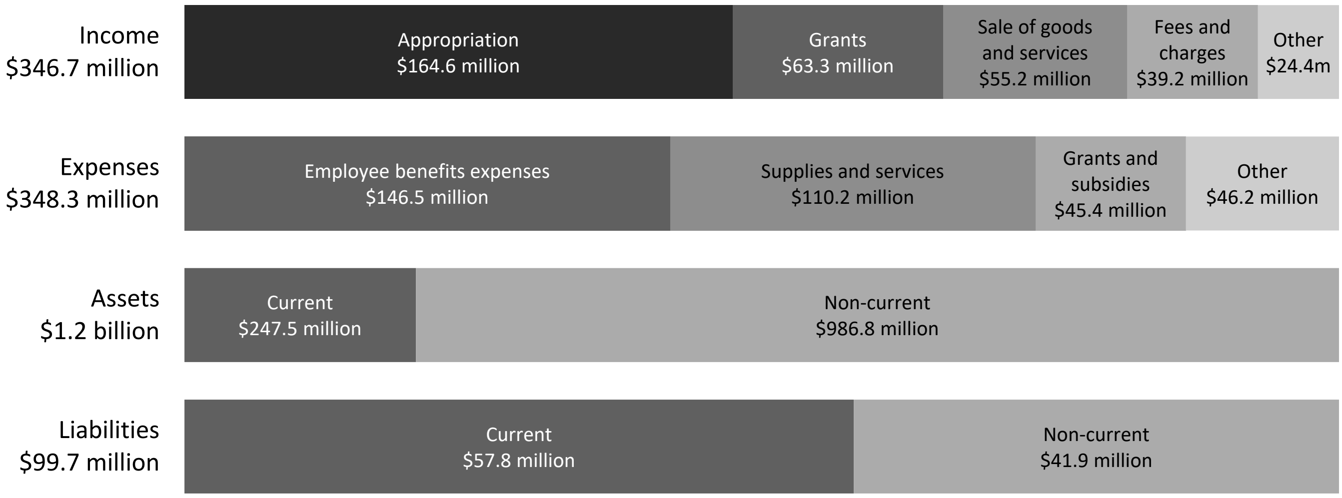


The chart below shows a decrease in the solid waste tonnage reported by waste depots in metropolitan Adelaide, with the amount reported in 2024 at 564,000 tonnes (580,000 tonnes). The EPA advised us that the increase in 2021 reflected the higher infrastructure and development activity associated with the COVID-19 economic response. This data was provided to us by the EPA and is unaudited.



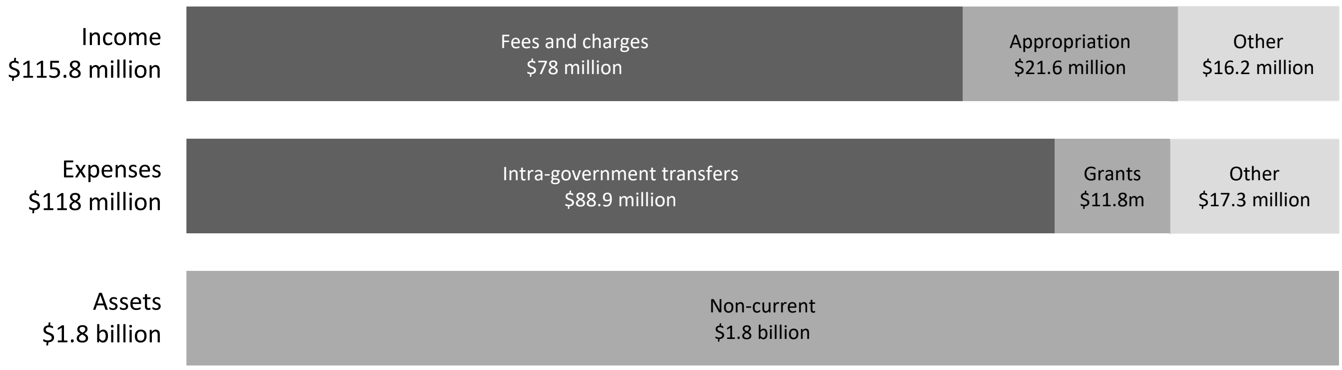
Department for Environment and Water (DEW)

Financial statistics



1,296
FTEs

Administered items



Significant events and transactions

— Significant asset classes were revalued in 2023-24, resulting in an overall upward revaluation of $95.1 million.

— Administered Crown land was revalued upward by $156.8 million.

— Floods in 2022-23 caused damage to assets owned by DEW along the River Murray, including regulators and embankments. DEW is progressing an insurance claim with the South Australian Government Finance Authority (SAFA) for the damaged assets.

— A new internally developed water licensing system was commissioned at a total cost of $14.4 million.

— National Parks and Wildlife Service and Water and the River Murray assets totalling $59 million were capitalised in 2023-24.

Financial report opinion	**Modified** DEW did not have an effective process to meet the disclosure requirements of Treasurer's Instructions (Accounting Policy Statements) for reporting the value of procurement with South Australian and non-South Australian businesses for 2023-24. This is discussed further in Part A of this report.
Controls opinion findings	— Problems with DEW's bank reconciliation process are still unresolved. — No documented policies or procedures for DEW's new banking environment.
Other audit findings	— Management of long outstanding debtors needs to improve. — Monitoring of DEW's capital works in progress needs to improve.

Functional responsibility

DEW is an administrative unit established under the *Public Sector Act 2009*, and is responsible to the Minister for Climate, Environment and Water.

DEW helps South Australians conserve, sustain and prosper. Its management of natural resources and places, water and heritage assets is vital for the future social, environmental and economic prosperity and wellbeing of all South Australians. In partnership with a diverse cohort of boards, councils, stakeholders and volunteers, DEW delivers and implements fit-for-purpose policies and programs through three complementary goals:

- A healthy, resilient environment – South Australia's biodiversity, ecosystems and wildlife are conserved, restored and resilient to climate change. A world-class system of national parks and botanic gardens protect our iconic places and recognise the intrinsic value of nature.
- Improved liveability and wellbeing – natural resources and cultural heritage provide for the needs of our communities and are used to deliver enhanced lifestyle and cultural values for all peoples.
- A prosperous South Australia for current and future generations – sustainably managed natural resources underpin the growth of a climate-resilient economy through increased productivity, competitiveness, innovation and private investment.

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. Areas of audit attention in 2023-24 included:

- fees and charges revenue
- sale of goods and services
- water licence and service revenue
- grant revenue
- accounts payable
- grants and subsidies expenditure
- payroll
- cash
- fixed assets
- general ledger.

Controls opinion

We reviewed controls over the following as part of our overall controls opinion, which is discussed in Part B of this report:

- bank accounts – managing DEW's operating bank account and the SA Riverland Floodplains Integrated Infrastructure Program bank account
- land – the acquisition and disposal of Crown land
- water assets – managing the State's responsibilities with respect to Murray Darling Basin Authority (MDBA) assets.

Audit findings

Communicating our audit findings

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

Controls opinion findings

Problems with DEW's bank reconciliation processes are still unresolved

DEW's bank account is used by 16 separate entities and 19 funds (bureau entities) established to support specific Commonwealth and SA Government programs. The bank reconciliation for this account is a fundamental control for both DEW and its bureau entities. Performed regularly, it helps to confirm the integrity of accounting records and identify errors or irregularities needing action.

For a number of years we have commented that DEW needs to improve its control over the bank reconciliation process. Our review of its April 2024 reconciliation identified over 222,000 uncleared reconciling items, with a net variance of $6.9 million between the bank account and the general ledger. The reconciling items comprised:

- 11,075 transactions recorded in the bank statement but not in DEW's general ledger
- 211,394 transactions recorded in DEW's general ledger but not matched to the bank statement.

Some unresolved reconciling items date back to February 2020.

To ensure that the cash balances of DEW's bureau entities are not materially misstated, each month DEW manually reviews and classifies unmatched bank transactions by agency. The review it performed for April 2024 identified that 81% of the reconciling items belong to DEW.

In 2020-21 DEW advised us that the automated process to clear reconciling items within the Banking Support System (BSS) was under question and required in-depth analysis to validate. In 2021-22 DEW advised us that it had reviewed the BSS and issues with the auto-matching function were resolved, with work to finalise the manual clearing of all historic items to be finalised before preparing the 2021-22 financial report.

In 2022-23 DEW noted that work to identify a replacement Point of Sale system had started, with additional resources applied to continue to manually clear reconciling items. DEW has yet to implement system upgrades or replacements designed to address the bank reconciliation issues.

Until it can find system solutions to its banking issues, DEW must apply manual solutions. At 30 June 2024, uncleared reconciling items were reduced to 132,000 with a net variance of $476,000 between the bank account and the general ledger.

In response to our findings DEW has advised us that its focus remains on improving the data quality from existing revenue feeder systems, with significant effort being placed on improving matching processes and identifying batches through newly introduced reporting. It will also continue to manually clear reconciling items from the bank reconciliation, and additional resources have and will be applied to this as required.

No documented policy or procedures for the ANZ Transactive banking environment

In April 2024 DEW transitioned to the ANZ Transactive online banking environment, as part of a change in the whole-of-government banking arrangements. We noted that DEW has not documented any policies or procedures for the control and use of the ANZ Transactive System, including any for the following key areas:

- user account management, including onboarding, offboarding and regular user access reviews
- monitoring privileged user accounts
- authority and access to approve and process manual payments
- financial reconciliations
- assigning transaction or payment limits.

To support controls over the banking environment it is imperative that key internal controls are documented.

DEW advised us that it will incorporate these controls into a standard operating procedure.

Other audit findings

Management of long outstanding debtors needs to improve

We noted the need for DEW to improve its pursuit of long outstanding debtors. As of February 2024 it had $5.8 million of controlled debtors and $11.8 million of administered debtors that have been due for more than 90 days. This included:

- 482 debts outstanding for over 10 years, totalling $940,000
- 5,103 debts outstanding for over five years, totalling $2.1 million
- 27,375 debts outstanding for over one year, totalling $11.4 million. Of these, 17 individual debts amount to more than $100,000.

DEW has recognised impairment of $2.3 million in its controlled accounts and $12.8 million in its administered accounts at 30 June 2023, to reflect the risk of non-recovery of some debtors.

DEW advised us that it performs a doubtful debt review at 30 June each year and will change its debt recovery procedure to require this review more regularly.

Monitoring of DEW's capital works in progress (CWIP) needs to improve

DEW was unable to demonstrate the consistent operation of its control over monitoring its CWIP account. DEW's asset capitalisation procedure assigns responsibility for monitoring CWIP balances but does not identify the specific controls required to deliver this expectation.

We found inconsistencies in the monitoring of DEW's CWIP balance throughout the year. Given the significant value of CWIP, we recommended that DEW clearly document its monitoring controls. This will help ensure the accuracy of CWIP for financial reporting purposes.

DEW acknowledged our recommendation and advised us that it is reviewing its asset capitalisation procedure.

Interpretation and analysis of the financial report

Highlights of the financial report*

	2024 $million	2023 $million
Income		
Appropriation	165	181
Sales of goods and services	55	52
Commonwealth grants and funding	24	23
SA Government grants, subsidies and transfers	39	37
Fees and charges	39	37
Resources received free of charge	7	7
Other income	17	18
Total income	347	355
Expenses		
Employee benefits expenses	147	144
Supplies and services	110	102
Grants and subsidies	45	56
Depreciation and amortisation expense	33	33
Assets transferred for consideration	8	7
Other expenses	5	2
Total expenses	348	345
Net result	(2)	10
Other comprehensive income		
Changes in property, plant and equipment asset revaluation surplus	95	54
Impairment loss on property, plant and equipment	(1)	(3)
Total other comprehensive income	94	51
Total comprehensive income	92	61

	2024 $million	2023 $million
Net cash provided by (used in) operating activities	40	69
Net cash provided by (used in) investing activities	(44)	(50)
Assets		
Current assets	247	251
Non-current assets	987	891
Total assets	1,234	1,142
Liabilities		
Current liabilities	58	57
Non-current liabilities	42	44
Total liabilities	100	100
Total equity	1,134	1,041

* Table may not add due to rounding.

Statement of Comprehensive Income

Income

Total income decreased by $7.9 million to $346.7 million in 2023-24. This was mainly due to a $16.7 million decrease in appropriation from the Consolidated Account. The reduction was due to one-off payments to DEW in 2022-23 for the River Murray flood event, offset by:

- a $3.4 million increase in sales of goods and services resulting from an increase in admission and guided tours income due to greater visitor numbers to National Parks
- a $1.7 million increase in fees and charges. In 2022-23 DEW issued refunds to a number of licence holders affected by the River Murray flood
- a $1.8 million increase in Commonwealth-sourced grants and funding for new initiatives, including the National Water Grid Fund, Regional Pilot Program, Koonalda Cave and BioData SA – Digital Environmental Assessment Program
- a $1.5 million increase in SA Government grants, subsidies and transfers.

Expenses

Total expenses increased by $3.6 million to $348.4 million. The major items causing this change were:

- a $2.5 million increase in employee benefits expense, mainly due to a $5.9 million increase in salaries and wages, a $2.3 million increase in the long service leave provision and an increase in superannuation on-costs of $1.4 million. This was largely offset by a $3.8 million reduction in expenditure relating to targeted voluntary separation packages paid, and a $4 million reduction in workers compensation expenses compared to the prior year. Workers compensation expenses are impacted by the movement in the associated provision (liability)
- a $7.7 million increase in supplies and services expenses, largely due to:
  - a $2.1 million increase in accommodation expenditure
  - a $2.8 million increase in fee-for-service relating to National Parks and Wildlife Services
  - a $2 million increase in legal costs mainly relating to Marine Parks Compensation payments for the voluntary surrender of marine scalefish licences
  - a $1.5 million increase in contractor costs

  - a $1.2 million increase in minor works, maintenance and equipment offset by a $2.6 million reduction in Adelaide Beach Management expenses
- an increase in other expenses of $3.4 million mainly due to DEW expensing capital project costs previously recognised as an asset
- offset by a $10.2 million decrease in grants and subsidies. In 2022-23 DEW made a number of payments to councils and business owners impacted by the 2022 River Murray flood. These payments were one-off and did not continue in 2023-24.

Statement of Financial Position

DEW's assets mainly comprise property, plant and equipment, and cash.

Non-current assets – property, plant and equipment

Property, plant and equipment is $961.5 million and represents 77.9% of total assets.

DEW's property, plant and equipment holdings are diverse. Land valued at $338.6 million comprises national, conservation and recreation parks, and wilderness protection areas and reserves. Related park infrastructure is valued at $38.3 million, while roads, tracks and trails total $34 million. Buildings and improvements total $77 million.

DEW controls a range of other infrastructure assets valued at $340 million, which include groundwater monitoring wells, regulators and embankments, sand pumping infrastructure, salinity disposal assets, surface water monitoring assets and waste disposal stations. DEW is also responsible for the Patawalonga seawater circulation system, valued at $36.7 million.

Property, plant and equipment increased by $92.1 million due mainly to the $95.1 million upward revaluation of significant classes of property, plant and equipment and asset additions of $41.1 million. This was offset by depreciation of $32 million, assets transferred for no consideration to other entities of $8.2 million and the expensing of previous capitalised works in progress of $3.9 million. Asset additions primarily relate to capital works associated with the Kangaroo Island fire recovery.

Current assets – cash

Cash of $233.9 million ($239.4 million) represents 95% (95%) of current assets, and 19% (21%) of total assets. DEW's cash at 30 June 2024 comprised operating deposit accounts of $85.5 million ($90.9 million) and an Accrual Appropriation Excess Funds Account of $148.3 million ($148.3 million). Access to the latter account is subject to the Treasurer's/Under Treasurer's approval.

Current assets – receivables

Receivables of $11 million ($9.3 million) represent 4.4% (4%) of total current assets.

Liabilities

Total liabilities decreased marginally to $99.7 million. Major movements in liabilities included:

- a $1.2 million increase in contract liabilities, largely relating to an extension to the South Australian Riverland Floodplains Integrated Infrastructure Program
- a $2.2 million increase in employee benefits liabilities, due mainly to an increase in the long service leave provision. Movements in the provision for long service leave are subject to the assumptions used by the valuing actuary

- a $2.9 million decrease in DEW's workers compensation provision, largely due to re-measurement by the actuary.

Administered items

DEW's administered activities include:

- Crown lands
- Minister's other payments
- the Natural Resources Management Fund
- the Landscape Administration Fund
- the Landscape Priorities Fund
- the South Australian Drought Resilience Fund
- the Pastoral Board
- the State's joint interest in the MDBA.

Crown lands

DEW administers Crown land on behalf of the Minister. All transactions associated with Crown land are recorded in its administered financial statements.

Minister's other payments

DEW received $18.2 million ($17.7 million) in appropriation revenue from the SA Government, for distribution to other agencies through grants and subsidies and intra-government transfers approved by the Minister. DEW administers the receipt and distribution of this money.

Landscape Administration Fund

The Landscape Administration Fund was established under the *Landscape South Australia Act 2019* (Landscape Act) to receive and disburse fees, land levies, water levies and other money authorised by the Landscape Act.

In 2023-24, $78 million ($73.3 million) in fees and levies was raised on behalf of Landscape Boards. The Fund also received $3 million ($2.9 million) in appropriation revenues from government for transfer to the Landscape Boards. Payments to Landscape Boards totalled $79.5 million ($74.6 million). Payments are made to Landscape Boards in line with section 90(4) of the Landscape Act.

Landscape Priorities Fund

The Landscape Priorities Fund was established under the Landscape Act and receives annual revenue from the Green Adelaide Board. This revenue is determined under the Landscape Act and is a gazetted percentage of the total land and water levies received by the Green Adelaide Board in a financial year.

Under the Landscape Act, the Minister may apply any part of the Landscape Priorities Fund:

- in addressing any priority for managing, improving or enhancing the State's landscape or natural resources, whether the priority is of sub-regional, regional, cross-regional or State wide significance
- in making any other payment required or authorised by or under the Landscape Act or any other law.

In 2023-24, $4.9 million ($4.5 million) was paid into the Landscape Priorities Fund by the Green Adelaide Board, with $3 million ($3.9 million) paid from the Fund to Landscape Boards in line with section 93(5) of the Landscape Act.

South Australian Drought Resilience Fund

The South Australian Drought Resilience Fund was established under the Commonwealth's Water for Fodder program. The Fund received revenue from Southern Murray-Darling Basin irrigators in exchange for the transfer of South Australian water allocations in line with the Water for Fodder program. The Fund will be applied by the Minister to programs and measures to build the resilience of the River Murray water users and environment to withstand drought and longer-term climate change, or to improve the adequacy, security and quality of the State's water supply from the River Murray. The balance of the fund is $4.3 million.

Pastoral Board

The Pastoral Board is responsible for administering the *Pastoral Land Management and Conservation Act 1989*. It provides advice to the Minister for Climate, Environment and Water on the policies that should govern the administration of pastoral land. The Pastoral Board was transferred from the Department of Primary Industries and Regions on 1 July 2022. The value of pastoral land at 30 June 2024 was $69.2 million.

Murray-Darling Basin Authority

The MDBA is established under the *Water Act 2007* (Cth). DEW recognises the State's joint interest in the MDBA infrastructure assets and water rights as an interest in a joint operation in its administered financial statements. The State's interest in the arrangement is 26.67%.

The recognition of MDBA infrastructure assets and water rights is in line with the following agreements signed by the Commonwealth, NSW, Vic, SA, ACT and the MDBA in June 2009:

- asset agreement for River Murray Operations assets
- agreement on addressing water over-allocation and achieving environmental objectives in the Murray-Darling Basin – control and management of Living Murray assets.

The State's interest in the arrangement was valued at $1.1 billion as at 30 June 2024.

The State's shared management of the Murray-Darling Basin is a continuation of arrangements first established many years ago. Funding arrangements for the now defunct Murray-Darling Basin Commission were established as far back as 1992. The MDBA assumed the functions of the Commission in 2008. It conducts activities that support the sustainable and integrated management of the water resources in the Basin, as outlined in the Murray-Darling Basin Agreement.

The assets are held by two separate reporting entities (joint operations) – the River Murray Operations for all physical assets and the Living Murray Initiative for intangibles and water licences. The participating jurisdictions each hold a proportional interest in the net assets of each joint operation.

While the infrastructure assets used to support the MDBA's activities are jointly owned and controlled by the asset-controlling governments, the MDBA is responsible for the ongoing operation and maintenance of the assets.

Under the River Murray Operations and Living Murray Initiative asset agreements, each asset-controlling government is obliged to provide funding to the MDBA for the management of the assets. In 2023-24 DEW paid $24.8 million to the MDBA.

Further commentary on operations

South Australian Heritage Fund

The South Australian Heritage Fund was established under the *Heritage Places Act 1993* to conserve places of heritage value. In applying money from the fund the Minister must consider strategic advice from the South Australian Heritage Council.

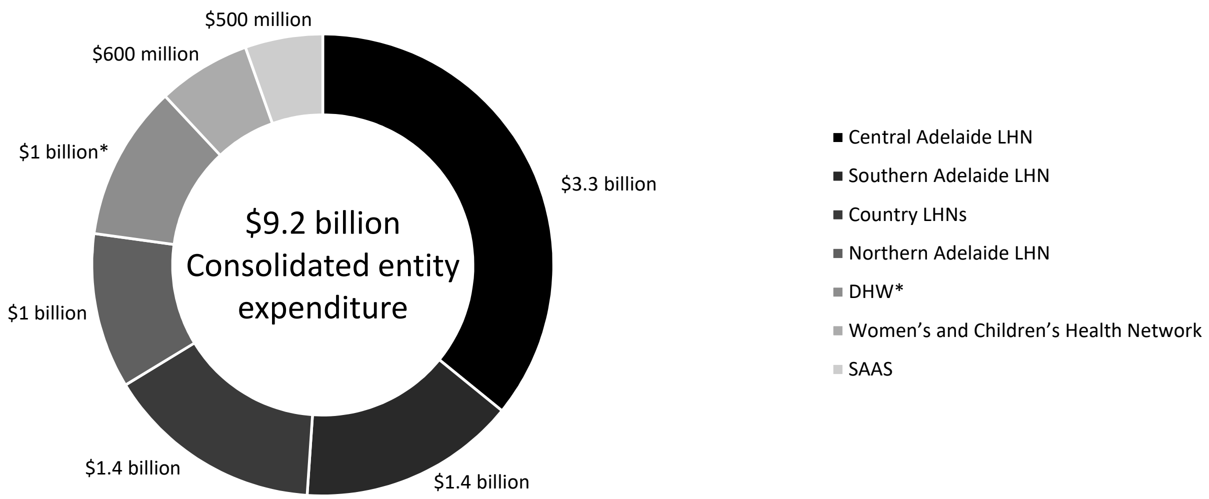
The fund has not received or spent any cash over the past two years, with minimal movement in the fund's balance since 2015. Cash of $348,000 was held in the fund at 30 June 2024. Given the lack of activity through the fund over the past decade, the Parliament may want to consider the need for it.

SA Health overview

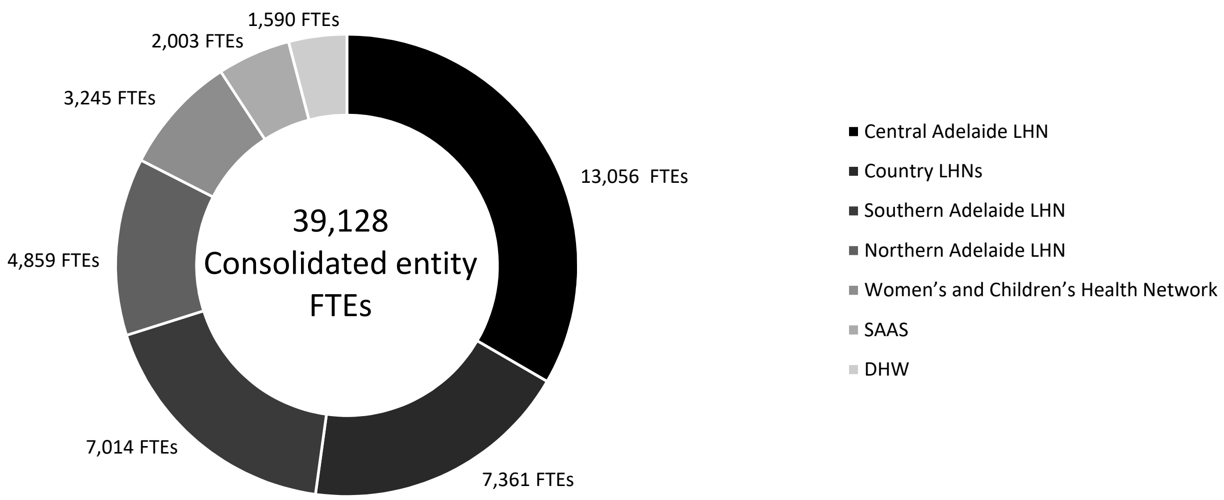
SA Health comprises:

- the consolidated entity – the Department for Health and Wellbeing (DHW), the local health networks (LHNs) and the SA Ambulance Service Inc (SAAS). The consolidated entity's financial reports are within the DHW financial report
- two attached offices – Preventive Health SA (PHSA) and the Commission on Excellence and Innovation in Health (CEIH).

The charts below show the breakdown of the total expenditure and FTEs for the consolidated entity.



* DHW expenditure excludes grants and the cost of goods sold to other consolidated entities.



This overview discusses the following SA Health matters:

- governance arrangements
- budget and performance
- Independent Commissioner Against Corruption report findings update
- unaudited consolidated entity FTE, patient activity and KPI data.

Governance arrangements

The *Health Care Act 2008* (HC Act) provides for the governance, management and administration of the South Australian public health system. It sets out the role, functions and powers of the Minister, the Chief Executive of DHW, the Chief Executive Officer (CEO) of SAAS, and the LHNs' governing boards and CEOs. SAAS is a body corporate and has no governing board.

Delivery of public health services

The governance and responsibility for delivering public health services is devolved to the LHN governing boards and the CEO of SAAS. They have full responsibility for providing health services in their area, which includes:

- ensuring effective, efficient and economical operations
- managing their budgets
- ensuring their performance targets are met
- providing strategic oversight.

Each LHN CEO is accountable to, and subject to the direction of, the governing board for managing the operations and affairs of the LHN.

Service agreements between LHNs/SAAS and DHW set out the relationship, performance targets and funding arrangements each year. They are available on the SA Health website.

Role of the Department for Health and Wellbeing

DHW is the 'system leader' and it sets strategic direction and statewide policy. It monitors and drives the performance of the public health system through high-level direction and management.
DHW is responsible for ensuring the reform agendas and priorities set by the Minister for Health and Wellbeing are carried out.

A number of functions remain under the specific control of the Chief Executive of DHW, including employing all consolidated entity staff (excluding SA Pathology) under the HC Act.

Attached offices

DHW's two attached offices rely on it for support, advice and a number of administrative functions and systems. Governance of each attached office rests with their CEOs.

Preventive Health SA

In February 2024, Wellbeing SA changed its name to Preventive Health SA and parts of Drug and Alcohol Services SA were transferred in from Southern Adelaide LHN. 14 employees and net liabilities of $312,000 were included in the transfer.

PHSA supports and promotes improved physical, mental and social wellbeing for all South Australians to create a balanced health and wellbeing system in South Australia.

PHSA had expenditure of $29 million ($92 million) and 95 FTEs (90 FTEs) in 2023-24. The decrease in expenditure is due to the Integrated Care Systems Directorate, which included the My Home Hospital service and the SA Community Care program, transferring to DHW in 2022-23.

Commission on Excellence and Innovation in Health

The CEIH provides leadership and advice on maximising patient health outcomes, improving care and safety, monitoring performance, evidence-based practice and clinical innovation, and supporting collaboration.

The CEIH had unaudited expenditure of $10 million ($9 million) and 43 FTEs (36 FTEs) in 2023-24.

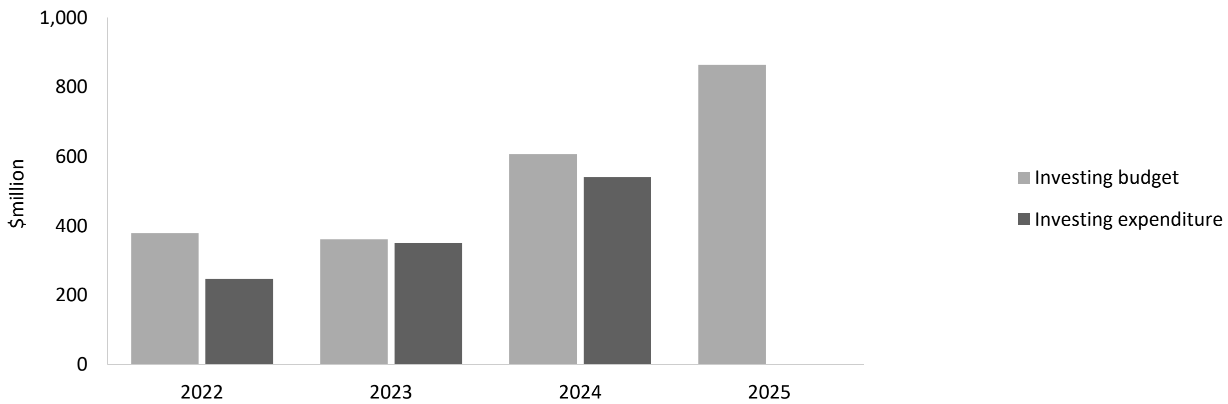
Budget and performance

State Budget

The 2023-24 State Budget confirmed the SA Government's commitment to SA Health achieving the national efficient price for public hospital services, and included additional funding for capital works and salaries and wages to employ more FTEs to improve services and response times.

Investment

Capital works in SA Health will grow over the next few years due to the increase in new capital projects in the 2022-23 and 2023-24 State Budgets. This is shown in the graph below.



The following table provides more details on SA Health's major capital projects.

Project	Total approved project cost*	Budget 2023-24	Actual 2023-24	Reason for difference between budget and actual for 2023-24
New Women's and Children's Hospital	$3.2 billion	$119 million	$87 million	Only just starting the construction phase
Metropolitan mental health beds	$88 million	$34 million	$10.2 million	Slightly delayed in commencing construction
New older person mental health facility – Modbury	$48 million	$23.6 million	$0	Slightly delayed in commencing construction
48 subacute beds at Lyell McEwin Hospital	$47 million	$5 million	$35 million	Fast tracked to bring beds online quicker. To be opened in the third quarter of 2024.
Flinders Medical Centre upgrade and expansion	$400 million	$15 million	$41.9 million	Fast tracked to bring beds online quicker during 2024

* Total approved project costs are from the 2023-24 State Budget and are unaudited.

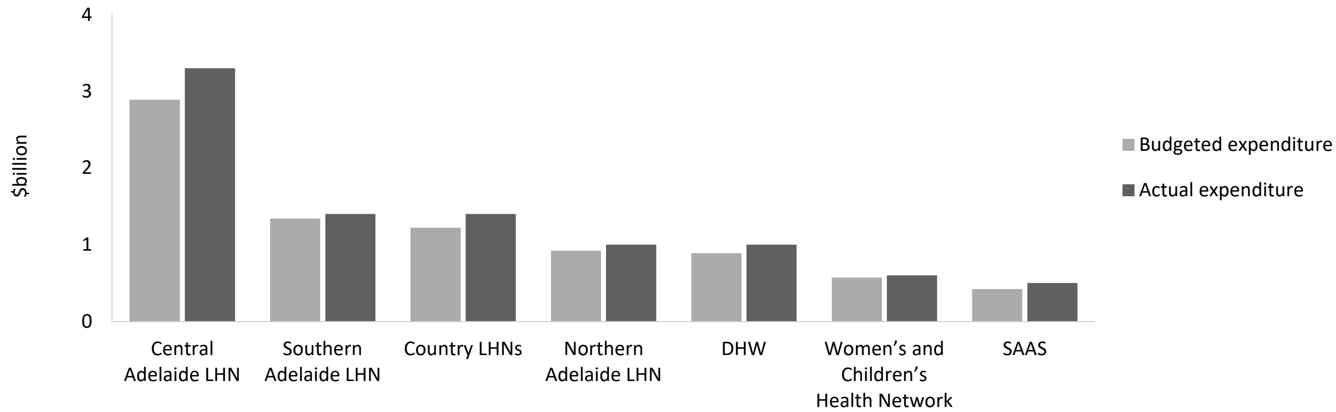
Budget to actual results

Since 2007, we have reported on expenditure pressures and budget supplementation for the consolidated entity.

Each year DHW has changed elements of its commissioning and funding models, and COVID-19 significantly affected its activities. As a result, it is not possible to compare results from year to year. This year we looked at whether the budget set for the consolidated entity in the 2023-24 State Budget was achieved and what factors influenced the outcome for the year. It is important to note that budget data is not subject to audit.

The consolidated entity's net result of $76 million in 2023-24 was $313 million under its budgeted net result of $389 million.

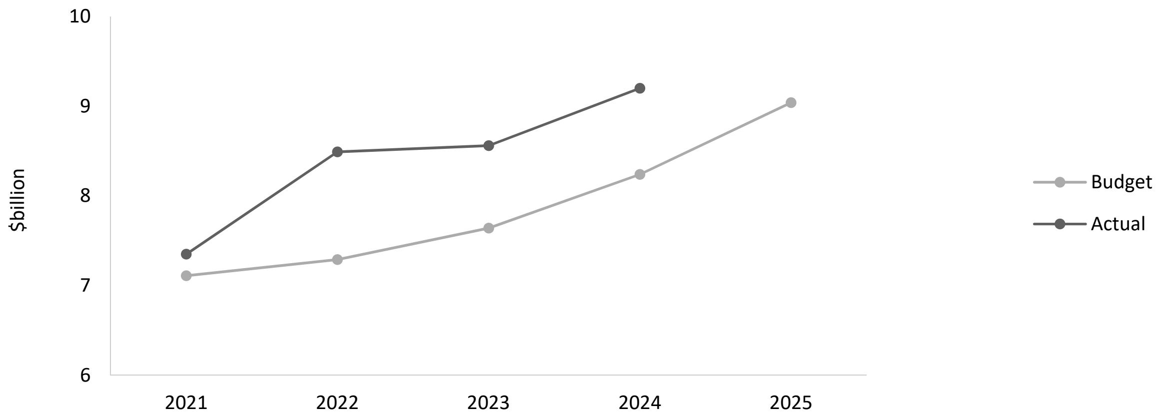
DHW's financial report contains budgetary reporting information, including explanations of major variances between the consolidated entity's original budget in the 2023-24 State Budget and the actuals in its financial report. The chart below shows budgeted expenditure from the 2023-24 State Budget compared to actual expenditure in the audited financial statements of the consolidated entity.



All consolidated entities exceeded the expenditure budget set in the original 2023-24 State Budget.

The consolidated entity's total expenses exceeded the original 2023-24 State Budget by $956 million, an 11.5% overspend. This is in line with 2022-23 when total expenses exceeded the original 2022-23 State Budget by $874 million, an 11% overspend.

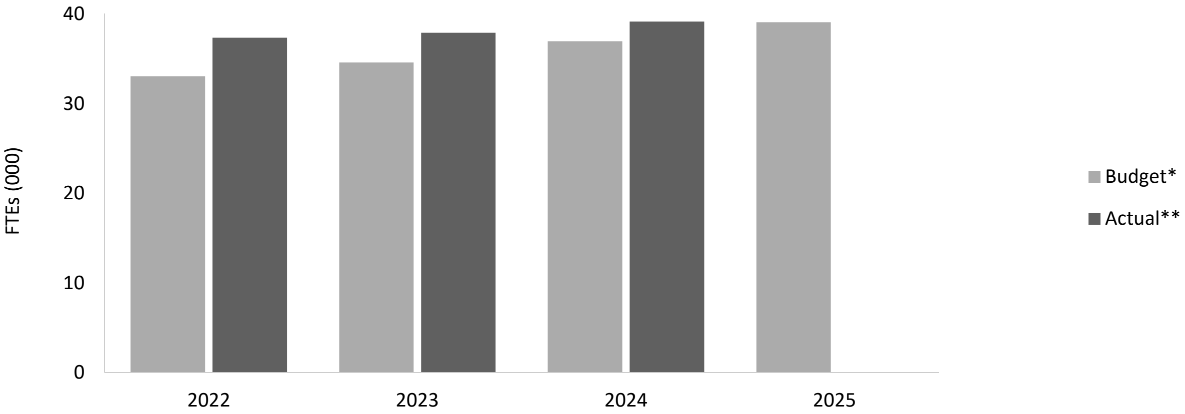
The chart below shows the original State Budget to actual expenditure for the consolidated entity for the last five years.



The budget set for the consolidated entity in the 2024-25 State Budget is $160 million less than its actual expenditure for 2023-24.

Salaries and wages

As can be seen in the chart below, actual FTEs have exceeded budgeted FTEs for the last four years. This is mainly due to the budget not accounting for the additional FTEs required for the COVID-19 response and to care for increased acuity (patient complexity).

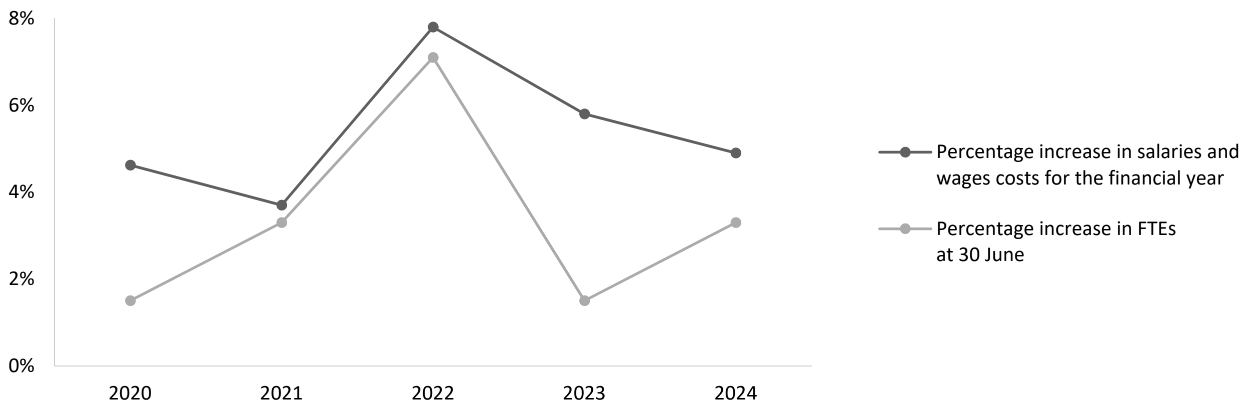


* Budget data was sourced from the State Budget papers and is unaudited.
** Actual data was sourced from the Commissioner for Public Sector Employment and is unaudited.

In 2024 the consolidated entity was 2,186 FTEs over budget. For the last four years its FTE budget for the next financial year has been well below its actual FTEs in the current year. This means the consolidated entity needed to reduce its workforce substantially if it was going to meet its budgeted FTEs.

In 2025 the FTE budget is closer to the 2024 actual FTEs, but the consolidated entity still needs to reduce its workforce by 74 FTEs if it is to meet its 2025 FTE budget.

The following chart shows the percentage increase in salaries and wages expenses compared to the percentage increase in FTEs for the consolidated entity over the last five years. The figures exclude leave and workers compensation expense, as these expenses involve a degree of estimation.



In 2021 and 2022 the percentage increases in salaries and wages expenses and FTEs were similar, meaning the increase in salaries and wages was due to the increase in FTEs.

In 2023 the percentage increase in salaries and wages expenses is much higher than the percentage increase in FTEs, therefore most of the increase in salaries and wages expenses was due to higher amounts being paid to FTEs. This was due to the signing of two new enterprise agreements for nursing and SAAS employees.

In 2024 the percentage increase for salary and wages expenses is only slightly higher than the percentage increase in the FTEs, meaning that most of the increase in salary and wages is due to the increase in FTEs but there has also been an increase in the amount earnt by each FTE.

The following table summarises employee remuneration for the consolidated entity in 2023-24.

	Executive Number	Medical Number	Non-medical Number	Nursing Number	Operational Number	Total Number
$166,000 – $266,000	100	1,514	148	568	431	2,761
$266,001 – $366,000	26	624	3	1	16	670
$366,001 – $466,000	8	415	1	-	2	426
$466,001 – $566,000	6	336	1	-	1	344
$566,001 – $666,000	2	163	-	-	-	165
$666,001 – $766,000	3	72	-	-	-	75
$766,001 – $866,000	-	13	-	-	-	13
$866,001 – $966,000	-	2	-	-	-	2
$966,001 – $1,066,000	-	3	-	-	-	3
$1,106,001 – $1,126,000	-	1	-	-	-	1
$1,766,001 – $1,786,000	-	1	-	-	-	1
Total	145	3,144	153	569	450	4,461

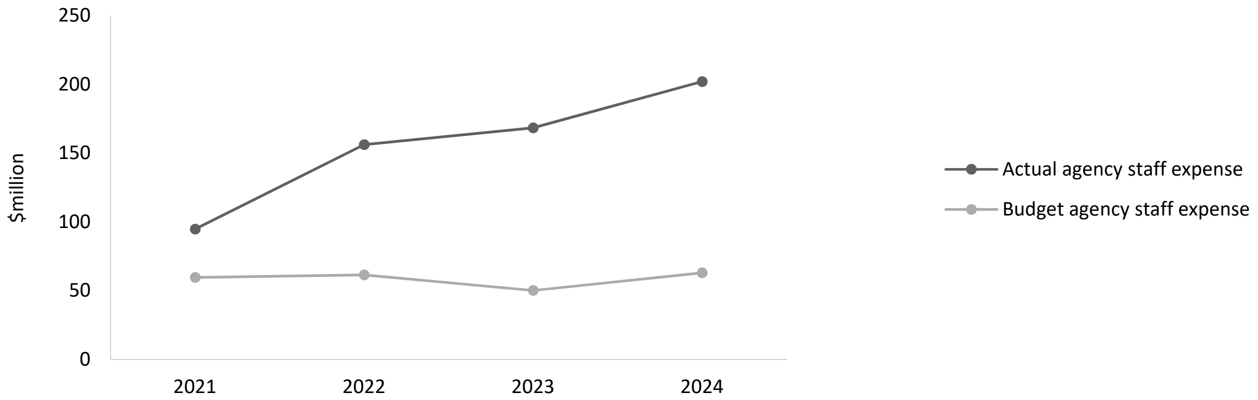
Supplies and services

In 2024 there were two main budget pressures in supplies and services – agency staff and fee for service.

Agency staff

Agency staff are contracted to perform jobs normally performed by an employee. Agency staff costs principally relate to nursing services.

The use of agency staff has increased in the past three years due to the LHNs being unable to fill vacancies and increases in activity, and therefore relying on agency staff to continue to provide services. This reliance on agency staff was expected to reduce in 2023 and 2024 when COVID-19 activities ceased, and therefore the budget was set well below the actual costs for the last four years, as shown in the following chart.



However, the amount paid for agency staff in those years did not reduce, mainly because the LHNs increased their use of agency staff to cover vacant positions they could not fill and the National Weighted Activity Units (NWAUs) increased more than budgeted. The NWAU is the national unit for measuring health service activity and takes into account the number and acuity of patients.

In 2024 the price for agency staff increased, which also contributed to the increased expenses.

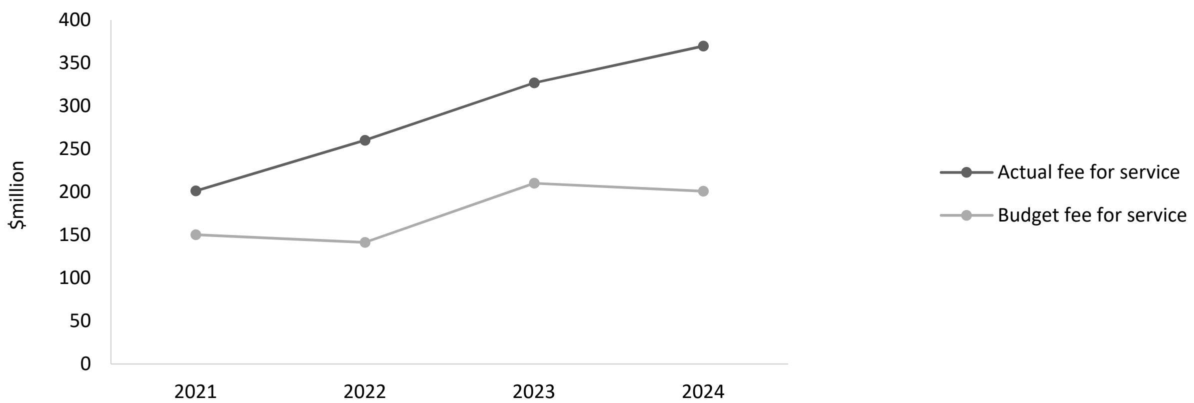
Fee for service

Fees for service are fees paid to doctors, specialists, anaesthetists, allied health, dentists and radiologists who are not employed by the consolidated entity, where the patient has elected to be seen as a public patient. They are also paid to locums (temporary medical staff) used when the LHN is unable to attract a suitable employee.

Fee for service has increased for a number of reasons:

- surgeries being delayed in the past three years to keep hospitals free for COVID-19 patients or to minimise ramping. Many of those surgeries are now being outsourced to private hospitals
- hospitals being unable to recruit medical officers and having to rely on fee-for-service arrangements
- the new country general practitioner's agreement, signed in February 2022, which increased the amount paid to country general practitioners
- locums charging more for their services.

In 2024 the fee for service budget was set just above the 2021 level, but this was not achieved for the reasons explained above. The following chart shows the actual and budgeted fee-for-service costs.



Performance management

SA Health's Performance Framework sets out how DHW monitors, assesses and responds to the performance of the LHNs and SAAS. It provides for increasingly intensive levels of monitoring and, where necessary, intervention to ensure poor financial performance is addressed.

Performance is assessed against the KPIs set out in the service agreements between the LHNs/SAAS and DHW. These agreements also set out the budget, expectations and financial performance deliverables for each financial year.

Independent Commissioner Against Corruption reports

In November 2019, the Independent Commissioner Against Corruption tabled the *Troubling Ambiguity: Governance in SA Health Report*. It highlighted concerns about governance arrangements in SA Health that contribute to the risk of corruption, misconduct and maladministration.

SA Health prepared a Program Implementation Plan to address the issues raised and arranged the issues into work streams. At the start of 2021-22, SA Health reported the successful delivery of all work streams.

The Independent Commissioner Against Corruption released an update report in July 2023, *Integrity trade-off*, which noted a lack of progress in the industrial work stream.

We followed up SA Health's progress on the issues raised in both reports and found the following:

- A new SA Health job planning procedure started in June 2023 and all trainee medical officers are required to complete timesheets, but there are several areas in the industrial work stream that have not been completed. SA Health indicated that these areas will be discussed in enterprise bargaining for salaried medical officers in 2024-25.
- SA Health has a mandatory training policy, but it does not require mandatory training for records management and fraud and corruption. The Independent Commissioner Against Corruption believed these should be mandatory. SA Health advised us that its mandatory training advisory group will consider making the training mandatory.
- DHW piloted a new learning management system from September 2023 and it is being rolled out to all SA Health entities in 2024-25. DHW's average completion rate for mandatory training modules is 67%. We do not consider this reasonable for mandatory training. SA Health advised us that each SA Health entity is responsible for ensuring that mandatory training is completed.

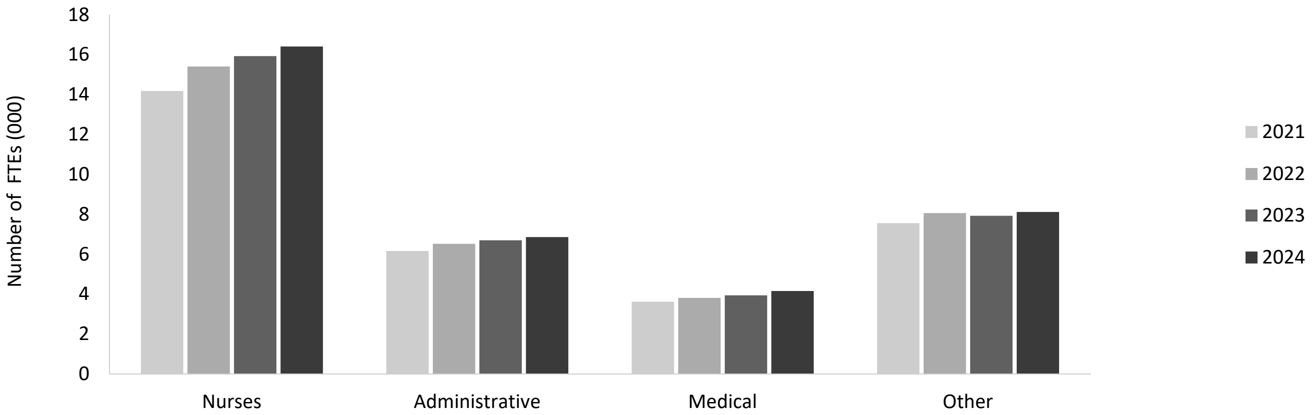
For many years we have reported on controls related to clinicians that were not operating effectively in SA Health. In 2024 we again raised the following issues:

- inconsistent management of rosters
- timesheets not authorised, not submitted in a timely manner, missing information or not being able to be located
- no job plans for senior medical officers
- country specialists working without contracts.

The consolidated entity's FTE, patient activity and key performance indicator data – unaudited

The consolidated entity's FTE data from the Commissioner for Public Sector Employment (unaudited)

The following chart shows LHN FTEs by employment category at 30 June for the past four years.



The chart shows the rise in the number of FTEs in LHNs across all staffing areas, with the exception of 'other' which showed a slight decrease in 2023. The rise in FTEs in 2024 is due to the SA Government's election commitment to increase the number of frontline staff, in particular doctors and nurses, and the rise in the NWAU.

	2021	2022	2023	2024
Total LHN FTEs	31,510	33,788	34,478	35,534
Increase (Decrease)	1,005	2,278	690	1,056
Percentage increase (decrease)	3.3%	7.2%	2%	3%

The following table shows DHW's FTEs as at 30 June for the past four years.

	2021	2022	2023	2024
Total DHW FTEs	1,657	1,775	1,554	1,590
Increase (Decrease)	334	118	(221)	36
Percentage increase (decrease)	25.2%	7.1%	(12.5%)	2.3%

Most of the increases in 2021 and 2022 were for the COVID-19 response. DHW's FTEs fell by 221 in 2023 due to the scaling back of COVID-19 activities.

The following table shows SAAS's FTEs as at 30 June for the past three years.

	2021	2022	2023	2024
Total SAAS FTEs	1,669	1,762	1,859	2003
Increase (Decrease)	25	93	97	144
Percentage increase (decrease)	1.5%	5.6%	5.5%	7.7%

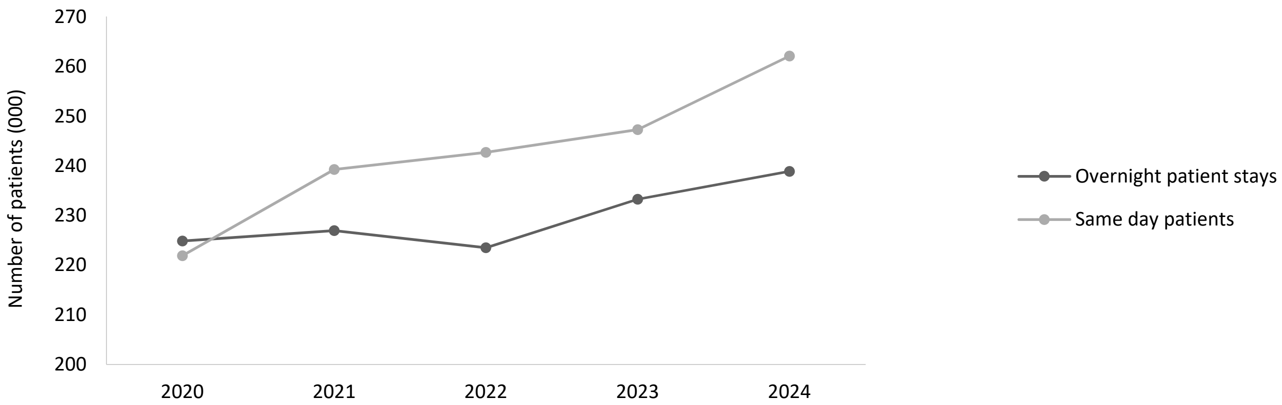
The 7.7% increase in FTEs between 2023 and 2024 is above the percentage increase in the other SA Health entities. The main growth was in emergency services staff due to the SA Government's election commitment to increase SAAS's frontline FTEs.

The consolidated entity patient activity data from DHW (unaudited)

DHW advised us that its activity data collation processes for 2023-24 were not complete at the time of this report, and the figures provided are not final and are subject to change.

Inpatient activity (unaudited)

The chart below shows an overall increase in inpatient unweighted activity of 4.3% or 20,455 patients from last year. Unweighted means the acuity or complexity of the patient has not been taken into account.

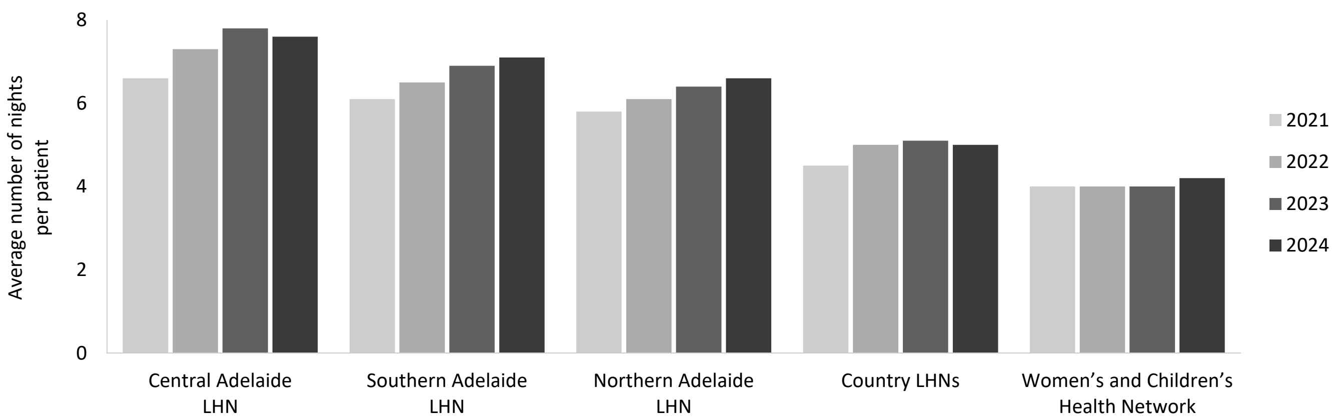


The increase in the number of same day patients over the last five years reflects SA Health's efforts to reduce overnight stays to improve work flow and reduce ramping.

Average length of overnight hospital stays for public hospitals (unaudited)

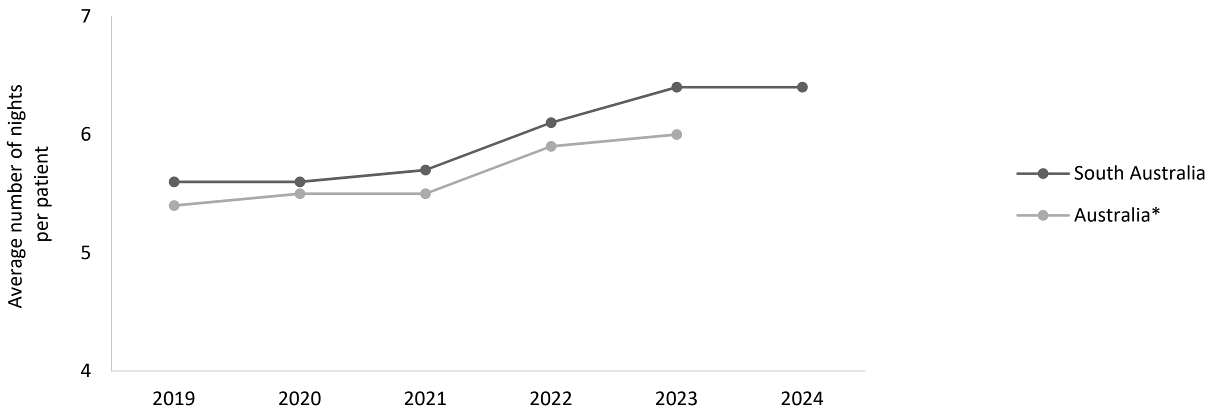
The average length of overnight hospital stays is one of the universal indicators for the efficiency of a hospital, with a lower number of nights per patient indicating a more efficient hospital.

The chart below shows the average length of an overnight hospital stay increasing over the last four years for most LHNs.



The chart shows that, on average, patients admitted to hospital are staying longer than they did four years ago. This indicates an increase in the number of acute patients who require longer stays.

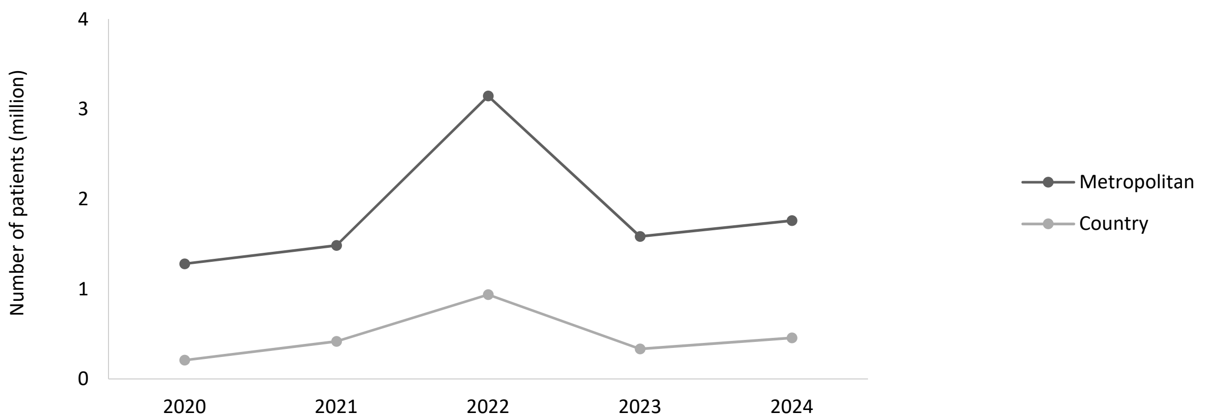
The chart below shows the average number of nights per overnight patient. South Australia is consistently sitting just above the average of all Australian public hospitals, although in 2023 that gap grew.



* Data was obtained from the Australian Institute of Health and Welfare website and is unaudited.

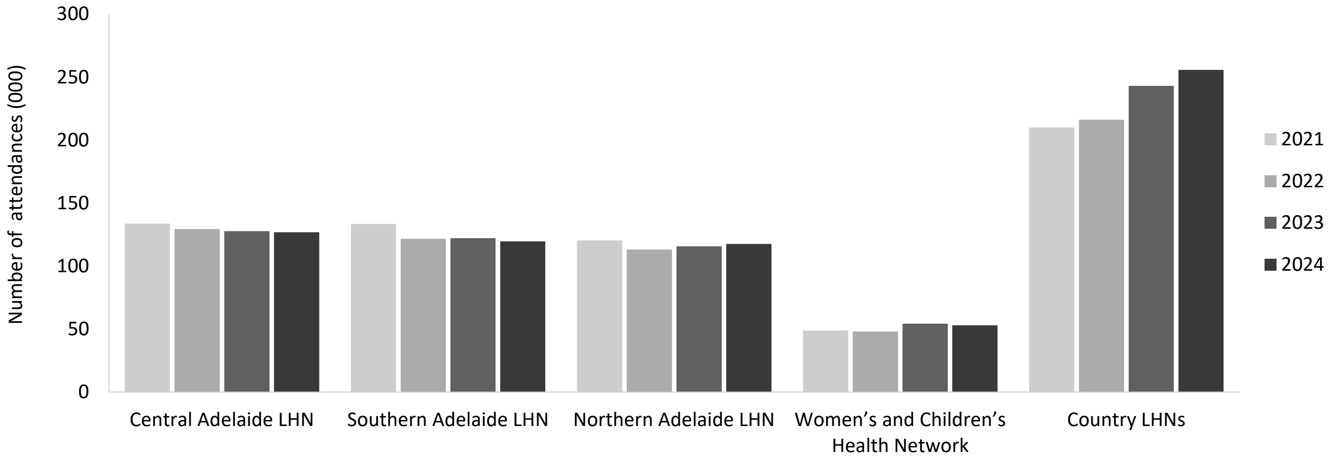
Outpatient occasions of service (unweighted and unaudited)

Outpatient occasions of service nearly doubled in 2022 due to COVID-19 activity (vaccinations and PCR testing). The chart below shows this returning to around pre-COVID-19 levels in 2023 and now starting to rise again.



Emergency department attendances (unaudited)

The chart below shows the emergency department attendances in country LHNs rising substantially in the past four years.

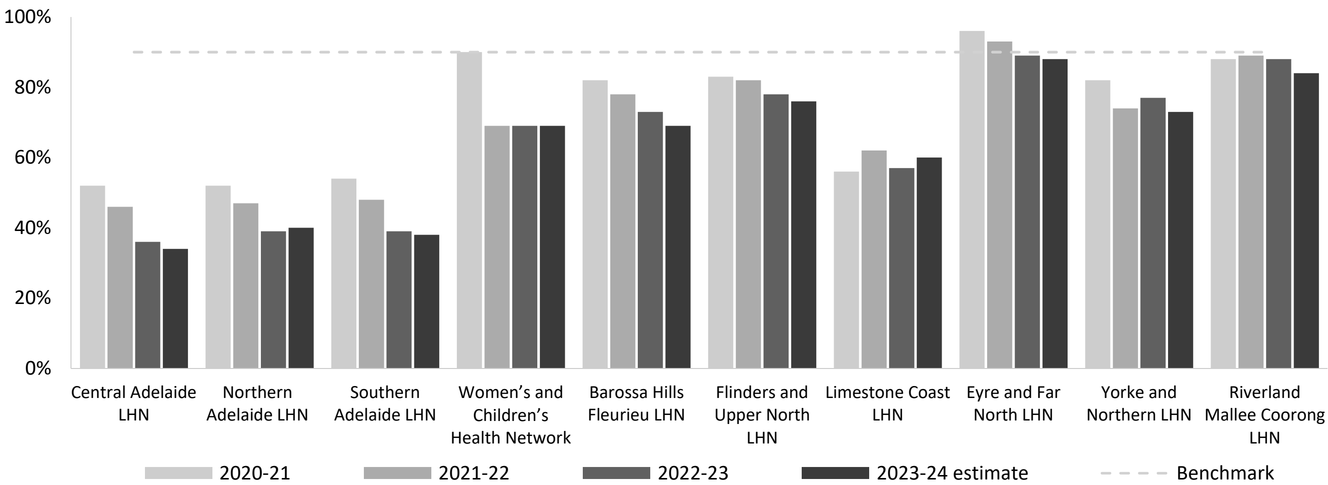


All metropolitan LHNs have had a decrease in the number of emergency department attendances over the last four years, except for the Women's and Children's Health Network. This decrease has not improved their percentage of patients seen, treated, discharged or admitted within four hours, as seen in the charts below.

SA Health key performance indicators data from the State Budget papers (unaudited)

Percentage of patients seen, treated, discharged or admitted within four hours by LHN

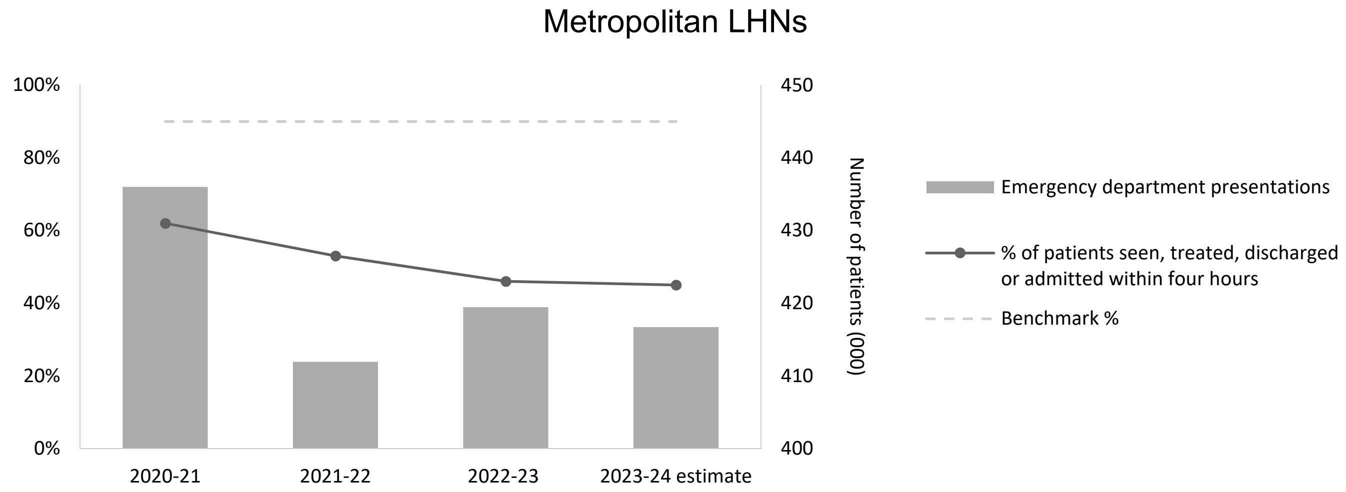
One of the key performance indicators for the efficiency of an emergency department is the percentage of patients seen, treated, discharged or admitted within four hours. The benchmark percentage has been at 90% in the State Budget for the last four years.



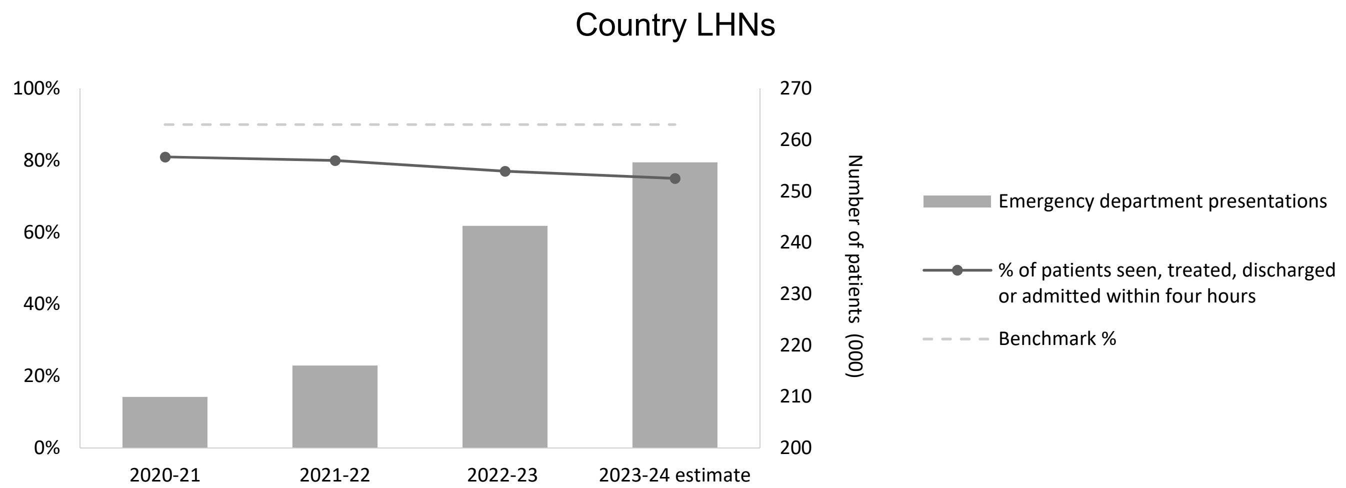
This chart shows that in 2021, two of the 10 LHNs were meeting the benchmark of 90% of patients seen, treated, discharged or admitted within four hours. In 2023-24 it is estimated that no LHNs will have met this target.

Emergency department presentations and performance

The following charts show the number of emergency department presentations compared to the percentage of patients seen, treated, discharged or admitted within four hours.



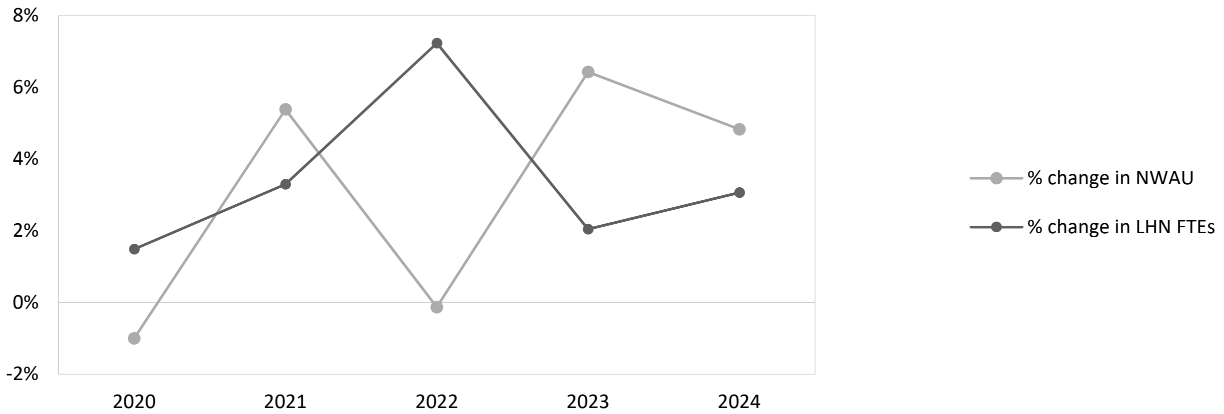
This chart shows a 19,281 (4%) decrease in emergency department presentations in metropolitan LHNs since 2021. SA Health has implemented a number of hospital avoidance strategies since 2022. However, the decrease in emergency department presentations has not translated to a rise in the percentage of patients seen, treated, discharged or admitted within four hours, which has decreased by 17% since 2021.



This chart shows a 45,745 (22%) increase in the number of patients presenting at country LHN emergency departments since 2021. This is consistent with a 6% decrease in the percentage of patients seen, treated, discharged or admitted within four hours since 2021.

National Weighted Activity Units

We compared the percentage change in LHN FTEs to the percentage change in the NWAU. The NWAU is the national unit for measuring health service activity and takes into account the number and acuity of patients.



* The NWAU has been obtained from the State Budget papers, and is unaudited. 2024 is an estimate.

** LHN FTEs have been obtained from the Commissioner for Public Sector Employment and are unaudited.

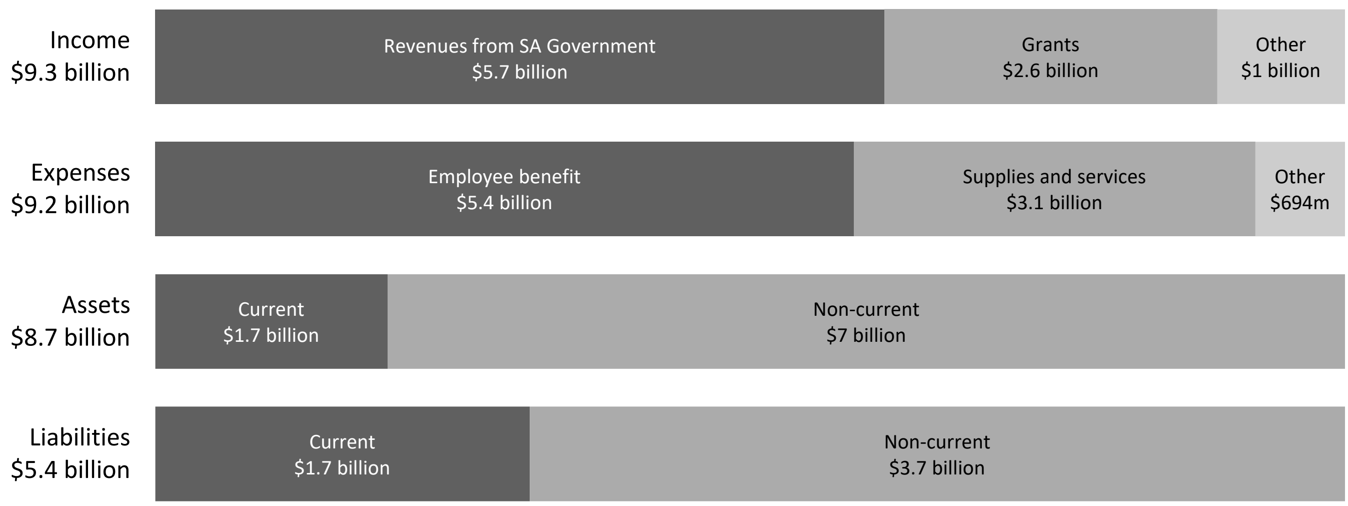
The chart shows the NWAU rising at 4.8%, which is faster than the 3% rise in LHN FTEs.

The 2024 State Budget for SA Health was set based on a 2% rise in the NWAU, which is the average rise over previous years, so the budget is not keeping up with the rise in the NWAU.

This data indicates that the increase in the NWAU is related to higher acuity (complexity) and an increase in inpatient activity (unweighted).

Consolidated entity – Health

Financial statistics



39,128
Consolidated entity FTEs

501,043
Total inpatient activity

$7 billion
Property, plant and equipment

Significant events and transactions

Consolidated expenditure exceeded the original budgeted expenditure in the 2023-24 State Budget by $956 million.

Financial report opinion

Modified

The consolidated entity did not have an effective process to meet the disclosure requirements of Treasurer's Instructions (Accounting Policy Statements) for reporting the value of procurement with South Australian and non-South Australian businesses for 2023-24. This is discussed further in Part A of this report.

Control opinion findings

- Financial authorisations in key systems were not reconciled to the approved authorisations (DHW and NALHN).
- Asset management user access reviews need to improve (NALHN and CALHN).
- There was no strategic asset management plan (CALHN, NALHN and all country LHNs).
- Preventative maintenance data needs to improve (SALHN, BHFLHN, RMCLHN and YNLHN).

- Contract management plans are not in place for strategic contracts (DHW, NALHN, SALHN and all country LHNs).
- The contract register does not contain the correct information for some contracts (DHW and CALHN).
- KPIs are not being monitored (DHW and CALHN).
- Annual contract reviews are not being performed (DHW, NALHN and CALHN).
- Contract managers have not completed mandatory training (DHW, NALHN and CALHN).

Revenue audit findings

- There is a high risk, unsupported patient administration system (EFNLHN and YNLHN).
- Debt management needs to improve (NALHN and all country LHNs).
- The segregation of revenue officer duties is inadequate (NALHN, BHFLHN, LCLHN, FUNLHN, YNLHN and SAAS).
- There is no review of reports on changes to medical records that impact patient charges (BHFLHN, LCLHN and FUNLHN).
- The revenue reconciliation is not performed (all country LHNs and SAAS).
- Revenue user access reviews are not performed (NALHN and CALHN).

Payroll audit findings

- The review of bona fide and leave reports could improve (DHW, NALHN, SALHN and WCHN).
- There are significant excessive leave balances (NALHN and SALHN).
- Some staff do not have current performance reviews (NALHN and SALHN).
- There are potential overpayments of staff (SALHN and WCHN).
- There was no evidence of timesheet review prior to payment (NALHN, WCHN and SAAS).
- There is inconsistent medical rostering (NALHN and SALHN).
- Specialists are working without contracts (all country LHNs).

Expenditure audit findings	— Invoices were paid without purchase orders (DHW, NALHN, SAAS and all country LHNs). — Accounts payable user access reviews were not performed (NALHN, SALHN, WCHN, LCLHN, RMCLHN and YNLHN).
Other audit findings	— There were instances where the inventory in the system did not match physical stock (DHW and CALHN). — SA Health policies need to be reviewed (SA Health).
IT audit findings	In some key financial systems: — user access management needs to improve — patch management needs to improve — audit logging needed to be reviewed — disaster recovery testing was required — backup restoration testing was required.

Functional responsibility

The consolidated entity comprises:

- Department for Health and Wellbeing (DHW)
- Barossa Hills Fleurieu Local Health Network Incorporated (BHFLHN)
- Central Adelaide Local Health Network Incorporated (CALHN)
- Eyre and Far North Local Health Network Incorporated (EFNLHN)
- Flinders and Upper North Local Health Network Incorporated (FUNLHN)
- Limestone Coast Local Health Network Incorporated (LCLHN)
- Northern Adelaide Local Health Network Incorporated (NALHN)
- Riverland Mallee Coorong Local Health Network Incorporated (RMCLHN)
- SA Ambulance Service Inc (SAAS)
- Southern Adelaide Local Health Network Incorporated (SALHN)
- Women's and Children's Health Network Incorporated (WCHN)
- Yorke and Northern Local Health Network Incorporated (YNLHN).

In line with AASB 10 *Consolidated Financial Statements*, consolidated financial statements comprising DHW (parent), the local health networks (LHNs) and SAAS were prepared.

Scope of the audit and audit findings

Details of our audit scope and findings are provided in the sections for the individual agencies in this report.

Interpretation and analysis of the financial report

Highlights of the financial report – consolidated entity

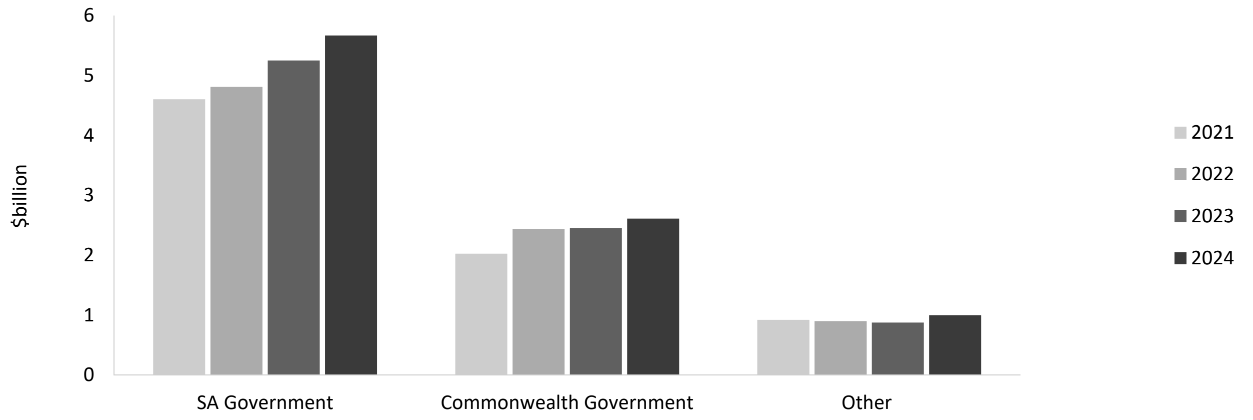
	2024 $million	2023 $million
Income		
Revenues from SA Government	5,667	5,249
Fees and charges and other revenue	999	877
Grants and contributions	2,610	2,452
Total income	9,276	8,578
Expenses		
Employee benefit expenses	5,453	5,048
Supplies, services and other expenses	3,175	2,892
Borrowing costs	211	191
Depreciation and amortisation	313	300
Grants and subsidies	48	131
Total expenses	9,200	8,562
Net result	76	16
Total other comprehensive income	842	(11)
Total comprehensive result	918	5
Net cash provided by (used in) operating activities	716	489
Net cash provided by (used in) investing activities	(545)	(315)
Assets		
Current assets	1,716	1,579
Non-current assets	7,070	5,986
Total assets	8,786	7,565
Liabilities		
Current liabilities	1,714	1,526
Non-current liabilities	3,722	3,607
Total liabilities	5,436	5,133
Total equity	3,349	2,430

Statement of Comprehensive Income – consolidated entity

Income

The following chart shows that the main source of income for the consolidated entity is the SA Government. This funding has increased by 24% over the last four years due to higher costs and rising National Weighted Activity Units (NWAUs).

Commonwealth funding is the next biggest income source, and increased in 2022 due to the reimbursement of COVID-19 costs and then again in 2024 due to the rising NWAUs. Commonwealth funding is based on NWAUs and the national efficient price.



Expenses

Total expenses increased by $638 million to $9.2 billion, due to:

- a $404 million increase in employee benefit expenses (see 'Employee benefit expenses' below)
- a $286 million increase in supplies and services expenses (see 'Supplies and services' below)
- a $20 million increase in borrowing costs related to the rise in interest rates
- offset by an $83 million decrease in grants and subsidies related to the transfer of the Integrated Care Systems Directorate from the former Wellbeing SA (now Preventive Health SA) to DHW in 2022-23 ($64 million) and the discontinuation of COVID-19-related grants ($14 million).

Employee benefit expenses

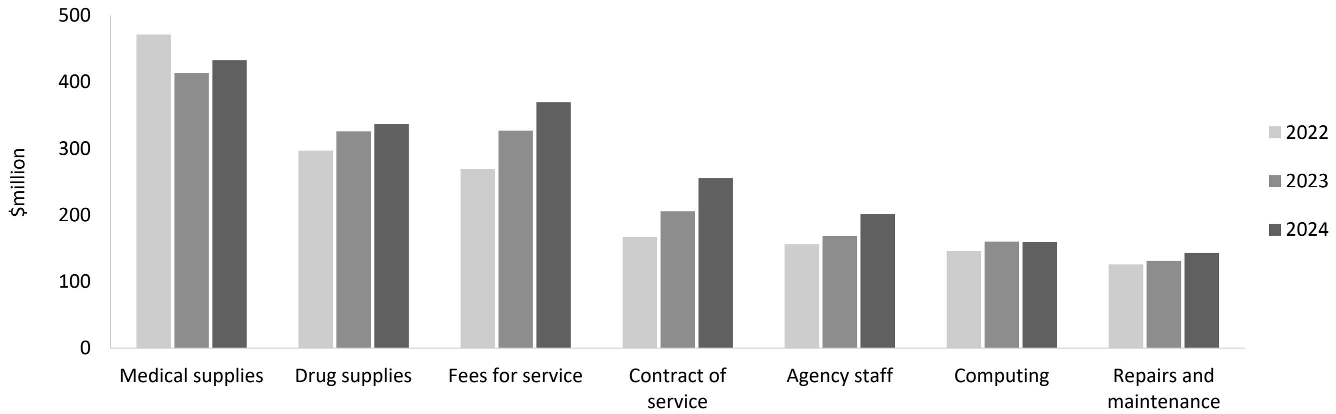
Employee benefits are the most significant expenses and increased by 8% in 2024, due to:

- a $199 million increase in salaries and wages (5%) related to an increase of 1,238 FTEs (3.3%) and a slight rise in pay rates
- a $117 million increase in annual and long service leave related to staff having more leave and a re-measurement of the liability
- a $51 million increase in superannuation due to the rise in the superannuation guarantee
- a $36 million increase in workers compensation due to the actuarial valuation.

There is a more detailed analysis of employee benefit expenses under the 'SA Health overview' section of this report.

Supplies and services expenses

There are seven main categories that account for 62% of supplies and services expenditure, as shown in the chart below.



Supplies and services expenses increased by $286 million to $3.1 billion, mainly due to:

- a $76 million increase in fees for service and agency staff resulting from their higher use due to rising NWAUs and being unable to fill vacant positions, and the higher costs for these services
- a $62 million increase in insurance costs due to a reassessment of the liability and a change in assumptions
- a $50 million increase in contracts of services due to the increase in the cost of services
- a $20 million increase in legal costs related to the Royal Adelaide Hospital dispute
- a $19 million increase in medical supplies due to an increase in the cost of these supplies.

Statement of Financial Position – consolidated entity

Assets

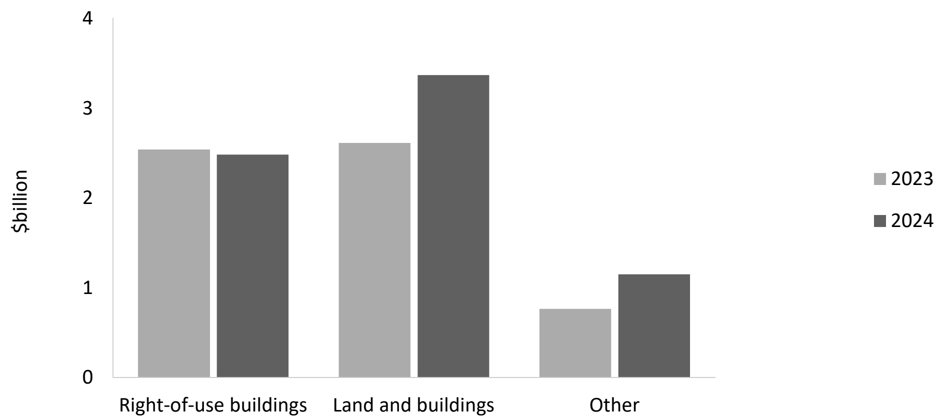
Receivables

Receivables increased by $54 million or 11.8% due to:

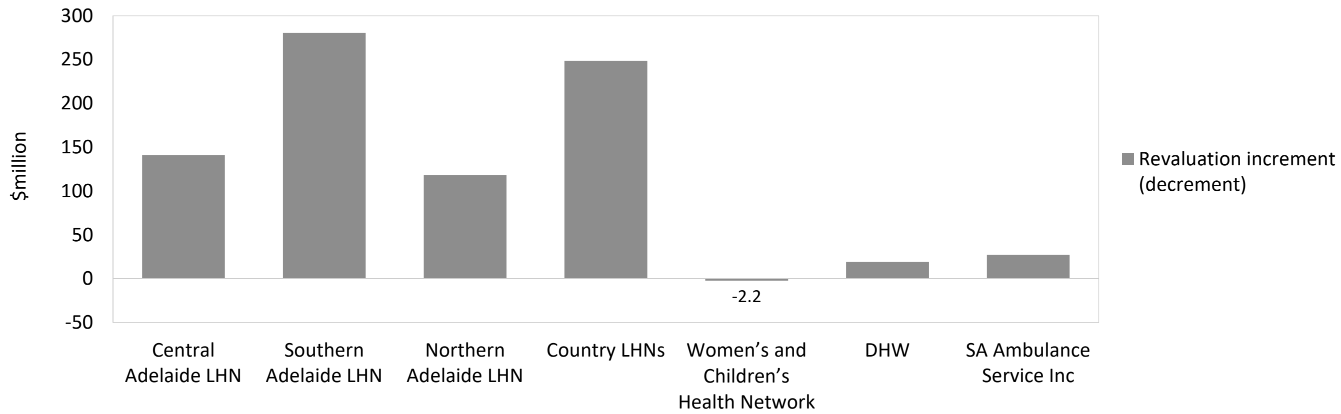
- a $37 million increase in interstate patient transfers due to the minimal amounts received and a revision of the 2023 amounts now that more data is available
- a $17 million increase in other patient fees.

Property, plant and equipment

The consolidated entity's assets are dominated by non-current property, plant and equipment assets, representing 79% of total assets. The chart below shows that right-of-use buildings and owned land and buildings are the dominant categories.



The carrying value of property, plant and equipment increased by $1.1 billion. The main movement during the year was an $832 billion increase in land, buildings, plant and equipment due to a revaluation on 1 June 2024. It has been six years since the last valuation. The chart below shows the revaluation increment or decrement to the asset revaluation surplus by entity for 2024.



There was also $560 million of additions, including $485 million in capital works in progress, that was offset by $298 million of depreciation and amortisation expenses.

Liabilities

Payables

Payables increased by $74 million or 16.7%, mainly due to:

- a $45 million increase in creditors and accrued expenses related to the transfer of the Integrated Care Systems Directorate from the former Wellbeing SA and outstanding invoices for capital projects in 2024
- a $29 million increase in interstate patient transfers due to minimal payments being made and a revision of the 2023 amounts now that more data is available.

Employee benefits liabilities

Employment liabilities are 36% of total liabilities and comprise:

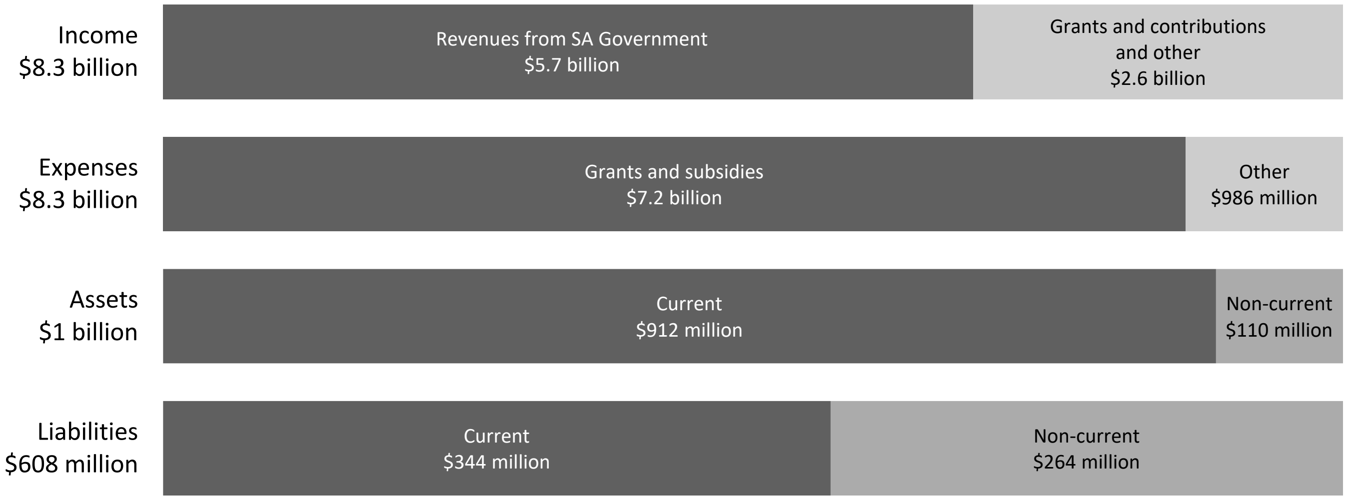
- $1.7 billion ($1.5 billion) of employee benefits liabilities and related on-costs
- $215 million ($182 million) for the provision for workers compensation. The workers compensation provision was estimated by an independent actuary as at 30 June 2024.

Financial liabilities

Financial liabilities are $2.6 billion or 49% of total liabilities and mainly relate to right-of-use assets of $2.5 billion.

Department for Health and Wellbeing (DHW)

Financial statistics



1,590
FTEs – DHW

6,905
Total virtual activity presentations

Financial report opinion

Modified

DHW did not have an effective process to meet the disclosure requirements of Treasurer's Instructions (Accounting Policy Statements) for reporting the value of procurement with South Australian and non-South Australian businesses for 2023-24. This is discussed further in Part A of this report.

Controls opinion findings

- Procurement and contract management needs to improve.
- Financial authorisation limits in key systems are not reconciled to the approved authorisations.

Other audit findings

- Inventory management needs to improve.
- Bona fide and leave reports are not promptly reviewed.
- Invoices were paid without purchase orders.
- SA Health policies are not reviewed by their review dates.
- IT general controls for key SA Health systems need to improve.

Functional responsibility

DHW is an administrative unit established under the *Public Sector Act 2009*. It is a funder or purchaser of health services, policy setter, strategic planner and provider of services. DHW is the 'system leader' of SA Health and it sets strategic direction, statewide policy and manages the performance of the public health system.

The Chief Executive of DHW is charged with the management, administration and provision of health services to facilitate the efficient and effective operation of the public health system.

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. Areas of audit attention in 2023-24 included:

- payroll
- accounts payable
- inventory
- revenue
- property, plant and equipment
- cash
- general ledger.

Some financial services are provided to DHW by Shared Services SA. We considered the work of DHW's internal auditors in designing and performing our audit procedures.

Controls opinion

We reviewed controls over procurement and contract management, approval of payments, buildings and improvements, grant revenue and bank accounts as part of our overall controls opinion, which is discussed in Part B of this report.

Audit findings

Communicating our audit findings

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

Controls opinion findings

Procurement and contract management needs to improve

We reviewed a sample of DHW procurements that were finalised in 2023-24 to ensure they were performed in line with policies and procedures and properly approved. We also reviewed a sample of contracts that have been in place for a number of years to ensure the contract management processes were in line with policies and procedures.

We found that the following procurement and contract management areas needed improvement.

Insufficient action taken to address breaches of the Treasurer's Instructions

We noted that DHW did not report a breach of Treasurer's Instruction 18 *Procurement* (TI 18) to DTF and should have considered performing additional procurement processes before executing a contract variation for the contract involved.

DHW advised us that it would report the TI 18 breach to DTF and consider additional processes when the contract variation ends.

Complexity assessments have not been performed or need review

We found that the required complexity assessments had not been performed for a number of contracts and for one procurement the complexity assessment needed to be reviewed.

DHW responded that it would complete or review the complexity assessments.

Contract management plan has not been established

We found a contract management plan was not finalised and approved for one contract we reviewed.

DHW responded that it has now finalised and approved the contract management plan.

Contract management training has not been done

We noted that a contract manager had not completed the mandatory training.

DHW responded that the contract manager was enrolled and would complete training.

Risk management plan is out of date

We found that a risk management plan for one contract had not been reviewed and updated since the procurement stage.

DHW responded that it will review and update the risk management plan.

KPIs are not being monitored

We found that the KPIs specified in one contract were not being monitored and tracked.

DHW advised us that it would update the contract management plan to include processes to monitor, track and report on contract performance and KPIs.

Invoice data is not being adequately checked before payment

We found that invoice data was not being adequately checked to ensure the services had been provided.

DHW responded that it is working on improving the timeliness and quality of this data.

Annual contract reviews are not being performed

We found that annual contract reviews were not being performed for the contracts we reviewed.

DHW responded that it would start to perform annual contract reviews for these contracts.

Contract register does not contain the correct information for some contracts

We found discrepancies between the information recorded on DHW's contract register and the executed contract for some of the contracts we reviewed.

DHW responded that it would review and update the contract register.

Financial authorisation limits in key systems are not agreed to approved authorisations

We found that DHW did not review whether the financial authorisation limits set in its key payment and financial systems aligned with the financial authorisations approved by the Chief Executive. We have been reporting this issue since 2018. We again found instances where employees had system delegations that differed from their approved financial authorisation limit.

Incorrect financial authorisation limits in payment systems could allow payments to be made outside of delegated authorities, increasing the potential for invalid or inappropriate transactions.

DHW responded that it would review the financial authorisation limits in its systems and correct the differences we identified.

Other audit findings

Inventory management needs to improve

Instances where inventory records did not match physical stock

We performed a stocktake of a sample of items and found variances between the stock recorded in the system and the actual physical stock.

DHW responded that it has investigated this issue and made adjustments where necessary.

A number obsolete items need to be written off

We found that a number of personal protective equipment items were out of date but had not been disposed of.

DHW advised us that it was working through its stock on hand balances to ensure the financial statements were complete and accurate.

Bona fide and leave taken reports not reviewed promptly

Management reviews of bona fide and leave taken reports ensure that employees are being paid accurately and all leave has been recorded. In 2023-24 we again found that 40% of bona fide and 46% of leave taken reports were not reviewed and approved promptly, consistent with what we have found for the last two years.

DHW responded that it would regularly review compliance and reallocate reports assigned incorrectly. It will also continue to educate staff and provide reporting to executive to help increase compliance.

Invoices paid without purchase orders

SA Health's requisition, purchase order and invoice management policy mandates the use of requisitions and purchase orders, unless the item purchased is on the approved exemption list or the purchase is below $2,200. We found payments made without purchase orders for which exemptions did not apply. This increases the risk of payments being made for goods or services not received or not at the agreed price.

DHW advised us that it would remind staff working in the area of non-compliance of the requirements and ensure purchase orders are raised in future.

SA Health's policies were not reviewed by their review dates

DHW is responsible for setting statewide policies for SA Health and is therefore responsible for them being reviewed and up to date. We found that there were 65 SA Health policies past their review date, of which 18 are to be rescinded and 37 are being reviewed.

DHW advised us that it will review all overdue policies based on risk and that monitoring of overdue policies is reported quarterly to management.

IT general controls for key systems need to improve

We reviewed the IT general controls for the following key SA Health systems in 2023-24:

- Oracle Corporate System (OCS), which is used for accounts payable, accounts receivable, general ledger and fixed assets
- Sharp, which is a data warehouse and report management system for OCS
- Electronic Medical Records (EMR), which is used for electronic patient medical records and billing
- ProAct, which is used for rostering, workflow and timesheets
- PCMS, which is used for procurement and contract management.

We identified weaknesses in the following controls:

- user access management for all systems
- patch management for EMR and ProAct
- audit logging for OCS and PCMS
- disaster recovery testing for OCS, Sharp and PCMS
- backup restoration testing for Sharp.

These findings increase the risk of unauthorised system access by users and inappropriate changes to data.

DHW responded positively to our findings and expects to complete the required remedial actions for all systems by December 2024.

Interpretation and analysis of the financial report

Highlights of the financial report – Department for Health and Wellbeing (parent)

	2024 $million	2023 $million
Income		
Revenues from SA Government	5,667	5,249
Grants and contributions	2,079	1,961
Fees and charges and other revenue	531	492
Total income	8,277	7,702
Expenses		
Grants and subsidies	7,232	6,738
Supplies, services and other expenses	897	771
Employee related expenses	210	215
Total expenses	8,339	7,724
Net result	(62)	(22)
Total other comprehensive income	19	-
Total comprehensive result	(43)	(22)
Net cash provided by (used in) operating activities	38	30
Assets		
Current assets	912	862
Non-current assets	110	84
Total assets	1,022	946
Liabilities		
Current liabilities	344	295
Non-current liabilities	264	195
Total liabilities	608	490
Total equity	414	456

Statement of Comprehensive Income – Department for Health and Wellbeing (parent)

Revenues

Revenues from the SA Government

Revenues from the SA Government increased by $419 million (8%) to $5.7 billion. The main component is appropriation of $5.6 billion, which increased due to the rising National Weighted Activity Unit (NWAU) and costs of services. Revenues from the SA Government also included:

- $51 million ($36 million) in Commonwealth grants received through the Department of Treasury and Finance. The increase this year is mainly due to new recurrent grants for the primary care pilot and public dental services

- $7 million ($94 million) in contingency funding. The decrease is due to the receipt in 2023 of funding for wage increases and back pay for the Nursing/Midwifery (SA Public Sector) Enterprise Agreement 2022 and the SA Ambulance Enterprise Agreement 2022.

Grants and contributions

Income from grants and contributions totalled $2.1 billion and mainly comprised:

- $2 billion ($1.7 billion) of Commonwealth National Health Reform Agreement funding. The increase this year was due to the rising NWAU and a higher national efficient price
- $41 million ($41 million) of Department of Veterans' Affairs funding
- $24 million ($26 million) of Commonwealth Transition Care Program funding
- $10 million ($197 million) in funding under the National Partnership on COVID-19 Response, with the decrease due to the original funding ceasing on 31 December 2022 and the new agreement only covering testing and vaccination for priority groups.

Fees and charges and other revenue

Fees and charges increased by $17 million to $247 million, mainly due to:

- a $29 million increase in interstate patient transfer revenue due to treating more interstate patients in South Australian public hospitals and a revision of the 2023 amounts now that more data is available
- offset by a $10 million decrease in the sale of medical supplies, due to less inventory being sold as COVID-19 protocols eased.

Other revenue increased by $16 million to $226 million, mainly due to:

- a $32 million increase in health recoveries and other, which relates to recoveries and revenue from consolidated entities
- offset by a $16 million one-off recovery from Preventive Health SA (formerly Wellbeing SA) for the transfer of the Integrated Care Systems Directorate in 2023.

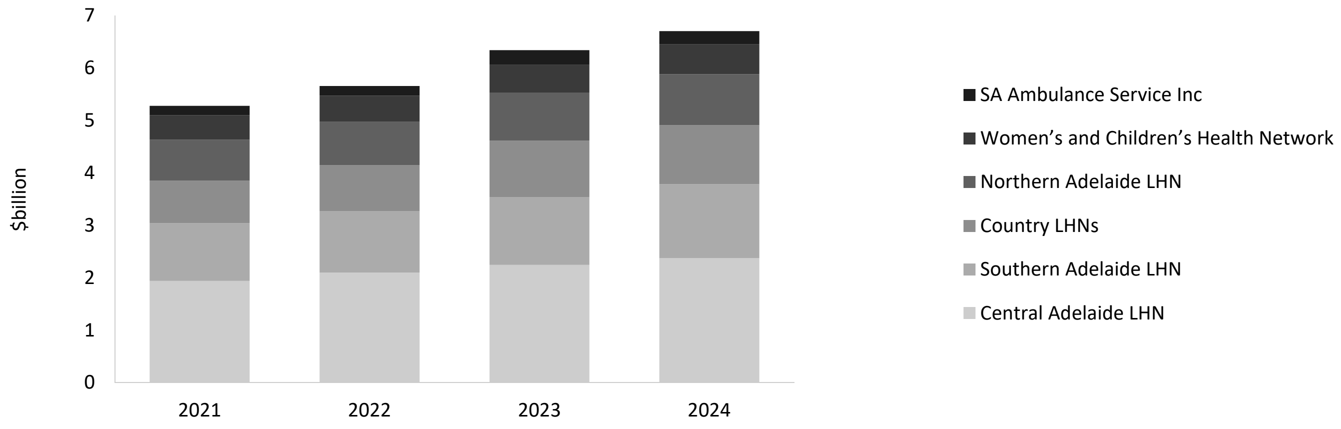
Expenses

Grants and subsidies

Grants and subsidies expense increased by $494 million to $7.2 billion and consists mainly of operating and capital grants to local health networks (LHNs) and the SA Ambulance Service Inc.

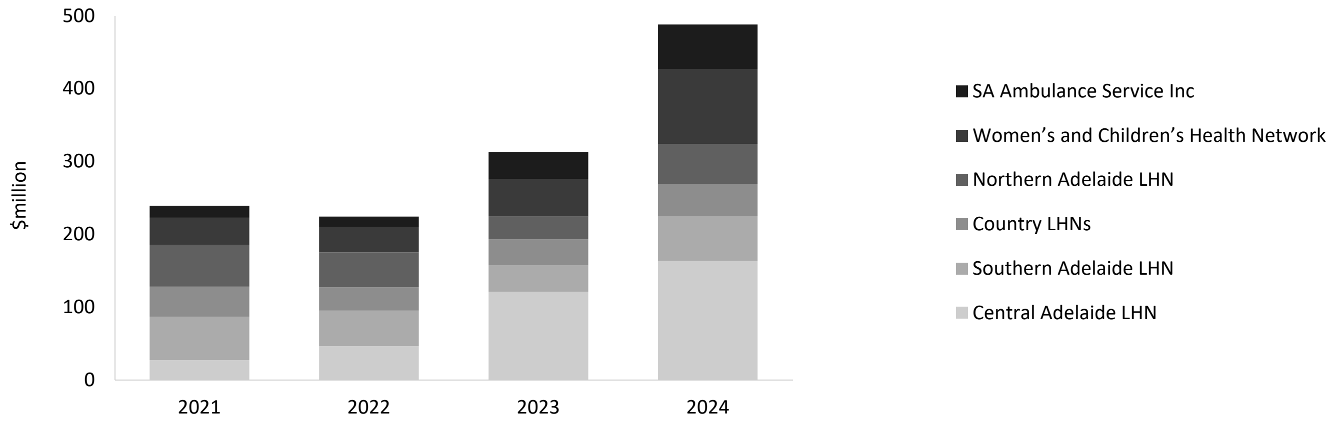
Operating funding to health services has increased by 27% or $1.4 billion over four years

Operating funding to health service entities increased by $403 million (6.4%) to $6.7 billion in 2023-24 to meet the rising NWAU and cost of services. The following chart shows operating funding provided to health service entities over the last four years.



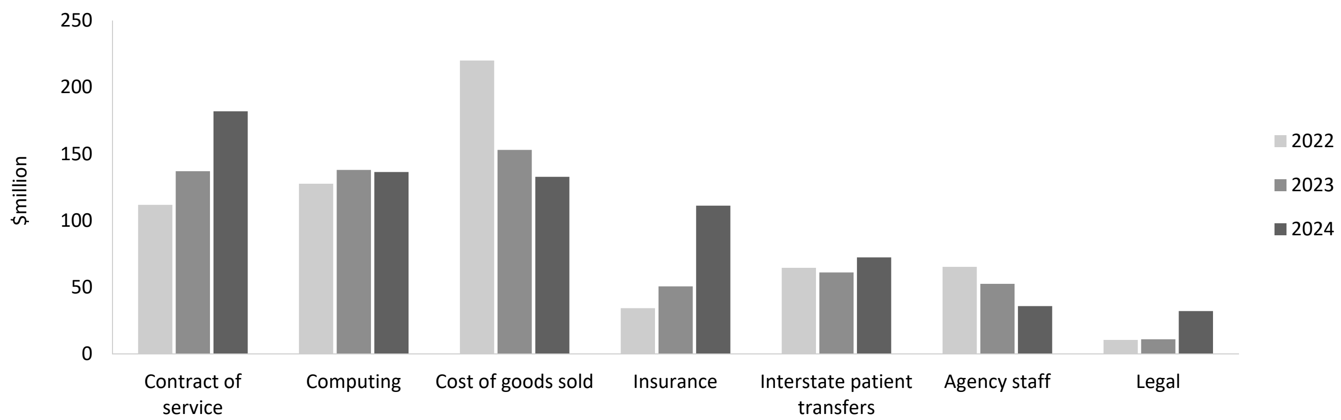
Capital funding to health services has increased by 104% or $249 million over four years

Total capital funding increased by $176 million (56%) to $488 million in 2023-24 due to capital projects commencing, including projects resulting from election commitments. The following chart shows capital funding to health service entities for the last four years.



Supplies and services and other expenses

There are seven main categories that account for 86% of supplies and services expenditure, as shown in the chart below.



Supplies and services expenses increased by $96 million (13%) to $815 million, with the significant movements being:

- a $60 million increase in insurance costs due to a reassessment of the liability and a change in assumptions
- a $45 million increase in contract of services costs related to the transfer of contracts from Preventive Health SA for the Integrated Care Systems Directorate
- a $21 million increase in legal fees related to the Royal Adelaide Hospital dispute
- an $11 million increase in interstate patient transfers due to more South Australians being treated as public patients in other states and a revision of the 2023 amounts now that more data is available
- a $20 million decrease in the cost of goods sold to incorporated health services due to the decline in the use of personal protective equipment and other medical supplies for COVID-19
- a $24 million decrease in contractor and agency staff fees due to less work being contracted out.

Statement of Financial Position – Department for Health and Wellbeing (parent)

Assets

Assets increased by $76 million to $1 billion at 30 June 2024 and mainly comprised:

- $593 million ($563 million) of cash and cash equivalents
- $271 million ($235 million) of receivables, which includes:
  - $187 million ($149 million) in interstate patient debts owed by other jurisdictions for patients treated in South Australian public hospitals
  - $20 million ($35 million) in debtors. In 2023 this included $16 million from Preventive Health SA related to the transfer of the Integrated Care Systems Directorate
  - $33 million ($33 million) in GST input tax recoverable
- $86 million ($56 million) of property, plant and equipment, which increased due to a revaluation in June 2024. It has been six years since the last valuation
- $48 million ($64 million) of inventories, with the $17 million decrease primarily related to the use of stockpiled inventory from the COVID-19 response and preparedness.

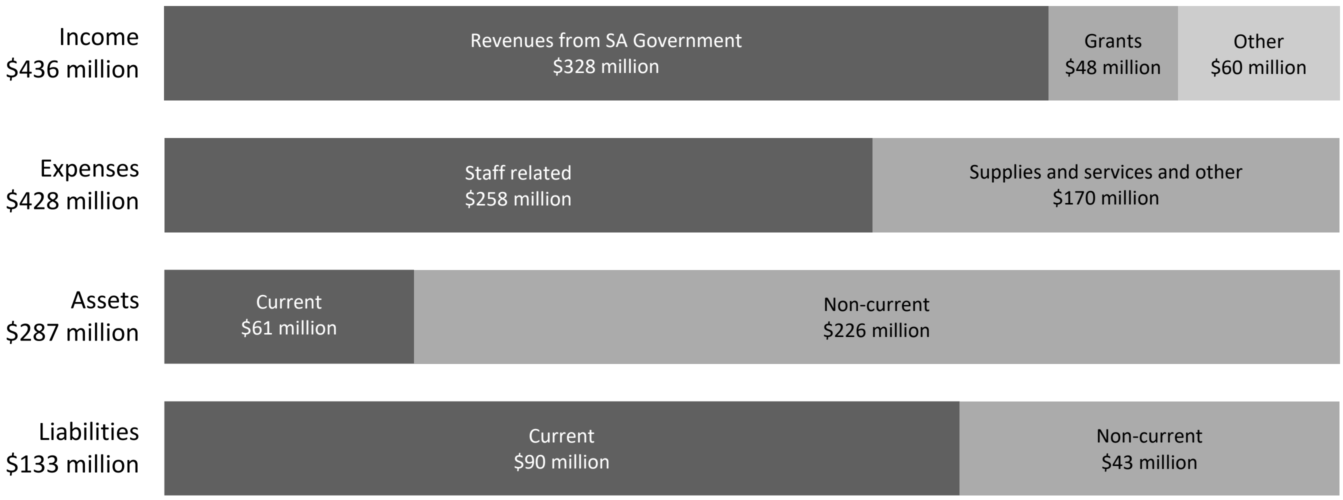
Liabilities

Total liabilities increased by $118 million to $608 million at 30 June 2024, mainly due to:

- a $53 million increase in insurance provisions due to the reassessment of the liability and a change in assumptions
- a $29 million increase in interstate patient transfer payables due to minimal payments being made and a revision of the 2023 amounts now that more data is available
- a $15 million increase in accommodation and lease incentives related to the Bragg Centre
- a $15 million increase in creditors and accrued expenses, mainly related to the transfer of the Integrated Care Systems Directorate from Preventive Health SA and outstanding invoices for capital projects in 2024.

Barossa Hills Fleurieu Local Health Network Incorporated (BHFLHN)

Financial statistics



2,153
FTEs

13
Hospital and health service sites

28,836
Total inpatient activity

Significant events and transactions

- Building of the Gawler Emergency Department was completed in March 2024.
- Activation of the Electronic Medical Records System was completed.

Financial report opinion

Modified

BHFLHN did not have an effective process to meet the disclosure requirements of Treasurer's Instructions (Accounting Policy Statements) for reporting the value of procurement with South Australian and non-South Australian businesses for 2023-24. This is discussed further in Part A of this report.

Audit findings – BHFLHN

- Invoices paid without purchase orders.
- Sundry debt management needs to improve.
- Inadequate segregation of duties for revenue officers.
- No review of changes to medical records that impact patient charges.
- No strategic asset management plan.
- Preventative maintenance data needs to improve.

Audit findings – RSS
(applies to all country LHNs)

- The unsupported patient administration system is an extreme risk (EFNLHN and YNLHN).
- Domiciliary care debt management needs improvement.
- Specialists are working without contracts.
- No contract management plan for one strategic contract.
- Inadequate segregation of duties for finance officers.

Functional responsibility

BHFLHN was established to provide health services in the Barossa, Hills and Fleurieu region of South Australia. This map of South Australia shows the BHFLHN region.

Rural Support Service (RSS)

The RSS is within BHFLHN's governance and financial statements, however it is accountable to all six country local health networks (LHNs). It provides a range of specialist clinical and corporate functions to the six country LHNs including business services, governance and risk assurance, workforce development and clinical services development and support. The country LHNs reimburse the RSS for the cost of these services.

Governance

LHN governing boards are responsible for the governance and oversight of local health service delivery, including governance of performance, budget achievement, clinical safety and quality and risk. Each LHN chief executive officer is accountable to, and subject to the direction of, the governing board for managing the operations and affairs of the LHN.

Scope of the audit

Financial services for BHFLHN are provided by several agencies:

- BHFLHN, including the RSS
- the Department for Health and Wellbeing (DHW)
- Shared Services SA (SSSA).

Our audit program covered major financial systems to obtain sufficient evidence to form an opinion on the financial report and internal controls. A contracted accounting firm assisted the Auditor-General with the audit. Areas of audit attention in 2023-24 included:

- payroll
- accounts payable, including procurement
- revenue, including debt management
- property, plant and equipment
- asset management
- cash
- general ledger.

Audit findings

Communicating our audit findings

We communicated our audit findings in a management letter to the Chief Executive Officer of BHFLHN. The main findings and the BHFLHN's responses are discussed below.

Audit findings – BHFLHN

Invoices paid without purchase orders

SA Health's requisition, purchase order and invoice management policy mandates the use of requisitions and purchase orders, unless the item purchased is on the approved purchase order exemption list or below $2,200. We found payments made without purchase orders for which exemptions did not apply. This increases the risk of payments being made for goods or services not received or not at the agreed price.

BHFLHN advised us that it would continue to review invoices without purchase orders and educate employees in areas of non-compliance.

Sundry debt management needs to improve

The follow-up and management of sundry debt is performed by SSSA. We reviewed the outstanding sundry debts and found that there is still a large portion of debt outstanding for more than 120 days.

BHFLHN responded that it has increased the monitoring and follow-up service by SSSA to fortnightly.

Inadequate segregation of duties for revenue officers

We found the length of hospital stay and charge types could be modified by revenue officers, increasing the risk of inappropriate adjustments to invoiced fees.

BHFLHN advised us that it would restrict this access if the system allows it or implement a process to identify any changes made.

No review of changes to medical records that impact patient charges

A report on some of the changes made to medical records that impact patient charges is not independently reviewed.

BHFLHN agreed to implement a monthly review of this report.

No strategic asset management plan

BHFLHN has not developed a strategic asset management plan or an asset management plan.

BHFLHN advised us that it will develop these plans by 30 June 2025.

Preventative maintenance data needs to improve

Preventive maintenance data is kept in multiple systems, increasing the risk of maintenance being missed or overlooked.

BHFLHN responded that at the time of our audit only 20% of its assets were maintained by Ventia. From 1 July 2024 all of its assets will be maintained by Ventia.

Audit Findings – RSS

The findings below relate to controls performed by RSS staff and impact all country LHNs.

Unsupported patient administration system – CHIRON

CHIRON was used by all six country LHNs for patient administration including private patient invoicing and managing fee-for-service charges for medical officers. In August 2016, SA Health secured a licence to continue to use CHIRON that has been extended several times and does not include vendor support.

Using software products past their end of life and without support increases the risk of security vulnerabilities, software incompatibilities and reliability issues. In 2020-21 the country LHNs identified their dependency on the unsupported CHIRON software as an extreme risk and escalated this to Digital Health SA and DHW.

The rollout of the new Electronic Medical Records system (EMR) to replace CHIRON was approved for country LHNs in 2022-23 and has been completed for BHFLHN, LCLHN, FUNLHN and RMCLHN. EFNLHN and YNLHN will complete their rollouts by March 2025.

Domiciliary care debt management needs improvement

The follow-up and management of domiciliary care debt is performed by the RSS for the country LHNs. We found that all of them had substantial debt older than 180 days.

BHFLHN responded that it is considering transferring the debt management back to the country LHNs. It will discuss debt management resourcing options with them.

Specialists working without contracts

Specialists provide public medical services at all country hospitals and charge a fee for this service. Since 2018 we have been reporting that they are providing these services without contracts. We have also noted that there is:

- no overarching agreement defining terms and conditions for contracts with specialists
- no policies or procedures to provide guidance on entering into contracts with specialists
- no contract register for specialists with the information needed for effective contract management.

BHFLHN advised us that a procurement strategy has been agreed in principle.

No contract management plan for one strategic contract

We found that there was no contract management plan for one strategic contract we looked at, valued at $3 million. The contract was signed in July 2021.

BHFLHN advised us that it will develop a contract management plan for this contract by 31 December 2024.

Comfort letter issued without proper approval

A contract approved by the Minister with a total value of $34.5 million was extended by six months and another $3.8 million using a comfort letter that was not approved in line with financial authorisations.

BHFLHN advised us that approval will be sought for the additional six months in the new contract.

Inadequate segregation of duties for finance officers

Finance officers have access to overwrite rates set in the system used to pay general practitioners and specialists.

BHFLHN responded that it would transition to a new system by 31 August 2024.

Interpretation and analysis of the financial report

The consolidated accounts of BHFLHN include the incorporated Health Advisory Councils (HACs) within the BHFLHN region and unincorporated country HACs. These HACs undertake an advocacy role on behalf of the community, to provide advice about health services, health issues, goals, priorities, plans and strategic initiatives.

We are only showing the consolidated amounts below, as the differences between the consolidated and parent amounts are immaterial.

Highlights of the financial report – consolidated

	2024 $million	2023 $million
Income		
Revenues from SA Government	328	311
Fees and charges	23	26
Grants and contributions	48	42
Other income	37	33
Total income	436	412
Expenses		
Staff related expenses	258	235
Supplies and services and other expenses	160	154
Depreciation and amortisation	10	9
Total expenses	428	398
Net result	8	14
Total other comprehensive income	48	-
Total comprehensive result	56	14
Assets		
Current assets	61	55
Non-current assets	226	167
Total assets	287	222
Liabilities		
Current liabilities	90	85
Non-current liabilities	43	39
Total liabilities	133	124
Net assets	154	98

Statement of Comprehensive Income

Revenues

Revenues from SA Government

BHFLHN's revenues from the SA Government are received from DHW and were 75% of its total income. They comprised:

- $306 million ($288 million) in operating funding, reflecting a rise in the National Weighted Activity Unit (NWAU) and the costs of providing health services
- $22 million ($23 million) in capital funding.

Grants and contributions

Grants and contributions increased by $6 million due to:

- a $5 million increase in Commonwealth aged care subsidies due to the higher number of aged care residents and an increase in the Commonwealth subsidy amount
- a $1 million increase in Commonwealth grants related to increased home care packages.

Expenses

Staff related expenses

Staff related expenses represent 60% of total expenses and increased by $23 million (10%) due to:

- a $17 million rise in salaries and wages due to an increase of 92 FTEs aimed at reducing the spend on agency staff and fee-for-service arrangements
- a $3 million increase in superannuation due to the rise in the superannuation guarantee
- $3 million in additional long service leave expenses due to additional leave accrued and changes in the actuarial assumptions.

Supplies and services expenses

There are six main categories of supplies and services that account for 72% of this expenditure, as shown in the chart below.

Supplies and services expenses increased by $5 million due to:

- a $5 million increase in fee for service due to increased use resulting from increased emergency department activity and being unable to fill some vacancies
- a $4 million increase in patient transport due to growth in the use of the patient assistance transport scheme. Patient transport expenses are for all country LHNs

- a $3 million increase in the use of agency staff for vacant positions that could not be filled at some sites and increases in the cost of agency staff.

These increases were offset by

- a $6 million decrease in the cost of contract services due to the increase in FTEs
- a $2 million decrease in training and development.

Statement of Financial Position

Assets

Current assets increased by $6 million due to:

- an $8 million increase in other financial assets due to new aged care residents. These amounts primarily relate to the investment of aged care refundable deposits
- offset by a $2 million decrease in cash and cash equivalent.

Property, plant and equipment

As at 30 June 2024, property, plant and equipment represented 78% of total assets. The most significant components are $17 million of capital works in progress and $202 million of land and buildings.

Liabilities

Current liabilities of $90 million exceeded current assets of $61 million at 30 June 2024.

Cash and cash equivalents of $20 million were sufficient to meet current payables of $16 million. BHFLHN is funded to meet expected cash flows for its current program delivery.

Staff-related liabilities

Staff-related liabilities are 63% of total liabilities at 30 June 2024. They comprise:

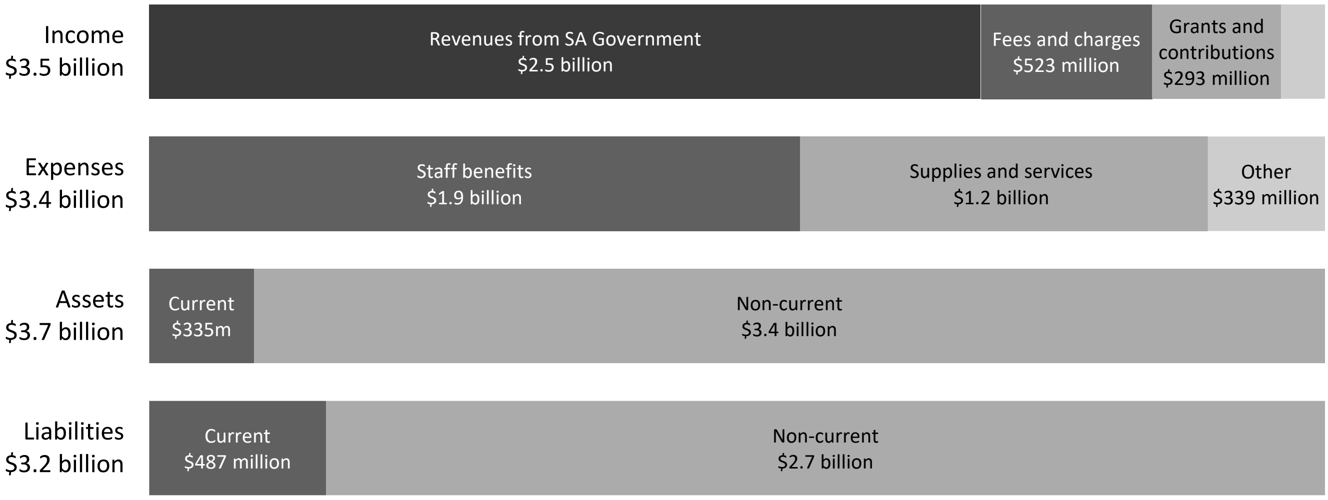
- $76 million ($68 million) of staff benefits liabilities and related on-costs, which increased due to changes in the actuarial assumptions and increases in accrued leave
- $8 million ($8 million) of provisions for workers compensation.

Other liabilities

Other current liabilities are 24% of total liabilities and mainly comprise residential aged care bonds. These bonds increased by $3 million to $28 million ($25 million) due to an increase in the number of aged care residents. They are refundable accommodation contributions or deposits made by residents when they enter aged care facilities.

Central Adelaide Local Health Network Incorporated (CALHN)

Financial statistics

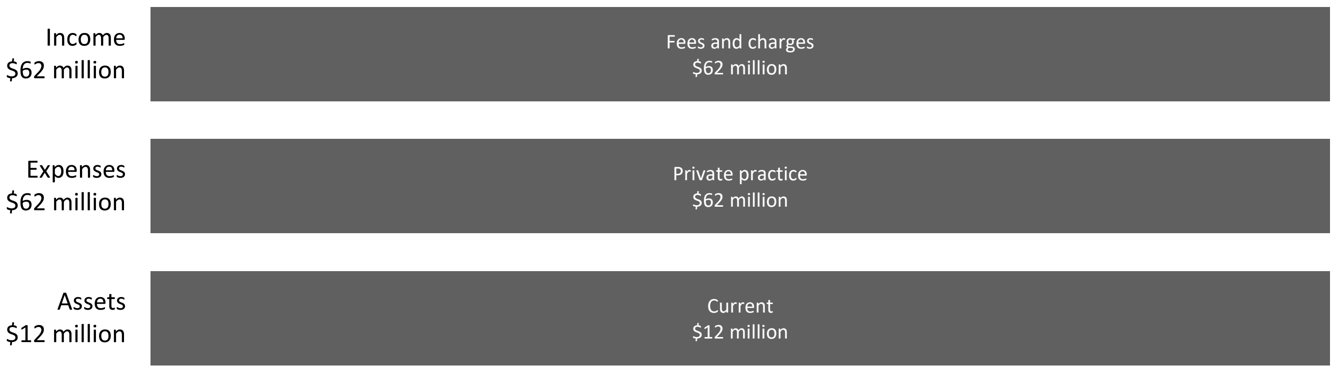


13,056
FTEs

$207 million
Borrowing costs for the RAH

144,612
Total inpatient activity

Administered items



Significant events and transactions

— Quarterly service payments rose by $48.4 million to $395.7 million for the Royal Adelaide Hospital (RAH) and were paid in line with the project agreement.

— CALHN received an increase in operational funding of $127.3 million.

Financial report opinion	**Modified** CALHN did not have an effective process to meet the disclosure requirements of Treasurer's Instructions (Accounting Policy Statements) for reporting the value of procurement with South Australian and non-South Australian businesses for 2023-24. This is discussed further in Part A of this report.
Controls opinion findings	— There were inconsistencies and weaknesses in the approach to monitoring employee screening checks. — The rate of completed performance reviews does not meet the benchmark of 80%. — Some medical officers started their employment without a letter of offer. — Some senior medical practitioners and consultants did not have job plans. — Medical practitioners continued to receive their base pay despite having a large number of outstanding timesheets. — Financial delegations in the maintenance contractor's system to authorise works did not align with the general financial authorisations. — 2023-24 annual service delivery plans were not approved until December 2023, when they should have been approved by 31 May 2023.
Other audit findings	No private practice audits were performed to ensure that fees generated from offsite locations are completely and accurately transferred to CALHN.

Functional responsibility

CALHN was established under the *Health Care Act 2008* (HC Act) on 1 July 2019. It establishes, provides, maintains and enhances hospital, medical and allied health services in its local area. This map of South Australia shows the CALHN local area.

Governance

LHN governing boards are responsible for the overall governance and oversight of local health service delivery, including governance of performance, budget achievement, clinical governance, safety and quality, risk management and the achievement of the board functions and responsibilities.

Each LHN chief executive officer is accountable to, and subject to the direction of, the governing board for managing the operations and affairs of the LHN.

A service agreement between CALHN and the Department for Health and Wellbeing (DHW) outlines the requirements of the formal relationship between them, and sets out performance expectations and funding arrangements. The 2023-24 CALHN service agreement was executed in August 2023. The Statewide Clinical Support Services (SCSS) service agreement was executed in October 2023.

Royal Adelaide Hospital – legal action in progress

In August 2017, the builder of the RAH (Hansen Yuncken Pty Ltd and CPB Contractors Pty Ltd (formerly Leighton Contractors Pty Ltd)) filed legal proceedings against Celsus, independent certifier Donald Cant Watts Corke Pty Ltd and the State of South Australia for alleged breaches of contract and other matters in relation to the construction of the RAH. At the time of this report the proceedings were stayed pending the outcomes of the arbitration process, which is still in progress.

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. Financial services for CALHN are provided through a combination of:

- central services provided by DHW

- finance services located within CALHN
- central services provided by Shared Services SA (SSSA).

We completed audit work at DHW, CALHN and SSSA.

Audit findings across health services fall into the following categories:

- common findings reflecting central services and/or systems
- matters for individual health services
- DHW matters.

Areas of audit attention in 2023-24 included:

- property, plant and equipment
- payroll and workforce management
- cash and online banking
- general ledger and financial accounting
- patient billing and debt management
- goods and services expenditure and accounts payable
- borrowings
- SA Pharmacy revenue, expenditure and inventory management
- SA Pathology revenue
- SA Medical Imaging revenue
- governance
- accounts receivable and debtor management.

We reviewed internal audit activities in planning and conducting our audit. No reliance was placed on the work of internal audit.

Controls opinion

We reviewed controls over bank accounts, employee expenses, goods and services expenditure, lease liabilities, buildings and improvements and the Across Government Facilities Management Arrangements (AGFMA) as part of our overall controls opinion, which is discussed in Part B of this report.

Audit findings

Communicating our audit findings

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

Controls opinion findings

Payroll

CALHN employs 13,056 FTEs and has significant payroll-related costs, with $1.9 billion in staff-related expenses paid and $600 million in staff-related liabilities and associated on-costs as at 30 June 2024. Given the significance of these costs, we review key payroll controls each year.

Payroll planning, monitoring and approval processes could be improved

— *Employment screening checks are expired or there was no record of them*

Different positions within an LHN can require different types of employment clearances. Working with vulnerable people, children and the aged requires specific clearances for some staff, while others may require more general clearances. SA Health's screening policy requires employees to have appropriate criminal and history screening before employment and to maintain them. These requirements apply to employees who are in prescribed positions under the *Child Safety (Prohibited Persons) Act 2016*, as well as those in approved provider positions under the *Aged Care Act 1997*.

In response to our previous audit findings, CALHN reviewed every position to identify anyone working in a prescribed position or approved provider position. The review covered working with children checks (WWCC) and aged care sector employment checks (ACC).

Notwithstanding CALHN's review, our testing found:

- employees in prescribed positions with no WWCC or ACC recorded in the Chris21 payroll system
- that SCSS was yet to review its positions to identify employees working in prescribed positions and approved provider positions.

CALHN responded that:

- it will continue to monitor compliance with screening check requirements in line with established mechanisms
- although it had reviewed its compliance, SCSS will identify and record the screening checks required for each of its positions.

— *The number of staff performance reviews is below the 80% target*

We noted that the number of staff who had a current performance review improved during the year. At the time of our audit 58% of CALHN staff had one, up from 49%, and 62% of SCSS staff, up from 45%. DHW has established a KPI in their service agreements that 80% of performance reviews should be current.

CALHN responded that it has established a framework for the regular monitoring and review of performance review rates. It will continue to focus on initiatives to streamline the completion and recording of development discussions and is considering options for online tools.

SCSS responded that an improvement plan was endorsed by its executive to address performance review completion rates. It has been effective so far, with a 65% compliance rate reported at 30 June 2024.

— *Key payroll information was not always reviewed*

Key payroll reports for staff differ depending on the type of employee. The effective review of these reports helps to ensure payments to staff are accurate and valid. For staff who are automatically paid each fortnight, key payroll information is captured on bona fide and leave return certificate reports.

In 2023-24 we found that monitoring of bona fide and leave return certificate reports at both CALHN and SCSS was ineffective. The prompt review of these reports provides assurance that:

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

Where employee payroll information is not reviewed, there is an increased risk of inaccurate payments to staff, potentially resulting in financial loss.

CALHN advised us that it has established a framework for the regular monitoring and review of bona fide and leave return certificate report approval rates, and corrective actions are now implemented to achieve target KPIs. It will continue to reinforce the timely completion of bona fide and leave return certificate reports and monitor compliance.

— *No processes to ensure all medical officers' timesheets are approved and submitted promptly*

In prior years we have found that there was no process to ensure all medical officers' timesheets were submitted and approved promptly. This is particularly important where medical officers are established in the payroll system as automatically paid regardless of whether a timesheet is submitted.

The 'base pay no timesheet' process was introduced across the LHNs in 2022-23. This process pays medical practitioners their base salary for fortnights where they have not submitted timesheets. Only when the timesheet is submitted will the pay for that fortnight be adjusted to actual hours worked and applicable additional allowances.

Our testing of medical officers' timesheets found that at May 2024, 970 timesheets were outstanding for medical practitioners who were continually receiving their base pay.

We recommended that CALHN apply a limit to the number of fortnights the base salary payments can be made to medical practitioners. When the limit is reached, the medical practitioner should revert to the manual timesheet process.

CALHN advised us that it is conducting an audit of outstanding timesheets to identify any thematic issues in the timely completion and submission of them, and any business units where late or missing timesheets may be more prevalent. This will inform its improvement opportunities.

— *Medical practitioners started their employment without a letter of offer*

A letter of offer is a formal offer of a position and is signed by the successful applicant as evidence of their acceptance of it. This should occur before the applicant starts any work in the position. Of a sample of seven medical practitioners who started in 2023-24, three were given a letter of offer after their start date. We were advised that the delays were due to:

- an extension of contract provided to an existing employee who ignored numerous reminders to sign the new contract
- disputes over the initial letter of offer.

Not providing a letter of offer before commencement may result in CALHN and medical practitioners being unclear about their obligations in the event of a dispute.

CALHN advised us that it will:

- continue to review its appointment practices to ensure that contracts are issued and accepted before work commences
- plan to adopt offer functionality in its recruitment system to improve the timeliness of issuing and accepting employment offers.

— *No job plans for senior medical practitioners and consultants*

Job planning is an annual process for senior medical practitioners and consultants and defines the agreed duties, responsibilities and objectives of a position for the coming year. It also provides clarity about the expectations, commitments and support required to achieve the required outcomes, and ensures that resources are aligned with service priorities and plans.

As in previous years, for the medical officers we sampled this year, job plans were either not provided or there was no evidence that they had been updated annually. We note that CALHN had introduced a job plan dashboard and is collecting job plan information for it.

The lack of job plans may result in senior medical practitioners and consultants performing duties that are inconsistent with their role description. It means that a mechanism to provide formal feedback to the medical practitioner about their performance and development is effectively removed. This may adversely impact the maintenance of competency and credentialling standards, weakening employee and employer quality review outcomes.

CALHN advised us that it will continue to streamline the completion and recording of job plans in Chris21 and develop effective strategies to improve completion rates.

Asset management and the AGFMA

CALHN has property, plant and equipment worth $3.4 billion. Its main asset, apart from the RAH, is The Queen Elizabeth Hospital (TQEH). As part of our controls opinion work in 2023-24, we followed up its control processes for managing the maintenance of these assets. This did not include detailed work on maintenance at the RAH, as this is covered by separate public private partnership (PPP) arrangements.

Annual services delivery plans are not approved in a timely manner

A memorandum of administrative arrangements between CALHN and the Department for Infrastructure and Transport requires Ventia, the facilities management services provider, to create and implement approved annual service delivery plans for all locations except the RAH, identifying maintenance, replacement, refurbishment and planned small construction projects for the year. These annual service delivery plans must be finalised and approved by 31 May of each year for the following financial year.

We found that the 2023-24 annual service delivery plans were approved in December 2023.

CALHN advised us that the 2024-25 plans were approved on 29 August 2024 and it expects them to be prepared and approved in August for each financial year.

Maintenance system financial delegation limits are not aligned with CALHN's and SCSS' delegations

Our review of Ventia's maintenance system, Panorama, identified instances where:

- financial limits assigned to several employees did not align with CALHN's and SCSS' general financial authorisations
- several users had multiple user group profiles in the system
- users within certain profile groups had an authorisation of $9,999,999. This is inconsistent with the maximum delegation limit for CALHN of $1.5 million and for SCSS of $550,000
- users had not been transferred to the new Panorama user group files.

CALHN and SCSS advised us that:

- the Panorama user groups and their alignment against their own financial authorisations will be included in the annual user review process
- an annual review process will be developed and will cover alignment with CALHN's financial authorisations
- SCSS delegations in Panorama were reduced to a small number of key individuals to reduce the risk of inappropriate ordering.

Panorama user access reviews are not regularly performed

Panorama is managed by Ventia as a client portal and provides access to all property data, reports and analytics in real time. It is used to submit work orders, track jobs and record supporting documentation. CALHN uses Panorama to:

- view its asset data
- approve work order requests raised by CALHN staff, for assigning to a contractor
- review completed work
- approve work orders that have been satisfactorily completed by contractors.

We found that:

- the last user access review was performed in September 2023, when CALHN told us they were done every six months
- there were no policies or procedures to:
  - require regular Panorama user access reviews
  - specify who approves requests for new user access to Panorama and removes Panorama user access for terminated staff.

CALHN advised us that:

- it performs an annual Panorama user access review to ensure terminated staff are removed and staff profiles agree as closely as possible to CALHN's financial delegations
- it will develop a process that specifies responsibility for and the frequency of user access reviews.

Accounts payable and goods and services expenditure

CALHN's expenditure on supplies and services for 2023-24 was $1.2 billion.

Some contract management register details are incorrect or missing

Procurement SA policy requires public authorities to maintain a contract register detailing all goods, services and construction contracts above $55,000, including secondary contracts under established panel contracts. CALHN uses the Procurement and Contract Management System (PCMS) as a central record of all contract documentation and information.

CALHN advised us that, due to its decentralised procurement, several of its procurements may not have complied with the PCMS procurement process and, as a result, have either not been recorded correctly or have not been included in the contract register. Our review of CALHN's contract register identified:

- contracts listed with no supplier name
- contracts marked as current even though they had expired.

CALHN advised us that:

- it would hold quarterly meetings to resolve any issues and educate business units about procurement practices
- it would appoint a contract management compliance officer who will review the contract register every month.

CALHN also advised us that:

- it has started a review of its PCMS contract register to improve data integrity and oversight of contracts
- its executives were to provide details of all procurements not recorded in PCMS to ensure that all procurement activity is captured
- it is correcting inaccurate entries and updating the status of contracts in the PCMS register
- it will deliver internal training, information and resources to help staff manage procurement records in PCMS
- it will include a contract management module in its procurement manual.

Other audit findings

Hospital billing

CALHN received $442.7 million in patient and client fees and $41.3 million in private practice fees in 2023-24.

No private practice audits performed

Memorandums of agreement (MoAs) for private practice allow medical officers to undertake rights of private practice (RoPP) outside of CALHN with written approval. The MoAs require medical officers to transfer all offsite-generated RoPP fees collected to CALHN. They are then distributed in line with the MoA. CALHN does not have a method of independently ensuring the completeness and accuracy of the RoPP fees it receives.

Last year, we found that CALHN was not performing the independent private practice audits allowed in the MoAs. This year we found that this was still the case.

CALHN advised us that a new role in its revenue team will be responsible for reviewing existing practices and establishing and communicating new policies and procedures relating to RoPP. This will include developing a formal program for reviewing RoPP fees from medical officers under the MoAs.

Interpretation and analysis of the financial report

Highlights of the financial report

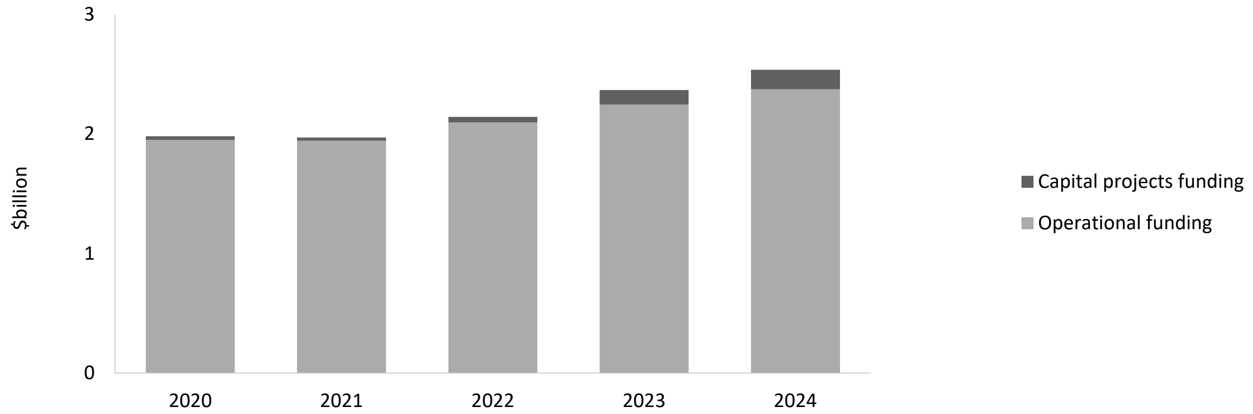
	2024		2023	
	Consolidated $million	Parent $million	Consolidated $million	Parent $million
Income				
Revenues from SA Government	2,536	2,536	2,368	2,368
Fees and charges	523	504	481	466
Grants and contributions	293	293	282	282
Resources received free of charge	16	16	14	14
Other revenue/income	118	117	104	101
Total income	3,486	3,466	3,249	3,231
Expenses				
Staff benefits expenses	1,881	1,868	1,735	1,724
Supplies and services	1,178	1,176	1,135	1,131
Borrowing costs	207	207	187	187
Depreciation and amortisation	117	116	117	116
Grants and subsidies	2	1	2	1
Other expenses	13	13	17	17
Total expenses	3,398	3,381	3,193	3,176
Net result	88	85	56	55
Total comprehensive result	229	227	56	55
Assets				
Current assets	335	319	296	282
Non-current assets	3,423	3,413	3,211	3,201
Total assets	3,758	3,732	3,507	3,483
Liabilities				
Current liabilities	486	483	440	436
Non-current	2,748	2,747	2,773	2,772
Total liabilities	3,234	3,230	3,213	3,208
Net assets	524	502	294	275

Statement of Comprehensive Income

Income

CALHN is mainly funded through operational and capital funding from DHW. CALHN received recurrent funding of $2.4 billion and capital funding of $162.6 million in 2023-24. The capital funding was mainly for works at TQEH and for developing a mental health facility. The $127.3 million increase in operational funding is primarily the additional funding provided for increased patient activity and underlying indexation.

The chart below shows CALHN's revenues from the SA Government over the last five years.



Fees and charges increased by $42.2 million to $523 million, mainly due to:

- car parking revenue, up $3.4 million mainly for the full-year impact of reintroducing car parking fees for staff
- patient and client fees, up $35.7 million, mainly due to the overall increase in patient activity, resulting in a $15 million increase in fees from day and overnight procedures. Medical imaging fees were also up by $7.1 million and public and private pathology fees were up by $8 million. This reflects the increased recharging of central services, such as imaging and pathology, under revised arrangements implemented in 2020-21. In 2023-24 a new cost recovery model was introduced for pathology fees
- private practice fees, up $2.9 million, mainly due to the increased income from RoPP fees resulting from increased activity and services provided to patients.

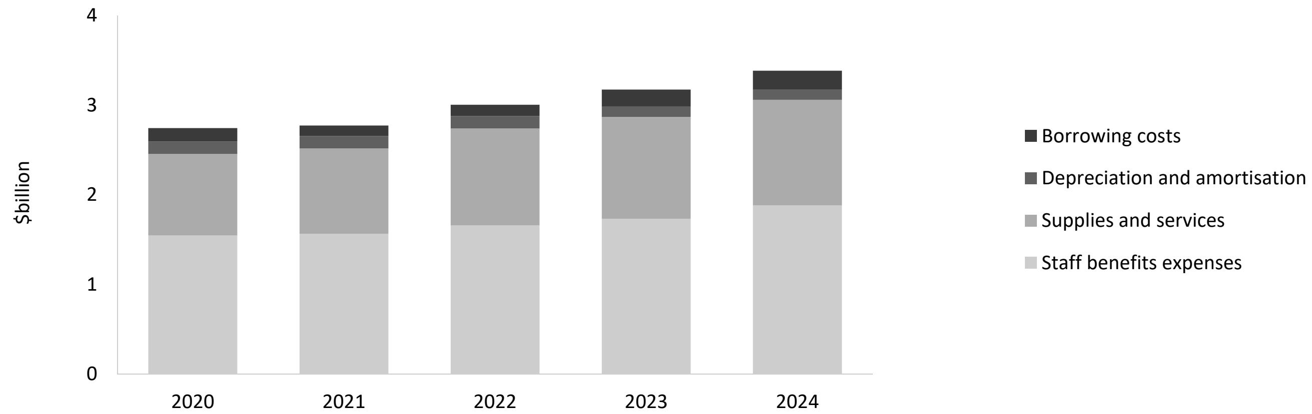
Grants and contributions increased by $10.9 million, mainly due to the Pharmaceutical Benefits Scheme Commonwealth Subsidy, up $12.9 million, which is in line with the increase in drug supplies expenditure of $13.5 million. This was offset by a $1.2 million decrease in private sector grants and contributions, as CALHN received $7.1 million of specific funding for clinical trials in 2022-23.

Other revenue/income increased by $10.4 million mainly because of increases in:

- health recoveries of $7.7 million, of which $5.7 million relates to health recharges. The increase in recharges aligns with the new cost recovery model introduced for SA Pathology fees
- donations of $4.1 million. The level of donations varies from year to year.

Expenses

The consolidated entity's total expenses increased by $204.7 million to $3.4 billion in 2023-24. The chart below shows the composition of expenses for the last five years.



The chart shows an overall increase in expenditure between 2019-20 and 2023-24. Borrowing costs were up by $19.8 million in 2023-24 due to an increase in finance changes and indexation factors for PPP arrangements.

Staff related expenses

Staff related expenses of $1.9 billion represent 55% of CALHN's total expenses and increased by $145.9 million in 2023-24. The increase is due to:

- salaries and wages, up $67.7 million, reflecting an increase in:
  - FTEs, including additional nursing and medical officers due to the implementation of the SA Government's election commitments to hire more health sector employees
  - attraction and retention allowances paid to senior consultants and radiographers
  - wages associated with enterprise agreements, including those for nursing staff and visiting medical officers
- long service leave, up $36.6 million, mainly due to the remeasurement of the liability. The Commonwealth bond yield rate used to calculate the liability increased to 4.75% from 4%. The net financial impact of the changes to actuarial assumptions was to increase staff-related expenses by $15.8 million
- annual leave, up $9.2 million due to increases in FTEs and the salary inflation rate applied to the calculation
- staff on-costs – superannuation, up $16.8 million. This aligns with the increases in salaries and wages, long service leave and annual leave expenses, and in the superannuation guarantee rate applied
- workers compensation expenses, up $16 million, reflecting the outcomes of the annual actuarial reassessment.

The following table shows the breakdown of CALHN's total staff numbers between medical, nursing and non-medical staff since 2020-21. It shows overall growth in FTEs over the four years to 2023-24.

	2020-21 FTEs	2021-22 FTEs	2022-23 FTEs	2023-24 FTEs
Medical officers	1,480	1,525	1,561	1,629
Nurses	4,582	4,994	5,088	5,297
Non-medical	5,829	6,251	6,019	6,130
Total FTEs	11,891	12,770	12,668	13,056

The slight fall in 2022-23 reflects the decrease in non-medical staff of 232 FTEs due the reduced level of COVID-19 testing and the closure of COVID-19 testing sites, offset by increases in the number of medical officers and nurses.

The increase in 2023-24 is due to the employment of more medical and nursing staff as a result of increased patient activity.

The number of staff whose remuneration received/receivable exceeded the base executive level ($166,000) totalled 1,478 (1,452), comprising 1,204 (1,204) medical, 94 (77) non-medical, 147 (145) nursing and 33 (26) executive staff. Total remuneration for these staff was $453 million ($435 million).

Supplies and services expenses

Supplies and services expenses increased by $43 million to $1.2 billion, with the significant components being:

- computing, up $9.6 million, mainly due to increased Sunrise EMR costs of $8.3 million, higher device and support fees charged by DHW of $1 million and additional software licence fees of $1 million
- contract of services, up $1.9 million, mainly due to the growth in outsourced beds due to increase level of surgery patients and limitations on bed availability. In addition a new contract was entered into from January 2024 for radiology reporting services at Lyell McEwen Hospital provided by SCSS
- medical, surgical and laboratory supplies, up $12.2 million, mainly due to increases in the supply of prosthesis and implants of $5.4 million, test kits of $3 million, patient consumables of $2 million and imaging supplies of $1.8 million
- insurance, up $1.3 million, reflecting increased South Australian Government Financing Authority insurance premiums. There was also an increase in the PPP insurance charge for the new RAH, which is subject to indexation
- minor equipment, up $2.7 million due to additional equipment purchased:
  - for the CALHN Prison Health ($309,000), Heart and Lung ($328,000) and Cancer Radiology ($68,000) programs
  - for the fitout of the new Clinical Support Building
  - for the relocation of BreastScreen SA’s head office and the genetic laboratory
- repairs and maintenance costs, up $2.7 million, mainly due to an increase in preventative maintenance of $1.1 million, unplanned refurbishment costs of $1.3 million and preventative maintenance for biomedical equipment of $1 million due to ageing infrastructure. These increases were offset by a decrease in breakdown maintenance of $1.7 million
- PPP operating expense, up $2.6 million, which is in line with the quarterly service payments under the finance model. The model incorporates CPI increases. Costs increased in line with the terms of the contract and indexation
- travel expenses, up $1.7 million, mainly due to the increase in overseas travel costs associated with medical officers’ professional development of $1.5 million. Staff domestic travel costs were up $390,000

- other supplies and services, up $3.1 million, mainly due to an increase of $2.7 million in operational services expenses, as SALHN charged CALHN a facility fee of $1.6 million for its occupancy at the Repat Health Precinct.

These increases were offset by:

- fee for service, down $5.4 million, mainly due to a delay in outsourcing overdue elective surgery cases in the early part of 2023-24. This was offset by an increase in general dental scheme fees due to reduced internal activity mainly resulting from a reduction in clinician FTEs
- contractors, down $4.2 million, as SCSS incurred $4.6 million for traffic control at COVID-19 testing sites in 2022-23. These sites were not required in 2023-24
- housekeeping, down $4.9 million, as $5 million of additional expenditure was incurred for special cleaning in all outpatient areas in 2022-23 due to COVID-19. Special cleaning ceased in July 2023.

Other expenses were down by $5.4 million mainly due to a $5 million donation of land to DHW in 2022-23.

Statement of Financial Position

Assets

Receivables

Receivables were up by $10.9 million mainly due to increases in patient and client fees. These increases are consistent with the increase in patient and client fees revenue.

Property, plant and equipment

Property, plant and equipment represents 90% of CALHN's total assets, with the carrying value increasing by $214.7 million to $3.4 billion. Significant movements in 2023-24 were:

- the revaluation increment of $141.2 million for:
  - land – $29.8 million
  - buildings – $105.4 million
  - medical/surgical/dental/biomedical equipment – $1.9 million
  - other plant and equipment – $4.1 million
- asset additions of $190.1 million, including an additional:
  - $153 million of works associated mainly with the TQEH redevelopment
  - $16.4 million of works for plant and equipment
  - $16.6 million of works for medical/surgical/dental/biomedical equipment.

These increases were offset by depreciation of $111.8 million.

Liabilities

Current liabilities increased by $46 million to $486.5 million and exceeded current assets of $334.9 million at 30 June 2024. CALHN works with DHW to ensure sufficient funding is provided to meet CALHN's expected cash flows for its administration and program delivery. Cash and cash equivalents of $207.7 million are sufficient to meet current payables of $103.2 million.

Staff-related liabilities are the largest element of current liabilities, totalling $299.5 million at 30 June 2024, and include leave entitlements expected to be taken within 12 months.

Total liabilities increased by $21.3 million to $3.2 billion. Staff-related liabilities make up $659.5 million of this balance at 30 June 2024, comprising:

- staff-related liabilities – $600.2 million ($535.7 million)
- provision for workers compensation – $59.3 million ($48.6 million).

The increase in staff-related liabilities primarily relates to increases in nursing and medical staff numbers. In particular there were increases to:

- long service liability of $34.5 million. The Commonwealth bond yield rate increased to 4.75% from 4%, resulting in increases in the long service liability of $15.1 million and staff on-costs of $661,000. The increases were also impacted by other changes in the measurement of the liability
- annual leave liability of $13.5 million. This was impacted by the increase in the salary inflation rate from 2% to 2.4%
- accrued salaries and wages of $9 million, as more days were accrued in 2023-24
- staff on-costs of $6.7 million, as staff-related liabilities and the superannuation guarantee fee increased.

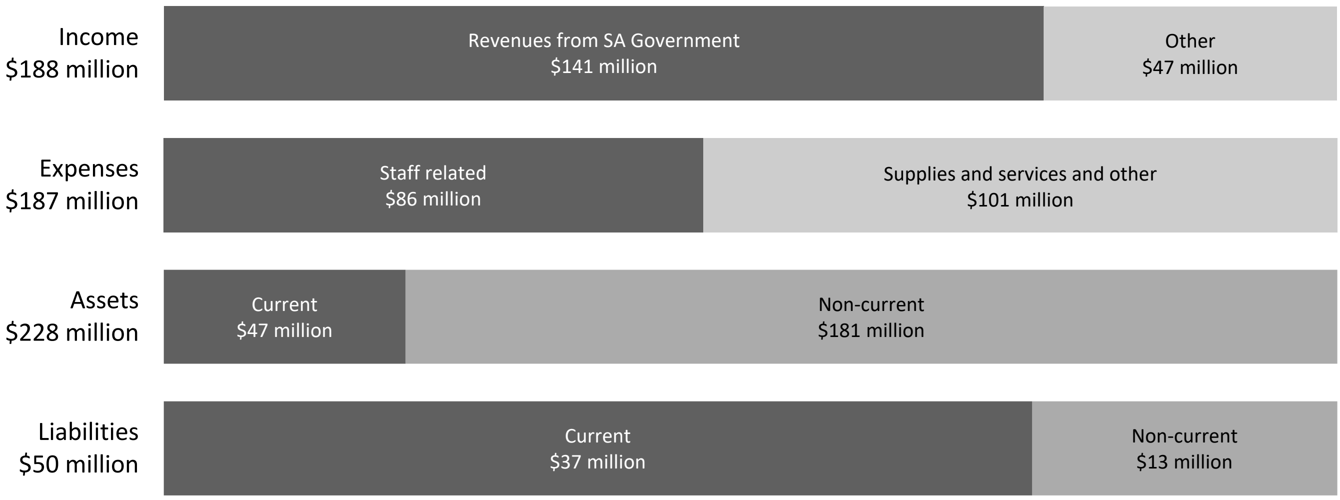
Payables increased by $14.6 million to $103.2 million mainly due to:

- accrued expenses, up $7.8 million, including accruals of $3.5 million for the CELSUS PPP contingency rental costs and $1.7 million for tuberculosis remissions
- accrued supplies and service, up $6.8 million, including $4 million for SA Dental fee-for-service accruals.

Financial liabilities decreased by $68.1 million as a result of payments of $62.1 million associated with the RAH lease reducing the outstanding liability and $5.9 million for the early termination of the BreastScreen SA lease at 167 Flinders Street.

Eyre and Far North Local Health Network Incorporated (EFNLHN)

Financial statistics



815
FTEs

14
Hospital and health service sites

11,824
Total inpatient activity

Financial report opinion	**Modified** EFNLHN did not have an effective process to meet the disclosure requirements of Treasurer's Instructions (Accounting Policy Statements) for reporting the value of procurement with South Australian and non-South Australian businesses for 2023-24. This is discussed further in Part A of this report.
Audit findings	— Invoices were paid without purchase orders. — Patient debt management needs to improve. — There is no strategic asset management plan.

Functional responsibility

EFNLHN was established to provide health services in the Eyre and Far North region of South Australia. This map of South Australia shows the EFNLHN region.

Governance

LHN governing boards are responsible for the governance and oversight of local health service delivery, including governance of performance, budget achievement, clinical safety and quality and risk. Each LHN chief executive officer is accountable to, and subject to the direction of, the governing board for managing the operations and affairs of the LHN.

Scope of the audit

Financial services for EFNLHN are provided by several agencies:

- EFNLHN
- the Rural Support Service (RSS) within the Barossa Hills Fleurieu LHN
- the Department for Health and Wellbeing (DHW)
- Shared Services SA (SSSA).

Our audit program covered major financial systems to obtain sufficient evidence to form an opinion on the financial report and internal controls. A contracted accounting firm assisted the Auditor-General with the audit. Areas of audit attention in 2023-24 included:

- payroll
- accounts payable, including procurement
- revenue, including debt management
- property, plant and equipment
- asset management
- cash
- general ledger.

Audit findings

Communicating our audit findings

We communicated our audit findings to the Chief Executive Officer of EFNLHN. The main findings and EFNLHN's responses are discussed below.

We also identified several findings for control activities performed by the RSS that impact EFNLHN. They are reported under 'Barossa Hills Fleurieu Local Health Network Incorporated' in this report.

Invoices paid without purchase orders

SA Health's requisition, purchase order and invoice management policy mandates the use of requisitions and purchase orders, unless the item purchased is on the approved purchase order exemption list or below $2,200. We found payments made without purchase orders for which the exemptions did not apply. This increases the risk of payments being made for goods or services not received or not at the agreed price.

EFNLHN advised us that it will continue to monitor purchases without purchase orders and educate staff across all sites. It has also drafted work instructions that are out for consultation.

Patient debtor management needs to improve

We found instances where the follow-up and recovery of longstanding debtors was ineffective or not performed. The percentage of long-outstanding debt greater than 120 days improved from 75% in 2022 to 25% in 2024, but more work is needed.

EFNLHN responded that it would continue to prioritise debt follow-up, with a focus on recording the follow-up action it takes.

No strategic asset management plan

EFNLHN has not developed a strategic asset management plan or an asset management plan.

EFNLHN informed us that it is drafting these plans and that they are due for completion by June 2025.

Interpretation and analysis of the financial report

The consolidated accounts of EFNLHN include the incorporated Health Advisory Councils (HACs) within the EFNLHN region. These HACs undertake an advocacy role on behalf of the community, to provide advice about health services, health issues, goals, priorities, plans and other strategic initiatives.

We are only showing the consolidated amounts below, as the differences between the consolidated and parent amounts are immaterial.

Highlights of the financial report – consolidated

	2024 $million	2023 $million
Income		
Revenues from SA Government	141	129
Fees and charges and other income	17	15
Grants and contributions	30	29
Total income	188	173
Expenses		
Staff related expenses	86	80
Supplies and services and other expenses	93	83
Depreciation and amortisation	8	7
Total expenses	187	170
Net result	1	3
Total other comprehensive income	51	-
Total comprehensive result	52	3
Assets		
Current assets	47	45
Non-current assets	181	132
Total assets	228	177
Liabilities		
Current liabilities	37	39
Non-current liabilities	13	12
Total liabilities	50	51
Net assets	178	126

Statement of Comprehensive Income

Revenues

Revenues from SA Government

EFNLHN’s revenues from the SA Government are received from DHW and were 75% of its total income. They comprised:

- $137 million ($126 million) in operating funding, reflecting a rise in the National Weighted Activity Unit (NWAU) and the costs of providing health services
- $5 million ($3 million) for capital funding.

Fees and charges

Fees and charges increased by $2 million to $13 million and mainly comprise:

- $4 million of residential and aged care charges, mainly for long-stay nursing home fees
- $4 million of other fees and charges
- $3 million of patient and client fees.

Grants and contributions

Grants and contributions increased by $1 million to $30 million, with the increase reflecting an increase in Commonwealth grants and contributions to a total of $25 million.

Expenses

Staff related expenses

Staff related expenses represent 46% of total expenses and increased by $6 million (7%) due to:

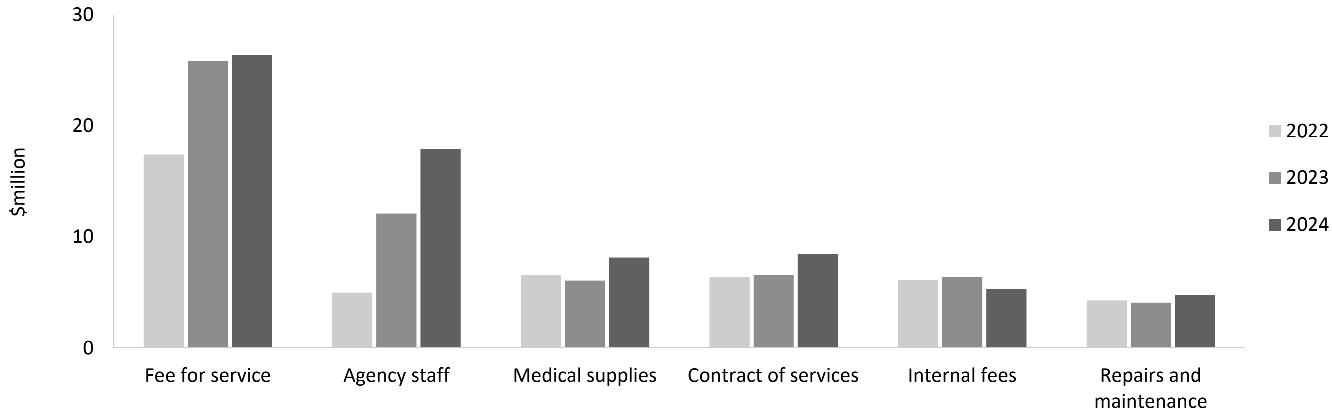
- a $4 million increase in salaries and wages, reflecting an increase of 22 FTEs and a slight increase in pay rates
- a $1 million increase in superannuation due to the rise in the superannuation guarantee.

Supplies and services expenses

Supplies and services increased by $12 million to a total of $92 million, mainly due to:

- a $6 million increase in agency staff expenses due to increased patient numbers and being unable to fill vacant positions, and a rise in the cost of agency staff
- a $2 million increase in medical supplies due to increased patients and increased cost of supplies
- a $2 million increase in contract of services.

There are six main categories that account for 77% of supplies and services expenditure, as shown in the chart below.



Statement of Financial Position

Assets

Current assets increased by $2 million following an increase of $9 million in cash and cash equivalents offset by a $7 million decrease in receivables.

Property, plant and equipment

At 30 June 2024, property, plant and equipment represented 79% of total assets and the most significant component was $172 million ($127 million) of land and buildings.

Liabilities

Staff-related liabilities

Staff-related liabilities are 53% of total liabilities and comprised:

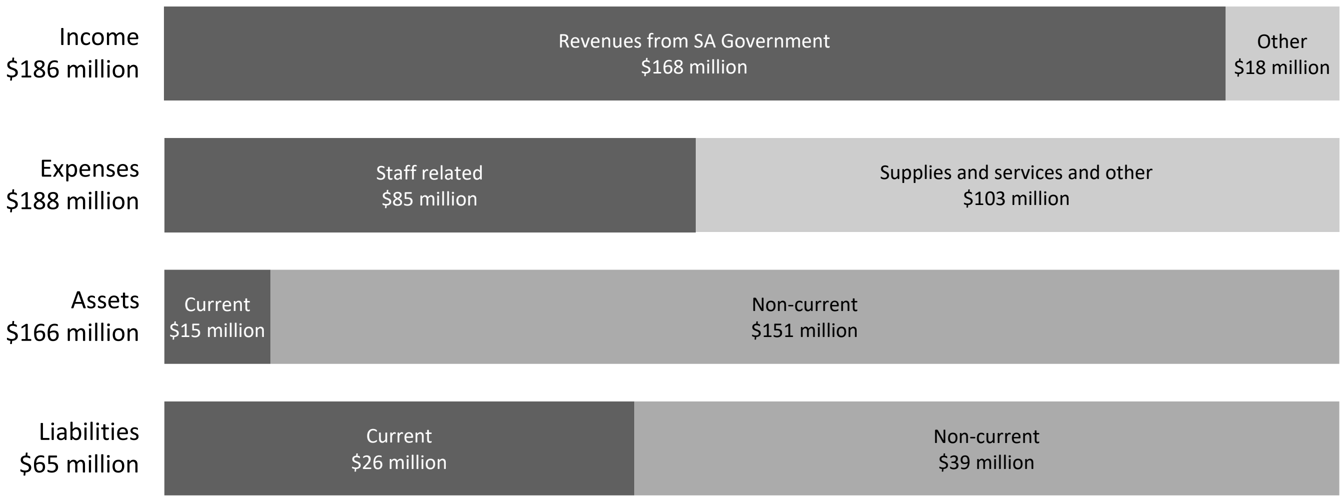
- $24 million ($22 million) of staff benefits liabilities and related on-costs
- $3 million ($3 million) of provisions for workers compensation.

Other liabilities

Other current liabilities are 35% of total liabilities and mainly comprise residential aged care bonds of $16 million ($16 million). These bonds are refundable accommodation contributions or deposits made by residents when they enter aged care facilities.

Flinders and Upper North Local Health Network Incorporated (FUNLHN)

Financial statistics



785
FTEs

7
Hospital and health service sites

17,326
Total inpatient activity

Significant events and transactions

- The Leigh Creek Health Clinic build was completed.
- Activation of the Electronic Medical Records System was completed.

Financial report opinion

Modified

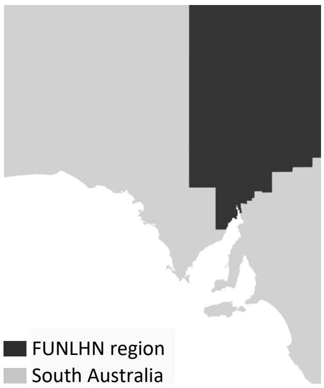
FUNLHN did not have an effective process to meet the disclosure requirements of Treasurer's Instructions (Accounting Policy Statements) for reporting the value of procurement with South Australian and non-South Australian businesses for 2023-24. This is discussed further in Part A of this report.

Audit findings

- Invoices were paid without purchase orders.
- Sundry and patient debt management needs to improve.
- There is inadequate segregation of duties for revenue officers.
- There is no review of changes to medical records that impact patient charges.
- There is no strategic asset management plan.
- Condition assessments need to be performed more regularly.

Functional responsibility

FUNLHN was established to provide health services in the Flinders and Upper North region of South Australia. This map of South Australia shows the FUNLHN region.



Governance

LHN governing boards are responsible for the governance and oversight of local health service delivery, including governance of performance, budget achievement, clinical safety and quality and risk. Each LHN chief executive officer is accountable to, and subject to the direction of, the governing board for managing the operations and affairs of the LHN.

Scope of the audit

Financial services for FUNLHN are provided by several agencies:

- FUNLHN
- the Rural Support Service (RSS) within the Barossa Hills Fleurieu LHN
- the Department for Health and Wellbeing (DHW)
- Shared Services SA (SSSA).

Our audit covered the major financial systems at DHW, FUNLHN, RSS and SSSA to obtain sufficient evidence to form an opinion on the financial report. A contract accounting firm assisted the Auditor-General with the audit. Areas of audit attention in 2023-24 included:

- payroll
- accounts payable, including procurement
- revenue, including debt management
- property, plant and equipment
- asset management
- cash
- general ledger.

Audit findings

Communicating our audit findings

We communicated our audit findings in a management letter to the Chief Executive Officer of FUNLHN. The main findings and FUNLHN's responses are discussed below.

We also identified several findings for control activities performed by the RSS that impact FUNLHN. They are reported under 'Barossa Hills Fleurieu Local Health Network Incorporated' in this report.

Invoices paid without purchase orders

SA Health's requisition, purchase order and invoice management policy mandates the use of requisitions and purchase orders, unless the item purchased is on the approved purchase order exemption list or the purchase is below $2,200.

We found payments made without purchase orders for which exemptions did not apply. This increases the risk of payments being made for goods or services not received or not at the agreed price.

FUNLHN advised us that it would be employing a procurement and contract manager to assist and will continue to provide targeted education to staff to ensure compliance with the SA Health policy.

Patient and sundry debtor management needs to improve

We reviewed the effectiveness of debtor follow-up activities for patient and sundry debtors. We found instances where the follow-up and recovery of longstanding debtors was ineffective or not performed.

FUNLHN advised us that it employed a senior debt management officer in March 2024. It will continue to educate the staff responsible for following up patient debts and implement a monthly review to identify areas of concern. FUNLHN will request regular meetings with SSSA to monitor the progress of its sundry debtors.

Inadequate segregation of duties for revenue officers

We reviewed patient billing and found opportunities to improve the segregation of duties by restricting user access for receipting officers or reviewing repricing reports. The current arrangements increase the risk of inappropriate adjustments being made to invoiced fees.

FUNLHN advised us that it will review the reports that show all changes to patient billing.

No review of reports on changes to medical records that impact patient charges

A report on some of the changes made to medical records that impact patient charges is not independently reviewed.

FUNLHN advised us that it would implement a monthly review of this report.

No strategic asset management plan

FUNLHN has not developed a strategic asset management plan or an asset management plan.

FUNLHN informed us that it has engaged a consultant to prepare the strategic asset management plan, which is currently in draft and expected to be completed by early 2025.

Condition assessments need to be performed more regularly

We noted that asset condition assessments have not been performed for five years.

FUNLHN advised it will engage a consultant to perform regular condition assessments.

Interpretation and analysis of the financial report

The consolidated accounts of FUNLHN include the incorporated Health Advisory Councils (HACs) within the FUNLHN region. These HACs undertake an advocacy role on behalf of the community, to provide advice about health services, health issues, goals, priorities, plans and other strategic initiatives.

We are only showing the consolidated amounts below, as the differences between the consolidated and parent amounts are immaterial.

Highlights of the financial report – consolidated

	2024 $million	2023 $million
Income		
Revenues from SA Government	168	150
Fees and charges and other income	9	10
Grants and contributions	9	10
Total income	186	170
Expenses		
Staff related expenses	85	82
Supplies and services and other expenses	93	79
Depreciation and amortisation	10	9
Total expenses	188	170
Net result	(2)	-
Total other comprehensive income	36	-
Total comprehensive result	34	-

	2024 $million	2023 $million
Assets		
Current assets	15	14
Non-current assets	151	119
Total assets	166	133
Liabilities		
Current liabilities	26	25
Non-current liabilities	39	40
Total liabilities	65	65
Net assets	101	68

Statement of Comprehensive Income

Revenues

Revenues from SA Government

FUNLHN's revenues from the SA Government are received from DHW and were 91% of its total income. They comprised:

- $164 million ($147 million) in operating funding, reflecting a rise in the National Weighted Activity Unit (NWAU) and the costs of providing health services
- $4 million ($3 million) in capital funding.

Fees and charges

Fees and charges decreased by $1 million to $6 million. The significant components are:

- $3 million of patient and client fees
- $1 million of fees for health services
- $1 million of residential and aged care fees.

Expenses

Staff related expenses

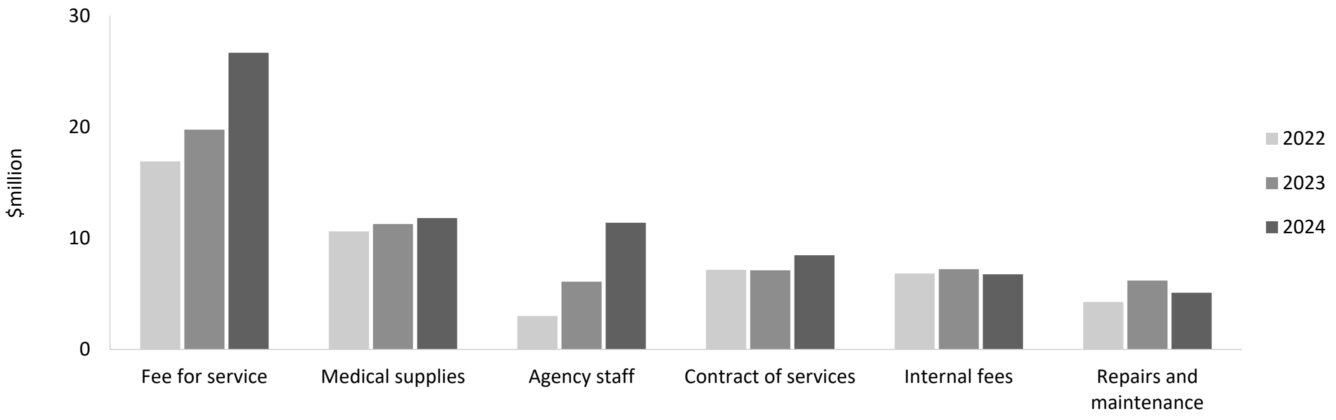
Staff related expenses represent 45% of total expenses and increased by $3 million due to:

- a $2 million increase as a result of additional long service leave and annual leave
- a $1 million increase in superannuation due to the rise in the superannuation guarantee.

Supplies and services expenses

Supplies and services increased by $15 million (19%), mainly due to a $7 million increase in fee for service costs and a $5 million increase in agency staff due to their increased use to cover vacant positions that could not be filled and a rise in the cost of agency staff.

There are six main categories that account for 75% of supplies and services expenditure, as shown in the chart below.



Statement of Financial Position

Assets

Current assets mainly comprise cash and cash equivalents of $11 million ($10 million), receivables of $2 million ($2 million) and other financial assets of $1 million ($1 million). Financial assets primarily relate to the investment of aged care refundable deposits.

Property, plant and equipment

As at 30 June 2024, property, plant and equipment of $151 million represented 90% of total assets. They mainly comprise $27 million ($29 million) of right-of-use leased buildings and $114 million ($82 million) of land and buildings.

Liabilities

Current liabilities of $26 million exceeded current assets of $15 million at balance date.

Cash and cash equivalents of $11 million were sufficient to meet current payables of $6 million. FUNLHN is funded to meet expected cash flows for its current program.

Staff-related liabilities

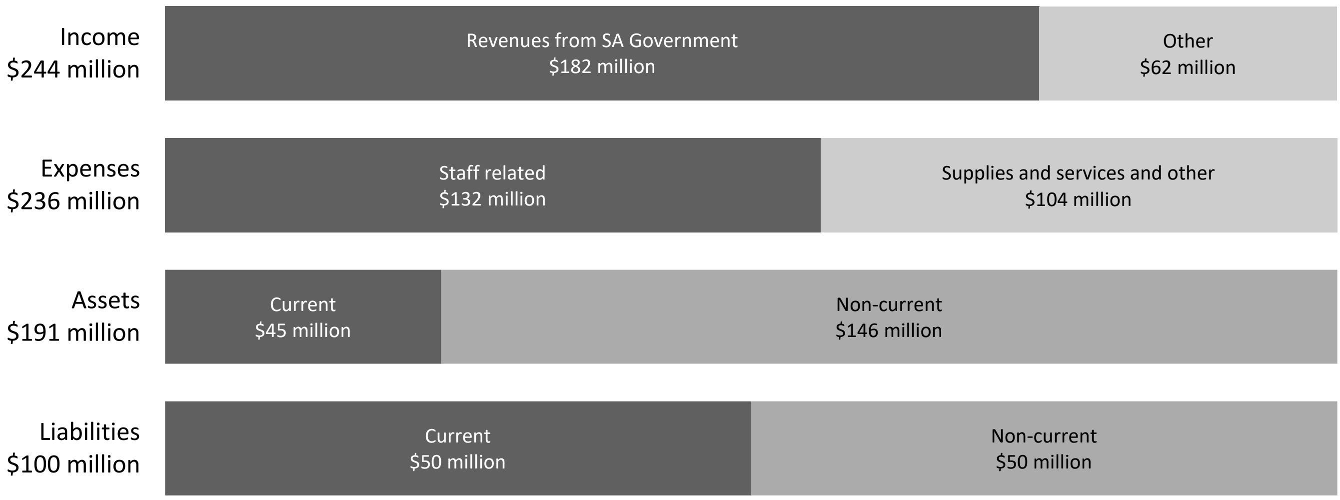
Staff-related liabilities are 42% of total liabilities at 30 June 2024.

Financial liabilities

Financial liabilities of $28 million represented 44% of total liabilities at 30 June 2024. $27 million relates to right-of-use assets.

Limestone Coast Local Health Network Incorporated (LCLHN)

Financial statistics



1,110
FTEs

15
Hospital and health service sites

18,206
Total inpatient activity

Significant events and transactions

- The Keith and Districts Private Hospital transitioned into the LCLHN in September 2023.
- Activation of the Electronic Medical Records System was completed.

Financial report opinion

Modified

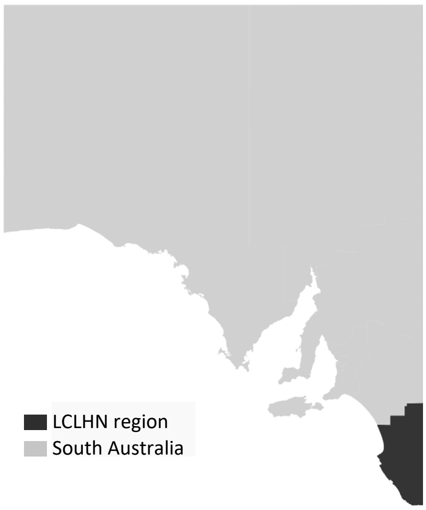
LCLHN did not have an effective process to meet the disclosure requirements of Treasurer's Instructions (Accounting Policy Statements) for reporting the value of procurement with South Australian and non-South Australian businesses for 2023-24. This is discussed further in Part A of this report.

Audit findings

- Invoices were paid without purchase orders.
- The accounts payable user access review was not performed.
- Sundry debt management needs to improve.
- There is inadequate segregation of duties for revenue officers.
- There is no review of changes to medical records that impact patient charges.
- A locum doctor was overpaid.
- Locum doctors were engaged without a procurement process.
- There is no strategic asset management plan.

Functional responsibility

LCLHN was established to provide health services in the Limestone Coast region of South Australia. This map of South Australia shows the LCLHN region.



Governance

LHN governing boards are responsible for the governance and oversight of local health service delivery, including governance of performance, budget achievement, clinical safety and quality and risk. Each LHN chief executive officer is accountable to, and subject to the direction of, the governing board for managing the operations and affairs of the LHN.

Scope of the audit

Financial services for LCLHN are provided by several agencies:

- LCLHN
- the Rural Support Service (RSS) within the Barossa Hills Fleurieu LHN
- the Department for Health and Wellbeing (DHW)
- Shared Services SA (SSSA).

Our audit covered the major financial systems at DHW, LCLHN, RSS and SSSA to obtain sufficient evidence to form an opinion on the financial report. A contracted accounting firm assisted the Auditor-General with the audit. Areas of audit attention in 2023-24 included:

- payroll
- accounts payable, including procurement
- revenue, including debt management
- property, plant and equipment
- asset management
- cash
- general ledger.

Audit findings

Communicating our audit findings

We communicated our audit findings in a management letter to the Chief Executive Officer of LCLHN. The main findings and the LCLHN's responses are discussed below.

We also identified several findings for control activities performed by the RSS that impact LCLHN. They are reported under 'Barossa Hills Fleurieu Local Health Network Incorporated' in this report.

Invoices paid without purchase orders

SA Health's requisition, purchase order and invoice management policy mandates the use of requisitions and purchase orders, unless the item purchased is on the approved purchase order exemption list or below $2,200. We found payments made without purchase orders for which exemptions did not apply. This increases the risk of payments being made for goods or services not received or not at the agreed price.

LCLHN advised us that it will continue with ongoing reviews and educating employees.

Accounts payable user access review not performed

We found that the Basware payment system quarterly user access review was not performed.

LCLHN advised us that it would conduct quarterly Basware user access reviews from September 2024.

Sundry debtor management needs to improve

The follow-up and management of sundry debt is performed by SSSA. We tested a sample of long outstanding debts and found instances where there was insufficient debt follow-up. This increases the likelihood of not being able to collect the debt.

LCLHN advised us that it will continue to ensure debts are followed up and will review its long outstanding debt for recoverability.

Inadequate segregation of duties for revenue officers

We reviewed patient billing and found opportunities to improve the segregation of duties by restricting user access for receipting officers. The current arrangements increase the risk of inappropriate adjustments being made to invoiced fees.

LCLHN advised us that it would restrict access if the system allows it or implement a process to identify any changes made.

No review of changes to medical records that impact patient charges

A report on some of the changes made to medical records that impact patient charges is not independently reviewed.

LCLHN advised us that it would implement a monthly review of this report.

Overpayment of locum doctor

We found nine instances where a locum doctor was paid for a full shift without completing the shift.

LCLHN advised us that it believes the locum doctor should be paid for a full shift regardless of the hours worked.

Engaging locum doctors without a procurement process

We found that four locum doctors provided services without using the correct procurement process or getting the appropriate authorisation.

LCLHN advised us that it would provide staff training on the correct procurement process and ensure appropriate authorisations are obtained.

No strategic asset management plan

LCLHN has not developed or documented a strategic asset management plan or an asset management plan.

LCLHN advised us that it is waiting for the Clinical Services Plan to be finalised before its draft strategic asset management plan and asset management plan can be finalised. They are due to be completed by June 2025.

Interpretation and analysis of the financial report

The consolidated accounts of LCLHN include the incorporated Health Advisory Councils (HACs) within the LCLHN region. These HACs undertake an advocacy role on behalf of the community, to provide advice about health services, health issues, goals, priorities, plans and other strategic initiatives.

We are only showing the consolidated amounts below as the differences between the consolidated and parent amounts are immaterial.

Highlights of the financial report – consolidated

	2024 $million	2023 $million
Income		
Revenues from SA Government	182	165
Fees and charges and other income	30	21
Grants and contributions	32	26
Total income	244	212
Expenses		
Staff related expenses	132	122
Supplies and services and other expenses	97	84
Depreciation and amortisation	7	7
Total expenses	236	213
Net result	8	(1)
Total other comprehensive income	21	-
Total comprehensive result	29	(1)
Assets		
Current assets	45	36
Non-current assets	146	120
Total assets	191	156
Liabilities		
Current liabilities	50	42
Non-current liabilities	50	51
Total liabilities	100	93
Net assets	91	63

Statement of Comprehensive Income

Revenues

Revenues from SA Government

LCLHN's revenues from the SA Government are received from DHW and were 74% of its total income. They comprised:

- $177 million ($163 million) in operating funding, reflecting a rise in the National Weighted Activity Unit (NWAU) and the costs of providing health services
- $5 million ($2 million) in capital funding, with the increase being for upgrading existing assets.

Fees and charges

Fees and charges increased by $2 million and mainly comprise:

- $10 million ($9 million) in patient and client fees, reflecting an increase in patients
- $5 million ($4 million) in residential and aged care charges, mainly for long-stay nursing home fees.

Grants and contributions

Grants and contributions increased by $6 million to $32 million and includes:

- $14 million ($9 million) of Commonwealth aged care subsidies, reflecting an increase in patients from the transition of Keith and Districts Private Hospital to LCLHN and an increase in the Commonwealth subsidy amount
- $17 million ($16 million) of Commonwealth grants.

Expenses

Staff related expenses

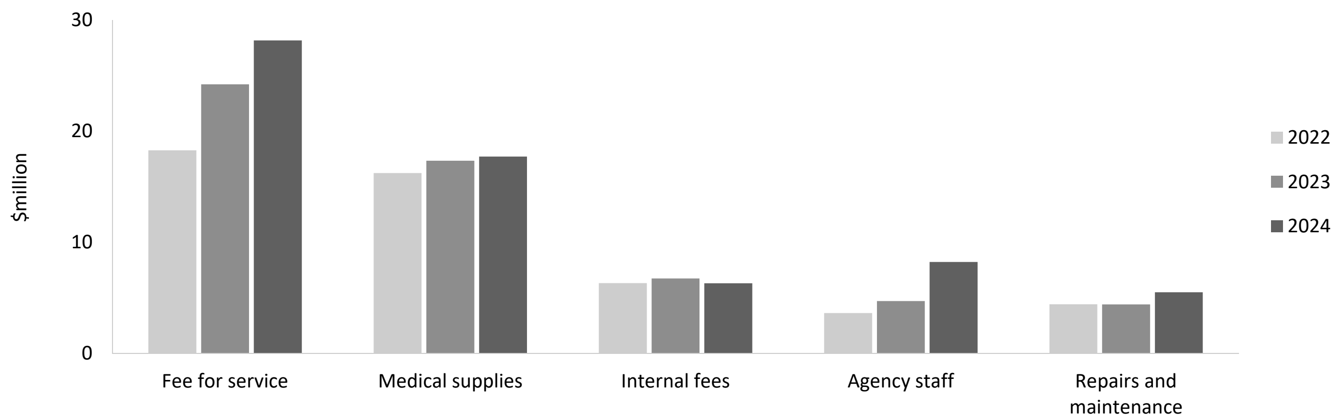
Staff related expenses represent 56% of total expenses and increased by $10 million (8%) to $131 million, due to:

- a $7 million increase in salaries and wages due to an increase of 10 FTEs and an increase in pay rates
- a $2 million increase due to additional long-service leave and annual leave expenses for additional FTEs
- a $1 million increase in superannuation due to the rise in the superannuation guarantee.

Supplies and services expenses

Supplies and services increased by $12 million (14%) to $94 million, mainly due to increases in fee for service of $4 million and $4 million for the increased use of agency staff to cover vacant positions that could not be filled and increased activity.

There are five main categories that account for 70% of supplies and services expenditure, as shown in the chart below.



Statement of Financial Position

Assets

Current assets comprise cash and cash equivalents of $14 million ($12 million), receivables of $6 million ($5 million) and other financial assets of $23 million ($18 million) that mainly relate to the investment of aged care refundable deposits. The increase in financial assets is due to the transition of Keith and Districts Private Hospital to LCLHN.

Property, plant and equipment

At 30 June 2024, property, plant and equipment represented 76% of total assets, and included:

- land and buildings of $82 million
- right-of-use lease assets $39 million
- accommodation and leasehold improvements of $16 million.

Liabilities

Current liabilities of $50 million exceeded current assets of $45 million at 30 June 2024.

Cash and cash equivalents of $14 million were sufficient to meet current payables of $6 million. LCLHN is funded to meet expected cash flows for its current program delivery.

Staff-related liabilities

Staff-related liabilities remained stable and were 40% of total liabilities at 30 June 2024, comprising:

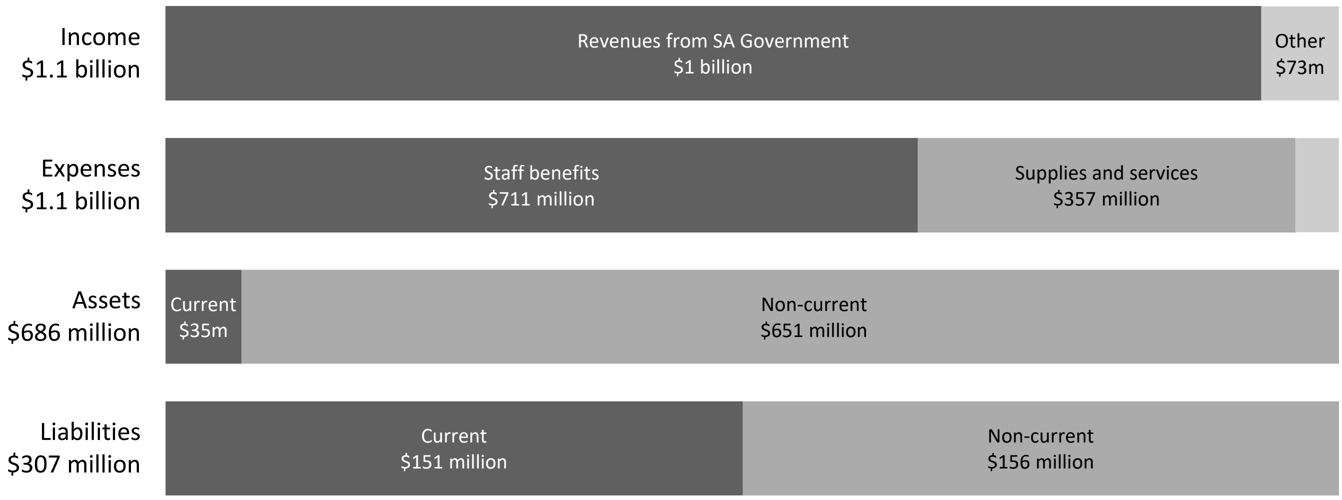
- staff benefits liabilities and related on-costs of $36 million ($33 million)
- provisions for workers compensation of $4 million ($4 million).

Financial liabilities

Financial liabilities were $34 million (34%) of total liabilities at 30 June 2024 and relate to the right-of-use assets of $39 million.

Northern Adelaide Local Health Network Incorporated (NALHN)

Financial statistics



4,859 FTEs | $551 million Salaries and wages | $475 million Value of buildings | 86,354* Total inpatient activity

* Data provided by SA Health and unaudited.

Significant events and transactions

— Delivering the capital works program continued across the northern region, including an additional 48 sub-acute beds and the expansion of the emergency department at the Lyell McEwin Hospital, where funding of $104 million is to be provided.

— Construction on the $25 million Modbury Hospital Cancer Centre started.

Financial report opinion

Modified

NALHN did not have an effective process to meet the disclosure requirements of Treasurer's Instructions (Accounting Policy Statements) for reporting the value of procurement with South Australian and non-South Australian businesses for 2023-24. This is discussed further in Part A of this report.

Controls opinion findings`

- Processes for required employment screening checks need to improve.
- Payroll planning, monitoring and approval processes could be improved.
- The memorandum of administrative arrangement (MoAA) formalising the Across Government Facilities Management Arrangements (AGFMA) was not signed.
- The strategic asset management plan and related asset management plan were not finalised.
- The AGFMA service delivery plan for 2023-24 was not approved.
- Improvements to user access reviews for asset systems are needed.
- Some expenditure was processed without a purchase order.
- Basware payment system reports were not reviewed.
- Some contracts do not have a contract management plan.
- Contract variations were not properly approved.

Other audit findings

- The user access review of the Sunrise EMR revenue system has not yet occurred.
- There is inadequate segregation of duties in Sunrise EMR.

Functional responsibility

NALHN was established under the *Health Care Act 2008* and it establishes, provides, maintains and enhances hospital, medical and allied health services in its local area. This map of South Australia shows NALHN's local area.

Governance

LHN governing boards are responsible for the overall governance and oversight of local health service delivery by the LHN, including governance of performance, budget achievement, clinical governance, safety and quality, risk management and the achievement of board functions and responsibilities. Each LHN chief executive officer is accountable to, and subject to the direction of, the governing board for managing the operations and affairs of the LHN.

A service agreement between NALHN and the Department for Health and Wellbeing (DHW) outlines the requirements of the formal relationship between them, and sets out performance expectations and funding arrangements. The 2023-24 NALHN service agreement was executed in December 2023.

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. Financial services for NALHN are provided through a mix of:

- central services provided by DHW
- finance services located within NALHN
- central services provided by Shared Services SA (SSSA) through an integrated finance service model.

Our audit therefore included reviewing financial systems and completing audit work at DHW’s central services, NALHN and SSSA.

Audit findings across health services fall into the following categories:

- common findings reflecting central services and/or systems
- matters for individual health services
- DHW matters.

Areas of audit attention in 2023-24 included:

- governance
- payroll and workforce management
- accounts payable, including procurement and contract management
- the AGFMA
- revenue, including debt management
- property, plant and equipment
- cash
- general ledger.

We reviewed internal audit activities in planning and conducting our audit. No reliance was placed on the work of internal audit.

Controls opinion

We reviewed controls over payroll, AGFMA, and procurement and contract management activities as part of our overall controls opinion, which is discussed in Part B of this report.

Audit findings

Communicating our audit findings

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

Controls opinion findings

Payroll

NALHN employed 4,859 FTEs at 30 June 2024 and its payroll-related costs are significant, with $711 million in staff benefits expenses paid and $230 million in staff benefits liabilities and associated on-costs. Because of the significance of these costs, we review key payroll controls each year.

Many of the payroll issues we identified in 2023-24 we also raised in previous years.

Processes for required employment screening checks need to improve

In 2023-24 we again considered the way NALHN manages employment screening checks for its staff as part of our review of controls associated with staff expenses.

We acknowledge the progress NALHN has made in reviewing its position requirements to determine which positions need screening checks, and centralising the management and monitoring of those checks. This has improved overall compliance and the monitoring of screening checks. Further work is needed, however, to ensure the screening check information recorded in NALHN's payroll system is up to date, and captures all the positions that need a screening check and the type of check required.

— *Staff potentially working in aged care roles without a current aged care check*

SA Health policy requires staff working in certain aged care roles to have a current national police check. NALHN may also require a staff member to obtain an aged care check.

For several years we have raised that NALHN needs to review all of its position requirements to identify which positions require a screening check. We understand that the process of identifying positions requiring an aged care check is still in progress. NALHN should also have processes to ensure only employees with the required checks are in those positions and to monitor the expiry dates of these checks.

NALHN responded that it will identify the positions that need an aged care check and record them in the payroll system by June 2025.

Payroll planning, monitoring and approval processes could be improved

— *Key payroll information not always reviewed*

Key payroll reports for NALHN's staff differ depending on the employee type. The effective review of these reports helps to ensure staff payments are accurate and valid.

For staff who are automatically paid each fortnight, key payroll information is captured on bona fide reports and leave return certificates. For nursing and midwifery staff, it is recorded in the rostering system, which interfaces with the payroll system used to pay these staff. Other NALHN staff are paid based on manually submitted timesheets, with many of them paid significant allowances in addition to their automatic base pay.

In 2023-24 we found that:

- the review of bona fide reports and leave return certificates is not uniformly performed across all divisions. 81% (82%) of bona fide reports and 78% (77%) of leave return certificates were reviewed and approved as at March 2024
- unlike automatically paid staff who are reported on bona fide certificates, there is no regular review to ensure payments made to staff who submit manual timesheets are correct once the payment has been processed into the payroll system
- for some manual timesheets for medical officers we were not able to determine whether the timesheet authoriser was appropriate as their name and position title were missing or unclear
- at June 2024, timesheets for 11% of nursing and midwifery staff and 14% of non-medical staff were not approved prior to payment.

In response NALHN advised us that it will:

- reinforce with staff the requirement to review bona fide reports and leave return certificates and work with areas where compliance is poor
- remind staff and managers of the requirement to approve timesheets
- review unauthorised timesheets to identify opportunities to strengthen compliance.

— *Inconsistent medical rostering practices across divisions*

As we have found for the last few years, rostering practices for medical officers continue to vary across divisions. As there is no rostering system for them, and no central training for staff preparing their rosters, various local practices have developed. These inconsistencies increase the risk of complex enterprise agreements being interpreted differently across divisions.

We understand that SA Health was investigating moving medical officers from manual timesheets to an electronic system to help set consistent rules and practices for rostering and approving timesheets.

In March 2024 NALHN advised us that an electronic timesheet system was being piloted. If successful, the system still would not be implemented for at least 12 to 18 months. NALHN will continue to work on having an electronic timesheet system to improve its rostering practices and payment review processes.

— *Ineffective management of excessive annual leave*

NALHN policy requires anyone with an annual leave balance in excess of two years' entitlement (300 hours) to establish a leave reduction plan, approved by a divisional director, outlining how they will reduce their leave balance. As at April 2024, 621 NALHN staff had annual leave balances over 300 hours, with two staff having balances over 800 hours.

We sampled six staff with leave balances over 600 hours and found:

- three did not have a formal leave reduction plan
- one did not reply to our request to provide a leave reduction plan
- two had an approved leave reduction plan.

Excessive annual leave balances that are not actively managed may impact staff wellbeing and productivity.

NALHN responded that it will reinforce to managers their obligations to develop annual leave reduction plans for employees with excessive leave. It will also introduce reporting to identify staff with excess leave balances who do not have an approved leave reduction plan and will monitor them at monthly performance meetings.

Across Government Facilities Management Arrangements

NALHN has property, plant and equipment totalling $648 million at 30 June 2024. As part of our 2023-24 controls opinion work, we considered NALHN's processes to manage the maintenance of these assets, including the implementation of the AGFMA.

The AGFMA is a Cabinet-approved framework for the provision of facilities services to agencies across the SA Government. These services include breakdown maintenance, preventative maintenance, replacement and refurbishment, handyperson services and small construction.

In July 2021 the Department for Infrastructure and Transport (DIT) entered into a contract with Ventia Australia Pty Ltd (Ventia) to deliver the AGFMA from 1 December 2021.

Our review of the AGFMA focused on the controls exercised by NALHN.

The MoAA formalising the AGFMA was not signed

We noted that a draft MoAA between NALHN and DIT was developed in 2021-22 to formalise the roles and responsibilities of the parties involved in delivering the AGFMA. DIT provided the draft MoAA to NALHN before the new contract with Ventia commenced. We understand that NALHN did not want to sign the draft MoAA due to what it considers are significant gaps in the responsibilities of the parties, and in particular what is required from Ventia.

We found that the MoAA was still unsigned as at 30 June 2024. As a result, the roles and responsibilities of the AGFMA parties are unclear, which could lead to inefficient and ineffective delivery of the services and disputes among the parties.

NALHN responded that the MoAA will be presented to its Board for sign off. The Board will also be kept informed of how services and deliverables are progressing and how instances of non-compliance are managed and escalated.

Strategic asset management plan and related asset management plan not finalised

Various SA Health policy directives outline the importance of SA Health agencies developing effective asset management strategies. They require an agency to have a strategic asset management plan and a related asset management plan outlining how its assets, and the risks associated with them, will be managed.

We found that NALHN had not finalised these plans. Without them, it may not be fully informed about its asset management risks, and may not be able to properly plan how its assets will be managed in line with legislative, technical and service requirements, and the costs for maintenance and replacement.

NALHN advised us that it has drafted a strategic asset management plan for approval by the Board.

Ventia annual service delivery plan (ASDP) for 2023-24 not approved by NALHN

Ventia is responsible for developing an ASDP in consultation with NALHN, to document the planned services to be performed by Ventia in a given financial year. The ASDP should detail all planned works, the timing of them and the estimated costs. The ASDP ensures that all maintenance required by legislation, regulations and standards is performed for all relevant assets.

Once NALHN is satisfied that the ASDP is a complete and accurate record of the planned services it needs for the year, it should approve it. This should be done by 31 May for the coming financial year.

We found that NALHN had not approved the 2023-24 ASDP. We were advised that this was because NALHN was not satisfied with what Ventia had included in the ASDP, and that Ventia kept changing the estimated cost of the works. We also understand that the ASDP was only provided to NALHN by Ventia in August 2023, after the 31 May 2023 deadline for approval had passed.

If an ASDP is not agreed between NALHN and Ventia, the planned maintenance required by legislation, regulations or standards may not be performed, resulting in safety risks to staff and patients.

NALHN responded that it will finalise the 2024-25 ASDP in consultation with Ventia.

Improvements required to Panorama user access review processes

Panorama is the system Ventia manages and uses to record asset data, and that agencies use to request, approve and track jobs to be performed by Ventia.

We understand that Ventia is responsible for sending a list of all Panorama users to NALHN annually, which NALHN should review. Any changes needed should be sent back to Ventia for action. We believe this user access review should be performed more often than once a year. We also found that NALHN has no policies or procedures for the review.

NALHN responded that it will develop a procedure for Panorama user access reviews and perform them in line with the procedure.

Goods and services expenditure

NALHN spent $357 million on supplies and services in 2023-24. As part of our controls opinion work we considered its controls to ensure the effective procurement, contracting and purchasing of goods and services.

Some expenditure was processed without a purchase order

SA Health policy requires a purchase order to be used for all purchases unless the item is on the approved purchase order exemption list or is below a certain value. We analysed supplies and services expenditure between 1 July 2023 and 29 May 2024 and identified $5.8 million of expenditure that should have been supported by purchase orders, but was not.

Where purchase orders are not used when required, there is an increased risk of unnecessary or unauthorised expenditure occurring due to the lack of prior approval.

NALHN responded that a bimonthly report on transactions approved without a purchase order will be tabled at its Corporate Governance and Divisional Finance meetings. A target of less than 5% of transactions approved without a purchase order will be established and non-compliance with this target will require a remediation plan. NALHN will also remind staff of their purchasing responsibility.

Basware authorisation reports were not reviewed

SSSA produces a suite of monthly reports from the Basware payment system and sends them to agencies for review. The reports list transactions that were authorised using a super or special authorisation, or were manually approved before processing. Reviewing these reports provides comfort over the validity of expenditure for large or unusual payments, or manual payments that were approved outside of Basware's in-built authorisation rules.

Last year we found that NALHN had not reviewed these reports since Basware was upgraded in March 2022. Although SSSA was sending the reports to DHW, DHW could not forward them to NALHN for review as the information needed to do this was missing from the reports. This year we found that NALHN was receiving the reports on an ad-hoc basis, which makes the timely review of information on them difficult.

NALHN responded that it has asked DHW to provide the Basware reports monthly and that it will review them on a timely basis once it receives them.

Some contracts do not have a contract management plan (CMP)

SA Health's contract management framework reflects the key contract management principles promoted by Procurement SA, including:

- classifying contracts into four categories, based on value, risk and complexity, to differentiate the contract management requirements for them
- requiring a CMP to be developed and maintained for all complex and strategic contracts.

A CMP explains how a specific contract will be administered and executed. It should cover areas such as key deliverables, performance and risk management.

We noted that NALHN classified its Medical Imaging Reporting and Consultation Services contract as a strategic contract, but did not have an approved CMP for this contract.

NALHN responded that it will review its contracts annually.

Contract variations were not properly approved

It is important to monitor contract spending against a contract's approved financial limit so that immediate action can be taken when actual expenditure at any point in the contract term exceeds the estimate at the start of the contract. If actual spending is likely to exceed the approved estimate, Treasurer's Instruction 8 *Financial Authorisations* (TI 8) requires a contract variation to be approved.

We found that the Medical Imaging Reporting and Consultation Services contract was initially valued and approved at $35.5 million (GST inclusive). At 30 June 2024, expenditure against this contract was $43.4 million, however NALHN had not sought the required TI 8 approval for the increase.

NALHN responded that it will seek TI 8 approval for this contract.

Other audit findings

Patient and client fee revenue

NALHN received $40 million in patient and client fees in 2023-24. Patient fees include compensable revenue amounts recovered through compulsory third party arrangements for motor vehicle accidents, or through the Return to Work Corporation of South Australia for workplace-related injuries, and revenue from non-Medicare eligible patients and patients electing to be admitted as private patients. NALHN also managed over $14 million in patient and client fee debts at 30 June 2024.

User access review for the Sunrise EMR revenue system has not yet occurred

NALHN advised us that when it implemented the Sunrise EMR revenue system, users from its legacy revenue systems were rolled over to the new system.

Last year we found that a user access review for Sunrise EMR had not been done, because the third-party provider could not supply a list of current users for NALHN to review. This year we found that the third-party provider was still unable to supply the required information, so the user access review had not occurred.

NALHN responded that it has requested Sunrise EMR user access information from Digital Health SA, the system owner. Once this is provided NALHN will conduct the first user access review.

Inadequate segregation of duties for medical records in Sunrise EMR

Compensable and private patients admitted to the Lyell McEwin and Modbury Hospitals are invoiced based on several data fields entered into Sunrise EMR. The main modules containing data used for invoicing are the registration and clinical modules. The registration module stores data on the type and value of the charge, and the clinical module contains data relating to the patient's length of hospital stay. We found that NALHN's revenue officers have access to input key data into both modules and can adjust patient data without the need for approval or review.

NALHN responded that it will work with Digital Health SA to implement system controls to address the segregation of duties issue we found.

Interpretation and analysis of the financial report

Highlights of the financial report

	2024 $million	2023 $million
Income		
Revenues from SA Government	1,028	940
Fees and charges	55	41
Grants and contributions	4	4
Other income	14	16
Total income	1,101	1,001
Expenses		
Staff benefits expenses	711	643
Supplies and services	357	331
Depreciation and amortisation	36	32
Other expenses	6	3
Total expenses	1,110	1,009
Net result and total comprehensive result	(9)	(8)
Assets		
Current assets	35	36
Non-current assets	652	510
Total assets	687	546
Liabilities		
Current liabilities	151	138
Non-current liabilities	156	138
Total liabilities	307	276
Net assets	380	270

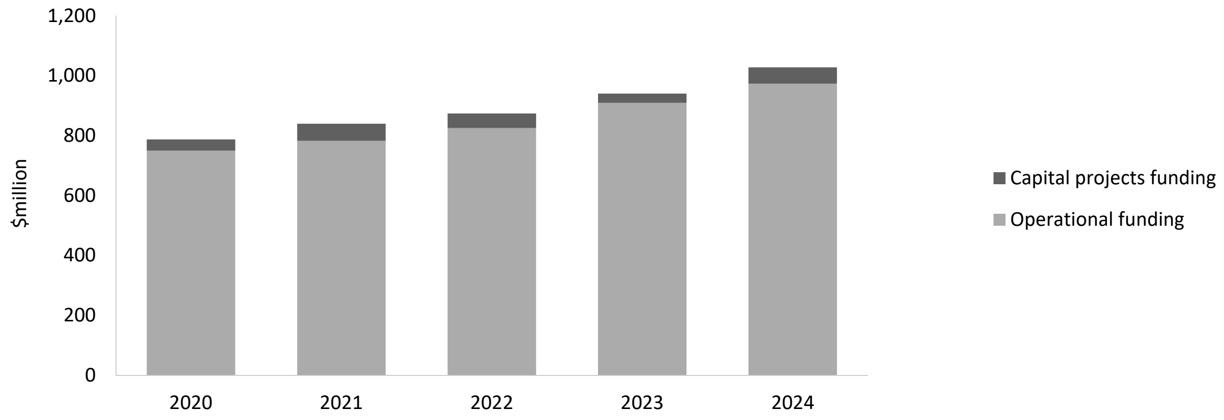
Statement of Comprehensive Income

Income

Revenues from SA Government

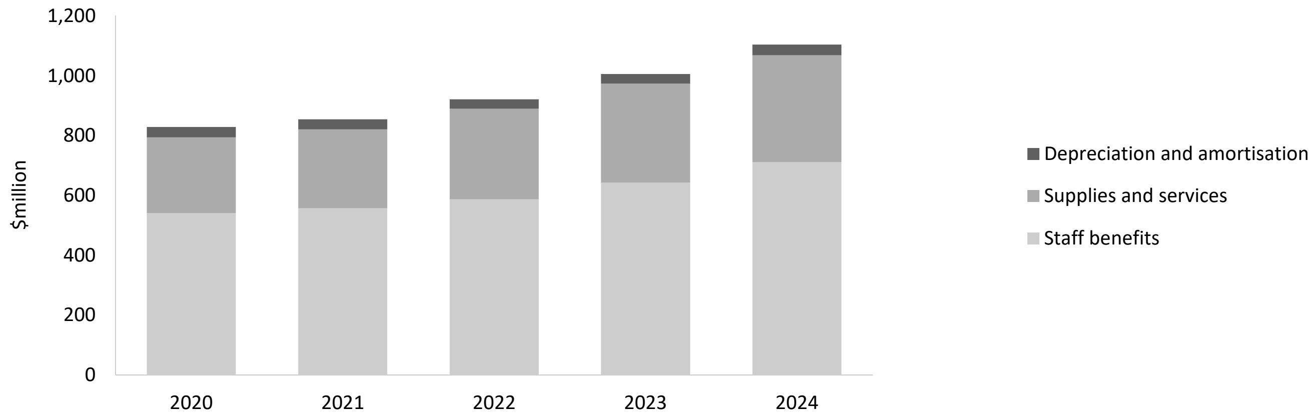
NALHN is mainly funded through recurrent and capital funding from DHW. It received recurrent funding of $973 million ($909 million) and capital funding of $55 million ($31 million) in 2023-24. The capital funding mainly relates to continued works at the Modbury Hospital for upgrades and additional services, and the expansion of the emergency department and additional sub-acute beds at the Lyell McEwin Hospital.

The chart below shows NALHN's revenues from the SA Government over the last five years and the overall increase in funding over this period.



Expenses

Total expenses increased by $100 million (10%) to $1.1 billion. The chart below shows the composition of expenses for the last five years. All major expense categories increased over this period.



Staff benefits expenses

Staff benefits expenses of $711 million represent 64% (64%) of NALHN's total expenses, and increased by $69 million in 2023-24 due to:

- a $39 million increase in salaries and wages, which mainly reflects increased staff numbers and salary rates
- a $13 million increase in long service leave expense
- an $8 million increase in superannuation expense, linked to the rise in salaries and wages expense and the superannuation guarantee rate increasing from 1 July 2023
- a $4 million increase in annual leave expense resulting from increased staff numbers
- a $4 million increase in workers compensation expense.

Long service leave and workers compensation expenses are impacted by the actuarial assessment of the associated long service leave liability and workers compensation provision as at 30 June 2024.

The following table shows the breakdown of total staff numbers between medical, nursing and non-medical staff since 2019-20. It shows the overall growth in FTEs over the five years.

	2019-20 FTEs	2020-21 FTEs	2021-22 FTEs	2022-23 FTEs	2023-24 FTEs
Medical officers	670	687	749	750	809
Nurses	2,199	2,264	2,442	2,600	2,639
Non-medical	1,227	1,246	1,278	1,379	1,411
Total FTEs	4,096	4,197	4,469	4,729	4,859

The number of staff whose remuneration received/receivable exceeded base executive level ($166,000) totalled 546 (521), comprising 450 (427) medical officers, 86 (82) nursing staff, seven (nine) executives and three (three) non-medical staff. Total remuneration of these staff was $164 million ($154 million).

Supplies and services expenses

Supplies and services expenditure increased by $26 million (8%) to $357 million. Some of the more significant movements in supplies and services were:

- agency staff costs, which increased by $5 million to $34 million due to the increased use of agency staff to cover vacant positions that could not be filled
- fee for service cost increases of $3 million due to more elective surgery being outsourced to private hospitals to make ward space available
- medical, surgical and laboratory supplies cost increases of $5 million due to increases in patient consumables, internal and external pathology charges and internal and external imaging charges
- computing cost increases of $5 million due to DHW charging NALHN for the use of Sunrise EMR
- patient transport cost increases of $2 million.

Statement of Financial Position

Property, plant and equipment

Property, plant and equipment assets represent 94% of NALHN's total assets. Their carrying value increased by $141 million to $648 million. Additions totalled $56 million, with additions to building capital works in progress of $53 million mainly related to the emergency department expansion and 48 additional sub-acute beds at the Lyell McEwin Hospital. This increase was offset by $36 million in depreciation and amortisation expenses.

Liabilities

Current liabilities increased by $13 million to $151 million and exceeded current assets of $35 million at 30 June 2024. Cash and cash equivalents of $16 million are insufficient to meet current payables of $29 million. NALHN is funded to meet expected cash flows for its current program delivery.

Staff liabilities of $230 million make up 75% of NALHN's total liabilities at 30 June 2024, and comprise:

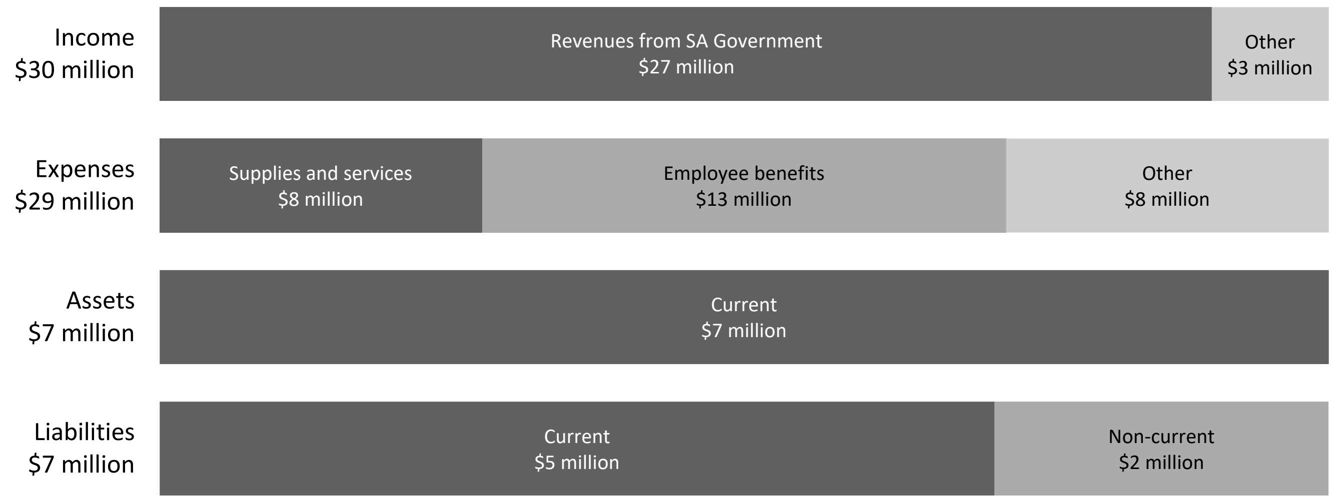
- staff benefits liabilities and related on-costs of $213 million ($188 million)
- workers compensation provisions of $17 million ($12 million).

Staff benefits liabilities and related on-costs increased by $25 million to $213 million. This was mainly due to a $4 million increase in annual leave liabilities, a $5 million increase in accrued salaries and wages, and a $15 million increase in long service leave liabilities. The increase in long service leave liabilities is based on an actuarial assessment at 30 June 2024.

The provision for workers compensation increased by $5 million to $17 million. Workers compensation provisions are based on independent actuarial assessments.

Preventive Health SA (PHSA)

Financial statistics



95
FTEs

Significant events and transactions	On 26 February 2024 Wellbeing SA and parts of Drug and Alcohol Services SA combined to form Preventive Health SA.
Financial report opinion	**Unmodified**
Audit findings	No audit findings.

Functional responsibility

Wellbeing SA was renamed Preventive Health SA in February 2024 and is an attached office to the Department for Health and Wellbeing (DHW) by proclamation under the *Public Sector Act 2009*. It delivers evidence-based preventative actions to improve the health and wellbeing of South Australians by:

- reducing the burden of non-communicable conditions and their impacts on the health system
- reducing health inequities, with a particular focus on priority populations
- increasing evidence-based, cost-effective and integrated approaches that address the social, cultural and commercial determinants of health.

The Minister for Health and Wellbeing is responsible for PHSA.

Scope of the audit

Our audit program covered major financial systems to obtain sufficient evidence to form an opinion on the financial report. Financial services for PHSA are provided through:

- finance services located within PHSA
- services provided by DHW
- services provided by Shared Services SA.

Areas of audit attention in 2023-24 included:

- payroll
- expenditure
- grants and subsidies
- cash
- general ledger.

Audit findings

There were no audit findings from our audit of PHSA.

Interpretation and analysis of the financial report

Highlights of the financial report

	2024 $million	2023 $million
Income		
Revenues from SA Government	27	22
Grants and contributions and other	3	66
Total income	30	88
Expenses		
Payments to SA Government	1	16
Employee benefits expenses	13	15
Supplies and services and other	9	55
Grants and subsidies	6	6
Total expenses	29	92
Net result	1	(4)
Assets		
Current assets	7	20
Total assets	7	20
Liabilities		
Current liabilities	5	19
Non-current liabilities	2	2
Total liabilities	7	21
Total equity	-	(1)

Statement of Comprehensive Income

Revenue

Revenues from SA Government

PHSA's main source of revenue is appropriation from the Consolidated Account under the Appropriation Act, which totalled $25.8 million in 2023-24 ($20.9 million).

Grants and contributions

In 2023 PHSA received grant funding from DHW for the My Home Hospital and SA Community Care programs. This funding decreased by $65 million to $3 million in 2024 because these programs transferred to DHW in December 2022.

Expenses

Employee benefits expenses

Employee benefits expenses of $13 million represent 45% of PHSA's total expenses.

Supplies and services expenses

Supplies and services expenses decreased by $30 million to $8 million, mainly due to reduced contract of services costs of $1.9 million ($29.6 million). The fall in these costs reflects the My Home Hospital and SA Community Care contracts transferring to DHW in December 2022. In 2023 the cost of these contracts was $24.4 million.

Payments to SA Government

Payments to the SA Government related to the return of $1 million ($16 million) in surplus cash under the cash alignment policy.

Statement of Financial Position

Assets

Current assets decreased by $13 million to $7 million as at 30 June 2024 comprising cash and cash equivalents of $5 million ($19 million) and receivables of $2 million ($1 million).

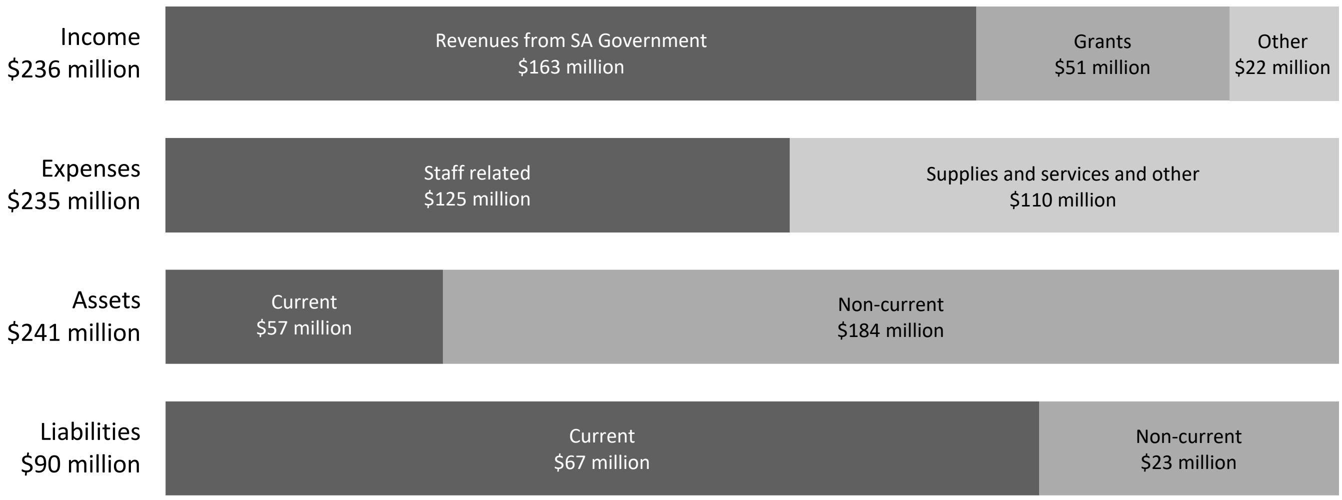
Liabilities

Employee-related liabilities

Employee-related liabilities of $3.3 million make up 49% of PHSA's total liabilities at 30 June 2024.

Riverland Mallee Coorong Local Health Network Incorporated (RMCLHN)

Financial statistics



1,212
FTEs

14
Hospital and health service sites

18,706
Total inpatient activity

Significant events and transactions

Activation of the Electronic Medical Records System was completed.

Financial report opinion

Modified

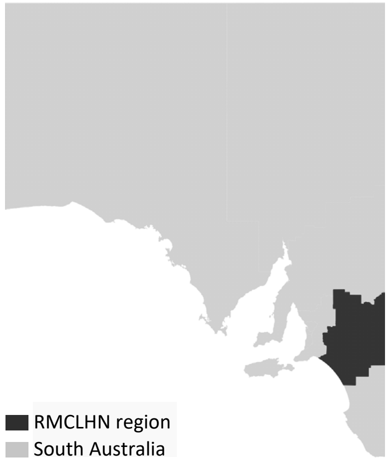
RMCLHN did not have an effective process to meet the disclosure requirements of Treasurer's Instructions (Accounting Policy Statements) for reporting the value of procurement with South Australian and non-South Australian businesses for 2023-24. This is discussed further in Part A of this report.

Audit findings

- Invoices were paid without purchase orders.
- The accounts payable user access review was not performed.
- Sundry and patient debt management needs to improve.
- There is no strategic asset management plan.
- Preventative maintenance data needs to improve.

Functional responsibility

RMCLHN was established to provide health services in the Riverland Mallee Coorong region of South Australia. This map of South Australia shows the RMCLHN region.



Governance

LHN governing boards are responsible for the governance and oversight of local health service delivery, including governance of performance, budget achievement, clinical safety and quality and risk. Each LHN chief executive officer is accountable to, and subject to the direction of, the governing board for managing the operations and affairs of the LHN.

Scope of the audit

Financial services for RMCLHN are provided by several agencies:

- RMCLHN
- the Rural Support Service (RSS) within the Barossa Hills Fleurieu LHN
- the Department for Health and Wellbeing (DHW)
- Shared Services SA (SSSA).

Our audit covered the major financial systems at DHW, RMCLHN, RSS and SSSA to obtain sufficient evidence to form an opinion on the financial report. A contract accounting firm assisted the Auditor-General with the audit. Areas of audit attention in 2023-24 included:

- payroll
- accounts payable, including procurement
- revenue, including debt management
- property, plant and equipment
- asset management
- cash
- general ledger.

Audit findings

Communicating our audit findings

We communicated our audit findings to the Chief Executive Officer of RMCLHN. The main findings and RMCLHN's responses are discussed below.

We also identified several findings for control activities performed by the RSS that impact RMCLHN. They are reported under 'Barossa Hills Fleurieu Local Health Network Incorporated' in this report.

Invoices paid without purchase orders

SA Health's requisition, purchase order and invoice management policy mandates the use of requisitions and purchase orders, unless the item purchased is on the approved purchase order exemption list or the purchase is below $2,200.

We found payments made without purchase orders for which exemptions did not apply. This increases the risk of payments being made for goods or services not received or not at the agreed price.

RMCLHN advised us that it would continue to review invoices without purchase orders and educate staff in areas of non-compliance.

Accounts payable user access review not performed

We found that the Basware payments system quarterly user access review was not performed.

RMCLHN stated that it would complete the Basware quarterly user access review.

Patient and sundry debtor management needs to improve

We reviewed the effectiveness of patient and sundry debtor follow-up activities. We found instances where the follow-up and recovery of longstanding debtors was ineffective or not performed. This increases the likelihood of not collecting the debt.

RMCLHN responded that it would continue to work on collecting its debts.

No strategic asset management plan

RMCLHN has not developed a strategic asset management plan or an asset management plan.

RMCLHN informed us that it is waiting for the Clinical Services Plan to be finalised before its draft strategic asset management plan and asset management plan can be finalised.

Preventative maintenance data needs to improve

Preventive maintenance data is kept in multiple systems which increases the risk of maintenance being missed or overlooked.

RMCLHN responded that it has approached Ventia to perform the preventative maintenance data capture.

Interpretation and analysis of the financial report

The consolidated accounts of RMCLHN include incorporated Health Advisory Councils (HACs) within the RMCLHN region. These HACs undertake an advocacy role on behalf of the community, to provide advice about health services, health issues, goals, priorities, plans and other strategic initiatives.

We are only showing the consolidated amounts below, as the differences between the consolidated and parent amounts are immaterial.

Highlights of the financial report – consolidated

	2024 $million	2023 $million
Income		
Revenues from SA Government	163	147
Fees and charges and other income	22	21
Grants and contributions	51	44
Total income	236	212
Expenses		
Staff related expenses	125	130
Supplies and services and other expenses	100	79
Depreciation and amortisation	10	10
Total expenses	235	219
Net result	1	(7)
Total other comprehensive income	39	-
Total comprehensive result	40	(7)
Assets		
Current assets	57	49
Non-current assets	184	151
Total assets	241	200
Liabilities		
Current liabilities	67	61
Non-current liabilities	23	28
Total liabilities	90	89
Net assets	151	111

Statement of Comprehensive Income

Revenues

Revenues from SA Government

RMCLHN's revenues from the SA Government are received from DHW and were 69% of its total income. They comprised:

- $158 million ($145 million) in operating funding, reflecting a rise in the National Weighted Activity Unit (NWAU) and the costs of providing health services

- $5 million ($2 million) in capital funding, reflecting increased building upgrades.

Fees and charges

Fees and charges remained stable and included the following significant components:

- $8 million of residential and aged care fees
- $4 million of patient and client fees.

Grants and contributions

Grants and contributions increased by $7 million due to:

- a $5 million increase in Commonwealth aged care subsidies related to an increase in the Commonwealth subsidy amount
- a $2 million increase in Commonwealth grants related to block funding for specific projects.

Expenses

Staff related expenses

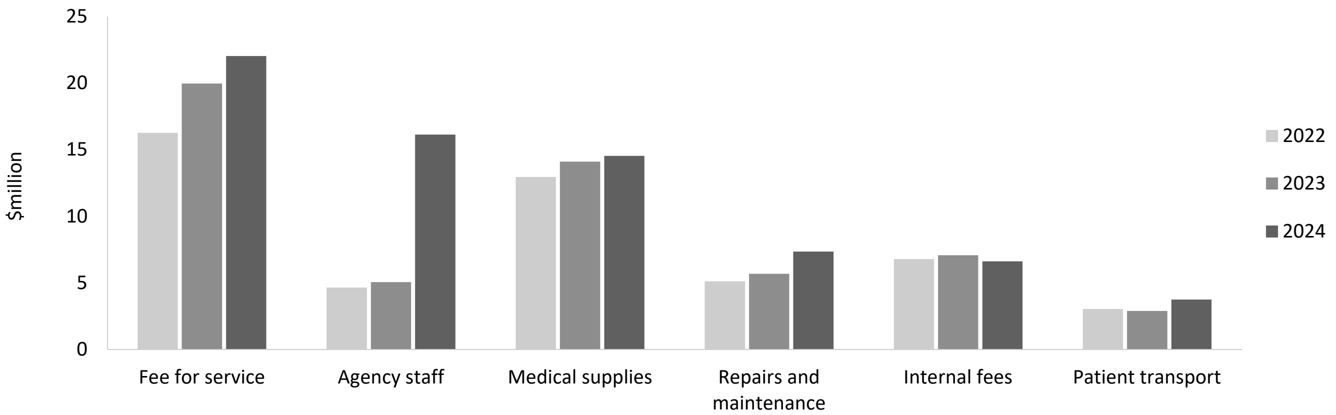
Staff related expenses represent 53% of total expenses and decreased by $5 million partly due to a decrease in workers compensation resulting from a claim being finalised.

Supplies and services expenses

Supplies and services expenses increased by $21 million (27%), mainly due to:

- an $11 million increase in agency staff due to staff vacancies and a rise in the cost of agency staff
- a $2 million increase in fee for service due to a rise in costs and higher use of the services due to vacancies
- a $1 million increase in repairs and maintenance
- a $1 million increase in patient transport due to an increase in the use of the service.

There are six main categories that account for 71% of supplies and services expenditure, as shown in the chart below.



Statement of Financial Position

Assets

Current assets increased by $8 million due to an increase in other financial assets. Other financial assets primarily relate to the investment of aged care refundable deposits.

Property, plant and equipment

As at 30 June 2024, property, plant and equipment represented 76% of total assets and the most significant component was $174 million ($140 million) of land and buildings.

Liabilities

Current liabilities of $67 million exceeded current assets of $57 million at balance date.

Cash and cash equivalents of $17 million were sufficient to meet current payables of $7 million. RMCLHN is funded to meet expected cash flows for its current program delivery.

Staff-related liabilities

Staff-related liabilities make up 50% of total liabilities at 30 June 2024, comprising:

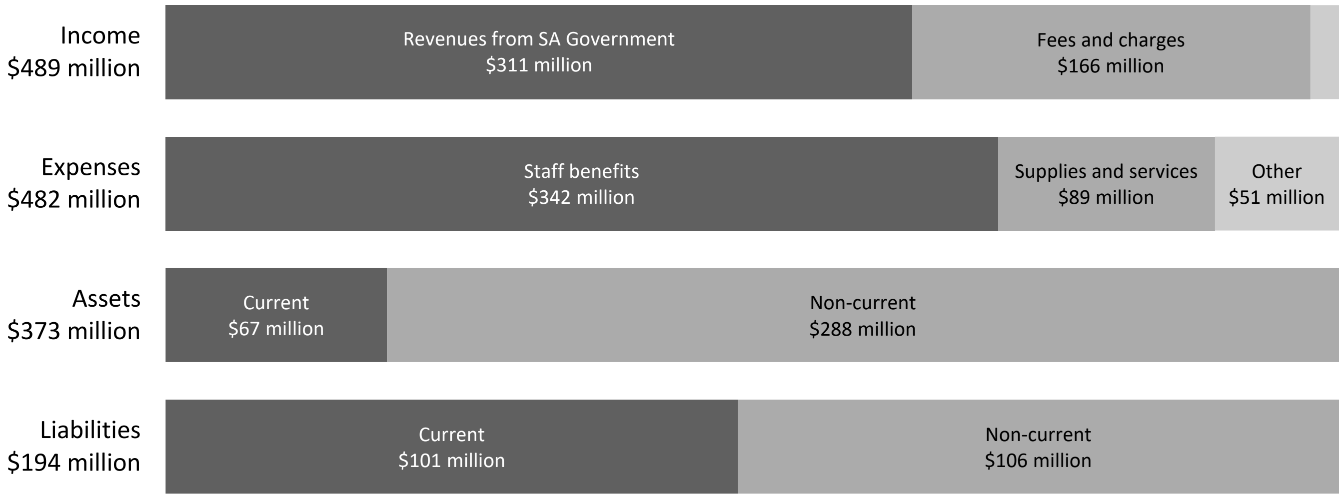
- $38 million ($36 million) of staff benefits liabilities and related on-costs
- $7 million ($13 million) of provisions for workers compensation, with the decrease due to an outstanding claim being finalised.

Other liabilities

Other current liabilities make up 40% of total liabilities and mainly comprise residential aged care bonds. These bonds increased by $4 million to $35 million ($31 million) due to the number of new aged care residents. They are refundable accommodation contributions or deposits made by residents when they enter aged care facilities.

SA Ambulance Service Inc (SAAS)

Financial statistics



2,003
FTEs

864*
Triple Zero calls – daily average

931*
Incidents responded to – daily average

* Data provided by SAAS and unaudited.

Significant events and transactions

— Construction commenced on a new ambulance headquarters at Mile End that includes a new emergency operations centre and city ambulance station. It is expected to be completed in 2025.

— Construction of four new ambulance stations at Woodville, Norwood, Golden Grove and Edwardstown commenced. They are expected to be completed in 2024-25.

— Recruitment of paramedics and ambulance officers towards the SA Government’s target of an additional 350 officers continued. To date an additional 255 paramedics and ambulance officers have been recruited.

Financial report opinion

Modified

SAAS did not have an effective process to meet the disclosure requirements of Treasurer’s Instructions (Accounting Policy Statements) for reporting the value of procurement with South Australian and non-South Australian businesses for 2023-24. This is discussed further in Part A of this report.

Audit findings	
	— Work is still required to correct historical errors in staff leave records.
	— Improvements to manual timesheet processes are needed.
	— There are delays in generating patient transport invoices.
	— Missing case cards are not followed up, delaying billing.
	— There is inappropriate segregation of duties in the ambulance transport and ambulance cover team.

Functional responsibility

SAAS is a body corporate constituted under the *Health Care Act 2008* (HC Act) and is the principal provider of ambulance services in South Australia. It delivers:

- out-of-hospital emergency care and transport
- non-emergency patient care and transport
- emergency and major event management
- medical retrieval services.

Governance

Under the HC Act the Chief Executive, Department for Health and Wellbeing (DHW) is responsible for administering SAAS. This includes appointing SAAS's Chief Executive Officer. The Chief Executive, DHW cannot give a direction about a person's clinical treatment.

SAAS enters into a service agreement with the Chief Executive, DHW that sets out expectations and deliverables for the financial year, with the intent that it binds both parties. The 2023-24 service agreement was executed in December 2023.

Scope of the audit

Our audit program covered major financial systems to obtain sufficient evidence to form an opinion on the financial report. Financial services for SAAS are provided through a mix of:

- central services provided by DHW
- finance services located within SAAS
- services provided by Shared Services SA (SSSA).

Our audit therefore included reviewing financial systems and completing audit work at DHW's central services, SAAS and SSSA. A contracted accounting firm assisted the Auditor-General with the audit.

Audit findings across health services fall into the following categories:

- common findings reflecting central services and/or systems
- matters for individual health services
- SSSA matters.

Areas of audit attention in 2023-24 included:

- cash
- payroll
- expenditure
- accounts payable
- revenue
- accounts receivable
- fixed assets
- general ledger.

We reviewed internal audit activities in the planning and conduct of the audit. No reliance was placed on the work of internal audit.

Audit findings

Communicating our audit findings

We communicated our audit findings in a management letter to the Chief Executive Officer of SAAS. The main findings and SAAS's responses are discussed below.

Payroll

Work is still required to correct historical errors in staff leave records

In 2019-20, SAAS advised us that an internal review had identified errors in its staff leave balances, resulting in an overstatement of staff leave benefits and associated staff on-costs of $6 million. SAAS identified these errors by reconciling operational staff records from its rostering system against staff leave records in its CHRIS payroll system. Adjustments processed mainly related to staff leave taken but not deducted from CHRIS leave balances.

The internal review considered records dating back to 2013 and resulted in a reduction in staff leave liabilities processed as at 30 June 2019. This adjustment was made to SAAS's general ledger and financial report, but not to individual leave entitlement balances in CHRIS. Further adjustments of $3.9 million were identified in 2020-21.

We were advised that the Minister for Health and Wellbeing and the Chief Executive, DHW were briefed on this matter. Additional briefings were required when, as a result of the State election in March 2022, a new Minister and Chief Executive, DHW were appointed.

SAAS advised us that an updated briefing was given to the Minister and Chief Executive, DHW in November 2023. SAAS has been requested to prepare a further submission on the leave discrepancy matters and is waiting for a final decision on remedial action to be taken.

Improvements required to manual timesheet processes

Since 2017 we have raised concerns about weaknesses in SAAS's process for reviewing manual timesheets, including the completeness of manual timesheets submitted. SAAS previously advised us of its intention to interface its rostering system with CHRIS to eliminate some of these weaknesses.

SAAS has implemented controls to address some weaknesses, including:

- electronic timesheets and leave forms being trialled, with managers using a register to record timesheets received and follow up missing timesheets
- information on leave and attendance management being added to the intranet, including guidelines for completing and approving timesheets
- a register being developed for managers to track timesheets for the staff who still submit manual timesheets.

SAAS has also previously advised us that reviewing bona fide and leave return reports also ensures that leave taken by staff is accurately captured in CHRIS.

Our follow-up in 2023-24 identified that SAAS's project to interface the rostering system with CHRIS was put on hold as project funding ceased. Bona fide and leave return reports continue to be reviewed by managers monthly to ensure that leave balances are accurately captured in CHRIS.

Revenue

Delays in generating patient transport invoices

At the time of our audit there was a backlog of 46 days in generating patient transport invoices. At 30 June 2024 SAAS had around $21 million in invoices to be raised for services provided earlier in the year. Delays in raising invoices increase the risk of debt recovery not being successful.

SAAS responded that in July 2024 the backlog in generating patient transport invoices was 43 days and that additional resources and overtime were being used to reduce this backlog.

SAAS also advised us that it has experienced further delays in invoice processing due to ongoing system issues with its new billing system, including system slowness and unexpected shutdowns.

Missing case cards not followed up, delaying billing

As part of the billing process, dispatch system (SACAD) records are matched with case cards before issuing an invoice. Before the new billing system was implemented, a daily unmatched SACAD record list was used for this. However we were advised of an increase in the number of unprocessed case cards since the new system was implemented. Unprocessed case cards result in unrecorded revenue for services delivered.

SAAS's internal audit team is finalising a review of missing and unmatched case cards to identify the root cause of this issue.

Inappropriate segregation of duties in the ambulance transport and ambulance cover team

We found that managers in the ambulance transport and ambulance cover team have access to process and approve transactions in SAAS's invoicing system. As a result, they can process and approve the same transaction. This may result in the inappropriate processing of transactions in the system.

SAAS advised us that there would be clear segregation of duties for approving transactions once the new billing system was implemented. However we found that a similar level of user access has been given to these managers in the new system. We also noted that a review of access levels has yet to occur.

SAAS advised us that it will review user access levels in the new system by September 2024.

Interpretation and analysis of the financial report

Highlights of the financial report

	2024 $million	2023 $million
Income		
Revenues from SA Government	311	316
Fees and charges	166	156
Other income	11	11
Total income	488	483
Expenses		
Staff benefit expenses	342	322
Supplies and services	89	83
Depreciation and amortisation	17	16
Impairment loss on receivables and contract assets	5	4
Other expenses	30	25
Total expenses	483	450
Net result	5	33
Other comprehensive income	38	(11)
Total comprehensive result for the year	43	22
Assets		
Current assets	67	70
Non-current assets	288	201
Total assets	355	271
Liabilities		
Current liabilities	101	71
Non-current liabilities	106	83
Total liabilities	207	154
Net assets	148	117

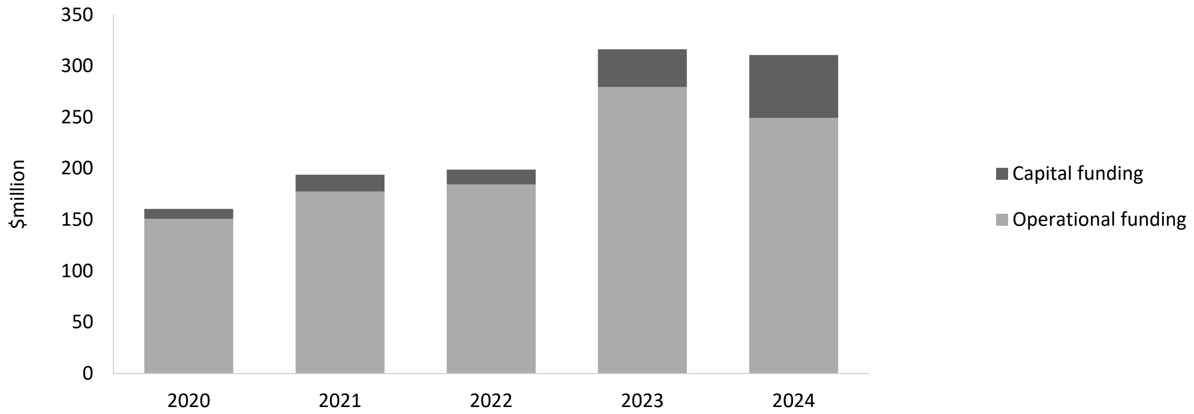
Statement of Comprehensive Income

Revenues

Revenues from SA Government

SAAS depends on revenue from the SA Government, which is 64% of its total revenue. Its revenues from the SA Government decreased by $5 million to $311 million in 2024, and comprised operational funding of $250 million ($279 million) and capital funding of $61 million ($37 million). The increase in capital funding is largely due to additional funding received to fund election commitments, including the purchase of new ambulance vehicles, construction of new ambulance stations and upgrade of existing stations.

The chart below shows SA Government funding to SAAS over the last five years. While there have been changes in the composition of SA Government funding over this period, there was an overall rise in funding between 2020 and 2024, with a significant increase between 2022 and 2023.



Revenues from fees and charges

Revenues from fees and charges increased by $10 million to $166 million, mainly due to an increase in ambulance transport revenue. Significant components were:

- ambulance cover revenue of $31 million ($32 million)
- ambulance transport revenue of $129 million ($118 million).

Ambulance cover revenue is from member subscriptions to the SAAS ambulance cover scheme. This provides members with cover for the cost of all ambulance transport in South Australia, while Ambulance Cover Plus covers members for transport Australia-wide.

Ambulance transport revenue is earned from patient transport services to the general public, $95 million, and SA Government customers, $34 million. To manage the ramping issues at South Australian hospitals, the SA Government has been implementing ways for patients to access more appropriate clinical care than ambulance transport to an emergency department. Ambulance transport revenue increased by $11 million in 2023-24 due to a 4.5% increase in ambulance transport fees and an increased number of patient transports.

Expenses

Total expenses increased by $33 million to $483 million in 2023-24.

Staff benefit expenses

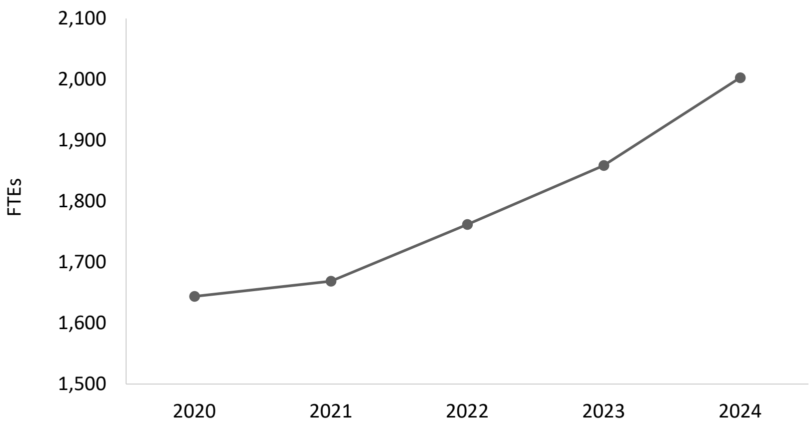
Staff benefit expenses of $342 million represented 71% of SAAS's total expenses and increased by $20 million from $322 million. This was due to:

- a $27 million increase in the workers compensation expense and a $3 million increase in long service leave expense. These amounts were impacted by the actuarial assessment of the workers compensation provision and long service liability as at 30 June 2024
- a $2.5 million increase in superannuation expense resulting from the increase in the superannuation guarantee rate
- offset by a decrease in salary and wages expense of $14 million primarily due to enterprise agreement back payments in September 2022.

The number of staff whose remuneration received/receivable exceeded the base executive level of $166,000 in 2023-24 totalled 510 (785) and comprised 452 (730) operational, 29 (29) medical, 21 (21) nursing and eight (five) executive staff. Total remuneration for staff across these categories was $107 million ($164 million). The significant decrease in operational staff receiving greater than the base executive remuneration level is due to the one-off back payments to eligible staff in September 2022 under the enterprise agreement.

Total FTEs employed by SAAS increased over the five years to 30 June 2024. There were 2,003 FTEs at 30 June 2024 compared to 1,644 FTEs at 30 June 2020, based on Office of the Commissioner for Public Sector Employment data. They comprised 1,502 (1,358) emergency services, 27 (25) medical, 41 (41) nursing and 433 (435) non-medical staff. The number of emergency services staff is likely to continue to increase in the coming years with the SA Government committing to increasing the number of paramedics and ambulance officers by 350 over four years in the 2022-23 State Budget.

The chart below shows the overall growth in FTEs over the past five years.



Supplies and services expenses

Supplies and services expenses increased by $6 million to $89 million. This movement is largely due to a $6 million increase in patient transport expenses, resulting from an increased demand for services and higher running costs throughout the year.

Statement of Financial Position

Property, plant and equipment

Property, plant and equipment represents 71% of SAAS's total assets. Their carrying value increased by $75 million to $251 million as at 30 June 2024, primarily due to:

- $64 million in additions, mainly related to land, building works in progress, and plant and equipment works in progress. $45 million of additions relate to building works in progress for the construction of the new ambulance stations at Norwood, Golden Grove, Woodville and Edwardstown
- offset by depreciation and amortisation of $17 million.

Other assets

Receivables make up 16% of total assets and totalled $59 million. This balance is relatively consistent with last year, with notable movements being:

- a $9 million increase in the defined benefit superannuation scheme receivable resulting from an actuarial review
- a $10 million decrease in the overall debtors balance.

Contract assets of $21 million relate to work completed but not yet invoiced due to a backlog in processing patient transport invoices. The allowance for impairment loss on contract assets increased by $841,000 to $5.1 million.

Liabilities

Staff liabilities comprise $163 million (79%) of SAAS's total liabilities at 30 June 2024, comprising:

- staff benefits liabilities and related on-costs of $114 million ($100 million)
- provisions for workers compensation of $49 million ($31 million).

Staff benefits liabilities increased by $14 million to $114 million, due mainly to a $5 million increase in the annual leave liability and an $8 million increase in the long service leave liability. The increase in both leave liabilities is largely due to higher staff numbers at 30 June 2024, combined with increases in salary rates used in the calculation and leave entitlement balances.

The provision for workers compensation increased by $18 million to $49 million, based on an independent actuarial assessment.

SAAS is funded to meet expected cash flows for its current program delivery.

State Budget commitments and SAAS

The SA Government has committed to funding the following actions over the four years from 2022-23:

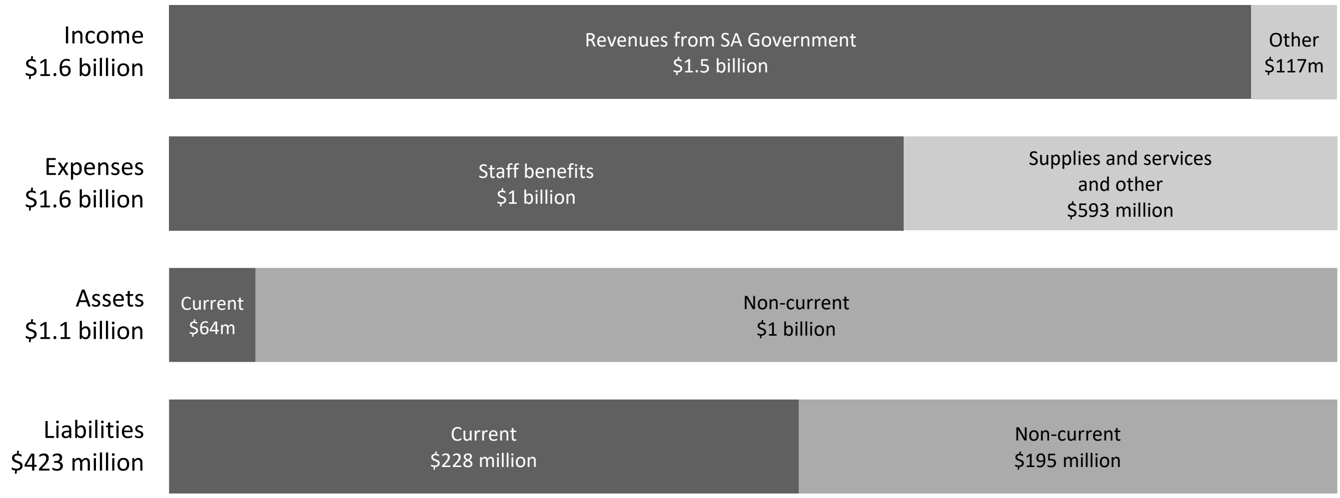
- 350 more paramedics and ambulance officers
- a new ambulance headquarters
- four new ambulance stations at Norwood, Woodville, Golden Grove and Edwardstown, and the rebuild of four existing stations at Campbelltown, Mount Barker, Gawler and Victor Harbor
- ambulance station upgrades and expansion at 10 locations
- 36 additional fully equipped ambulance vehicles.

SAAS is working closely with the SA Government on delivering these commitments. Significant milestones in 2023-24 included:

- construction of the new SA Ambulance headquarters in Mile End starting, with completion expected in 2025
- construction of four new ambulance stations at Woodville, Golden Grove, Edwardstown and Norwood starting, with completion expected in July 2024 for the Woodville and Norwood ambulance stations
- the commissioning of 26 new ambulance vehicles
- the continued recruitment and training of additional paramedics and ambulance officers to meet the target of 350 more operational staff by 2026-27. 255 paramedics and ambulance officers have been recruited since the SA Government's announcement.

Southern Adelaide Local Health Network Incorporated (SALHN)

Financial statistics



7,014
FTEs

$873 million
Value of buildings

113,727
Total inpatient activity

Significant events and transactions

Work continued on expansions and upgrades at Noarlunga Hospital (NH) and the Flinders Medical Centre (FMC) and new facilities at the Repat Health Precinct (RHP).

Financial report opinion

Modified

SALHN did not have an effective process to meet the disclosure requirements of Treasurer's Instructions (Accounting Policy Statements) for reporting the value of procurement with South Australian and non-South Australian business for 2023-24. This is discussed further in Part A of this report.

Controls opinion findings	— Payroll monitoring, review and approval processes could be improved. — Asset management and maintenance processes under the Across Government Facilities Management Arrangements (AGFMA) could be improved. — Some reviews over key expenditure controls could be improved. — Some contract management processes could be improved.
Other audit findings	No significant findings.

Functional responsibility

SALHN was established under the Health Care Act 2008. It provides, maintains and enhances hospital, medical and allied health services in its local area. This map of South Australia shows the SALHN local area.

Governance

LHN governing boards are responsible for the overall governance and oversight of local health service delivery, including governance of performance, budget achievement, clinical governance, safety and quality, risk management and the achievement of the board functions and responsibilities.

Each LHN chief executive officer is accountable to, and subject to the direction of, the governing board for managing the operations and affairs of the LHN.

A service agreement between SALHN and the Department for Health and Wellbeing (DHW) outlines the requirements of the formal relationship between them, and sets out performance expectations and funding arrangements. The 2023-24 SALHN service agreement was executed in September 2023.

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. Financial services for SALHN are provided through a mix of:

- central services provided by DHW
- finance services located within SALHN
- central services provided by Shared Services SA (SSSA).

We completed audit work at DHW, SALHN and SSSA.

Audit findings across health services fall into the following categories:

- common findings reflecting central services and systems
- matters for individual health services
- DHW matters.

Areas of audit attention in 2023-24 included:

- governance
- accounts payable and goods and services expenditure
- payroll and workforce management
- patient billing and debtor management
- medical officer professional development
- cash and online banking
- general ledger and financial accounting
- property, plant and equipment.

We reviewed internal audit activities in planning and conducting our audit. No reliance was placed on the work of internal audit.

Controls opinion

We reviewed controls over employee expenses, goods and services expenditure, buildings and improvements and the AGFMA as part of our overall controls opinion, which is discussed in Part B of this report.

Audit findings

Communicating our audit findings

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

Controls opinion findings

Payroll

SALHN employs around 7,014 (6,750) FTEs and has significant payroll-related costs, with $1 billion in staff benefit expenses paid and $371 million in staff-related liabilities at 30 June 2024. Given the significance of these costs, we review key payroll controls each year.

A number of payroll issues we identified in 2023-24 were also raised by us in prior years.

Payroll monitoring, review and approval processes could be improved

— *Staff working in aged care roles without a current aged care check*

Under the *Aged Care Act 1997*, screening checks must be obtained for staff working in Commonwealth Government subsidised aged care roles. We have previously reported multiple instances of SALHN staff working in aged care roles without valid aged care checks. SALHN developed a weekly reporting dashboard to monitor aged care compliance using workforce reporting data that includes data on aged care employment checks.

At June 2024, we identified 117 from a population of 333 staff (35%) who did not have the valid aged care employment checks required for their roles.

SALHN advised us that it has divisional reporting to highlight checks due for renewal and follow them up. Divisional leaders are regularly reminded of their compliance obligations. SALHN also ensures all relevant checks are undertaken before new staff start their employment.

— *Staff working without the required working with children check*

SA Health's criminal history screening policy requires a current working with children clearance (WWCC) for all staff before they start in a prescribed position. This reflects the requirements of the *Child Safety (Prohibited Persons) Act 2016*.

At June 2024, we identified 78 staff from a population of 5,704 (1.4%) without the required WWCC. This is a slight improvement on 2022-23 when 83 out of 5,041 staff (1.6%) were working in prescribed positions without current WWCCs.

SALHN advised us that it has divisional reporting to highlight checks due for renewal and follow them up. Divisional leaders are regularly reminded of their compliance obligations. SALHN also ensures all relevant checks are undertaken before new staff start their employment.

— *No adequate documentation to support allowance payments*

In 2023-24 we reviewed medical officers' pays and allowances and could not verify the accuracy and completeness of six of the 15 allowance payments we tested because appropriate information and supporting documentation were unavailable. At the time of our review, SALHN had requested this information from SSSA but it had not been provided.

SALHN responded that it will review its practices to ensure staff payments are supported by appropriate documentation.

— *Non-compliance with immunisation policy*

SA Health's immunisation policy provides requirements for assessing, screening and vaccinating staff to protect against specified vaccine preventable diseases. It requires SA Health roles to be classified into categories A, B and C. Each category requires different levels of mandatory vaccinations against specific infectious diseases, with Category A requiring the highest level of vaccination.

In June 2024, we found that 1,134 out of 9,896 staff (11%) did not comply with this policy. It is likely that most of this non-compliance would fall into categories A and B, as the top five divisions with the highest numbers of non-compliance are medical services divisions.

SALHN advised us that it will review its practices to ensure compliance with the immunisation policy.

— *Around 35% of SALHN staff did not have a current performance review*

Effective performance reviews create a culture of accountability and continuous improvement. SALHN requires annual performance reviews for every staff member, with performance discussions held every six months. It has developed a reporting dashboard using workforce reporting data, which includes data on performance reviews. We used this to review its performance review compliance rates.

At June 2024, we found that 3,047 staff from a population of 8,586 (35%) did not have a current performance review. This is an increase from 2022-23, when 29% of staff did not have a current performance review, and is well below the 80% target for compliance set by SALHN.

SALHN noted the 80% target and advised us that performance review rates were monitored weekly and at CEO/Divisional Excellence meetings.

— *Not all bona fide reports have been reviewed*

SALHN managers and team leaders are required to review bona fide reports after each pay period to ensure completeness and accuracy of payments to automatically paid staff.

In May 2024, we found that 534 out of 1,644 bona fide reports (32%) had not been reviewed and approved. We also found that the rate of bona fide review compliance has been steadily decreasing since 2020-21.

SALHN supported our recommendation to frequently review outstanding bona fide reports and reinforce the importance of this control with managers, focusing on areas with high rates of non-compliance.

— *Leave management needs to improve*

We have previously reported that SALHN had staff with negative leave balances and staff with excessive annual leave balances. SALHN responded by improving its processes and management practices, including developing a reporting dashboard.

In 2023-24 we found that there were still issues with leave management. At May 2024, from a population of 7,966 staff, there were:

- 78 employees (1%) with negative leave balances
- 1,165 employees (14.6%)with annual leave balances accrued of more than two years
- 916 employees (11.5%) with accrued annual leave balances between 1.5 and two years.

SALHN advised us that it would:

- continue to perform regular leave audits and investigate significant negative leave balances
- continue providing excess leave reports to divisions and target management plans to reduce leave for the highest balances
- monitor and/or discuss excess leave through divisional meetings.

— *Not all leave return certificate reports have been reviewed.*

Leave return certificates cover all leave taken by staff and are an important control to help managers identify whether:

- leave taken is not recorded in the payroll system
- leave has been recorded incorrectly in the payroll system
- employees have taken leave that they were not entitled to.

SALHN has a central process to review leave return certificate reports on a monthly basis. We have previously reported that not all leave return certificate reports were reviewed and approved.

In 2023-24 we found that this was still an issue, with 179 out of 545 leave return certificate reports (33%) not reviewed and approved.

SALHN noted this finding and will assess where it allocates resources to meet its needs.

— *Inconsistent medical rostering practices*

More than 30% of SALHN's payroll expenditure relates to medical officers and consultants who are either paid automatically or required to submit a timesheet.

Rostering accuracy is important for ensuring that appropriate resources are available for high quality and efficient patient care, and for ensuring the completeness and accuracy of the allowances paid to medical staff.

For the past five years, we have identified inconsistent rostering practices across SALHN divisions, with different processes, tools and approaches being used. In response, SALHN established a Medical Workforce project team to review rostering practices for medical staff, with guidelines developed in 2020-21. We understood that SALHN was working towards developing standard rostering systems and guidelines for other categories of medical staff.

We followed this up in 2023-24 and found that no standard rostering practices had been implemented. Until this happens across all divisions and all types of medical officers, the risks associated with inconsistent rostering practices remain.

SALHN advised us that it is exploring IT solutions to improve rostering and time and attendance reporting. It also noted that roster practices are largely driven by service demand.

Expenditure

SALHN has property, plant and equipment worth $1 billion. As part of our controls opinion work in 2023-24, we considered its controls to manage the maintenance of these assets.

Asset management processes could be improved

Our findings in 2023-24 are consistent with last year:

- Financial delegation limits in the system used to order maintenance work were not aligned with SALHN's financial delegations.
- There were a significant number and value of outstanding contractor invoices in the maintenance work order system that were in dispute and therefore could not be approved for payment in a timely manner.
- At June 2024, SALHN had made 65 payments totalling $34.7 million to its facilities management service provider (Ventia). Of these, 28 payments totalling $29.1 million (84%) were not paid within 14 days of receiving the invoice, which is a requirement of the memorandum of administrative arrangements with the Department for Infrastructure and Transport (DIT) for the AGFMA.

We also found that:

- recently completed SALHN assets had not been added to service delivery plans in the maintenance work order system. This included significant infrastructure developments with a combined value of over $67 million that had been capitalised in the last two years
- there were instances where DIT had not provided SALHN with operational and maintenance manuals for new assets, which are required to inform service delivery plans.

SALHN responded that it would:

- incorporate AGFMA financial delegation requirements into its general financial delegations to address the misalignment between the two systems
- continue to work with Ventia to seek the supporting documentation SALHN requires to approve invoices in the maintenance work order system in a timely manner
- work with Ventia and DIT to ensure new assets are correctly added to the maintenance work order system and incorporated into service delivery plans
- request that operational and maintenance manuals for new assets be provided
- promptly escalate issues to Ventia and DIT, when required, to achieve timely resolutions.

Reviews of some key expenditure controls could be improved

SALHN paid over $534 million for supplies and services in 2023-24. It requires divisions to review Basware and Oracle users and delegations quarterly to ensure they are correct and appropriate. We found that these quarterly reviews had not been performed since June 2022.

SALHN advised us that incomplete information on Basware reports had impacted their ability to complete these reviews.

SALHN subsequently advised us that it recommenced these reviews in July 2024.

Some contract management processes could be improved

In 2023-24, we continued to identify deficiencies in SALHN's contract management activities. We found that:

- some high-value and high-risk contracts did not have contract management plans in place
- contract management plans were not approved on commencement of the contract
- departures in purchase recommendations were not reported on the Procurement Activity Register System.

SALHN advised us that it was committed to establishing contract management plans for complex and strategic contracts, and had now done so for all the contracts we identified during the audit. These plans outline the local operational management of the contracts and performance delivery undertaken at a SALHN level.

Interpretation and analysis of the financial report

Highlights of the financial report

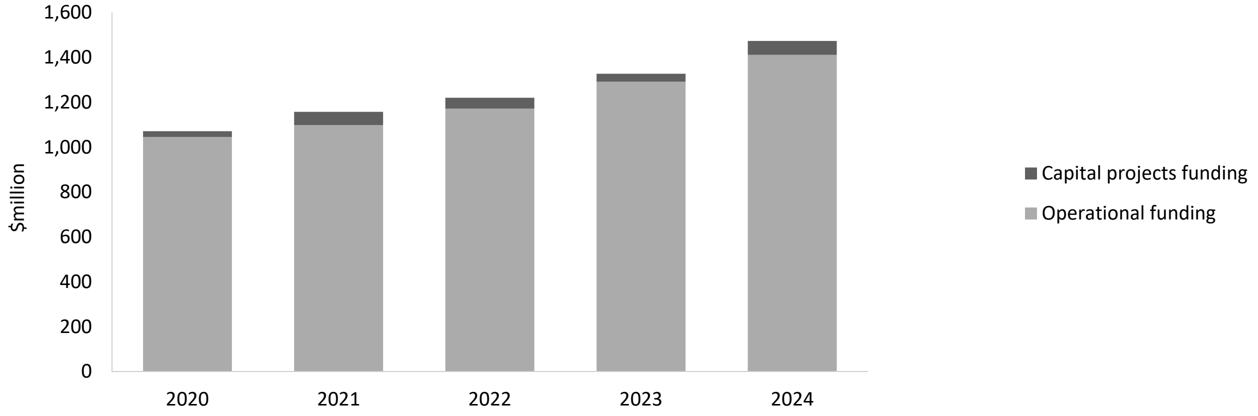
	2024 $million	2023 $million
Income		
Revenues from SA Government	1,473	1,327
Revenue from fees and charges	79	69
Grants and contributions	6	6
Other income	33	31
Total income	1,591	1,433
Expenses		
Staff benefit expenses	1,009	941
Supplies and services	534	472
Depreciation and amortisation	47	45
Other expenses	12	2
Total expenses	1,602	1,460
Net result and total comprehensive result	260	(27)
Assets		
Current assets	66	55
Non-current assets	1,046	765
Total assets	1,112	820
Liabilities		
Current liabilities	228	207
Non-current liabilities	195	183
Total liabilities	423	390
Total equity	689	430

Statement of Comprehensive Income

Income

Revenues from SA Government

SALHN is mainly funded through recurrent and capital funding from DHW. In 2023-24, its revenues from the SA Government increased by $146 million (11%) to $1.5 billion due to increased operational funding of $119 million and increased capital funding of $27 million. The chart below shows revenues from the SA Government over the last five years.



The $119 million (9%) increase in recurrent funding to $1.4 billion in 2023-24 reflects additional funding for the costs associated with increased service provision across SALHN. The $27 million (75%) increase in capital projects funding to $62 million is for investing expenditure, mainly at FMC and RHP.

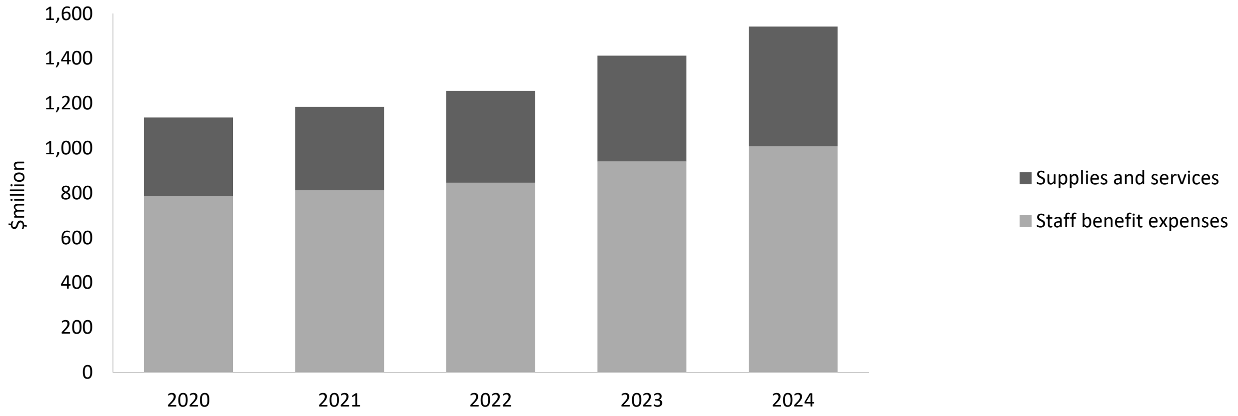
Revenues from fees and charges

Revenues from fees and charges increased by $10 million (15%) to $79 million in 2023-24, mainly due to:

- a $6.7 million (15%) increase in patient and client fees received, mainly for private stays and providing prostheses
- a $2.7 million (9%) increase in car parking revenue.

Expenses

Total expenses increased by $142 million (10%) to $1.6 billion in 2023-24. The chart below shows the composition of expenses for the last five years.



Staff benefit expenses

Staff benefit expenses of $1 billion represent 63% of SALHN's total expenses. These costs increased by $68 million (7%) in 2023-24, mainly due to:

- a $48 million (6%) increase in salaries and wages expense to $791 million

- an $11 million (62%) increase in long service leave expense to $30 million
- a $10 million (12%) increase in staff superannuation on-costs to $95 million.

These increases are mainly driven by:

- an increase of 264 FTEs in 2023-24
- changes in the actuarial assumptions, methodology and inflation rate used in the calculation of long service leave liabilities.

The following table shows the breakdown of FTEs between medical, nursing and non-medical staff since 2019-20. It shows an overall growth in FTEs over the five years.

	2019-20 FTEs	2020-21 FTEs	2021-22 FTEs	2022-23 FTEs	2023-24 FTEs
Medical officers	923	963	981	1,040	1,064
Nurses	2,989	3,084	3,335	3,463	3,633
Non-medical	2,003	2,056	2,140	2,247	2,317
Total FTEs	5,915	6,103	6,456	6,750	7,014

The number of staff whose remuneration received or receivable exceeded the base executive level ($166,001) totalled 837 (771), comprising 729 (686) medical officers, 88 (71) nursing staff, 11 (11) executives and nine (three) non-medical staff. Total remuneration for these staff was $246 million ($226 million).

Supplies and services expenses

Supplies and services expenses of $534 million represent 33% of SALHN's total expenses. They increased by $62 million (13%) in 2023-24, mainly due to:

- computing, which increased by $5 million (37%) to $19 million
- contractors – agency staff, which increased by $6 million (23%) to $33 million
- fee for service, which increased by $22 million (30%) to $96 million
- medical, surgical and laboratory supplies, which increased by $11 million (7%) to $160 million. This increase mainly reflects increases in imaging and pathology charges, prostheses and implants costs and patient consumables.

Statement of Financial Position

Property, plant and equipment

Property, plant and equipment represent 93% of SALHN's total assets. Their carrying value increased by $283 million (38%) to $1 billion in 2023-24, mainly due to:

- revaluation increments of $271 million, comprising a $36 million increment in land and a $235 million increment in buildings
- additions of $59 million for capital works in progress at RHP, FMC and NH
- offset by depreciation charges of $47 million.

Liabilities

Current liabilities increased by $21 million (10%) to $228 million during the year and exceeded current assets by $163 million at balance date. Cash and cash equivalents of $29 million were insufficient to meet current payables of $45 million at 30 June 2024. SALHN works with DHW to ensure sufficient funding is provided to meet the expected cash flows for its administration and program delivery.

Total liabilities increased by $33 million (8%) to $423 million. Staff liabilities make up $371 million (88%) of this balance at 30 June 2024, comprising:

- staff benefits liabilities and related on-costs of $328 million ($298 million)
- workers compensation provisions of $43 million ($45 million).

The $28 million (8.2%) increase in staff liabilities is mainly due to:

- an $8 million increase in annual leave liabilities
- a $15 million increase in long service leave liabilities
- a $3 million increase in staff on-costs payable.

Further commentary on operations

SALHN infrastructure changes

As at 30 June 2024, SALHN recorded completed capital works of approximately $18.2 million.

Repat Health Precinct capital works

Work at the RHP continued in 2023-24, with building works associated with previously announced initiatives undertaken. At 30 June 2024, SALHN recorded completed capital works of approximately $3.8 million at the RHP, mainly for the Geriatric Evaluation and Management project. It also recorded capital works in progress of $14 million at RHP, for continuing infrastructure works to fully reactivate the site.

Flinders Medical Centre capital works

At 30 June 2024, SALHN recorded completed capital works of $12 million at FMC, mainly comprising:

- $6.9 million for the FMC fast-tracked beds
- $4.8 million for the FMC emergency expansion works.

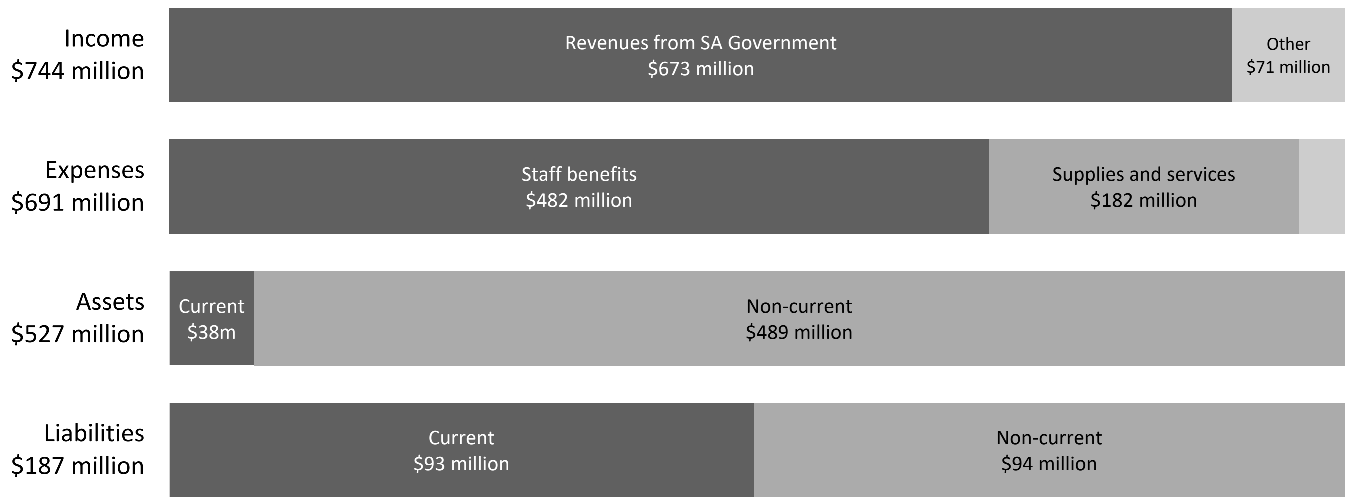
SALHN also recorded capital works in progress of $40 million for the FMC upgrade and expansion.

Noarlunga Hospital capital works

At 30 June 2024, SALHN recorded completed capital works of $2.7 million for the NH renal expansion. It also recorded capital works in progress of $8 million for the establishment of additional beds at NH.

Women's and Children's Health Network Incorporated (WCHN)

Financial statistics



3,245
FTEs

36,920*
Total inpatient activity

* Data provided by SA Health and unaudited.

Significant events and transactions

— In September 2022 the SA Government announced that the new Women's and Children's Hospital (nWCH) would be built at the Thebarton Police Barracks site. In December 2023 site works commenced for the eight-story carpark and central energy facility. The car park is expected to be completed in 2027, while the nWCH is expected to be completed in 2031.

— The SA Government continues to provide sustainment funding for the existing hospital while the nWCH is being completed. Funding of $51 million is to be provided over multiple years, with $20.1 million specifically allocated to the paediatric intensive care unit upgrade.

Financial report opinion

Modified

WCHN did not have an effective process to meet the disclosure requirements of Treasurer's Instructions (Accounting Policy Statements) for reporting the value of procurement with South Australian and non-South Australian businesses for 2023-24. This is discussed further in Part A of this report.

Audit findings	— There are inconsistent rostering practices for medical officers. — Bona fide report review processes need to improve. — Timesheets in the rostering system are not always approved before staff are paid. — Payroll processes need to improve to minimise the number of salary overpayments. — Basware user access review processes could be improved.

Functional responsibility

WCHN is an incorporated hospital established under the *Health Care Act 2008* (HC Act). Its functions include providing health services to women and children, with its principal unit being the Women's and Children's Hospital.

Governance

LHN governing boards are responsible for the overall governance and oversight of local health service delivery, including governance of performance, budget achievement, clinical safety and quality, risk management and the achievement of the board functions and responsibilities.

Each LHN chief executive officer is accountable to, and subject to the direction of, the governing board for managing the operations and affairs of the LHN. A service agreement between WCHN and the Department for Health and Wellbeing (DHW) outlines the requirements of the formal relationship between them, and sets out performance expectations and funding arrangements. The intent of the service agreement is to be binding on all parties. The 2023-24 WCHN service agreement was executed in September 2023.

Scope of the audit

Our audit program covered major financial systems to obtain sufficient evidence to form an opinion on the financial report.

Financial services for WCHN are provided through a mix of:

- central services provided by DHW
- finance services located within WCHN
- services provided by Shared Services SA (SSSA).

Consequently, our audit included the review of financial systems and completion of audit work at DHW's central services, WCHN and SSSA. A contracted accounting firm assisted the Auditor-General with the audit.

Audit findings across health services fall into the following categories:

- common findings reflecting central services and/or systems
- matters for individual health services
- SSSA matters.

Areas of audit attention in 2023-24 included:

- cash
- payroll
- expenditure
- accounts payable
- procurement and contract management
- revenue
- accounts receivable
- fixed assets
- general ledger.

We reviewed internal audit activities in the planning and conduct of the audit. No reliance was placed on the work of internal audit.

Audit findings

Communicating our audit findings

We communicated our audit findings in a management letter to the chief executive officer of WCHN. The main findings and WCHN's responses are discussed below.

Payroll

WCHN employed 3,245 FTEs at 30 June 2024 and its payroll-related costs are significant, with $482 million in staff benefits expenses paid and $148 million in staff-related liabilities and on-costs. As a result, payroll is a focus of our audit each year.

Inconsistent rostering practices for medical officers

We have previously reported that WCHN had inconsistent practices across its divisions for managing the rosters of medical officers, including manual processing involving spreadsheets. While this is still the case, WCHN responded that it has started procurement activities for a new digital rostering system for medical staff.

We found that WCHN has introduced a clinical rostering resource manual to establish best practice for managing and allocating responsibility for rosters. While we acknowledge that implementing the manual is a positive step to address some of the concerns we have previously raised, the current manual process is not a substitute for an electronic rostering system and controls.

While procurement activities for a new rostering system have commenced, WCHN is trialling the use of the ProAct rostering and timesheet system, which is used across SA Health for trainee medical officers.

Bona fide report review processes need to improve

For a number of years we have reported that WCHN managers and team leaders have not always reviewed bona fide reports after each pay period to ensure the completeness and accuracy of payments to staff who receive automatic pays.

In 2023-24 we found that there was still an excessive number of outstanding bona fide reports. In May 2024, 4,108 (3,549) reports were outstanding for more than 12 months, while 475 (508) reports were outstanding for between six months and 12 months.

We understand that a significant number of these outstanding reports are for previous financial years, however the growing number of reports outstanding for more than 12 months indicates an ongoing trend of non-compliance. Failure to ensure payroll information is valid and accurate may result in fraudulent or incorrect payments going undetected.

WCHN responded that the number of outstanding reports continues to increase even though it issued information to its staff about the importance of the timely review of bona fide reports. WCHN advised us that it has started scoping activities to implement a new system that does not require reports for non-rostered, automatically paid staff. Where system changes are being considered, collaboration with SSSA is required.

Timesheets in the rostering system are not always approved before staff are paid

Timesheets for nurses and other ancillary staff are created in ProAct. Managers are required to electronically authorise them before they are forwarded to SSSA for payment processing.

Consistent with prior years, the interface between ProAct and the payroll system does not prevent unauthorised timesheets from being uploaded and paid. We found that 6% of ProAct timesheets processed in 2023-24 were unauthorised. This rate is consistent with what we found in 2022-23.

WCHN has a high compliance rate for authorised timesheets, however unauthorised timesheets could result in invalid payments and overpayments.

WCHN responded that timesheet sign-off will be introduced if ProAct is implemented for all staff (other than medical staff).

Payroll processes need to improve to minimise salary overpayments

Overpayment of salaries and wages to employees can occur through payroll processing by WCHN or SSSA. The common causes include:

- amendments to, or late submissions of, employee contracts
- submitting leave without pay forms late
- late roster changes reflected in manual rostering systems.

As of June 2024 we noted 186 instances of overpayments to staff with a total value of $837,000.

Inappropriate checking mechanisms, including late reviews of bona fide reports and processing of unauthorised timesheets, could contribute to an increase in the value and number of overpayments for WCHN.

WCHN responded that it will introduce regular overpayment reporting outlining the cause of the overpayment to divisional leads and provide targeted training and information to its staff as needed.

Expenditure

Expenditure on goods and services for WCHN was $182 million in 2023-24. As a result, expenditure is also a focus of our audit each year.

Improvements required to the Basware user access review processes

WCHN uses the Basware payment system to approve payments. User access and expenditure authorisation tables are built into Basware to allow these activities to occur.

WCHN could not provide us with evidence that Basware user access was reviewed in 2023-24.

WCHN responded that it had not performed a Basware user access review since Basware was introduced. It also advised us that DHW's Procurement and Supply Chain Management (PSCM) division is planning to re-launch a Basware quarterly audit report in 2024-25. WCHN now has the ability to generate its own user access reports when timely PSCM Basware quarterly audit reports are not provided.

Interpretation and analysis of the financial report

Highlights of the financial report

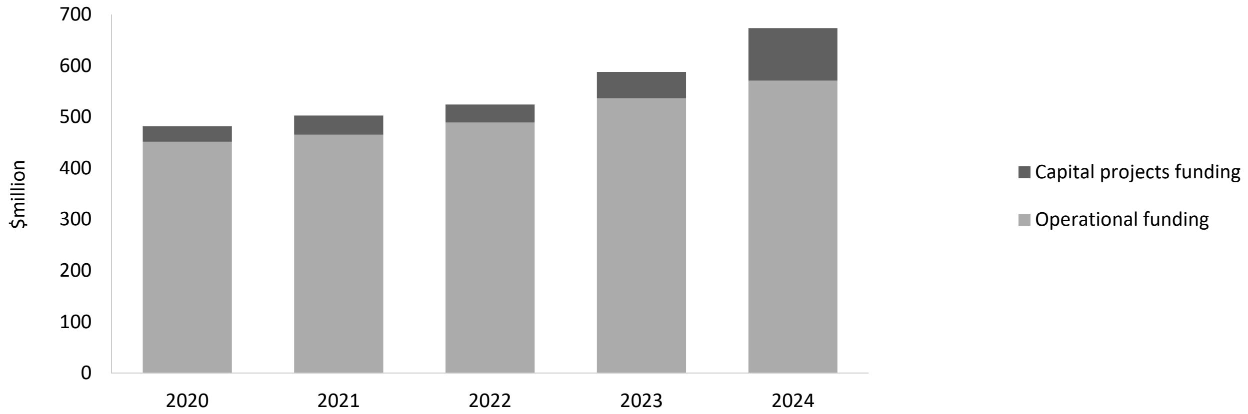
	2024 $million	2023 $million
Income		
Revenues from SA Government	673	588
Fees and charges	39	31
Grants and contributions	15	13
Other income	17	17
Total income	744	649
Expenses		
Staff benefits expenses	482	428
Supplies and services	182	168
Depreciation and amortisation	26	24
Other expenses	1	48
Total expenses	691	668
Net result	53	(19)
Assets		
Current assets	38	37
Non-current assets	489	408
Total assets	527	445
Liabilities		
Current liabilities	93	82
Non-current liabilities	94	74
Total liabilities	187	156
Net assets	340	289

Statement of Comprehensive Income

Revenues

Revenues from SA Government

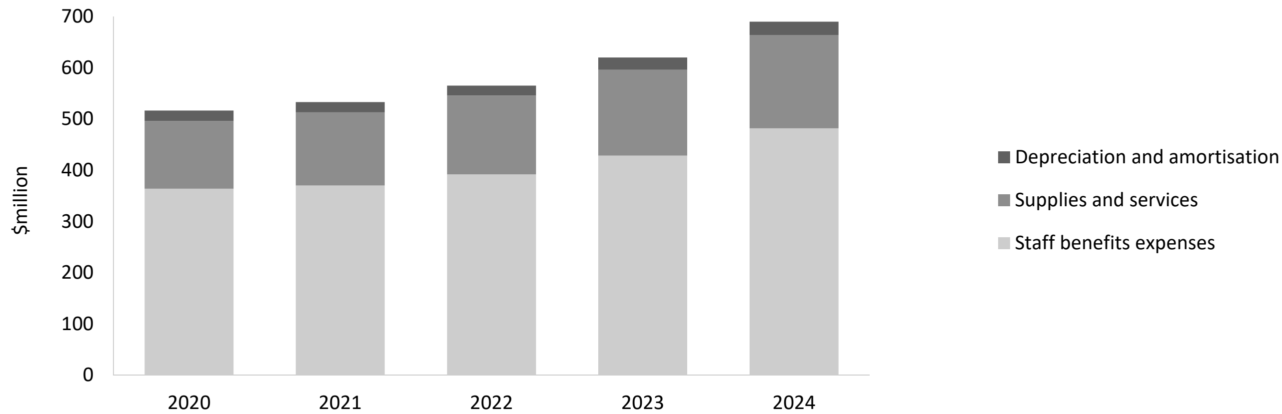
WCHN is principally funded through recurrent and capital funding from DHW. In 2023-24 it received recurrent funding of $571 million ($536 million) and capital funding of $103 million ($52 million). Capital funding mainly related to the nWCH and sustainment works at the current hospital to address high priority clinical and infrastructure requirements while the nWCH is completed. The chart below shows revenues from the SA Government over the last five years.



The chart shows the overall growth in both operational and capital revenue from SA Government over the last five years. In the last three years there has been additional spending on capital projects, mostly for the nWCH and sustainment works at the current hospital.

Expenses

In 2023-24 total expenses increased by $24 million to $691 million. The chart below shows the significant components of expenses for the last five years, and the growth in all of them over this period.



Staff benefits expenses

Staff benefits expenses of $482 million represent 70% of WCHN's total expenses and increased from $428 million in 2022-23. This movement is due to:

- a $26 million increase in salaries and wages, mainly due to increases in staff numbers and salary rates
- a $10 million increase in long service leave expense
- a $5 million increase in superannuation on-costs, which was impacted by the superannuation guarantee rate rise from 1 July 2023 and increased staff numbers
- a $7 million increase in workers compensation expense.

The long service leave and workers compensation expenses are impacted by the actuarial assessment of the associated long service leave liability and workers compensation provisions at 30 June 2024.

The following table shows the breakdown of total staff numbers between medical, nursing and non-medical since 2019-20. It shows the overall growth in FTEs over five years.

	2019-20 FTEs	2020-21 FTEs	2021-22 FTEs	2022-23 FTEs	2023-24 FTEs
Medical officers	338	347	378	383	439
Nurses	1,329	1,393	1,501	1,557	1,580
Non-medical	1,099	1,151	1,184	1,196	1,226
Total FTEs	2,766	2,891	3,063	3,136	3,245

The number of staff whose remuneration received/receivable exceeded the base executive level ($166,000) totalled 375 (348), comprising 331 (295) medical, 31 (39) nursing, five (seven) administration and eight (seven) executive staff. Total remuneration for these staff was $112.7 million ($101.4 million).

Supplies and services expenses

Supplies and services expenses increased by $14 million to $182 million in 2023-24. Some significant movements in supplies and services were:

- a $2 million increase in medical, surgical and laboratory supplies, mainly due to increases in activity for prosthetics
- a $4 million increase in agency staff, largely due to hiring additional medical agency staff to cover increased activity
- a $3 million increase in computing expenses, mainly due to the allocation of Sunrise EMR costs to WCHN by DHW
- a $2 million increase in repairs and maintenance, mainly due to ageing infrastructure costs.

Other expenses

Other expenses decreased by $47.2 million to $570,000 in 2023-24. $46.1 million of this decrease relates to costs that were capitalised in 2022-23 and subsequently written off when the SA Government announced that the nWCH would be built at the Thebarton Police Barracks site and not at the Royal Adelaide Hospital West site as planned by the former government. As the costs previously incurred no longer related to the design and location of the nWCH, they could not be recognised in the initial costs of construction and had to be written off.

Statement of Financial Position

Property, plant and equipment

Property, plant and equipment represents 88% of WCHN's total assets and increased from $384 million to $464 million in 2023-24, mainly due to:

- $109 million in additions to property, plant and equipment, including $100 million for additions to land and buildings works in progress, mostly related to the nWCH and sustainment works at the existing hospital while the nWCH is completed
- offset by $26 million in depreciation and amortisation expenses.

The SA Government has committed over $3.2 billion to build the nWCH at the Thebarton Police Barracks site. It is expected to be completed in 2031.

Liabilities

Current liabilities increased by $12 million to $93 million and exceeded current assets of $39 million at 30 June 2024. Cash and cash equivalents of $23 million are sufficient to meet current payables of $12 million. WCHN is funded to meet expected cash flows for its current program delivery.

Staff liabilities are the largest component of liabilities, totalling $166 million (89%) at 30 June 2024 and comprising:

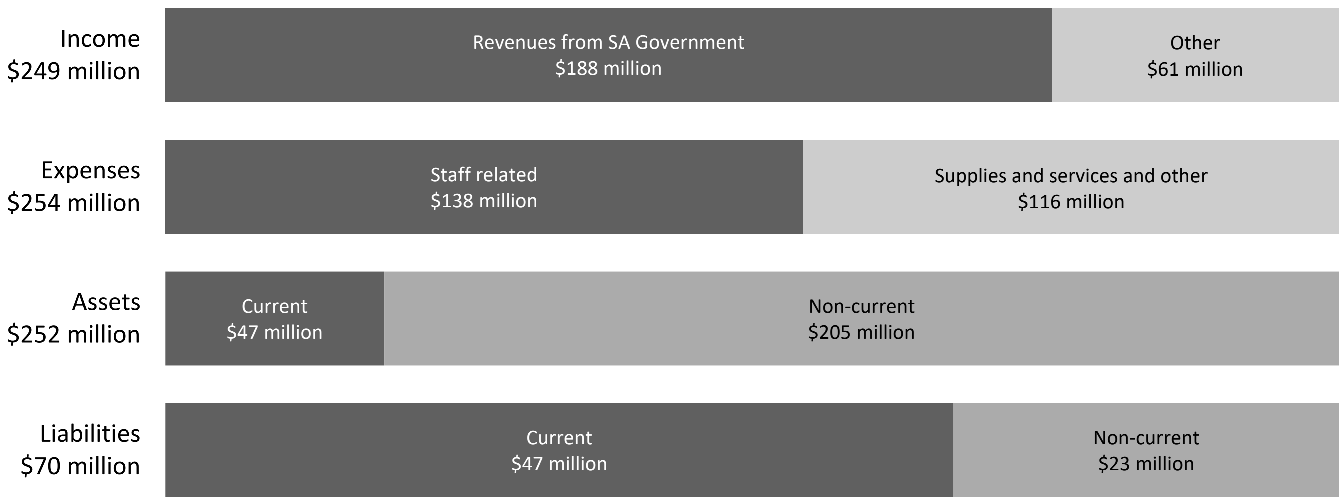
- staff benefits liabilities and related on-costs of $149 million ($131 million)
- provision for workers compensation of $17 million ($8 million).

The $18 million increase in staff benefits liabilities and on-costs was due mainly to increases in annual leave of $5 million, accrued salaries and wages of $2 million and long service leave of $9 million.

The provision for workers compensation increased by $9 million. It is based on an independent actuarial assessment, and the actuarial model applied considers current and historical claims data.

Yorke and Northern Local Health Network Incorporated (YNLHN)

Financial statistics



1,286
FTEs

23
Hospital and health service sites

17,627
Total inpatient activity

Financial report opinion

Modified

YNLHN did not have an effective process to meet the disclosure requirements of Treasurer’s Instructions (Accounting Policy Statements) for reporting the value of procurement with South Australian and non-South Australian businesses for 2023-24. This is discussed further in Part A of this report.

Audit findings

— Invoices were paid without purchase orders.
— The accounts payable user access review was not performed.
— Sundry debt management needs to improve.
— There is inadequate segregation of duties for revenue officers.
— Incorrect fees were charged for dental surgery.
— There is no strategic asset management plan.
— Preventative maintenance data needs to improve.

Functional responsibility

YNLHN was established to provide health services in the Yorke and Northern region of South Australia. This map of South Australia shows the YNLHN region.

Governance

LHN governing boards are responsible for the governance and oversight of local health service delivery, including governance of performance, budget achievement, clinical safety and quality and risk. Each LHN chief executive officer is accountable to, and subject to the direction of, the governing board for managing the operations and affairs of the LHN.

Scope of the audit

Financial services for YNLHN are provided by several agencies:

- YNLHN
- the Rural Support Service (RSS) within the Barossa Hills Fleurieu LHN
- the Department for Health and Wellbeing (DHW)
- Shared Services SA (SSSA).

Our audit covered the major financial systems at DHW, YNLHN, RSS and SSSA to obtain sufficient evidence to form an opinion on the financial report. A contracted accounting firm assisted the Auditor-General with the audit. Areas of audit attention in 2023-24 included:

- payroll
- accounts payable, including procurement
- revenue, including debt management
- property, plant and equipment
- asset management
- cash
- general ledger.

Audit findings

Communicating our audit findings

We communicated our audit findings to the Chief Executive Officer of YNLHN. The main findings and YNLHN's responses are discussed below.

We also identified several findings for control activities performed by the RSS that impact YNLHN. They are reported under 'Barossa Hills Fleurieu Local Health Network Incorporated' in this report.

Invoices paid without purchase orders

SA Health's requisition, purchase order and invoice management policy mandates the use of requisitions and purchase orders, unless the item purchased is on the approved purchase order exemption list or below $2,200.

We found payments made without purchase orders for which exemptions did not apply. This increases the risk of payments being made for goods or services not received or not at the agreed price.

YNLHN advised us that it will roll out an awareness campaign and targeted education to staff.

Accounts payable user access review not performed

We found that the Basware payment system quarterly user access review was not performed.

YNLHN stated that it would start six-monthly Basware user access reviews from December 2024.

Sundry debtor management needs to improve

We reviewed the effectiveness of sundry debtor follow-up activities performed by SSSA. We found instances where the follow-up and recovery of longstanding debtors was ineffective or not performed.

YNLHN advised us that it will continue to monitor sundry debts and make recommendations when required.

Inadequate segregation of duties for revenue officers

We found the length of hospital stay and charge types could be modified by revenue officers, increasing the risk of inappropriate adjustments to invoiced fees.

YNLHN advised us that this will be resolved when the new electronic medical records system is implemented.

Incorrect fees charged for dental surgery

We found that patients were being charged the incorrect fee for dental surgery.

YNLHN advised us that it will seek advice from the RSS to ensure dental fees are consistent across the country LHNs.

No strategic asset management plan

YNLHN has not developed a strategic asset management plan or an asset management plan.

YNLHN informed us that it is in the final stages of an asset capture and condition assessment project which is scheduled to be completed by December 2024.

Preventative maintenance data needs to improve

Preventive maintenance data is kept in multiple systems, which increases the risk of maintenance being missed or overlooked.

YNLHN responded that all of its assets will be maintained by Ventia from 1 July 2024.

Interpretation and analysis of the financial report

The consolidated accounts of YNLHN include the incorporated Health Advisory Councils (HACs) within the YNLHN region. These HACs undertake an advocacy role on behalf of the community, to provide advice about health services, health issues, goals, priorities, plans and other strategic initiatives.

We are only showing the consolidated amounts below, as the differences between the consolidated and parent amounts are immaterial.

Highlights of the financial report – consolidated

	2024 $million	2023 $million
Income		
Revenues from SA Government	188	171
Fees and charges and other income	20	19
Grants and contributions	41	32
Total income	249	222
Expenses		
Staff related expenses	138	124
Supplies and services and other expenses	105	91
Depreciation and amortisation	11	12
Total expenses	254	227
Net result	(5)	(5)
Total other comprehensive income	62	-
Total comprehensive result	57	(5)
Assets		
Current assets	47	39
Non-current assets	205	146
Total assets	252	185

	2024 $million	2023 $million
Liabilities		
Current liabilities	47	41
Non-current liabilities	23	20
Total liabilities	70	61
Net assets	182	124

Statement of Comprehensive Income

Revenues

Revenues from SA Government

YNLHN's revenues from the SA Government are received from DHW and were 75% of total its income. They comprised:

- $183 million ($167 million) in operating funding, reflecting a rise in the National Weighted Activity Unit (NWAU) and the costs of providing health services
- $4 million ($4 million) in capital funding.

Fees and charges

Fees and charges increased by $1 million, largely due to an increase in private patients.

Grants and contributions

Grants and contributions increased by $9 million to $41 million and mainly comprised $19 million of Commonwealth aged care subsidies due to an increase in the Commonwealth subsidy amount and $21 million of Commonwealth grants due to an increase in block funding and capital grants.

Expenses

Staff related expenses

Staff related expenses represent 54% of total expenses and increased by $14 million (11%) due to:

- a $7 million increase in salaries and wages due to an increase of 35 FTEs
- a $3 million increase in annual leave, long service and workers compensation expenses due to revaluation adjustment to the liabilities
- a $2 million increase in workers compensation due to the change in actuarial assumptions
- a $2 million increase in superannuation due to the increase in the super guarantee.

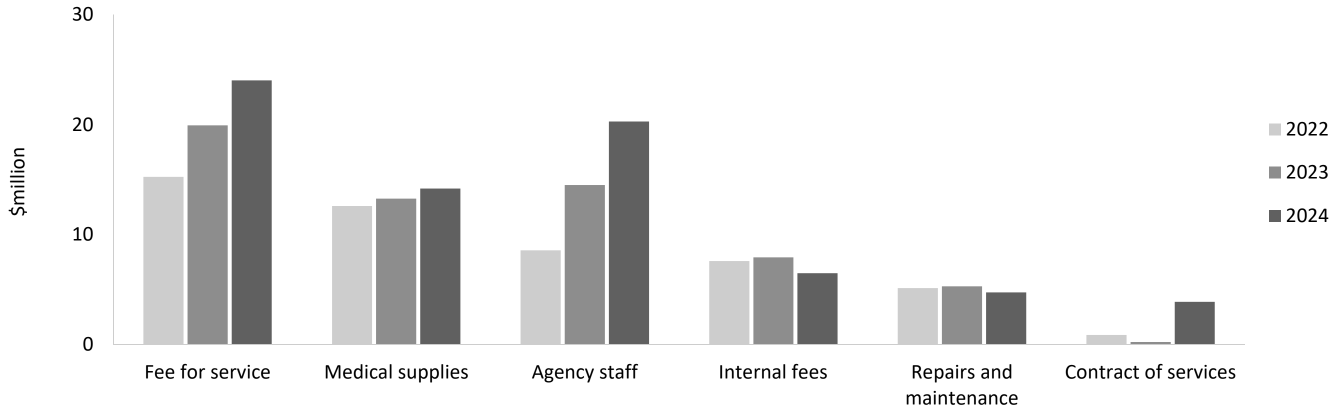
Supplies and services expenses

Supplies and services expenses increased by $13 million (15%), which was mainly due to:

- a $6 million increase in agency staff as a result of being unable to fill vacant positions and an increase in the cost of these services

- a $4 million increase in fee-for-service due to rising costs under the general practitioners agreement and higher use due to being unable to fill vacant positions
- a $3 million increase in contract of service.

There are six main categories that account for 71% of supplies and services expenditure, as shown in the chart below.



Statement of Financial Position

Assets

Current assets increased by $8 million and essentially comprise cash and cash equivalents of $19 million ($13 million), receivables of $6 million ($5 million) and other financial assets of $20 million ($19 million), which primarily relate to the investment of aged care refundable deposits.

Property, plant and equipment

As at 30 June 2024, property, plant and equipment represented 81% of total assets and the most significant component was $192 million ($136 million) of land and buildings.

Liabilities

Current liabilities of $47 million equalled current assets of $47 million at balance date.

Cash and cash equivalents of $19 million were sufficient to meet current payables of $6 million.

Staff-related liabilities

Staff-related liabilities are 65% of total liabilities at 30 June 2024 and comprise:

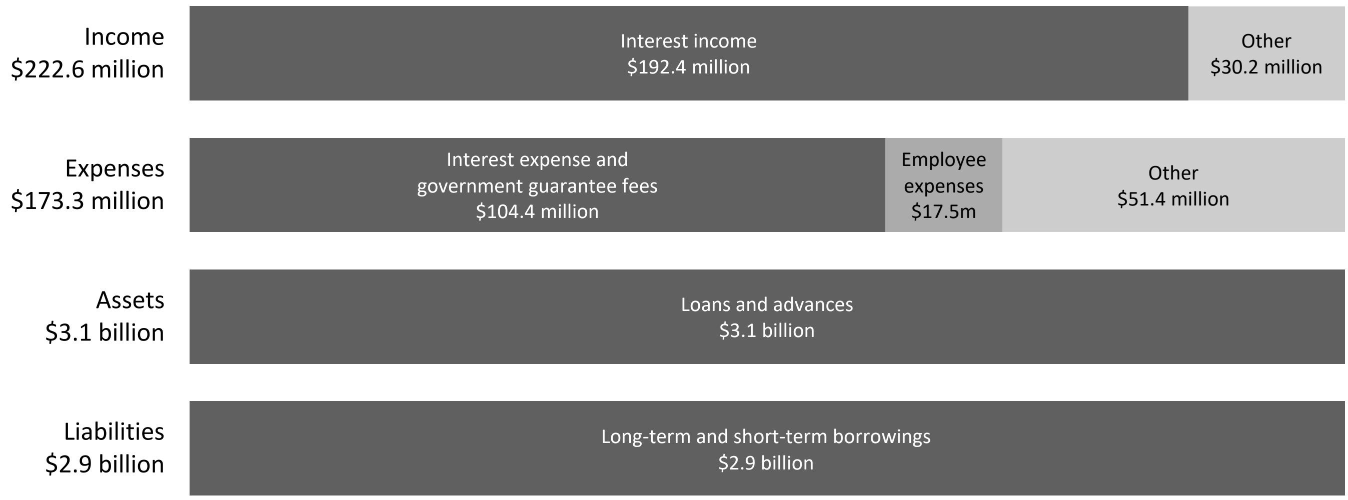
- $42 million ($37 million) of staff benefits liabilities and related on-costs
- $4 million ($3 million) of provisions for workers compensation.

Other liabilities

Other current liabilities are 23% of total liabilities and mainly comprise residential aged care bonds, which increased by $2 million due an increase in new deposits. These bonds are refundable accommodation contributions or deposits made by residents when they enter aged care facilities.

HomeStart Finance (HomeStart)

Financial statistics



140
FTEs

12,881
Number of outstanding loans at 30 June

$45.8 million
Dividends and tax equivalents paid

Significant events and transactions

— HomeStart is required to pay the Treasurer an annual dividend of 100% of its after tax profit. For 2024 this is $34.5 million, comprising a $30.3 million payment before the end of the financial year and a provision of $4.2 million to be paid in June 2025.

— The Treasurer approved an increase in HomeStart's borrowing limit by $648 million to $3.44 billion.

— Loans and advances increased by $685.4 million, reflecting the demand for new lending.

— Borrowings increased by $670.4 million to support the increase in loans and advances.

— HomeStart launched a new 2% deposit construction loan, enabling eligible non-graduate first home buyers to build with only a 2% deposit when using a HomeStart partner builder with a structured construction loan.

Financial report opinion

Unmodified

Audit findings

No significant findings.

Functional responsibility

HomeStart is a statutory corporation established under the Urban Renewal (HomeStart Finance) Regulations 2020 under the *Urban Renewal Act 1995*. It has a Board of Management that is subject to the control and direction of the Treasurer.

HomeStart's functions include:

- lending money or providing other financial assistance to facilitate home ownership in the State, including the provision of finance on concessional or special terms to people of low to moderate income
- providing, marketing and managing home finance products
- providing, managing or facilitating finance for housing schemes and housing associations, and for mortgage relief schemes within South Australia
- providing, managing or facilitating finance for the development, ownership or operation of aged care residential accommodation or facilities
- acquiring and holding land for rental accommodation in regional areas or providing, managing or facilitating finance for the development of rental accommodation in regional areas.

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 2024 included:

- expected credit loss provision
- shared equity loans
- loans and interest income
- derivatives and hedge accounting
- management override of controls
- intangible assets
- employee expenses and provisions
- borrowings from the South Australian Government Financing Authority (SAFA) and interest expense
- purchases and payables
- government guarantee fee, dividend payment and community service obligation subsidy.

Controls opinion

We reviewed controls over loans and advances and borrowings as part of our overall controls opinion, which is discussed in Part B of this report.

Audit findings

Communicating our audit findings

We communicated our audit findings in a management letter to HomeStart. There were no significant findings.

Interpretation and analysis of the financial report

Highlights of the financial report*

	2024 $million	2023 $million
Interest income	192	123
Interest expense	(104)	(56)
Net interest income	88	67
Other income	30	18
Other expenses	(46)	(29)
Government guarantee fee	(23)	(18)
Profit (Loss) before income tax equivalent	49	38
Income tax equivalent expense	(15)	(11)
Profit (Loss) after income tax equivalent expense	35	26
Other comprehensive income	(13)	(4)
Total comprehensive result	22	23
Assets		
Loans and advances	3,079	2,394
Other assets	26	51
Total assets	3,105	2,445
Liabilities		
Borrowings	2,894	2,224
Other liabilities	41	39
Total liabilities	2,936	2,263
Total equity	169	182

* Table may not add due to rounding.

Statement of Comprehensive Income

Profit for the year

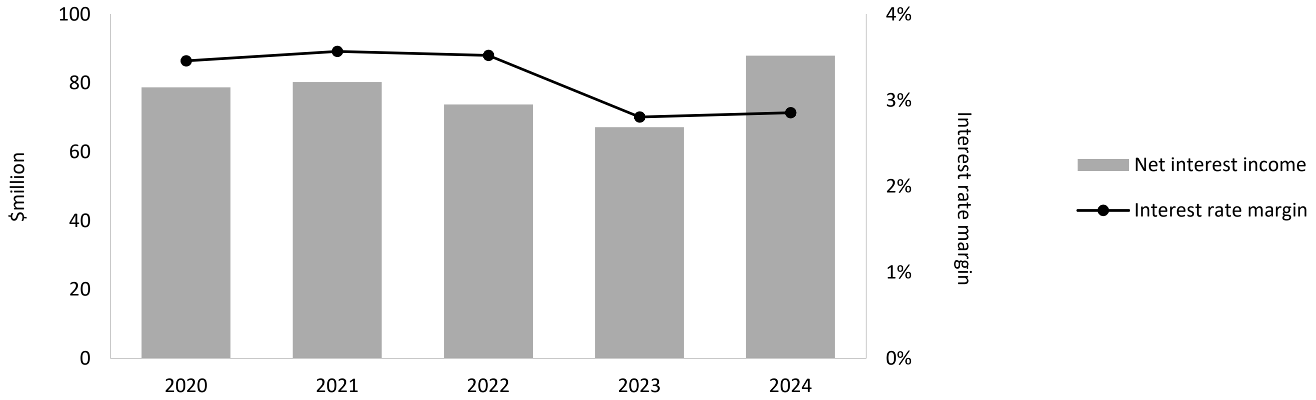
Profit before income tax equivalent payments increased by $11.6 million to $49.3 million. The analysis below outlines the main factors contributing to this result.

Net interest income

Net interest income increased by $20.8 million (31%) to $88 million. This increase reflects:

- the interest rate charged on fixed and variable loans increasing by more than the interest rate charged on borrowings with SAFA
- timing differences between increases in borrowing costs and lending rates as market interest rates rose during the year.

The following chart compares net interest income to the interest rate margin between loans and cost of funds, excluding the cost of the government guarantee fee.



The chart shows the interest rate margin between loans and cost of funds increasing by 0.5% to 2.9% in 2024.

HomeStart's variable interest rates rose from 8.14% in June 2023 to 8.64% in June 2024. Fixed interest rates for a term between one and three years rose from between 5.09% and 6.99% at 30 June 2023, to between 6.59% and 7.59% by 30 June 2024. The number of fixed rate loans increased to represent 32.8% of the total number of loans in the portfolio. The $69 million (56%) rise in interest income for 2024 reflects the $685 million (28%) increase in loans and advances, as well as the increase in fixed and variable rates applicable in 2024.

Borrowings from SAFA increased by $670 million (30%), in line with the increase in loans and advances. Interest expense saw an increase of $48.5 million (86.7%) due largely to rising interest rates charged by SAFA over the year. The weighted average interest rate charged by SAFA increased from 3.26% in 2023 to 4.58% in 2024 in response to the Reserve Bank of Australia raising the cash rate from 4.1% to 4.35% in 2024.

HomeStart's standard variable rate is set to be generally in line with the standard variable rate of major lenders. Rates are generally adjusted when the Reserve Bank of Australia changes the official cash rate.

Other income

Other income increased by $12 million to $30.2 million. This was due mainly to gains in the fair value of HomeStart's Breakthrough and Shared Equity Option loans, reflecting a higher price growth in the Adelaide property market in 2024 compared to the prior year. See 'Breakthrough and Shared Equity Option loans' below for further information.

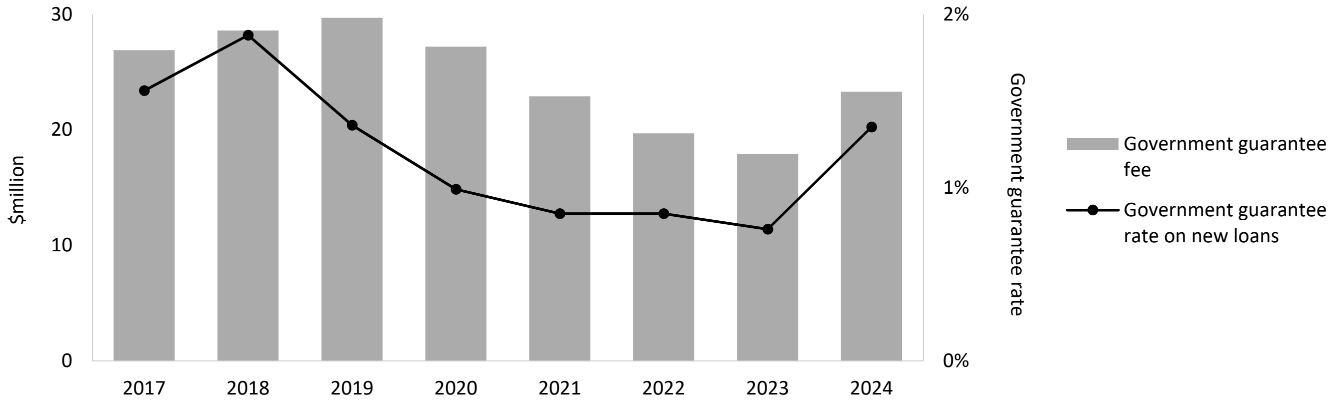
Expenses other than interest and income tax equivalent

Expenses other than interest and income tax equivalent payments increased by $21.5 million to $68.9 million in 2024. This was due mainly to:

- a $5 million increase in bad and impaired loans expense (see 'Bad and impaired loans income/expense' and 'Provision for credit impairment' below for more information)
- a $3.8 million increase in depreciation, amortisation and impairment expense primarily relating to the write-off of capitalised software associated with the new loans systems
- a $3.8 million increase in employee related expenses due relates to higher average FTEs in 2024 of 140 compared to 135 in 2023, combined with a pay increase of 3% effective at the start of the financial year
- a $5.4 million increase in government guarantee fees

- a $2.3 million increase in other expenses primarily due to IT and marketing costs. The IT costs were due to works performed over replacing legacy loan systems
- a $1.3 million increase in broker fees due to an increase in overall loan portfolio originating from brokers and incurring commission payments.

The $5.4 million increase in government guarantee fees is shown in the chart below.

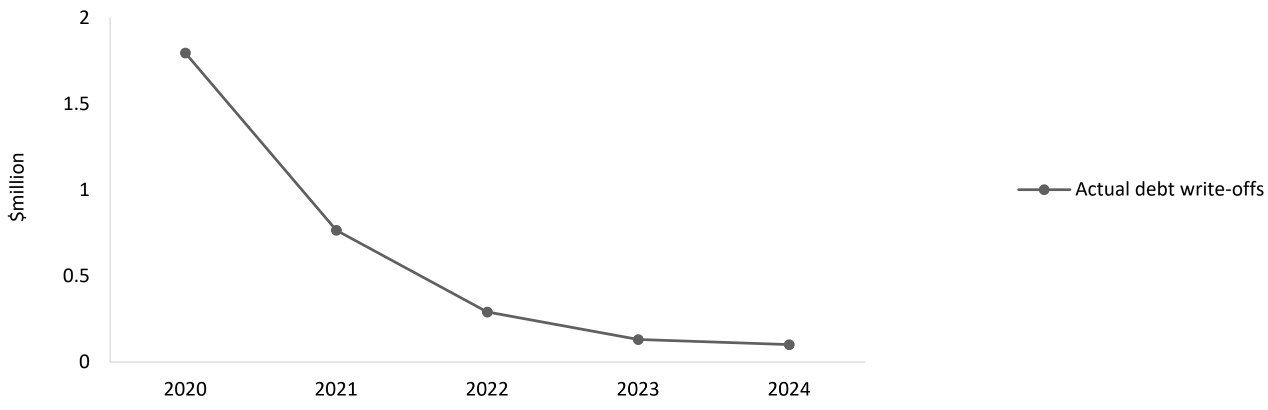


Government guarantee fees are impacted by the total value of borrowings with SAFA and the government guarantee fee at the time of borrowing. The 2024 increase in guarantee fees reflects the maturity of one floating rate note valued at $100 million with a guarantee fee of 0.85% being replaced by new floating rate notes with a 1.34% guarantee fee. The higher guarantee fees on new floating rate notes result in higher government guarantee fees.

Bad and impaired loans income/expense

HomeStart recognised a bad and impaired loans expense of $6.1 million for 2024, compared to impaired loan expense of $1.1 million for 2023. This year's expense largely reflects the $5 million increase in HomeStart's total provision for loan impairment to $26.8 million at 30 June 2024 (see 'Provision for credit impairment' below for more information).

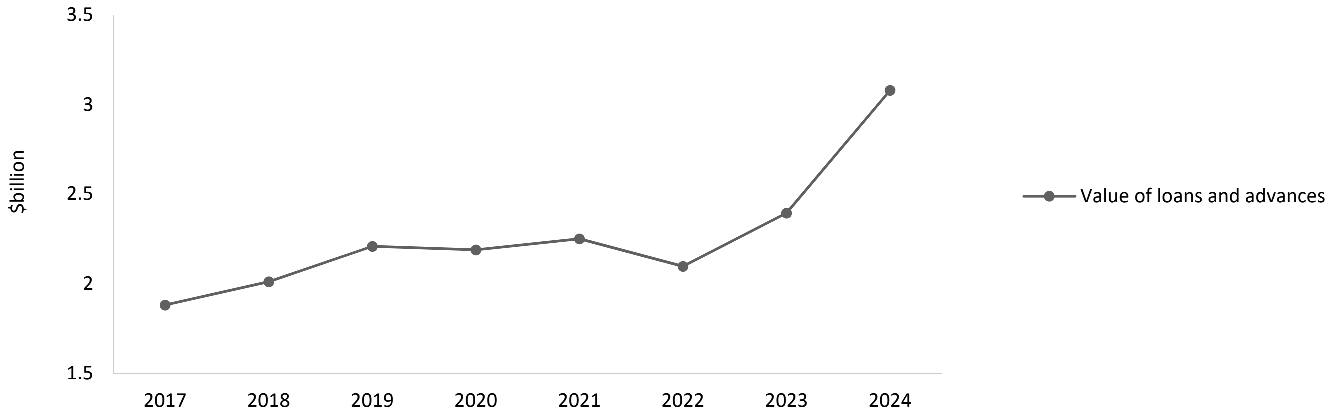
The chart below illustrates a downward trend in debt write-offs over the past five years, reflecting the impact of the economic circumstances of borrowers. HomeStart has also tightened its lending policy and monitoring of loan repayment performance, with write-offs primarily relating to existing loans rather than new loans written in recent years. Government assistance payments during the COVID-19 pandemic provided households with increased cash holdings, resulting in more repayments into loans and reduced arrears.



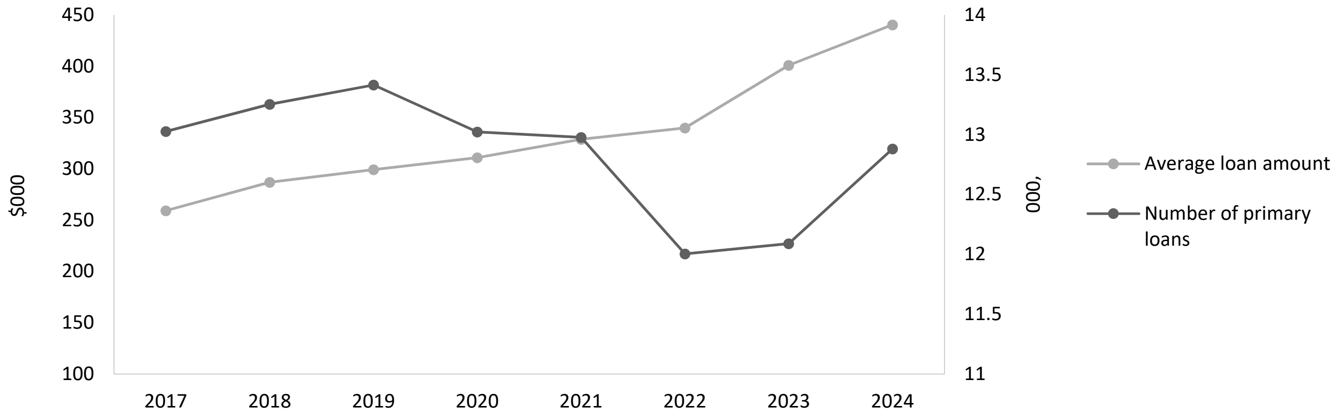
Statement of Financial Position

Loans and advances

At 30 June 2024 total loans and advances were valued at $3.1 billion, an increase of $685.4 million from the previous year. The following chart shows the value of loans and advances over the past eight years.



The next chart shows the number of primary loans and the average loan amount for the past eight years.



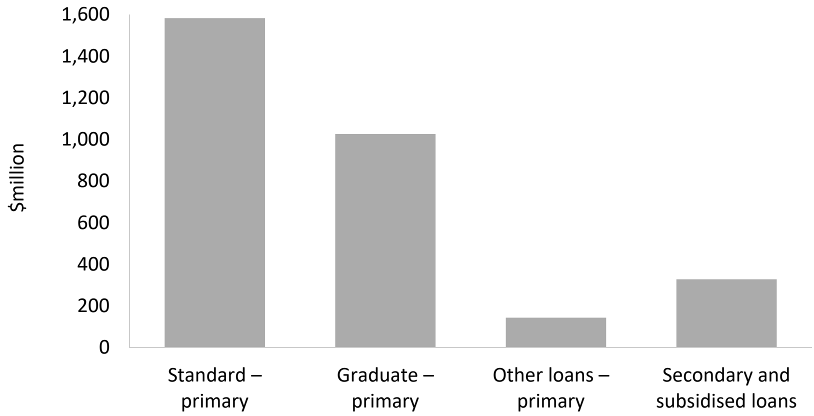
The increased value of loans and advances for 2024 reflects increases in both the demand for new lending, from 2,046 loans ($803 million) in 2023 to 2,869 loans ($1.2 billion) in 2024, and the average amount of individual lending. The average primary loan balance increased by 9% from $401,000 to $441,000. Higher individual lending is a result of increases in property prices.

HomeStart interest rates are generally higher than those of mainstream lenders, as its core business is to provide loans to low to moderate income earners who may not be able to borrow through mainstream lenders. It also provides loans with a high loan-to-value ratio without charging lenders mortgage insurance and products that assist with upfront costs.

The increase in loans and advances between 2017 and 2019 primarily reflected the growth in Graduate loans. HomeStart changed the lending criteria for these loans in 2015, allowing students with a Certificate III qualification (or higher) to be eligible.

HomeStart's loan portfolio includes both primary and secondary/subsidised loans. Primary loans are loans at market interest rates, whereas secondary/subsidised loans are loans at rates lower than market interest rates, such as Advantage and EquityStart loans.

The following chart shows the value of HomeStart's loan portfolio by loan type at 30 June 2024.



The primary loan and Graduate loan portfolios increased by $289.5 million and $285 million, respectively, in 2024. This reflects higher demand for HomeStart's products in response to higher interest rates, increasing house prices and tighter lending conditions, making it difficult for home owners to obtain finance elsewhere.

The secondary and subsided loans portfolio increased by $101.5 million in 2024. This portfolio includes Shared Equity Option loans, which increased by $87 million due to increased demand driven by rising house prices and lower housing affordability (see 'Breakthrough and Shared Equity Option loans' below for more information).

Breakthrough and Shared Equity Option loans

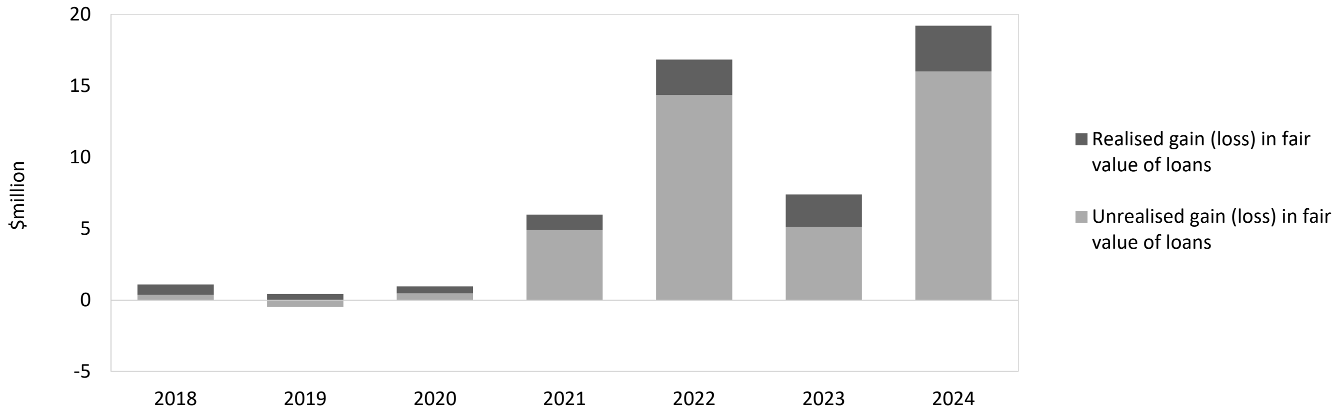
Breakthrough and Shared Equity Option loans have a standard loan component with standard interest rates and repayments paired with a shared appreciation component, where the loan is repaid along with a percentage of the change in property value when the property is sold.

The shared appreciation component of these loans is recognised at fair value through profit and loss, while the standard loan component is recognised at amortised cost.

These loans (including the shared appreciation component) represent 6.6% of the total loans and advances value. The impact that the shared appreciation component has on HomeStart's operating result, however, has meant that it has implemented specific risk management strategies for these loans. One of those strategies is placing a cap on the total value of these loans outstanding at any given time.

In 2024 HomeStart recognised a net gain of $19.2 million ($7.4 million gain) for these loans, comprising a $16 million gain ($5.1 million gain) recognised from revaluation and a $3.2 million gain ($2.3 million gain) realised on discharge of loans. The movement in the value of the shared appreciation component, and the impact of these loans on the operating result, follows the increased growth in the Adelaide property market in 2024 compared to a relatively modest property price growth in the previous year. The CoreLogic daily home value index for Adelaide increased by 15.4% in 2024, reflecting significant property growth.

The chart below shows the impact of these loans on HomeStart's operating result and the total value of the shared appreciation component since 2018.



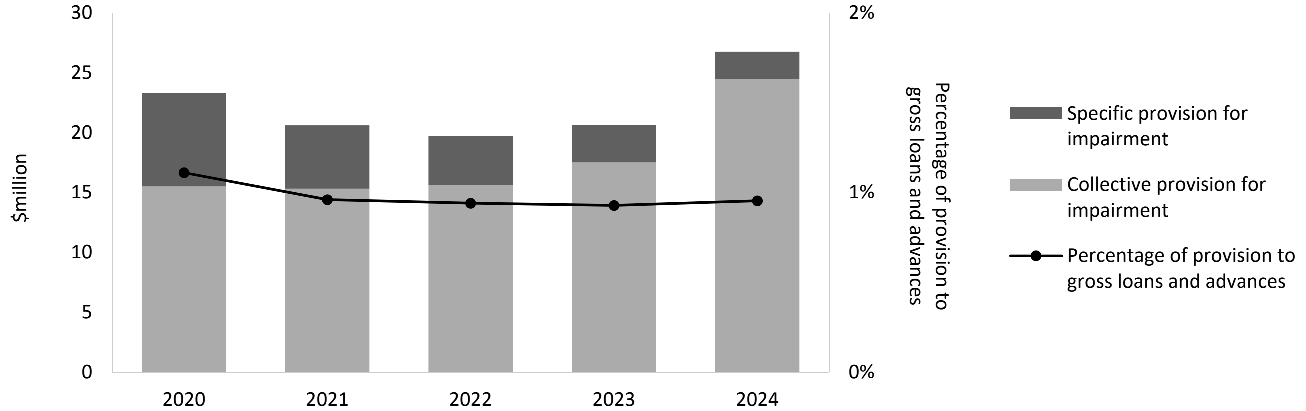
The Breakthrough loan product was withdrawn from December 2017 and the Shared Equity Option loan product was released in April 2018.

Provision for credit impairment

HomeStart assesses whether there is objective evidence that a financial asset or a portfolio of financial assets is impaired at each balance date. The total provision for credit impairment increased by $6.1 million to $26.8 million in 2024. It has two components based on expected credit losses:

- specific provision – representing loans and advances that are individually assessed as impaired. As at 30 June 2024 this was $2.3 million ($3.1 million). The decrease in 2024 reflects a reduction in the provision required for each loan due to the increase in property prices, which reduces HomeStart's deficit should the mortgage be repossessed
- collective provision – an expected credit loss model is used to calculate this provision. The provision increased by $7 million to $24.5 million as at 30 June 2024, largely driven by the increase in loans and advances. The calculation of the collective provision includes assumptions about future economic scenarios and weightings given to each scenario. There is significant uncertainty over near-term economic conditions impacting interest rates, inflation, unemployment levels and the cost-of-living – risks that HomeStart's customer base is generally more exposed to. HomeStart expects that arrears will continue to rise in the future and overall credit performance will decline.

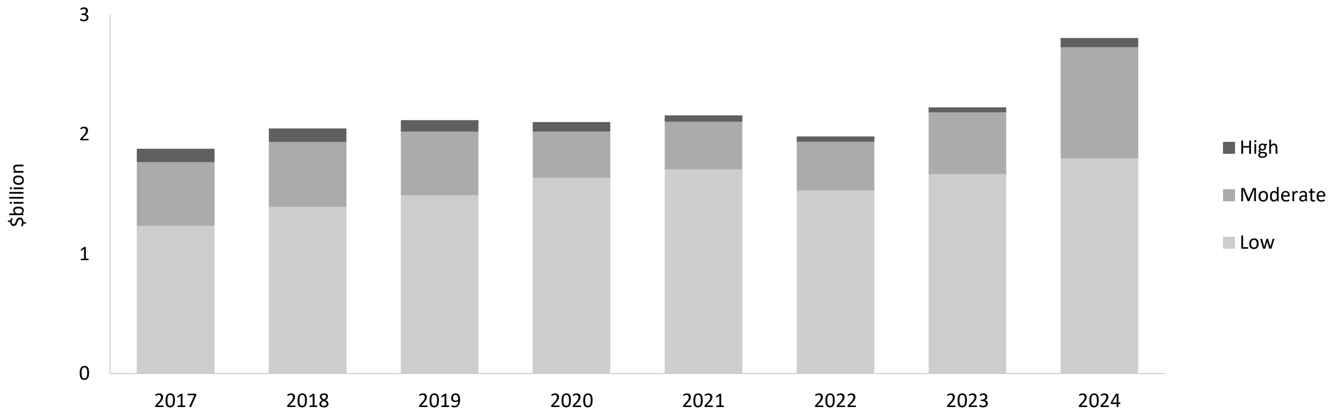
The following chart shows the levels of HomeStart's provisions and their composition over the past five years.



The chart clearly shows the increase in provisioning for 2024, driven largely by the increase in total loans and advances. The provisioning in 2020 recognised the anticipated impacts of COVID-19 on HomeStart's customers.

Loan quality

HomeStart assesses the gross value of its loans and advances to customers by credit risk grading. The following chart summarises that assessment.



The chart shows the proportion of high and moderate credit risk category loans, with most loans assessed as low credit risk. The increase in low credit risk loans is primarily associated with a significant increase in new lending, while moderate and high credit risk loans increased only slightly, reflecting HomeStart's expectation that arrears will continue to rise in the future and overall credit performance will decline in response to expected future economic conditions.

Credit risk scores are applied when loans are approved and regularly reviewed based on an assessment of the probability of default over the life of the loan. Loan arrears have generally been decreasing since 2019, resulting in overall improvement in risk ratings. Loan arrears improved because of HomeStart's COVID-19 payment assistance (deferred payments), customers receiving JobKeeper payments from Centrelink and using these funds to repay their loans, and customers obtaining early release of superannuation through the Commonwealth Government's earlier COVID-19 response initiatives.

Risk management for loans

HomeStart has a higher inherent risk for its loans than a mainstream lender's loan portfolio. The key differences are that:

- generally HomeStart customers have lower incomes and borrow a greater percentage of their home value
- there is a significant concentration of lending in regional South Australia and outer metropolitan suburbs
- customers are not required to take out lender's mortgage insurance.

There are geographic areas with a greater concentration of HomeStart loans, with 31% of loans by value secured against properties in the City of Playford and the City of Salisbury. A further 16% of loans by value are secured against properties outside of the Adelaide metropolitan area.

HomeStart manages the risks associated with these concentrations of lending through its general lending policies, including loan to valuation ratios and limits on lending in some instances. As HomeStart lends only to individual owner-occupiers, it holds collateral against the value of the loans outstanding through mortgages on the associated properties.

HomeStart's principal exposure is to the risk of a borrower not being able to repay the loan. Where this occurs, the property may be subject to sale as a mortgagee in possession, with HomeStart seeking to recover outstanding amounts by selling the property. In this situation HomeStart is exposed to market risk that the price achieved for the property's sale does not cover the outstanding balance. It manages this risk by monitoring property valuations annually and complying with loan-to-value ratios for new loans.

As discussed above, HomeStart seeks to manage the risks associated with loan quality by maintaining both specific and collective provisions.

Liabilities

Borrowings at 30 June 2024 were $2.9 billion ($2.2 billion) and represent 98.6% (98.3%) of HomeStart's liabilities. HomeStart is required to use SAFA as its sole counterparty for all funding transactions. At 30 June 2024, HomeStart had an approved borrowing limit of $3.44 billion ($2.79 billion). Most of its borrowings from SAFA mature within five years, with $474.1 million of debt maturing over the next 12 months.

Fair value and comprehensive result

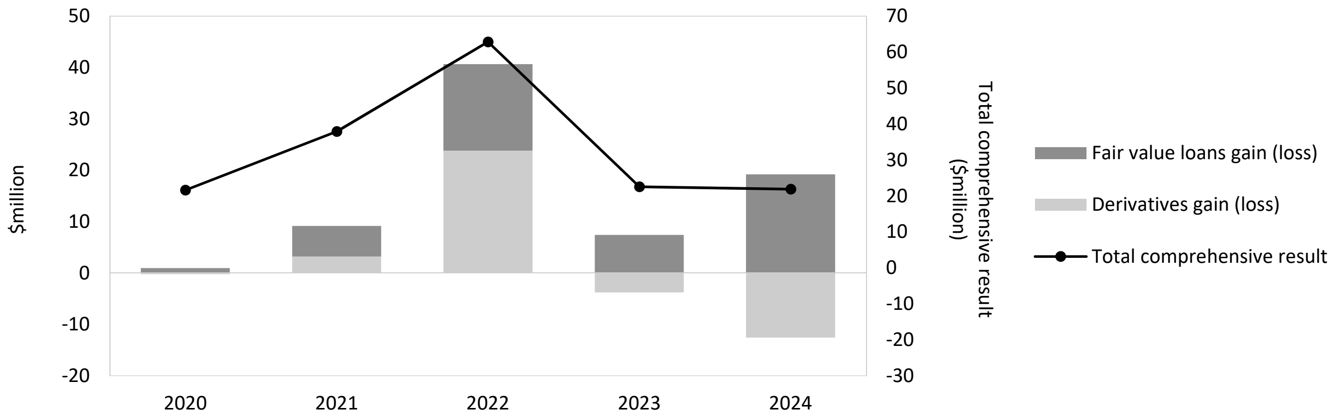
HomeStart recognises derivatives and certain investments, including Breakthrough and Shared Equity Option loan (shared appreciation component) products, at fair value. The changes in fair value of these items can impact its Statement of Financial Position and Statement of Comprehensive Income.

Derivatives are used to hedge (protect against) changes in interest rates. Changes in the fair value of hedges do not affect profit as they are recognised in the derivatives valuation reserve within equity, as the offsetting hedged loans are not fair valued. However, the realised and unrealised changes in the shared appreciation component of Breakthrough and Shared Equity Option loans at fair value are recorded in other income or other expenses in the Statement of Comprehensive Income.

The impact of all these changes is included in the total comprehensive result reported in HomeStart's Statement of Comprehensive Income. Its total comprehensive result deteriorated marginally by $700,000 to $21.9 million in 2024.

The chart below shows the impact of the changes in the fair value of derivatives and loans classified as fair value through profit and loss on HomeStart's total comprehensive result for the last five years. At 30 June 2024 net derivatives were valued at $6.1 million, a decrease of $12.6 million from the prior year. Their lower value reflects a number of historical interest rate swaps that were subject to lower fixed interest rates, have reached maturity and have been replaced with interest rate swaps with a higher fixed rate.

The fair value loans gain of $19.2 million for 2024 reflects a higher price growth in the Adelaide property market compared to the prior year.



Distributions to and revenue from SA Government

HomeStart's distributions to the SA Government include dividends, guarantee fees and income tax equivalent payments. HomeStart also receives community service obligation (CSO) funding from the Department of Treasury and Finance in recognition of the cost of performing the following non-commercial activities:

- acceptance of non-commercial credit risk
- Nunga loan program
- advantage loan program subsidies
- domestic violence housing loans (none claimed or received in 2023 or 2024).

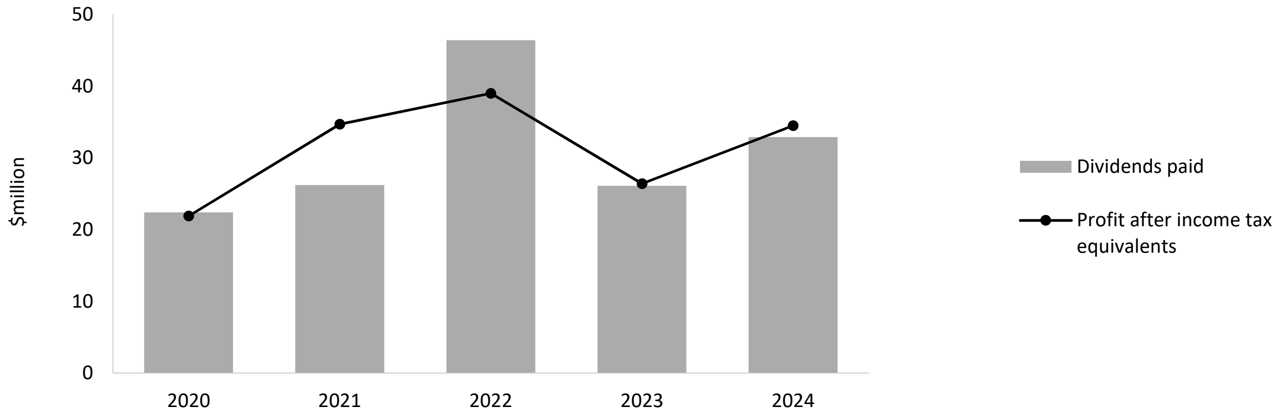
HomeStart's requirement to undertake non-commercial activities is set out in its regulations.

The following table summarises these cash transactions with the SA Government for the four years to 2024.

	2021 $million	2022 $million	2023 $million	2024 $million
SA Government distributions:				
Dividend	26	46	26	33
Income tax equivalent	11	16	17	13
Government guarantee fee	23	20	18	23
Total distributions to SA Government	60	82	61	69
CSO income	(8)	(8)	(8)	(9)
Net amount provided to SA Government	52	74	53	60

Note: Table may not add due to rounding.

The following chart shows profit after income tax equivalent payments and dividends paid for the past five years, highlighting HomeStart's sustained profit performance over that period.



For the financial year ended 30 June 2024, the Treasurer approved the payment of a dividend of 100% of after tax profit. In June 2024 HomeStart paid a dividend of $32.9 million, comprising an estimate of the expected profit for 2023-24 of $30.3 million and the dividend payable for 2022-23. Based on its actual after tax profit for 2024, HomeStart recognised a dividend payable for the year of $4.2 million.

HomeStart aims to return dividends to the SA Government regularly, in line with its established performance statement. Dividends are recommended by the Board and then approved by the Treasurer.

HomeStart pays an income tax equivalent to the SA Government in line with Treasurer's Instruction 22 *Tax Equivalent Payments*. The income tax liability is based on the State Taxation Equivalent Regime, which applies the accounting profit method. This requires that the corporate income tax rate be applied to net profit.

Statement of Cash Flows

Net cash flows

The following table summarises the net cash flows for the four years to 2024

	2021 $million	2022 $million	2023 $million	2024 $million
Net cash flows				
Operating	31	27	19	25
Investing	(52)	169	(285)	(666)
Financing	22	(194)	266	637
Change in cash	1	2	(1)	(4)
Cash at 30 June	6	7	7	3

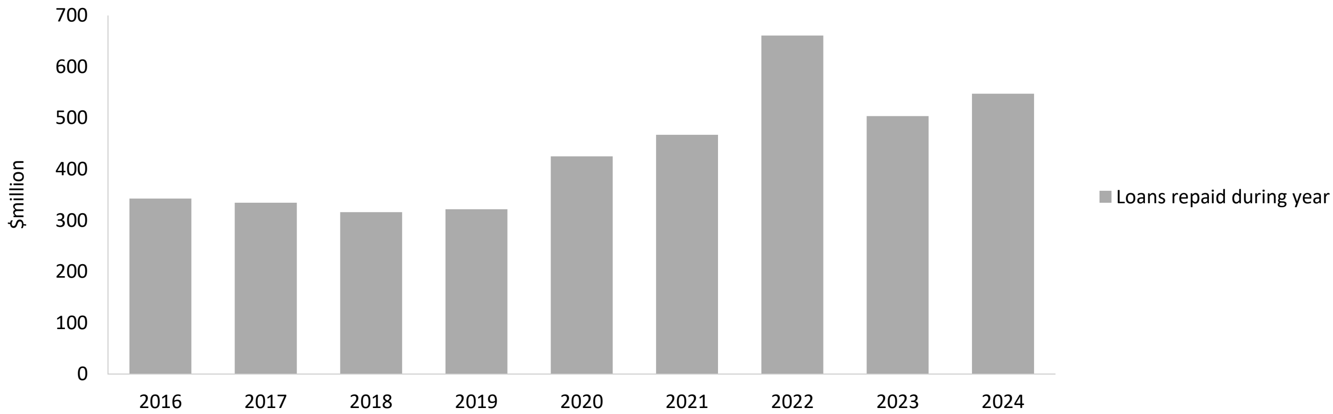
Note: Table may not add due to rounding.

Investing activities relate primarily to the provision of loans to customers. For 2024 new lending of $1.2 billion exceeded customer loan repayments and discharges of $547 million.

The net financing cash inflow of $637 million largely reflects the net increase in borrowings of $771 million to support new customer lending, partially offset by debt repayments of $100 million and dividends paid of $32.9 million.

Customer loans repaid

The following chart shows loan repayments, including discharges, since 2016.



Customer repayments increased annually between 2018 and 2022, reflecting the low interest rate levels over that period resulting in:

- customers choosing to repay more debt or refinance with other institutions to take advantage of more suitable loan arrangements
- an increase in fixed repayment loan products repaying proportionately more principal.

The significant drop in customer repayments in 2023 echoed the uncertainty of deteriorating economic conditions, with higher interest and inflation rates, limiting customers from making additional loan repayments or refinancing elsewhere.

HomeStart operating parameters

HomeStart is required to operate within financial parameters set down in its charter and performance statement approved annually by the Treasurer. Its performance targets compared to actual results are shown in the following table.

	Cabinet approved operating parameters	Performance statement target for 2024	2023 result	2024 result
Operating profit before tax	n/a	n/a	$38 million	$49.3 million
Return on equity	>9%	>9%	20.53%	28.14%
Cost to income (CTI) ratio	<53%	<53%	40.79%	40.63%
Capital adequacy ratio (Common Equity Tier 1)	9-11%	>9%	11.2%	8.6%

The CTI ratio is an indicator of operating efficiency, expressed as operating costs as a percentage of income. CTI is commonly used in the banking sector. It is influenced by changes to the guarantee fee, property prices (via Breakthrough and Shared Equity Option loans), revenue from fees and HomeStart's control of its administration expenses.

The capital adequacy ratio is an indicator of the extent to which HomeStart's capital can shield the State from unanticipated credit losses. HomeStart measures the ratio of high quality 'tier 1' capital to risk-weighted assets using guidelines established by the Australian Prudential Regulation Authority for the Australian banking sector. At 30 June 2024, HomeStart's capital adequacy ratio was below the target of 9%. HomeStart requested capital contributions from the SA Government during the year to ensure that it would have sufficient capital if it experienced unanticipated credit losses and to meet the capital adequacy ratio of 9%. The SA Government approved HomeStart's capital adequacy ratio falling below the target of 9% until a new capital structure target is set.

The most significant factor contributing to HomeStart's above-parameter returns on equity in 2024 and 2023 was the gains recognised on shared equity loans as a result of property price increases. The increase in loans also contributed to an increase in profit due to interest rates charged on loans exceeding the interest rates paid on borrowings.

Other comments

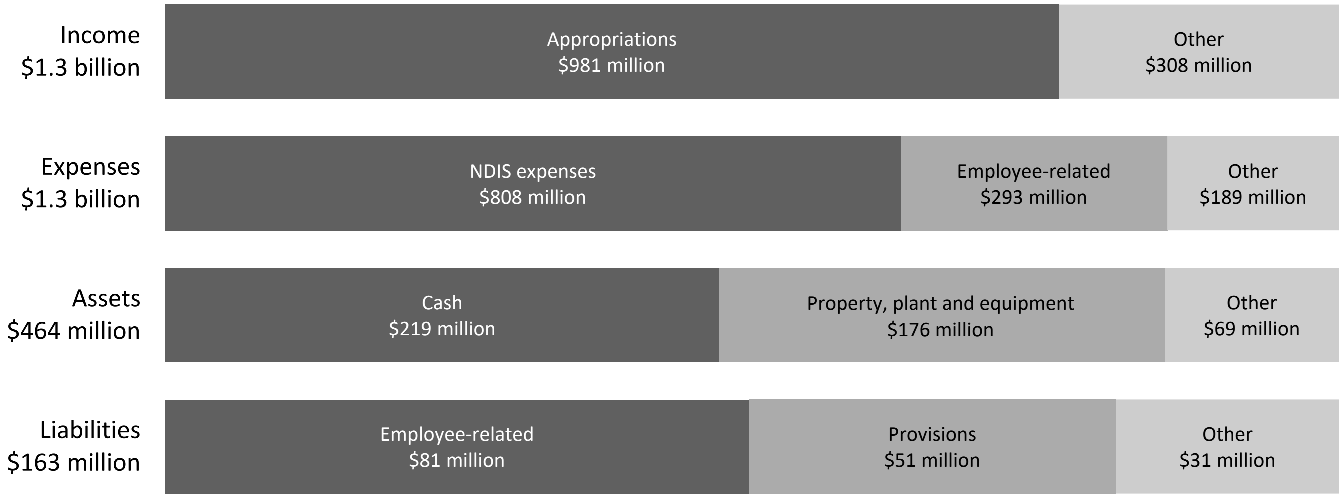
The Shared Equity Fund for New Housing Construction was established as part of the Housing Construction Stimulus Package in response to COVID-19 in June 2020. The package included expanding HomeStart's existing Shared Equity Option loan to be available for the construction of new homes to an approved limit of $21 million. This initiative was formed to target 20,000 affordable houses within 10 years, with the South Australian Housing Trust taking the equity interest in these shared equity loans.

Funds received or receivable from the South Australian Housing Trust in advance of being drawn by customers are offset in other liabilities. At 30 June 2024 HomeStart had $5.5 million ($13.7 million) in approved shared equity loans for construction that had not yet been drawn down by customers. The full amount of the Shared Equity Fund has been exhausted with a total of 178 loans approved and the last draw down in November 2024.

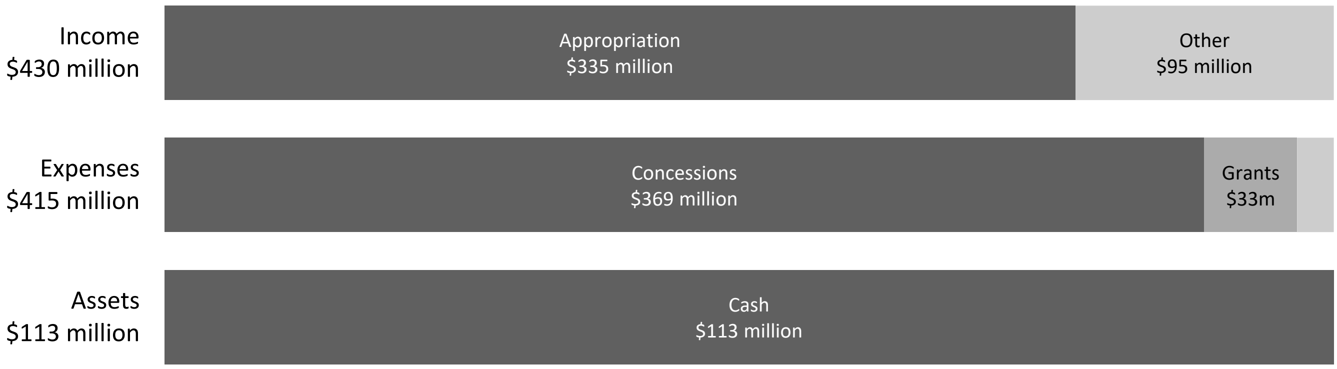
HomeStart has concluded that it does not hold the equity interest in shared equity loans funded through these arrangements and therefore does not recognise a loan asset for them.

Department of Human Services (DHS)

Financial statistics



Administered items



2,799
FTEs

228,000
Households receiving a concession

Significant events and transactions

- DHS started operating fully under the National Disability Insurance Scheme (NDIS) from 1 October 2023. The impact of the change was that income from the provision of disability support services increased by $92 million to $109 million and the State's contribution to the NDIS increased by $100 million to $808 million.
- Land and buildings were revalued to $165 million, an increase of $67 million.

	— The Energy Bill Relief concessions commenced in 2023-24. DHS administered activity includes $130 million paid to household and businesses and $56 million received from the Commonwealth for these concessions. — The property assets of the Home for Incurables Trust were sold during the year for $42 million, a net gain of $17 million on their carrying amount of $25 million.
Financial report opinion	**Unmodified**
Controls opinion findings	No significant findings.
Other audit findings	— Controls over charging for disability services under the NDIS need to improve. — Penalty rates paid to staff are not included in the award.

Functional responsibility

DHS is an administrative unit established under the *Public Sector Act 2009*. It reports to the Minister for Human Services and Minister for Women and Prevention of Domestic, Family and Sexual Violence. Its objective is to deliver strategies, programs and services that improve the wellbeing and safety of South Australians. It does this through its programs for communities and families, the status of women, equality and domestic violence prevention, youth justice and disability. DHS is also responsible for administering a number of funds and trusts on behalf of the Minister, including concession payments.

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:

- compliance with governance arrangements
- expenditure, including grant payments, concessions and supplies and services
- fixed assets
- revenue, including charging for NDIS services
- cash and general ledger
- client trust accounts.

We reviewed internal audit activities when designing and performing our audit procedures.

Controls opinion

We reviewed controls over the following areas as part of our overall controls opinion, which is discussed in Part B of this report:

- NDIS expenditure
- deposit accounts and special deposit accounts held with the Treasurer.

Audit findings

Communicating our audit findings

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

Controls opinion findings

There were no significant findings for our controls opinion work on DHS.

Other audit findings

Controls over charging for disability services under the NDIS need to improve

From 1 October 2023, DHS's disability services operated fully under the NDIS. This meant that DHS started charging for all disability services under the NDIS arrangements. This change required it to implement new systems and additional work processes to facilitate charging for the individual disability services it provides to clients.

We found several areas where further improvement in systems, processes and procedures is needed. They included:

- developing policies and procedures for the billing process
- implementing a process to follow up and resolve unsuccessful claims after the initial dispute lodgement with the National Disability Insurance Agency (NDIA). DHS had not recognised revenue for any of its unsuccessful claims, even though the services may have been provided. It advised us that the value of its unsuccessful claims was about $1 million as at June 2024
- raising invoices for self-managed and plan-managed clients in a timely manner. At the time of our audit in early June 2024, the majority of these clients had not been invoiced since January 2024. DHS has since raised these invoices
- renewing client service agreements and updating that information in DHS systems in a timely manner. DHS was unable to charge for clients if the client services agreement was not updated. It advised us that there were about 100 expired service agreements with related unclaimed services in the order of $10 million as at June 2024. DHS recognised all revenue associated with outstanding service agreements in the financial statements.

DHS responded that action will be taken or planned to address all matters raised including developing overarching policy and procedures for key control activities and responsibilities. DHS further advised on action to ensure unsuccessful claims are minimised or resolved, improve the timeliness of raising invoices for self-managed and plan-managed clients, to implement a new process for actioning client service agreements before expiry.

Penalty rates paid to staff are not included in the award

In prior years we found that some disability services officers were paid an afternoon penalty rate of 15%, which is not specified in the Intellectual Disability Services Award they are employed under. This year we noted that DHS was still working with the Industrial Relations Policy Branch of the Attorney-General's Department to resolve the matter.

DHS responded that inclusion of the afternoon penalty rates in the successor to the *South Australian Public Sector Enterprise Agreement: Weekly Paid 2022* was under negotiation.

Interpretation and analysis of the financial report

Highlights of the financial report – controlled items

	2024 $million	2023 $million
Income		
Appropriations	981	989
Sales of goods and services	128	34
Commonwealth-sourced grants and funding	121	116
SA Government grants, subsidies and transfers	41	38
Other revenues	18	18
Total income	1,289	1,195
Expenses		
NDIS expenses	808	708
Employee benefits expenses	293	302
Supplies and services	97	86
Grants and funded services	85	82
Other expenses	7	8
Total expenses	1,290	1,186
Net result	(1)	9
Other comprehensive income	67	-
Total comprehensive result	66	9
Net cash provided by (used in) operating activities	51	19
Assets		
Current assets	262	268
Non-current assets	202	129
Total assets	464	397
Liabilities		
Current liabilities	81	76
Non-current liabilities	82	87
Total liabilities	163	163
Total equity	301	234

Statement of Comprehensive Income

Income

DHS's main sources of income are appropriations of $981 million ($989 million), sales of goods and services of $128 million ($34 million) and Commonwealth grants of $121 million ($116 million).

Sales of goods and services

Sales of goods and services increased by $94 million to $128 million. The main contributor was income from the provision of disability services, up $92 million from $17 million to $109 million. The additional income is due mainly to DHS charging for all NDIS disability services from 1 October 2023. The 'NDIS expenses' section below further explains the changes to the NDIS arrangements.

SA Government grants, subsidies and transfers

SA Government grants, subsidies and transfers increased by $3 million to $41 million, due mainly to:

- an $8 million decrease in Department of Treasury and Finance (DTF) contingency funding for targeted voluntary separation package (TVSP) reimbursements from $9 million to $1 million. There were 114 TVSPs in 2022-23 compared to 12 in 2023-24
- an increase in DTF contingency funding of $6 million to meet the South Australian NDIS contribution
- $2 million in funding for screening system transformation starting in 2023-24.

Expenses

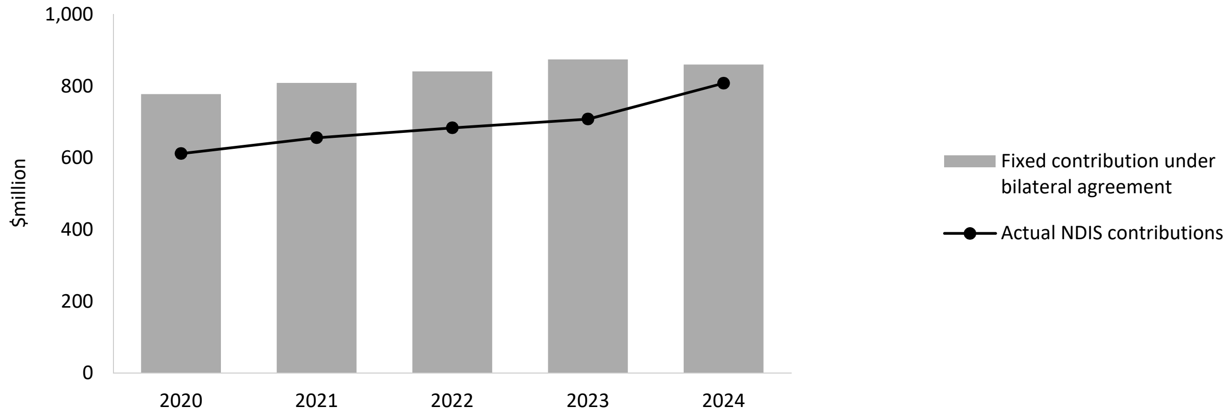
In 2023-24 total expenses increased by $104 million to $1.3 billion. The movements in expenses included increases in NDIS contributions (up $100 million), supplies and services (up $11 million) and grants and subsidies (up $3 million), offset by a decrease in employee benefits expenses (down $9 million).

NDIS expenses

NDIS expenses increased by $100 million, from $708 million to $808 million in 2023-24. This was due to the combination of factors discussed below.

South Australia started making contributions to the NDIS in 2013-14. Funding is paid to the NDIA under the full scheme bilateral agreement with the Commonwealth. The objective of the agreement is to improve the outcomes for people with a disability by supporting them through the NDIS, with the shared goal of increasing their social and economic participation. The agreement involves agreed payments between the Commonwealth and SA Governments to fund the NDIS.

NDIS expenditure comprises the fixed State contribution under the bilateral agreement, offset by adjustments including the in-kind provision of services (such as the supported independent living services DHS continues to provide to disability clients). The following chart shows the fixed contribution under the bilateral agreement and the actual NDIS contributions after the in-kind adjustment for the last five years.



The State's contribution to the NDIS decreased from $874 million to $860 million in 2023-24, due to an adjustment of the State's contribution from 1 July 2023. The arrangements for the NDIS include a reallocation of contributions every five years from 1 July 2023 based on the State's share of the national population from the most recent Census. South Australia's contributions will increase by about 4% each year to 2027-28, when the contribution will be $1 billion.

Under the agreement, most of the in-kind portion adjustment was scheduled to end on 30 June 2023, with DHS transitioning to charging for all services provided under the NDIS scheme. However, this was delayed to start from 1 October 2023. The impact of the change was that:

- the in-kind service offset decreased by $114 million from $166 million last year to $52 million in 2023-24
- income from the provision of disability services increased by $92 million to $109 million.

We assessed whether DHS's internal controls for NDIS expenditure were suitably designed and operating effectively throughout the year. There were no significant findings from our review.

Employee benefits expenses

Employee benefits expenses decreased by $9 million to $293 million in 2023-24, due mainly due to:

- a $21 million decrease in workers compensation expenses due to changes in the actuary's assessment of outstanding claims liabilities for injuries in years before 2023-24, economic assumptions and characteristics to apportion the whole-of-government liability between agencies
- a $12 million (6%) increase in salaries and wages, due mainly to the appointment of additional employees and enterprise bargaining agreement increases
- a $9 million decrease in TVSP expenses, with 12 (114) employees receiving $1 million ($8 million) in TVSPs. In 2022-23 the SA Government expanded the eligibility for the TVSP scheme to achieve targeted savings
- a $3 million increase in long service leave expenses, which arose from changes in the actuarial forecasts for discount rates and salary inflation.

Supplies and services

In 2023-24 supplies and services expenses increased by $11 million to $97 million, mainly resulting from:

- a $6 million increase in agency staff expenses mainly to support the transition to operating fully under the NDIS
- a $2 million increase in brokerage care services due the introduction of the new Care Service Pathways program in 2023-24.

Statement of Financial Position

Assets

DHS's major assets include cash and cash equivalents of $219 million ($174 million), property, plant and equipment of $176 million ($110 million) and receivables of $45 million ($94 million).

Total assets increased by $67 million to $464 million, with the main contributing factors coming from:

- the significant revaluation upwards of $67 million of land and buildings, with:
  - land up $41 million (125%) to $75 million
  - buildings up $26 million (41%) to $90 million.

  The previous valuation of land and buildings was at 30 June 2021
- cash increasing by $45 million to $219 million, due mainly to Commonwealth funding sources received prior to the end of the year to fund the State's contribution to the NDIS
- capital works expenditure of $8 million, largely for the Consolidation of Youth Custodial Services project. The total spend on this project to 30 June 2024 was $24 million, with the project being largely complete and expected to be operational early in 2024-25
- receivables decreasing by $49 million, due largely to the changes in billing arrangements for the NDIS (see 'NDIS services' above) which contributed to:
  - a reduction of $61 million for in-kind NDIS services provided by DHS. DHS receives the reduction to NDIS contributions for in-kind services in the quarter following the provision of services. The amount recorded in receivables at 30 June 2024 was $7 million ($68 million)
  - an increase in contractual receivables of $14 million, most of which was due to charging for NDIS disability services.

Liabilities

Total liabilities remained consistent at $164 million. The main movements in liabilities were:

- the workers compensation provision decreasing by $9 million to $51 million, due mainly to changes in the actuarial assessments of outstanding claim liabilities
- payables increasing by $4 million to $23 million, mainly for GST payable to the ATO on the sale of administered land and buildings
- employee-related liabilities increasing by $4 million, due mainly to an increase in the number of employees and the change in actuarial assumptions for cash flow, discount rates and inflation
- lease liabilities increasing by $2 million for new leases entered into in 2023-24.

Highlights of the financial report – administered items

	2024 $million	2023 $million
Income		
Appropriation	335	233
Commonwealth-sourced grants and funding	56	-
Net gain from disposals of assets	17	-
SA Government grants, subsidies and transfers	12	11
Client trust receipts	8	8
Other income	2	3
Total income	430	255
Expenses		
Grants and funded services	402	243
Client trust payments	10	8
Other expenses	3	5
Total expenses	415	256
Net result and total comprehensive result	15	(1)
Assets		
Current assets	113	88
Total assets	113	88
Liabilities		
Current liabilities	49	39
Total liabilities	49	39
Total equity	64	49

Statement of Administered Comprehensive Income

Administered income

Administered income increased by $175 million to $430 million. The main contributors to the increase were:

- appropriation, up by $102 million to $335 million, provided mainly for the State's share of the Energy Bill Relief concessions and additional cost of living concessions
- Commonwealth funding of $56 million received for the first time for the Energy Bill Relief concessions
- the net gain from the sale of Home for Incurables Trust property of $17 million.

Administered expenses

Grants and subsidies of $402 million represent 97% of total administered expenses, with $369 million of this being for concession payments.

Concessions

The main concession payments by number and value in 2023-24 are shown below.

228,000

Approximate number of households receiving a concession*

14 million

$27 million

Initial boardings recorded by transport concession customers**

50,000

$30 million

Energy Bill Relief – businesses*

Estimated number of households receiving payments*

215,000
$95 million
Cost of living

211,000
$100 million
Energy Bill Relief – households

203,000
$55 million
Energy

192,000
$43 million
Water

130,000
$17 million
Sewerage

* The number of households and businesses receiving each concession type is provided by DHS and is unaudited.

** The number of boardings is provided by the Department for Infrastructure and Transport. It excludes students and seniors, and is unaudited.

Most households received more than one concession type during the year and therefore one household may show up in more than one concession type in this summary.

Concession payments increased by $159 million to $369 million, due largely to:

- the Energy Bill Relief concessions expenditure of $130 million in 2023-24. The concession is funded jointly by the State and Commonwealth Governments and provides electricity bill reductions to eligible households of up to $500 and to small businesses of up to $650
- the cost of living concession payments for eligible home owners and tenants increasing by $15 million to $95 million, due to the SA Government providing an additional cost of living payment in 2023-24
- a $7 million increase in energy concessions and $5 million increase in water and sewerage concessions, due mainly to indexation of the rate paid by 8.6%.

Statement of Administered Financial Position

Administered assets amounted to $113 million ($88 million), and at 30 June 2024 consisted almost entirely of cash. Assets increased by $25 million in 2023-24 due to:

- the sale of the former Julia Farr Services property, which sold for $42 million for a net gain of $17 million over the $25 million recorded asset value
- additional funding received for concessions and energy bill relief funding not spent at 30 June 2024.

Liabilities amounted to $49 million ($39 million) and comprised payables, mainly for concessions claimed and approved but not paid at 30 June.

Home for Incurables Trust (the Trust)

DHS administered items include the activities of the Trust, which was vested with the Minister for Human Services on 1 July 2007 when Julia Farr Services was dissolved. Before 2023-24, the Trust's assets mainly comprised property, plant and equipment located at Fullarton that was previously used to support people with a disability who were unable to live independently. No new residents moved into the facility after it was earmarked for closure in 2014, with the last resident moving out in 2020.

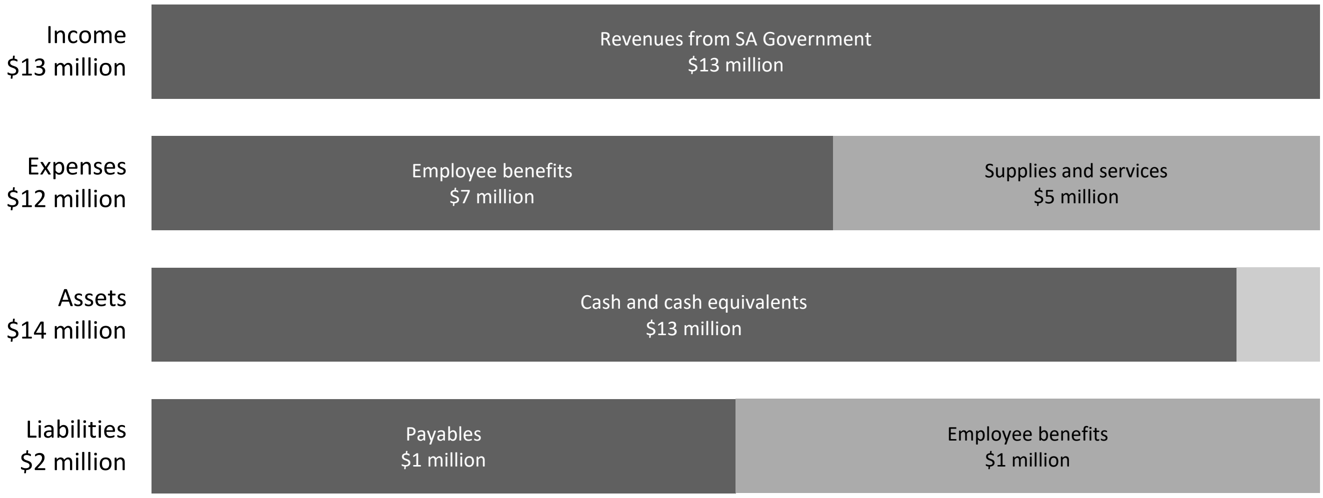
During the year the Trust's assets with a book value of $25 million were sold for $42 million, resulting in a $17 million gain. At 30 June 2024, the Trust's:

- assets of $49 million consisted almost entirely of cash deposited with the South Australian Government Financing Authority
- liabilities of $4 million were for payables, which were for GST payable to DHS relating to the sale of assets.

At the time of this report, no decision had been made on the application of the funds from the Trust.

Independent Commission Against Corruption (the Commission)

Financial statistics



47
FTEs

Financial report opinion	**Unmodified**
Audit findings	No significant findings.

Functional responsibility

The Commission is a body corporate established under the *Independent Commission Against Corruption Act 2012*. Its primary functions are to identify and investigate corruption in public administration and prevent or minimise corruption in public administration, including through education and the evaluation of practices, policies and procedures.

Scope of the audit

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

- payroll
- revenue
- expenditure
- corporate governance
- cash
- information technology.

Audit findings

Communicating our audit findings

We did not identify any issues that needed to be communicated to the Commission.

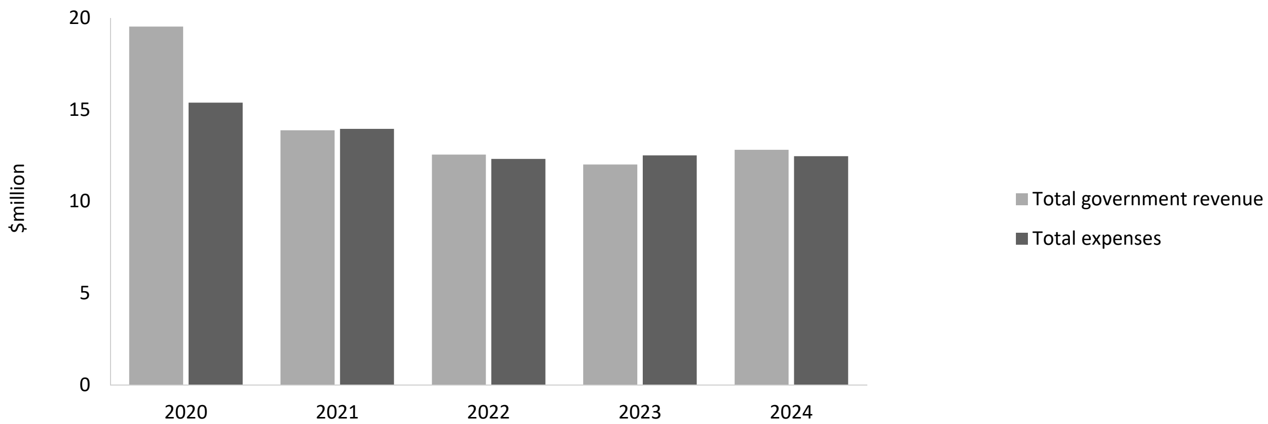
Interpretation and analysis of the financial report

Highlights of the financial report

	2024 $million	2023 $million
Income		
Revenues from SA Government	13	12
Total income	13	12
Expenses		
Employee benefits	7	7
Supplies and services	5	4
Other	-	1
Total expenses	12	12
Net result	1	-
Net cash provided by (used in) operating activities	1	1
Net cash provided by (used in) investing activities	0	(1)
Assets		
Current assets	13	12
Non-current assets	1	2
Total assets	14	14
Liabilities		
Current liabilities	1	2
Non-current liabilities	1	1
Total liabilities	2	3
Total equity	12	11

Statement of Comprehensive Income

The following chart shows the Commission’s total expenses and government revenue over the past five years.



Income

The Commission relies on revenues from the SA Government, which increased by $800,000 to $13 million in 2023-24.

Expenses

The Commission's expenses remained steady at $12.5 million.

Department for Infrastructure and Transport (DIT)

Functional responsibility

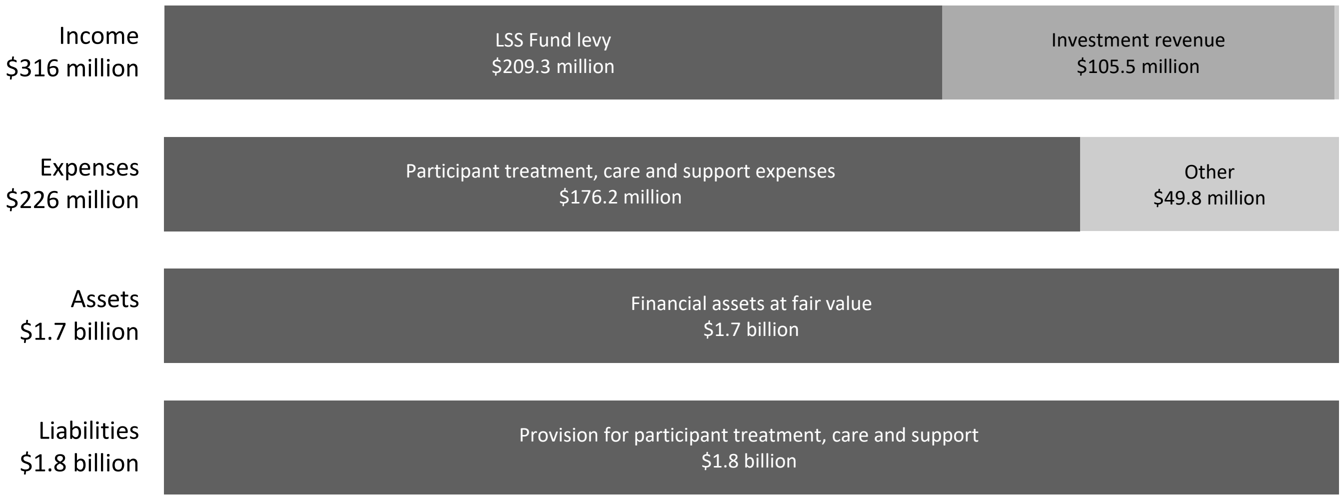
DIT is an administrative unit established under the *Public Sector Act 2009* and is responsible for transport systems and services and infrastructure planning and provision.

Status of the financial report

While DIT had finalised its financial report for the year ended 30 June 2024 at the time of this report, we had only just received material information that we needed to complete the audit. While we had requested this information from the SA Government earlier, we had not received a response. We will now complete the audit and our commentary on DIT's audited financial report will be included in a separate report to Parliament.

Lifetime Support Authority of South Australia (LSA)

Financial statistics



99
FTEs

371
Participants at 30 June

93.2%
Funding ratio

Significant events and transactions

- The provision for the future cost of caring for current participants increased by $126.8 million to $1.8 billion.
- The fair value of investments increased by $220.3 million to $1.7 billion.
- At 30 June 2024 the Lifetime Support Scheme was partly unfunded, with net liabilities of $124.1 million. It has a funding ratio of 93.2%, which is in the Board's target of 80-120%.
- Fund assets adequacy was estimated at 80%, which is above the LSA's historically targeted 75%.
- The total number of participants increased from 346 to 371.
- The Treasurer determined an estimated fund contribution of $220.1 million for 2024-25 in line with the LSA's recommendation.
- The LSA implemented a new primary customer relationship management system.

Financial report opinion	**Modified** The LSA did not have an effective process to meet the disclosure requirements of Treasurer's Instructions (Accounting Policy Statements) for reporting the value of procurement with South Australian and non-South Australian businesses for 2023-24. This is discussed further in Part A of this report. An emphasis of matter was also included in the LSA's financial report opinion relating to significant uncertainty surrounding the estimate of the provision for participant treatment, care and support, because of the long-term nature of the provision and limited participant experience to date.
Controls opinion findings	No audit findings.
Other audit findings	— Review of privileged user access audit logs not performed in a timely manner. — Weaknesses in disaster recovery processes.

Functional responsibility

The LSA is established under the *Motor Vehicle Accidents (Lifetime Support Scheme) Act 2013* (the LSS Act). It administers the Lifetime Support Scheme (LSS or the Scheme) and the LSS Fund established by the LSS Act to support people who suffer very serious injuries in motor vehicle accidents in South Australia, regardless of fault. A person can be accepted as an interim or lifetime Scheme participant depending on their eligibility under the LSS rules.

Lifetime Support Scheme Fund

Levies on motor vehicle registrations to pay the Scheme's expenses are collected by the Registrar of Motor Vehicles and paid into the LSS Fund. The LSA invests these levies with the Superannuation Funds Management Corporation of South Australia (Funds SA) until the funds are needed to pay for participant treatment, care and support and other costs of operating the Scheme.

Scope of the audit

Audit of the financial report

The 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:

- expenditure related to participant treatment, care and support
- the provision for treatment, care and support
- investment revenue
- payroll and other administrative expenses
- financial assets
- general ledger
- IT general controls.

We reviewed internal audit activities to assess the risks of material misstatement in the financial report and to design and perform our audit procedures.

Controls opinion

We reviewed controls over bank accounts and the provision for participant treatment, care and support as part of our overall controls opinion, which is discussed in Part B of this report.

Audit findings

Communicating our audit findings

We communicated our audit findings in a management letter to the Chair. The main findings and the LSA's responses are discussed below.

Controls opinion findings

There were no significant findings for our controls opinion work at the LSA.

Other audit findings

Review of privileged user access audit logs not performed in a timely manner

We found that the LSA had not reviewed the privileged user access audit logs of its customer relationship management system since it was implemented in November 2023. There is a risk that inappropriate or unauthorised access and/or changes to the LSA's financial data in the system could go undetected.

In response the LSA agreed to review privileged user access audit logs every six months.

Weakness in disaster recovery processes

We found that the LSA had not developed business continuity plans for its critical business functions, which should include a disaster recovery plan. We noted that at the time of our audit the LSA had a draft disaster recovery plan awaiting approval.

IT disaster recovery weaknesses may result in the LSA not being able to recover its key business systems within its maximum allowable outage times in the event of a disaster or system failure.

In response the LSA advised us that backup management controls will be developed in a work instruction.

Interpretation and analysis of the financial report

Highlights of the financial report*

	2024 $million	2023 $million
Income		
LSS Fund levy	209	189
Investment revenue	106	104
Other	1	-
Total income	316	293
Expenses		
Participant treatment, care and support expenses	176	381
Duty on LSS Fund levy	21	19
Other	29	21
Total expenses	226	421
Net result from operating activities	90	(128)
Total comprehensive result	90	(128)
Net cash provided by (used in) operating activities	117	111
Net cash provided by (used in) investing activities	(115)	(109)
Assets		
Current assets	8	6
Non-current assets	1,701	1,486
Total assets	1,710	1,492
Liabilities		
Current liabilities	74	68
Non-current liabilities	1,760	1,638
Total liabilities	1,834	1,706
Total equity	(124)	(214)

* Table may not add due to rounding.

Statement of Comprehensive Income

Net result

The LSA recognised a net result of $90.1 million ($128.5 million net loss), largely reflecting:

- revenues from the LSS Fund levy of $209.3 million
- investment revenues of $105.5 million
- expenses for participant treatment, care and support of $176.2 million
- duty on the LSS Fund levy of $20.7 million payable to RevenueSA
- employee-related expenses of $14 million.

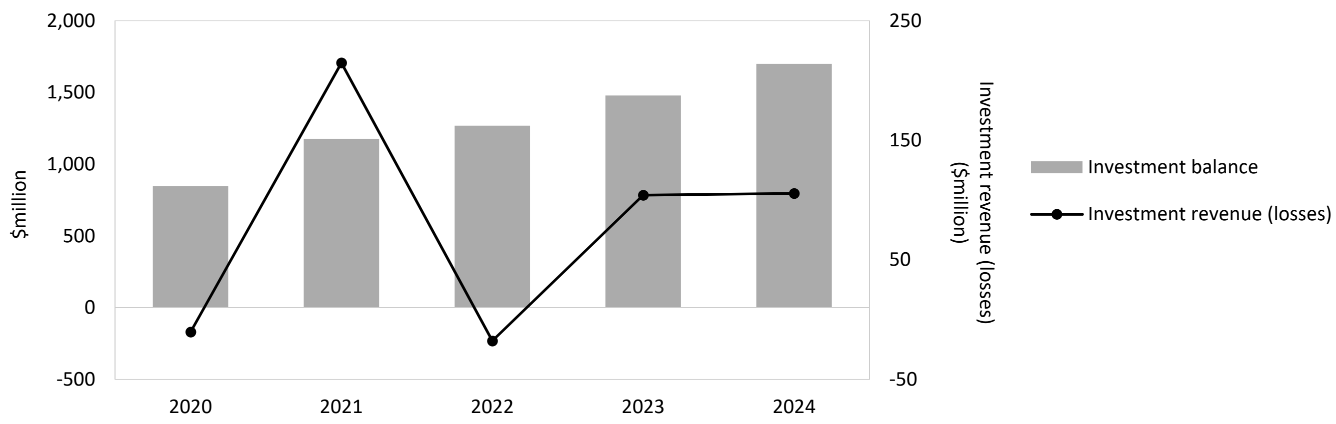
The LSA's net result depends significantly on the interdependence between the LSS Fund levy set before the start of the year and the movement in the provision for the cost of participant treatment, care and support determined at the end of the year. There is more information about this under 'Liabilities' and 'Required fund contribution' below.

Income

The LSA's income of $316.1 million ($293 million) mainly comprised:

- the LSS Fund levy on South Australian motor vehicle registrations of $209.3 million ($188.7 million). No GST is payable on the levy
- investment revenue of $105.5 million ($104.1 million), reflecting strong investment returns for both domestic and international equity markets.

The following chart shows the LSA's revenues and losses from investments and investment balance for the five years to 2024. It highlights the significant growth in the investment balance and the volatility in investment returns over the period.

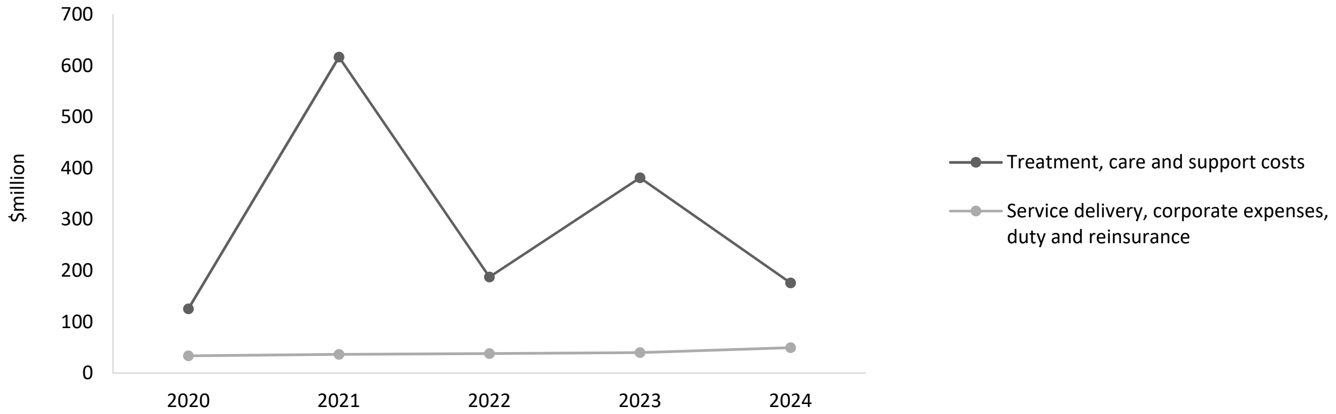


Expenses

The LSA's expenses of $226 million ($421.5 million) comprised:

- $176.2 million ($381.3 million) for participant treatment, care and support expenses, of which $126.8 million was the increase in the estimate of future expenses for participants injured in motor vehicle accidents up to 30 June 2024 (see 'Provision for participant treatment, care and support' below)
- $20.7 million ($18.7 million) paid to the SA Government for the 11% duty on the LSS Fund levy payable under the *Stamp Duties Act 1923*
- $26 million ($18.5 million) for general operating expenses, including $14 million ($11.9 million) for employee benefits, $4.8 million ($3.6 million) for service delivery and corporate expenses, and $3.8 million ($0) for other expenses. The other expenses reflect the derecognition of IT infrastructure costs from prior periods that were previously capitalised in work in progress in error
- $3 million ($3 million) for premiums paid to reinsurers who provide cover for significantly larger than expected liabilities for estimated future participant care costs.

The following chart shows the costs of participant treatment, care and support and the operational expenses that the LSA incurs in the ongoing administration of the Scheme. Note that participant treatment, care and support expenses include the expense recognised each year for the movement in the provision. The significant increase in costs for 2021 was driven by the $590.8 million increase in the provision for that year, resulting from the move to risk-free discount rates (see 'Provision for participant treatment, care and support' below).



Statement of Financial Position

The LSA's financial position depends significantly on the value of its investments and the provision for participant treatment, care and support. In 2024 total liabilities of $1.8 billion exceeded the LSA's total assets of $1.7 billion, a net deficiency of $124 million.

Investments

At 30 June 2024 the LSA had $1.7 billion invested with Funds SA in line with the LSS Fund investment strategy approved by the LSA Board.

The LSA must maintain investments to fund its present and likely liabilities for participant treatment, care and support. Its investment strategy takes into account its current risk appetite and the need to match investment returns to the long-term nature and timing of payments associated with the needs of Scheme participants.

The LSA's investments with Funds SA earned a nominal return of 6.8% in 2023-24 compared to its average 10-year rolling target of 6.25%. Investment returns reflect financial market conditions. Returns were mixed across financial markets in 2023-24, with strong returns in equity markets over the year. The following table shows the return from investments over the last five years.

	2020	2021	2022	2023	2024
Target investment return	6.25%	6.25%	6.25%	6.25%	6.25%
Actual investment return	-1.0%	23.7%	-1.2%	7.9%	6.8%
Average investment return*	6.1%	8.5%	7.2%	7.3%	7.2%

* Since inception.

Liabilities

The LSA's liabilities of $1.8 billion consist mainly of the provision for participant treatment, care and support.

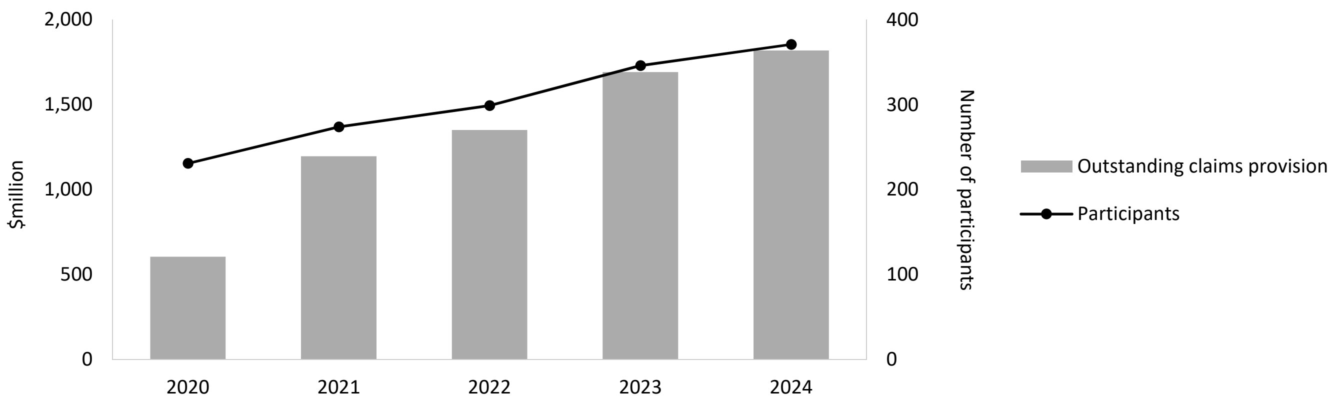
Provision for participant treatment, care and support

The LSA appointed an independent actuary to estimate the liabilities of the Scheme, measured as the present value of the expected future payments for claims incurred up to 30 June 2024, including claims incurred but not yet reported. The LSA Board approved the valuation prepared by the actuary after also considering the report from a peer review actuary.

The provision was estimated to be $1.8 billion at 30 June 2024, an increase of $126.8 million from 30 June 2023. The main reasons for the increase are:

- an additional year of participants entering the Scheme, which increased the provision by $240.6 million
- the impact of Scheme experience, which increased the provision by $6.6 million
- changes in the reporting behaviour of CTP insurers, resulting in an increased number of open notifications and impacting the timing of participants being accepted into the Scheme, which reduced the liability by $26.9 million
- movements in actuarial assumptions, including a decrease in the expected future participant treatment, care and support cost assumptions from revising benchmark assumptions in line with experience to date, which decreased the provision by $48.3 million
- changes in economic assumptions, notably the risk-free discount rate and inflation expectations, which decreased the provision by $60.9 million.

The LSA's financial report provides further details about the provision, including the key economic assumptions used when estimating it. The chart below shows the increasing value of the provision and the consistent growth in the total number of participants over the last five years.



The significant increase in the provision in 2021 reflects the LSA's adoption of risk-free discount rates. This decision aligned the LSA's valuation basis to other lifetime care schemes, such as the NSW Lifetime Care and Support Scheme and Queensland's National Injury Insurance Scheme, which have all now moved to risk-free discount rates. It also prepares the LSA for the change to AASB 17 *Insurance Contracts* in July 2026, which mandates the use of risk-free discount rates.

Significant inherent uncertainty in the provision

The LSA's actuary report refers to the considerable uncertainty in future claim costs, particularly for long-term claims and the provision of attendant care benefits. The main areas of uncertainty identified in the current estimate were:

- the adequacy of benchmark packages for defining the lifetime care and support needs of participants
- future inflation levels for the provision of services, especially increases in attendant care hourly rates

- future levels of returns on Commonwealth bonds, which inform the discount rates applied
- future reports and acceptances of participants
- the future severity of traumatic brain injury participants
- future life expectancy and changes to the types of support required leading up to end of life.

The report identified the following material financial risks to the Scheme:

- Attendant care cost pressures – maximum rates offered by the National Disability Insurance Scheme (NDIS) are currently higher than those gazetted by the LSA. If the LSA is forced to match NDIS rates, the provision will increase. There is also significant upward pressure on carer wages.
- Supported accommodation – participants moving into supported accommodation generally results in much higher costs. If more participants move into supported accommodation, the provision will increase.
- Inherent uncertainty of long-term estimates – seriously injured participants may require care for several decades or more. The estimates for this will be uncertain and subject to change in line with emerging experience.
- Economic conditions – while the Scheme can operate through periods of temporary volatility, there is no guarantee that investments will deliver the projected long-term returns, or that returns will keep pace with claims inflation.
- Number of participants – any lowering of the eligibility criteria, including that arising from disputes, may put financial pressure on the Scheme.
- Life expectancy of participants – participant life expectancy will impact the duration of their treatment, care and support costs. There is significant uncertainty about the life expectancy of participants, as evidence of the impact of significant injuries on life expectancy, in the context of the LSS, is relatively young.

In estimating the liability at 30 June 2024 the actuary noted that, even with 10 years of history, the very long-term nature of providing care and support for those seriously injured in motor vehicle accidents means there is still material uncertainty in the provision estimate.

The sensitivity analysis in the LSA's financial report illustrates that relatively small changes to key assumptions in the estimate can result in changes in the order of many millions of dollars. For example, an increase in attendant care rates to match the NDIS could increase the provision by $79.2 million and a 1% decrease in the discount rate could increase the provision by $401.1 million.

The LSA's financial report also indicates the time frame over which it must manage claims. The uninflated, undiscounted weighted mean term is 20.9 years.

Independent reviewing actuary

The LSA had the actuarial estimate of the provision reviewed by an independent reviewing actuary, who did not note anything that would lead them to believe that the valuation of outstanding claims liability is unreasonable. Having an independent reviewing actuary is prudent given the long-term purpose of the Scheme and the critical role that actuarial expertise has in setting the levy annually and estimating the outcome at the end of each year.

AASB 17 Insurance Contracts

The AASB has released AASB 2022-9 *Amendments to Australian Accounting Standards – Insurance Contracts in the Public Sector*. This standard amends AASB 17 *Insurance Contracts* to include modifications that apply to public sector entities. It is expected that the modifications will capture schemes like the LSS and they will need to comply with AASB 17 from 1 July 2026. The LSA has estimated that adopting AASB 17 could increase or decrease the provision for participant treatment, care and support as at 30 June 2024 by up to $365 million or $293 million, respectively. The LSA's financial report provides further information on this.

Fund assets adequacy

As at 30 June 2024 the fund assets adequacy for the LSS was estimated at 80% (66%). This is the probability that the Scheme will be able to meet its future payment obligations in a run-off situation, assuming a long-term investment return of 6.25%. The LSA Board has historically targeted Scheme assets being in excess of Scheme liabilities by a margin that results in fund assets adequacy of at least 75%.

Current liabilities

At 30 June 2024 current liabilities exceeded current assets by $65.2 million. The LSA can access funds from its Funds SA investments if required.

Required fund contribution – LSS levy

The LSA must determine, before the beginning of each financial year, an amount it considers is required to be contributed to the LSS Fund to meet expenses for the period. This amount is to:

- fund the present and likely future liabilities for participants who enter the Scheme in the period
- meet payments from the LSS Fund that exceed previously provided estimated amounts
- pay stamp duties
- provide for other matters in connection with any LSA liability under the LSS Act, including paying for any past liability that would otherwise be unfunded.

This determination is made in line with a report from an independent actuary engaged by the LSA. The LSA must report its determination to the Treasurer before the start of each financial year. The Treasurer must, after receiving the report, and taking into account anything they see fit (including matters not covered by the report), determine an amount to be paid to the LSA for contribution to the LSS Fund for the relevant period (the required fund contribution). If the Treasurer makes a determination that is inconsistent with the LSA's determination, the LSA must report that in its annual report.

Setting levies at an appropriate level is critical to the LSS. If break-even levies are charged each year, and if all underlying assumptions used to set the levy eventuate, the LSS will always be fully funded. If the levy is set too low each year, liabilities will exceed assets, causing the LSS to be underfunded.

Annual contribution and levy

An estimated levy of $220.1 million including duty was required to cover the costs of operating the Scheme in 2024-25 and the probable liability increase at 30 June 2025. The estimated 2024-25 levy was based on an actuarial estimate as at 31 December 2023.

The table below sets out the required fund contribution and levy for the past two years and for next year.

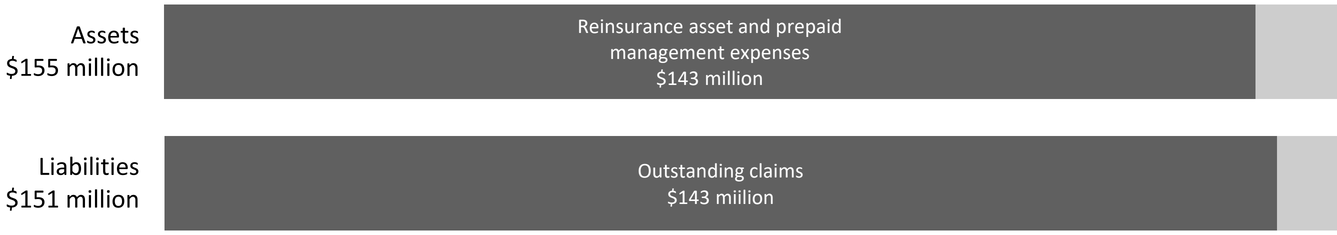
	2023	2024	2025
Required fund contribution:			
LSA recommended ($million)	188.8	208.3	220.1
Treasurer approved ($million)	184.1	206.4	220.1
Average levy ($)	116.51	127.72	131.59
Average increase per vehicle over previous year ($)	3.19	11.21	5.06

As the table highlights, in 2022-23 and 2023-24 the Treasurer determined an estimated levy amount to be paid to the LSA that differed from the amount the LSA recommended.

The actuary's estimates used to set the derived levy are, as with the estimated provision, sensitive to the number of LSS participants and the severity of their injuries. Small changes in these numbers can impact the estimate significantly.

Motor Accident Commission (MAC)

Financial statistics (Consolidated)



MAC Fund assets were above the targeted solvency level by $3.39 million (102.2% of the targeted level)

Significant events and transactions	— Retained premiums of $112.1 million were paid to NICO in January 2024, in line with reinsurance contract arrangements, and related withholding tax of $1.3 million was paid to the ATO. — 2023-24 saw a $66 million decrease in the outstanding claims liability, mainly reflecting claim payments and that no new policies have been issued since 1 July 2016.
Financial report opinion	**Unmodified**
Controls opinion findings	No audit findings.
Audit findings	No audit findings.

Functional responsibility

MAC is established under the *Motor Accident Commission Act 1992* (MAC Act). Its main function is to manage the run-off of claims against compulsory third party (CTP) insurance policies issued to motor vehicle users in South Australia before 1 July 2016.

MAC's administration is performed by the South Australian Government Financing Authority.

Reinsurance of MAC's remaining outstanding claims liability

In December 2018 MAC entered into a reinsurance arrangement with National Indemnity Company (NICO), a subsidiary of Berkshire Hathaway. Under the contract, NICO assumed responsibility for settling and managing MAC's remaining outstanding claims liability at 1 January 2019, which had a value of $756 million.

MAC agreed to pay NICO $718 million through a combination of an initial payment and subsequent arrangements for assuming this responsibility.

MAC paid the final $112.1 million payable under the reinsurance arrangement to NICO in January 2024. This comprised $100 million retained by the State for five years to support local fund managers and $12.1 million in related interest. An additional $1.3 million in withholding tax was paid to the ATO.

This reinsurance arrangement reduces the State's risk as the cost of settling claims now lies with NICO. The arrangement is designed to provide certainty to the State, subject only to satisfactory contract performance by NICO. If claims settle for more than the amount estimated at 1 January 2019, the additional cost will be borne by NICO. In the same way, should NICO be able to settle claims more favourably than expected in the January 2019 valuation, it will benefit from the reduced cost.

As the contract with NICO is a reinsurance arrangement, meaning that claims are still in MAC's name, the outstanding claims will remain on MAC's statement of financial position until they are extinguished, with an offsetting reinsurance receivable. Therefore MAC will need to maintain oversight of the outstanding claims liability to ensure NICO is managing and settling claims appropriately.

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:

- investment assets
- outstanding claims liability
- reinsurance asset.

Controls opinion

We reviewed controls over management of the NICO reinsurance contract as part of our overall controls opinion, which is discussed in Part B of this report.

Audit findings

We did not identify any matters in our audit that needed to be communicated to MAC.

Interpretation and analysis of the financial report

Highlights of MAC's consolidated financial report*

	2024 $million	2023 $million
Net investment returns and fees	4	7
Road safety expenses	-	(1)
Net result before market value movements	4	5
Investment market value movements	-	-
Total comprehensive result	3	5

	2024 $million	2023 $million
Assets		
Current assets	49	180
Non-current assets	106	160
Total assets	155	339
Liabilities		
Current liabilities	40	165
Non-current liabilities	112	167
Total liabilities	151	332
Equity	3	8

* Table may not add due to rounding.

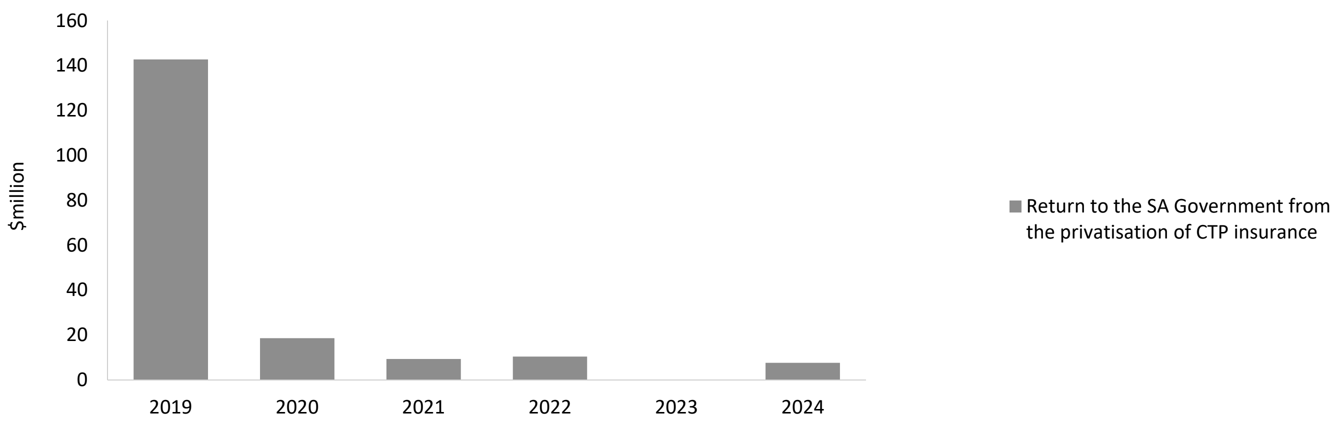
Return of capital

The MAC Act allows the Treasurer to direct MAC to make payments out of the surplus net assets of the MAC Fund. After ceasing to be the sole CTP insurance provider for South Australia, MAC returned surplus amounts to the SA Government each year until 2023. These payments were initially made to the Highways Fund administered by the Department for Infrastructure and Transport, but since 2019-20 they have been made to the Consolidated Account.

MAC made a payment of $7.6 million in June 2024 ($0 in 2023) from the MAC Fund to the Consolidated Account, as approved by the Treasurer. The payment was made out of net assets in excess of the level required for sufficient solvency of the MAC Fund at the time of approval.

As payments since 2019-20 were made from MAC's surplus net assets, they were treated as a return of capital in the financial report and recorded as a reduction in MAC's assets and total equity. As such, these payments are not reflected in MAC's total comprehensive results since 2019-20.

The following chart shows that MAC has returned $188 million to the SA Government in the last six years, on top of amounts it returned in previous years. The reinsurance arrangement with NICO discussed above means that no more significant returns are expected.

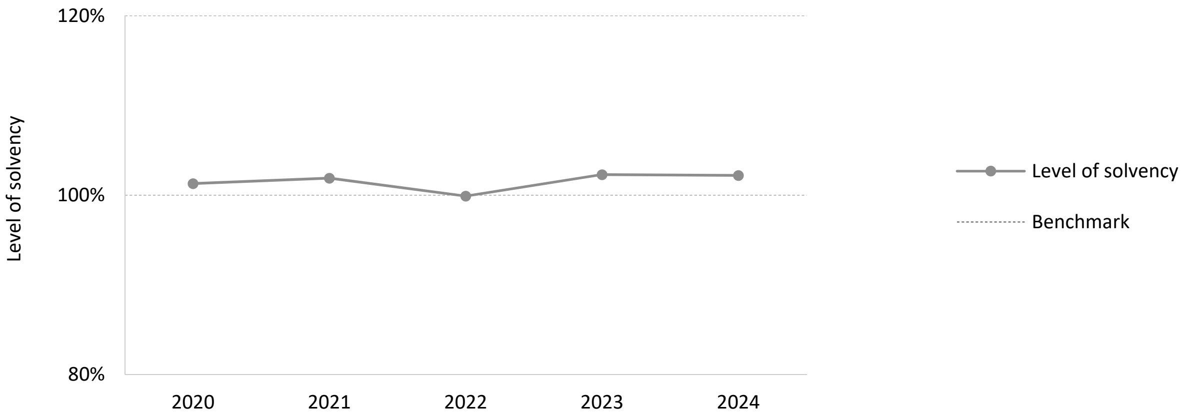


MAC's assets are above the target solvency level

The MAC Act requires MAC to seek to achieve and maintain a sufficient level of solvency for the MAC Fund using a formula determined by the Treasurer. The formula issued by the Treasurer in December 2016 specifies that the MAC Fund will have a sufficient level of solvency if its assets exceed its liabilities.

At 30 June 2024 MAC's target level of solvency was $151.5 million and its total assets were $154.8 million, $3.3 million above target. This equates to 102.2% (102.3%) of its targeted solvency level.

The following chart shows MAC's solvency levels over the past five years.



The reinsurance arrangement now means that most of the risk associated with settling claims rests with NICO.

Outstanding claims liability

MAC's liability for outstanding claims is from the period before 1 July 2016 and totalled $143 million at 30 June 2024. The liability covers claims reported but not yet paid, claims incurred but not yet reported, the anticipated costs of settling those claims and other insurance costs.

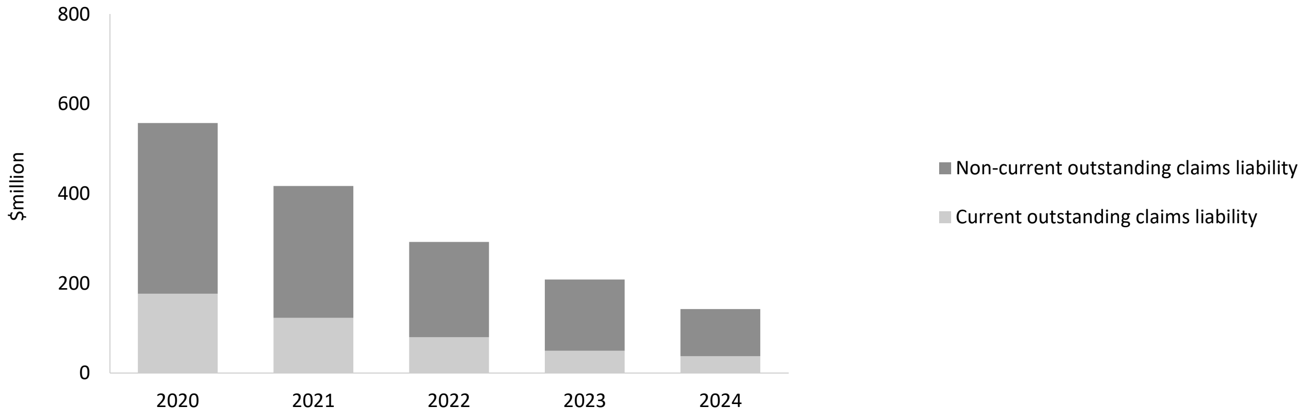
As noted above, while MAC entered into a full reinsurance arrangement with NICO from 1 January 2019, it remains legally liable for outstanding claims and the liability. This liability and the offsetting reinsurance asset will continue to be valued and recognised in MAC's financial statements until they are extinguished.

The annual 30 June MAC valuation does not affect the risks and benefits set out in the contract with NICO.

Calculating the liability is an estimation process and a range of factors, including economic assumptions, affect it. As a result, professional actuaries need to perform the calculation and, for reporting purposes, detailed disclosure of the assumptions needs to be included in the notes of the financial report.

In 2023-24 MAC's independent actuary was Finity Consulting Pty Ltd, consistent with the previous year. Full details of the actuary's calculations and assumptions are provided in note 11 of MAC's financial report.

The following chart shows the outstanding claims liability for the five years to 2024, with the continuing decrease a reflection of the run-off process since 1 July 2016.



Factors considered by the actuary that impact the estimate of outstanding claims include:

- the number of claims incurred
- the length of time taken to settle the claim
- the average amount of claim payments
- the inflation and discount rates used.

The outstanding claims liability consists of the old scheme for claims prior to 1 July 2013, and the new scheme for claims from that date to 30 June 2016. Legislative reform from 1 July 2013 changed scheme entitlements and, as a result, the two schemes are considered separately by the actuary.

The new scheme introduced thresholds for economic and non-economic loss and placed caps on legal fees. Compensation for non-economic loss under the new scheme is based on a severity of injury scale, with an indexed maximum cap on damages.

Examples of the potential impact of changes to these assumptions are included in MAC's financial report. Some are shown in the table below.

	Impact on provision %	Financial impact $million
Average size of above cap claims increases by 15% (new scheme)	9.5	14
Above cap case estimates deteriorate by 5% per half year over the next two years (new scheme)	4.9	7
Cost of attritional claims deteriorates by 5% per half year over the next two years (new scheme)	2.7	4

The risk margin achieves 80% probability the provision is adequate

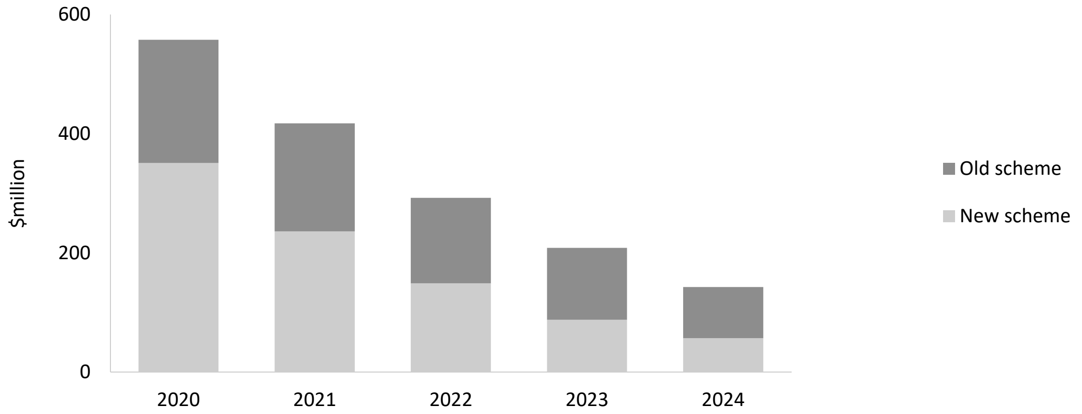
Also impacting the outstanding claims liability calculation are the solvency requirements determined by the Treasurer under the MAC Act, which require a risk margin to be included in the provision to achieve an 80% probability the provision is adequate. This requirement exceeds the Australian Prudential Regulation Authority's nominated target of 75% probability in Prudential Standard CPS 320 *Actuarial and Related Matters*.

$66 million reduction in the outstanding claims liability

The $66 million decrease in the outstanding claims liability at 30 June 2024 was mainly due to:

- a $70 million decrease due to a reduced number of expected future claim payments. This reflects payments made to settle claims and changes to estimates of future payments based on claims experience
- an $8 million reduction in the risk margins, following claim payments and decreases in expected future claims
- offset by a $12 million reduction in the discount to present value due to claims being a year closer to expected settlement.

The chart below shows the proportion of outstanding claims for the old and new schemes for the last five years.



As at 30 June 2024, CTP claims under the new scheme represented 40% (42%) of the outstanding claims liability. Claim numbers and values have so far been lower than expected under the new scheme and the outstanding claims liability calculation has therefore been adjusted to reflect this.

While the proportion of new scheme claims has a role in reducing the outstanding claims liability, as expected after introducing scheme reform, there is a higher level of uncertainty about these claims due to the limited claims experience to date. Accordingly, MAC has included a higher risk margin for the new scheme than the risk margin applied to the older claims, increasing the estimated liability when calculating the outstanding claims liability.

Estimated timing of settling claims

The estimated timing of payments to settle claims is shown in the following table.

Up to 1 year $million	2-4 years $million	5-9 years $million	10-14 years $million	15-19 years $million	20-24 years $million	Total $million
37	42	44	14	4	1	142

Reinsurance assets and prepaid claims handling expenses

As a result of the reinsurance arrangement entered into with NICO, MAC now also recognises reinsurance assets and prepaid claims handling expenses for an amount that offsets the balance of outstanding claims.

Given the nature of the arrangement with NICO, the reinsurance assets and prepaid claims handling expenses are revalued each year in the same way as the outstanding claims liability, as they fully offset it.

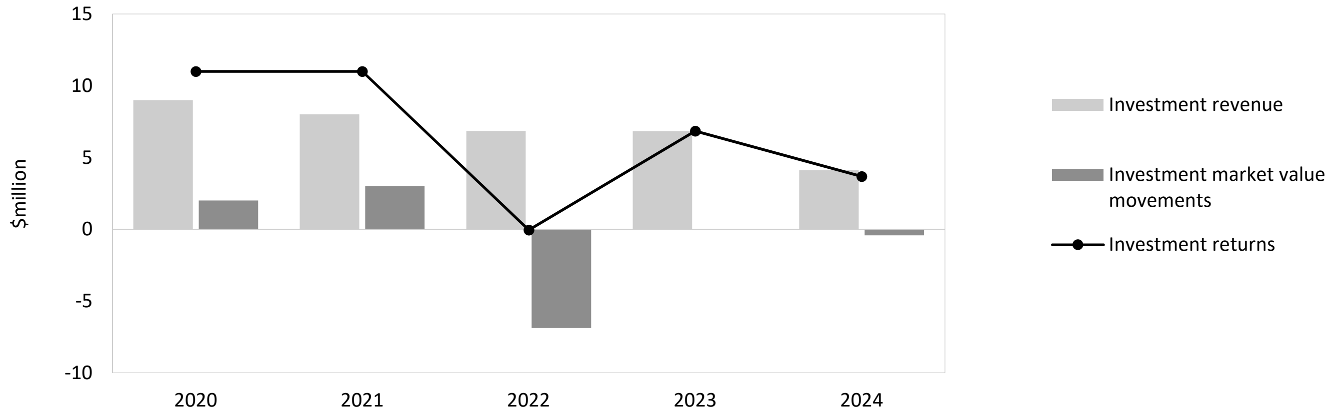
Statement of Comprehensive Income

Investment result

MAC has used the Superannuation Funds Management Corporation of South Australia, the SA Government's investment body, and two local fund managers to manage its investment portfolio. MAC held investments in unit trusts with these fund managers until the remaining balance was paid to NICO.

MAC's investment returns this financial year resulted in a profit of $4 million (profit of $7 million). The investment result is a combination of investment revenue and investment market value movements, offset by fund management fees and direct operating costs.

MAC's investment result for the five years to 2024 is shown in the following chart.



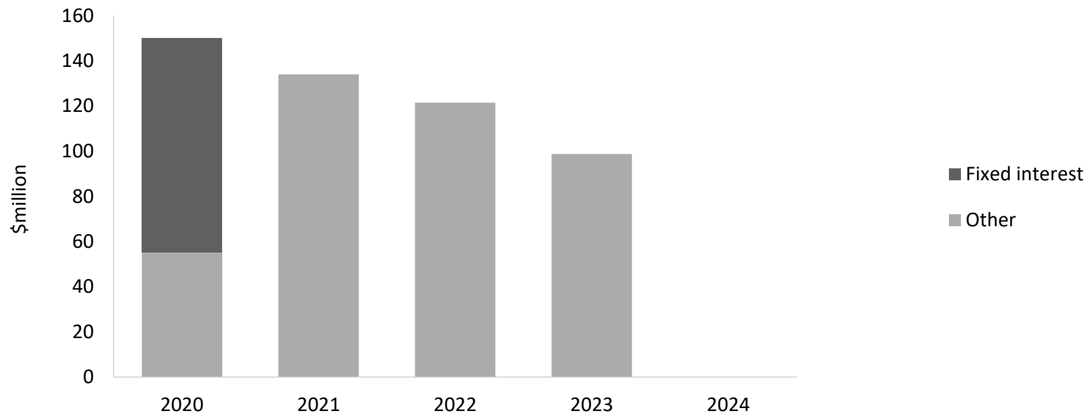
Total comprehensive result

MAC's total comprehensive result for 2024 was a profit of $3 million, compared to a profit of $5 million in the previous year.

Statement of Financial Position

Investments

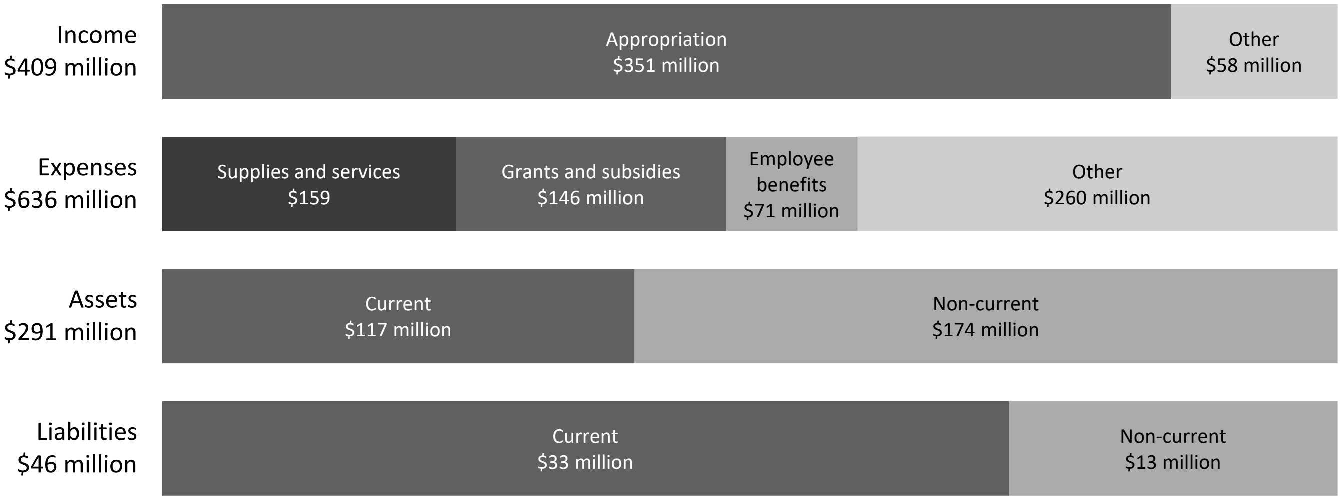
MAC's investment assets (excluding cash) for the five years to 2024 are shown in the following chart.



The chart shows a continued decrease in total investment assets, excluding cash, from $150.8 million in 2020 to $0 in 2024. The $98.8 million decrease in 2024 reflects the redemption of investments to partly fund the $112.1 million final payment to NICO under the reinsurance arrangement.

Department of the Premier and Cabinet (DPC)

Financial statistics

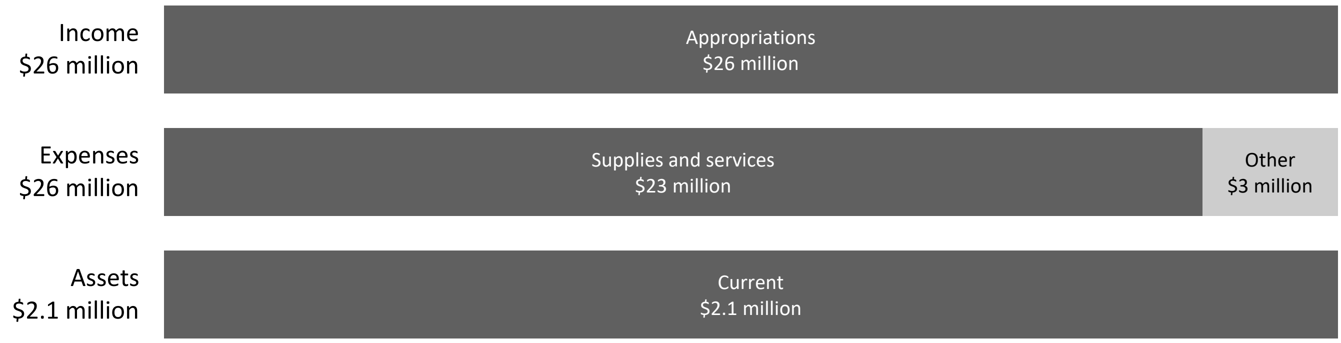


515
FTEs

$43.8 million
Property, plant and equipment works in progress

$109.6 million
Land, buildings and improvement

Administered items



Significant events and transactions

- $195.4 million of assets relating to the Adelaide Festival Centre, Festival Plaza Public Realm and associated land were sold to the Adelaide Festival Centre Trust (AFCT) and Urban Renewal Authority (Renewal SA).
- A $40 million finance lease receivable for the Walker Corporation lease was sold to Renewal SA.
- $221.2 million of cash was returned to the Consolidated Account for the sale of assets to the AFCT and Renewal SA, and $4 million cash was returned in line with the cash alignment policy.
- A desktop valuation of land, buildings and improvements was performed, resulting in an increase in asset values of $25.1 million in 2023-24.

	— Creative Industries and the Cross Border Commissioner were transferred to DPC from the Department for Industry, Innovation and Science (DIIS) and Department of Primary Industries and Regions (PIRSA), respectively. Net assets of $50,000 were also transferred. — Appropriation increased by $15.7 million to $351 million, mainly due to the transfer of $16.7 million from DIIS for Creative Industries.
Financial report opinion	**Unmodified**
Controls opinion findings	No significant findings.
Other audit findings	No significant findings.

Functional responsibility

DPC is an administrative unit established under the *Public Sector Act 2009*. Its responsibilities include providing specialist policy advice, supporting the Cabinet process, leading the implementation of the SA Government's strategic priorities and policy commitments, and providing a range of other government services.

DPC receives and passes on appropriation funding for a range of arts and cultural-related government entities, through grant agreements.

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:

- general ledger
- cash
- expenditure
- grant expenditure
- corporate governance
- IT general controls.

We also reviewed DPC's governance structures for the Major Events Fund.

We reviewed internal audit activities in planning and conducting our audit. No reliance was placed on the work of internal audit.

Controls opinion

We reviewed controls over bank accounts as part of our overall controls opinion, which is discussed in Part B of this report.

Audit findings

Communicating our audit findings

We communicated our audit findings in management letters to the Chief Executive. There were no significant findings.

Interpretation and analysis of the financial report

Highlights of the financial report – controlled items

	2024 $million	2023 $million
Income		
Appropriation	351	336
Sale of goods and services	25	25
SA Government grants, subsidies and transfers	13	9
Commonwealth and other grants	12	11
Resources received free of charge	1	1
Other income	7	2
Total income	409	384
Expenses		
Employee benefits expense	71	67
Grants and subsidies	146	135
Supplies and services	159	123
Cash transfer to the Consolidated Account	225	71
Depreciation and amortisation	9	10
Resources provided free of charge	3	6
Other	23	14
Total expense	636	426
Net result	(227)	(42)
Total comprehensive result	202	(42)
Net cash provided by (used in) operating activities	(159)	(16)
Net cash provided by (used in) investing activities	168	(25)
Assets		
Current assets	117	337
Non-current assets	174	149
Total assets	291	486

	2024 $million	2023 $million
Liabilities		
Current liabilities	33	27
Non-current liabilities	13	12
Total liabilities	46	39
Total equity	245	447

Statement of Comprehensive Income

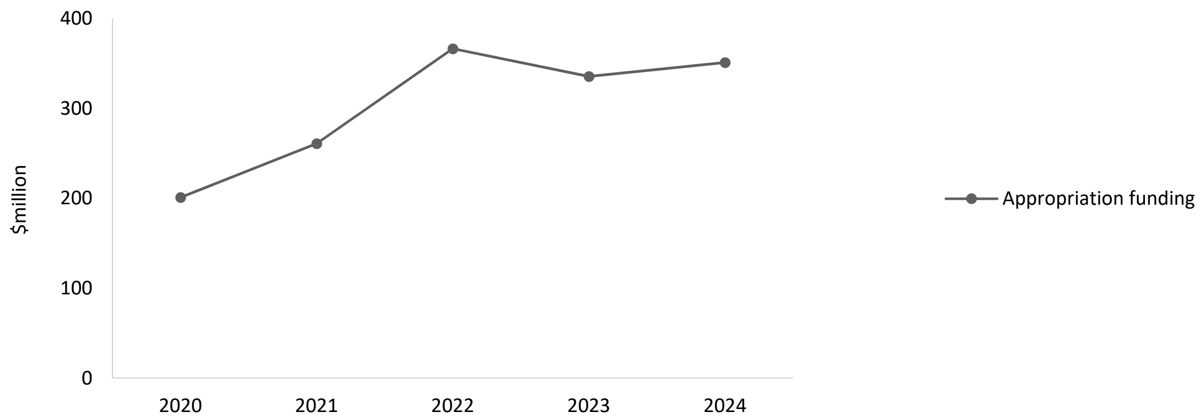
Income

Total income increased by $25 million (6.5%) to $409 million in 2023-24, mainly due to:

- appropriation income, up $15.7 million (4.7%), due to an increase in operational funding of $20 million offset by a decrease in capital funding of $4.4 million. Operational funding was up mainly due to the transfer of $16.7 million in funding from DIIS for the transfer of Creative Industries to DPC
- SA Government grants, subsidies and transfers, up $4.2 million (46%), due to:
  - an increase in grants, subsidies and transfers provided by SA Government entities of $6 million (153%), mainly due to $5 million in funding received from the Digital Investment Fund
  - a decrease in contingency funding provided by the Department of Treasury and Finance of $2.4 million (52%), mainly due to funding received for targeted voluntary separation packages (TVSPs) of $3.8 million in 2022-23, offset by funding received for the Investment Attraction Funding of $1 million in 2023-24
  - an increase in the Community Development Fund of $850,000 (213%) for the transfer of the Contemporary Music Program from DIIS in 2023-24
- other income, up $4 million (189%), mainly due to an increase in the return of unspent grant funding of $2.6 million and an $860,000 payment received for a recovered doubtful debt.

Appropriation funding

DPC's appropriation funding has varied markedly over the last five years, reflecting the different direct responsibilities it has had over that time, as shown in the following chart.



The increase in 2023-24 reflects the transfer of the Creative Industries and Cross Border Commissioner from DIIS and PIRSA, respectively, to DPC.

Expenses

Total expenses increased by $210 million (49%) to $636 million in 2023-24. Employee benefits expense increased by $4.1 million (6.1%) and supplies and services increased by $36.2 million (29.4%).

The increase in employee benefits expense is due to:

- salaries and wages, up $5.2 million (11.2%), mainly due to an increase in FTEs for the new Office for AUKUS, the transfer of Creative Industries employees from DIIS, and digital and cyber initiatives funded from the Digital Investment Fund
- long service leave, up $1.6 million (182%), mainly due to remeasuring the liability
- annual leave, up $1.1 million (24.7%), due to the increases in FTEs in 2023-24 and the salary inflation rate applied from 2% to 2.4%
- employment on-costs, up $1.3 million (14.3%), mainly due to increases in the superannuation guarantee rate and general employee-related expenses.

These increases were offset by decreases in:

- workers compensation of $4.1 million (134.3%), mainly due to a reduction in the provision of $1.2 million in 2023-24 compared to an additional provision of $2.5 million in 2022-23, as a result of the actuarial assessment at 30 June
- TVSP payments of $1.1 million as no TVSPs were taken in 2024 compared to 12 taken in 2023.

The increase in supplies and services is due to:

- intra-government transfers, up $31.1 million (75.2%), mainly due to an increase in payments for new and existing events in South Australia of $25.8 million, and payments of Creative Industries rebates of $6.75 million. This was offset by a decrease in payments for Arts SA infrastructure projects of $1.5 million
- ICT charges, up $5.5 million (21%), mainly due to additional ICT costs of $5.8 million associated with the Microsoft 365 operating model, including electronic messaging, licence fees and cloud platform services.

Grants and subsidies increased by $11.1 million (8.2%) to $146.3 million. Significant grant programs included:

- $10.1 million to non-government major arts organisations to fund their operations
- $8.9 million to the Business Events Bid Fund (formerly the Convention Bid Fund)
- $6.4 million to minor arts organisations
- $5.8 million in multicultural grants
- $5.2 million for other arts and cultural grants
- $3.4 million for arts grants for individuals, groups and organisations.

Major arts organisations funding mainly reflects annual funding to SA Government agencies. Of the $146.3 million in total grant funding, $96.3 million (65.8%) was provided to the Libraries Board of South Australia, AFCT, Art Gallery Board, Museum Board, Adelaide Festival Corporation, South Australian Country Arts Trust, State Theatre Company of South Australia, State Opera of South Australia, Carrick Hill Trust, South Australian Film Corporation and Adelaide Film Festival.

In 2023-24 there was an increase in funding:

- for the South Australian Film Corporation of $5 million (100%) due to the transfer of Creative Industries from DIIS to DPC in October 2023
- from the Business Events Bid Fund of $2.4 million (36.4%) for additional events held in 2023-24
- for other grants and subsidies of $1.9 million (60%) to support:
  - the City of Adelaide adaptive re-use city housing initiative ($500,000)
  - businesses and individuals with the River Murray flood recovery ($445,000)
  - the investment attraction program ($395,000)
  - the Together in the North project ($200,000)
- for other arts and cultural grants of $1.5 million (39.4%) mainly due to the Music Development Office transferring from DIIS to DPC in October 2023
- for the Carrick Hill Trust of $1 million (61.4%), due to funding provided in 2023-24 to construct the Carrick Hill Pavilion, as part of the Adelaide City Deal
- for the Adelaide Film Festival of $833,000 and JamFactory of $729,000 due the transfer of Creative Industries from DIIS to DPC
- for See It Live grants of $829,000. This grant program was transferred from DIIS to DPC.

There were offsetting decreases in grant funding:

- to the Libraries Board of South Australia operating and capital funding of $1.4 million (3.8%)
- for Local Economic Recovery of $1.4 million (100%) due to construction of an Early Education Centre at Parndana being completed in 2022-23. Most payments to the communities and businesses most affected by the 2019-20 bushfires were provided in 2021-22
- for multicultural grants of $940,000 (14%), as additional grants were provided in 2022-23 for the community language school program of $424,000.

The cash transfer to the Consolidated Account increased by $153.9 million, as $221.2 million of cash was returned to the Consolidated Account from the sale of assets to the AFCT and Renewal SA in 2023-24. This was offset by a decrease in the return of surplus cash to the Consolidated Account of $67.4 million (94.4%) in line with the cash alignment policy.

The net loss on disposal of assets, up $16.1 million, was mainly due to the sale of assets held for sale to the AFCT and Renewal SA. The proceeds from the sale of assets were $181.2 million compared to their net book value of $195.4 million. This resulted in a net loss on disposal of $14.1 million.

Other expenses fell by $7.6 million (60%) due to:

- the derecognition of assets, down $4.3 million, mainly due to the derecognition of the SA Government Services Portal (Phase 2) of $5 million in 2022-23
- impairment losses on non-financial assets, down $2.9 million as the SA Government Services Portal (Phase 1) project was impaired by $2.5 million in 2022-23.

Statement of Financial Position

Net assets decreased by $202 million (45%) to $245 million.

Assets

Total assets decreased by $195 million (40%) to $291 million in 2023-24, mainly due to:

- receivables, down $31.9 million (60%), mainly due to the sale of the $40 million finance lease receivable related to lease of land to the Walker Corporation to Renewal SA
- non-current assets classified as held for sale or transfer, down $199.2 million, including:
  - $56.3 million for the sale of Festival Plaza assets and land to Renewal SA
  - $139.1 million for the sale of Adelaide Festival Centre assets, Festival Plaza assets and land to the AFCT
  - $3.8 million of Festival Plaza assets being derecognised
- property, plant and equipment, up $24.1 million (17.3%), mainly due to:
  - a $25.1 million revaluation uplift in land, buildings and improvements assets due to an independent desktop valuation at 30 June 2024
  - additions to work in progress of $9.1 million, including the Barossa Park project of $3.7 million, Office of the Chief Information Officer of $1.9 million, Cultural Institutions Collection Storage Facility of $1.3 million and Tarrkarri – Centre for First Nations Culture at Lot Fourteen of $931,000
  - offset by depreciation of $7.5 million and disposal of assets of $2.6 million
- intangible assets, up $1.6 million (21%), due to:
  - computer software expenses increasing by $6.1 million mainly due to the transfer of $7.2 million from work in progress primarily for the capitalisation of the One Stop Shop dashboard and enhancements, and digital identity of $6.4 million. This was offset by amortisation of $1.8 million
  - work in progress decreasing by $4.1 million (74%) due to $7.2 million in computer software transfers for completed projects, offset by $3.8 million in IT project expenses.

Liabilities

Total liabilities increased by $7 million (17.9%) to $46 million, due to:

- payables, up $2.9 million (17.8%), mainly due to:
  - three large outstanding invoices at 30 June 2024
  - payment of operating funding to Business Events Adelaide of $2.1 million
  - payment to the South Australian Film Corporation for a $1.2 million digital and visual effects rebate.

  The amounts outstanding as 30 June will vary from year to year
- employee-related liabilities, up $2.2 million (12.1%), mainly due to an increase in the long service liability of $1.4 million (14%), mainly for new employees with prior service, and remeasuring the liability
- contract liabilities, up $2.9 million, mainly due to $2.5 million in funding received from the Commonwealth Government for the early intervention for autism pilot program.

These increases were offset by a decrease in provisions recognised in 2023-24 of $1.2 million (38.2%) compared to additional provisions of $2.5 million recognised in 2022-23.

Highlights of the financial report – administered items

	2024 $million	2023 $million
Administered income		
Appropriations	26	38
Other	-	-
Total administered income	26	38
Administered expenses		
Grants and subsidies	2	1
Supplies and services	23	33
Other	1	1
Total administered expenses	26	35
Net result	-	3
Net cash provided by (used in) operating activities	1	4
Assets		
Current assets	2	2
Total assets	2	2
Liabilities		
Current liabilities	-	-
Non-current liabilities	-	-
Total liabilities	-	-
Net administered assets	2	2

Statement of Administered Comprehensive Income

Administered income fell by $12.2 million to $25.7 million, mainly due to a decrease in appropriations of $12.2 million (32%), as funding received in 2023-24 for motor sport activities was $12.4 million lower. Additional funding was received in 2022-23 for the establishment of the Adelaide 500 event.

Administered expenses fell by $9.7 million, mainly due to decreases in supplies and services of $10.5 million due to:

- intra-government transfers, down $8.1 million, mainly due to additional funding provided for motor sports activities in 2022-23
- other supplies and services, down $2.3 million, as motor sport activity expenditure was incurred by DPC in 2022-23 until their transfer to the SA Motor Sport Board in September 2022.

These decreases were offset by an increase in grants and subsidies of $930,000 (150%), mainly due to a carryover in Promotion of the State grant funding from 2022-23 of $1.4 million, offset by payments of $500,000 for the Adelaide Motorsport Festival in 2022-23.

Statement of Administered Financial Position

Administered current assets increased by $549,000 to $2.1 million in 2023-24, mainly due to underspending the Promotions of the State Fund, for which carryovers have been sought.

Administered liabilities increased by $324,000 to $460,000, mainly due to the reimbursement of the Agent-General's salary to the Department of State Development.

Further commentary on operations

Adelaide Festival Plaza

In May 2016 the SA Government signed an agreement with Walker Corporation (Walker) for the integrated development of the Festival Plaza. The development includes:

- a mixed-use development by Walker, comprising a five-level car park, 29-storey office tower, three-storey retail building and surrounding public realm
- upgrades to the Adelaide Festival Centre and civic spaces
- an upgrade to the northern entrance of the Adelaide Railway Station
- State-delivered elements of the public realm.

An agreement was also entered into with SkyCity Adelaide to expand the SkyCity Casino.

Upgrades to the Festival Plaza public realm include both Walker and State-delivered components. The Department for Infrastructure and Transport completed the State-delivered elements in 2021-22, with these assets recognised by DPC as at 30 June 2022. Since its opening to the public in 2021-22, these interim governance arrangements for the public realm have applied:

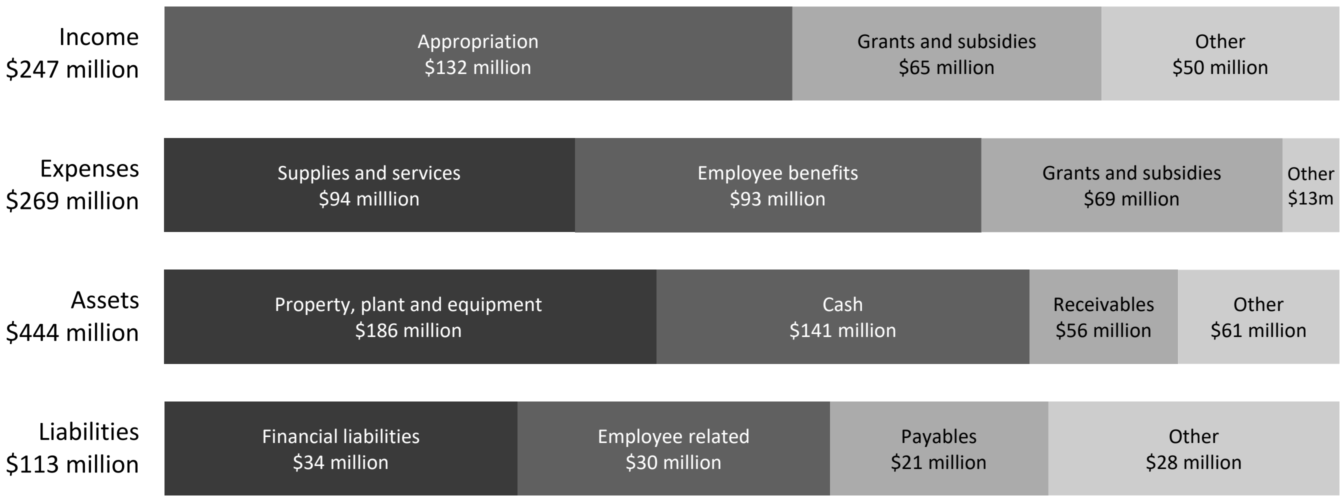
- responsibility for activation and marketing – AFCT
- responsibility for operations and maintenance – Renewal SA.

In 2023-24 the Adelaide Festival Plaza was sold to Renewal SA for $42.3 million and the AFCT for $45.5 million.

The money DPC received for the sale was subsequently paid to the Consolidated Account.

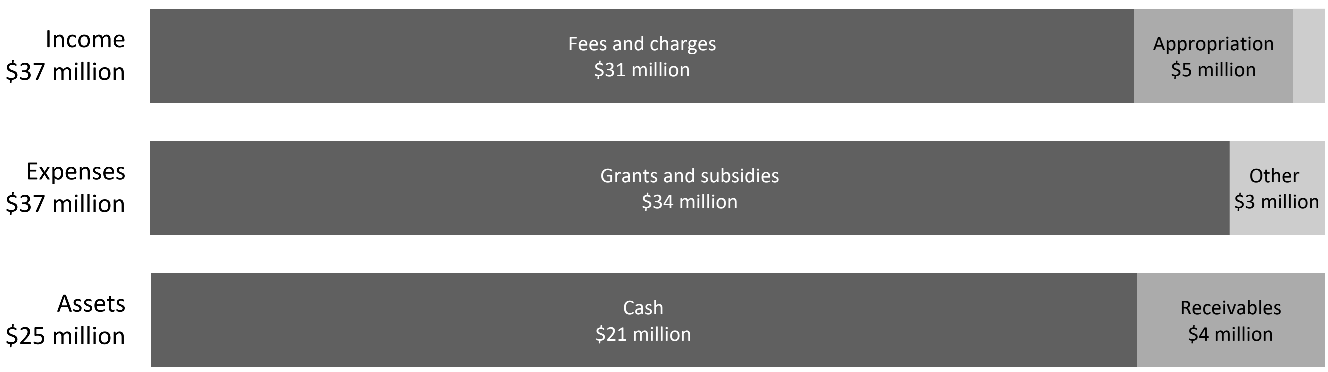
Department of Primary Industries and Regions (PIRSA)

Financial statistics



815
FTEs

Administered items



Significant events and transactions	PIRSA biosecurity fruit fly outbreak response costs increased by $14 million to $40 million.
Financial report opinion	**Unmodified**
Controls opinion findings	No significant findings.
Other audit findings	Reviews of project milestones need to improve.

Functional responsibility

PIRSA is an administrative unit established under the *Public Sector Act 2009* and is responsible to the Minister for Primary Industries and Regional Development. Its objective is to grow primary industries and drive regional development in South Australia.

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:

- governance frameworks
- revenue, including research grant, consultancies and services revenue
- grants and subsidies expenses
- supplies and services expenses
- employee benefits expenses and liabilities
- cash and general ledger
- loans receivable and borrowings
- property, plant and equipment
- other financial assets, including investments in shares.

We considered internal audit when planning and conducting the audit.

Controls opinion

We reviewed controls over deposit accounts as part of our overall controls opinion, which is discussed in Part B of this report.

Audit findings

Communicating our audit findings

We communicated our audit findings in a management letter to the Chief Executive. The main finding and PIRSA's response are discussed below.

Controls opinion findings

There were no significant findings for our controls opinion work on PIRSA.

Other audit findings

Reviews of project milestones need to improve

We found that reports used to monitor milestones for PIRSA's research projects were either not reviewed or not reviewed promptly. Reviews of milestone completion are used to raise revenue invoices.

PIRSA responded that it has updated its procedures and implemented additional controls to improve the review of project milestones.

Interpretation and analysis of the financial report

Highlights of the financial report – controlled items

	2024 $million	2023 $million
Income		
Appropriation	132	120
Grants, subsidies and transfers	65	60
Commonwealth revenues (National Partnership payments)	19	6
Sale of goods and services	12	15
Other income	19	27
Total income	247	228
Expenses		
Employee benefits	93	87
Supplies and services	94	91
Grant and subsidies	69	60
Other expenses	13	13
Total expenses	269	251
Net result	(22)	(23)
Other comprehensive income	4	56
Total comprehensive income	(18)	33
Net cash provided by (used in) operating activities	(15)	(32)
Assets		
Current assets	192	214
Non-current assets	252	243
Total assets	444	457
Liabilities		
Current liabilities	64	65
Non-current liabilities	49	43
Total liabilities	113	108
Total equity	331	349

Statement of Comprehensive Income

Income

Appropriations

Appropriations from the SA Government increased by $12 million to $132 million. In 2023-24 PIRSA received additional funding for capital expenditure ($6 million), red imported fire ants ($5 million), fruit fly eradication ($5 million), on-farm emergency water infrastructure rebate scheme ($4 million), lower River Murray reclaimed irrigation areas assistance ($4 million), and future drought fund ($3 million). This was largely offset by additional funding in 2022-23 of $17 million for the River Murray flood package.

Grants, subsidies and transfers

Grants, subsidies and transfers revenue totalled $65 million ($60 million) and mainly comprised:

- $43 million ($39 million) from industry, mainly for research and to deliver projects for industry development. The level of funding depends on the contractual arrangements
- $14 million ($11 million) from the Fisheries Research and Development Fund and the Aquaculture Fund administered by PIRSA. The increase was mainly due to rock lobster licence fee relief ceasing in 2022-23, resulting in contributions from the Fisheries Research and Development Fund increasing.

Commonwealth grants (National Partnership payments)

Commonwealth revenues increased by $13 million to $19 million mainly due to:

- new funding of $9 million for building resilience to manage fruit fly
- funding for the National Water Grid Fund program increasing by $2 million to $5 million. This program delivers water infrastructure investments to improve the reliability and security of water for regional communities, agriculture and primary industry sectors.

Other income

Other income decreased by $8 million to $19 million, mainly due to:

- insurance proceeds of $6 million received for the Struan fire damage being included in 2022-23
- a decrease of $5 million in recoveries for the dog fence rebuild project.

Expenses

Employee benefits expenses

Employee benefits expenses increased by $6 million to $93 million due to a lower number of vacancies in 2023-24. PIRSA had 815 FTEs at 30 June 2024 compared to 751 FTEs at 30 June 2023.

Grants and subsidies expense

Total grants and subsidies increased by $9 million to $69 million. PIRSA operates many grant programs, and expenses fluctuate each year depending on SA Government priorities, available funding and the nature of each grant program. Larger grant and subsidies expenses in 2023-24 were:

- Thriving Regions Fund of $15 million ($12 million) for grants under the enabling infrastructure, thriving regions and strengthening industry programs
- River Murray Recovery of $5 million ($8 million) to assist primary producers who suffered direct loss or damage in the River Murray floods
- National Water Infrastructure Development Fund of $6 million ($5 million) for water treatment, storage and distribution projects
- Cooperative Research Projects of $6 million ($6 million) for working with state, national and international collaborators to support research
- State contributions to national biosecurity of $7 million ($2 million) for the red imported fire ants ($5 million) and the varroa mite response plan ($2 million)

- contribution to Dog Fence Rebuild of $5 million ($4 million).

Supplies and services

Supplies and services expenses of $94 million ($91 million) mainly comprised:

- contractors and agency staff of $38 million ($38 million)
- administrative and operating costs of $18 million ($17 million)
- utility and property costs of $10 million ($9 million)
- ICT costs of $9 million ($8 million).

Further comments on expenses

PIRSA's responsibilities include responding to various biosecurity events, with its fruit fly outbreak response incurring significant expenditure of $40 million ($26 million). $17 million ($11 million) of this was for temporary agency staff, $4 million ($4 million) for employee-related expenses, $4 million ($2 million) for chemicals, $3 million ($2 million) for contractors and $3 million ($2 million) for sterile fruit flies.

Statement of Financial Position

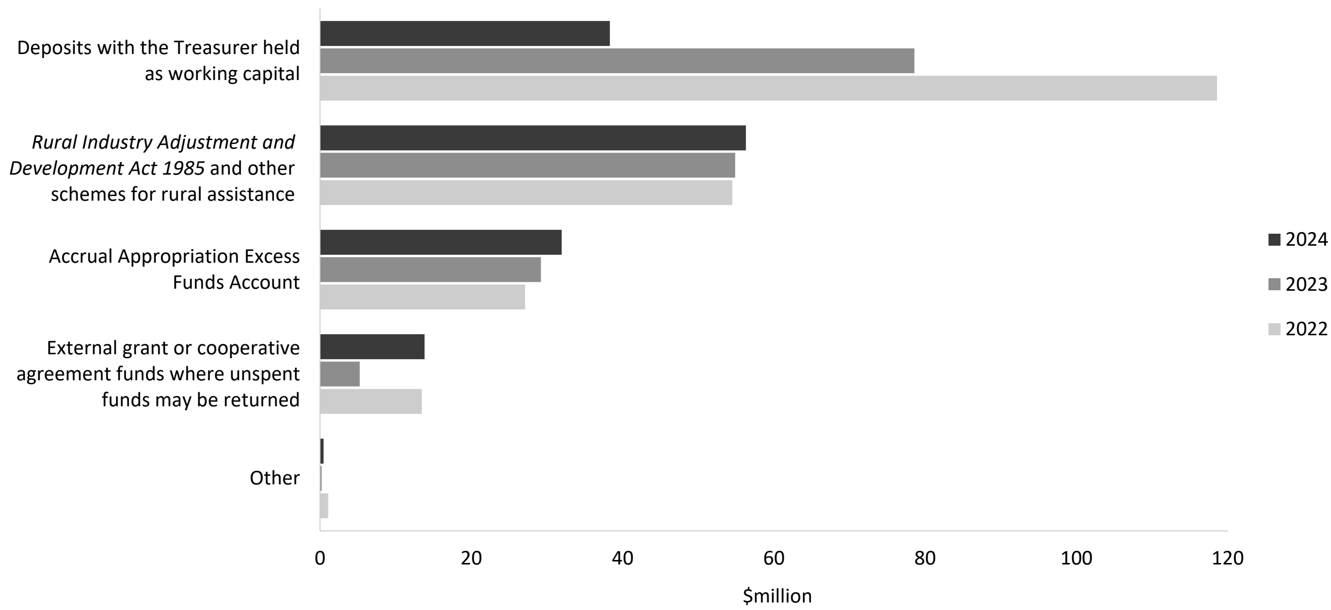
Assets

Total assets of $444 million ($457 million) mainly comprised:

- property, plant and equipment of $186 million ($182 million)
- cash of $141 million ($168 million)
- receivables of $57 million ($55 million)
- other financial assets of $35 million ($31 million)
- contract assets of $14 million ($11 million).

Cash and cash equivalents

PIRSA held cash of $141 million ($168 million) at 30 June 2024. The main components are shown in the chart below.



The decrease in PIRSA's cash is mainly due to appropriation funding for capital and grant expenditure being received in prior years, carried forward and spent in 2023-24.

Receivables

Receivables of $57 million ($55 million) comprised:

- loan receivables of $32 million ($39 million), comprising loans to cooperatives and Commonwealth concessional loan schemes. The arrangement for these is discussed under 'Financial liabilities' below
- other receivables of $25 million ($16 million), which varies from year to year based on project completion stage and life cycles.

Contract assets

Contract assets of $14 million ($11 million) represent contracted work PIRSA has completed but not billed at reporting date. This balance varies from year to year based on project completion stage and life cycles.

Other financial assets

These are investments in shares for unlisted entities of $35 million ($31 million), with over 99% invested in Australian Grain Technologies Pty Ltd. They are revalued annually, with changes in fair value treated as other comprehensive income. An independent valuation is performed to determine the fair value because the shares are unlisted and there is no direct active market.

Liabilities

Total liabilities of $113 million ($108 million) comprised:

- financial liabilities of $34 million ($40 million), which are discussed below
- payables of $21 million ($23 million)
- contract liabilities of $21 million ($15 million), which are mainly for project consideration received in advance. They are recognised as income as the project is completed
- employee benefits of $30 million ($28 million)
- other liabilities of $7 million ($2 million), with the $5 million increase due mainly to the recognition of accommodation incentives from the head office accommodation change.

Financial liabilities

Financial liabilities of $34 million ($40 million) mainly comprise indebtedness to the Treasurer of $32 million ($39 million). Borrowings from the Treasurer relate to loans to cooperatives of $27 million ($31 million) and Commonwealth concessional loan schemes of $5 million ($8 million).

Loans to cooperatives

The loans to cooperatives scheme supports cooperatives engaged in processing and storing primary products. Eligible projects include the acquisition of assets associated with processing and storing primary products.

PIRSA administers the loans to cooperatives provided by the SA Government. These are agreements between the Treasurer, PIRSA and approved loan applicants where the principal borrowed by PIRSA is on-lent to the approved loan applicant. Principal repayments made by an approved loan recipient are returned to the Treasurer to reduce PIRSA's borrowings.

In 2023-24, $5 million ($3 million) was repaid and $1 million was drawn down against loan facilities approved in prior years.

Commonwealth concessional loans schemes

Commonwealth concessional loans schemes decreased by $3 million to $5 million in 2023-24 as repayments were made.

The concessional loans schemes closed in 2018. For the arrangement, PIRSA originally borrowed funds from the Commonwealth to on-lend to recipients. PIRSA continues to administer the existing loan agreements until the loan is repaid/refinanced. It only receives repayments for existing loans, with the repayment passed on to the Commonwealth.

Administered items

PIRSA administers 18 funds that are reported in its administered financial report. Administered income was $37 million ($37 million) and administered expenses were $37 million ($35 million).

The main administered revenues are industry contributions and aquaculture and fishing licence fees. These are then paid out as grants and subsidies to support promotion, research and development, and other activities to benefit the different groups that have paid the contributions.

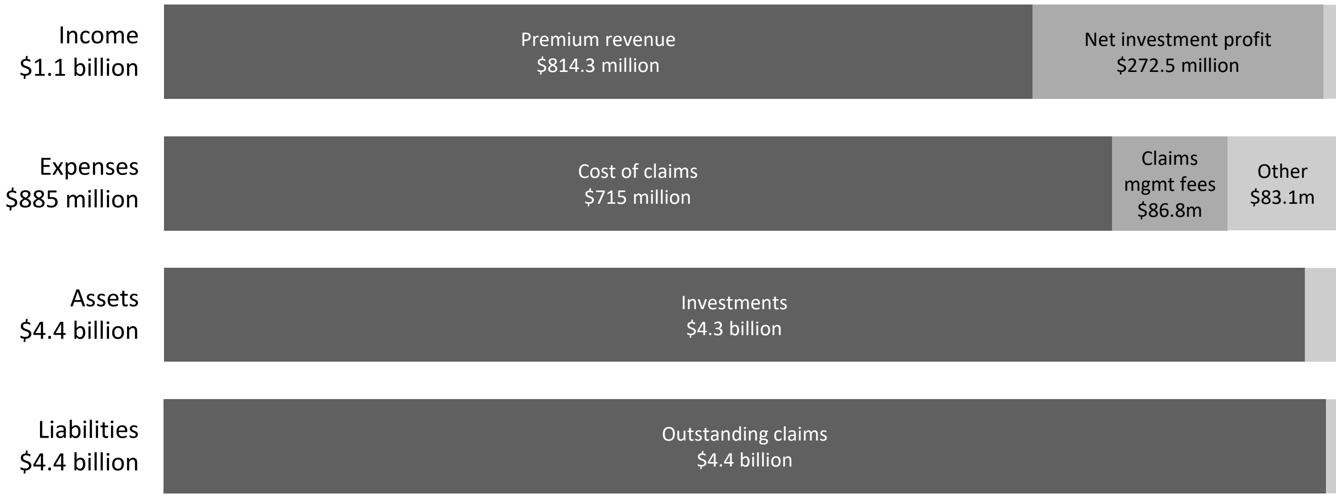
Fees and charges revenue, including industry contributions and aquaculture and fishing licences, was $31 million ($31 million) and grants and subsidies paid out during the year totalled $34 million ($32 million). The Fisheries Research and Development Fund received $15 million ($12 million) in fees and charges and paid $13 million ($10 million) to carry out research, exploration and experiments for the conservation, and management and enhancement of living resources found in waters.

PIRSA also received $5 million ($5 million) in appropriation from the SA Government for administered activities, of which $5 million ($4 million) was used for payments to the South Australian Forestry Corporation for community service obligations, including native forest management and fire protection.

Administered assets comprised cash of $21 million ($21 million) and receivables of $4 million ($4 million). Administered liabilities of $1 million ($1 million) were for payables and licence fees received in advance.

Return to Work Corporation of South Australia (RTWSA)

Financial statistics



291
FTEs

1.85%
Average premium rate

99.8%
Funding ratio

Significant events and transactions

— The provision for outstanding claims increased by $135.5 million.

— Due to legislative changes there are higher than normal levels of uncertainty in the estimated provision for outstanding claims.

— The Return to Work Scheme is almost fully funded, with a consolidated funding ratio of 99.8%.

— The Compensation Fund had net liabilities of $237.4 million as at 30 June 2024. RTWSA’s net investment profit was $272.5 million.

— Custodianship of RTWSA’s investment assets transitioned to Northern Trust in November 2023.

— The Digital Transformation Program progressed, with RTWSA budgeting to spend $131.1 million on this project over five years.

Financial report opinion

Unmodified

We included an emphasis of matter in the financial report opinion relating to inherent uncertainty in the estimate of the outstanding claims liability and the funding ratio.

Controls opinion findings	No significant findings.
Other audit findings	Segregation of duties for approving general expenditure invoices needs to improve.

Functional responsibility

RTWSA was established under the *Return to Work Corporation of South Australia Act 1994* (RTWSA Act). It administers the Return to Work Scheme (the Scheme) under the *Return to Work Act 2014* (RTW Act). The Scheme compensates injured workers and helps them return to work using premium and investment income from the Compensation Fund.

Legislative changes

Legislative changes through the RTW Act have significantly impacted the Scheme over time. The changes aimed to get injured workers back to work more promptly and reduce the cost of the Scheme, leading to reductions in the Scheme's net claims and premium rates.

Return to Work Act 2014

In December 2014 the RTW Act was proclaimed, replacing the *Workers Rehabilitation and Compensation Act 1986*. The legislative changes separated claims into two categories:

- short-term claims for injured workers with less than 30% whole person impairment (WPI) – they receive income support for up to two years and treatment costs for up to three years. The legislation also introduced a new lump sum benefit for economic loss available to workers with a WPI of at least 5%
- serious injury claims for injured workers with 30% or higher WPI – they receive income support until retirement age, and treatment and other care costs for life.

The Scheme's focus is on getting short-term claimants back to work and, in the case of serious injury claimants, providing lifetime care.

Under previous legislation, a worker's income support was reduced by 10% at 13 weeks and a further 10% at 26 weeks, equating to 80% of their pre-injury earnings. Under the RTW Act, a worker's income support is not reduced until 52 weeks, at which point it will be reduced to 80% of their pre-injury earnings. This means workers receive more income support in their first year under the RTW Act.

The following table shows the percentage of claimants back at work at key intervals from their claim date or date of incapacity.

Year	4 weeks	13 weeks	26 weeks	52 weeks
2018-19	75%	84%	88%	92%
2019-20	73%	82%	86%	91%
2020-21	71%	83%	87%	91%
2021-22	72%	83%	89%	93%
2022-23	72%	86%	91%	93%
2023-24	71%	86%	91%	94%

Source: The data in this table was provided by RTWSA and is unaudited. The 4-week milestone is measured from the claim received date, with other milestones measured from the first date of incapacity.

Return to Work (Scheme Sustainability) Amendment Act 2022 (Amendment Act)

Reforms were introduced to the RTW Act following the Summerfield legal decision, which allowed for the combining of injuries for WPI assessment purposes. The Amendment Act was proclaimed in July 2022, resulting in the following key changes:

- The combining of injuries was codified as a feature of the Scheme, aligning with the Summerfield decision.
- The threshold for accessing serious injury benefits increased from 30% to 35% WPI for physical injury claims.
- Serious injury claimants can elect to receive an economic loss lump sum payment instead of ongoing income support, and the restriction on medical redemptions being available to serious injury claims was removed.
- The impairment assessment guidelines will change when the third edition of the guidelines is approved, although it is not clear what impact this will have as the guidelines are not expected to be finalised by the SA Government until 2025.

Overview of Return to Work Scheme

Employers must pay a premium to RTWSA based on remuneration provided to their workers. RTWSA invests the premium revenue until it is needed to pay compensation and other costs of operating the Scheme, including the claim management fees of two claims agents for managing workers compensation claims. Very small employers are not required to pay a premium, while self-insured employers must pay a fee instead of a premium.

Scope of the audit

Audit of the financial report

The 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:

- the claims agent assurance framework
- premium income
- investments

- claims expenses
- actuarial estimates of outstanding claims liabilities
- the determination of claims for workers compensation
- workers compensation payments, including income support, lump sums and medical costs
- claims management fees
- general operating expenditure
- payroll expenditure
- IT general controls.

We reviewed internal audit activities to assess the risks of material misstatement in the financial report and to design and perform audit procedures. We also made use of the IT general controls work performed by internal audit.

Controls opinion

We reviewed controls over premium income, investments, claims expenses and outstanding claims liability as part of our overall controls opinion, which is discussed in Part B of this report.

Audit findings

Auditor's report on the financial report

The following is an extract from the Independent Auditor's Report on RTWSA's 2023-24 financial report, which is unmodified but notes a significant inherent uncertainty relating to the outstanding claims provisions and funding ratio implications.

> ***Opinion***
>
> *In my opinion, the accompanying financial report gives a true and fair view of the financial position of the Return to Work Corporation of South Australia as at 30 June 2024, its financial performance and its cash flows for the year then ended in accordance with relevant Treasurer's Instructions issued under the provisions of the* Public Finance and Audit Act 1987 *and Australian Accounting Standards.*
>
> ***Emphasis of Matter***
>
> *I draw attention to notes 4, 9 and 10 of the financial report. There is a significant uncertainty surrounding the financial impact of legislative reforms which will only become clearer as outstanding claims experience emerges in future financial periods. If in future years the actual costs of claims described in notes 9 and 10 are greater than the balances recorded in the financial statements, this will adversely impact the funding ratio described in note 6.*

Communicating our audit findings

We communicated our audit findings in a management letter to the Chair. The main finding and RTWSA's response are discussed below.

Segregation of duties for approving general expenditure invoices needs to improve

We found that officers with access to one invoice processing system could register an invoice for payment, verify that goods or services were received, and approve the invoice for payment. This absence of effective segregation of duties increases the risk of fraud or error.

RTWSA agreed with this finding, responding that it has acted to segregate responsibility for verifying goods or services received and invoice approval in the system.

Interpretation and analysis of the financial report

Highlights of the financial report

	2024 $million	2023 $million
Underwriting result		
Premium revenue from registered employers	814	703
Net claims paid	(578)	(531)
Decrease (Increase) in net outstanding claims liability	(136)	(202)
Claims management fees	(87)	(80)
Other underwriting expenses	(10)	(21)
Underwriting result	3	(131)
Net investment and other income		
Net investment profit (loss)	273	249
Other income	13	12
Net investment profit (loss) and other income	286	261
Operating expenses		
Employee benefits expenses	(40)	(37)
Other expenses	(33)	(24)
Total operating expenses	(74)	(61)
Result from operating activities before tax equivalents	215	69
Total comprehensive result	215	69
Net cash provided by (used in) operating activities	200	120
Net cash provided by (used in) investing activities	(237)	(131)
Net cash provided by (used in) financing activities	(1)	(1)
Assets		
Investments	4,301	3,906
Other assets	123	165
Total assets	4,424	4,071
Liabilities		
Outstanding claims	4,391	4,256
Other liabilities	44	41
Total liabilities	4,435	4,297
Total equity	(11)	(226)

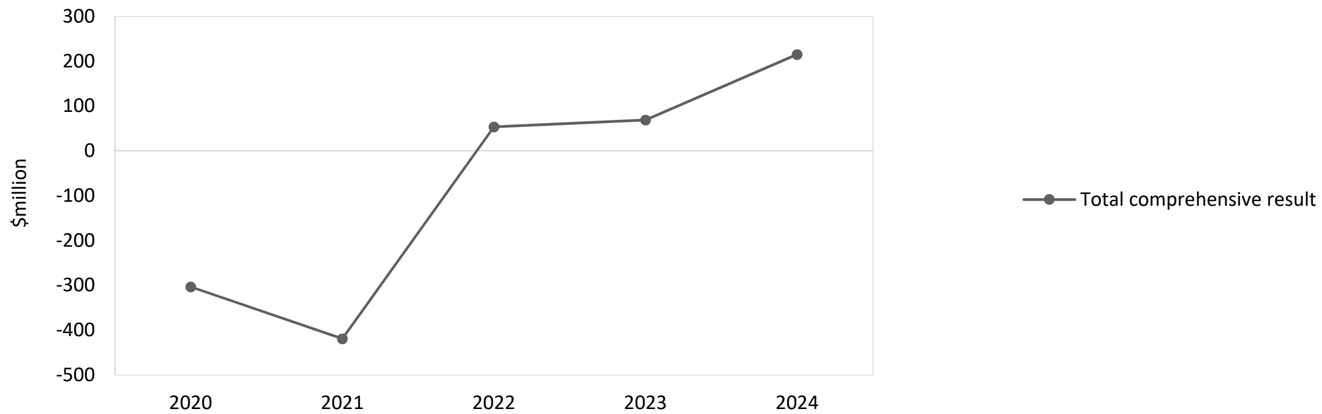
Statement of Comprehensive Income

Total comprehensive result

RTWSA's total comprehensive result depends significantly on:

- premium rates being set before the start of the financial year, with the aim of ensuring that premium revenue and investment income will at least cover the cost of new claims incurred during the financial year and administrative costs. The premium-setting process depends significantly on the actuarial estimate of the cost of new claims likely to be received in the coming year and other factors determined by RTWSA's Board of Management
- the actuarial estimate of the outstanding claims provision
- movements in the market value of its investments.

The following chart shows RTWSA's total comprehensive result for the five years to 2024.



The chart shows the fluctuations in total comprehensive result, with the annual results significantly impacted by legislative reform and market volatility. The $215.2 million profit for 2024 represents an improvement of $146.1 million from the 2023 profit of $69.1 million. The key factors driving this were:

- a $111.2 million increase in premium revenue, due mainly to an 8.8% increase in the amount of remuneration employers paid to workers. The average premium rate also rose from 1.8% in 2023 to 1.85% in 2024
- an improvement in the cost of claims of $30.1 million, due mainly to the $136.1 million ($202.1 million) increase in the outstanding claims liability (see 'Statement of Financial Position' below)
- a $23.5 million improvement in net investment profit (see 'Investment profits' below)
- a $12.8 million increase in general operating expenses, mainly due to costs incurred as part of the digital transformation project
- a $6.7 million increase in claims management fees (see 'Claims management fees' below).

RTWSA is required to pay tax equivalents under Treasurer's Instruction 22 *Tax Equivalent Payments*. Under the tax equivalents regime the corporate tax rate (30%) is applied to any operating profit. The RTWSA Act, however, restricts the application of tax equivalents to financial years in which RTWSA makes a profit and achieves both a funding level of at least 100% (with its outstanding claims liabilities at a 75% probability of sufficiency) and a profit from its insurance operations. RTWSA has not achieved a funding level of at least 100% in either of the past two years, and therefore was not required to pay any tax equivalents.

Underwriting result

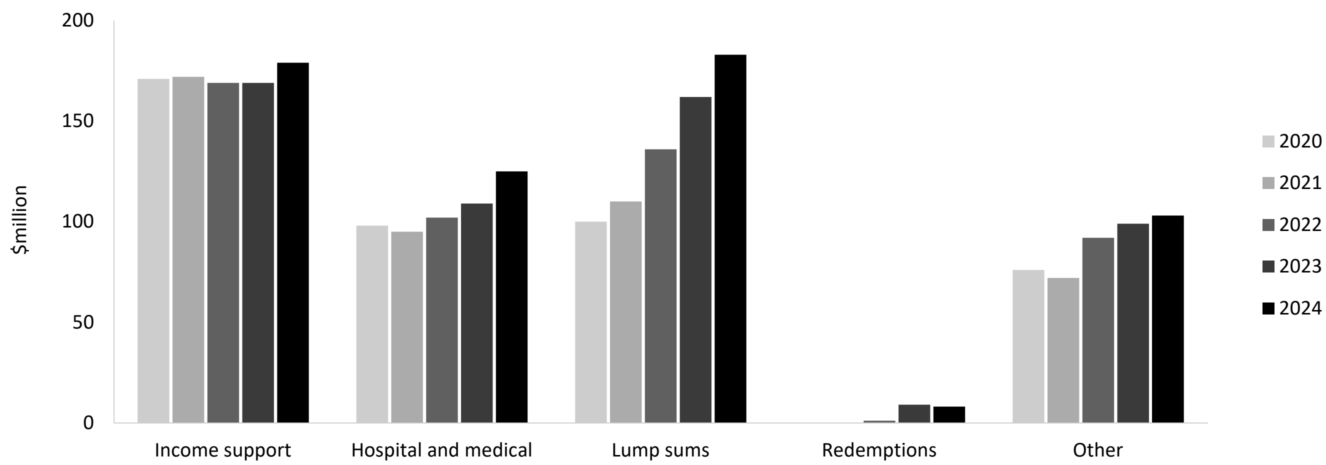
The underwriting result comprises registered employer premium revenue less claims expense. Investment income does not form part of the underwriting result. AASB 1023 *General Insurance Contracts* requires the underwriting result to be shown separately in the Statement of Comprehensive Income, to show the extent to which underwriting activities rely on investment income for the payment of claims.

The underwriting result for 2024 was a profit of $3.4 million, compared to a loss of $131.2 million in 2023. The $134.6 million upturn reflects the $111.2 million increase in premium revenue, the $30.1 million decrease in the cost of claims and the $6.7 million increase in claim management fees. The decrease in the cost of claims was driven by:

- a $66 million improvement in the movement in the net outstanding claims liability, which increased by $136.1 million in 2024 compared to $202.1 million in 2023
- a $47.1 million increase in net claims payments
- an $11.2 million decrease in net self-insurance settlements.

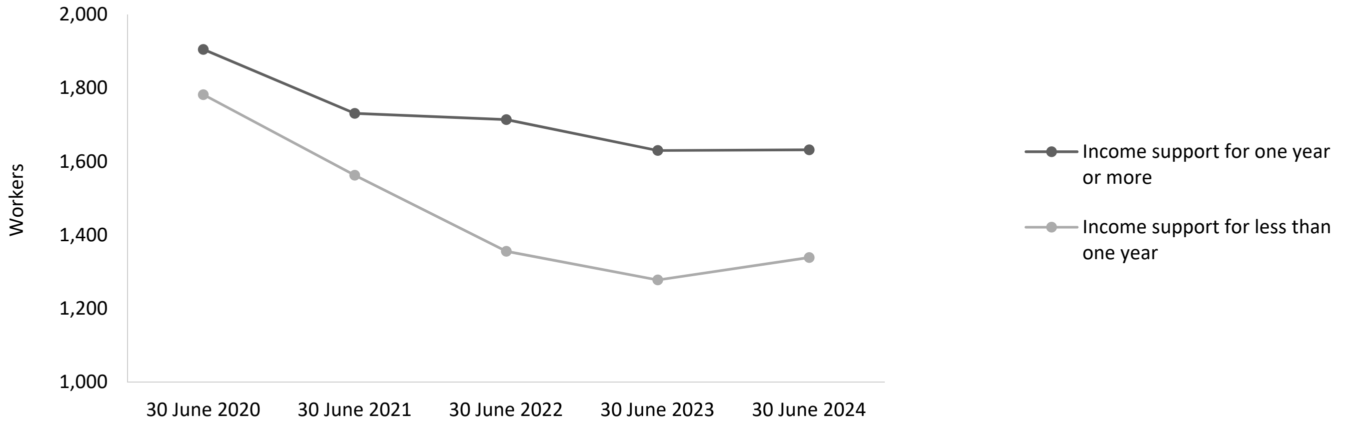
Claim payments

The following chart shows claim payments for the five years to 2024.



Income support payments of $177.9 million in 2024 increased by $9.1 million, mainly due to a rise in claim volumes and a higher level of wages for injured workers. Lump sum payments increased by $21.2 million to $183.3 million, reflecting higher numbers of injured workers receiving settlements. Hospital and medical payments increased by $15.4 million to $124.7 million due mainly to increasing average treatment costs per claim. Redemptions and other costs payments remained relatively steady.

The change in the number of workers receiving income support for the five years to 2024 is shown in the following chart.

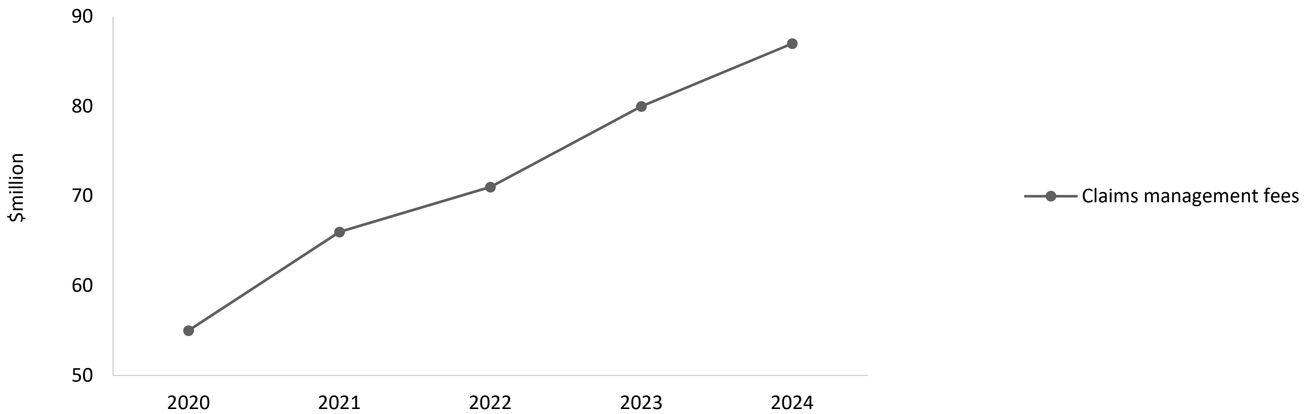


Source: The data in this chart was provided by RTWSA and is unaudited.

The chart shows a general decline in the number of workers receiving income support since 2020, reflecting improvements in return-to-work outcomes over the period.

Claims management fees

The following chart shows claims management fees for the five years to 2024.

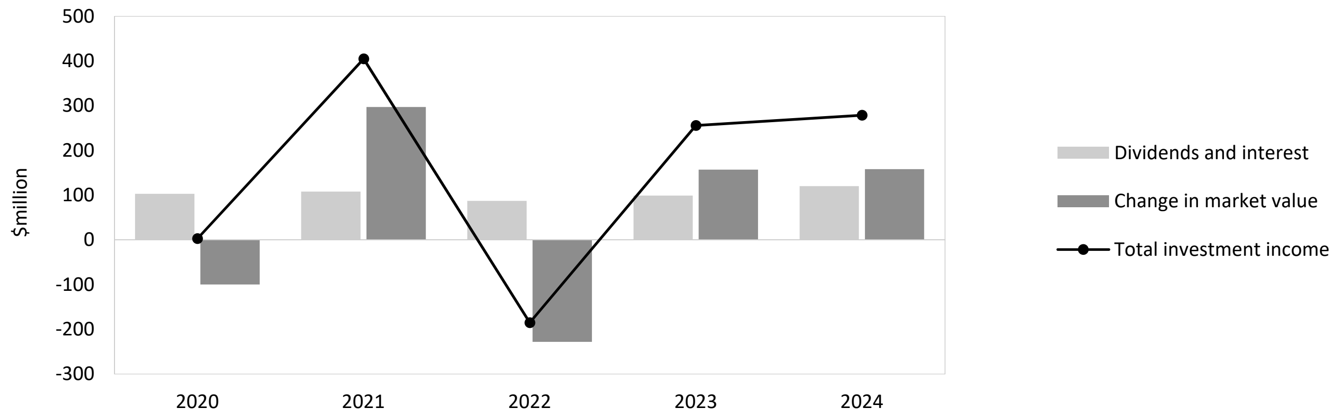


Claims management fees are paid to RTWSA's two claims agents for managing workers compensation claims. They increased by $6.7 million to $86.8 million in 2024, mainly due to an increase in performance fee payments and funding to provide additional resources.

Investment profits

RTWSA's investment profits have fluctuated significantly over recent years as a result of changes in the market values of its investments, which depend on financial market conditions and macroeconomic influences. In 2024 the strong performance of equity markets had a significant impact on its investment returns.

The following chart shows RTWSA's investment income for the five years to 2024.

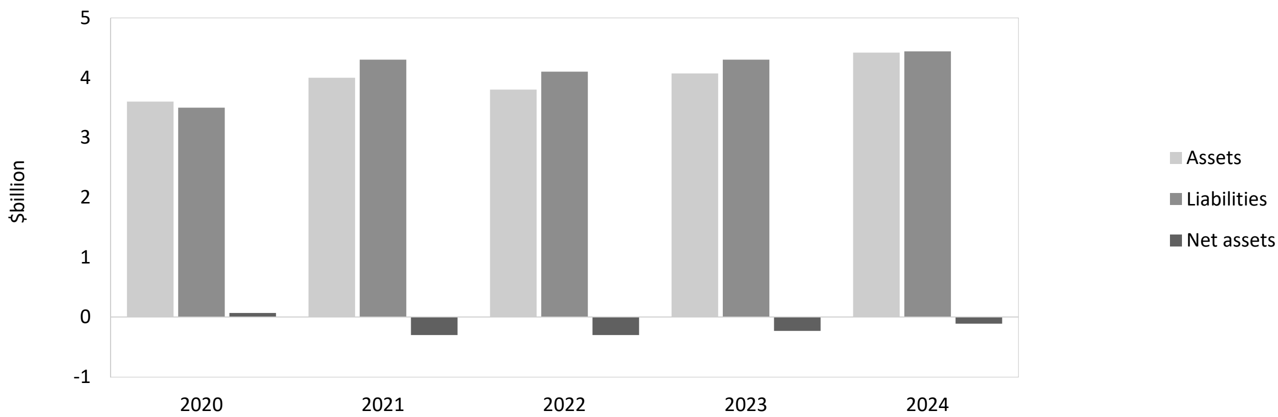


The chart illustrates the volatility in RTWSA's investment returns, with the market value of its investments increasing by $394.9 million to $4.3 billion at 30 June 2024. Dividend and interest income increased by $21.5 million to $120.3 million, an improvement of 21.8%.

Statement of Financial Position

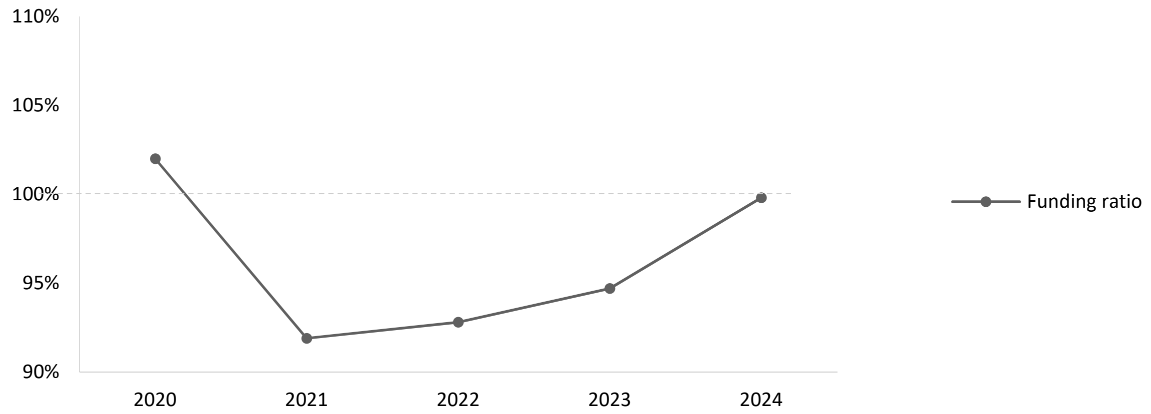
RTWSA's total equity improved by $215.2 million to net liabilities of $10.7 million. This was driven mainly by a $394.9 million increase in the market values of investments, partially offset by the $135.5 million increase in the provision for outstanding claims to $4.4 billion, following an actuarial valuation.

The following chart shows RTWSA's assets and liabilities for the five years to 2024.



The chart shows RTWSA's net asset position deteriorating from 2020, before improving in 2023 and 2024. The funding ratio (assets divided by liabilities) was 99.8% at 30 June 2024, reflecting that the Scheme is almost fully funded. This is an improvement on the funding ratio of 94.7% at 30 June 2023, but is dependent on movements in both the market value of investments and the measurement of the provision for outstanding claims.

The following chart shows the funding ratio decreasing over the period to 2021, with improvements from 2022.



Under the RTW Act, a Scheme funding/review event occurs if RTWSA operates at a funding level below 90% at a probability of sufficiency of 75% for two consecutive years. If the Minister is satisfied that a Scheme funding/review event has occurred, the Minister must initiate a review of the Scheme that considers, among other things, the sustainability of the Compensation Fund over the short to medium term.

Liabilities

Outstanding claims – Compensation Fund

The Compensation Fund, which makes up the largest portion of the Scheme, has net liabilities of $237.4 million.

Outstanding claims for the Compensation Fund comprised 98% (98%) of RTWSA's liabilities at 30 June 2024. They cover expected future payments including those related to claims reported but not yet paid, incurred but not yet reported and incurred but under-reported. The liability is determined by RTWSA's management and Board of Management considering and assessing a comprehensive actuarial review of claims exposures by an independent actuary. There is information about the actuarial estimation of outstanding claims liabilities in RTWSA's financial report.

RTWSA v Summerfield

In March 2021 a decision was handed down by the Full Court of the Supreme Court of South Australia in the case of *Return to Work Corporation of South Australia v Summerfield* (Summerfield). The Summerfield legal decision allows injuries to be combined for WPI assessment purposes. This substantially differed from RTWSA's previous position on how key aspects of its WPI assessments should be undertaken.

Following the Summerfield decision, the Amendment Act introduced reforms to codify the combining of injuries under the law, but also to mitigate the financial impact of the Summerfield decision.

RTWSA's actuary considered the impacts of codifying the combining of injuries and the introduction of the other reforms in estimating the outstanding claims liability as at 30 June 2024.

Audit approach to the estimate of outstanding claims liability

Due to the nature and significance of the Scheme's estimate of outstanding claims liability, our audit approach included focused review of the Scheme actuary's projections by an independent professional actuary engaged by the Auditor-General. The nature and impact of the 2014 legislative changes, the outcome of the Summerfield decision and the introduction of reforms continued to warrant a high level of audit scrutiny.

We did not identify any issues or variations from expected practice that would suggest the estimate of outstanding claims liability is unreasonable or that the estimate for 30 June 2024 should be adjusted in any material way. The inherent uncertainty associated with the Scheme arrangements and reforms, however, means that we do not have the degree of certainty over the estimate we need and we have noted this in our audit opinion.

The key uncertainties in this valuation are:

- the impacts of the Amendment Act, including behavioural responses in combining injuries, the application of a higher WPI threshold and claimant selection of entitlement options under the amended RTW Act
- serious injury claim costs, including the ultimate number of serious injury claims, life expectancy and cost escalation
- legal precedent risk and legal provider behaviour
- the increasing number of hearing loss claims
- economic uncertainty.

The uncertainty in the Scheme remains in the current valuation, especially for the reform impact. The Scheme's actuary has identified considerable uncertainty, particularly around how and when claims are determined to be serious injury and the WPI scores used for lump sums.

Central estimate of outstanding claims liabilities

The central estimate of outstanding claims liabilities (Compensation Fund) was $3.8 billion at 30 June 2024. The net outstanding claims provision was $4.3 billion, including a risk margin of $541 million intended to achieve a 75% probability of sufficiency.

The net liability for outstanding claims increased by $139.2 million from $4.1 billion at 30 June 2023, mainly due to:

- a $288 million increase from the inclusion of another year of claims
- a $76 million increase in short-term claims, reflecting:
  - increases in the provision for lump sum payments ($20 million increase)
  - increased allowance for hearing loss claims ($50 million increase)
  - increased income support costs due to higher claim volumes, offset by improved return-to-work outcomes ($15 million increase)
- higher observed medical and treatment costs ($15 million increase)

   - lower legal costs due to faster dispute settlement ($20 million decrease)
   - decreases due to favourable recovery experience ($6 million decrease)
- a $78 million decrease due to changes in economic assumptions, principally led by an increase in discount rates
- an $80 million decrease for serious injury claims, reflecting:
   - a decrease due to claim number changes offset by a higher average size for claimants who reached the threshold ($92 million decrease)
   - a decrease due to the death of EnABLE claimants with significant hospital costs ($30 million decrease). EnABLE claimants generally include those with severe traumatic injuries who require significant levels of care and support, or have other special needs
   - a reduction in care superimposed inflation allowance ($25 million decrease)
   - an increase due to the shift in the timing of lump sum payments that were not paid at previous valuation ($12 million increase)
   - an increase in medical and treatment costs for Non-EnABLE claimants ($55 million increase)
- a decrease of $75 million following the fall in the risk margin from 16.5% to 14.5%. The risk margin incorporates allowances for added uncertainty in the valuation of the impact of the Amendment Act and supports the net liability being adequately provided to a 75% probability of sufficiency (see 'Probability of sufficiency' below)
- a change in claims handling expense assumptions ($7 million increase).

The liability for long-term claims may extend for many years beyond the current year, causing the liability to grow. Long-term claims make up a greater proportion of total claims. This is reflected in the weighted average expected term to settlement of claims being 11.3 years in 2024.

Sensitivity to changes in key assumptions

The sensitivity analysis in RTWSA's financial report illustrates that relatively small changes to key assumptions in the estimate can result in changes in the order of millions of dollars. For example, a 2% gap between inflation and the discount rate (with the discount exceeding inflation) would lead to a decrease in the net outstanding claims provision of $393 million. There is also significant uncertainty regarding the serious injury claims cost arising from factors such as life expectancy, superimposed inflation and the ultimate impact of the reforms. The actuary's sensitivity analysis suggests that changes to each of these assumptions could change the net outstanding claims provision in the order of $129 million to $353 million.

Legislative reform and other developments affecting the uncertainty of the outstanding claims liability

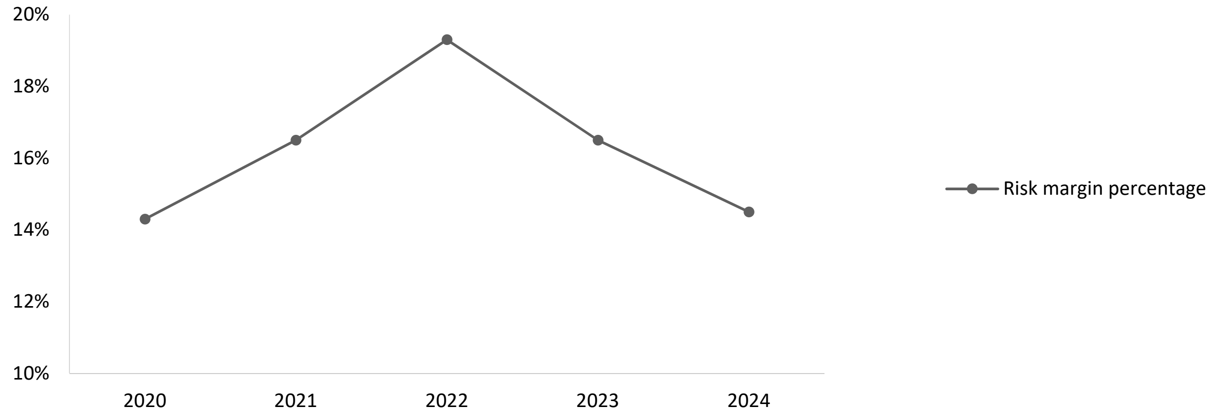
The actuarial estimation is primarily based on the expected impact of the RTW Act and the Amendment Act. The impact will only become clearer as actual claims experience emerges under the legislation. Further, RTWSA's financial report specifies the nature of a number of key uncertainties associated with the actuarial estimation and the sensitivities of the estimation to changes in key assumptions. The independent actuary noted the following:

- The reform impacts have introduced changes to the RTW Act that attempt to manage the financial consequences of higher WPI scores through combining injuries. The uncertainty in the impact of combining injuries is now compounded by the uncertainty in how successfully the reforms remove costs from other areas. A significant portion of the valuation is largely based on assumed outcomes, rather than on a reliable history. The uncertainty is more elevated than in normal valuations.
- There is a high risk of behavioural change related to the reform impacts. The ultimate outcomes that emerge will depend on claimant and advisor behaviours resulting in higher scores than in the past. Given the high level of legal involvement in the Scheme, the risk of adverse behavioural change is high.
- There is a legal precedent risk related to the possibility of decisions that are unfavourable to the Scheme or the culture and behaviour of its participants.
- There is a risk that if RTWSA cannot maintain its dispute resolution strategy, cost increases would likely result from legal provider behaviour.
- Under the RTW Act, there are significant differences between the compensation available to claims above the serious injury WPI threshold and those below. The Scheme will face significant financial consequences if this leads to more claims achieving the WPI threshold. The inclusion of higher lump sum amounts, along with the ability to combine injuries over time, creates an environment that encourages claimants to delay their WPI assessments in pursuit of higher WPI scores.
- Serious injury claimants are entitled to benefits for life and key uncertainties include:
  - claim numbers – these include the impact of late-emerging claimants, as well as the large number of outstanding serious injury application disputes and other WPI-related disputes
  - life expectancy – the future life expectancy of serious injury claimants has a significant impact on future cost projections
  - cost escalation – the potential for future cost escalation in a number of medical, care and treatment related items.
- There has been unprecedented growth in hearing loss claim numbers in the last few years, placing upward pressure on the liability.
- There is considerable uncertainty in financial markets, and this has impacted the discount rates used to determine the valuation results.

Probability of sufficiency

The estimate of outstanding claims liability is determined by reference to a 75% probability that the provision for outstanding claims will be adequate. With the uncertainty in the impact of combining injuries, the reforms and a large number of open disputes, there is still considerable uncertainty in the Scheme. RTWSA has adopted the actuary's risk margin of 14.5% as at 30 June 2024 (16.5% in 2023), so that the net liability is adequately provided to a 75% probability of sufficiency. RTWSA's performance statement, authorised by the Treasurer, requires it to estimate its claims liabilities using a risk margin with at least 75% probability of sufficiency for the net liability. The Australian Prudential Regulation Authority sets a minimum of 75% in Prudential Standard GPS 320 *Actuarial and Related Matters*. Public sector entities are not bound by this requirement, but the parameters RTWSA adopts are consistent with it.

The following chart shows the risk margin applied to the outstanding claims liability over the past five years.



The increases in the risk margins in 2021 and 2022 highlight the increased level of uncertainty in the outstanding claims liability due to the impacts of the legislative reforms. The decreases in 2023 and 2024 maintain the probability of sufficiency while being driven by reduced uncertainty about:

- average size selections for lump sums
- serious injury claims, due to reduced uncertainty about combining injuries and reform impacts.

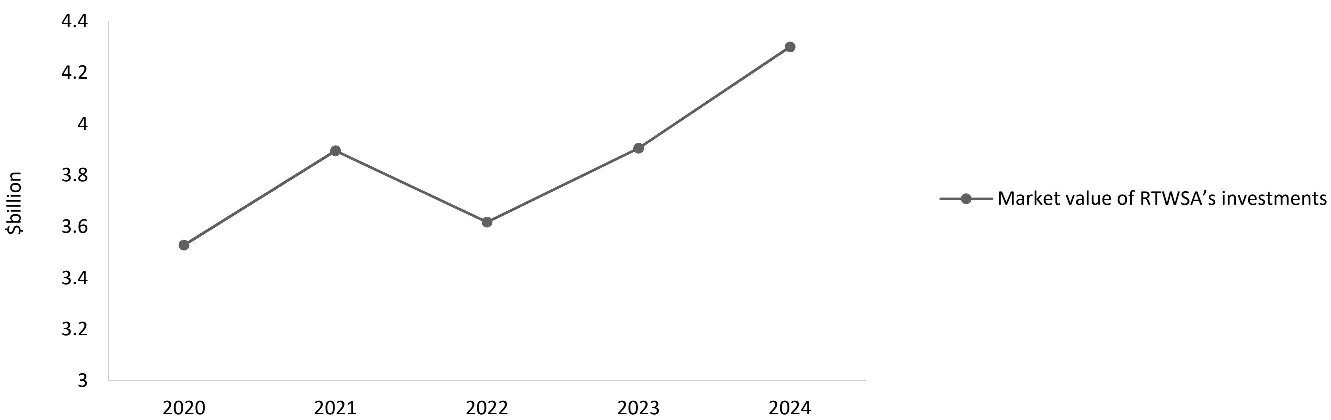
Investments

RTWSA's investment portfolio of $4.3 billion ($3.9 billion) mainly comprises investments in pooled funds, discrete mandate funds and fixed-term deposits. In 2023-24 RTWSA switched custodian of its pooled funds and discrete mandate funds from National Australia Bank to Northern Trust Australia when the National Australia Bank stopped providing these services.

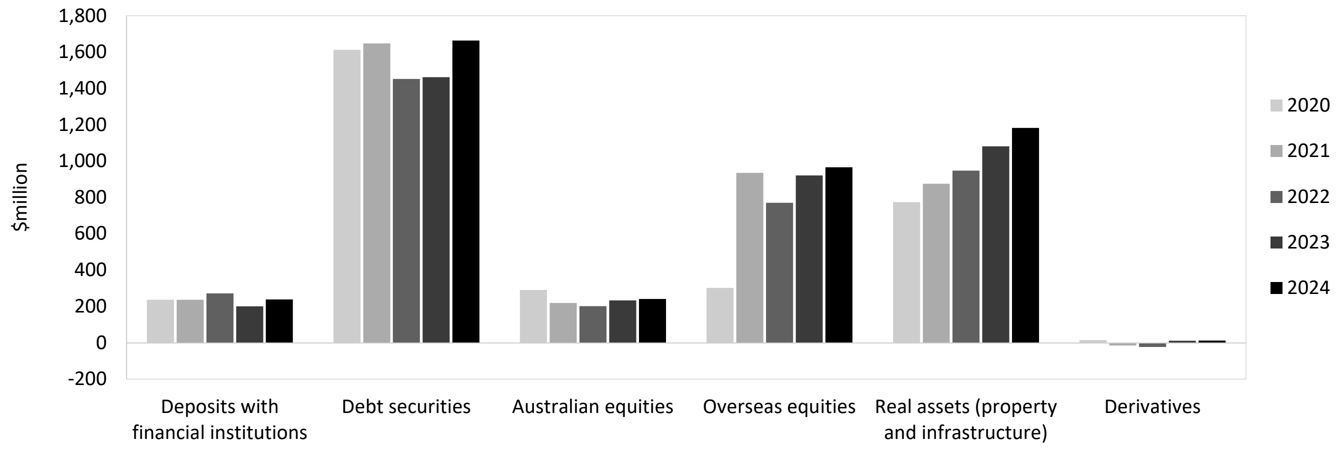
Investment decisions

RTWSA investment staff implement its investment strategy, which involves rebalancing the investment portfolio held in pooled funds, discrete mandate funds and fixed-term deposits to minimise risk and achieve target returns. The investment staff also receive expert advice on investment matters from an external consultant.

The following chart shows the market value of RTWSA's investments for the five years to 2024.



The following chart shows RTWSA's investments by asset class for the five years to 2024.



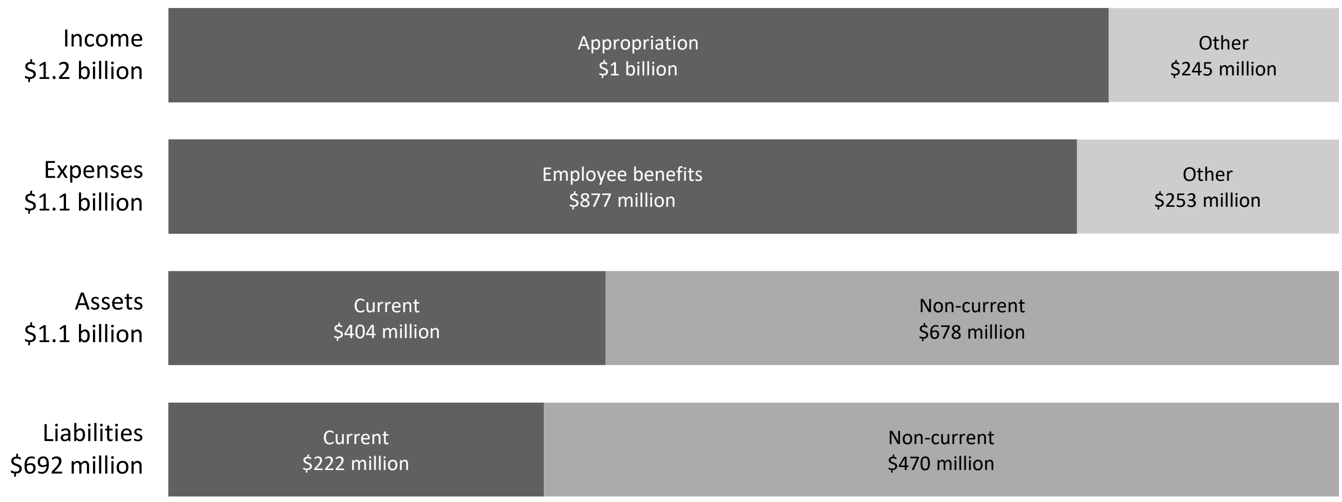
According to RTWSA, the return on investments measured in line with Australian Investment Performance Standards for the five years to 2024 was as shown in the following table.

	2020	2021	2022	2023	2024
Return on investments	0.0%	11.8%	-5.0%	6.7%	6.8%
RTWSA Board of Management approved targeted return	2.2%	6.3%	8.6%	8.5%	6.3%

The current long-term objective for the investment program is a return of CPI plus 2.5%, as approved by RTWSA's Board of Management. RTWSA achieved this target in 2021 and 2024. The return on investment is derived from all investment returns (realised or unrealised) based on total investment holdings.

South Australia Police (SAPOL)

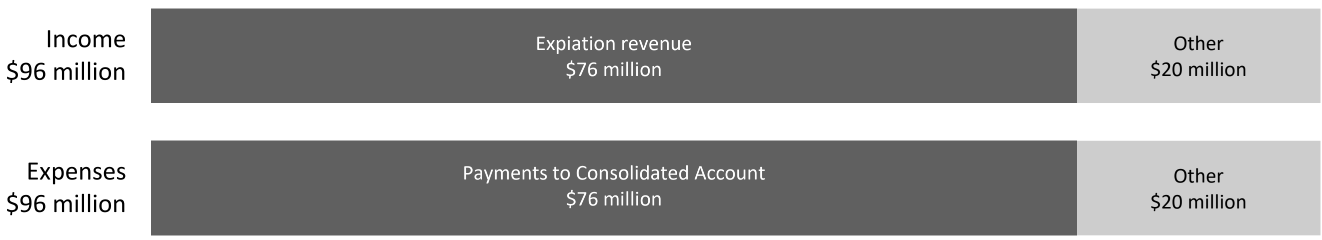
Financial statistics



4,615
Sworn police officers and cadets

1,393
Unsworn staff including police security officers

Administered items



Significant events and transactions

- In September 2022 the SA Government announced that the new Women's and Children's Hospital would be built at the Thebarton Police Barracks site. SAPOL is due to fully vacate the site by September 2024.
- Funding from the SA Government increased significantly to support SAPOL's relocation from the Thebarton Police Barracks.
- Property, plant and equipment was revalued upward by $142.4 million as a result of an independent valuation.
- The initial phase of SAPOL's new expiation notice system went live in June 2024 with a total project spend of $7.5 million at 30 June 2024. The project's final phase is expected to go live in March 2025.

Financial report opinion	**Unmodified**
Controls opinion findings	— Workforce planning remains challenging. — The number of employees without an active performance plan increased.
Other audit findings	— Disaster recovery processes for the Shield Business Transformation Program could be improved. — IT controls over user access management to the Chris21 payroll system could be improved.

Functional responsibility

SAPOL is an administrative unit established under the *Public Sector Act 2009* and operates under a legislative framework prescribed by the *Police Act 1998*. Its functions are to:

- uphold the law
- preserve the peace
- prevent crime
- assist the public in emergency situations
- coordinate and manage responses to emergencies
- regulate road use and prevent vehicle collisions.

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:

- payroll expenditure and employee benefits liabilities
- workers compensation and additional compensation provisions
- other operating expenditure
- revenue from fees and charges
- expiation revenue
- cash and controls over new ANZ bank accounts
- seized exhibits
- property, plant, equipment, including capital works in progress and revaluations.

Controls opinion

We reviewed controls over employee expenses and bank accounts as part of our overall controls opinion, which is discussed in Part B of this report.

Audit findings

Communicating our audit findings

We communicated our audit findings in management letters to the Commissioner of Police. The main findings and SAPOL's responses are discussed below.

Controls opinion findings

Employee benefits expense

Employee benefits expense is material for both SAPOL and the whole of government. For this reason, we reviewed SAPOL's controls over salaries and wages and how it manages its human resources. Our scope of work included:

- workforce planning:
  - reviewing processes to ensure critical roles are systematically identified and filled
  - reviewing whether SAPOL has processes to capture, report and monitor vacancies and staffing levels
- reviewing whether staff appointments are in line with legislation
- reviewing timesheet processes to ensure that time worked is accurately reflected, and overtime and allowances are accurately processed and paid
- reviewing processes to ensure that leave taken is deducted from the Chris21 payroll system
- employee performance management.

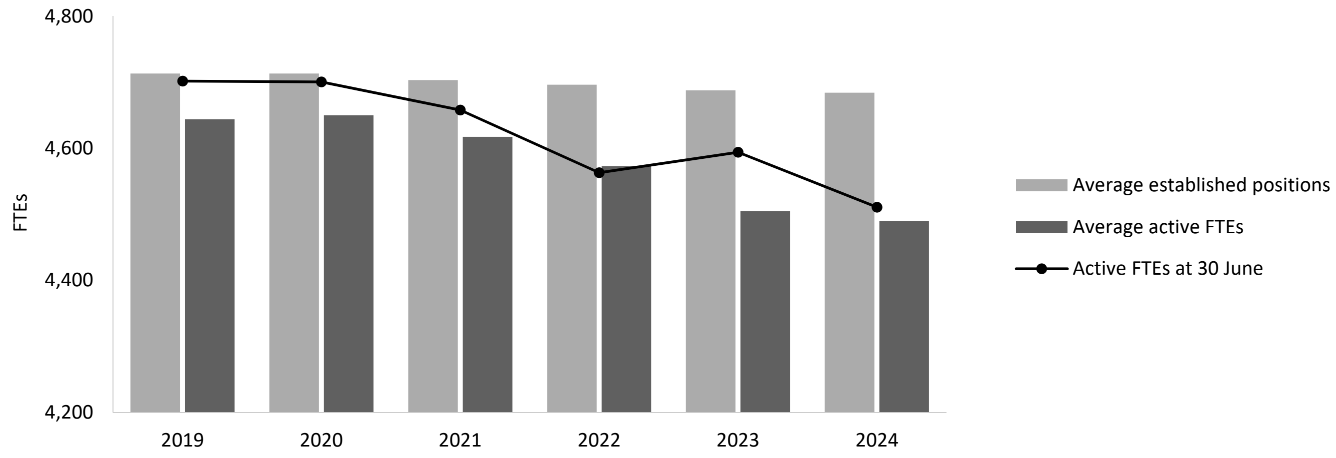
We note that the Premier's taskforce review of SAPOL's workforce has concluded, with the outcomes currently being considered. SAPOL had not been informed of these outcomes at the time of our audit. The outcomes and their impact on SAPOL's workforce planning will be included in our 2024-25 audit.

Workforce planning remains challenging

SAPOL's workforce is made up of both sworn and unsworn officers. Sworn police officers are 76.8% of the workforce with 4,510.9 FTEs (excluding cadets) at 30 June 2024. SAPOL has processes to identify the number of sworn police officers needed to meet its service requirements. This is known as the 'sworn established profile', and identifies both the number of FTEs and positions required in each service area to deliver on objectives. SAPOL's ability to deliver services depends on the sufficiency and effective management of its resourcing.

The chart below shows SAPOL's average sworn established profile and average active FTEs for the past six years. It shows that SAPOL has not met the average established profile for sworn officers over this period. Recruitment in 2019 and 2020 enabled it to largely achieve its sworn establishment profile by 30 June in those years. Since 30 June 2020, however, staff attrition has exceeded recruitment, with

SAPOL operating 198.6 FTEs (on average) below its establishment in 2023-24. At 30 June 2024, SAPOL was 173.1 FTE below establishment.



Note: Data was supplied by SAPOL and is unaudited.

SAPOL's inability to meet its sworn FTE establishment reflects the challenges faced by law enforcement agencies nationally.

The decrease in average active FTEs at 30 June 2024 reflects high attrition rates and the continued difficulty in attracting new recruits. The figures include employees who are on extended leave, meaning that the number of sworn positions filled may be lower than depicted in the chart. There were 151.3 FTEs on extended leave at 30 June 2024.

SAPOL adopted several recruitment strategies in 2023-24, including its international recruitment campaign, pathways to policing program and flexible industry pathways. The international recruitment program aims to accelerate the recruitment of people with a minimum of three to five years' policing experience from interstate, the United Kingdom, Ireland and New Zealand. It aims to recruit up to 200 experienced police officers by June 2025. At July 2024, SAPOL had made 39 offers of appointment under this program, subject to recruits securing a permanent visa where necessary. SAPOL may reimburse relocation expenses to eligible recruits after they have started their employment, but no relocation expenses were reimbursed in 2023-24. SAPOL expects the first batch of international recruits to start their training in late 2024.

SAPOL has also partnered with the Thebarton Senior College as part of the pathways to policing program, to offer Year 12 students the opportunity to undertake studies that serve as a career pathway to SAPOL.

The number of employees without an active performance plan has increased

SAPOL employees are required to have an active individual performance plan. At the end of February 2024, 16% (927 employees) of its workforce did not have an active plan, compared to 9% in December 2022.

SAPOL responded that it will ensure its HR Business Partners are regularly engaging with business units about individual performance plans.

Other audit findings

Disaster recovery processes for Shield could be improved

The Shield Business Transformation Program (Shield) is a single comprehensive integrated system for core policing functions. It maintains operational police records and is the central system providing vital information to other justice agencies such as the Courts Administration Authority, Department of Human Services and Department for Child Protection. Once fully implemented it will replace a large number of SAPOL's ageing applications.

The first elements of Shield were released to staff in 2018. However SAPOL has not yet performed a full disaster recovery test to ensure it is able to recover the system within an acceptable time frame.

SAPOL advised us that an end-to-end disaster recovery test will not be completed until Shield is fully rolled out, with the next phase scheduled to go live in October 2024.

IT controls over user access to the Chris21 payroll system could be improved

SAPOL uses the Chris21 payroll management application. The overall system is managed by Shared Services SA. Application-level controls that are managed directly by SAPOL include privileged user access, user onboarding and offboarding, user access reviews and user audit logging.

We found weaknesses in SAPOL's user access management process, which may increase the risk of unauthorised access to its Chris21 data.

SAPOL responded positively to our findings and promptly took action to resolve the issues we identified.

Interpretation and analysis of the financial report

Highlights of the financial report*

	2024 $million	2023 $million
Income		
Appropriation	1,000	939
Intra-government transfers	190	87
Fees and charges	35	31
Other revenues	20	16
Total income	1,245	1,073
Expenses		
Employee benefits	877	837
Supplies and services	198	181
Other expenses	55	48
Total expenses	1,131	1,066
Net result	114	7
Changes in property, plant and equipment asset revaluation surplus	142	-
Total comprehensive result	257	7

	2024 $million	2023 $million
Net cash provided by (used in) operating activities	172	52
Assets		
Current assets	404	287
Non-current assets	678	458
Total assets	1,083	745
Liabilities		
Current liabilities	222	170
Non-current liabilities	470	440
Total liabilities	692	611
Total equity	391	134

* Table may not add due to rounding.

Statement of Comprehensive Income

Income

Total income increased by $172.2 million to $1.2 billion in 2023-24, mainly due to increases in SA Government grants, subsidies and transfers of $103.6 million and appropriation funding of $61.3 million.

SAPOL receives appropriation funding based on its annual budgeted expenditure, less estimated revenues from fees and charges and other sources. The increase in its 2023-24 appropriation funding is largely due to additional funding for increases in employee benefits expenses and expenditure for:

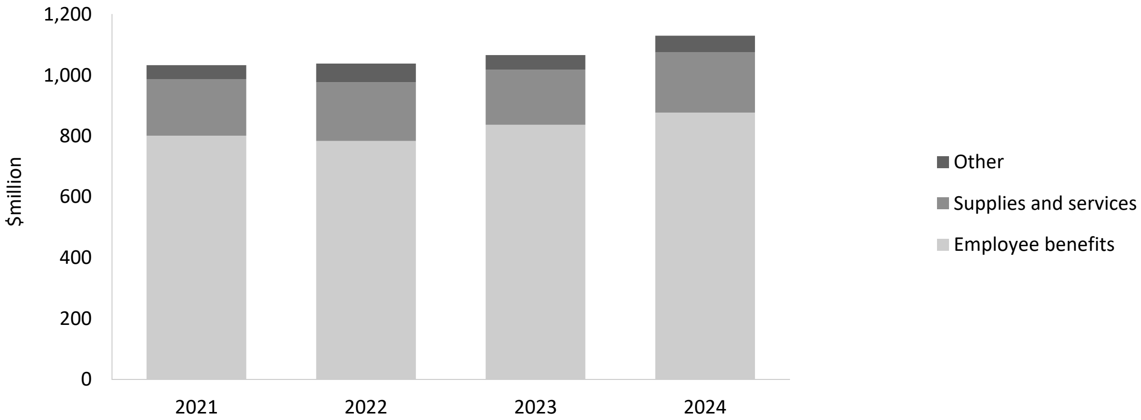
- mobile speed camera acquisitions
- accelerated police recruitment
- relocating from the Thebarton Police Barracks (lease expenses)
- replacing the expiation notice system
- the superannuation guarantee rate in 2023-24
- SAPOL's investment program.

SA Government grants, transfers and subsidies increased by $103.6 million to $190.3 million, due mainly to:

- $97.4 million for the Thebarton Police Barracks relocation
- $4.1 million for the SAPOL Enterprise Agreement adjustment
- $1.2 million (2.5% CPI) for the Community Road Safety Fund. SAPOL is reimbursed by the Department for Infrastructure and Transport for costs incurred in providing road safety services, including developing analytic capabilities, implementing road safety programs and heavy vehicle enforcement activities.

Expenses

The following chart shows SAPOL's main expenses for the four years to 2024.



Total expenses increased by $65 million to $1.1 billion in 2023-24, driven by increases in employee benefits expenses of $40.3 million and supplies and services expense of $17.1 million. The increase in employee benefits expenses to $877.1 million is due mainly to:

- a $19.1 million increase in salaries and wages due to a 2% Enterprise Agreement increase and mid-point adjustments, and an additional 21 sworn FTEs and 63 unsworn FTEs. The mid-point adjustment is a 2% general increase, or police-specific inter-jurisdictional adjustment (whichever is greater), at 1 January 2024
- a $14.6 million increase in the long service leave expense. This expense is impacted by relative movements in the long service leave liability each year (see 'Employee benefits liabilities and related on-costs' below). The long service leave provision increased by $10.2 million in 2023-24, which is $16.5 million greater than the prior year's downward remeasurement of $6.3 million
- a $5.9 million increase in superannuation on-costs, after the superannuation guarantee rate increased by 0.5% to 11% from 1 July 2023
- a $3.1 million increase in annual leave expense, reflecting the Enterprise Agreement and staffing increases noted above
- a $3 million decrease in the workers compensation expense, due to a $1 million increase in the workers compensation provision in 2023-24. This is $5 million less than the remeasured expense in 2022-23, partly offset by a $2 million increase in workers compensation claim payments. See 'Workers compensation provision' below for more information
- a $1.6 million decrease in additional compensation expense, due to an $8.8 million increase in the additional compensation provision. This is $1.9 million less than the remeasured expense of $10.7 million in 2022-23.

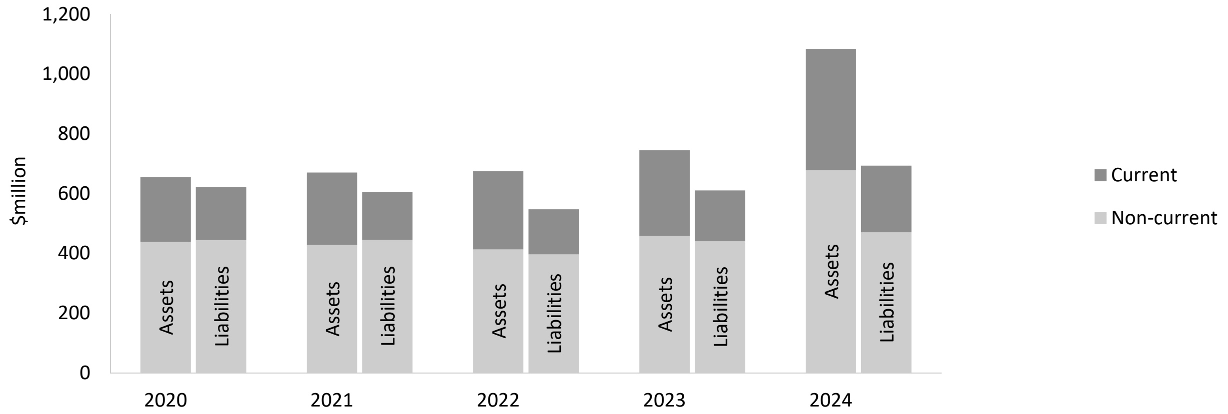
Supplies and services increased by $17.1 million to $198.1 million due mainly to:

- a $7 million increase in communication and computing expenses following the rollout of Microsoft 365 to all SAPOL-issued devices, an increase in annual maintenance costs for IT systems and increased business transition expenses for the new expiation notice system
- a $3.8 million increase in temporary agency staff and contractors relating to the Cyber Security and Mobility Transformation programs
- a $3.6 million increase in administration expenses, which includes the full year impact of nurse custodial facility expenses of $1.8 million. This contract started in January 2023. There were also increased administration costs for the Mobile Phone Detection project, body-worn cameras, professional services, consumables, marketing and road safety campaigns

- a $2.1 million increase in accommodation expenses, mainly due to increases in minor works and property rental for leased accommodation, including new leases following the Thebarton Police Barracks relocation.

Statement of Financial Position

SAPOL's assets and liabilities for the four years to 2024 are shown in the following chart.



Assets

Current assets

Current assets increased by $117.2 million to $404.4 million. This was driven by a $117.2 million rise in cash and cash equivalents, reflecting increased funding for SAPOL's relocation from the Thebarton Police Barracks and a $17.2 million increase in the Accrual Appropriation Excess Funds Account. Funds held in this account can be accessed with the Treasurer's approval in a financial year when cash requirements exceed the appropriation provided for the cost of items, including employee-related liabilities.

Non-current assets

Non-current assets increased by $220.5 million to $678.3 million, due mainly to increases in property, plant and equipment of $218.6 million and intangible assets of $2.3 million. The increase in property, plant and equipment is largely due to a $142.4 million upward revaluation of significant asset classes, capital work in progress additions of $87.1 million and right-of-use asset additions of $29.6 million, all partly offset by depreciation of $40.2 million. The upward revaluation comprised:

- land revalued up by $47.2 million (66%)
- buildings and improvements revalued up by $76.4 million (45.4%)
- accommodation and leasehold improvements revalued up by $12.8 million (55.3%)
- vehicles and aircraft revalued up by $6 million (103%).

Land was independently revalued using a market approach, with the increased value reflecting the significant growth in the property market since land was last revalued in 2019.

Buildings and improvements, and accommodation and leasehold improvements, were independently revalued using a cost approach given the specialised nature of most of SAPOL's buildings. These assets were last revalued in 2019, and this year's increased value reflects the higher cost of construction materials and labour since then.

Vehicles and aircraft were revalued using a market approach.

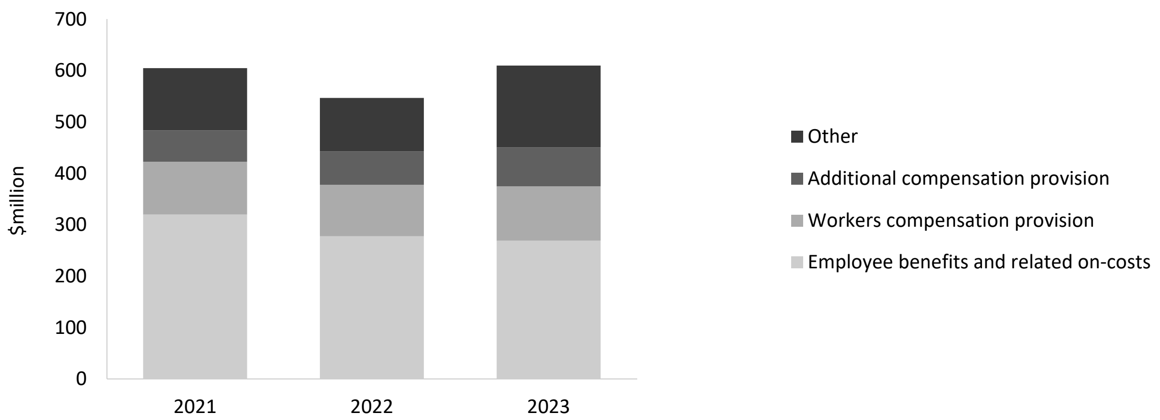
Capital work in progress asset additions reflected costs for constructing a new facility at Gepps Cross for the Mounted Operations and Dog Operations units, building fitouts for various sites, and construction of a new Road Safety Centre at West Beach.

In 2023-24 SAPOL entered into 12 new building leases (six for the Thebarton Police Barracks relocation), resulting in right-of-use building additions of $22.6 million. These right-of-use assets are initially measured at cost, largely comprising the initial measurement of the corresponding lease liability.

The $2.3 million increase in intangible assets largely reflects additions of $9.9 million for capital works in progress for Shield, offset by $7.6 million in amortisation expenses.

Liabilities

The significance of employee-related liabilities to total liabilities for the four years to 2024 is shown in the following chart.



Total liabilities increased by $81.2 million (13.3%) to $692.1 million, largely due to:

- a $48.2 million increase in creditors
- a $19 million increase in lease liabilities
- an $11.8 million increase in employee benefits liabilities and related on-costs
- an $8.8 million increase in the additional compensation provision
- offset by a $7.7 million decrease in other liabilities.

Payables

Payables increased by $48.2 million, due mainly to accruals for capital works in progress of $47.7 million, mostly for the Thebarton Police Barracks relocation project.

Lease liabilities

The $19 million increase in lease liabilities is mainly due to the 12 new building leases, with six resulting from the Thebarton Police Barracks relocation project.

Employee benefits liabilities and related on-costs

The $11.8 million increase in employee benefits liabilities is mainly driven by:

- a $10.2 million increase in the long service leave liability, largely due to changes in actuarial assumptions used in its remeasurement, which resulted in a net increase of $9.4 million
- a $2.8 million increase in annual leave liability, due to increases in salaries and leave balances
- a $3.6 million increase in employment on-costs, largely due to increases in the long service leave and annual leave liabilities and superannuation guarantee rates
- a $3 million decrease in accrued salaries and wages due to the timing of the final payroll for the year
- a $1.7 million decrease in police service leave, with employees taking more leave during the year.

Additional compensation provision

The additional compensation provision rose to $84.6 million, reflecting an $8.8 million increase from the consulting actuary's remeasurement that was due to a 43% increase in the number of open claims (from 65 to 93). 65% of the scheme liability relates to income support payments with a projected salary increase rate of 4.5% applied, resulting in an increase in the additional compensation provision.

The additional compensation provision provides continuing benefits to workers who have suffered eligible work-related injuries and whose entitlements have ceased under the statutory workers compensation scheme. The movement in this provision is impacted by the limited claims history and the evolving interpretation of eligibility criteria and evidence required.

Other liabilities

Other liabilities decreased by $7.7 million, mainly due to the realisation of a $5.9 million lease incentive.

Administered items

Expiation fees – $76 million collected

SAPOL collects expiation fees on behalf of the SA Government under the *Expiation of Offences Act 1996*. It treats this revenue as an administered item and pays it to the Consolidated Account.

Expiation fees collected increased marginally to $76 million, due to a 0.9% increase in expiation fees that was partly offset by a reduction in expiation notices issued due to changes in driver behaviour.

The initial phase of the new mobile phone detection cameras was operational at 19 June 2024. A three-month grace period to 19 September 2024 was implemented, during which drivers will be issued with a warning of the offence with no expiation notice. When the grace period ends, drivers will be issued with a $556 fine plus a $102 Victims of Crime (VOC) levy and three demerit points for a detected mobile phone offence. Expiation revenue is expected to increase in 2024-25 as a result of the new mobile phone detection cameras.

Victims of Crime levy – $15.9 million collected

The VOC levy provides compensation to people who suffer injury as a result of criminal acts under the *Victims of Crime Act 2001.* SAPOL collects the levy from offenders through the expiation of offences included on expiation notices issued by police and other authorised officers. It collects this money and remits it to a special interest-bearing deposit account managed by the Attorney-General's Department.

VOC levy income received and paid to the Attorney-General's Department increased marginally to $15.9 million in 2023-24.

Further commentary on operations

Thebarton Police Barracks relocation

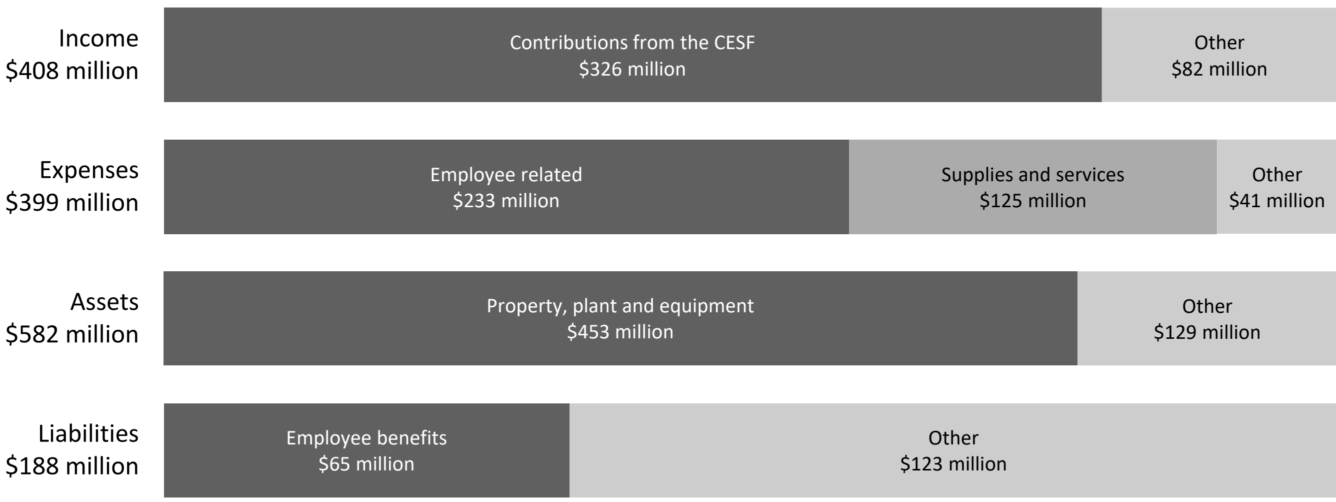
In September 2022 the SA Government announced that the new Women's and Children's Hospital would be built on the Thebarton Police Barracks site. The total budget for the project to relocate from this site is $164.5 million and includes the following key funding requirements:

- relocation of the Mounted Operations and Dog Operations units to Gepps Cross
- building fitout works for Blackburn House
- construction of a city staging site for the Mounted Operations unit
- accommodation and associated costs for other SAPOL units currently located at Thebarton
- construction of a new road safety centre at West Beach.

Capital works are mainly managed by the Department for Infrastructure and Transport, with $60.8 million allocated to capital work in progress at 30 June 2024. Work is expected to be completed in early 2024-25 to allow SAPOL to fully vacate the Thebarton Police Barracks by September 2024. SAPOL entered into six new operating leases for the relocation in 2023-24, with terms ranging from two to 10 years.

South Australian Fire and Emergency Services Commission (SAFECOM)

Financial statistics



1,396
FTEs

14,789
Volunteers

Administered items

Significant events and transactions

- The Emergency Services Sector (ESS) established an ICT strategic plan that provides a five-year investment roadmap for ICT resources and governance across the sector.
- ESS land was revalued.

Financial report opinion

Modified

The ESS did not have an effective process to meet the disclosure requirements of Treasurer's Instructions (Accounting Policy Statements) for reporting the value of procurement with South Australian and non-South Australian businesses for 2023-24. This is discussed in Part A of this report.

Controls opinion findings	No significant findings.
Other audit findings	— The frequency of presenting protective clothing for industrial cleaning still needs to improve. — There are contractual non-compliance weaknesses for the industrial laundry and maintenance services contract. — The ESS network management contractual relationship could be strengthened.

Functional responsibility

SAFECOM is established by the *Fire and Emergency Services Act 2005*, which also defines the ESS as:

- SAFECOM
- South Australian Country Fire Service (SACFS)
- South Australian Metropolitan Fire Service (SAMFS)
- South Australian State Emergency Service (SASES).

SAFECOM's legislative functions include the development of strategic and policy frameworks, review and consultation roles, and corporate governance across the ESS. SAFECOM also provides for the effective allocation of ESS resources and has a strategic leadership role in statewide emergency management.

SAFECOM administers the Community Emergency Services Fund (CESF), which is the main source of funding for the ESS.

Scope of the audit

Audit of the financial report

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

- revenue
- payroll and workforce management
- supplies and services expenditure
- property, plant and equipment
- asset management
- contract and procurement activities
- general IT controls
- cash and cash equivalents.

We reviewed internal audit activities in planning and conducting our audit. We did not place any reliance on the work performed by internal audit.

Controls opinion

We reviewed controls over bank accounts as part of our overall controls opinion, which is discussed in Part B of this report.

Audit findings

Communicating our audit findings

We communicated our audit findings in management letters to the SAFECOM Chief Executive and the SACFS, SAMFS and SASES Chief Officers. The main findings and responses are discussed below.

Controls opinion findings

There were no significant findings from our controls opinion work at SAFECOM.

Other audit findings

Frequency of presenting protective clothing for industrial cleaning still needs to improve

Last year we reported that SACFS personal protective clothing (PPC) industrial cleaning frequency levels were low. These cleaning services, which are supported by a contract, are critical to firefighter safety as they involve the decontamination of carcinogens and other contaminants from PPC and uniforms. In 2023-24, while the SACFS had taken or planned some measures to address the legacy challenges impacting PPC cleaning, compliance levels were still low.

The SACFS responded that it will continue to encourage volunteers to comply with PPC decontamination requirements.

Contractual non-compliance weaknesses for the industrial laundry and maintenance services contract

Last year we identified several industrial cleaning and maintenance contractual clauses for which no compliance evidence was provided. In 2023-24 we reviewed contract management effectiveness for a sample of contractual clauses. We found similar non-compliance instances again, including the failure to:

- confirm various supplier standard and performance requirements
- confirm police clearances for pick-up and delivery drivers
- confirm various supplier quality management practices
- consistently evidence that quarterly contract management meetings occur.

Not overseeing compliance with contractual obligations can result in the ineffective delivery of goods and services.

The ESS responded that it will assign contractual management ownership to one of its employees, and that regular contract management meetings will occur in future.

The ESS network management contractual relationship must be strengthened

SAFECOM is subject to a whole-of-government purchasing agreement for local and central data network management services. The agreement allows for supplier meetings to occur, where the review of service reports and service level compliance assessments can be tabled and discussed.

Last year we found that formal contractual management meetings had not occurred since the agreement started in October 2014. In 2023-24 we found that the meetings have still not commenced.

Where no formal contractual monitoring occurs, the ability to reduce contract risk, improve performance efficiency and identify and penalise contractual failures can be adversely impacted.

SAFECOM responded that monthly contractual management meetings have now commenced.

Asset management findings

Asset management practices could improve

Emergency services organisations (ESOs) are responsible for developing strategic asset management plans and asset management plans. Since 2021-22 we have been reporting that these plans have not been developed across the ESS, or that they are only partially developed. In 2023-24 we found that limited progress had been made to finalise the plans, with multiple ESO plans either in draft or unscoped.

Where asset management plans are not fully established, there is an increased risk that assets many not be managed in the most cost-effective or appropriate way.

The ESS responded that it has started to finalise its asset management documentation.

Maintenance scheduling matrices not used

SAMFS procedures require Site Commanders to develop testing and servicing schedules for their site's plant and equipment. Maintenance scheduling matrices have been developed to support sites, and are designed to ensure required testing is carried out and recorded. We sampled several SAMFS sites to understand if these matrices were operating as intended. However, as has been the case since 2021-22, no matrices were being used.

Without the required maintenance schedule matrices in place, testing of plant, equipment and appliances may not occur as required.

The SAMFS responded that it has started to update and improve its maintenance schedule matrices documentation.

Appliance and equipment inspection reporting anomalies

SAMFS procedures state that all appliance and equipment inspection outcomes must be documented. Consistent with the last two years, we sampled SAMFS sites to assess their compliance with these reporting requirements. Across the sites we found a deterioration in compliance from last year, with either:

- no evidence of inspection reporting available because of missing or unreturned documentation, or
- inspection reports being partially completed, unauthorised or lacking evidence of any review.

Where records evidencing inspection performance are absent or incomplete, the risk that assets are not being inspected as often as required rises. This increases the risk of equipment failure or other breakdown events.

The SAMFS responded that it has started to update and improve its asset inspection and reporting documentation.

Inconsistent validation of service provider qualifications

SACFS asset servicing guidelines require maintenance service providers to provide evidence of their National Heavy Vehicle Regulations (NHVR) qualifications. Last year we found that some regions validated these qualifications, but others had no evidence of doing this. In 2023-24 we sampled several regions and found that only one had confirmed NHVR qualifications.

Not validating NHVR qualifications increases the risk of maintenance not being performed to a satisfactory standard. This may endanger volunteer and staff safety, reduce emergency response capability, and increase the cost of corrective maintenance.

The SACFS responded that it will address this issue through improved procurement and contract management review processes.

Vehicles and vessels not serviced

SASES asset servicing guidelines state that all SASES fleet assets must be serviced by 31 December each year. Last year we identified significant numbers of unserviced fleet assets. Our 2023-24 follow-up found that:

- 113 fleet assets had no record of ever being serviced
- from 1 July 2023 to 15 May 2024, 270 (52%) fleet assets were unserviced.

Where vehicles and vessels are not serviced in line with established guidelines, the risk of asset failure increases. This may endanger volunteer and staff safety, reduce emergency response capability and increase the cost of corrective maintenance.

The SASES responded that it has comprehensively reviewed its servicing guidelines. This has resulted in the recent implementation of new vehicle supplier information worksheets.

Vehicles and vessels not serviced in line with the guideline

Last year we reported that some SASES fleet assets did not have the completed Inspection and Service Report required by the SASES guideline. In 2023-24 we examined fleet asset servicing data for the period July 2023 to April 2024 and found that only 40% of SASES fleet assets were serviced.

Where vehicles and vessels are not serviced in line with established guidelines the risk of asset failure increases. This may endanger volunteer and staff safety, reduce emergency response capability and increase the cost of corrective maintenance.

The SASES responded that it has reviewed and updated its guideline to better support vehicle servicing practices.

Interpretation and analysis of the financial report

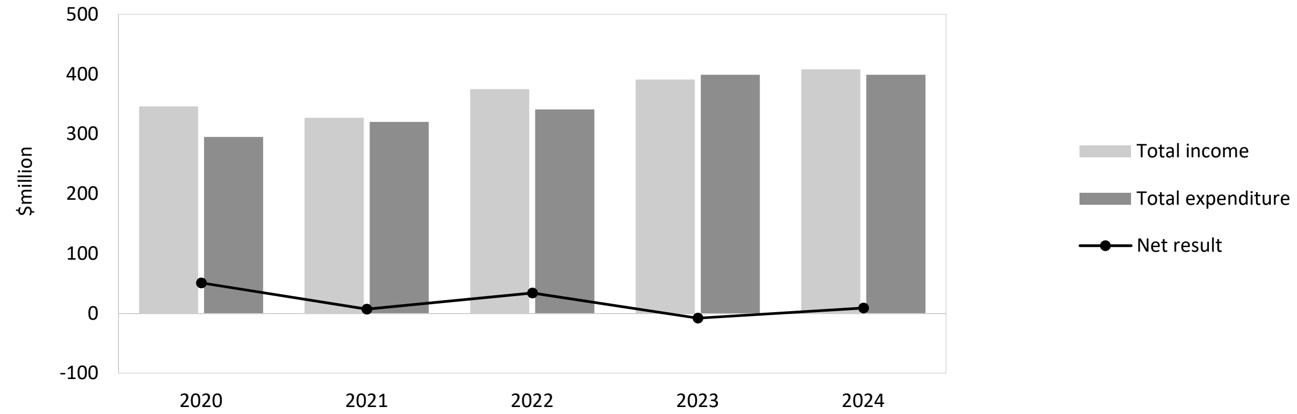
Highlights of the financial report – consolidated emergency services sector

	2024 $million	2023 $million
Income		
Contributions from the CESF	326	316
Other income	82	75
Total income	408	391
Expenses		
Employee related	233	233
Supplies and services	125	134
Depreciation and amortisation	26	26
Other expenses	15	6
Total expenses	399	399
Net result	9	(8)
Other comprehensive income	38	-
Total comprehensive result	47	(8)
Net cash provided by (used in) operating activities	55	37
Net cash provided by (used in) investing activities	(40)	(31)
Assets		
Current assets	61	52
Non-current assets	521	467
Total assets	582	519
Liabilities		
Current liabilities	65	54
Non-current liabilities	122	118
Total liabilities	187	172
Total equity	395	347

Statement of Comprehensive Income

Net result

The following chart shows the ESS's total income, total expenses and consolidated net result for the past five years. It shows that CESF contributions and other income, mainly grants and contributions, have generally been sufficient to meet total expenses.



The $17 million net improvement in the 2023-24 net result was driven by increases in CESF contributions ($10 million) and grants and contributions ($15 million). Employee related expenses remained steady, supplies and services declined and grants and subsidies expenditure increased.

ESS net results are impacted by emergency situation activity levels. For example, last year the SASES received increased funding to combat the River Murray high flow event, which in turn resulted in higher expenditure.

Income

The ESS's main source of revenue is CESF contributions of $326 million ($316 million), which account for 80% (81%) of total income.

Total income increased by $17 million (4%) to $408 million mainly due to the rise in CESF contributions and grants and contributions explained above.

Expenses

Total expenses remained steady at $399 million.

Employee related expenses

Employee related expenses of $233 million represent 58% (58%) of total expenses.

Supplies and services expenses

ESS supplies and services decreased by $9 million to $125 million. While the SACFS ($10.8 million) and the SAMFS ($2.7 million) saw rises, mainly for increased aerial support (SACFS) and consultancy, contractor and uniform costs (SAMFS), SAFECOM and the SASES saw declines of $9.4 million and $13.2 million, respectively:

- Last year the SASES received additional CESF and Governor's appropriation funding of $14.2 million to meet costs specifically associated with the River Murray flood event. In 2023-24 these same costs were not incurred.
- Last year SAFECOM incurred $10 million in operational and consultancy, contractor and legal costs. This related to the rollout of audio-visual equipment, and support costs associated with the Rapid Antigen Test program.

Statement of Financial Position

Assets

Property, plant and equipment (including capital work in progress) increased by $31.6 million (7.5%) to $453.2 million and represent 77.8% of total assets. The main asset classes held are land ($115 million), buildings ($139.3 million) and vehicles ($169.5 million). The main drivers of movements in 2023-24 were:

- an internally determined revaluation of ESS land, with an increment of $38.4 million processed across the sector
- property, plant and equipment transfers from capital works in progress of $19.3 million, comprising mainly buildings ($5.9 million) and vehicles ($12.9 million). Material asset transfers included:
  - SACFS – vehicles (appliances) of $5.2 million – mainly urban pumpers and rural appliances
  - SAMFS – vehicles (appliances) of $7.7 million, mainly for Heavy Urban Pumper appliances
  - SASES – land and buildings of $5.3 million, for the completion of the Noarlunga Unit Station.

  These increases were offset by depreciation charges of $25.4 million
- capital works in progress increasing by $22.3 million, due to significant vehicle appliance capital spend projects across the ESS.

Liabilities

Total liabilities increased by $15 million (8.7%) to $187 million. Current liabilities of $65.3 million exceeded current assets of $61.4 million at balance date.

Cash and cash equivalents of $51.2 million were sufficient to meet current payables of $14.7 million.

Statement of Cash Flows

Net cash provided by operating activities was $55 million. The following table summarises the consolidated sector's net cash flows for the five years to 2024.

	2020 $million	2021 $million	2022 $million	2023 $million	2024 $million
Net cash flows					
Operating	35	35	42	37	55
Investing	(30)	(30)	(45)	(31)	(40)
Financing	(2)	(2)	(2)	(2)	(2)
Change in cash	3	3	(5)	4	13
Cash at 30 June	37	40	35	39	52

Highlights of the financial report – SAFECOM

	2024 $million	2023 $million
Income		
Contributions from the CESF	19	20
Other income	29	18
Total income	48	38

	2024 $million	2023 $million
Expenses		
Employee related	11	11
Supplies and services	10	20
Other expenses	13	4
Total expenses	34	35
Net result	14	3
Total comprehensive result	14	3
Net cash provided by (used in) operating activities	17	11
Assets		
Current assets	36	22
Non-current assets	13	13
Total assets	49	35
Liabilities		
Current liabilities	6	5
Non-current liabilities	12	13
Total liabilities	18	18
Total equity	31	17

Statement of Comprehensive Income

Income

SAFECOM's main funding source was CESF contributions of $19.3 million ($20.1 million), which accounted for 40% of its revenues.

Grants and contributions revenue increased by $15.6 million (177%) due to current year funding from the Commonwealth's Disaster Ready Fund. This funding is aimed at improving disaster resilience.

Expenses

Supplies and services expenses decreased by $9.4 million to $10.2 million in 2023-24. Last year SAFECOM incurred $10 million in operational and consultancy, contractor and legal costs associated with the rollout of audio-visual equipment and Rapid Antigen Test program support costs.

Highlights of the financial report – administered items

	2024 $million	2023 $million
Income		
Revenues from levy sources	381	365
Other revenues	5	4
Total income	386	369
Expenses		
Contributions to SA Government administrative units	367	357
Grants and subsidies	4	6
Other expenses	9	9
Total expenses	380	372
Net result and total comprehensive result	6	(3)

	2024 $million	2023 $million
Net cash provided by (used in) operating activities	4	(2)
Assets		
Current assets	23	19
Total assets	23	19
Liabilities		
Current liabilities	1	2
Total liabilities	1	2
Total equity	22	17

Community Emergency Services Fund

Levy contributions are provided by land owners (including state and local governments) for fixed and mobile property to fund the provision of emergency services. Levies are collected in line with the *Emergency Services Funding Act 1998*, and are set to cover the budgeted emergency services expenditure for the coming financial year.

The fixed property levy is collected by RevenueSA and applies to capital values, adjusted for location and land use. The mobile property levy is collected by the Department for Infrastructure and Transport (DIT) using the vehicle registration system. Once collected, these levies are paid into the CESF. Levy collection administration costs are met from the CESF.

The SA Government provides CESF contributions through levy remissions (fixed and mobile property) and concession subsidy payments through the Department of Human Services.

Statement of Administered Comprehensive Income

For the year ended 30 June 2024 the CESF's net result was a surplus of $5.4 million.

Administered income

Emergency services levies increased by $16 million to $381 million (4.4%). The increases in levy revenue and changes in remissions over the past five years are shown in the table below.

	2020 $million	2021 $million	2022 $million	2023 $million	2024 $million
Fixed property collections	155	164	171	179	194
Fixed property remissions*	119	119	129	128	128
Mobile collections	45	47	48	49	49
Mobile remissions*	4	3	3	3	7
Government concessions	6	6	6	6	3
Total	329	339	357	365	381

* Remissions are provided by the SA Government.

Administered expenses

The following table shows the contributions made by the CESF to SA Government entities over the past five years.

	2020 $million	2021 $million	2022 $million	2023 $million	2024 $million
SAMFS	152	164	163	168	178
SACFS	113	88	93	93	102
South Australia Police	23	23	24	24	25
SASES	23	23	23	34	26
SAFECOM	14	18	20	20	19
Other SA Government entities	10	9	16	18	17
Total	335	325	339	357	367

Contributions paid increased by $32 million or 9.5% over the five years.

Other expenses included $7.3 million paid to RevenueSA under the *Emergency Services Funding Act 1998* for administering the collection of fixed property levies. DIT was paid $1 million for collecting the mobile property levies.

Statement of Administered Financial Position

CESF net assets at 30 June 2024 increased by $5.4 million to $21.8 million ($16.4 million). This is explained by the movements in income and expense items described above.

CESF current assets at 30 June 2024 totalled $23.2 million ($18.6 million), and mainly comprised cash and cash equivalents of $21.5 million.

Further commentary on operations

Staffing

SAFECOM and the ESOs employed the following FTEs at 30 June for the past two years.

	*2023 FTEs	*2024 FTEs
SAFECOM	81	92
SAMFS	1,036	1,044
SACFS	196	189
SASES	85	71
Total	1,398	1,396

* Staffing data is provided by the Office of the Commissioner for Public Sector Employment and is unaudited.

Volunteers

The SACFS and SASES had the following active volunteers at 30 June for the past two years.

	*2023 FTEs	*2024 FTEs
SACFS	13,450	13,122
SASES	1,745	1,667
Total	15,198	14,789

* Volunteer data was supplied by SAFECOM and is unaudited.

South Australian Government Financing Authority (SAFA)

Financial statistics

$4.3 million
Profit before income tax equivalents

7,286
Number of fleet vehicles (including held for sale)

Significant events and transactions	SAFA paid a $95.7 million dividend and $26.8 million in income tax equivalents in June 2024.
Financial report opinion	**Unmodified**
Controls opinion findings	SAFA's procedures manual had not been reviewed since June 2022.
Other audit findings	Some monthly reconciliations were not prepared and reviewed promptly.

Functional responsibility

SAFA, a body corporate, was established under the *Government Financing Authority Act 1982* (SAFA Act). It is the central borrowing authority for the State, and is responsible for managing most of the State's debt and implementing the SA Government's debt management policy as determined by the Treasurer. Under the SAFA Act, its liabilities are guaranteed by the Treasurer.

SAFA also administers the SA Government's:

- insurance and risk management arrangements through its insurance division
- passenger and light commercial vehicle fleet operations through its Fleet division.

Scope of the audit

Audit of the financial report

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

- cash
- financing
- treasury
- insurance
- general ledger
- data security contract management with external parties.

We reviewed internal audit activities to assess the risks of material misstatement in the financial report and to design and perform audit procedures. We considered the work of SAFA's internal auditors in planning and conducting the audit.

We specifically considered the work performed by SAFA's compliance unit and internal auditors for elements of our program, in particular:

- quarterly reporting by SAFA's compliance unit
- internal audit reviews of cyber security capabilities, the commercial and advisory loan framework, fleet cash flow, critical systems management and credit risk management.

Controls opinion

We reviewed controls over SAFA's borrowings, investments, outstanding claims liability, interest expense, guarantees and indemnities, reinsurance process and bank accounts as part of our overall controls opinion, which is discussed in Part B of this report.

Audit findings

Communicating our audit findings

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

Controls opinion findings

SAFA's procedures manual had not been reviewed since June 2022

SAFA has a comprehensive procedures manual listing actions required to maintain a strong control environment. The manual is required to be reviewed annually and approved by SAFA's Chief Executive Officer, but we found that it had not been reviewed since June 2022.

SAFA responded that it will perform a review of the procedures manual following completion of a structural review of its policy manual and expects that changes will be required. It will submit the updated procedures manual to the Chief Executive Officer for approval.

Other audit findings

Some monthly reconciliations were not prepared and reviewed promptly

We found that some of SAFA's monthly reconciliations were not prepared and/or reviewed promptly, including:

- monthly bank reconciliations for SAFA's vehicle leasing and disposal contractors
- claims payment monthly reconciliations
- fleet receivables monthly reconciliations
- leasing database monthly reconciliations.

SAFA responded that resource planning and filling vacant roles will ensure that reconciliations are performed and reviewed promptly.

Interpretation and analysis of the financial report

Highlights of the financial report*

	2024 $million	2023 $million
Interest revenue	2,201	1,638
Interest expense	(2,164)	(1,592)
Net interest revenue	37	46
Net gain (loss) on financial instruments and derivatives	55	62
Leasing and hire revenue	57	53
Insurance premium revenue	89	85
Recoveries	24	5
Other income (including net gain on sale of property, plant and equipment)	14	29
Vehicle operating costs (including depreciation and impairment)	(34)	(30)
Insurance claims	(223)	(181)
Other expenses	(13)	(27)
Profit (Loss) before income tax equivalents	4	41
Income tax equivalent expense	(3)	(13)
Profit (Loss) after income tax equivalents	2	29
Total comprehensive income	2	29
Assets		
Cash, short-term assets and investments	9,139	8,166
Loans	36,130	33,165
Derivatives receivable	125	143
Property, plant and equipment (including held for sale)	246	223
Other assets	252	119
Total assets	45,891	41,816
Liabilities		
Deposits and short-term borrowings	12,412	12,526
Bonds, notes and debentures	31,835	27,570
Outstanding claims	948	764
Derivatives payable	304	470
Payables and other liabilities	59	59
Total liabilities	45,558	41,389
Total equity	332	427

* Table may not add due to rounding.

Statement of Comprehensive Income

Interest revenue and expense

Interest revenue and expense are recognised on a market value accounting basis and accrued in line with the terms and conditions of the underlying financial instruments. Interest revenue increased by $563 million or 34%, while interest expense increased by $572 million or 36%. These increases were mainly due to higher interest rates in 2023-24. They were also impacted by the timing of maturities and settlements for financial instruments, including derivatives.

Net gain on financial instruments and derivatives

SAFA's 2023-24 operating result includes a net gain of $55 million on financial instruments and derivatives. This represents upward movements in the prices of the financial instruments and derivatives SAFA held, mostly as a result of changes in market rates.

SAFA's risk management approach is discussed further under 'Business risk management' below.

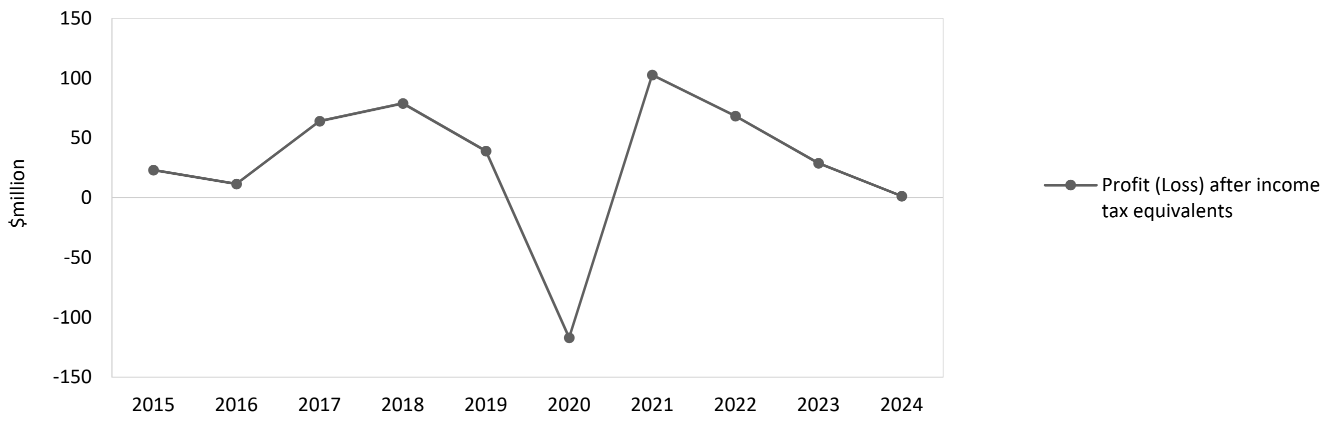
Leasing and hire revenue

Leasing and hire revenue reflects the fees charged to other government agencies for leasing fleet vehicles. It increased marginally to $57 million in 2023-24.

Profit (Loss)

SAFA's profit before income tax equivalents was $4.3 million. It is required to pay the Treasurer an income tax equivalent on its profit, calculated by applying a tax rate of 30% to its profit before tax. In performing this calculation, some items are excluded. Notably, the Treasurer has exempted all financial assistance program transactions from the tax equivalent regime. There was a net $5 million expense on the financial assistance program in 2023-24.

The 10-year trend in SAFA's profit or loss after income tax equivalent expense is shown in the following chart.



The chart highlights the volatility in SAFA's results.

SAFA's profit after income tax equivalents of $1.5 million in 2023-24 is primarily due to profits on its fleet activities of $16 million and treasury activities of $14 million, offset by a loss on its insurance activities of $29 million.

Insurance activity impact on profit (loss)

SAFA's insurance activities are separated into four funds. Its result after income tax equivalents is, in net terms, only affected by Fund 1 and Fund 4 results, as SAFA is indemnified by the Treasurer against any operating profit or loss arising from the activities of Funds 2 and 3.

Fund 2 is used to fund liabilities arising from insurable incidents that:

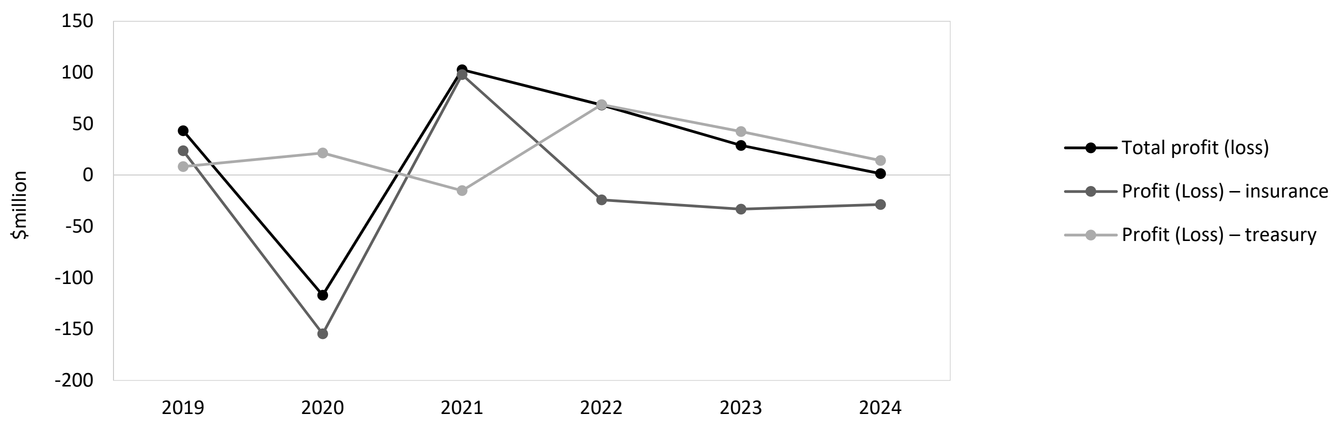
- occurred before 1 July 1994
- involve claims under the building warranty indemnity reinsurance arrangements up to 30 June 2013
- involve the former State Government Insurance Commission residual claims and workers compensation claims previously managed by the former South Australian Asset Management Corporation
- are historical workers compensation and asbestos claims previously managed by other SA Government entities.

Fund 3 is used to fund liabilities arising from claims under the building indemnity insurance scheme effective from 1 July 2013.

Fund 4 is used to manage liabilities for the SA Government's participation in the National Redress Scheme for Institutional Child Sexual Abuse (see 'National Redress Scheme for Institutional Child Sexual Abuse' below).

All of SAFA's remaining insurance activities are funded through Fund 1.

The impact of SAFA's insurance activities on its profit or loss after income tax equivalent expense is shown in the following chart.



SAFA's insurance activities reported a 2023-24 loss after tax of $29 million (loss after tax of $33 million). The decrease in its insurance profit reflects:

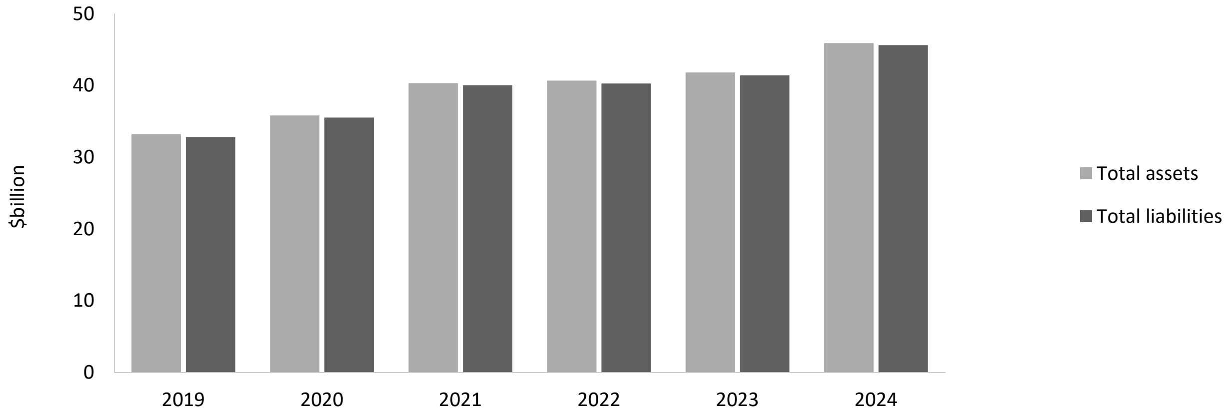
- a $28 million increase in income, due mainly to a $19.5 million increase in recoveries, a $3.7 million increase in premium revenue and a $2.5 million increase in net gains on insurance investments with the Superannuation Funds Management Corporation of South Australia (Funds SA)
- a $21 million increase in expenses, due mainly to a $42.4 million increase in insurance claim expenses, a $9.4 million increase in management fees/deferred acquisition costs and a $4 million increase in outwards reinsurance expenses, offset by a $36.9 million increase in the amount receivable under the indemnity from the Treasurer.

These changes highlight the inherent volatility of insurance activities and the impact on SAFA's financial performance.

Statement of Financial Position

Assets and liabilities

SAFA's total assets and liabilities for the six years to 2024 are shown in the following chart.



In 2020 and 2021 there were significant increases in SAFA's liabilities of $2.7 billion and $4.4 billion, respectively, with total assets rising by corresponding amounts. This was mainly the result of increases in loans to the Treasurer to meet funding requirements and to fund the Consolidated Account deficits for those years.

In 2024 there was a $4.17 billion increase in SAFA's liabilities, with total assets increasing by $4.08 billion.

The main increases in assets were:

- loans ($2.96 billion), mainly in loans to the Treasurer at cost of funds and loans to public non-financial corporations and public financial corporations
- cash and short-term assets ($779 million), mainly in short-term money market deposits
- investments ($194 million), mainly in bank and corporate securities, offset by decreases in semi-government and Commonwealth government securities.

The main increases in liabilities were:

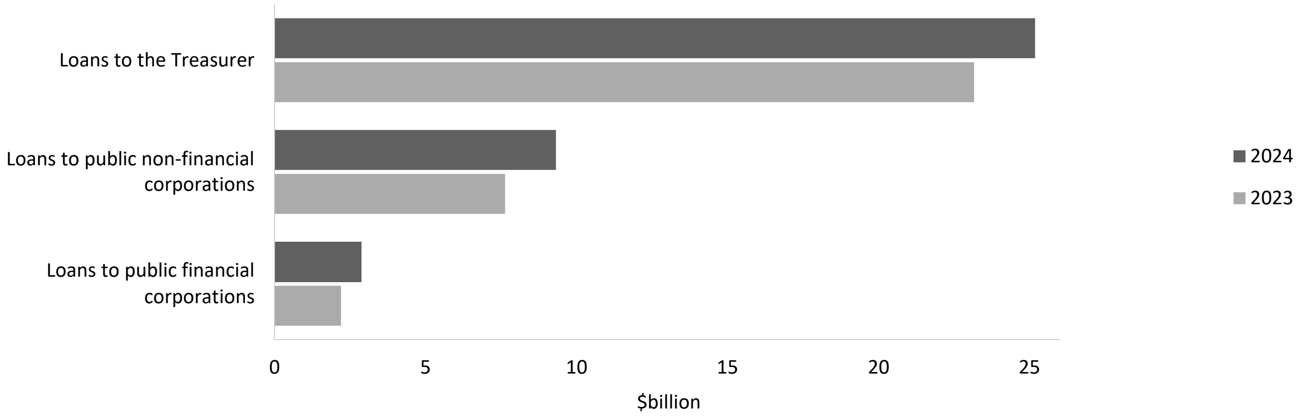
- bonds, notes and debentures ($4.27 billion)
- outstanding claims ($185 million)
- offset by a decrease in derivatives payable ($166 million) and deposits and short-term borrowings ($114 million).

Loans to government agencies

Total assets include loans of $36.1 billion, comprising SAFA's loans to the Treasurer to fund accumulated Consolidated Account deficits and loans to other public authorities.

At 30 June 2024 SAFA's loans to the Treasurer totalled $25 billion, an increase of $1.82 billion since 30 June 2023. The Treasurer also had funds on deposit with SAFA totalling $9.3 billion ($9.3 billion) at 30 June 2024.

The chart below shows SAFA's current and prior year government sector loan composition.



There was a current year increase in loans to the Treasurer of $1.82 billion, while loans to public non-financial corporations increased by $564 million and loans to public financial corporations increased by $664 million. The increase in loans to the Treasurer is the result of funding for the $1.8 billion deficit in the Consolidated Account for 2023-24, offset by market value movements.

The main loans to public non-financial corporations were to the South Australian Water Corporation (SA Water), the Urban Renewal Authority and the Adelaide Venue Management Corporation.

Capital and distributions

At 30 June 2024, SAFA's capital reserves were represented by its retained earnings, which stood at $332 million ($427 million). A $95.7 million ($1.8 million) dividend distribution was made to the Treasurer in 2023-24 under the SAFA Act, which states that any surplus of funds remaining after SAFA's costs have been met in any financial year must be paid into the general revenue of the State or otherwise dealt with as the Treasurer determines.

The $95.7 million payment in 2023-24 comprised a $62.1 million final payment of dividends for 2022-23 and a $33.6 million interim payment for 2023-24.

Further commentary on operations

SAFA Advisory Board

The SAFA Act provides that SAFA is constituted of the Under Treasurer and establishes the South Australian Government Financing Advisory Board (Advisory Board). The Advisory Board comprises up to seven members, one of whom is the Under Treasurer who is also the Presiding Member.

The SAFA Act allows the Under Treasurer to request and consider advice from the Advisory Board. The Advisory Board can provide advice to the Treasurer or SAFA, as it sees fit. SAFA's annual report must include details of any advice from the Advisory Board that the Treasurer or SAFA has decided not to follow and the reason for that decision. There were no instances of advice from the Advisory Board not being followed in 2023-24.

Business risk management

Operational risk management

SAFA has a number of mechanisms to manage its operational risks, including:

- an annual risk assessment facilitated by the contracted internal auditors addressing changes to SAFA's operating environment and the financial markets it transacts with. This assessment is used to determine the scope of the internal audit program
- a policy manual that details parameters within which SAFA pursues its core objectives, including dealings with financial markets, reporting requirements and managing assets and liabilities. This manual is reviewed annually and subject to the Treasurer's approval
- a central procedures manual that provides a high-level summary of the actions that SAFA expects to be maintained within its treasury, insurance, fleet, commercial advisory and risk and operational support units. This manual is also subject to annual review
- the compliance unit performing daily, weekly, monthly and quarterly reviews to ensure compliance with policy requirements. The unit's work is reviewed and tested by SAFA's contracted internal auditor
- a Risk and Performance Committee comprising three independent members appointed by the Under Treasurer.

SAFA's treasury portfolio structure

To help manage its treasury function and associated risks, SAFA separates the assets and liabilities on its balance sheet into distinct portfolios. The portfolio structure and related procedures contribute to transparency of operations, risk identification and management, and performance measurement and reporting.

SAFA's portfolio structure consists of:

- its principal portfolios
- the Treasurer's cost of funds portfolio
- client asset/liability management portfolios.

SAFA's principal portfolios

SAFA maintains the following principal portfolios:

- funding
- liquidity
- foreign exchange hedging service.

The funding portfolio contains all of SAFA's term loans to clients, around $11.6 billion in assets. Its major function is to provide funding to clients on a defined maturity and rate basis.

The liquidity portfolio contains:

- all of SAFA's liquid assets and the funding that supports them
- deposits of excess cash from clients
- transactions relating to the cash loan to the Treasurer
- the Treasurer's deposit with SAFA.

The liquidity portfolio holds liabilities, assets and hedging instruments (including derivatives). It is run on the basis that mismatches between assets and liabilities are managed within risk parameters, with assets of $17 billion at 30 June 2024. These parameters are managed on a daily basis within the guidelines stipulated in SAFA's policy manual.

The foreign exchange hedging service portfolio covers all transactions for the service SAFA provides to public sector clients relating to the hedging of foreign currency exposures, mainly associated with purchases and sales of goods and services. The portfolio had a net asset position of $14,000 at 30 June 2024.

Any profits or losses from the operations of the principal portfolios are recorded in SAFA's Statement of Comprehensive Income.

Treasurer's cost of funds portfolio

The Treasurer's primary portfolio is the cost of funds portfolio. It contains liabilities and assets managed against a benchmark duration range. The main management task for this portfolio is to minimise interest rate risk relative to the policy benchmark range set by the Treasurer. The portfolio's net expenses are borne by the Treasurer.

There are transactions in the Treasurer's cost of funds portfolio that are not measured and reported against the benchmark range, such as Royal Adelaide Hospital transactions out to 2033 where the interest rate exposure is managed by fixing the interest rate for a defined term.

Client asset/liability management portfolios

The client asset/liability management portfolios are not recorded on SAFA's Statement of Financial Position and only impact its profit and loss through fee income received. This includes SA Water's Financial Bureau Services Agreement.

SA Water manages its own debt. SAFA's role is to develop and document, in conjunction with SA Water and within strict policy guidelines, a risk management strategy for SA Water's exposures. The strategy must have regard to the likely impact of interest rate exposures on SA Water's results, an assessment of SA Water's ability to carry interest rate risk and SA Water's regulatory framework.

The Treasurer also makes loans directly to government entities and other bodies, including loans by the Treasurer to government departments and statutory authorities. SAFA administers these loans on behalf of the Treasurer.

General market risk management

SAFA is the State's central borrowing authority and manages most of the State's debt. It lends funds raised from financial markets to a number of South Australian public sector clients, including the Treasurer who borrows on behalf of public sector agencies to support their operational requirements.

SAFA's risk appetite statement indicates that it performs its treasury, insurance, fleet and commercial advisory functions to protect the interests of its owners and clients, and to protect its reputation as a provider of services consistent with its strategic direction.

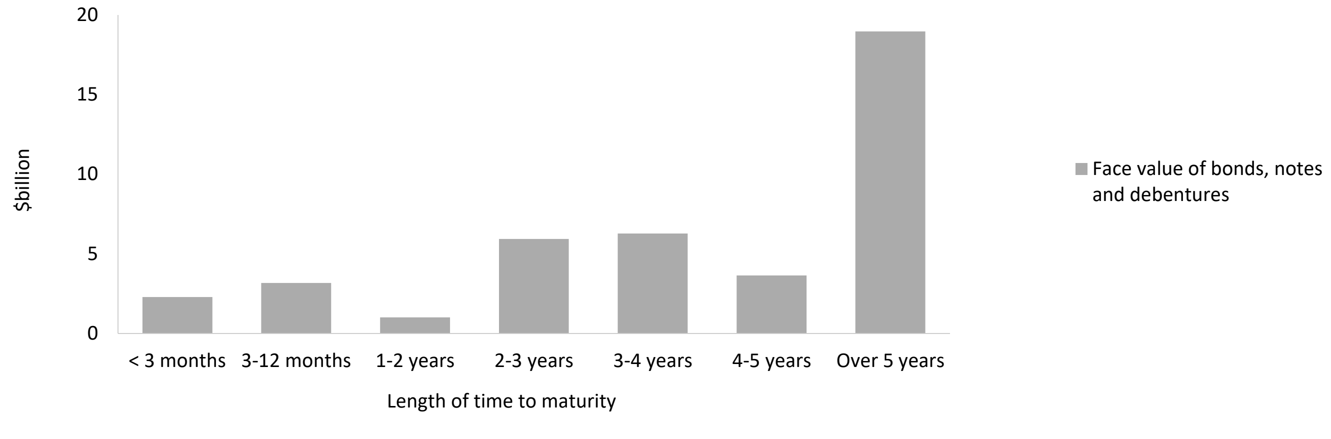
SAFA has a structured approach to risk management. It performs its treasury and commercial advisory functions with a moderate risk appetite and its insurance and fleet functions with a low risk appetite. A moderate risk appetite approach for SAFA means that it is prepared to accept exposure to risk within pre-defined limits or parameters.

Funding risk management

SAFA raises funds from domestic and international financial markets to support the SA Government's budgetary funding requirements.

Funding risk refers to the prospect of SAFA either being unable to raise funds when required, or only being able to raise funds at a higher cost. Accordingly, SAFA's objective for funding risk is to ensure that it is not exposed to a significant refinancing or funding risk within any financial year. Guidelines for funding risk are set by the Under Treasurer.

A maturity profile of the undiscounted principal and interest repayment amounts for SAFA's bonds, notes and debentures as at 30 June 2024 is presented in the following chart. Bonds, notes and debentures include SAFA's core funding issue of select lines and floating rate notes.



The chart shows SAFA's principal and interest repayments varying each year for the next four years. From 2030, SAFA will have $19 billion of principal and interest repayments.

The chart does not include expectations for the SA Government's early refinancing or future financing requirements.

Catastrophe reinsurance program

The SA Government is fundamentally a self-insurer. However, to protect the State's finances against a very large loss or claim, or a series of large losses or claims in a year, a commercial catastrophe reinsurance program is placed in the international insurance market. The reinsurance program is renewed annually and then approved by the Treasurer after consideration by the Advisory Board.

The structure of SAFA's catastrophe reinsurance program for 2023-24 is shown in the following diagram.

* Full insurance placement could not be completed at acceptable/affordable terms for this insurance class.
** Other than damage to aircraft which is $20,000.
*** Includes property.

SAFA's catastrophe reinsurance premium expense for 2023-24 was $22.5 million ($18.5 million), an increase of 22%. The increase is mainly due to rising property reinsurance costs, driven by an uplift in the declared values of government-owned assets and continued challenges in the global reinsurance market from catastrophic natural events. The impact of higher reinsurance costs incurred by underwriters participating in SAFA's property insurance program also contributed to the higher premium rates.

New markets were engaged on the professional indemnity insurance program, which enabled SAFA to secure uninterrupted cover up to $250 million. This is an improved position on prior years in which SAFA could not fully insure all layers of the program.

SAFA reviews its coverage levels annually. While various factors influence its final choice of cover, key drivers in this evaluation are the market's willingness to accept risk for SAFA's preferred coverage, and SAFA's internal value-for-money assessments of the prevailing insurance market.

School loans scheme

In the 2016-17 State Budget the SA Government established a $250 million low-interest loan scheme to help non-government schools upgrade their infrastructure and facilities. Loans of between $500,000 and $10 million per school were made available over five years, with loan terms up to 15 years. All non-government schools were eligible to apply and access was granted based on highest need, taking into account a school's socioeconomic status score. Priority was given to projects that invest in science, technology, engineering and maths, as well as early years facilities.

Since the scheme's inception there have been six funding rounds. The first loan was drawn down under the scheme in February 2017.

Total funds advanced to non-government schools at 30 June 2024 were $113.8 million, and $35.4 million had been paid back.

The total value of approved school loans at 30 June 2024 was $115.4 million, with $1.6 million undrawn and no longer available for draw down.

In the 2020-21 State Budget the SA Government announced a new $320 million low-interest loan scheme to help non-government schools upgrade their existing facilities, including early learning centres co-located on a school site. SAFA is administering the new scheme, although loans under the scheme are reported in the Department of Treasury and Finance's administered items financial statements, not SAFA's. For commentary on the new scheme see the section of this report titled 'Department of Treasury and Finance'.

SA Venture Capital Fund

In June 2017 Cabinet approved the establishment of the $50 million SA Venture Capital Fund as a notional fund in SAFA's Statement of Financial Position. The objective of the Fund is to help early-stage South Australian companies attract private sources of co-investment from national and international investors. It has been managed by Artesian Venture Partners since March 2020.

Investments from the Fund are required to meet a range of criteria, including requirements for assets and staff to be located in South Australia within 12 months of the initial investment date.

In 2023-24 there was one new investment and further investment in one company that had previously received investment, totalling $3.2 million.

As at 30 June 2024, investments in 11 companies had been made from the Fund totalling $30.3 million.

National Redress Scheme for Institutional Child Sexual Abuse

In May 2018 the SA Government approved South Australia's participation in the National Redress Scheme for Institutional Child Sexual Abuse and for SAFA to administer all payments associated with this. In June 2018 the Premier signed an Intergovernmental Agreement confirming South Australia's participation.

The start date for the Scheme was 1 February 2019 and it will accept applications until 30 June 2027.

The Treasurer approved the transfer of $146.4 million from the Victims of Crime Fund to SAFA in June 2018 to meet the anticipated cost of paying claims made under the Scheme. A further $25 million was approved and transferred in June 2023 to reflect the increasing estimated costs. Any funds not paid under the Scheme will be returned to the Victims of Crime Fund on the closure of the Scheme.

The Scheme is administered through a separate fund, Fund 4. Its outstanding claims liability is calculated by an external actuary who considered:

- the number of applications for which the SA Government will have full or partial liability
- the average monetary payment for Scheme applications
- other relevant Scheme payments, including counselling, legal and administration costs
- the expected payment pattern and impact of discounting.

As at 30 June 2024, the outstanding claims liability for Fund 4 was $206.3 million ($174.1 million).

While the current estimate of claims is above the level of remaining funding provided to date, the estimate is subject to change because the Scheme is open until 2027. In September 2023 the Treasurer approved funding any future shortfalls for Fund 4 if and when they arise.

There were 2,171 (1,206) Scheme applications as at 30 June 2024.

In 2023-24 redress payments totalling $40.5 million ($21.8 million) were made to 389 (216) applicants.

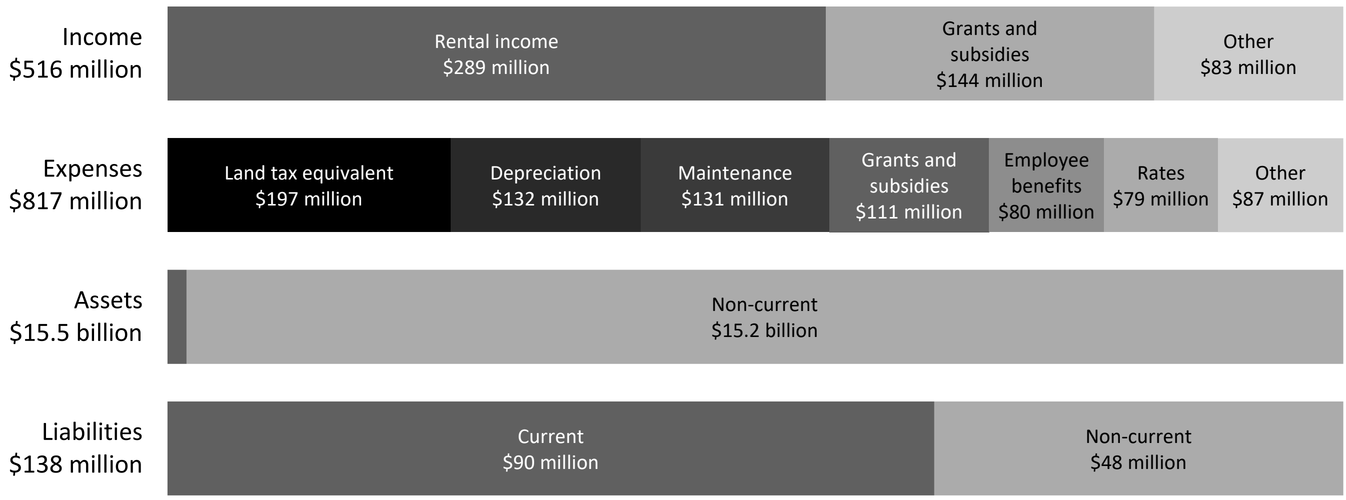
River Murray flood claims

SAFA received five River Murray flood claims from SA Government agencies in 2022-23. At 30 June 2024 two of these claims were closed. The other three open claims were still being assessed.

No payments have been made on any claims as at 30 June 2024.

South Australian Housing Trust (SAHT)

Financial statistics



787
FTEs

$9.9 billion
Value of rental properties

$300 million
Net deficit

Significant events and transactions

- Property, plant and equipment was revalued upward by $2 billion.
- Capital works in progress at Seaton and vacant land at Noarlunga totalling $21.6 million were transferred to the Urban Renewal Authority.
- The SAHT initiated a maintenance performance review.

Financial report opinion

Unmodified

Controls opinion findings

- Data was not matched with other SA Government agencies to detect undeclared occupants living in SAHT houses.
- Completeness checks were not performed on Valuer-General market rent data uploaded to the property and tenancy system.
- Project status reporting does not reflect the SAHT's approved Annual Investment Plan.
- Annual asset management performance reporting to the SAHT Board has not occurred.
- Contract closure assessments were not submitted promptly.

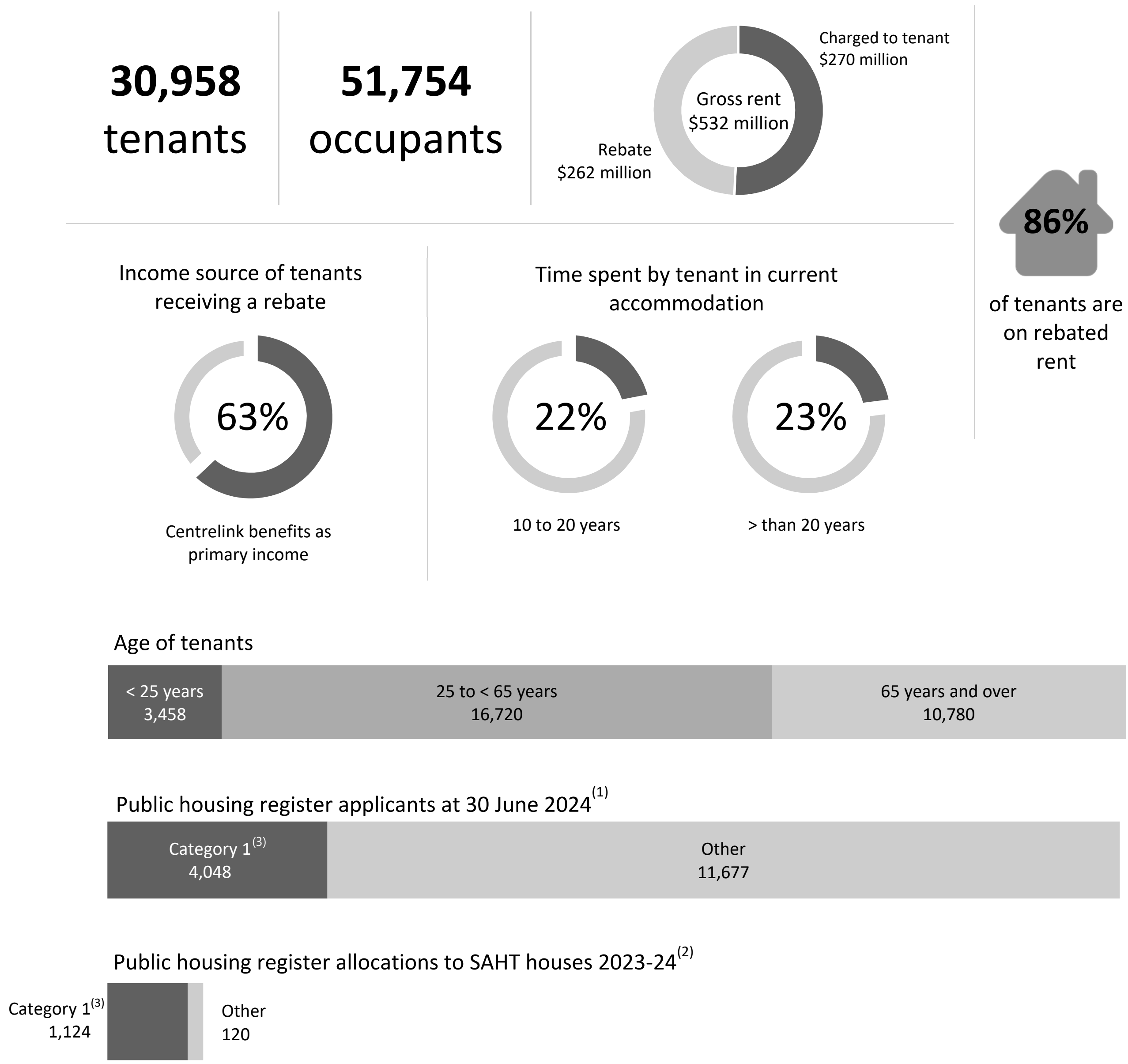
Functional responsibility

The SAHT is established by the *South Australian Housing Trust Act 1995* (SAHT Act). Its functions include:

- the construction, purchase, ownership and management of houses and units for tenant occupation
- managing SAHT tenancies and housing grant programs
- supporting the homelessness services sector to enable more integrated and responsive service provision.

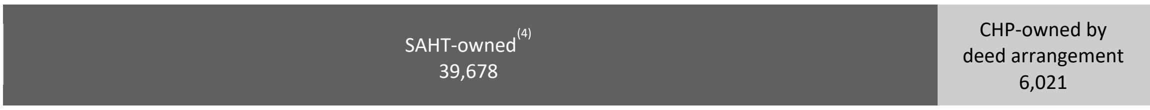
Snapshot of SAHT operations

The SAHT's public housing operations (excluding SAHT housing managed by community housing providers (CHPs)) are summarised below.

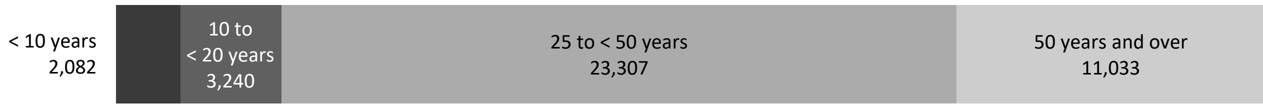


Property, plant and equipment
$15.1 billion

Number of SAHT and CHP rental properties



Age of SAHT-owned rental houses



(1) Excludes tenants requesting a transfer to another property.
(2) Excludes tenants transferring between properties.
(3) Category 1 applicants are people with urgent housing need and long-term barriers to accessing or maintaining private housing options.
(4) Includes unlettable properties and SAHT owned properties managed by either the SAHT or CHPs.

All data in this snapshot of the SAHT's operations was provided by the SAHT and is unaudited, except for the value of rental income, rebates and property, plant and equipment.

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 2024 included:

- revenue, including tenant rents and recoveries
- accounts payable
- payroll
- property expenses, including maintenance, land tax, council rates and water rates
- fixed assets, including rental properties, service concession assets and capital works
- house sales
- general ledger.

We reviewed internal audit activities to assess the risks of material misstatement in the financial report and to design and perform audit procedures.

Controls opinion

We reviewed controls over the following areas as part of our overall controls opinion, which is discussed in Part B of this report:

- rental income
- asset management including:
  - land
  - buildings and improvements
  - assets under arrangement and service concession assets
- the receipt, expenditure and investment of money through the SAHT Operating Account.

Audit findings

Communicating our audit findings

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

Controls opinion findings

Rental income

No data matching with other SA Government agencies to detect undeclared occupants living in SAHT houses

About 86% of tenants receive rent reductions totalling about $262 million a year. Rent reductions are provided based on an assessment of household income before tax, with no tenant required to pay more than 30% of their assessable income before tax.

The SAHT's calculation of the rent reduction depends on the household information supplied by the tenant, including the identity of all people living in the household and their income. There is a risk of undeclared household income and rent foregone, particularly when SAHT houses have two or more bedrooms more than the number needed by the household.

The SAHT visits households annually and may discover undeclared occupants living in its houses. In the past it has found it difficult to prove undeclared occupants based on these annual inspections.

The *Public Sector (Data Sharing) Act 2016* is designed to facilitate data sharing between public sector agencies. The Registrar of Motor Vehicles and the Electoral Commission of South Australia both hold data that would help the SAHT validate the identities of everyone living in its houses.

We noted, however, that the SAHT does not use data held by other SA Government agencies to help it identify undeclared occupants living in its houses. SA Government agencies can only release data in line with their governing legislation, so we recommended that the SAHT contact these agencies to trial the use of data matching to identify undeclared occupants.

The SAHT responded that this has previously been explored, however it will further investigate data matching with other SA Government agencies, and specifically with the Registrar of Motor Vehicles and the Electoral Commissioner, to identify undeclared occupants.

Completeness check is not performed on Valuer-General market rent data uploaded into the property and tenancy system

The SAHT is required to estimate the market rent for all properties to:

- estimate the value of rent rebates for financial reporting purposes
- charge full market rent to all tenants that can afford to pay it.

It uses the Valuer-General (VG) to estimate market rents.

We found that the SAHT does not have a control to ensure market rents it receives from the Valuer-General are accurately entered into its property and tenancy system. While the system creates an exception report, this only shows certain variances such as mismatched bedroom counts and properties sold or demolished.

The SAHT responded that it was noted that no erroneous rents were identified and it will develop a control to improve its processes in time for the 1 July 2024 market rent process.

Asset management

Project status reporting does not reflect the approved Annual Investment Plan

At the start of each financial year the SAHT Board approves an Annual Investment Plan that establishes outcomes, expenditure and revenue targets across its construction, maintenance, sales and partnership projects and programs. Progress against this plan is reported quarterly in a project status report to the SAHT's Project Assurance Group (PAG) and Board. The PAG provides governance, accountability and strategic oversight of the SAHT's capital programs and project delivery.

We reviewed a sample of project status reports to ensure the 2023-24 targets in them aligned with the approved Annual Investment Plan. Our review of the reports for the Public Housing Improvement Program (PHIP) and Affordable Housing Initiative (AHI), presented to the PAG in November 2023, found that:

- the 2023-24 project starts and forecast completion targets in the PHIP report did not align with the Annual Investment Plan
- there was no progress reporting against the project starts target
- there was no reporting against the PHIP expenditure target and AHI revenue targets set in the Annual Investment Plan.

The SAHT also advised us that there is no process to record, authorise and communicate changes to the outcomes and financial targets in the Annual Investment Plan made during the year.

The SAHT responded that it will review its project status reports to ensure they align with the Annual Investment Plan.

Annual Asset Management Strategy and interim Regional Asset Management Plan performance reporting to the SAHT Board has not occurred

We found that annual performance reporting on the Asset Management Strategy and interim Regional Asset Management Plan (RAMP) to the SAHT Board has not occurred since the start of the SAHT's 2020–2030 Strategic Asset Management Framework. This Framework requires annual performance reporting to the SAHT Board on its Asset Management Strategy performance against KPIs and achieving its RAMP targets.

The interim Asset Management Strategy was approved in December 2020, with the final version approved in October 2023. The SAHT's interim RAMPs were approved in February 2022. The Portfolio Governance Group (PGG) is required to report on asset performance to Executive and the SAHT Board in an annual report. The SAHT advised us that annual asset performance and KPI reporting to the SAHT Board has not occurred since the PGG formed in February 2022.

The SAHT acknowledged that annual asset performance reporting did not occur during the interim strategy, and that the asset performance KPIs changed in the final Asset Management Strategy. It advised us that the PGG considered the annual asset management performance report for 2023-24 against the Asset Management Strategy 2023 at its June 2024 meeting, with the report also noted by the SAHT Board at its July 2024 meeting.

Contract closure assessments are not submitted promptly to the Procurement Services Unit (PSU)

For the second year we found that contract managers are not submitting contract closure assessments to the PSU promptly.

The SAHT's contract management procedure requires contract managers to submit contract closure assessments within 60 days of the end of each contract. This information is used to record contractor performance in the contract management system. The PSU maintains a register of overdue performance assessments and reports this to Procurement Governance Committee. At June 2024 the register listed 13 overdue assessments.

We also requested a sample of five contract closure assessments for expired contracts. We were provided with three assessments that were completed in June 2024 for contracts that ended in September and November 2023. This does not meet the 60-day requirement for contract closure assessments.

The other two contract assessments we requested were for complex contracts that we were told were extended due to delays in construction. Under the contract management procedure, complex contracts for more than 12 months are required to have an annual review. As at June 2024 these contracts had not been reviewed.

The SAHT responded that it has addressed a backlog of outstanding contract closure assessments over the last few months. With the support of additional project resources, there are now no outstanding contract closure assessments above the 60-day requirement.

Other audit comments

Asset management practices

The SAHT is responsible for managing property, plant and equipment valued at $15.1 billion. Since 2019 we have reviewed its asset management practices and controls against aspects of the International Standard on asset management (ISO 55001) and have noted the SAHT's commitment to applying best practice principles to asset management.

Asset management maturity

One of the SAHT's goals is to achieve a 'competent' level of asset management maturity by 2025. This is reached when it can demonstrate that it systematically and consistently achieves the ISO 55001 requirements. In June 2024 the SAHT assessed its progress towards this goal and rated its asset management maturity for the main requirements of the standard between 'developing' and 'competent'. Reasons for the 'developing' rating included the interim status of certain asset management documents.

Strategic asset management framework

The SAHT has a strategic asset management framework to guide its asset planning process for creating and maintaining a public housing portfolio that will achieve its objectives. The framework includes processes for developing asset management policies, strategies and plans, and reporting requirements. It was guided by ISO 55001 and:

- aligns the SAHT's asset management objectives with its Strategic Plan 2020–2025 objectives, and, in turn, with those in the Our Housing Future 2020–2030 strategy
- details governance groups and reporting requirements to ensure its asset management activities meet its objectives
- provides a structure to annually review the performance of its asset management system, including the use of ISO 55001 self-assessment questionnaires
- requires the development of a 10-year asset management strategy containing high-level, long-term action plans and objectives for managing assets
- requires the development of five-year regional asset management plans to inform retention, divestment, investment and development decisions at a regional level. These regional plans must be supported by annual investment plans that include program and project targets for measuring progress. They comprise investment plans for maintenance and development and strategic divestment.

Assets transferred to CHPs to manage properties and tenancies on behalf of the SAHT are also monitored through the strategic asset management framework's governance structure and reporting requirements. CHPs have their own asset management and investment plans to meet their contractual obligations for maintaining and developing SAHT properties.

Asset management strategy

In October 2023 the SAHT Board approved an interim asset management strategy to guide its capital programs over the next 10 years. It includes KPIs with time frames to monitor the effectiveness of project and program actions, and is used to inform the development of regional asset management plans.

Improved data on the condition of the SAHT's housing stock

The SAHT assessed the condition of its housing stock in 2020-21. It uses this condition data to inform its future maintenance and asset management plans and determine whether a property will be upgraded, redeveloped or sold. The condition assessments were done by a contractor who inspected every SAHT property. Three head contractors for maintenance services were appointed on 1 January 2023 and are responsible for maintaining condition data.

Capital project management framework

The SAHT implemented an asset management planning and project management framework in 2021-22. It outlines the requirements for governing individual capital programs and projects, and mandates the use of standardised management tools, processes and templates that can be tailored to their project type, individual size and complexity.

Asset management reporting to the SAHT Board

The SAHT Board receives regular reporting on asset management, including:

- reports containing both the financial and non-financial performance of the SAHT’s asset investment activities, along with comments in the Chief Executive’s report on capital works activity, tabled at each SAHT Board meeting
- quarterly reporting on the SAHT’s capital and maintenance works programs, including progress on achieving targets in its annual investment plans
- reporting on the SA Government’s election commitments for the Public Housing Improvement Plan
- reporting on the SAHT’s collaboration with the Department of Treasury and Finance and the Urban Renewal Authority through the Government Performance Cabinet Committee to deliver 414 dwellings by June 2026. These are in addition to the dwellings delivered under the Public Housing Improvement Plan.

Affordable Housing Initiative

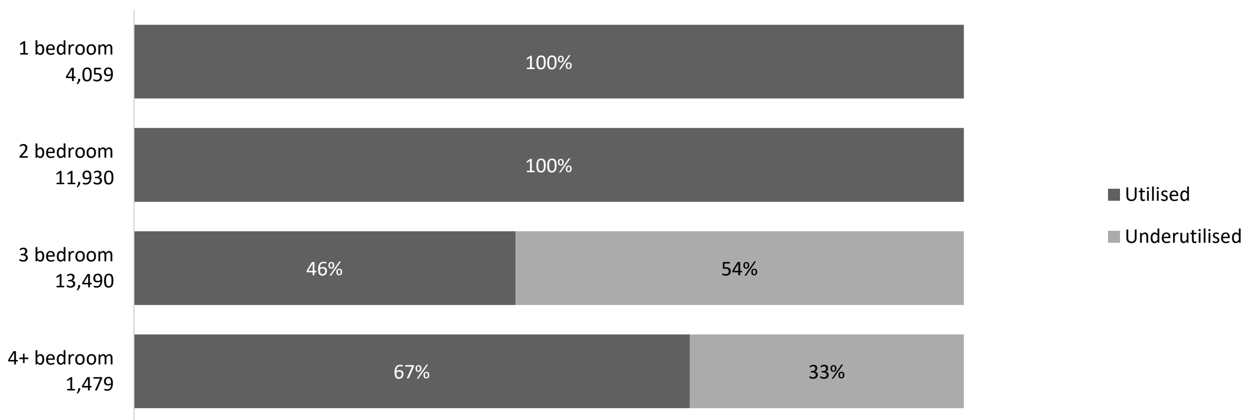
The SAHT aims to build and sell 1,000 new affordable homes between January 2020 and 30 June 2026, through the AHI program. At 30 June 2024 it had built 205 of these homes, with 373 under construction. The SAHT expects that another 351 builds will start by the end of 2024, pending development approval. The current program completion date of 30 June 2026 remains unchanged. Most sales are planned to occur between 1 January 2023 and 30 June 2026. AHI houses are sold through the HomeSeeker SA program managed by the SAHT on behalf of the SA Government. HomeSeeker SA requires property developers, including the SAHT, to build and sell affordable housing to eligible applicants on low to moderate incomes.

Some SAHT properties are underutilised (excludes CHP properties)

A key focus of the SAHT’s asset planning is to reconfigure its housing stock through its renewal programs to better match its tenants’ needs. The SAHT’s strategic asset management framework noted that household size is reducing, reflecting an increase in single person households and single parents, while the number of couples with children has fallen.

25.2% of the SAHT’s tenanted houses are underutilised, down from 25.6% in 2023. There is an oversupply of three-bedroom houses (54% underutilised) and a shortage of smaller houses (100% utilised) as shown in the chart below.

Utilisation of tenanted properties*



* Properties are defined as underutilised where the number of bedrooms exceeds the number that the household needs by two or more.

Note: All data included in the table above was provided by the SAHT and is unaudited.

Transfer of property and tenancy management to CHPs

The Our Housing Future 2020–2030 strategy replaced the Renewing Our Streets and Suburbs (ROSAS) initiative. ROSAS was implemented to rejuvenate older SAHT homes and improve the supply of affordable housing for rent or purchase, while stimulating the construction sector. It included transferring the responsibility for property and tenancy management for over 5,000 SAHT properties to CHPs. This occurred in two tranches, the first in October 2015 and the second in September 2017.

The SAHT applied a concurrent lease and deed model to these transfers. The leases have 20-year terms and require the CHPs to implement a stock renewal program. An objective of the CHP transfers is to create better quality social housing stock by:

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

All CHPs have established plans to support the stock renewal program. The SAHT retains the title to these properties and the CHPs must comply with the SAHT's tenancy conditions, ensuring that the conditions for transferred tenants remain the same. Due to the lease and deed arrangements, the housing stock remains recognised in the SAHT's Statement of Financial Performance as service concession assets.

Interpretation and analysis of the financial report

Highlights of the financial report*

	2024 $million	2023 $million
Income		
Rental income	289	271
SA Government grants, subsidies and transfers	144	61
Other	83	78
Total income	516	410
Expenses		
Employee benefits expenses	80	79
Maintenance	131	97
Council rates and water rates	79	73
Land tax equivalent	197	165
Depreciation and amortisation	132	115
Grants and subsidies	111	106
Other expenses	87	75
Total expenses	817	710
Net result	(300)	(299)
Other comprehensive income	2,001	2,053
Total comprehensive result	1,700	1,754

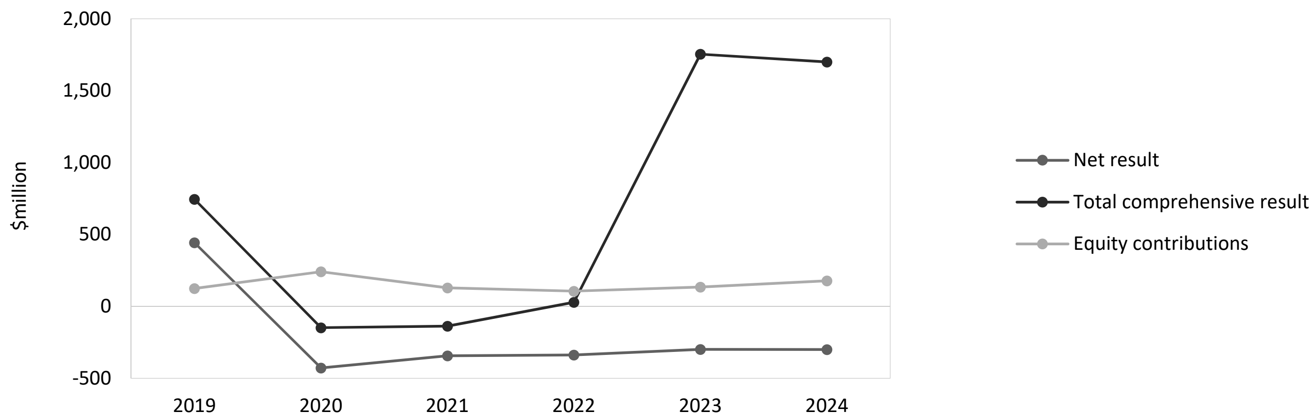
	2024 $million	2023 $million
Net cash provided by (used in) operating activities	(266)	(301)
Net cash provided by (used in) investing activities	(12)	(3)
Net cash provided by (used in) financing activities	172	131
Assets		
Current assets	323	396
Non-current assets	15,177	13,224
Total assets	15,500	13,620
Liabilities		
Current liabilities	90	88
Non-current liabilities	48	47
Total liabilities	138	136
Total equity	15,362	13,484

* Table may not add due to rounding.

Statement of Comprehensive Income

Total comprehensive result and equity contributions

The SAHT's total comprehensive result and equity contributions for the five years to 2024 are shown in the following chart.

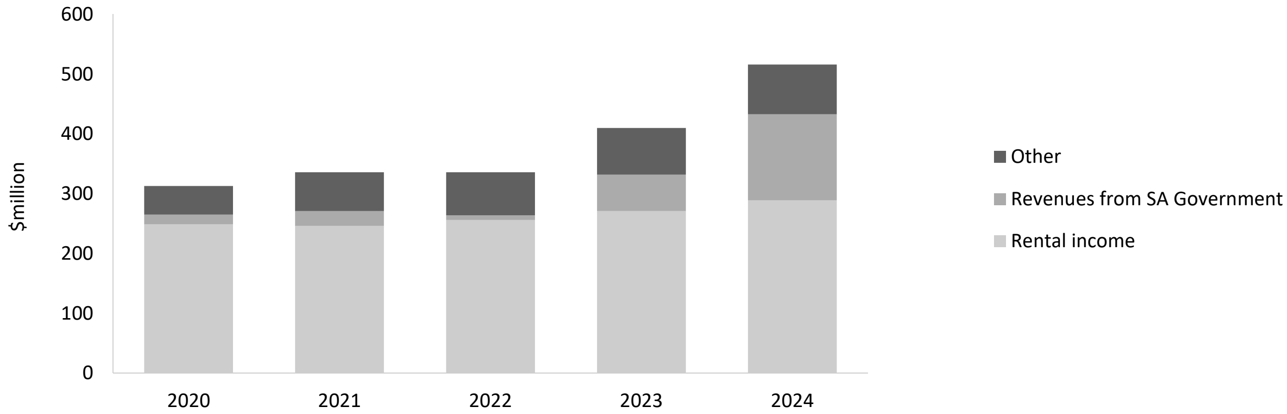


The chart shows deficits in the net results for the period. They were impacted by the SA Government's changed funding arrangements for the SAHT. Since 2019 the SAHT has been funded mainly by equity contributions instead of grants. Equity contributions are not recognised as income in the Statement of Comprehensive Income. In 2024 the SA Government provided an equity contribution of $177.9 million ($134.1 million) and grants of $143.7 million ($60.8 million).

The total comprehensive results for 2023 and 2024 reflect the financial impact of the upward revaluations of property, plant and equipment in those years.

Income

The SAHT's income for the five years to 2024 is shown in the following chart.



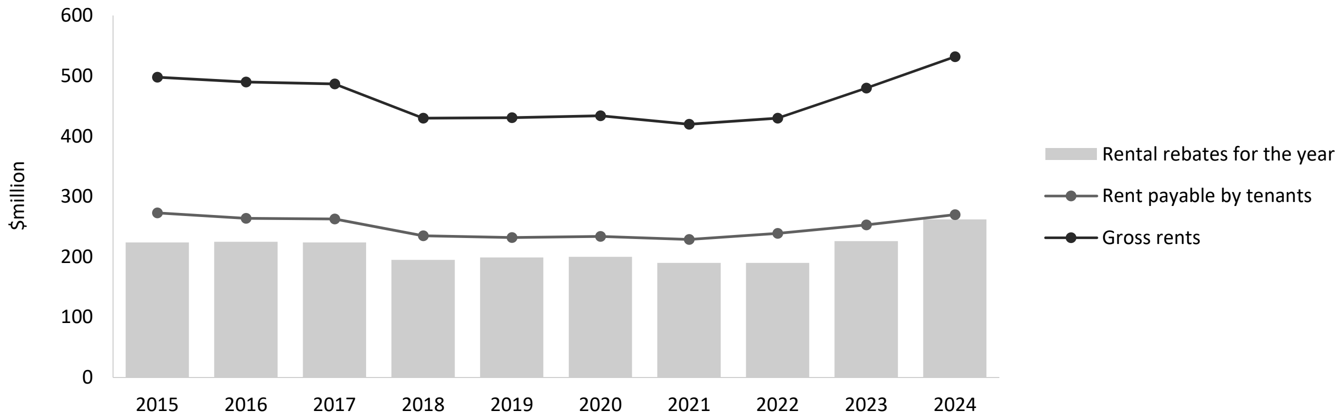
Revenues from the SA Government increased by $82.9 million to $143.7 million in 2024, due mainly to an $80.6 million increase in general purpose grants and the introduction of the Social Housing Accelerator Program for $3.5 million.

Other movements in total income for 2024 included:

- rental income increasing by $17.8 million to $288.8 million, due mainly to increases in market rents and Centrelink benefits, which are included in household income calculations for determining tenant rents
- interest revenue increasing by $1.7 million to $11.6 million due to higher interest rates
- resources received free of charge of $14.9 million ($5.7 million) resulting from the SAHT obtaining control of properties developed by CHPs under certain arrangements.

Rental operations

Information provided by the SAHT shows that 86% (85%) of tenants pay reduced (rebated) rent. The amount of rent rebates depends on each tenant's circumstances, with rent payable charged at 30% of household income or market rent, whichever is lower. The trend in tenant rents and rebates is shown in the following chart.

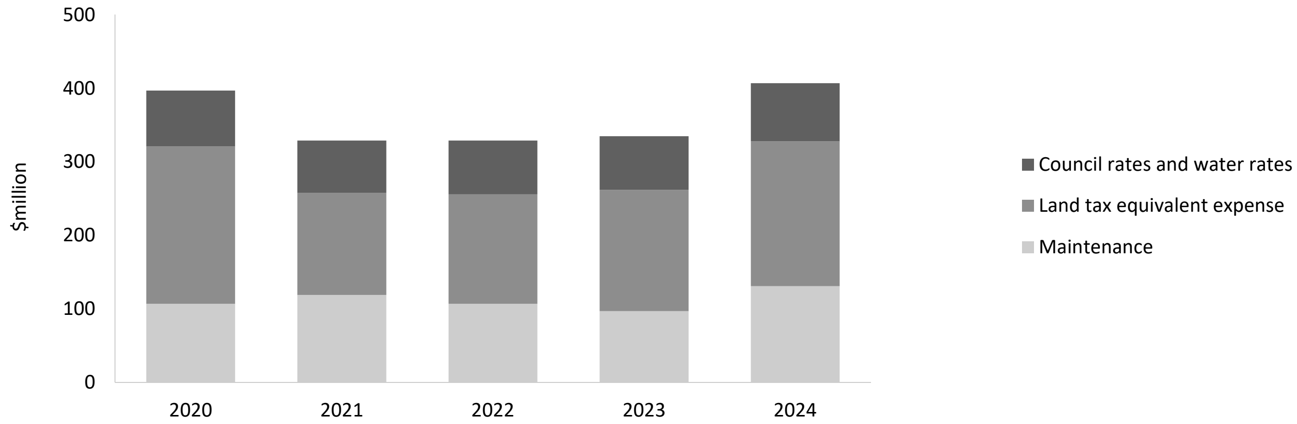


The chart shows that gross rents, rental rebates and rent payable by tenants dropped in 2018 after the responsibility for tenancy management of over 5,000 properties was transferred to the community housing sector between 2016 and 2018. The rent on these properties is retained by the community housing sector.

In 2024 gross rent (market rent) increased by $52.6 million to $531.9 million, reflecting higher market rents determined by the Valuer-General. Rent payable by tenants increased by $16.7 million to $270 million, due mainly to increases in Centrelink benefits that are included in household income calculations for determining tenant rents. Rebates (the difference between market rents and rent payable by tenants) rose by $36 million to $261.7 million. Rebates as a percentage of gross rent were 49% (47%).

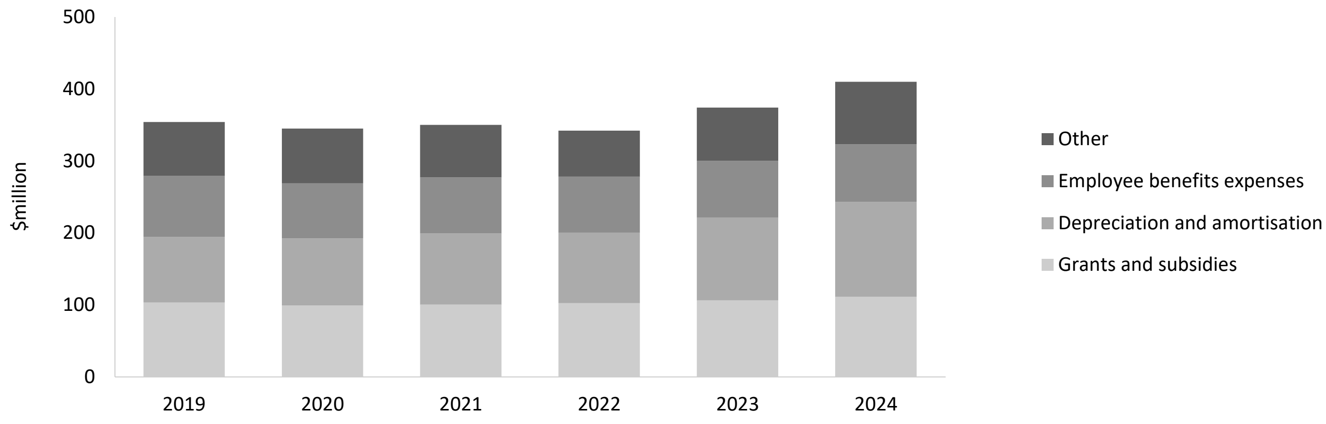
Expenses

Major property expenses for the five years to 2024 are shown in the following chart.



Other than land tax equivalents, major property expenses have remained relatively constant over the last five years. The large decrease in land tax equivalents for 2021 reflects a reduction in land tax rates set by RevenueSA. The SAHT is responsible for the land tax equivalent paid on properties owned by the SAHT but managed by CHPs. It is not responsible for council and water rates on CHP managed properties. Charges paid by the SAHT are driven by changes in the value of properties and rates charged by local government and the South Australian Water Corporation.

Other major expense items for the five years to 2024 are shown in the following chart.



Total expenses rose by $106.6 million to $816.5 million in 2024, due mainly to the following movements:

- Land tax equivalent expenses increased by $31.5 million to $196.5 million following increases in land values.

- The SAHT transferred capital works in progress at Seaton and vacant land at Noarlunga to the Urban Renewal Authority for $0 consideration, resulting in a $21.6 million contributed asset expense.
- Depreciation and amortisation expenses increased by $17.2 million to $132.3 million due to the upward revaluation of property, plant and equipment.
- Maintenance expense increased by $33.4 million to $130.5 million due mainly to a large backlog of uncompleted work orders being completed in 2023-24, as well as an increase in labour and material costs.
- Grants and subsidies expense increased by $5.3 million to $110.9 million, mainly reflecting specialist homelessness services grants increasing by $4.1 million to $77.8 million and an increase of $3.6 million in emergency accommodation assistance, offset by a $1.9 million decrease in River Murray flood response grants.
- Impairment expenses decreased by $4.8 million to $23.1 million, largely driven by a decrease of $6.2 million in demolitions and other asset write-offs mainly resulting from the SAHT's capital programs. This was partially offset by a $1.5 million increase in impairment losses on receivables, with an impairment rate to 49% (49%). Receivables of $4.8 million ($7.1 million) were written off.

Statement of Financial Position

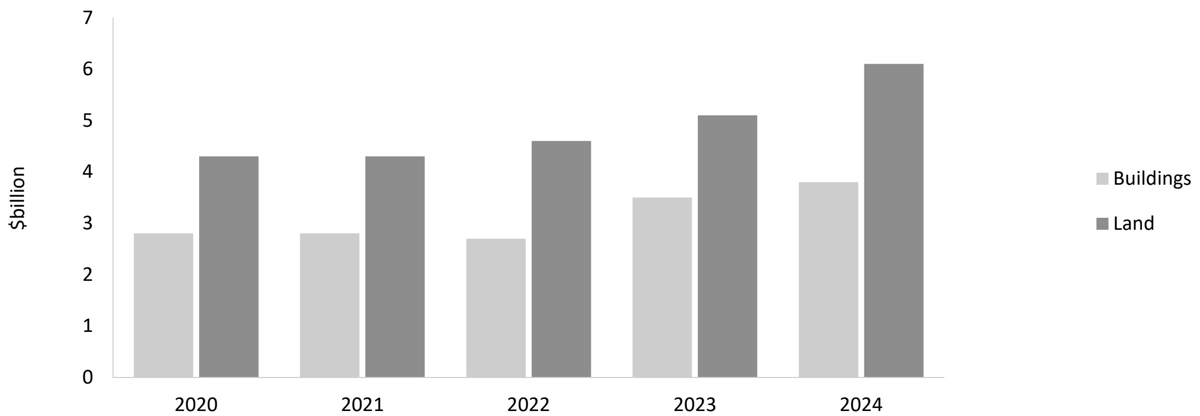
The SAHT's financial position is dominated by its significant property assets, cash and deposits with the South Australian Government Financing Authority (SAFA). The SAHT's net assets increased by $1.9 billion to $15.4 billion, due mainly to an upward revaluation of property, plant and equipment of $2 billion and an increase in inventories of $40.9 million, partially offset by a reduction in cash and cash equivalents of $38.7 million.

The SAHT's current assets of $323.1 million ($396.1 million) were significantly higher than its current liabilities of $90.4 million ($88.4 million).

Rental properties

The SAHT's rental properties are estimated to be worth $9.9 billion ($8.6 billion) and comprise 66% (66%) of the SAHT's property, plant and equipment of $15.1 billion ($13.2 billion).

The following chart shows the movements in the value of the SAHT's rental properties over the past five years.



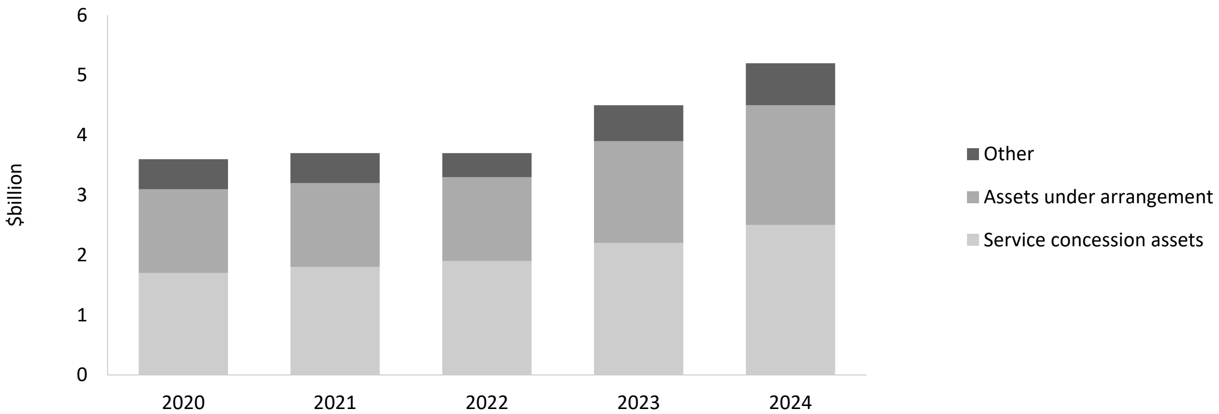
Since 2020 the value of rental properties has increased by $2.8 billion despite a fall in the number of properties over the same period. The value is being maintained mainly through upward revaluations of individual properties and capital upgrades. The SAHT advised us that in 2024 its rental stock reduced from 32,892 to 32,818, a fall of 74 properties (0.2%), yet the value of its rental properties (valued at 1 July 2023) increased by $1.3 billion (15%). Rental stock excludes 5,347 (5,367) SAHT-owned rental properties managed by the community housing sector on behalf of the SAHT and 1,513 (1,534) SAHT-owned rental properties in specialist housing programs. These are classified as service concession assets.

The $1.3 billion rise in the value of rental properties to $9.9 billion in 2024 reflects an upward revaluation of land and buildings of $1.3 billion and additions of $88.6 million, including completed capital works and maintenance upgrades. These increases were partially offset by transfers to other asset categories of $65.1 million (mainly to capital works in progress), disposals of $10.7 million and depreciation expense of $75.2 million.

The SAHT revalues most land and buildings annually using the Valuer-General's values. Because of the timing of the update of the Valuer-General's database and the SAHT's financial reporting obligations, reported values lag current market values. The values for 2024 were issued by the Valuer-General at 1 July 2023. This policy has been consistently applied and reflects the practicality of valuing a very large housing stock. The Valuer-General published a notice in The South Australian Government Gazette advising that the average percentage change in site values is 25% at 1 July 2023 for 2023-24 and 9.5% at 1 July 2024 for 2024-25.

Property, plant and equipment (excluding rental properties)

The following chart shows the value of the SAHT's property, plant and equipment (excluding rental properties) over the past five years.



Assets under arrangement and service concession assets are properties managed by the community housing sector on behalf of the SAHT under a variety of arrangements.

The SAHT's property, plant and equipment (excluding rental properties) increased by $671.4 million in 2024, due mainly to the following movements:

- Service concession assets increased by $305 million to $2.5 billion, largely driven by a net upward revaluation of land and buildings of $323.5 million and additions of $13.5 million. These were partially offset by transfers to other asset categories of $14.1 million (mainly to capital works in progress), disposals of $2.6 million and depreciation expense of $15.7 million. These assets are revalued in the same way as rental properties using the Valuer-General's values.

- Assets under arrangement increased by $275.4 million to $2 billion, following a net upward revaluation of land and buildings of $264.3 million and additions of $22.9 million. These increases were partially offset by transfers to other asset categories of $10 million (mainly to capital works in progress) and depreciation expense of $16.1 million. These assets are revalued in the same way as rental properties using the Valuer-General's values.
- Capital works in progress increased by $6.2 million to $212.2 million, due to additional works of $163 million ($83.7 million) and properties transferred from other asset categories for development of $213.9 million ($139.5 million), partially offset by works completed of $357.3 million ($169.9 million).
- Vacant land increased by $35.9 million to $135.8 million, reflecting upward revaluations of $14 million and net transfers from other asset categories of $21.9 million following property redevelopments.
- Remote indigenous leased properties increased by $49.4 million to $305.3 million, largely driven by a net upward revaluation.

Intangible assets

Intangible assets reduced by $1.6 million to $31.6 million due to amortisation costs of $4.2 million, partially offset by the capitalisation of development costs mainly for continued improvements to the system used to manage most of the SAHT's operations, including rental and maintenance activities.

Current assets

Current assets decreased by $73 million to $323.1 million, due mainly to a $105.7 million decrease in cash and deposits held with SAFA. This was offset by a $34.2 million increase in inventories of properties developed for sale. The decrease in cash and SAFA deposits is explained further under 'Statement of Cash Flows' below.

Liabilities

Total liabilities increased by $2.7 million to $138.2 million, due mainly to increased payables for capital project-related expenses and maintenance accruals of $5.4 million. This increase was partially offset by a $3.4 million decrease in other liabilities for rent paid in advance.

Statement of Cash Flows

Cash recognised in the Statement of Cash Flows comprises cash and highly liquid financial assets. It decreased by $106.3 million in 2024, reflecting the following movements:

- net cash used in operating activities of $265.7 million ($301.1 million), including:
  - land tax equivalent payments of $196.5 million ($239.6 million), noting that 18 months of land tax was paid in 2023, due to the timing of the receipt and payment of land tax assessment notices
  - development costs of $206 million ($123.2 million), noting the growth in property development activity occurring in recent years on properties held for tenant rental or for sale

 - receipts from SA Government grants, subsidies and transfers of $143.7 million ($60.8 million), due mainly to the reinstatement of general purpose grants
- net cash used in investing activities of $12.4 million ($2.8 million)
- net cash provided by financing activities of $171.8 million ($131.5 million), including equity contributions of $177.9 million ($134.1 million) from the SA Government.

Further commentary on operations

Homelessness and support services

Specialist homelessness services grants and subsidies totalled $77.8 million ($73.6 million).

Under the *Public Sector (reorganisation of Public Sector Operations) Notice 2024*, functions relating to the provision of homelessness services will transfer from the SAHT to the Department of Human Services at 1 July 2024. The financial effect has not been reflected in the financial statements.

Maintenance

Housing maintenance

The SAHT replaced its five multi-trade contractors with three head contractors for maintenance services (HCMSs) in January 2023. The HCMSs are responsible for all aspects of delivering the works and manage their own direct labour and subcontractors. The HCMS contracts are for six years with a two-year extension option. The SAHT estimated that the total cost of these contracts will be about $1 billion over eight years.

The HCMSs are delivering the maintenance programs under a revised maintenance service delivery model. Key changes from the previous model include:

- reconfiguring and reducing the previous 14 contract zones to six larger contract zones
- revised pricing arrangements that separate management fees from the schedule of rates for maintenance items
- enhancing the model to foster a culture of shared accountability between the SAHT and HCMSs for the delivery of maintenance programs.

Review of the maintenance contracts

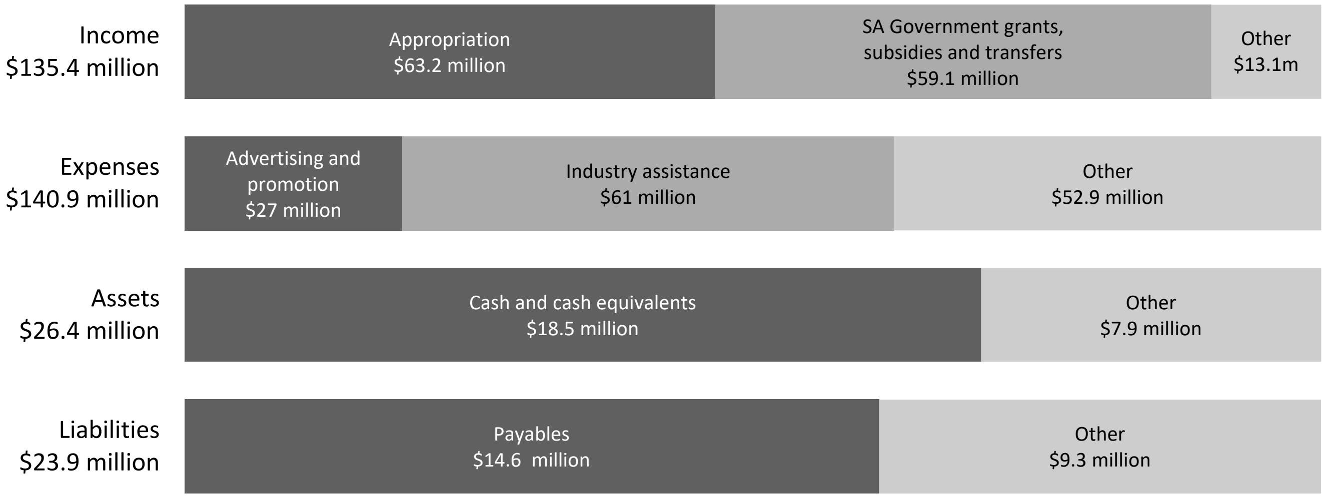
The SAHT Maintenance Contracts Review was announced by the Premier in June 2024. The Maintenance Contracts Audit Committee (the Committee) was formed to conduct the review. It comprises the Chairs of the SA Government's Urban Renewal Authority, SA Water Board and SAHT Board (all independent statutory authorities), and the Chief Executive Officer of the Department for Housing and Urban Development. The Committee will report to the Minister for Housing and Urban Development in September 2024.

The review will audit the performance of specified aspects of the operations of each HCMS. The audits will be conducted in line with existing audit powers under the SAHT's maintenance contracts with its three head contractors. These powers permit the SAHT to carry out or cause to be carried out, in a fair and reasonable way, an audit of any aspect of the head contractors' operations in relation to the contract. The audits will:

- review data on the level, standard and timeliness of maintenance works achieved
- ensure appropriate arrangements are in place to enable subcontractors to be paid in full, and in line with existing legislative time frames
- ensure an appropriate and effective dispute resolution mechanism exists for subcontractor payment
- review and provide advice to the SA Government on existing SAHT maintenance contracts under current economic conditions
- consider alternative delivery or service improvement models to improve and enhance maintenance outcomes for the SAHT and its clients.

South Australian Tourism Commission (SATC)

Financial statistics



140
FTEs

Significant events and transactions	In 2023-24 SATC continued to manage major sponsored events such as LIV Golf and the AFL Gather Round.
Financial report opinion	**Unmodified**
Audit findings	No significant matters.

Functional responsibility

The SATC is established by the *South Australian Tourism Commission Act 1993* and is a body corporate.

The SATC's functions include securing economic and social benefits for the State by promoting and developing South Australia as a tourism and events destination. It aims to achieve this by:

- ensuring a coordinated approach to promoting South Australia
- attracting, developing and supporting major and strategic tourism events
- developing tourism resources to maintain and preserve South Australia's environmental and cultural heritage.

Scope of the audit

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

- financial accounting
- cash and cash management
- contract management and procurement
- employee-related expenses and workforce management
- supplies and services expenditure.

We reviewed internal audit activities to assess the risks of material misstatement in the financial report and to design and perform audit procedures. We did not place any reliance on the work performed by internal audit.

Some services, including accounts payable and payroll processing, were undertaken by Shared Services SA and were reviewed as part of our audit of Shared Services SA.

Audit findings

Communicating our audit findings

We communicated our audit findings in a management letter to the Chief Executive. There were no significant matters raised.

Interpretation and analysis of the financial report

Highlights of the financial report*

	2024 $million	2023 $million
Income		
Appropriation	63	89
SA Government grants, subsidies and transfers	59	36
Other	13	10
Total income	135	135
Expenses		
Employee related	18	16
Advertising and promotion	27	38
Industry assistance	61	56
Event operations	28	25
Other	7	7
Total expenses	141	142
Net result	(6)	(7)
Total comprehensive result	(6)	(7)
Net cash provided by (used in) operating activities	1	(10)

	2024 $million	2023 $million
Assets		
Current assets	21	21
Non-current assets	5	5
Total assets	26	26
Liabilities		
Current liabilities	17	13
Non-current liabilities	7	5
Total liabilities	24	18
Total equity	2	8

* Table may not add due to rounding.

Statement of Comprehensive Income

The SATC's financial activities vary from year to year depending on the mix of marketing, destination development and event activities it supports and the extent to which these activities are funded.

2023-24 saw the continuation of major sponsored events such as LIV Golf and the AFL Gather Round. Other events the SATC managed and sponsored included the Santos Tour Down Under cycling race, National Pharmacies Christmas Pageant, Tasting Australia presented by RAA Travel and Illuminate Adelaide.

Income

Income remained steady at $135.4 million ($134.5 million) in 2023-24, with appropriation decreases of $26 million offset by SA Government grants, subsidies and transfer increases of $23 million.

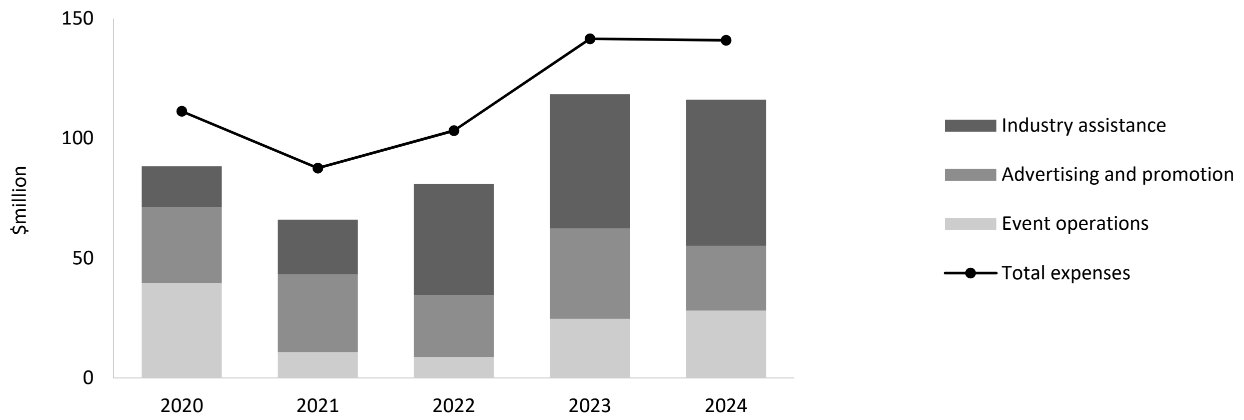
The decreases in appropriation were due to marketing funding for prior year interstate and overseas consumer advertising campaigns ceasing.

The increases in SA Government grants, subsidies and transfers were driven by a rise in funding for existing major events, as well as new funding for events such as Illuminate Adelaide.

Sponsorship and participation income increased by $3.2 million (51%) as a result of increased industry contributions, such as the 2023 FIFA Women's World Cup.

Expenses

The following chart shows the SATC's main expenses for the five years to 2024.

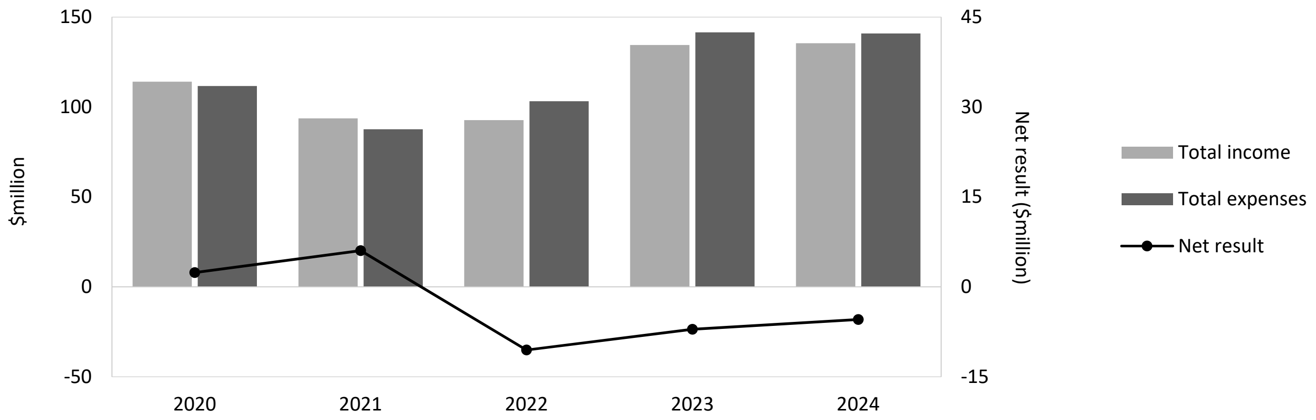


In 2023-24 total expenses decreased slightly to $140.9 million ($141.5 million). Falls in advertising and promotion expenses were offset by rises in industry assistance and events operation expenditure. The main drivers were:

- a $5 million increase in industry assistance including funding increases for nature-based tourism and the Santos Tour Down Under, offset by decreases in targeted industry subsidies
- a $3.4 million increase in event operations, reflecting higher costs associated with facilitating new, ongoing and expanded sponsored and managed events such as the 2023 FIFA Women's World Cup
- a $10.6 million decrease in advertising and promotion, driven by marketing funding for prior year interstate and overseas consumer advertising campaigns ceasing.

Net result

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



In 2023-24 the SATC recorded a net loss of $5.4 million. This is explained by the movements in income and expenses outlined above.

Statement of Financial Position

Current and non-current assets

At 30 June 2024 current assets were $20.9 million and exceeded current liabilities of $17.1 million by $4 million.

The main current asset change was a decline in receivables of $1.1 million resulting from a reduced 2023-24 GST recoverable amount.

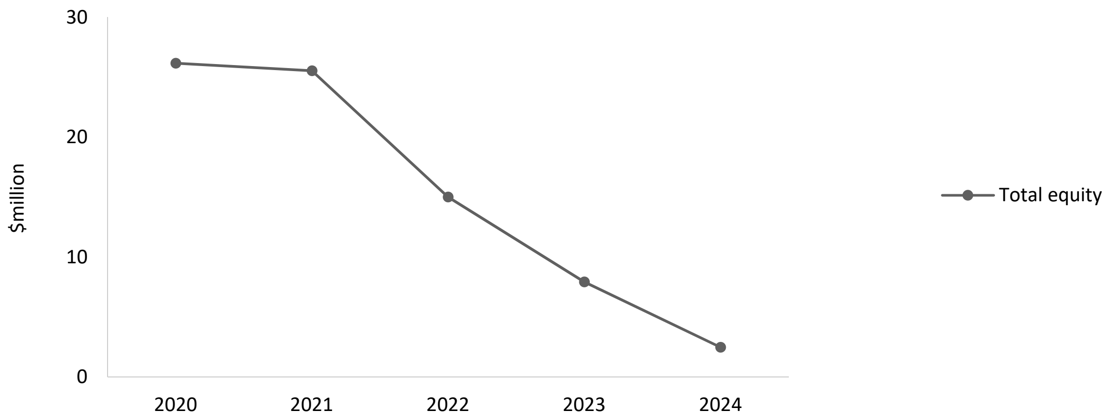
The SATC held $5.5 million in non-current assets at 30 June 2024, which mainly comprised plant and equipment.

Current and non-current liabilities

Total liabilities increased by $5.4 million. The main driver was an increase in payables of $3.6 million (34%).

Equity (net assets)

The following chart shows the SATC's total equity (net assets) as at 30 June for the past five years.



Total equity decreased by $5.4 million or 69% in 2023-24. This was due to the movements in the Statement of Comprehensive Income and Statement of Financial Position items explained above.

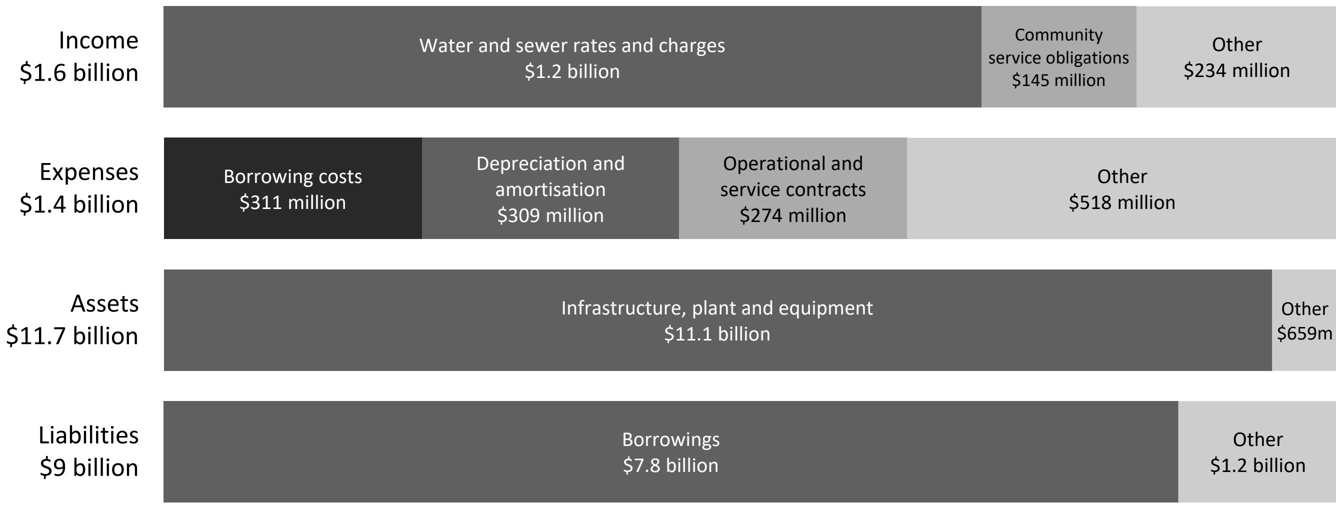
Further commentary on operations

Continuation of major sponsored and managed events

2023-24 saw the continuation of major sponsored and managed events. Driven by strong international and interstate visitor numbers, the LIV Golf tournament attracted an aggregate three-day attendance exceeding 90,000. Similarly, the AFL Gather Round saw all nine AFL games sold out and over 200,000 tickets sold. These numbers were provided by the SATC and are unaudited.

South Australian Water Corporation (SA Water)

Financial statistics



1,609
FTEs

$9.2 billion
System infrastructure assets

37,000 km
Length of pipes and mains

Significant events and transactions

- SA Water recognised a net profit before income tax equivalents of $156.9 million, an increase from the $70.8 million result for 2022-23. It paid a dividend of $107 million to the SA Government.
- SA Water's infrastructure, plant and equipment assets were revalued down by $978.9 million.
- At 30 June 2024, capital works in progress totalled $1.2 billion. Major projects include the Kangaroo Island desalination plant, the Bolivar waste water treatment plant, the Eyre Peninsula desalination plant and the Morgan to Whyalla pipeline.
- The Essential Services Commission of South Australia made a new regulatory determination that sets the consumer protections and service standards SA Water must deliver for South Australians, and the maximum revenue it can recover for those services, for the period 1 July 2024 to 30 June 2028.

Financial report opinion	**Modified** SA Water did not have an effective process to meet the disclosure requirements of Treasurer's Instructions (Accounting Policy Statements) for reporting the value of procurement with South Australian and non-South Australian businesses for 2023-24. This is discussed further in Part A of this report.
Controls opinion findings	Contract management framework not updated for Treasurer's Instruction requirements.
Other audit findings	— Results of an independent review of SA Water's enterprise risk management system were not presented to its Governance, Finance and Risk Committee. — Documentation could be improved to evidence that certain invoice verification processes are performed.

Functional responsibility

SA Water is a public corporation established under the *South Australian Water Corporation Act 1994*. From 15 April 2024, it is responsible to the Minister for Housing and Urban Development. Before this it was responsible to the Minister for Climate, Environment and Water.

SA Water's primary functions are to provide services for the storage, treatment and supply of water and the removal and treatment of wastewater.

The *Public Corporations Act 1993* applies to SA Water and requires a charter and performance statement to be prepared by the Minister and the Treasurer after consultation with SA Water.

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:

- revenue, including the billing, collection, receipting and banking of water and sewer rates and charges
- expenditure, including operational and service contracts, services and supplies and electricity expenses
- cash and borrowings, including borrowing costs

- employee benefits expenses and provisions
- fixed assets, including additions to and transfers from capital works in progress, capital purchases, depreciation and revaluations
- governance
- general IT controls.

We also considered the work of SA Water's internal auditors in planning and conducting our audit.

Controls opinion

We reviewed controls over the purchase of non-financial assets (procurement, contract management and project management), the management of water and sewerage assets and the sale of goods and services (water and sewerage revenue) as part of our overall controls opinion, which is discussed in Part B of this report.

Audit findings

Communicating our audit findings

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

Controls opinion findings

Contract management framework not yet updated for TI 18 requirements

Treasurer's Instruction 18 *Procurement* (TI 18) requires chief executives to have a procurement framework and ensure that systems, processes and procedures are in place to maximise compliance with the contract management policy approved by the Treasurer. This is applicable to all contracts for goods and services, including construction projects valued up to $165,000.

We reviewed SA Water's contract management framework for alignment with the policies approved by the Treasurer and guidelines developed by Procurement SA (PSA) to support TI 18. In 2022-23 we reported that its framework did not include requirements to develop a contract management plan (or what information should be in this plan) or stakeholder engagement plans. These are requirements of PSA's contract management policy and guidelines. Contract management plans contain key information about how a contract will be managed over its term to ensure value for money is achieved. They should be working documents that help contract managers to effectively manage contracts.

We also found last year that SA Water's framework did not include requirements for:

- regular contract reviews. PSA's guidelines state that during the life of a contract, the contract manager should review the contract periodically to assess if the parties are meeting the contract outcomes and whether the contract continues to accurately reflect the public authority's requirements. The frequency of these reviews depends on factors such as complexity and value. At a minimum they should occur annually

- post-contract reviews. PSA's guidelines state that a post-contract review should be performed for all routine, complex and strategic contracts.

In 2022-23 SA Water advised us that it was developing a new contract management framework to address the TI 18 requirements, with a target completion date of 30 June 2024. This year we found that the new framework was not finalised.

SA Water advised us that its new framework was updated and issued in September 2024.

Other audit findings

Results of an independent review of SA Water's enterprise risk management system were not presented to its Governance, Finance and Risk Committee (GFRC)

The results of an independent review of SA Water's enterprise risk management system were not presented to its GFRC to enable it to discharge its roles and responsibilities for risk management.

SA Water engaged a consultant to assess its risk management maturity, system capability and related business activities. The consultant's report was delivered in January 2023. It concluded that the maturity of SA Water's integrated risk processes was between 'Developing' and 'Defined' (level 1.5 out of 5) according to the model used, and made 48 recommendations based on the necessary actions to reach a maturity of 'Integrated' (level 3).

We followed up SA Water's response to the recommendations and noted that:

- 10 recommendations were implemented
- 23 recommendations are in progress
- 10 recommendations have not been started (five were classified as high priority)
- three recommendations are still under consideration
- two recommendations were not accepted by SA Water.

We recommended that SA Water provide the consultant's review to the GFRC, together with its planned responses. SA Water agreed, saying that this would give the GFRC the opportunity to discuss and oversee the work being done.

Documentation could be improved to evidence that certain invoice verification processes have been undertaken

We found that documentation of certain invoice verification processes could be improved to evidence the outcomes and conclusions reached.

SA Water uses third-party contractors to deliver services under its Adelaide Service Delivery framework:

- SUEZ delivers the Production and Treatment contract worth about $80 million per annum
- Service Stream delivers the Field Operations contract worth about $70 million per annum.

Both contractors invoice SA Water monthly for the work they perform. To verify the accuracy and validity of the amounts billed, SA Water performs the following processes before approving the invoices for payment:

- high-level reasonableness checks over the monthly invoice and billing breakdown spreadsheet to identify and investigate any unusual or unexpected charges

- recalculating invoice rates, including subcontractor charges and overhead costs, using monthly data provided by the contractors
- random sampling of SUEZ invoices from the billing breakdown spreadsheet to agree to invoices recorded in SUEZ's financial management system.

While the review of SUEZ invoices is evidenced by highlighting transactions in the spreadsheet and recording errors in an error log for follow up, we found that testing results and conclusions reached are not documented.

We recommended that SA Water maintains adequate working papers to evidence that the Adelaide Service Delivery invoice verification processes are performed, with outcomes and conclusions clearly documented. SA Water agreed to maintain working papers to evidence the process in future.

Interpretation and analysis of the financial report

Highlights of the financial report*

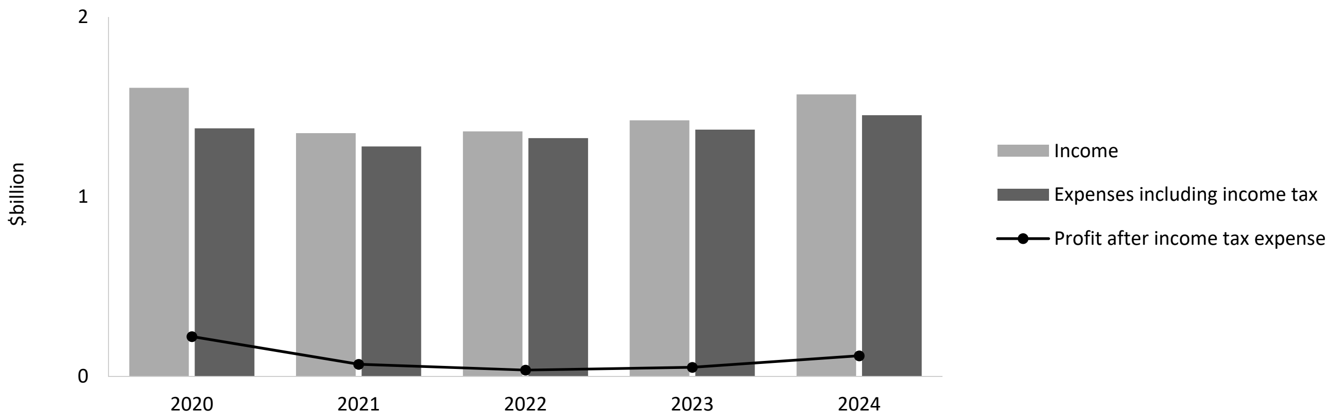
	2024 $million	2023 $million
Income		
Water and sewer rates and charges	1,190	1,088
Community service obligations	145	136
Other	234	201
Total income	1,569	1,425
Expenses		
Depreciation and amortisation expense	309	365
Borrowing costs	311	298
Operational and service contracts	274	240
Employee benefits expenses	159	142
Other expenses	359	309
Total expenses	1,412	1,355
Net profit before income tax equivalents expense	157	71
Income tax expense	41	19
Net profit after income tax equivalents expense	116	52
Other comprehensive income (net of tax)	(645)	(1,327)
Total comprehensive result	(529)	(1,275)
Net cash inflows (outflows) from operating activities	456	461
Net cash inflows (outflows) from investing activities	(652)	(548)
Net cash inflows (outflows) from financing activities	194	85
Assets		
Current assets	248	226
Non-current assets	11,475	12,041
Total assets	11,723	12,267
Liabilities		
Current liabilities	366	345
Non-current liabilities	8,574	8,503
Total liabilities	8,940	8,848
Total equity	2,783	3,419

* Table may not add due to rounding.

Statement of Comprehensive Income

Operating result

SA Water's profit after income tax equivalents expense increased by $63.7 million to $115.8 million. The following chart shows its income, expenses (including income tax) and profit after income tax for the five years to 2024.



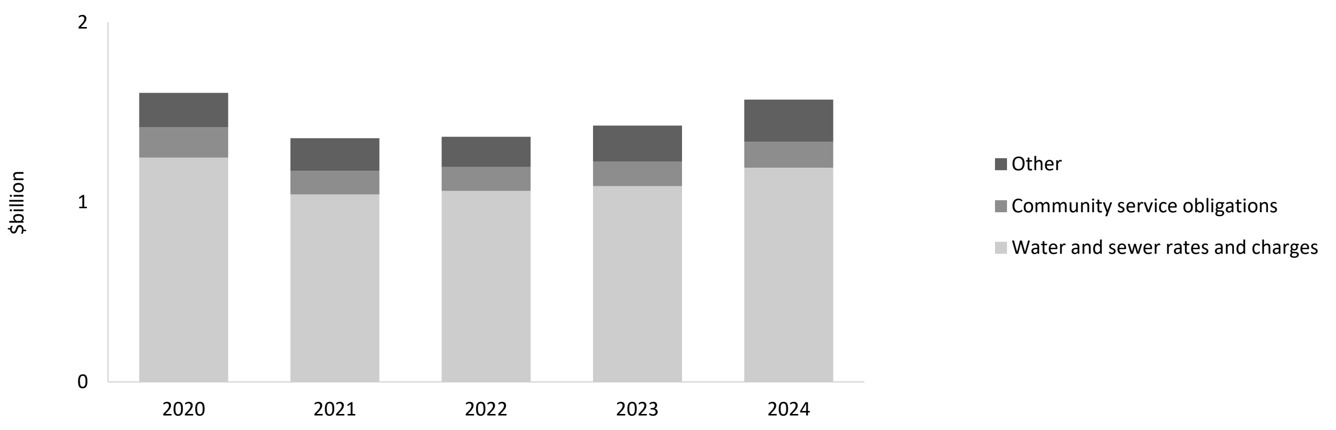
Since 2013 the Essential Services Commission of South Australia (ESCOSA) has regulated the revenue that SA Water can earn from providing drinking water and sewerage retail services. ESCOSA determines the revenue (not price) that SA Water can derive from these services, with SA Water setting annual water and sewerage charges to achieve these revenue limits, and ESCOSA monitoring SA Water's performance.

The chart above shows the decrease in SA Water's profit after income tax corresponding with the impact of the 2020 pricing order from the Treasurer and ESCOSA's final revenue determination for 2020–2024, which reduced income from the prior regulatory period.

There is more information on ESCOSA's role in making revenue determinations and the Treasurer's pricing orders under 'Further commentary on operations' below.

Income

The following chart shows SA Water's main sources of income for the five years to 2024.



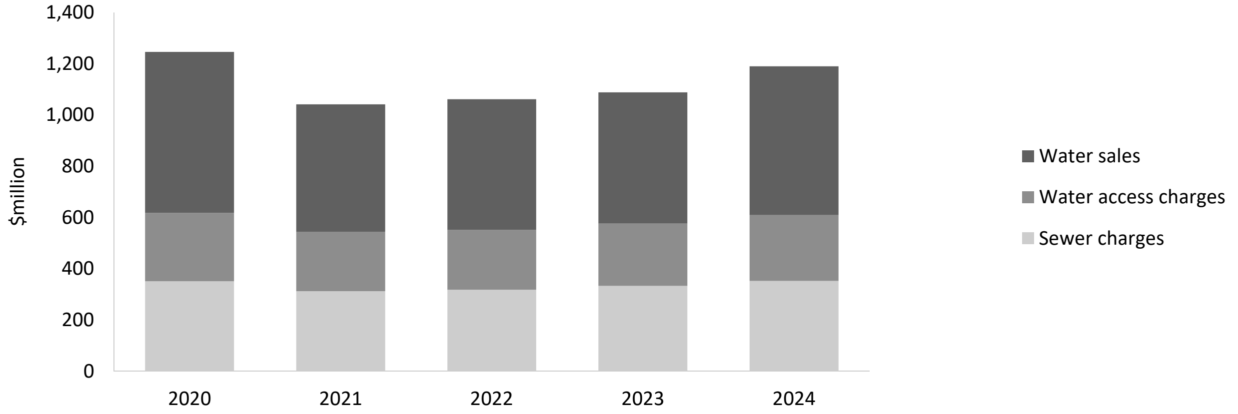
The chart shows total income falling by $252 million in 2021, largely due to a reduction in income from water and sewer rates and charges following the implementation of a new regulatory period. Since then income gradually increased as SA Water progressed through the 2020–2024 regulatory period. In 2024 its total income increased to $1.6 billion.

Water and sewer rates and charges

The major source of SA Water's income is water and sewer rates and charges, which mainly comprises:

- water sales, charged by volume of water used
- water access charges, mainly set at a fixed amount
- sewer charges, mainly set on property values.

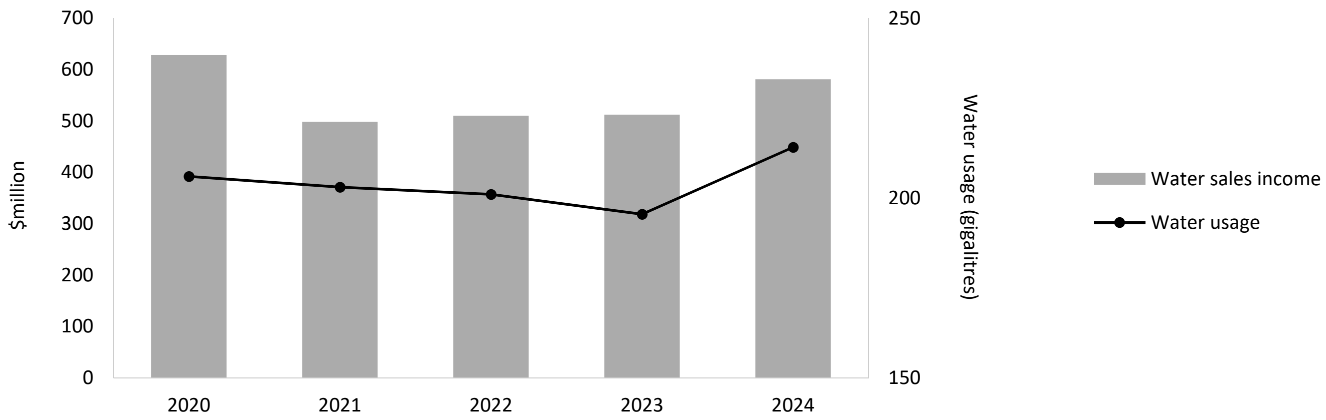
The following chart shows these components for the past five years.



Water and sewer rates and charges revenue is affected by changes in prices charged and water consumption.

The SA Water Final Regulatory Determination 2020 (Final Determination) established significant reductions in the total revenue that SA Water could recover in the four years starting 1 July 2020. This resulted in reductions in the current regulatory period of 16% ($494 million) and 4% ($54 million) for drinking water and sewerage retail services, respectively, compared to the amounts determined for the previous regulatory period (2016–2020) in December 2014 dollars. ESCOSA reported that this revenue reduction was driven primarily by lower market-based debt and equity financing costs (through the regulated rate of return). There is more information on ESCOSA's role in making revenue determinations under 'Further commentary on operations' below.

The following chart shows water usage and water sales income for the five years to 2024.



Water usage fell from 206 gigalitres in 2020 to 195.5 gigalitres in 2023. In 2024, there was a large increase to 214.1 gigalitres due to below average rainfall and above average temperatures through most of the year, despite December and January having significant rainfall events. There was also a growing need for water resources due to factors such as population growth, urbanisation and economic development. Water sales income has been gradually increasing since 2021 (the start of the current regulatory period) due to the price increases applied. In 2024, water prices increased by 4% on average.

The factors affecting water and sewer prices are discussed further under 'Further commentary on operations' below.

Community service obligations (CSOs)

SA Water is required to provide a number of non-commercial services to the community on behalf of the SA Government. The SA Government provides SA Water with CSO funding to compensate it for these activities. CSO revenue increased by $8.4 million to $144.7 million in 2024. It includes the following amounts to compensate SA Water:

- $107.6 million ($107.6 million) for the shortfall in the recovery of costs associated with country water and sewer services (due to the requirement for statewide pricing)
- $19.5 million ($18.9 million) for the provision of water and sewer exemptions and concessions to certain properties, including charities and public schools
- $17.6 million ($9.9 million) for other payments such as Tea Tree Gully sustainable sewers capital works, South Australian Government Radio Network and emergency functional services, and maintaining water and sewerage services in remote communities.

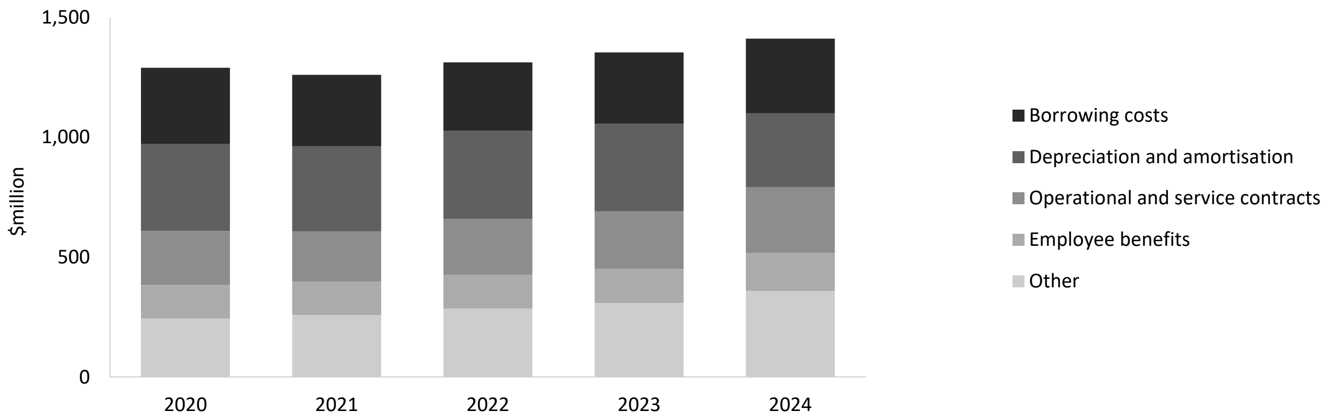
CSOs are provided under SA Water's financial ownership framework, which is agreed with the Department of Treasury and Finance.

Other income

Income from all other sources increased by $32.6 million to $233.8 million and includes income from contributed assets and recoverable works – which can vary from year to year depending on economic conditions and government initiatives – and gains on the disposal of infrastructure and other assets.

Expenses

The following chart shows SA Water's main expenses, excluding income tax equivalents expense, for the five years to 2024.



Total expenses (excluding income tax equivalents expense) increased by $57.2 million to $1.4 billion in 2023-24.

Borrowing costs are SA Water's largest expenses at $311 million (22%). They are impacted by both the size of SA Water's debt and movements in interest rates. SA Water's total borrowings increased by $321.7 million in 2024 and the associated interest expense increased by $13.6 million. As SA Water's long-term borrowings are held at fixed rates, recent movements in interest rates are yet to have a significant impact.

Depreciation and amortisation are SA Water's second largest expenses at $309.1 million (21.9%). Both decreased in 2023-24, mainly as a result of the downward revaluation of SA Water's infrastructure, plant and equipment assets.

Operational and service contract expenditure relates to contracts that SA Water has with service delivery providers for metropolitan field operations (including maintenance for the metropolitan pipe network) and water production and treatment. These expenses increased by $33.6 million in 2024, due largely to:

- increased contractors and external services being required for large initiatives including Metro Alliance major maintenance, tank hatch maintenance, waste water mains cleaning, cyber security, backfilling vacancies and support services
- additional activity undertaken for remote communities CSO work
- partially offset by a reduction in volume costs for Adelaide metropolitan service contracts.

Employee benefits expenses increased by $16.6 million to $159.1 million in 2023-24. Increases in salaries and wages were mostly due to Enterprise Agreement salary increases, an increase in the superannuation rate paid to staff from 10.5% to 11% and reductions in staff vacancies.

Other expenses include services and supplies, electricity expenses, asset write-offs and revaluation decrements. Asset write-offs increased by $29.4 million to $32.2 million, which included $17.7 million in preliminary costs associated with SA Water's initial preferred site for the Eyre Peninsula desalination plant – Sleaford West. As a result of SA Water's investigations, the cost estimate for building the plant at this location was unacceptably higher than the base case. Billy Lights Point is now the preferred location for the desalination plant.

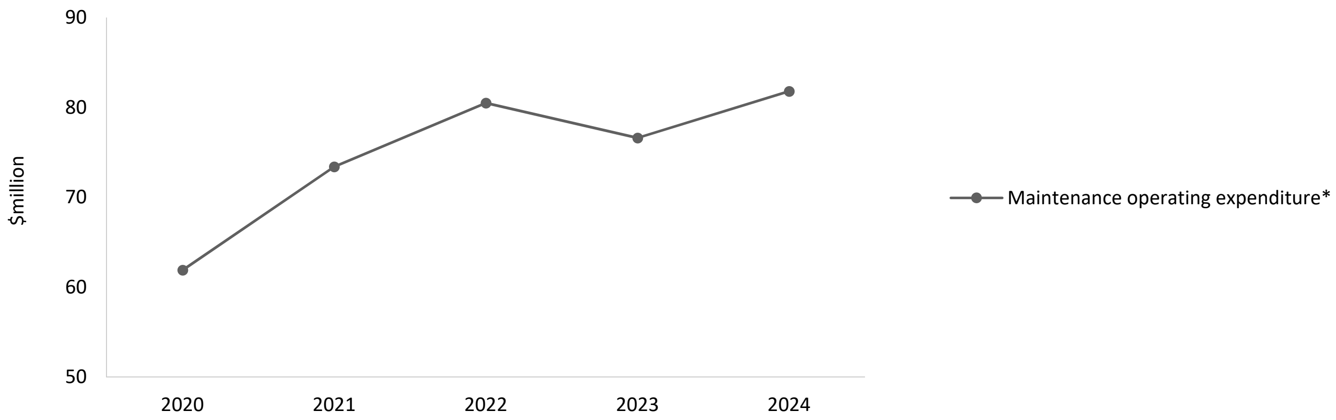
Services and supplies decreased by $5.3 million to $204 million in 2024, largely due to:

- a $3.5 million decrease in materials and chemicals, mainly because additional chemicals were needed in 2023 to respond to the River Murray flood event, partially offset by an increase in costs and water production services
- a $4.1 million decrease in other services and supplies, mainly due to reduced costs associated with the River Murray flood event and a decrease in contract labour and general overheads
- offset by a $5.2 million increase in fees and charges related to a contract settlement payment and increased fee rates.

Electricity expenses increased marginally to $72.4 million. SA Water introduced its Zero Cost Energy Future (ZCEF) program to manage its energy price risk. This program included the purchase and installation of 152 megawatts of solar photo-voltaic generation panels and 35 megawatt hours of energy battery storage.

Maintenance expenditure

The following chart shows SA Water's routine maintenance and repairs expenditure on water and sewerage assets since 2020.



* Data was provided by SA Water and is unaudited.

Maintenance and repairs expenditure, including pipe maintenance, increased each year until 2023, when it fell by $3.9 million to $76.6 million. Before that the last decrease was in 2019, which was also the end of the previous regulatory period. Expenditure increased to $81.8 million in 2024.

There are a number of factors that affect the level of maintenance, including the nature of the pipe being maintained (metropolitan or country infrastructure), location, age and reason for the maintenance. SA Water also incurs capital expenditure to renew its network, which is discussed below.

Pipe bursts data

Maintenance includes the costs of responding to pipe failures, or bursts. The number of bursts over the last five years is shown in the table below.

	2019-20 Number	2020-21 Number	2021-22 Number	2022-23 Number	2023-24 Number
Reported pipe bursts:*					
Metropolitan	1,849	1,838	1,917	1,879	1,928
Country	1,996	1,838	1,506	1,833	1,872
Total	3,845	3,676	3,723	3,712	3,800

* Data was provided by SA Water and is unaudited.

The Bureau of Meteorology's 2022-23 national performance report for urban water utilities reports that SA Water's water main breaks, bursts and leaks rates were sixth lowest among 15 major urban water utilities in 2023.

Other comprehensive income

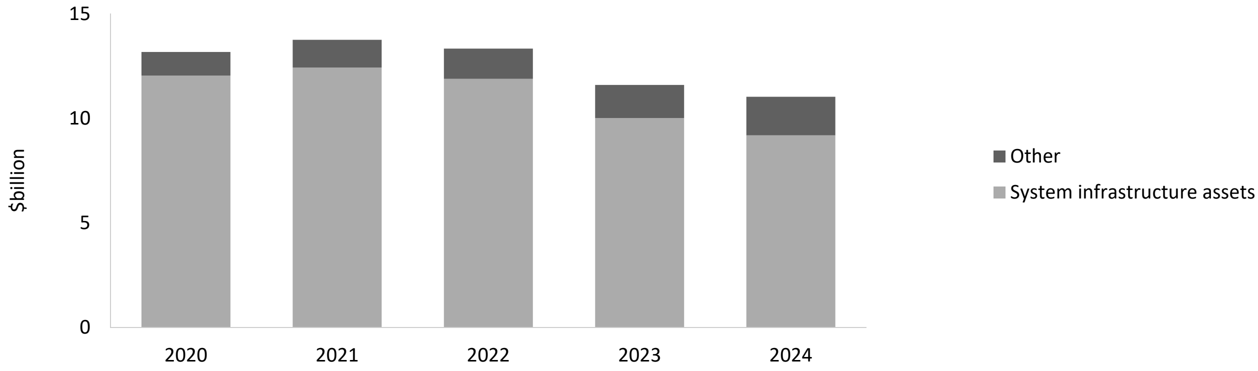
Other comprehensive income includes gains and losses on the revaluation of infrastructure, plant and equipment, and the income tax equivalent impact of these revaluations. In 2024 other comprehensive income saw a loss of $645.2 million compared to a loss of $1.3 billion in 2023, mainly due to the downward revaluation of infrastructure assets. This is discussed further under 'Statement of Financial Position' below.

Statement of Financial Position

SA Water's financial position is dominated by water and sewer infrastructure assets and related borrowings.

Assets

System infrastructure assets are operationally and financially significant to SA Water, representing $9.2 billion (78%) of the $11.7 billion in total assets. The following chart shows the movement in infrastructure, plant and equipment assets for the five years to 2024, most of which are system infrastructure assets.



Infrastructure, plant and equipment assets have decreased by $2.1 billion since 2020, reflecting net revaluation decrements and depreciation, offset by additions to water and sewer infrastructure.

Total assets decreased by $543.4 million in 2024. Significant movements affecting assets during the year were:

- the downward revaluation of system infrastructure assets and renewable energy assets of $1 billion
- depreciation and amortisation charges of $309.1 million
- an asset write-down of $28.4 million for works in progress, mainly related to finding a new site location for the Eyre Peninsula desalination plant and abandoned water and sewerage main assets
- partially offset by the upward revaluation of land of $35.9 million and the acquisition of infrastructure, plant and equipment of $729 million. Asset purchases include water and sewer mains and pumping stations, sewerage connections, water tanks and major pipeline network renewals.

An income approach is used to value system infrastructure assets

System infrastructure assets include water and sewer pipes, treatment plants, pumping stations, storage assets and buildings. These assets deliver water, sewerage and recycled water to and from the customer through SA Water's integrated network of assets.

Since 2020 SA Water has used an income approach to value its system infrastructure assets. It measures the fair value of its system infrastructure by estimating the net future cash flows generated by the use of its water and sewer assets, discounted to present value using a weighted average cost of capital. The fair value of system infrastructure assets is determined by calculating the total value of all SA Water assets that contribute to generating future cash flows and deducting asset classes that have been separately valued using the market or cost approach (such as land).

A separate income valuation is performed for renewable energy assets, as these assets generate a separately identifiable income source from the water and sewer assets (see 'Zero Cost Energy Future (renewable energy) assets' below for more information on the valuation of ZCEF assets).

SA Water aligns its approach to determining the future cash flows with the methodology ESCOSA applies. In addition to the cash flows for regulated assets under this approach, SA Water's fair value calculations include estimated cash flows from non-regulated assets, which are not included in ESCOSA's methodology. The valuation of SA Water's assets in its financial statements does not affect the regulated asset base used by ESCOSA when making revenue determinations (see 'Regulation of water and sewer rates and charges' below for information about the regulated asset base).

Asset valuations are sensitive to changes in assumptions

The discounted cash flow model SA Water uses to determine the fair value of its system infrastructure assets is highly sensitive to changes in key assumptions and inputs.

The primary driver of a discounted cash flow model is the income forecasting used in the predicted future cash flows. As noted above, SA Water uses the methodology ESCOSA applies in determining its future cash flows. The positioning within the regulatory period therefore impacts the certainty of revenue forecasts. Early in the regulatory period, the maximum allowable revenue is known. As the regulatory period progresses, the forecast makes assumptions about future revenue amounts that fall outside of the current regulatory period. As SA Water is at the beginning of the 2024–2028 regulatory period, its future revenue forecasts are more certain. A key driver of the fair value movement in water and sewer assets in 2023-24 was the expected price increases to water and sewerage rates being 3.5% plus CPI effective from 1 July 2024.

The following variables have the greatest impact on the fair value calculations:

- the nominal post-tax weighted average cost of capital used to discount future expected cash flows to present values, reflecting the relative risk of the business and the time value of money
- the perpetual nominal growth rate used to estimate the future growth in net cash flows, which is based on long-term inflation estimates
- estimates of future capital expenditure using the ESCOSA final capital expenditure determination as a basis.

The table below demonstrates the sensitivity of the calculation and the impact that small changes in these variables have when estimating the fair value of SA Water's system infrastructure.

Discount rate	Rate applied %	If higher by +0.1%	If lower by -0.1%
Nominal post-tax rate	4.63%	4.73%	4.53%
Calculated fair value of infrastructure, plant and equipment ($billion)	11.154	10.521	11.853
Resulting change ($million)		(633)	699

Perpetual nominal growth rate	Rate applied %	If higher by +0.1%	If lower by -0.1%
Nominal post-tax rate	2.58%	2.68%	2.48%
Calculated fair value of infrastructure, plant and equipment ($billion)	11.154	11.808	10.561
Resulting change ($million)		654	(593)

Sustainable capital expenditure	Value applied	If higher by $10 million	If lower by $10 million
Nominal post-tax value ($million)	469.7	417.4	397.4
Calculated fair value of infrastructure, plant and equipment ($billion)	11.154	10.745	11.563
Resulting change ($million)		(409)	409

In 2024 the revaluation of system infrastructure assets resulted in a downward revaluation of $967 million, due mainly to:

- higher projected cash outflows for approved capital expenditure to progress key infrastructure projects as outlined in the 2024–2028 regulatory determination (RD24)
- partially offset by increased projected cash inflows due to the price directive issued by the SA Government to increase water and sewerage rates by 3.5% plus CPI from 1 July 2024, resulting in the regulatory rate of return in the terminal value calculation increasing by 0.65% to 3.42%.

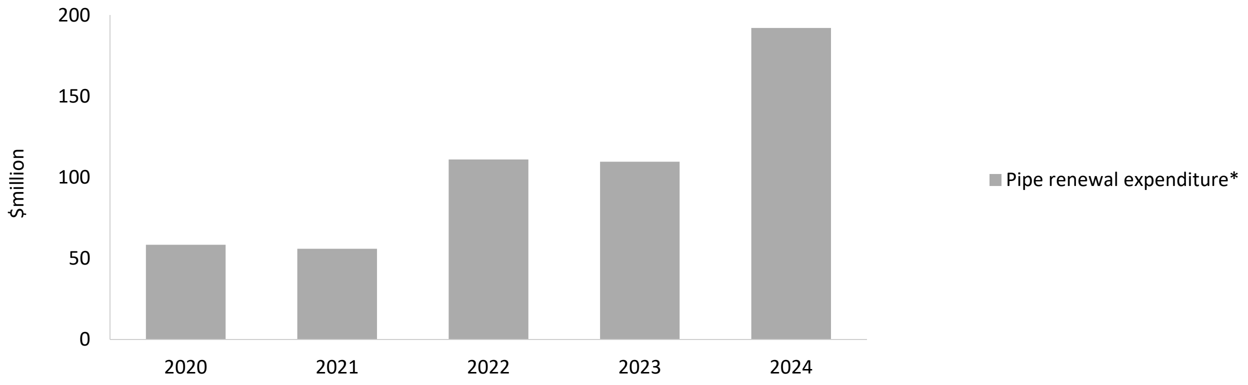
The following data provides an overview of SA Water's water and sewer infrastructure assets and their value at 30 June 2024. Data on assets was provided by SA Water and is unaudited.

Water	Assets	Value
Water customer connections	811,387	$536 million
Major pipelines and trunk mains	27,515km	$2.9 billion
Water treatment plants	50	$516 million
Dams/Weirs	30	$444 million
Desalination plants	8	$873 million

Sewerage	Assets	Value
Customer wastewater connections	638,739	$494 million
Wastewater mains	9,413km	$1.4 billion
Treatment plants	30	$923 million

Renewal of the water and sewer pipe networks

The following chart shows SA Water's pipe network renewal expenditure for both water and sewer pipes, which includes major projects for each year.



*   Data was provided by SA Water and is unaudited.

The chart shows pipe renewal expenditure increasing, with initiatives to replace water mains commencing in 2022 and further capital expenditure in 2023 and 2024 for major projects such as the Morgan to Whyalla pipeline renewal.

Zero Cost Energy Future (renewable energy) assets

The ZCEF project involved installing over 367,000 solar panels across 33 of SA Water's high electricity usage sites, along with battery storage. The project originally aimed to provide 70% of SA Water's electricity needs.

ESCOSA informed SA Water that capital costs associated with the ZCEF project could not be included in the Final Determination. This was because, in ESCOSA's view, water and sewerage users were not adequately protected from the risks and benefits of the program not being realised. By treating the ZCEF program as an unregulated activity, ESCOSA removed from its final revenue determination all costs of the program and all future savings that SA Water expects to receive from it. All risks and benefits from the ZCEF program will therefore accrue to SA Water and the SA Government. Final drinking water and sewerage retail service revenues for the current regulatory period do not reflect the expected future savings, or costs, arising from the ZCEF program.

SA Water has elected to value its ZCEF assets using the income approach through a discounted cash flow model, using electricity market data and renewable energy certificate pricing estimates. The inputs used for the cash flows are largely derived from the capacity output of the ZCEF program based on estimated energy prices over the life of the assets, up to 2050.

The revaluation using the income approach resulted in a downward revaluation of $47.3 million in 2023-24. This is recognised as other expenses in the Statement of Comprehensive Income, as there is no existing revaluation reserve for this class of assets after it was also revalued down by $22.1 million in 2022-23. The written down value of these assets at 30 June 2024 is now $212.3 million.

Liabilities

SA Water's total liabilities increased by $92.3 million to $8.9 billion in 2023-24. Borrowings represent 86% of total liabilities. SA Water has significant debt to maintain the minimum gearing ratio stipulated by the SA Government (see 'Financial ownership framework, charter and performance statement' below for more information). The increase in total liabilities is largely due to:

- an increase in borrowings of $321.7 million to $7.7 billion to fund capital expenditure. SA Water's borrowings are with the South Australian Government Financing Authority (SAFA). Most of the debt is long term and at fixed interest rates
- partially offset by decreases in deferred tax liabilities of $244.2 million, down to $524 million, due to the tax effect of the system infrastructure assets revaluation offset by an increase in timing differences between tax and accounting depreciation.

Current assets and liabilities

At 30 June 2024 current liabilities amounted to $366 million, exceeding current assets of $247.7 million by $118.3 million. While such a deficiency in working capital can be of concern, SA Water has a strong cash flow position from operating activities and access to sufficient borrowing facilities with SAFA, which would enable all of its current liabilities to be met. A large component of its current liabilities is payables, comprising 69% (61%) of the balance.

Statement of Cash Flows

SA Water's cash decreased to $3.5 million in 2023-24. Its cash position is subject to significant changes associated with its operating, investing and financing activities. Factors affecting its cash flows include:

- receipts from customers of $1.45 billion ($1.35 billion), largely reflecting water and sewerage charges
- payments to suppliers and employees of $826 million ($759 million)
- investment in the construction and purchase of infrastructure, plant and equipment and intangible assets. In 2024 investing payments for assets totalled $652 million ($548 million), representing the number of large infrastructure projects
- the payment of a cash dividend to the SA Government of $107 million ($49.8 million)
- an increase in SA Water's financing requirements, with net cash inflows from borrowings totalling $321.7 million ($141.9 million).

Further commentary on operations

Financial ownership framework, charter and performance statement

SA Water operates under a financial ownership framework, charter and performance statement, all approved by the Treasurer and Minister. The *Public Corporations Act 1993* requires the charter and performance statement to be reviewed at the end of each financial year.

The performance statement defines the contribution to the SA Government in terms of dividends, repayment of capital, income tax equivalents and other rates and taxes. The key financial performance measures agreed to in the performance statement are shown in the following table.

Performance measure	Target 2023-24	Actual results 2023-24
Profit before tax ($million)	151.5	156.9
Tax expense ($million)	45.4	41.1
Dividend ($million)	103.9	107
Total contribution ($million)	149.3	148.1
Gearing ratio (%)*	52%	66.1%

* Total interest-bearing debt (including borrowings and lease liabilities) divided by total assets.

SA Water's actual contribution of $148.1 million was $1.2 million below its performance statement target. The target is calculated at 100% of profit, in line with SA Government requirements for government businesses. Adjustments for differences in forecast and actual profit may be addressed through an interim dividend in the next financial year.

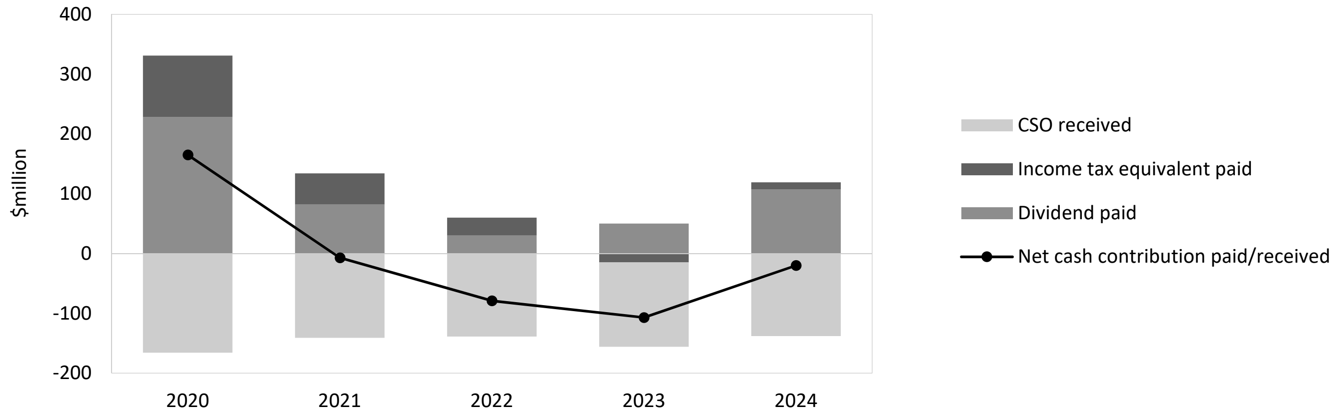
SA Water's performance statement and financial ownership framework includes CSO payments from the SA Government to support non-commercial services (see 'Community service obligations (CSOs)' above) and requires SA Water to maintain a gearing ratio of at least 45%. For 2024 a target gearing ratio of 52% was specified, while the actual result was 66.1%. The gearing ratio represents the proportion of debt (interest-bearing liabilities) to assets for the entity. There was no specific dividend to be paid in 2024, as SA Water's gearing ratio was maintained above the predetermined target.

The following table summarises movements in the major items influencing SA Water's borrowings (debt).

	2020 $million	2021 $million	2022 $million	2023 $million	2024 $million
Net cash inflows from operating activities	518	438	372	461	456
Net cash outflows from investing activities	(576)	(446)	(455)	(548)	(652)
Surplus (Shortfall in) cash from operations after investing activities	(58)	(8)	(83)	(87)	(196)
Dividend payments to owners	(228)	(82)	(30)	(50)	(107)
Surplus (Shortfall in) funds to pay for dividends and investing activities	(286)	(90)	(113)	(137)	(303)
Net increase in borrowings	305	107	116	142	322

Net borrowings increased by $321.7 million in 2024, reflecting the new debt required to pay for dividends and investing activities. In September 2020, the Treasurer approved a core debt limit of $8.163 billion for SA Water, an increase of $1.13 billion from the previously approved debt limit of $7.037 billion. The approved working capital facility limit with SAFA as at 30 June 2024 was $150 million. This debt limit will be reviewed following the implementation of the 2024-28 Regulatory Determination period, with an expected increase to accommodate higher investment levels.

SA Water's cash contributions to the SA Government (dividends and net income tax equivalent paid) and CSO funding provided by the SA Government for the five years to 2024 are shown in the following chart.



The chart shows the amount of money returned to/received from the SA Government through income tax equivalent and dividend payments reducing significantly since 2020 before increasing in 2024. SA Water received a refund of income tax equivalents of $5.9 million in 2024 ($33.1 million), resulting in a net $19.7 million ($106.6 million) cash contribution from the SA Government.

Comparison with other water utilities

As discussed above, SA Water is required to maintain a debt to asset ratio of at least 45%. This is designed to ensure its debt is in line with other interstate water utilities.

The table below shows SA Water's 2024 gearing ratio and those of four major water utilities from around Australia as at 30 June 2023. SA Water's gearing ratio is above the others, although it is similar to Sydney Water and Yarra Valley Water.

	SA Water (2024)	Sydney Water	Melbourne Water	Water Corporation WA	Yarra Valley Water
Gearing ratio	66.1	60.2	44.7	26.9	57.8

SA Water's gearing ratio increased in 2024, up from 60.7% in the prior year. While total debt increased, SA Water's assets reduced as a result of infrastructure revaluations.

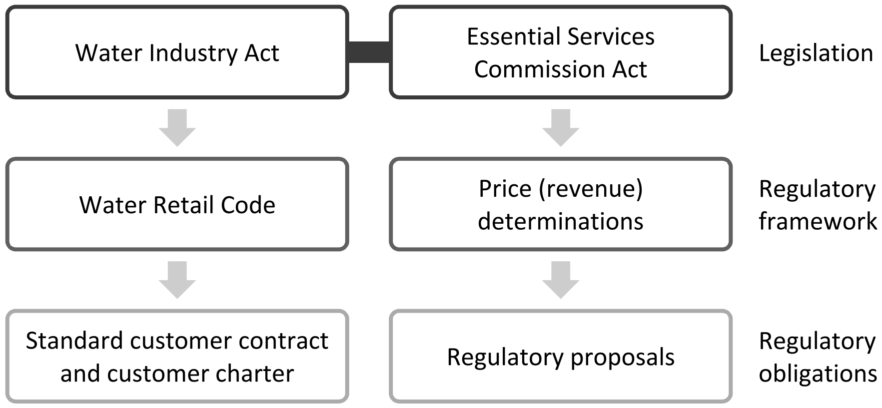
Regulation of water and sewer rates and charges

Essential Services Commission of South Australia

Under the *Water Industry Act 2012* (the WI Act) ESCOSA was appointed as the independent economic regulator for the South Australian water industry from 1 January 2013. SA Water operates within the requirements of the WI Act by holding a licence, and continuing to provide water supply and sewerage services.

Under the WI Act, ESCOSA is responsible for making revenue determinations. In making them, the WI Act requires ESCOSA to comply with the requirements of any pricing order issued by the Treasurer under the WI Act.

Legislation and regulatory framework



Pricing orders

The Treasurer has issued a number of pricing orders under the WI Act since September 2012. They have specified that ESCOSA is to determine the revenue (not price) that may be derived from the provision of drinking water and sewerage retail services (separately). ESCOSA considers specified values for SA Water's retail water and sewerage regulated asset bases (RABs) when determining the revenue for water and sewerage services.

In May 2020 the Treasurer issued a pricing order stating that from the regulatory period commencing on 1 July 2020, the RAB for the provision of drinking water retail services was to be set at $7.25 billion as at 1 July 2013 (in December 2012 dollars). This decrease in the RAB (from the previous $7.77 billion) reflected the outcomes of an independent inquiry into South Australian water prices, the *Abridged Advice – Final Report of the SA Inquiry into Water Prices*. The RAB for sewerage remained at $3.58 billion.

The RAB differs from the value of assets reported in SA Water's financial report. The total RAB assets as at 1 July 2013 specified in the pricing order were $10.83 billion in December 2012 dollars (comprising $7.25 billion for water services and $3.58 billion for sewerage services). This compared to SA Water's total assets at 30 June 2013 of $13.8 billion.

We provide no opinion on the amount of the RAB set by the Treasurer. The RAB is rolled forward each year based on regulatory principles to adjust for net capital additions, disposals and depreciation.

The current regulatory period that commenced on 1 July 2020 had a 194 gigalitre drinking water demand forecast for the first year, increasing each year to 195.5 gigalitres in 2024, the final year. Actual demand for 2023-24 was 214.1 gigalitres.

ESCOSA determinations

In June 2020 ESCOSA released the Final Determination to apply to SA Water for the period 1 July 2020 to 30 June 2024 (RD20). This established the total revenue that SA Water can recover in this four-year period for the provision of drinking water retail services and other allowable expenditure.

This RD20 determination sets SA Water's maximum allowable revenue for drinking water retail services at $2.54 billion over the four years (averaging $635 million per annum) and $1.22 billion for sewerage retail services (averaging $304 million per annum). These amounts are based on December 2018 dollars.

Based on 2020 estimations, they represent a reduction in SA Water's drinking water and sewerage retail service revenues of about 16% and 4%, respectively, over the four years. ESCOSA reported that the revenue reductions in the Final Determination were driven primarily by lower market-based debt and equity financing costs (through the regulated rate of return).

The caps on water and sewerage services revenue in the Final Determination are subject to a demand adjustment mechanism if actual water sales or sewerage connections differ materially from forecasts. ESCOSA monitors compliance with these caps, but any adjustments allowed under the regulatory framework, including any demand adjustments required, are assessed at the end of the regulatory period.

On ESCOSA's analysis, the revenue outcomes will provide SA Water with sufficient revenue to fund efficient operations, finance prudent investments on a long-term basis and meet the health, safety, environmental and customer service standards that apply to SA Water in the current four-year period. While its determination applies to this period, it considers SA Water's long-term asset management, financing and service delivery plans in making its determination.

SA Water was under the RD20 four-year revenue cap for wastewater due to decisions to pass on lower than CPI increases in 2022-23 and 2023-24. For water, however, SA Water was over the revenue cap due to higher than forecast water demand. This triggered an adjustment mechanism where ESCOSA applied a $30.9 million downward adjustment to the next regulatory determination (RD24).

ESCOSA has issued its final regulatory determination for the period 1 July 2024 to 30 June 2028 (RD24). This sets SA Water's maximum allowable revenue for drinking water retail services at $3.52 billion over the four years (averaging $881 million per annum) and $1.81 billion for sewerage retail services (averaging $451.5 million per annum). Compared to RD20, this is a 21% increase in the drinking water retail services cap and a 30% increase in the sewerage retail services cap, largely driven by the increase in the rate of return required to cover increased financing costs.

The increase in the revenue caps also reflects the recovery over time of $1.39 billion of capital expenditure that the SA Government requires SA Water to spend to deliver specific projects and programs during the period, including the Metropolitan Growth and Tea Tree Gully Sustainable Sewers programs. This amount will not be recovered entirely within RD24 but will be recovered over the life of the assets (in some cases up to 100 years). The impact of this requirement in the four-year period is slightly more than 2% of the overall cap.

SA Water pricing

SA Water sets annual water and sewerage charges within the revenue limits determined by ESCOSA, with ESCOSA then monitoring SA Water's performance. Prices vary according to customer type. Water charges for residential customers for the five years to 2024-25 are shown in the table below.

Residential water charges	2020-21 $	2021-22 $	2022-23 $	2023-24 $	2024-25 $
First tier: first 0.3836 kL per day	1.95/kL	1.97/kL	2.03/kL	2.13/kL	2.25/kL
Second tier: from 0.3836 kL to 1.4247 kL per day	2.78/kL	2.81/kL	2.90/kL	3.04/kL	3.21/kL
Third tier: over 1.4247 kL per day	3.01/kL	3.04/kL	3.14/kL	3.29/kL	3.48/kL
Annual residential water supply charge per year	271.40	274.40	283.20	296.80	314.40

Price increases for 2024 were below inflation in line with State Budget decisions. However, price increases for 2025 result in an increase to the average residential bill of 3.5% plus CPI. This is required to fund expenditure requirements as detailed in RD24, including expenditure related to the SA Government's housing strategy to support land development and maintaining and improving existing assets.

Regulatory accounting statements

SA Water is required to submit regulatory accounting statements to ESCOSA. Under Water Industry Guideline 2 *Water regulatory information requirements for major retailers*, issued under the *Essential Services Commission Act 2002*, ESCOSA has specified requirements for major retailers for the collection, allocation, recording and reporting to ESCOSA of regulated business data. We do not audit the regulatory statements submitted to ESCOSA, which are special purpose financial statements.

Superannuation sector overview

South Australian public sector superannuation

The SA Government and its controlled entities contribute to defined benefit and defined contribution superannuation schemes for their employees.

Defined benefit schemes provide post-employment benefits to members as defined by the relevant scheme rules. The main defined benefit schemes are now closed to new members.

Defined contribution schemes are post-employment benefit schemes under which the employer pays fixed contributions into a fund. The amount of benefits payable to members depends on a number of factors such as the amount of member and employer contributions, investment earnings and fees charged to the member's account.

The Auditor-General audits the following South Australian public sector superannuation schemes.

Scheme	Type	Membership/Beneficiaries
South Australian Superannuation Scheme (SASS)	Hybrid (defined benefit and defined contribution)	*Pension Scheme* SA Government employees who elected to contribute to SASS before 30 May 1986 *Lump Sum Scheme* SA Government employees who elected to contribute to SASS after 1 July 1988 and before 4 May 1994
Police Superannuation Scheme (Police Super)	Defined benefit	South Australian police officers who commenced employment with South Australia Police on or before 31 May 1990
Southern State Superannuation Scheme (Triple S)	Defined contribution	SA Government employees from 1 July 1995
South Australian Ambulance Service Superannuation Scheme (Ambulance Super)	Hybrid (defined benefit and defined contribution)	Employees of the SA Ambulance Service Inc
Super SA Retirement Investment Fund (SSARIF)	Mixed (income stream and defined contribution)	SA Government employees who have retired, or are nearing retirement age, or have ceased employment with the SA Government
Parliamentary Superannuation Scheme (Parliamentary Super)	Hybrid (defined benefit and defined contribution)	Members of Parliament
Super SA Select (Select)	Defined contribution	SA Government employees wishing to join a taxed scheme
Judges' Pensions Scheme (JPS)	Defined benefit	South Australian judges
Governors' Pensions Scheme (GPS)	Defined benefit	Former Governors of the State

Many schemes offer insurance services to their members, which may cover income protection, death, and total and permanent disability. Members of schemes not offering insurance, such as Select and SSARIF, may access insurance benefits by membership of Triple S or SSARIF's flexible rollover product.

All public sector superannuation schemes are exempt public sector superannuation schemes, which are superannuation schemes that are not regulated by the Australian Prudential Regulatory Authority (APRA) under Schedule 1AA of the Superannuation Industry (Supervision) Regulations 1994. However, while not regulated by APRA, for statutory purposes the schemes report to APRA under an agreement between the Commonwealth and State Governments.

These schemes have unique attributes that include, but are not limited to, the following:

- concessional contributions (ie contributions before tax) plus earnings may be released from the age of 55 (or 50 for Police Super members), on termination of South Australian public sector employment. This does not require permanent retirement
- non-concessional contributions plus earnings may be released irrespective of age on terminating South Australian public sector employment
- a member's preservation age will generally remain at age 55 (or 50 for Police Super members) and not increase to age 60.

A number of South Australian public sector superannuation schemes are also constitutionally protected (ie Triple S, SASS, Parliamentary Super, JPS, GPS, Police Super). Consequently, these schemes have the following unique attributes:

- concessional contributions are not taxed on receipt into the scheme, and therefore there is no requirement to deduct the 15% contributions tax
- there is no tax payable on contributions or earnings until the member leaves the scheme. This includes tax on fund income
- there are no annual concessional contribution caps, but a lifetime concessional contribution cap is in place
- annual non-concessional caps do apply to members of the constitutionally protected fund, however any tax payable levied by the ATO is against the member.

Administration and funds management

The following table shows the entities responsible for administering (ie receipting contributions and paying benefits) each of the public sector superannuation schemes.

Scheme	Entity responsible for administration
SASS, Triple S, SSARIF, Ambulance Super	South Australian Superannuation Board
Parliamentary Super	South Australian Parliamentary Superannuation Board
JPS, GPS	Legislation is committed to the Treasurer
Select	Southern Select Super Corporation
Police Super	Police Superannuation Board

Except for Police Super, the Department of Treasury and Finance – State Superannuation Office (Super SA) provides outsourced administration services to the schemes. The Police Super Office, an administrative unit of South Australia Police, provides administration services to Police Super.

The Superannuation Funds Management Corporation of South Australia (Funds SA) is responsible for investing and managing the superannuation schemes' funds in line with the *Superannuation Funds Management Corporation of South Australia Act 1995*.

Investments and related performance

Despite ongoing political and economic volatility, global markets remained resilient in 2023-24, with the investment partner to the South Australian public sector superannuation schemes, Funds SA, returning positive results for all investment options.

In 2023-24 the financial market performance was influenced by inflation speculation and cash rate adjustments by central banks in response to it. Unlike 2022-23 where the Reserve Bank of Australia increased the official cash rate by over 200% to 4.1%, the cash rate at 30 June 2024 had stabilised to 4.35%. This stabilisation was linked with inflation retreating from its December 2022 highs of 7.8%, to 3.8% by June 2024. This inflation reduction was driven by an easing in global supply chain pressures, and other factors.

The stabilised cash rate still contributed to positive returns from shorter-dated fixed interest assets in the Cash asset class and resulted in the Department of Treasury and Finance continuing to distribute interest earned on operating bank accounts.

At 30 June 2024, the superannuation schemes had $40.9 billion ($38.7 billion) in combined assets as reported in individual scheme statements of financial position. The fair value of these combined assets increased by $2.2 billion (5.7%), mainly reflecting strong investment returns.

Combined investment expenses, as reported in individual scheme statements of comprehensive income, was $126.7 million ($121.4 million) in 2023-24.

The 'Superannuation Funds Management Corporation of South Australia' commentary in this report provides an overview of Funds SA's 2023-24 investment option performance for its tax-exempt investment options and multi-sector strategies at 30 June.

The following table summarises the return rate for the balanced investment option, which represents over 45% of Funds SA's 'Funds under management' for tax exempt (ie constitutionally protected) schemes, as advised to us by Funds SA.

	2022	2023	2024
Balanced	(6.4%)	9.7%	8.3%

Surplus (Deficit) of net assets to member benefits liabilities

The SA Government controls and funds a number of defined benefit superannuation schemes designed to provide employees with pensions or defined lump sum benefits on retirement. Except for JPS and GPS, these schemes are now closed to new members.

At 30 June 2024, the total deficit/surplus of net assets to member benefits liabilities was $4.2 billion ($4.3 billion). This is shown in the table below.

	Net assets available for member benefits		Member benefits liabilities		Total equity over (under) funded	
	2023	2024	2023	2024	2023	2024
	$million	$million	$million	$million	$million	$million
SASS	4,606	4,514	8,867	8,666	(4,261)	(4,152)
Police Super	2,375	2,446	2,553	2,585	(178)	(139)
Parliamentary Super*	225	225	201	201	25	24
Ambulance Super*	219	220	186	183	31	34
JPS	323	333	269	277	54	56
GPS	3	3	4	4	(1)	(1)
	7,751	7,741	12,080	11,916	(4,330)	(4,178)

* Amounts included relate only to the defined benefit portion of the schemes.

The total unfunded member benefits liabilities (deficit of net assets to member benefits liabilities) were calculated in line with AASB 1056 *Superannuation Entities*.

Different liability balances are reported under separate accounting standards

The terms of these defined benefit schemes create an obligation for the SA Government to pay future benefits to scheme members. The SA Government estimates a $7.2 billion liability at 30 June 2024 for unfunded superannuation benefits in the 2024-25 State Budget (see 2024-25 Budget Paper 3 *Budget Statement*, page 53). This figure is significantly larger than the accumulated deficit of net assets to accrued benefits of $4.2 billion identified above.

This variance is mainly due to the different discount rates used to calculate accrued member benefit liabilities under AASB 1056, and the rate required under AASB 119 *Employee Benefits*. While both standards require measurement of the present value of expected future benefit payments, superannuation schemes are required to use a market-determined, risk-adjusted discount rate appropriate to the scheme. The discount rate applied to the 30 June 2024 valuation of accrued member benefit liabilities as advised to us by Super SA was 7% (7%) for all schemes, except Ambulance Super which used 6% (6%).

For the purposes of the State Budget and whole of government financial reporting, the SA Government's unfunded superannuation liability is measured in line with AASB 119, which requires the use of a risk-free discount rate reflecting the market yields on Commonwealth Government bonds. The discount rate at the time of the 2024-25 State Budget was 4.25% per annum (see 2024-25 Budget Paper 3 *Budget Statement*, page 56).

Catch-up funding cash payments continue

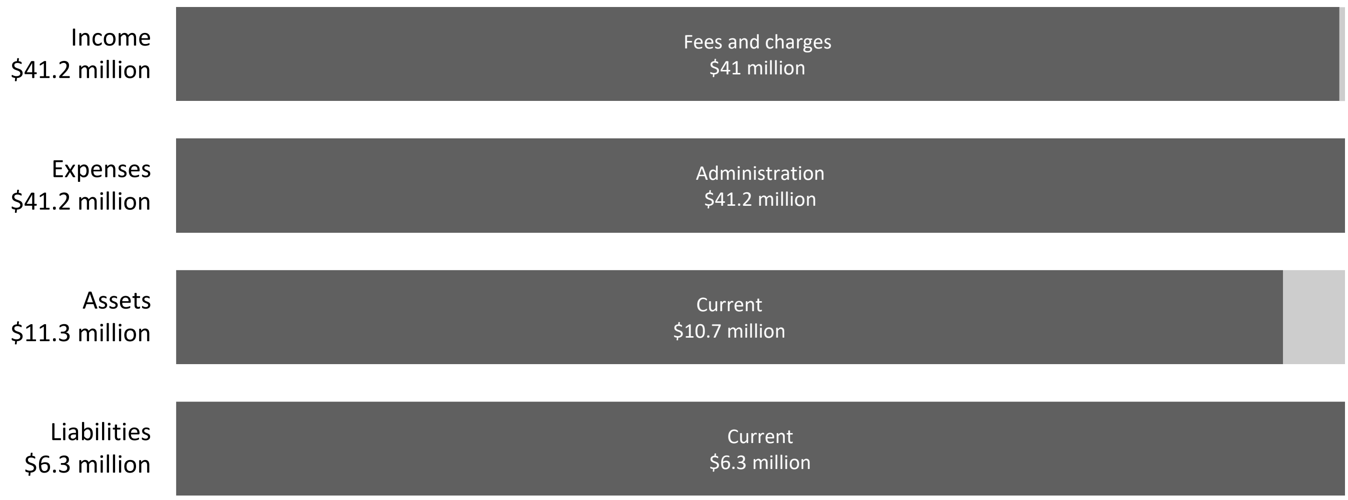
The unfunded superannuation liability is long-term in nature and can be subject to significant volatility, as reflected over the years in the short-term variability from valuation assumptions. For example, the discount rate and actual investment earnings can have an impact.

A program began in 1994-95 to fully fund all employer superannuation liabilities, with the aim to have the defined benefit schemes fully funded by 2034 (see 2024-25 Budget Paper 3 *Budget Statement*, page 56).

The estimated past service liability contribution for 2023-24 was $516 million (see 2024-25 Budget Paper 3 *Budget Statement*, page 56). The purpose of this contribution is to catch up the shortage of funding for employment in years before the full funding policy. The past service contribution is affected by a number of factors, including the long-term earnings rate on superannuation assets. Where investment performance exceeds the assumed rate, it is possible to reduce the level of past service payments required to fully fund superannuation liabilities by 2034. Additional contributions are needed to compensate for reduced earnings to remain on target.

South Australian Superannuation Board (SASB)

Financial statistics



Significant events and transactions

- In 2023-24 Super SA started to implement a unit pricing model that aligns with the Australian Securities and Investment Commission's regulatory guide pricing requirements.
- Investment performance for all investing options continued to be positive in 2023-24.
- In February 2024, the SASB appointed a new Chief Executive for the State Superannuation Office (Super SA).

Financial report opinion

Unmodified

Controls opinion findings

No significant findings.

Other audit findings

No significant findings.

Functional responsibility

SASB was established by the *Superannuation Act 1988* (Super Act). It is responsible to the Treasurer for administering the following superannuation schemes:

- South Australian Superannuation Scheme (SASS) under the Super Act
- Southern State Superannuation Scheme (Triple S) under the *Southern State Superannuation Act 2009*
- Super SA Retirement Investment Fund (SSARIF) under the *Southern State Superannuation Regulations 2009*
- South Australian Ambulance Service Superannuation Scheme (Ambulance Super) under the Super Act.

SASB's administration of these schemes involves maintaining:

- accounts in the names of all members
- employer contribution accounts
- proper accounts for each financial year on receiving contributions and paying benefits.

The Department of Treasury and Finance (DTF) – State Superannuation Office (Super SA) provides services to administer the schemes.

The Superannuation Funds Management Corporation of South Australia (Funds SA) is responsible for investing and managing the schemes' funds under the above legislation and the *Superannuation Funds Management Corporation of South Australia Act 1995*.

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. Specific areas of audit attention in 2023-24 included:

- reviewing ICT general controls for the general ledger and primary superannuation system
- investment valuations
- measuring accrued benefits and current funding position
- taxation.

We reviewed internal audit activities in planning and conducting our audit. No reliance was placed on this work.

Controls opinion

We reviewed controls over SASB's bank accounts as part of our overall controls opinion, which is discussed in Part B of this report.

Audit findings

No significant matters were identified by the audit.

Interpretation and analysis of the financial report

SASB's financial report reflects its administration role in that:

- revenue is mainly administration fee recoveries from the superannuation schemes
- expenses are mainly fees paid to DTF to administer the superannuation schemes.

Highlights of the financial report

	2024 $million	2023 $million
Income and expenses		
Total income	41.2	41.8
Total expenses	41.2	43.0
Total comprehensive result	-	(1.2)
Net cash provided by (used in) operating activities	0.7	(7.0)
Assets		
Cash and cash equivalents	4.4	3.7
Receivables	6.9	11.1
Total assets	11.3	14.8
Total liabilities	6.3	9.8
Total equity	5.0	5.0

Statement of Comprehensive Income

The total comprehensive result for the year was a loss of $50,000 (loss of $1.2 million). This result mainly reflects:

- revenue from recoveries of administration fees of $40.9 million ($41.7 million). These are the administration fees charged to the superannuation schemes SASB administers. SASB sets them to recover the costs of its operations from the schemes and the amounts it receives are paid to DTF as a reimbursement of actual costs incurred in operating SASB
- administration expenses of $41.2 million ($43 million). This amount is paid to DTF for administrative services.

As noted, both revenues and expenses remained relatively steady in 2023-24. This reflects the normalisation of administering costs following the impact of reforms in the prior year, including implementing the choice-of-fund option for members.

Statement of Financial Position

The main movements in the Statement of Financial Position included:

- a $4.2 million decline in receivables from sundry debtors and administration fees recoverable from the superannuation schemes and products that the SASB administers
- a $3.5 million decline in payables, mostly associated with a $2.5 million decrease in payables to DTF for administration fees.

General reserve

SASB has established a general reserve to:

- account for under and overspending on office expenditure
- provide for future project expenditure
- provide funding for the triennial SASB election.

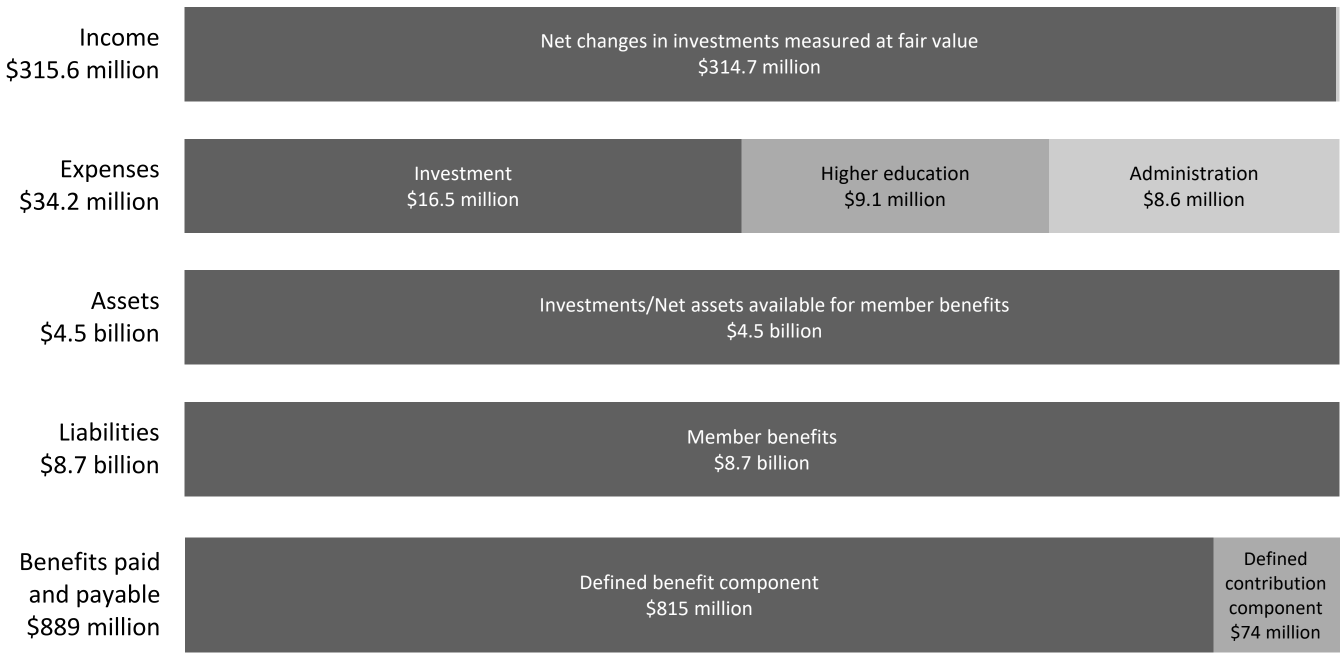
In 2023-24, SASB transferred $50,000 ($1.2 million) from the general reserve to retained earnings due to its negative operating result for the current year.

Further commentary on operations

In 2023-24 Super SA started to implement the first of two phases of a contemporary unit pricing model that aligns with the Australian Securities and Investment Commission's regulatory guide pricing requirements.

South Australian Superannuation Scheme (SASS)

Financial statistics



14,653
Members

$4.2 billion
Defined benefits underfunded

$462 million
Past service liability funding

Significant events and transactions	— Net changes in investments measured at fair value for 2023-24 were $314.7 million, reflecting the continuing resilience of world equity markets. — Investment performance delivered positive returns for all investment options.
Financial report opinion	**Unmodified**
Controls opinion findings	No significant findings.
Other audit findings	No significant findings.

Functional responsibility

SASS was established by the *Superannuation Act 1988*. It provides superannuation benefits for people employed by the SA Government and other prescribed people and makes provisions for their families.

SASS is divided into two segments – the Pension Scheme and the Lump Sum Scheme. The Pension Scheme is the superannuation scheme for SA Government employees who elected to contribute to SASS before 30 May 1986. Contributors are entitled to a pension-based benefit. The Lump Sum Scheme is the superannuation scheme for SA Government employees who elected to contribute to SASS after 1 July 1988 and up to 3 May 1994. Contributors are entitled to a lump sum-based benefit.

Scope of the audit

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:

- investment valuations
- measuring accrued benefits and current funding position.

We also reviewed controls over:

- contributions revenue
- benefits payments
- cash management
- maintenance of member accounts.

We reviewed internal audit activities in planning and conducting our audit. No reliance was placed on this work.

Controls opinion

We reviewed controls over SASS's bank accounts as part of our overall controls opinion, which is discussed in Part B of this report.

Audit findings

We did not identify any significant findings in our audit of SASS.

Interpretation and analysis of the financial report

Highlights of the financial report

	2024 $million	2023 $million
Assets		
Investments	4,471	4,595
Other assets	49	24
Total assets	4,520	4,619

	2024 $million	2023 $million
Liabilities		
Benefits payable and other current liabilities	6	13
Total liabilities	6	13
Net asset available to pay benefits	4,514	4,606
Member benefits		
Defined benefit member liabilities	8,230	8,407
Defined contribution member liabilities	431	460
Total member liabilities	8,661	8,867
Equity		
Defined benefits that are over (under) funded	(4,147)	(4,261)
Total equity	(4,147)	(4,261)
Revenue		
Changes in investments measured at fair value	315	387
Total revenue	315	387
Expenses		
Investment expenses	16	17
Higher education expense	9	9
Administration expenses	9	8
Total expenses	34	34
Result from superannuation activities	281	353
Net change in defined member benefits liabilities	(129)	(498)
Allocation to defined contribution member accounts	(39)	(35)
Operating result	113	(180)
Changes in member benefits		
Net contributions	517	417
Benefits to members (paid and payable)	(889)	(885)
Net cash flows from operating activities	(17)	(15)
Net cash flows from investing activities	415	484
Net cash flows from financing activities	(379)	(466)

Statement of Financial Position

Investments

Total investments decreased marginally by $124 million (2.7%) to $4.5 billion despite the net investment performance being positive overall in 2023-24. The decrease was mainly due to a 4.8% (4.5%) reduction in the number of members.

Member benefits liabilities

SASS is a defined benefit superannuation scheme. It is comprised of the old scheme whose members are entitled to a pension benefit payment and the new scheme whose members are entitled to a lump sum benefit payment.

The table below shows the net assets available for member benefits, member benefits liabilities and the resulting excess of liabilities over net assets.

	2023 $million	2024 $million
Net assets available for member benefits	4,606	4,514
Member benefits liabilities	8,867	8,661
Over (Under) funded member benefits liabilities	(4,261)	(4,147)

The $8.7 billion in member benefits liabilities comprises $8.2 billion (95%) for the defined benefit liability and $431 million (5%) for the defined contribution liability.

Total unfunded member benefits liabilities decreased by $114 million to $4.2 billion. This was largely due to:

- a decrease of $92 million in total net assets available for member benefits
- offset by an increase of $206 million in total member benefits liabilities.

As mentioned in the 'Superannuation sector overview' section of this report, the SA Government has committed to fully fund the defined benefit superannuation schemes by 30 June 2034.

The scheme uses the services of an actuary to calculate the present value of accrued benefit liabilities and the employer funded defined component liabilities based on various future assumptions. The demographic assumptions of the 2022 triennial actuarial review were applied to the calculation of the 2023-24 accrued member benefits liabilities. The following key assumptions were applied:

- the future rate of investment earnings (net of investment taxes and fees) of 7% (7%)
- salary increases for teachers of 4% (4%)
- salary increases for non-teachers of 2% per annum, with longer-term salary increases at 4% per annum
- long-term CPI factors of 2.5% per annum (2.5%).

Vested benefits

Vested benefits are the benefits members are entitled to, had their membership been terminated at the reporting date. The vested benefits at 30 June 2024 were $8.7 billion ($9 billion).

Income Statement

Investment revenue

Total revenue decreased to $315.6 million ($387.9 million) as a result of reduced, but positive, earnings from changes in investments measured at fair value.

Further details on investment returns are included in the 'Superannuation Funds Management Corporation of South Australia (Funds SA)' commentary in this report.

Expenses

Investment expenses decreased marginally by $1 million to $16 million.

Statement of Changes in Member Benefits

Contribution revenue

Contribution revenue and membership statistics, supplied by Super SA, are shown in the following table.

	2023 $million	2024 $million
Contributions for past service liability	360	462
Contributions by employers	19	17
Public authority employer contributions	29	31
Contributions by members	9	7
Total	417	517

	2022 Number	2023 Number	2024 Number
Pension Scheme members	13,898	13,469	13,004
Lump Sum Scheme members	2,218	1,920	1,649
Total	16,116	15,389	14,653

Net contributions increased by $100 million (24%) to $517 million, mainly due to:

- an increase of $102 million in contributions for the past service liability
- a decrease of $2 million in total contributions by employers and members.

Past service liability contributions represent funding from both SA Government (since 1994) and public sector employers to meet accrued superannuation liabilities. The SA Government expects to fully fund its liabilities by 30 June 2034. In 2023-24 the SA Government transferred $462 million ($360 million) into the South Australian Superannuation Scheme Contribution Account for past service liability funding.

The reduction in employer contributions is indicative of a closed scheme where the number of active members is decreasing due to retirements.

Benefits to members

Benefits to members expenses comprise the benefits paid and the change in the liability for accrued benefits. Benefits expenses can fluctuate significantly due to changing assumptions in the calculation of the estimated liability for accrued benefits. In 2023-24 the assumptions used varied to reflect the market movements, resulting in an increase in benefits to members of $4.3 million to $889.9 million.

An annual actuarial assessment of the defined benefit members liabilities is required by AASB 1056 *Superannuation Entities*. Details of the liability are provided under 'Statement of Financial Position' above.

Further commentary on operations

Funding of benefit payments

Benefit payments are funded from a number of sources that have remained relatively consistent. Over half of the benefit payments are funded from the South Australian Superannuation Scheme – Employer Account.

The South Australian Superannuation Fund portion of a benefit is fully funded. Member contributions are deposited into the Fund and, on payment of a benefit, a proportion of the amount is charged against the Fund. The amount charged is determined by legislation and regulation.

There are numerous arrangements covering the funding of the employer liability for accrued superannuation benefits. Depending on the employer's arrangement with the South Australian Superannuation Board they may either:

- make provisions for superannuation liabilities in their own accounts and pay for benefits as they emerge
- contribute fortnightly to employer contribution accounts managed by Funds SA, in this way funding their accruing liability
- make cash contributions to the Treasurer, which are invested with Funds SA.

Note 1(d) of SASS's financial report provides details of the various funding arrangements.

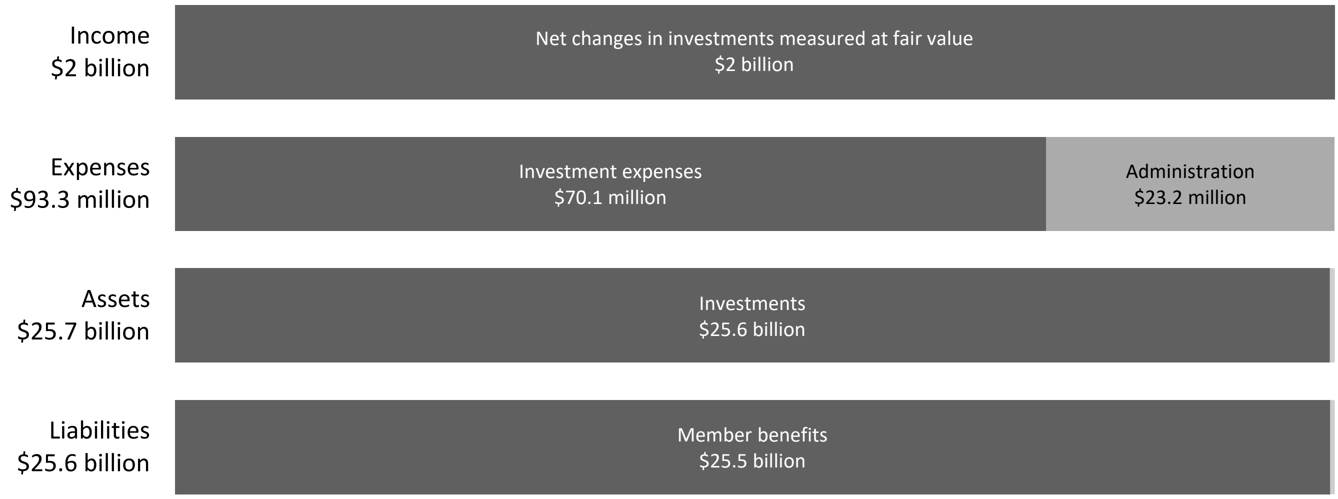
Although a portion of the total superannuation liability is currently unfunded, members' entitlements to benefits must be paid out of the Consolidated Account, or a special deposit account established for that purpose.

Membership statistics for the last three years, provided by Super SA, are shown in the following table.

	2022 Number	2023 Number	2024 Number
Pension Scheme			
Contributory	126	93	68
Preserved	143	114	90
Superannuants	13,629	13,262	12,846
Total	13,898	13,469	13,004
Lump Sum Scheme			
Contributory	1,432	1,210	1,037
Preserved	786	710	612
Total	2,218	1,920	1,649
Total members			
Contributory	1,558	1,303	1,105
Preserved	929	824	702
Superannuants	13,629	13,262	12,846
Total	16,116	15,389	14,653

Southern State Superannuation Scheme (Triple S)

Financial statistics



170,490
Members

$2.1 billion
Net contributions

Significant events and transactions

— Net changes in investments measured at fair value for 2023-24 were $2 billion, reflecting the continuing resilience of world equity markets.

— Investment performance for all investing options continued to be positive in 2023-24.

Financial report opinion

Unmodified

Controls opinion findings

No significant audit findings.

Other audit findings

No significant audit findings.

Functional responsibility

Triple S was established on 1 July 1995 by the *Southern State Superannuation Act 1994* and is continued under the *Southern State Superannuation Act 2009*. It is a defined contribution scheme that provides superannuation and other products and services for the benefit of people employed, or who have ceased employment, with the SA Government.

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. Areas of audit attention in 2023-24 included:

- ICT general controls review for the general ledger and primary superannuation system
- investment valuations.

We also reviewed controls over:

- contributions revenue
- benefits payments
- cash management
- maintenance of member accounts
- reconciling data from the superannuation administration systems to the general ledger.

We reviewed internal audit activities in planning and conducting our audit. No reliance was placed on this work.

Controls opinion

We reviewed controls over Triple S's bank accounts as part of our overall controls opinion, which is discussed in Part B of this report.

Audit findings

We did not identify any significant findings in our audit of Triple S.

Interpretation and analysis of the financial report

Highlights of the financial report

	2024 $million	2023 $million
Assets		
Investments	25,569	23,927
Other assets	108	96
Total assets	25,677	24,023

	2024 $million	2023 $million
Liabilities		
Benefits payable	57	29
Insurance liabilities and payables	51	40
Total liabilities	108	69
Net assets available for member benefits	25,569	23,954
Member benefits		
Member benefit liabilities	25,449	23,843
Total net assets	120	111
Total equity	120	111
Revenue		
Changes in investments measured at fair value	2,007	2,154
Interest revenue	2	1
Total revenue	2,009	2,155
Expenses		
Investment expenses	70	67
Other expenses	23	19
Total expenses	93	86
Result from superannuation activities	1,916	2,069
Insurance activities	(25)	(15)
Net benefits allocated to members accounts	(1,877)	(2,149)
Operating result	14	(95)
Changes in member benefits		
Net contributions	2,076	2,006
Benefits to members (paid and payable)	(2,347)	(2,070)
Net cash flows from operating activities	(36)	(26)
Net cash flows from investing activities	292	157
Net cash flows from financing activities	(250)	(127)

Statement of Financial Position

The accumulative nature of Triple S (a defined contribution scheme) means that member benefits liabilities are fully funded.

Net assets available for member benefits

Net assets available to pay member benefits increased by $1.6 billion (6.7%) to $25.6 billion. This reflects the accumulative nature of Triple S, where the increase reflects the contributions received and net investment income less benefits paid and other expenses.

Income Statement

Revenue

Total revenue decreased by $146 million to $2 billion, compared to a $3.5 billion increase last year that was driven by significantly higher earnings from net changes in investments measured at fair value. Global markets remained resilient in 2023-24, with all investment categories achieving positive returns.

The stabilisation of the Reserve Bank of Australia cash rate contributed to positive returns from shorter-dated fixed interest assets in the Cash asset class.

Further details on investment returns are included in the 'Superannuation Funds Management Corporation of South Australia' commentary in this report.

Expenses

Total expenses of $93 million increased by $7.5 million, driven by increases in investment expenses of $3.6 million and administration expenses of $3.9 million.

Statement of Changes in Member Benefits

Net contribution revenue

Net contributions increased by $70 million (3.5%) to $2.1 billion.

Details of contribution revenue and membership statistics, supplied by Super SA, are provided in the following table.

	2023 $million	2024 $million
Employer contributions	1,412	1,504
Member contributions	77	79
Transfers from other super entities	516	492
Government co-contributions	1	1
Total	2,006	2,076

	2023 Number	2024 Number
Contributory members	29,632	29,225
Non-contributory members	96,187	97,720
Preserved members	51,346	42,843
Spouses	742	702
Total	177,907	170,490

Active members of Triple S (including spouse members) can elect to make contributions. Employers are required to make contributions for active eligible contributory and non-contributory members.

In 2023-24 member numbers (including spouses) decreased by 7,417 (4.2%), driven by a decline in preserved members of 8,503 (16.5%).

Benefits paid and payable

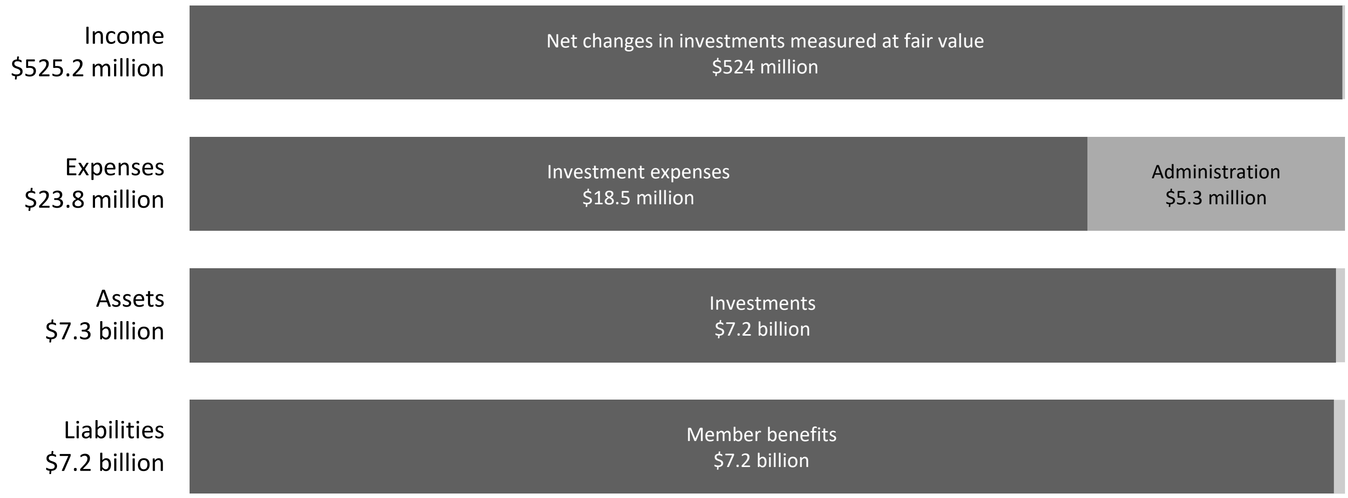
Benefits paid and payable to members increased by $277 million (13%) to $2.35 billion. This is in line with the number of exiting active members and the increased value of their member accounts at exit. The value of member accounts increased due to the positive investment performance in 2023-24.

Movements in benefits paid and payable for the last four years are shown in the following table.

	2021 $billion	2022 $billion	2023 $billion	2024 $billion
Benefits paid and payable	1.5	1.9	2.1	2.3

Super SA Retirement Investment Fund (SSARIF)

Financial statistics



22,329
Members

$7.2 billion
Net assets available for member benefits

Significant events and transactions	— Net changes in investments measured at fair value for 2023-24 were $524 million, reflecting the continuing resilience of world equity markets. — Investment performance delivered positive returns for all investment options.
Financial report opinion	**Unmodified**
Controls opinion findings	No significant findings.
Other audit findings	No significant findings.

Functional responsibility

SSARIF continues in existence under the *Southern State Superannuation Act 2009*. It provides investment services and other products and services for the benefit of people who have retired, are reaching retirement age or have ceased employment with the SA Government.

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. Areas of audit attention in 2023-24 included:

- reviewing ICT general controls for the general ledger and primary superannuation system
- investment valuations.

We also reviewed controls over:

- contributions revenue
- benefits payments
- cash management
- maintenance of member accounts.

The investment and management of SSARIF's assets is reviewed as part of the Superannuation Funds Management Corporation of South Australia (Funds SA) audit.

We reviewed internal audit activities in planning and conducting our audit. No reliance was placed on this work.

Controls opinion

We reviewed controls over SSARIF's bank account as part of our overall controls opinion, which is discussed in Part B of this report.

Audit findings

We did not identify any significant audit findings in our audit of SSARIF.

Interpretation and analysis of the financial report

SSARIF comprises transactions for the Super SA Income Stream (Income Stream) and Flexible Rollover products.

Highlights of the financial report

	2024 $million	2023 $million
Assets		
Investments	7,238	6,811
Other assets	57	23
Total assets	7,295	6,834
Liabilities		
Benefits payable	24	14
Other liabilities	51	38
Total liabilities	75	52
Net assets available for member benefits	7,220	6,782

	2024 $million	2023 $million
Member benefits		
Income Stream member liabilities	5,180	4,830
Flexible Rollover product member liabilities	2,030	1,939
Total member liabilities	7,210	6,769
Total equity	10	13
Revenue		
Net changes in investments measured at fair value	524	526
Other revenue	1	1
Total revenue	525	527
Expenses		
Investment expenses	19	18
Other expenses	5	4
Total expenses	24	22
Result from superannuation activities	501	505
Net benefits allocated to members accounts	499	538
Income tax expenses	2	2
Operating result	-	(35)
Changes in member benefits		
Net contributions	1,326	1,337
Benefits to members (paid and payable)	(1,386)	(1,246)
Net cash flows from operating activities	6	17
Net cash flows from investing activities	78	(106)
Net cash flows from financing activities	(51)	88

Statement of Financial Position

The accumulative nature of SSARIF (a mixed income and defined contribution scheme) means that member benefits liabilities are fully funded.

Net assets available for member benefits

Net assets available to pay member benefits increased by $438 million to $7.2 billion. This is mainly the result of positive investment returns associated with resilient world equity markets. The increase is also indicative of the accumulative nature of SSARIF, where the increases reflect the total of contributions received and net investment income less benefits paid and other expenses.

Income Statement

Revenue

Total revenue decreased slightly by $2 million to $525 million. However, overall investment performance continued to be strong, with world equity markets continuing to show resilience by delivering solid returns over 2023-24.

The stabilisation of the Reserve Bank of Australia cash rate contributed to positive returns from shorter-dated fixed interest assets in the Cash asset class.

Further details on investment returns are included in the 'Superannuation Funds Management Corporation of South Australia' commentary in this report.

Expenses

Total expenses increased marginally by $2 million to $24 million ($22 million) in 2023-24.

Statement of Changes in Member Benefits

Total net contributions decreased slightly by $11 million to $1.3 billion, mainly due to:

- a decrease of $18 million in rollovers from other schemes
- an increase of $2 million in income tax expense on rollovers.

Contributions to SSARIF are all voluntary and are therefore open to fluctuation.

Benefits paid or payable to members rose by $141 million (11%) to $1.4 billion due to:

- an increase of $75 million in payments from Income Stream
- an increase of $65 million in payments from the Flexible Rollover product.

The increase in benefits paid and payable is due to the rise in the number of members, resulting in more benefit payments to members. The increase in benefits paid and payable is also in line with the number of exiting members and the increased value of their member accounts at exit. The values of member accounts increased due to the strong investment performance during the year.

Total benefits available to members ultimately depend on the investment strategy and investment performance, with no guarantee of return provided by the SA Government.

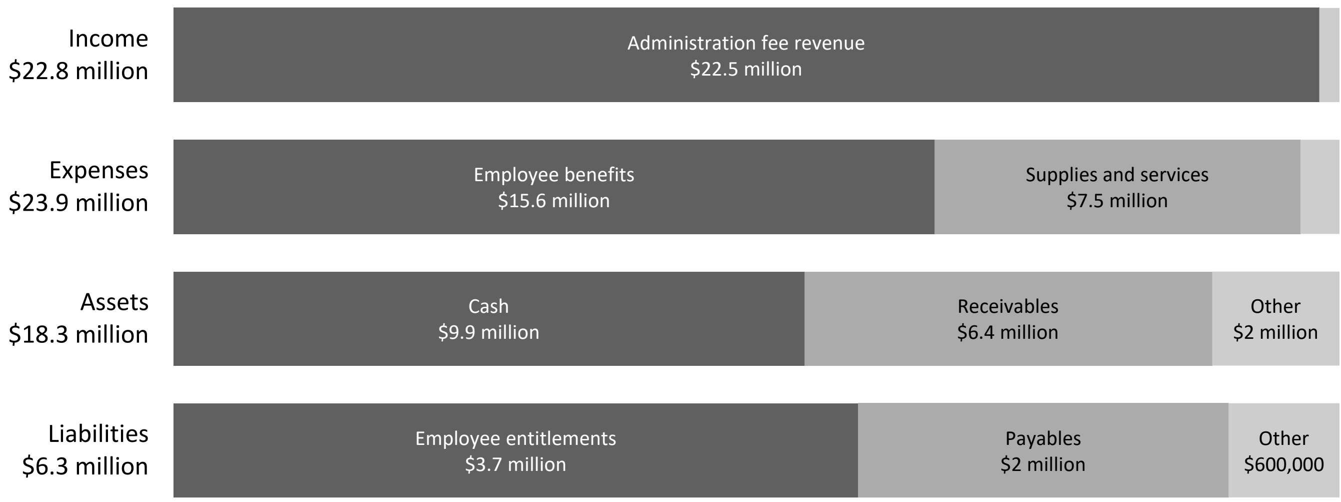
Further commentary on operations

Membership statistics provided by Super SA and total investments for the last four years are shown in the following table.

	2021 Number	2022 Number	2023 Number	2024 Number
Income Stream	12,122	12,811	13,381	13,912
Flexible Rollover product	6,782	7,572	8,074	8,417
Total	18,904	20,383	21,455	22,329
	$billion	$billion	$billion	$billion
Total investments	6.3	6.2	6.8	7.2

Superannuation Funds Management Corporation of South Australia (Funds SA)

Financial statistics

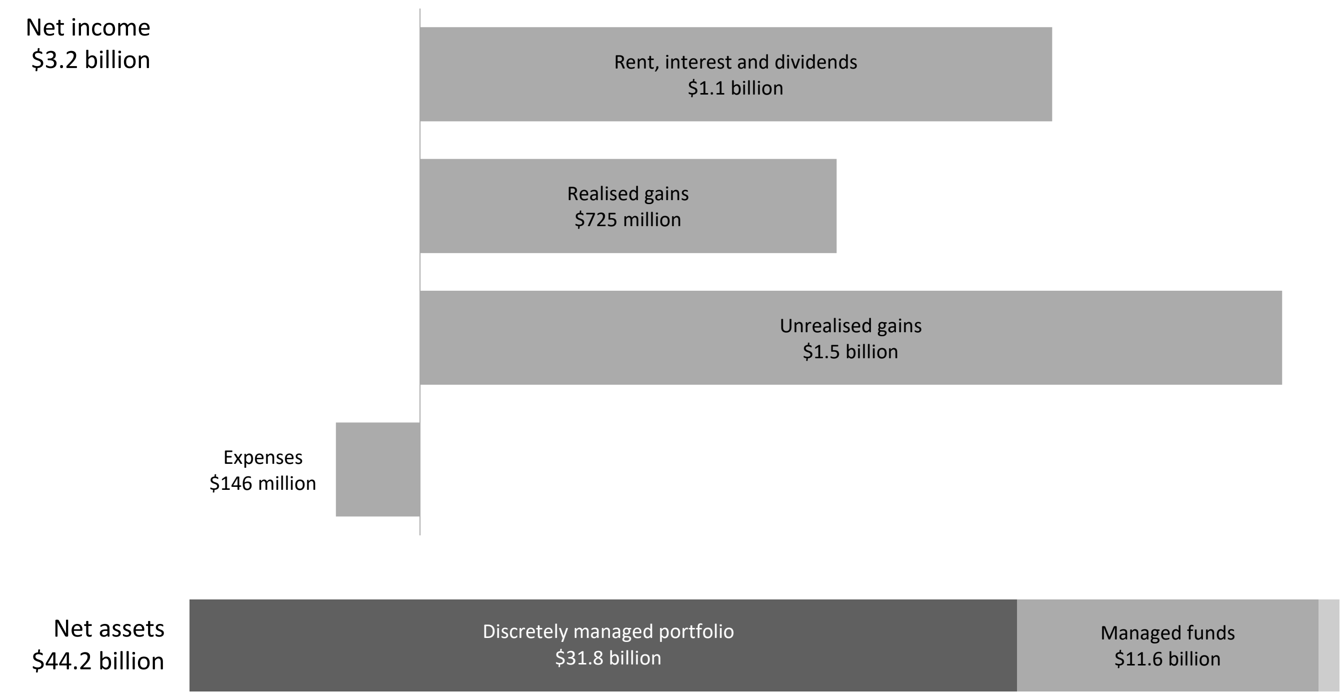


71
FTEs

17
Investment options

34
Client accounts managed

Funds under management



Significant events and transactions	— Funds under management increased by \$2.4 billion (6.3%) due largely to \$1.5 billion of unrealised gains, \$725 million of realised gains and \$1.1 billion of rent, interest and dividends, offset by \$814 million of net redemptions by clients. — Net investment income amounted to \$3.2 billion, of which \$2.6 billion was from international and Australian equities.
Financial report opinion	**Unmodified**
Audit findings	No significant findings.

Functional responsibility

Funds SA is a statutory authority established by the *Superannuation Funds Management Corporation of South Australia Act 1995* (the SFMCSA Act).

Funds SA's main function is to invest and manage the public sector superannuation funds, nominated funds of approved authorities and other funds (funds under management) under strategies it formulates.

Restrictions on operations

Under the SFMCSA Act, Funds SA is subject to the direction and control of the Minister. However, a ministerial direction must not be given for an investment decision, a dealing with property or the exercise of a voting right.

Funds SA has broad powers over investing funds under management. However it cannot borrow money or obtain any other form of financial accommodation unless authorised to by the Regulations under the SFMCSA Act or the Minister. The Regulations also prevent Funds SA from investing in real property outside the State or entering into derivative transactions (eg futures contracts, forward contracts and swaps) without the Minister's authority. The Minister has given this authority.

Structure

Funds SA staff operate across distinct business groups being investment, finance, operation, technology, data and analytics, corporate engagement, people and organisational performance, governance, risk and compliance, and business services. This structure is complemented by extensive use of external fund management firms. Funds SA employs a 'manager of managers' approach, using fund managers for most investments. A single custodian entity is used for the assets managed by most of those fund managers. The custodian is responsible for holding, valuing and accounting for the assets. Fund managers and the custodian are appointed under agreements that dictate the scope of investment services, fees and reporting requirements.

Funds SA outsources unit pricing, private equity administration and general ledger functions to the custodian, but remains responsible for developing investment strategies.

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. Areas of audit attention in 2023-24 included:

- investment policy and strategy approval and compliance
- client fund allocation and redemption transactions
- investment allocation, income and valuation
- monitoring of custodian activities
- fund manager appointment, monitoring and termination activities
- fund administration fees
- corporate general ledger, banking, payroll and expenditure.

We considered internal audit activities when planning and conducting the audit.

Controls opinion

We reviewed controls over investment assets under management as part of our overall controls opinion, which is discussed in Part B of this report.

Audit findings

Communicating our audit findings

We found that overall the controls established by Funds SA were satisfactory.

Controls opinion findings

There were no significant findings for our controls opinion work on Funds SA.

Interpretation and analysis of the financial report

Highlights of the financial report

Funds SA	2024 $million	2023 $million
Total income	22.8	21.5
Total expenses	23.9	22.3
Net deficit and total comprehensive result	1.1	0.8
Net cash provided by operating activities	0.8	-
Total assets	18.3	18.3
Total liabilities	6.3	5.3
Total equity	12.0	13.0

Funds under management	2024 $billion	2023 $billion
Net income	3.2	3.5
Net assets	44.2	41.8

Statement of Comprehensive Income

Funds SA's operating result for the year was a net deficit of $1.1 million ($798,000 deficit). Funds SA sets its administration fees annually under a cost recovery policy to cover budgeted corporate expenditure.

Income increased by $1.2 million (6%), due to administration fees charged for services provided to Funds SA clients reflecting higher average funds under management, which are the basis for calculating these fees. The rates charged did not change from the previous year.

Expenses increased by $1.6 million (7%) to $23.9 million, mainly because employee benefits costs rose by $1.3 million (9%) to $15.6 million due the employment of more staff. Funds SA had 71 FTEs at 30 June 2024 compared to 65 FTEs at 30 June 2023.

Further commentary on operations

Funds under management

Funds SA responsibilities

Funds SA exists to invest and manage the public sector superannuation funds, funds of eligible superannuation schemes and nominated funds of approved authorities. To do this, it has established a range of different investment options and tailored multi-sector strategies it offers to its clients. These options and strategies are a mix of differing strategic asset allocations to meet its clients' investment objectives, differing time horizons and levels of acceptable risks.

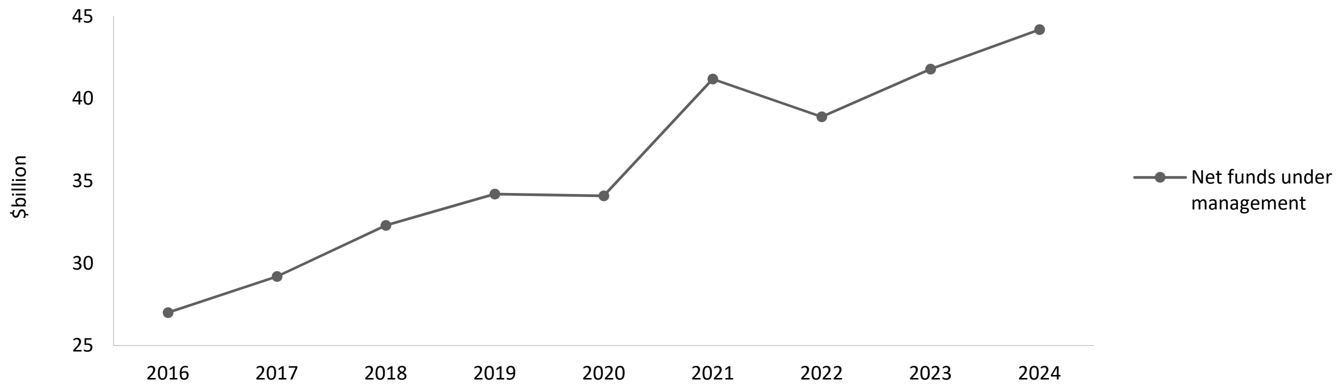
Funds SA is responsible for managing the investment portfolios it has established in line with asset allocations and investment performance reporting agreed with its clients.

Investor responsibilities

The public sector superannuation funds, eligible superannuation schemes and approved authorities work collaboratively with Funds SA to design investment strategies that meet their investment needs. They invest funds with Funds SA throughout the financial year to acquire units in an investment option, which in turn holds units in each of the asset classes that make up that option. They receive investment performance reporting to meet their responsibilities for their invested funds.

Funds under management increased in 2023-24

Funds under management increased by $2.4 billion from $41.8 billion to $44.2 billion in 2023-24 due to net investment income of $3.2 billion, offset by net investor redemptions of $814 million. The chart below shows the net funds under Funds SA's management at 30 June for the last nine years.

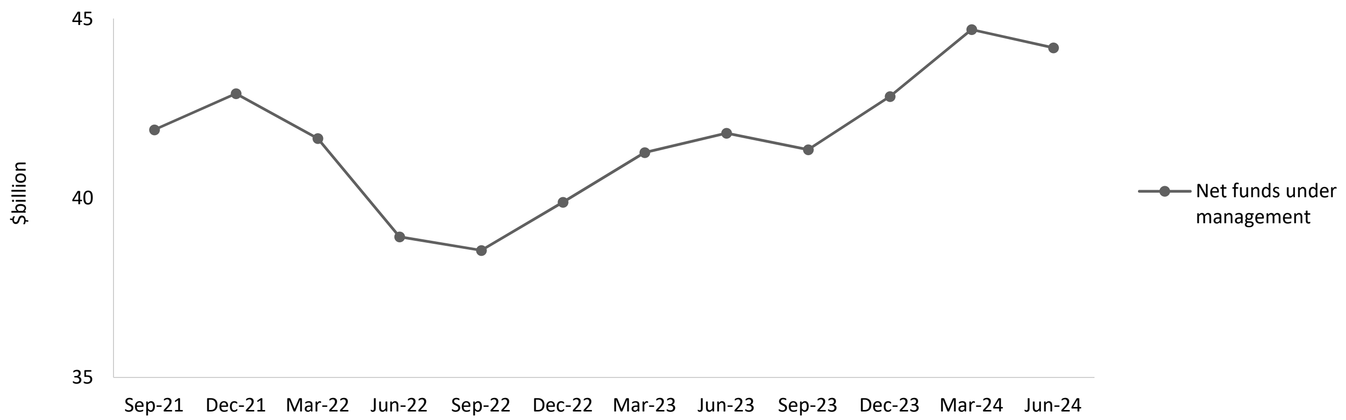


One of the main drivers of the change in funds under management is net investment income and losses. The chart above shows the general growth trend was impacted by global economic market responses, such as the COVID-19 pandemic, Russian-Ukrainian war. global inflation and rising interest rates. Notably investment income in:

- 2023-24 recorded a $3.2 billion gain
- 2022-23 recorded a $3.5 billion gain
- 2021-22 recorded a $2.1 billion loss
- 2020-21 recorded a $7.1 billion gain
- 2019-20 recorded a $274 million loss
- the period from 2017 to 2019 reflected strong consistent growth.

There is more discussion of these changes under 'Income from investments' below.

The following chart shows how funds under management fluctuated over each quarter for the past three years, and the impact of the above factors coinciding with the decline and recovery of the funds under management balance.



Funds invested at 30 June 2024

The value of Funds SA's funds under management at 30 June 2024 was $44.2 billion, with $41.2 billion from superannuation entities and $3 billion from other public sector entities.

Superannuation funds

The superannuation overview section of this report provides details of the public sector superannuation structure, entities and administration arrangements. The superannuation funds of $41.2 billion were from the following schemes:

	$million
Southern State Superannuation Scheme	25,569
Super SA Retirement Investment Fund	7,238
South Australian Superannuation Scheme	4,472
Police Superannuation Scheme	2,445
SA Metropolitan Fire Service Superannuation Scheme	545
Judges' Pensions Scheme	333
South Australian Ambulance Service Superannuation Scheme	302
Parliamentary Superannuation Scheme	280
Other superannuation funds	44

Those superannuation funds were invested in the following Funds SA investment options:

	$million
Balanced*	24,466
Defined Benefit Strategy*	6,798
High Growth*	4,666
Moderate*	1,946
Conservative*	1,393
Cash*	846
Socially Responsible Investment	655
Capital Defensive	458

* Combines both taxable and tax-exempt investment options.

Other funds

Non-superannuation funds of $3 billion were from the following entities:

	$million
Lifetime Support Authority of South Australia	1,699
South Australian Government Financing Authority	824
The University of Adelaide Endowment Trust	256
Health Services Charitable Gifts Board	144
Other entities	44

Of these funds, $2.7 billion was invested in an investment strategy specific to the client, with the remaining $315 million invested in various Funds SA investment options.

Asset allocation

An investment policy drives decisions about how funds will be invested. The SFMCSA Act provides that Funds SA's objective in performing its functions is to achieve the highest return possible on investment of the funds while having proper regard for:

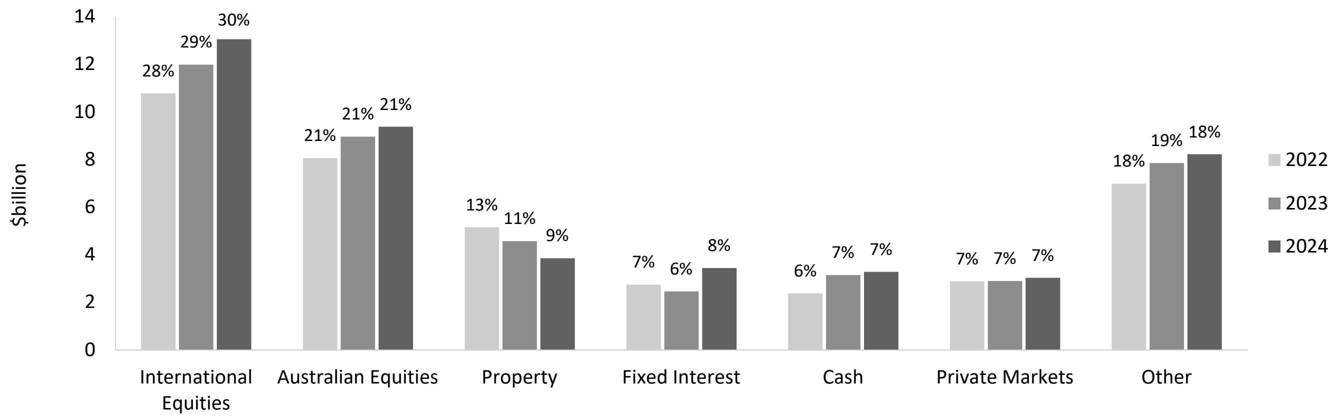
- the need to maintain the risks relating to investment at an acceptable level
- the need for liquidity in the funds
- any other matters that are prescribed by regulation.

Underpinning the investment policy and decision making is an understanding of the financial risks facing Funds SA. One of the key strategies Funds SA uses in managing its financial risk is to diversify its funds under management into various asset classes.

In 2023-24, Funds SA implemented currency hedging, futures and total return swaps at the investment option level. These are in addition to the derivative overlays it introduced in 2022-23. They are used to enable more precise implementation of asset allocation decisions at the investment option level. They are recorded in the Investment Option Overlays asset class, which was valued at $94 million ($7.5 million) at 30 June 2024.

Funds SA continually monitors investment performance and makes adjustments to ensure holdings are in line with target asset allocations.

The holding of each asset class as a percentage of total funds under management at 30 June for the last three years is shown in the following chart. The asset classes include both taxed and untaxed funds where applicable.



The chart shows the changes in asset class value and percentage holdings over the last three years. Movements are due to a combination of investment returns, investor switches and investment strategic asset allocation changes. The primarily long-term nature of investment strategies means funds under management are exposed to periodic rises and falls in financial markets.

The International Equities and Australian Equities asset classes increased in value and percentage holdings, mainly due to significant returns of $2.6 billion ($3.1 billion) offset by net divestments of $1.1 billion ($966 million).

Property assets decreased in percentage holdings, with a net divestment of $344 million and a net loss of $374 million leading to a -8.6% return. Last year reported a -3% return.

The value and percentage holding of Fixed Interest assets increased due to net investments of $891 million and income of $94 million. Last year these assets decreased due to net divestments of $323 million, offset by income of $35 million. While Short Term Fixed Interest assets achieved a 6.5% return, Long Term Fixed Interest assets recorded a 1.1% return.

The level of Private Markets assets remained similar to prior years with net investment income of $139 million ($50 million).

Cash holdings increased slightly due mainly to net investment income of $147 million. Cash obtained a return of 4.6%, an increase on last year's return of 1.6%.

The holdings of other assets increased in value due to net investment income of $635 million, offset by net divestments of $270 million. Most asset classes in this category produced positive returns, with the largest being Credit at 10.8% and Core Infrastructure Tax-Exempt at 11.4%.

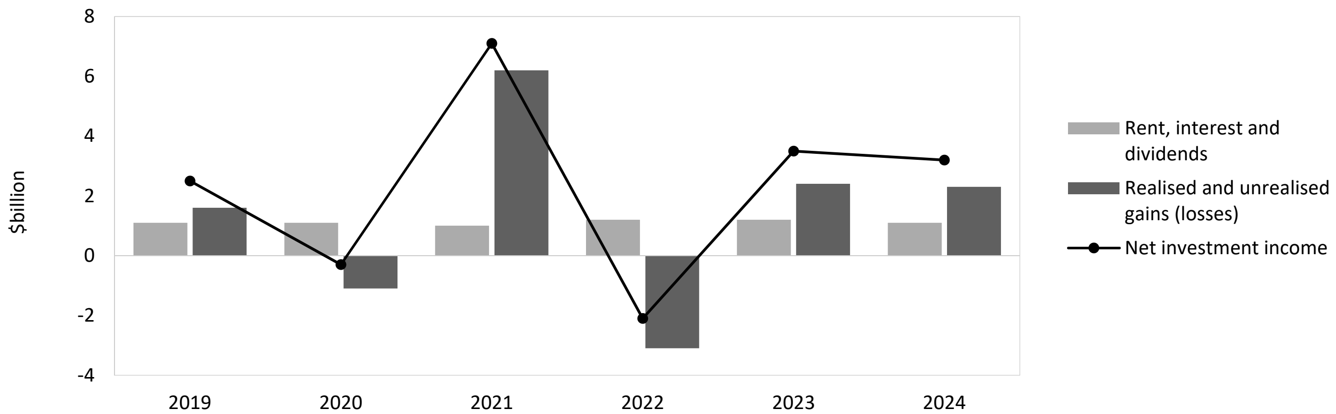
Income from investments

Net income from investment activities comprises income from rent, interest and dividends, and realised and unrealised gains and losses from investment valuations, less expenses incurred in the investment activity.

Net income from investment activities produced a surplus of $3.2 billion ($3.5 billion surplus). Income comprised rent, interest and dividends of $1.1 billion ($1.2 billion), unrealised gains of $1.5 billion ($2.4 billion gain) and realised gains of $725 million ($75 million loss), reduced by investment expenses of $146 million ($142 million).

Schedule 1 of Funds SA's financial report provides full details of the income earned from investment activities for each asset class.

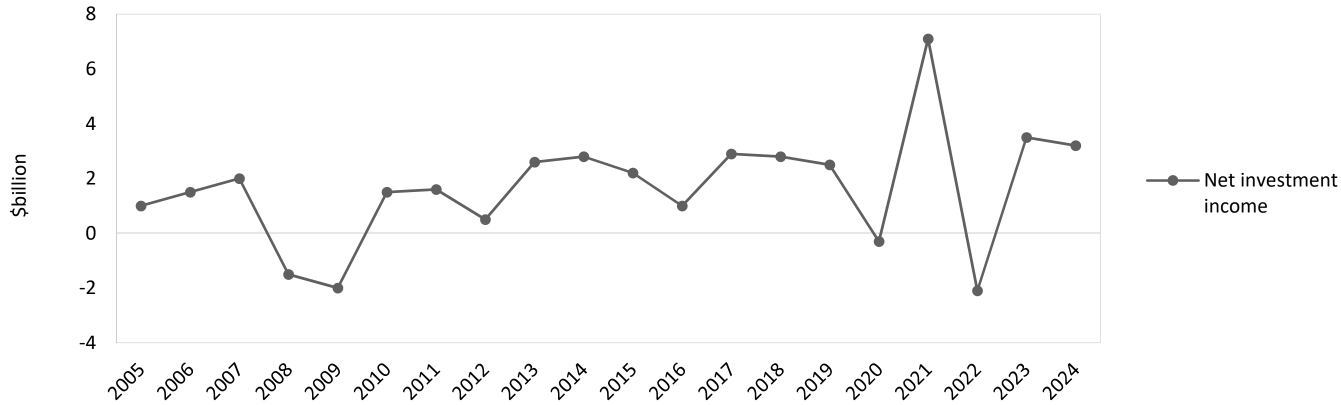
The investment result for funds under management for the six years to 2024 is shown in the following chart.



Rent, interest and dividends income remained consistent with previous years. Similar to last year, there was a significant increase in the value of investment assets, with unrealised gains contributing $1.5 billion ($2.4 billion gain) to the increase. This is in contrast to 2021-22 when unrealised losses were $2.6 billion. This is the nature of long-term investments, where there may be volatility in the short term. The volatility over the past few years reflects the economic impacts of COVID-19 and subsequent rebound, the Russian-Ukrainian war, global inflation, rising interest rates and, more recently, economic growth in Australia and globally.

Funds SA's investment strategies are developed in line with the time horizon for each investment option. Each investment option carries a different level of acceptable risk. Negative returns may occur during the investment horizon. For example, the balanced option has a risk of negative returns in four to six years out of 20. There is more information about each investment option's return in 2023-24 under 'Investment option performance' below.

The chart below shows net investment income over the long-term.



The years with overall negative performance reflect significant events that impacted the economy. Losses correspond with the Global Financial Crisis in 2008 and 2009, the start of the COVID-19 pandemic in 2020 and the Russian-Ukrainian war in 2022. The last two years reflect economic growth in Australia and globally.

Income by asset class

The following table shows net income earned for the five years to 2024, highlighting the varying performance of the major investment asset classes.

	2020 $million	2021 $million	2022 $million	2023 $million	2024 $million
International Equities	444	3,471	(1,919)	1,881	1,570
Australian Equities	(470)	2,077	(619)	1,190	982
Property	(179)	459	471	(136)	(374)
Fixed Interest	106	(17)	(292)	35	94
Cash	20	4	2	101	147
Private Markets*	-	-	507	50	139
Credit*	-	-	(356)	176	271
Core Infrastructure*	-	-	106	104	251
Inflation Linked Funds	55	84	(94)	44	47
Diversified Strategies*	(249)	1,015	-	-	-
Other*	(1)	33	90	15	68
Total net income (loss)	(274)	7,126	(2,104)	3,460	3,195
Total value of assets invested as at 30 June	34,096	41,230	38,926	41,814	44,195

* Funds SA restructured the Diversified Strategies asset class in 2021-22. The Diversified Strategies class is reported in the Core Infrastructure, Private Markets, Credit and other asset classes from 2021-22.

The volatile nature of these investments will cause their returns to fluctuate from year to year in line with prevailing economic conditions. The magnitude of net income earned from investment activities in each year is a function of not only the performance of financial markets, but also the size of total assets invested in those markets.

The earlier chart showing asset class holdings indicated that Funds SA's investment strategy is weighted towards international equities, which returned the largest net income. The table above also shows higher levels of income for International Equities and Australian Equities, consistent with the respective market performance during the year and proportion of holdings. Returns in International Equities and Australian Equities reflected strong corporate earnings and economic growth over the past two years.

Negative property returns in 2022-23 and 2023-24 are due to unrealised losses from reduced property values, which were attributable to a combination of higher interest rates and high commercial vacancy rates.

Fixed Interest net investment income benefited from higher interest rates over the last two years, and additional funds invested in 2023-24.

Cash net investment income benefited from higher interest rates over the last two years and additional funds invested in 2022-23.

Private Markets income was achieved mainly from rent, interest and dividend income of $134 million. In 2022-23, rent, interest and dividend income was $221 million, however this was offset mainly by realised losses of $202 million.

Net investment income for Core Infrastructure was due mainly to unrealised gains of $234 million.

Credit net investment income was achieved from rent, interest and dividend income of $178 million and realised and unrealised gains of $104 million.

Inflation Linked Securities net investment income remained similar to last year, even though this asset class had a net divestment of $442 million. Income has remained consistent, with rent, interest and dividend income contributing $27 million and realised and unrealised gains contributing $23 million.

Investment expenses

In 2023-24 investment expenses totalled $146 million ($142 million). This represents only those expenses incurred directly by the fund, such as management and administration fees. Indirect investment expenses are captured as part of unrealised gains/losses through the revaluation of the unit price of Funds SA’s pooled investments.

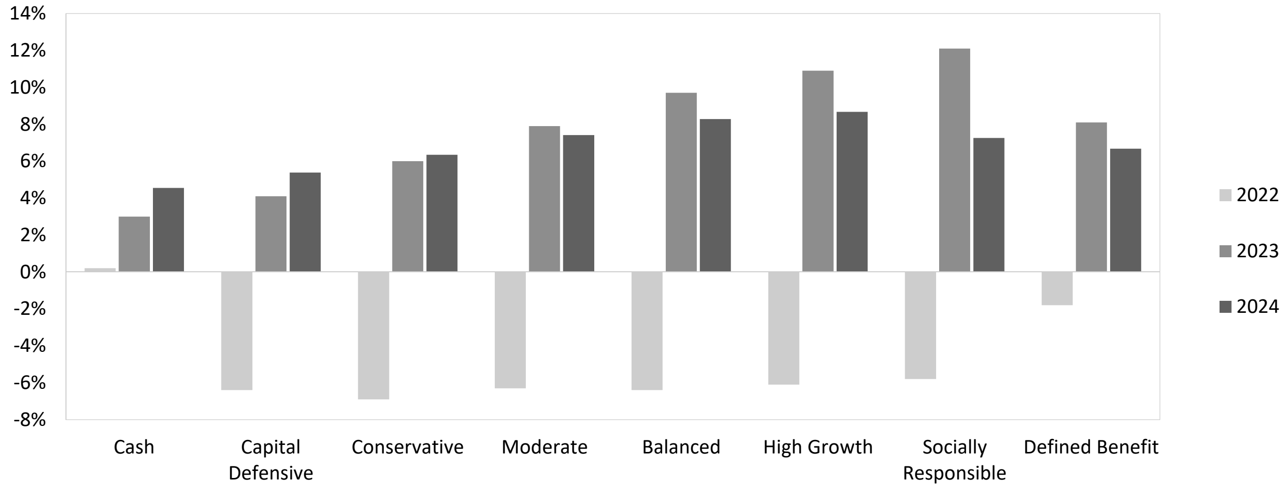
Investment expenses increased by 3% in 2023-24 mainly due to management fees. These fees are mainly based on the level of funds under management, which was higher in 2023-24.

Investment expenses reported in Schedule 1 of Funds SA’s financial report are 0.34% (0.35%) of average funds under management.

Year	Investment expenses $million	Average funds under management $billion
2021	148.4	37.5
2022	159.2	41.5
2023	141.9	40.7
2024	146.5	43.0

Investment option performance

The chart below shows the returns for Funds SA's tax-exempt investment options at 30 June for the past three years.



The chart shows the volatility in returns over the past few years, with all investment options providing positive returns. Notably the highest returns were for the Socially Responsible, High Growth and Balanced options. The returns of each investment option reflect the performance of the underlying asset classes.

The table below shows Funds SA's percentage returns for the past 10 years for the Balanced tax-exempt fund investment option, which represents over 45% of total funds under management. These figures were provided by Funds SA and are unaudited.

	10 years % p.a.	2015 %	2016 %	2017 %	2018 %	2019 %	2020 %	2021 %	2022 %	2023 %	2024 %
Balanced	7.3	9.4	3.9	11.0	9.5	8.1	(0.3)	21.9	(6.4)	9.7	8.3

Asset class performance against benchmark

The performance against target benchmarks for certain asset classes for 2023-24 and for the three years ended 2023-24 is shown in the following table. These figures were provided by Funds SA and are unaudited.

	1 year Actual %	1 year Benchmark %	3 years Actual *%	3 years Benchmark *%
Cash	4.6	4.4	2.5	2.4
Short Term Fixed Interest	6.5	5.7	1.2	1
Long Term Fixed Interest	1.1	1.7	(4.1)	(4.2)
Inflation Linked Securities Tax-Exempt	3.1	4.1	0.1	0.9
Inflation Linked Securities Taxable	3.8	4.3	1.1	1.5
Investment Grade Credit	4.6	4.4	n/a	n/a
Credit	10.8	9.5	n/a	n/a
Defensive Alternatives	3.8	6.4	n/a	n/a
Growth Alternatives	2.9	8.4	n/a	n/a
Property Tax-Exempt	(8.6)	(10.4)	(0.9)	(0.4)

	1 year Actual %	1 year Benchmark %	3 years Actual *%	3 years Benchmark *%
Australian Equities Tax-Exempt	11.1	11.9	5.7	6.1
Australian Equities Passive Tax-Exempt	11.7	11.9	6.0	6.1
International Equities Tax-Exempt	13.6	18.8	4.3	8.6
International Equities Passive Tax-Exempt	18.5	18.2	6.2	6.1
Core Infrastructure Tax-Exempt	11.4	8.4	n/a	n/a
Private Markets Tax-Exempt	4.8	8.4	n/a	n/a
Property Taxable	(8.6)	(10.4)	(0.9)	(0.4)
Australian Equities Taxable	11.0	11.9	5.6	6.1
Australian Equities Passive Taxable	11.6	11.9	5.9	6.1
International Equities Taxable	13.4	18.8	4.3	8.8
International Equities Passive Taxable	18.8	18.9	8.9	8.9
Core Infrastructure Taxable	13.0	8.4	n/a	n/a
Private Markets Taxable	4.2	8.4	n/a	n/a
Socially Responsible	11.8	11.9	7.4	7.4

* 'n/a' in the table is for recently established asset classes that do not have sufficient activity for comparison to be included.

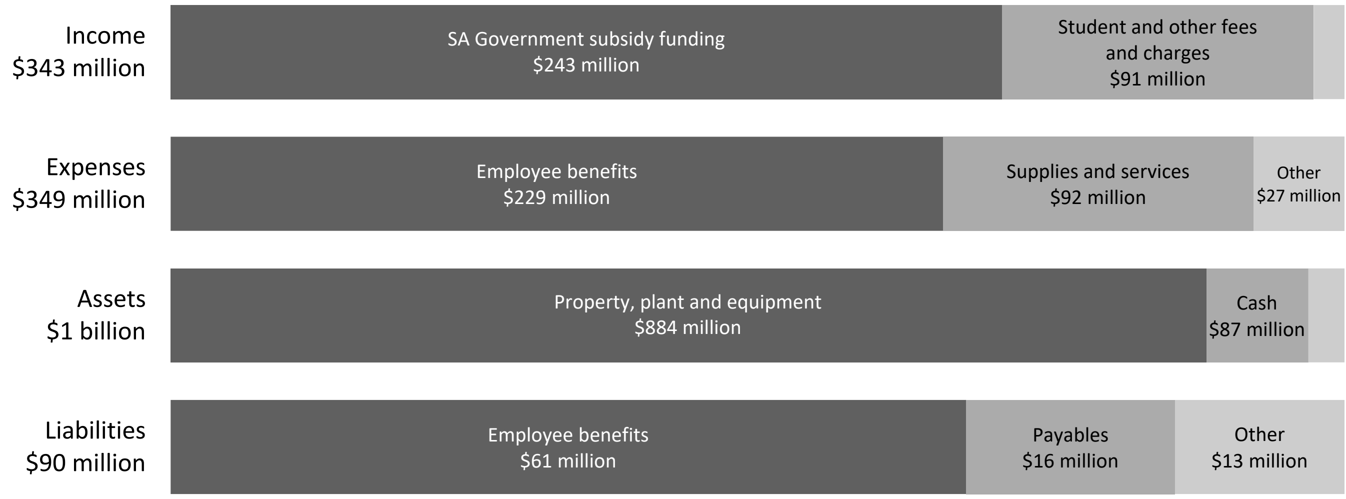
The performance of asset classes against benchmark for 2023-24 varied depending on the asset class, with:

- International Equities Tax-Exempt, International Equities Taxable, Long Term Fixed Interest, Inflation Linked Securities, Core Infrastructure, Growth Alternatives, Defensive Alternatives and Private Markets asset classes underperforming the benchmark
- Short Term Fixed Interest Investment Grade Credit and Core Infrastructure asset classes outperforming the benchmark. Further, while Property had negative performance it remained better than benchmark.

Across a three-year time horizon most asset classes performed closer to the benchmark. Short Term Fixed Interest had the strongest performance, with Inflation Linked Securities, Property and International Equities having the weakest performance compared to the benchmark over three years.

TAFE SA

Financial statistics



1,994
FTEs (including casuals and hourly paid instructors)

13.5 million
Number of registered training hours commenced

Significant events and transactions

- Land and buildings were revalued upward by $316 million. This was TAFE SA's first revaluation of land and buildings since 2019.
- Funding from the Department for Education increased to $243 million.

Financial report opinion

Unmodified

Controls opinion findings

- TAFE SA did not have an agreed annual service delivery plan for facilities management.
- Asset management plans for individual asset classes were not developed.
- Not all assets are recorded in the Enterprise Asset Management System.

Other audit findings

Opportunities to improve payroll controls.

Functional responsibility

TAFE SA is established under the *TAFE SA Act 2012* and is a statutory corporation to which the provisions of the *Public Corporations Act 1993* (other than section 35) apply. Its main function is to provide technical and further education. The TAFE SA Board is responsible to the Minister for Education, Training and Skills.

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:

- expenditure and accounts payable
- payroll processing
- revenue, including funding from the Department for Education, student revenue and accounts receivable
- cash
- property, plant and equipment
- general ledger and reconciliations.

We reviewed the work of internal audit in planning and undertaking our work.

Controls opinion

We reviewed controls over bank accounts and the management of land and buildings as part of our overall controls opinion, which is discussed in Part B of this report.

Audit findings

Communicating our audit findings

We communicated our audit findings, including some that we raised in prior years, in management letters to the Chair of the TAFE SA Board. The main matters we raised and TAFE SA's responses are detailed below.

Controls opinion findings

Asset management

TAFE SA did not have an agreed annual service delivery plan for facilities management

We noted that TAFE SA did not have an agreed annual service delivery plan (ASDP) under the Across Government Facilities Management Arrangements (AGFMA) for 2023-24. The ASDP outlines the provision of services by the SA Government's AGFMA facilities management service provider (Ventia) to TAFE SA for each financial year. It is developed in collaboration with TAFE SA and details the services to be provided, the estimated costs and the planning schedule, with reference to supporting asset management documentation. We were advised that TAFE SA did not sign the 2023-24 ASDP that Ventia prepared because of concerns with its adequacy.

The absence of an agreed ASDP increases the risk of resources being inefficiently allocated and assets not being adequately maintained.

TAFE SA responded that it would continue to work with Ventia and other stakeholders to ensure future ASDPs are completed and approved in a timely manner.

Asset management plans for individual asset classes are yet to be developed

We noted that while TAFE SA has developed a strategic asset management framework, strategic asset management plan and an asset management policy, it has not prepared more detailed asset management plans for each class of assets.

Well-implemented asset management plans can help achieve value from physical assets by clearly planning for optimising cost, risk and performance across the asset life cycle.

TAFE SA acknowledged the importance of detailed asset management plans, and is committed to developing them.

Not all assets are recorded on the Enterprise Asset Management System (EAMS)

We understand that TAFE SA is progressively recording its assets in EAMS. This is part of an ongoing data capture program to ensure it has complete information recorded for its assets.

TAFE SA has a large number of assets (teaching plant and equipment, infrastructure, grounds, etc). The first stage of data capture concentrates on teaching plant and equipment, providing TAFE SA with data to support the SA Government's skills uplift in priority sectors. TAFE SA has over 4,000 items of teaching plant and equipment located across its property portfolio. Data collection for four sites is near completion and covers around 15% of these assets.

Not having complete asset records may negatively impact asset management, maintenance and service delivery.

TAFE SA responded that it will continue to take a risk-based approach with its data capture program and estimates that the program will be completed in five years.

Other audit findings

Opportunities to improve payroll controls

We identified some areas where TAFE SA could improve its internal controls over payroll. We found that:

- there were 102 payroll overpayments totalling $199,000. They were caused by delayed processing and incorrect data input. In the same period last year there were 88 overpayments, indicating a 16% increase in 2023-24
- in the first eight months of the year, 54 hourly paid instructors (HPIs) started work without having a signed contract, compared to 26 over 10 months in the 2022-23.

We recommended that TAFE SA:

- ensure that HR forms are completed and processed promptly, especially when employees are changing working arrangements or applying for leave without pay
- implement controls to prevent HPIs starting work before a valid contract is in place, with a particular focus on business units with higher non-compliance rates.

TAFE SA replied that it has implemented a new system to improve the processing of payroll forms, improving its controls and the education of its employees. It will also implement an overarching HPI contract to eliminate the need for contracts for each work schedule.

Interpretation and analysis of the financial report

Highlights of the financial report

	2024 $million	2023 $million
Income		
SA Government subsidy funding	243	219
Student and other fees and charges	91	82
Other income	9	11
Total income	343	312
Expenses		
Employee benefits	229	213
Supplies and services	92	81
Depreciation and amortisation	27	27
Other expenses	1	-
Total expenses	349	321
Net result	(6)	(9)
Changes in property, plant and equipment	316	-
Total comprehensive result	310	(9)
Net cash provided by (used in) operating activities	25	15
Assets		
Current assets	110	94
Non-current assets	892	591
Total assets	1,002	685
Liabilities		
Current liabilities	45	41
Non-current liabilities	45	42
Total liabilities	90	83
Total equity	913	602

Note: Table may not add due to rounding.

Statement of Comprehensive Income

Income

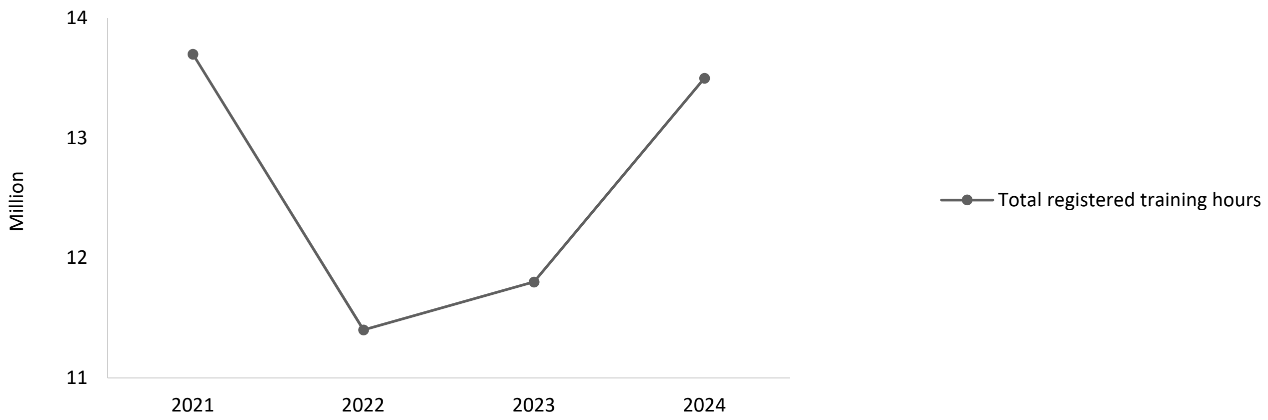
Funding from the Department for Education

TAFE SA's main income source, making up 70% of income, is funding from the Department for Education provided under TAFE SA's funding arrangements. This funding was $243 million ($219 million) in 2023-24 and is made up of the following components.

	2024 $million	2023 $million
TAFE SA services	207	195
Capital funding	21	20
Fee Free TAFE	15	4
Total income	243	219

The inclusion of specific training hour targets in MoAAs has changed over recent years, with no targets set since 2018-19. Despite this, the volume of training hours is an important performance measure. TAFE SA's registered training hours increased by 1.7 million hours to 13.5 million total registered training hours in 2023-24.

The following chart shows the training hours delivered by TAFE SA over the last four years.



Source: Training hours data provided by TAFE SA and unaudited.

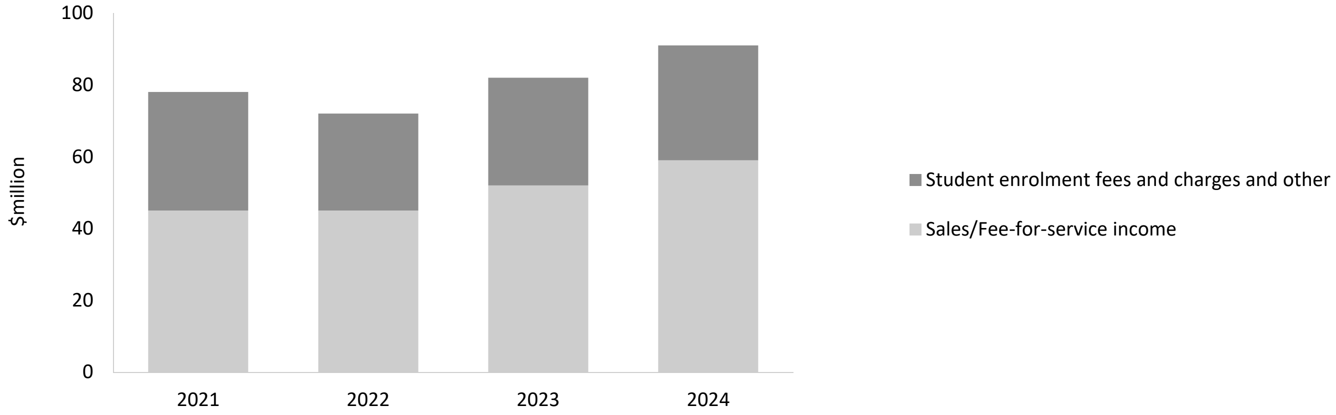
Fee Free TAFE continued for selected courses in 2023-24, with 8,731 students enrolling. This is a joint State and Commonwealth Government initiative to provide tuition-free training places to students wanting to train, retrain or upskill. It aims to help industries facing skills shortages and other growth industries to train the current and future workforce in high-level skills areas.

The increase in hours from 2022-23 reflects the introduction of a number of Fee Free TAFE training courses and increased training contracts with the Commonwealth Government.

Student and other fees and charges

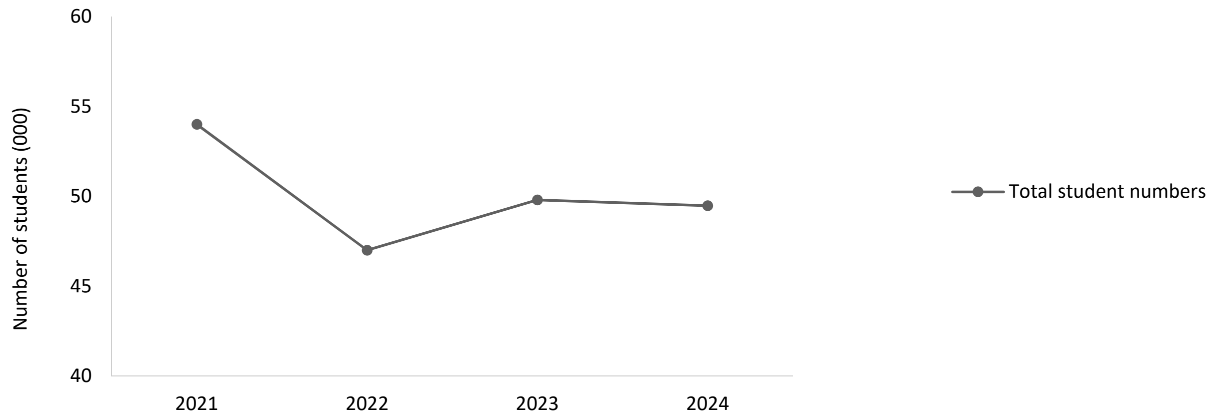
Student and other fees and charges totalled $91 million ($82 million) and make up 27% (23%) of TAFE SA's total income.

The main components of student and other fees and charges for the past four years are shown in the following chart.



The chart illustrates a steady increase in sales/fee-for-service income between 2022 and 2024, reflecting the increased training hours in 2023-24. The sales/fee-for-service income of $59 million ($52 million) includes an additional $5 million received from the Commonwealth Government for the Adult Migrant English and Skills for Education and Employment programs, and $2 million of additional subsidised student fees due to increased training activity and an increase in course fees.

TAFE SA's total student numbers rose to 49,795 in 2022-23, before decreasing slightly to 49,473 in 2023-24. Fee-free courses were a significant contributor in both years.



Source: Number of students data provided by TAFE SA and unaudited.

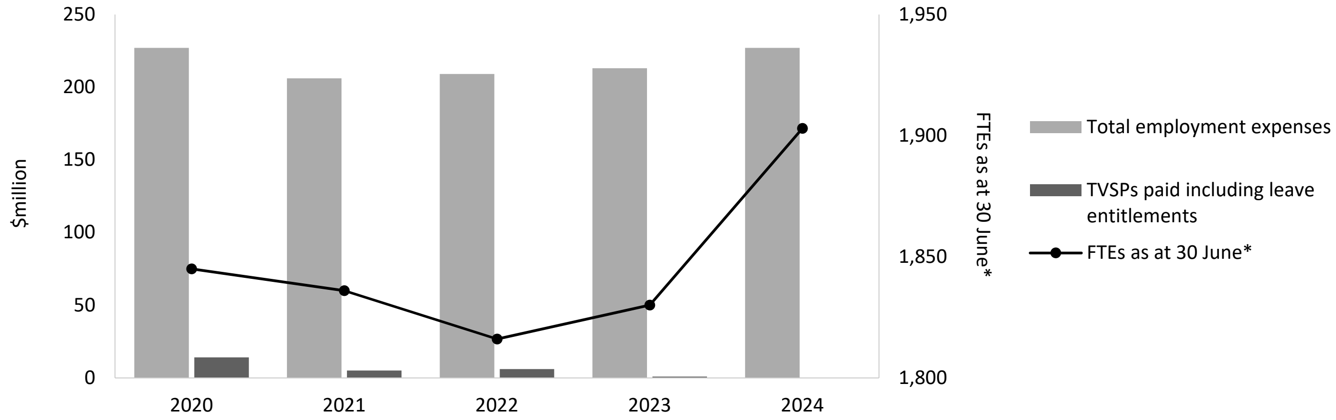
Expenses

TAFE SA's total expenses increased by $28 million to $349 million. This included a $16 million increase in employee-related expenses and an $11 million increase in supplies and services.

Employee benefits

Employee benefits are TAFE SA's main expense, accounting for 66% (66%) of its total expenses.

Employee benefits expenses increased by $16 million to $229 million in 2023-24, due mainly to enterprise agreement and workforce increases. The following chart shows employment expenses, targeted voluntary separation package (TVSP) payments and FTE staff (not including casuals and HPIs) for the last five years. There were no TVSPs paid in 2023-24.



* FTE data provided by TAFE SA and unaudited.

The chart shows the decline in FTEs to 2022, with increases in 2023 and 2024 due largely to the increase in fee-free courses and the Adult Migration English Program. Employment costs also fell until 2022, before increasing in line with the number of FTEs in 2023. Salaried FTEs are at their highest level since 2021, increasing from 1,827 at 30 June 2023 to 1,903 this year. The composition of FTEs at 30 June 2024 is shown in the following table, based on data from TAFE SA.

	2024 FTEs	2023 FTEs
TAFE SA Act	1,021	995
Public Sector Act	876	828
Excess staff	6	7
HPIs	54	48
Casuals	37	46

Supplies and services

Overall supplies and services expenses were $92 million, an increase of $11 million (14%) from 2022-23. The main factors in this increase were:

- growth in building-related expenses of $2.1 million due to unexpected breakdowns, and unforeseen weather events causing damage
- a $1.6 million increase in software licenses and maintenance consumables expenses due to new training package requirements, price increases and increased training activity for fee-free courses
- a $1.4 million increase in agency staff required to cover staff vacancies
- an additional $1 million for material and consumables costs
- $700,000 in additional cleaning and security costs.

Assets

Total assets increased by $317 million to $1 billion, driven by increases in property, plant and equipment and cash.

Property, plant and equipment

Property, plant and equipment increased by $301 million to $884 million as at 30 June 2024. This reflected a revaluation upward of $316 million and additions of $9 million, partly offset by depreciation expenses of $24 million. The revaluation was the first since 2019 and is driven by significant increases in land values and construction costs.

Cash

Cash increased by $14 million to $87 million, partly reflecting timing differences between delivering capital projects and the associated funding.

Liabilities

Total liabilities increased by $7 million (8%) to $90 million. The main factors in this increase were:

- a $1.2 million increase in contract liabilities, mainly for the Adult Migrant English Program
- a $2.3 million increase in the provision for annual leave, on-costs and long service leave following an actuarial assessment
- an increase in workers compensation provisions of $1.2 million as a result of an actuarial assessment.

Further commentary on operations

TAFE SA continued to implement its multi-year Bolder Future for TAFE SA initiative in 2023-24. This program aims to allow TAFE SA students and staff to achieve, succeed and thrive while providing industries, employers and communities with real-world outcomes and a skilled, job-ready workforce.

As noted earlier, TAFE SA also started delivering fee-free courses from January 2023, with courses provided in selected areas as part of an initiative jointly funded by the Commonwealth and SA Governments.

TAFE SA also commenced delivery for the National Skills Agreement, a five-year joint agreement between the Commonwealth, states and territories to strengthen vocational education and training.

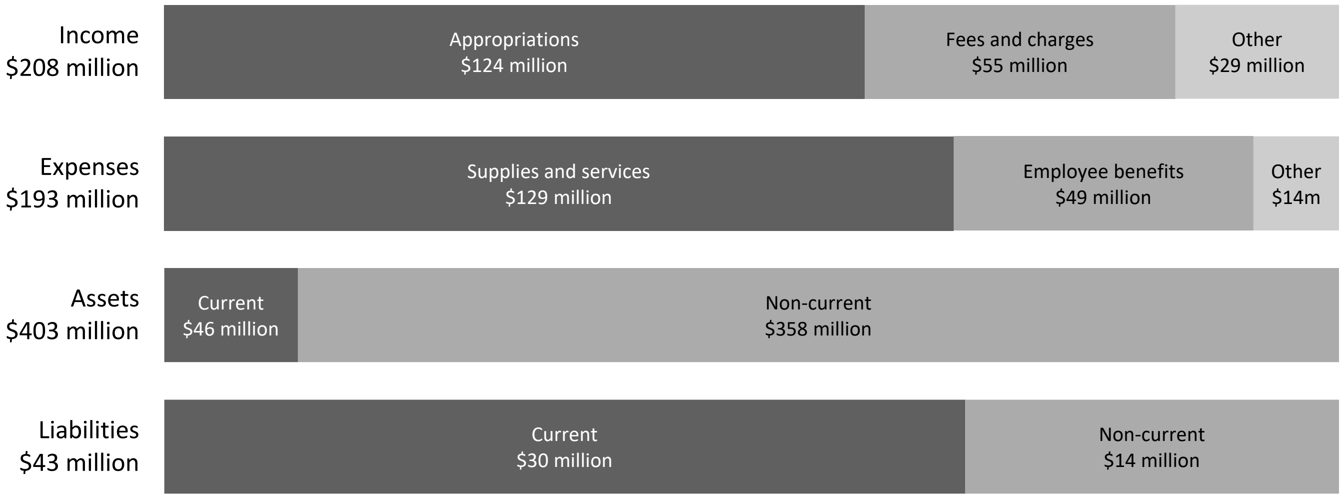
Roadmap for the Future of TAFE SA

A report by Associate Professor Jeannie Rea, *Roadmap for the Future of TAFE SA*, was completed in April 2023 and publicly released in August 2023.

The report's roadmap, which was developed following consultation, aims to identify the future path for TAFE SA and provides guidance across six goal areas for TAFE SA's future development. It has an indicative timeline until 2033 to implement the roadmap actions. TAFE SA started delivering the actions in 2023-24, and has reflected them in its strategic plan.

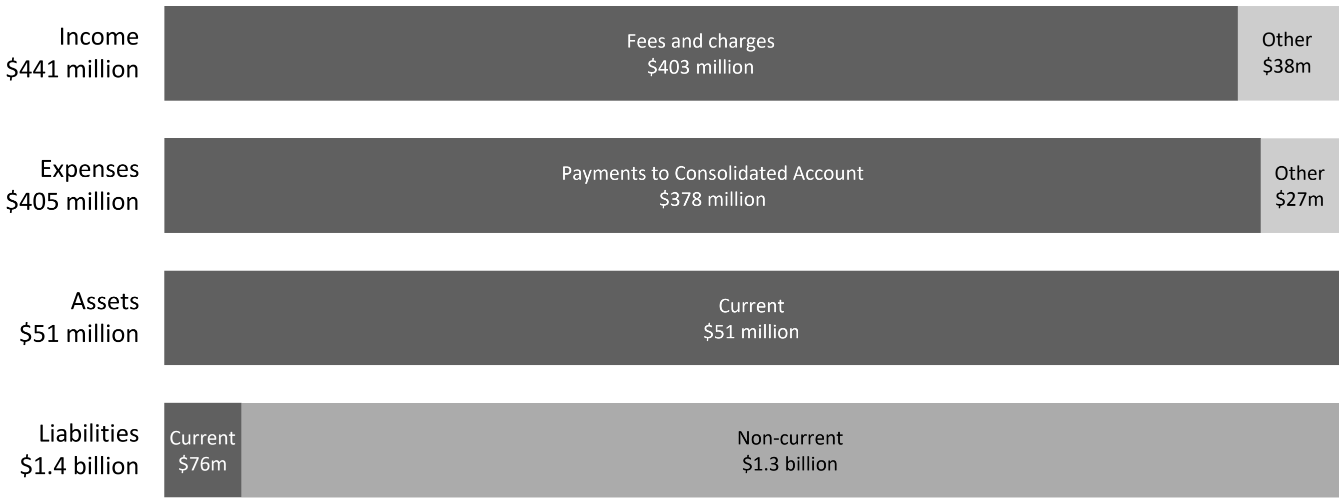
Department for Trade and Investment (DTI)

Financial statistics



360
FTEs

Administered items



Significant events and transactions	The value of the SAILIS titling database service concession asset, which is measured at current replacement cost, was revalued upwards by $19 million in 2024.
Financial report opinion	**Unmodified**
Audit findings	No audit findings.

Functional responsibility

DTI is an administrative unit established by the *Public Sector Act 2009*. Its functions include facilitating economic growth in South Australia by helping to attract local investment, enhancing export opportunities and creating employment opportunities. DTI also oversees the State's planning system to further develop liveable and sustainable communities.

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 2024 included:

- general ledger
- cash
- expenditure
- payroll
- revenue
- assets
- grant and receipt amounts
- administered items.

We reviewed internal audit activities to assess the risks of material misstatement in the financial report and to design and perform audit procedures.

Controls opinion

We reviewed controls over bank accounts as part of our overall controls opinion, which is discussed in Part B of this report.

Audit findings

There were no findings from our audit of DTI.

Interpretation and analysis of the financial report

Highlights of the financial report

	2024 $million	2023 $million
Income		
Appropriations	124	121
Fees and charges	55	51
SA Government grants and funding	10	9
Other	18	2
Total income	208	183

	2024 $million	2023 $million
Expenses		
Employee benefits expense	49	47
Supplies and services	129	119
Grants and subsidies	7	10
Depreciation and amortisation	7	7
Other	-	17
Total expenses	193	200
Net result	15	(17)
Changes in asset revaluation surplus	3	-
Total comprehensive result	19	(17)
Net cash provided by (used in) operating activities	18	6
Assets		
Current assets	46	30
Non-current assets	358	344
Total assets	403	374
Liabilities		
Current liabilities	30	18
Non-current liabilities	13	14
Total liabilities	43	32
Total equity	360	342

Note: Table may not add due to rounding.

Statement of Comprehensive Income

Income

DTI's main source of funding is appropriations under the Appropriations Act, which totalled $124 million in 2024 ($121 million).

Fees and charges increased by $4 million (8%) to $55 million, reflecting increases in both the rates charged (3%) and volume of land service fees. Land services fees include charges for assessing development plans for the approval of subdivisions and other developments, planning fees and valuation services.

Other income of $17 million includes the Statement of Comprehensive Income impact of a $19 million upward revaluation of the SAILIS titling database.

Expenses

Total expenses decreased by $7 million to $193 million, mainly due to:

- a decrease in other expenses of $16 million, reflecting the downward revaluation of the SAILIS titling database in 2023
- partially offset by a $10 million increase in supplies and services to $129 million due mainly to:
  - a $3 million increase in contracted fees payable to Land Services SA for services to the Office of the Registrar-General and the Office of the Valuer-General

- a $2 million increase in spending for overseas trade representation
- a $1.7 million increase in contractors related to Planning and Land Use Services
- a $1.7 million increase in office administration expenses
- a $1.5 million increase in marketing costs.

Statement of Financial Position

Assets

Total assets increased by $29 million to $403 million, due mainly to the $19 million upward revaluation of the SAILIS titling database service concession asset. This is an intangible asset measured at current replacement cost. Recognition of this value is required by Australian Accounting Standards because the arrangement with Land Services SA is considered to be a service concession arrangement. It was originally recognised after the State entered into a contract with Land Services SA, a private operator. It was transferred to DTI in machinery of government changes on 1 July 2022.

The replacement cost of the asset is based on the estimated cost of manually recreating the land titles register and the valuation roll. The asset is revalued annually and the valuation is expected to change each year.

The upward revaluation in 2024 largely reflects changes in the inputs associated with the revaluation model – mainly as a result of an increase in the number of data entry field data points. The valuation was revised down by $16 million in 2023.

Liabilities

Total liabilities increased by $10 million, mainly due to an increase in accrued expenses for Land Services SA.

Highlights of the financial statements – administered items

DTI has administered items primarily related to regulated fees and charges for planning and land use processes.

	2024 $million	2023 $million
Income		
Fees and charges	403	361
Appropriations	2	2
Recoveries and other income	34	34
Other	2	1
Total income	441	398
Expenses		
Payments to the Consolidated Account	378	336
Other – Planning fees	25	26
Other	2	2
Total expenses	405	364
Net result	36	34
Total comprehensive result	36	34

	2024 $million	2023 $million
Net cash provided by (used in) operating activities	8	(5)
Assets		
Current assets	51	40
Total assets	51	40
Liabilities		
Current liabilities	76	67
Non-current liabilities	1,334	1,368
Total liabilities	1,410	1,435
Total equity	(1,359)	(1,395)

Note: Table may not add due to rounding.

Income

Administered fees and charges increased by $43 million, due primarily to the increased regulatory fees collected by Land Services SA on behalf of the State. Fees and charges are collected as prescribed by the *Real Property Act 1886*.

Expenses

Payments to the Consolidated Account increased by $42 million, reflecting the increased fees and charges collected by the Office of the Registrar-General and paid to the Consolidated Account.

Planning fees of $25 million were also paid in 2023-24, mainly to councils.

Assets

Administered cash increased by $9 million, largely reflecting the timing of cash transfers to the Consolidated Account.

Liabilities

Administered liabilities are largely represented by unearned revenue of $1.3 billion for the land services commercialisation (see ‘Further commentary on operations’ below).

Further commentary on operations

Land Services SA

Land Services SA, a private operator, is the exclusive provider of land services in South Australia.

In 2017-18, Land Services SA entered into a 47-year contract with the State to provide land services to customers on behalf of the SA Government under a fee-for-service arrangement. Services to be provided include land titling, registration and valuation services. Fee rates for land titling, property valuations and other land services are set by the SA Government under various legislation, and the fees collected by Land Services SA are paid into the Consolidated Account.

The State received a $1.605 billion up-front payment from Land Services SA, principally for the right to be the exclusive provider of land services, the right to use the State's land information assets and the right to use the State's software (the SAILIS system). The up-front payment is recognised as revenue of $34 million per annum on a straight-line basis over 47 years.

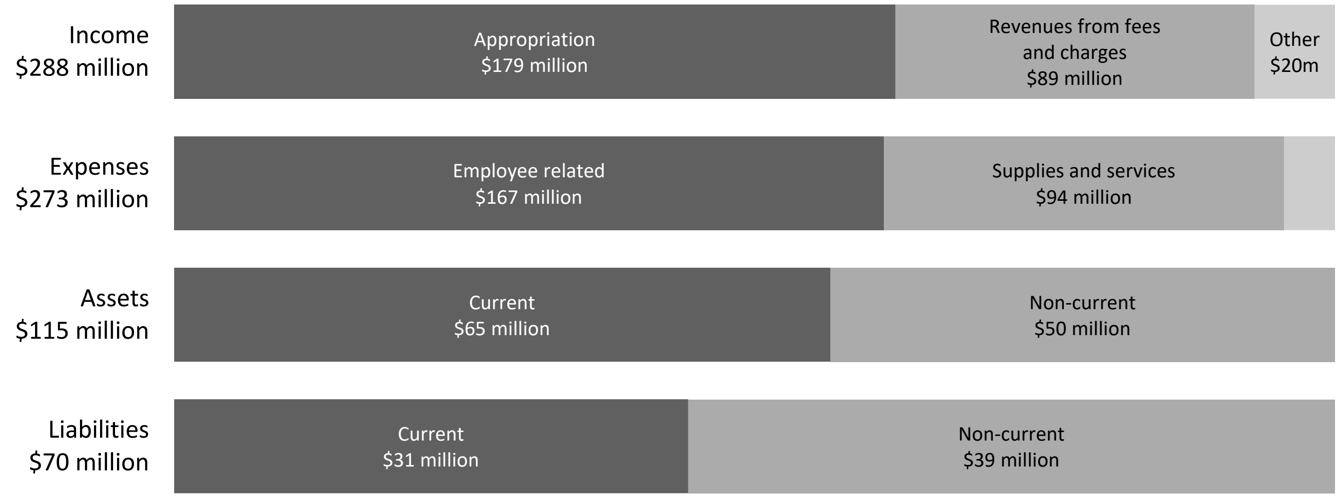
Machinery of government changes

The following changes are effective from 1 July 2024:

- DTI's title changed to the Department for Housing and Urban Development
- Invest SA, International, Trade Brand SA and the Office of the Agent-General functions were transferred from DTI to the Department of State Development
- Office for Local Government functions were transferred from the Department for Infrastructure and Planning to the Department for Housing and Urban Development.

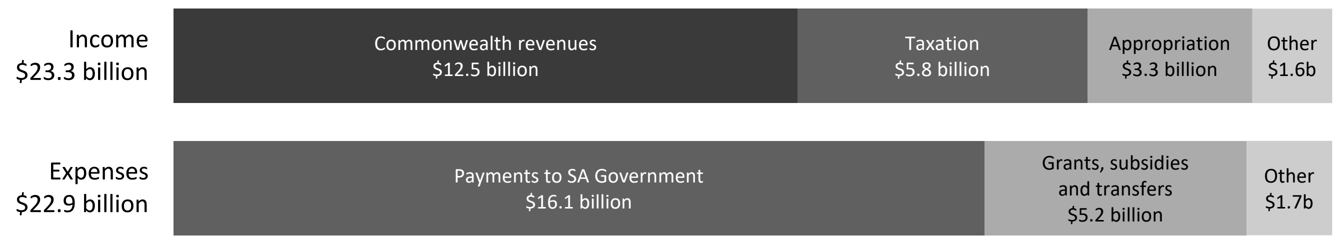
Department of Treasury and Finance (DTF)

Financial statistics



1,717
FTEs

Administered items



Significant events and transactions	The revaluation of DTF's building fitouts resulted in a $3 million increase in their fair value.
Financial report opinion	**Unmodified**
Controls opinion findings	— Payroll processing controls could be strengthened. — Patch management, user access management and disaster recovery management could be improved for some of Shared Services SA's (SSSA's) main IT systems.
Other audit findings	— Accounts payable control processes could be strengthened. — Patch management, user access management and disaster recovery management over key taxation revenue systems could be improved.

Functional responsibility

DTF is an administrative unit established under the *Public Sector Act 2009* and is responsible to the Treasurer. It administers a range of activities on behalf of the Treasurer, including transactions on behalf of the SA Government for the Consolidated Account.

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. It also considered the work of DTF's internal auditors. Areas of audit attention in 2023-24 included:

- taxation revenue
- payroll
- expenditure
- procurement
- general ledger maintenance and reconciliation
- receipting and banking, including the transition to the new whole-of-government banking arrangements
- local government infrastructure partnership program payments
- finance reform program, including related procurements
- Revenue Information Online (RIO) and RevenueSA Online (RSAOL) system data security contract management
- RIO and RSAOL system IT general controls.

Financing and insurance services

We comment on these activities in the section of this report titled 'South Australian Government Financing Authority (SAFA)'.

Superannuation services

We comment on these activities in the section of this report titled 'South Australian Superannuation Board'.

Public finances

We will report on matters related to state finances in a separate Auditor-General's report. The Treasurer's statements for the year ended 30 June 2024 will be published on the Audit Office of South Australia's website after this annual report is tabled in Parliament.

Controls opinion

We reviewed controls over the following areas as part of our overall controls opinion, which is discussed in Part B of this report:

- Commonwealth Government revenue
- taxation revenue – payroll tax
- taxation revenue – stamp duty – conveyances on sale of property
- Treasurer’s guarantees and indemnities
- unfunded superannuation liability
- SSSA – accounts payable and payroll functions
- Treasurer’s statements A, F, G and I
- a sample of whole-of-government contracts.

Audit findings

Communicating our audit findings

We communicated our audit findings in management letters to the Under Treasurer. The main findings and DTF’s responses are discussed below.

Controls opinion findings

SSSA – financial systems and transaction processing controls

SSSA processes financial transactions on behalf of a large number of SA Government agencies under service level determinations. Its processing includes accounts payable, accounts receivable, payroll, general ledger processing and financial accounting. Annual statistics on the services SSSA provides are shown below.

Shared Services SA

Accounts receivable	Payroll processing	Payment of invoices	Financial reporting
376,000 Invoices raised	$10.7 billion Paid	$19.2 billion Paid	193 Agency financial statements prepared
	141,000 Employees	3.1 million Payments	
	2.9 million Number of pays		

Each year SSSA processes around 2.9 million employee pays using the Chris21 and VALEO payroll systems. It also processes around 3.1 million invoice payments. In addition to the payroll systems, the main IT systems SSSA uses are:

- Readsoft – for scanning invoices
- Basware – payment processing
- Masterpiece – accounts receivable, accounts payable and general ledger
- CommBiz/ANZ Transactive – banking software used to process payments.

Payroll

SSSA payroll functions include:

- maintaining employee data
- processing, calculating and disbursing payroll
- identifying and managing salary overpayments
- calculating targeted voluntary separation packages and termination payments.

Most SA Government payroll is processed through Chris21, with VALEO used for the Department for Education.

We identified areas where SSSA could improve its internal controls for payroll processing:

- From a sample of 19, we found six instances where there was no evidence that quality assurance checks for new starters were performed.
- From a sample of 19, we found 13 instances where employee transfer supporting documents could not be provided or the documents were not signed as reviewed.
- From a sample of 19, we found seven instances where there was no evidence that the employee pay increment report was reviewed.

We recommended that all reviews over employee changes occur as scheduled and that evidence of these reviews be retained.

SSSA responded that reviews should be undertaken as planned and the reason that documentation was unavailable was due to floor relocations and building works, which impacted its regular filing activities and the timely location of records to evidence reviews.

IT general controls

Given the importance of SSSA's systems to SA Government transaction processing, we review IT general controls each year.

— *Basware*

We found a number of user access exceptions relating to user offboarding and the irregularity of user access reviews.

SSSA responded that it had actioned user access exceptions we identified and reminded key agency and internal staff of the need to keep user access up to date.

— *Chris21*

We found weaknesses in patch management and user access management exceptions.

SSSA responded that ongoing patching is performed by the Chris21 service provider, Frontier, for the current application, production database and operating system, with Chris21 application patching next expected in July 2024. SSSA is also reviewing Chris21 patch management procedure to reflect current practices.

SSSA confirmed that it had actioned the user access exceptions we identified and reminded key agency and internal staff to keep user access up to date.

— *Masterpiece*

We identified user access management exceptions, weaknesses in patch management and the need for improved disaster recovery management and backup restoration.

SSSA responded that it had actioned the user access exceptions we identified and reminded staff of the importance of keeping user access up to date.

SSSA also advised us that patch management processes for the Masterpiece application will be limited given the planned replacement of Masterpiece. Database patching will continue to be assessed and applied where appropriate. The latest version of the Masterpiece operating system was implemented in May 2024.

SSSA advised us that the delays in performing Masterpiece disaster recovery testing were due to SSSA transitioning to the new ANZ banking arrangements. The next disaster recovery test is planned for October 2024, with the backup restoration test scheduled to be completed by December 2024.

— *CommBiz and ANZ Transactive*

In 2023-24 SSSA transitioned its banking systems as part of the whole-of-government transition from the Commonwealth Bank to the ANZ. We reviewed both banking systems and identified user access management exceptions related to terminations and the application of discretionary limits, as well as the need to update the user access management procedure.

SSSA responded that it had actioned the user access exceptions we identified and will update its user access management procedure. It has also reminded staff of the importance of keeping user access up to date.

Other audit findings

Accounts payable

Stale cheques were not being addressed

Cheques are generally considered stale if they are not presented within 15 months of being issued. We noted a significant increase in unpresented cheques for the Fines Enforcement and Recovery Unit in 2023-24, with the February 2024 bank reconciliation including 328 unpresented cheques that were stale but had not been cancelled.

DTF responded that due to competing priorities SSSA did not review and cancel stale cheques for several months. This process has since occurred and will continue monthly.

Basware user access reviews not performed promptly

SSSA provides quarterly Basware user access reports, including financial authorisation limits, to DTF for review. The review should ensure that user access levels and financial delegations are still appropriate. We found that DTF only reviews these reports every six months, with the most recent review being for the September 2023 quarter.

DTF responded that for practical reasons it will continue to perform user access reviews every six months. DTF considers the deletion of Basware access on an employee's departure minimises the associated risk.

Accounts receivable

2023-24 service level agreements with DTF portfolio agencies were not finalised promptly

We noted that the 2023-24 service level agreements with DTF portfolio agencies were not finalised before 1 July 2023.

DTF responded that it has prepared three-year agreements commencing in 2024-25 for the provision of corporate services to all portfolio agencies. DTF expects them to be signed and in place by 1 July 2024. We will review this in our 2024-25 audit.

RIO and RSAOL system IT general controls review

The RIO and RSAOL systems are used to view and process transactions and payments for stamp duty, payroll tax, land tax and the Emergency Services levy.

Our review of RIO and RSAOL system IT general controls identified areas where controls could be improved, including patch management, user access management and disaster recovery management. These weaknesses could increase the potential for malicious activity by system users and the risk of inappropriate changes being made to system data.

At the time of this report, DTF was in the process of responding to our findings and recommendations.

RIO and RSAOL system data security contract management review

We reviewed DTF's arrangements with external contractors for the supply of application management services for RIO and system enhancements for RSAOL.

No review of data logs when developers access the RIO production environment

Contract developers are responsible for configuring, customising and modifying RIO. We found that they gain access to the RIO production environment through remote access that is opened and closed by RevenueSA staff, with this activity recorded in a log. The log recorder is controlled by the developer and can be stopped, started and modified when the developer is in the production environment, meaning it may not capture all activity. We also found that DTF did not review the data logs for developer activity in the production environment.

DTF responded that it would:

- conduct a risk assessment of the current process to give developers access to the RIO production environment
- create an event logging policy and improve the existing procedure document for developers undertaking changes in the RIO production environment.

Interpretation and analysis of the financial report

Highlights of the financial report – controlled items*

	2024 $million	2023 $million
Income		
Appropriation	179	168
Fees and charges	89	83
Other income	20	13
Total income	288	264
Expenses		
Employee related expenses	167	163
Supplies and services	94	89
Other expenses	12	11
Total expenses	273	263
Net result	15	1
Other comprehensive income	3	-
Total comprehensive result	18	1
Assets		
Current assets	64	47
Non-current assets	50	53
Total assets	115	100
Liabilities		
Current liabilities	31	34
Non-current liabilities	39	39
Total liabilities	70	74
Total equity	45	26

* Table may not add due to rounding.

Statement of Comprehensive Income – controlled items

Income

Income increased by $24 million to $288 million in 2024 mainly due to:

- an $11 million increase in appropriations
- a $7 million increase in SA Government grants, subsidies and transfers, mostly due to a $13 million increase in contingency funding associated with the finance reform program that was offset by a $5 million reduction in funding for targeted voluntary separation packages
- a $6 million increase in revenue from fees and charges, mostly as a result of a $5 million increase in recoveries from the South Australian Superannuation Board to recover funds spent on projects.

Expenses

Expenses increased by $10 million to $273 million in 2024 mainly due to:

- a $5 million increase in supplies and services expenses, mostly due to increases in expenses for ICT ($3.7 million) and contractors and temporary staff ($4.3 million), offset by a decrease in consultants ($1.3 million)

- a $4 million increase in employee related expenses, mostly due to additional salary costs associated with the finance reform program ($2.8 million), Super SA strategic projects ($2 million), the payroll reform project ($1.3 million) and the banking transition project ($1 million), offset by a $4.7 million decrease in targeted voluntary separation packages and $2.9 million decrease in other employee related expenses, mostly related to workers compensation.

Statement of Financial Position – controlled items

Assets

Total assets increased by $15 million to $115 million in 2024 mainly due to:

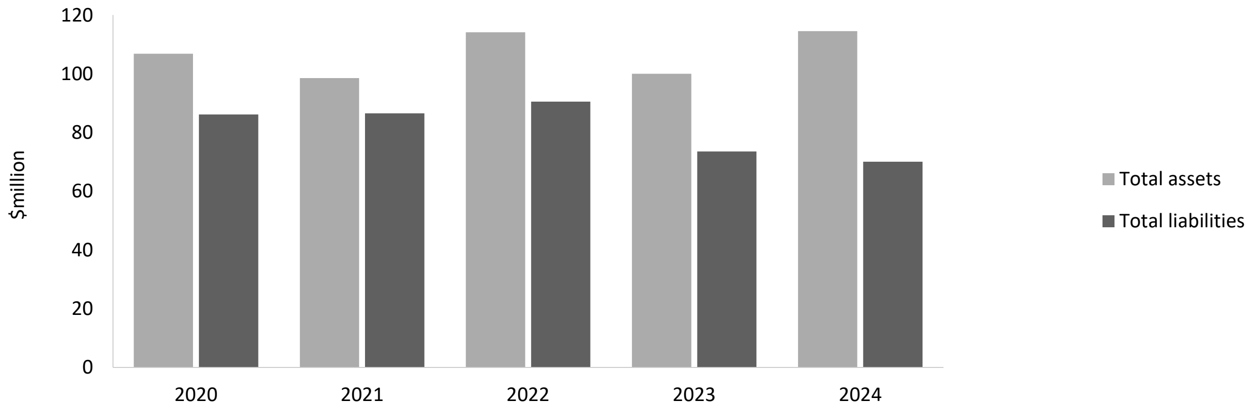
- a $17.2 million increase in cash
- a $2.2 million increase in property, plant and equipment, mostly due to:
  - $4.1 million in additional work in progress recognised in 2023-24, mainly for building fitouts, furniture and IT equipment
  - a $3.1 million building fitouts revaluation increment
  - $5.8 million in depreciation and amortisation expense
- a $4.6 million decrease in intangible assets, mostly due to:
  - $5.7 million in amortisation expense
  - $1.1 million of additional work in progress recognised in 2023-24 for RevenueSA taxation systems.

Liabilities

Total liabilities decreased by $4 million to $70 million in 2024 mainly due to:

- a $3.2 million decrease in payables, after a $3.3 million decrease in accrued expenses
- a $3 million increase in employee-related liabilities, mainly from a $2.3 million increase in long service leave, of which $1.3 million is due to changes in actuarial assumptions used in calculating the liability
- a $2.7 million decrease in provisions for workers compensation, comprising $3.8 million in payments and a $1.1 million increase in the liability due to the actuarial assessment.

The following chart shows DTF's asset and liability balances since 2020.



The fluctuation in assets over the last five years primarily reflects the timing of the development of software for RevenueSA and the South Australian Superannuation Board, building fitouts and the transfer of assets and liabilities through administrative restructures.

Statement of Cash Flows

DTF's cash position at 30 June 2024 was $47 million, an increase of $17.3 million, reflecting increases of $8.4 million in funds held in the operating account and an $8.9 million increase in funds held in the accrual appropriation excess funds account.

Highlights of the financial report – administered items*

The administered financial statements mainly reflect DTF's transactions on behalf of the SA Government for the Consolidated Account. The Consolidated Account result for 2024 is reported in the Treasurer's statements (published on the Audit Office of South Australia's website).

	2024 $million	2023 $million
Income		
Taxation	5,824	5,075
Commonwealth revenues	12,477	11,736
Appropriation	3,327	2,149
Other revenues	1,631	1,717
Total income	23,259	20,677
Expenses		
Payments to SA Government	16,046	14,558
Grants, subsidies and transfers	5,178	4,898
Other expenses	1,662	1,330
Total expenses	22,886	20,787
Net result and total comprehensive result	373	(109)
Assets		
Current assets	1,847	1,167
Non-current assets	330	292
Total assets	2,178	1,459
Liabilities		
Current liabilities	769	423
Non-current liabilities	177	177
Total liabilities	945	599
Total equity	1,232	860

* Table may not add due to rounding.

Statement of Comprehensive Income – administered items

Administered revenue

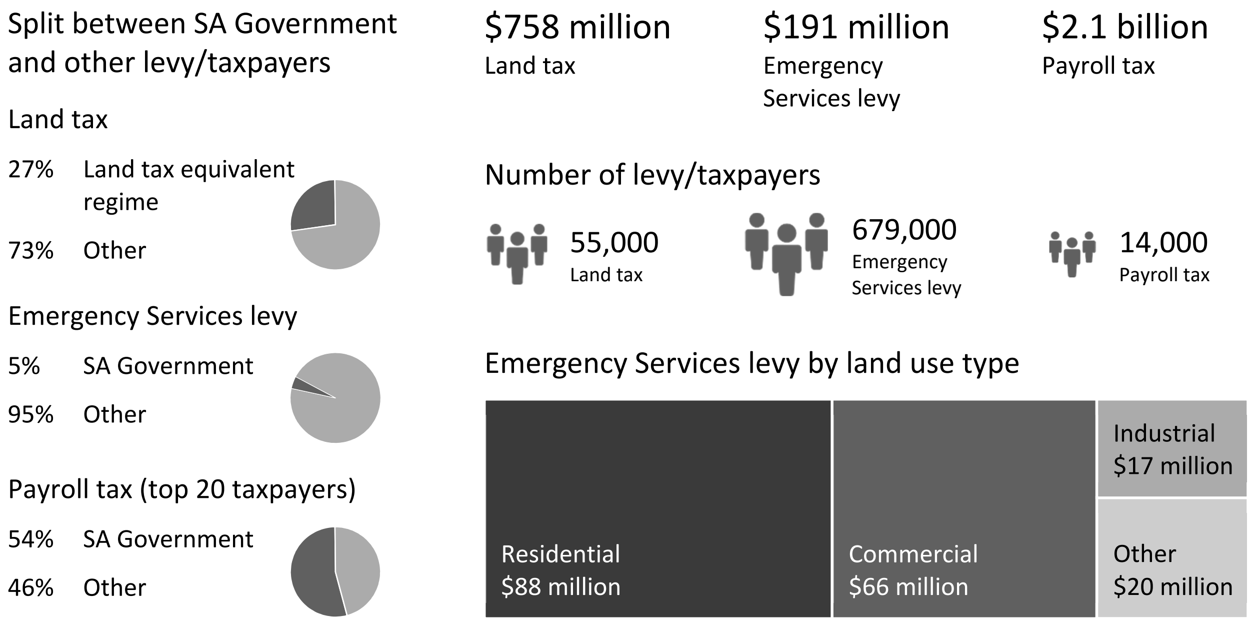
Taxation revenue increased by $740 million to $5.82 billion in 2023-24, mainly due to:

- a $238 million increase in stamp duties on property sales conveyances, reflecting generally higher residential property prices
- a $190 million increase in land tax, due mainly to growth in property values
- a $186 million increase in payroll tax, due mainly to strong labour market conditions
- a $50 million increase in stamp duties on general insurance, due to growth in premiums
- a $30 million increase in stamp duties on motor vehicle registrations, due mainly to growth in the number of motor vehicles and registration transfers
- a $39 million increase in income tax equivalents, due mainly to increases in tax payments from the South Australian Government Financing Authority (SAFA) ($26.9 million) and the Urban Renewal Authority ($21.2 million), offset by decreases from the South Australian Water Corporation ($5.9 million) and HomeStart Finance ($3.9 million).

The following state taxation statistics show that SA Government agencies paid:

- 27% of land tax collected but only 5% of the Emergency Services levy collected in 2023-24
- 54% of payroll tax collected by RevenueSA from the top 20 taxpayers in 2023-24.

State taxation statistics



Commonwealth revenue increased by $740 million to $12.5 billion in 2023-24, mainly comprising a $798 million increase in GST revenue grants, partially offset by a $65 million decrease in funding received under the Inter-Governmental Agreement on Federal Financial Relations (IGAFFR).

Commonwealth funding received in the current and prior years for various infrastructure and capital projects is recorded initially as unearned revenue and then recognised as expenditure on the projects is incurred. In 2023-24 grant revenue received from the Commonwealth for capital projects and recognised as unearned revenue was $155 million and grant revenue recognised in 2023-24 for capital works completed was $150 million.

Appropriation increased by $1.2 billion to $3.3 billion, reflecting increased funding for DTF's administered activities.

Other revenue decreased by $86 million to $1.6 billion, mainly due to:

- a $177 million decrease in grants and contributions, due mainly to a $177 million decrease in intra-government transfers received for various administered activities
- a $119 million decrease in the return of equity capital contributions by agencies. This amount varies each year as it generally relates to specific transactions that occur each year
- an $89 million decrease in the return of surplus cash from agencies to the Consolidated Account
- a $27 million decrease in recovery for interstate hotel COVID-19 quarantine
- an $18 million decrease in the return of private hospital funding
- a $219 million increase in dividends from SA Government agencies, due mainly to a $94 million increase from SAFA, a $57 million increase from the South Australian Water Corporation and a $51 million increase from the Urban Renewal Authority
- a $128 million increase in interest revenue.

Administered expenses

Administered expenses increased by $2.1 billion to $22.9 billion in 2023-24, mainly due to:

- a $1.5 billion increase in payments to the SA Government, mostly due to a $1.4 billion increase in the transfer of revenue received on behalf of the Consolidated Account
- a $279 million increase in grants, subsidies and transfers, mostly due to a $313 million increase in recurrent grants, subsidies and transfers and a $227 million increase in equity capital contributions, offset by a $246 million decrease in capital grants, subsidies and transfers
- a $245 million increase in interest costs, mainly on the Treasurer's borrowings from SAFA
- a $116 million increase in employee related expenses, mostly due to a $114 million increase in payments to the Police Superannuation Scheme and the South Australia Superannuation Fund to support funding of the defined benefit liability of the schemes
- a $39 million decrease in payments to the Commonwealth Government.

Administered net assets

Net assets increased from $860 million to $1.2 billion in 2023-24. This was due to:

- administered assets increasing by $719 million due mainly to:
  - a $664 million increase in cash, reflecting an increase in deposits with the Treasurer
  - a $33 million increase in loans to the Treasurer
- administered liabilities increasing by $346 million, due mainly to a $344 million increase in revenues collected but not yet paid into the Consolidated Account.

Further commentary on operations

Commonwealth Government funding arrangements

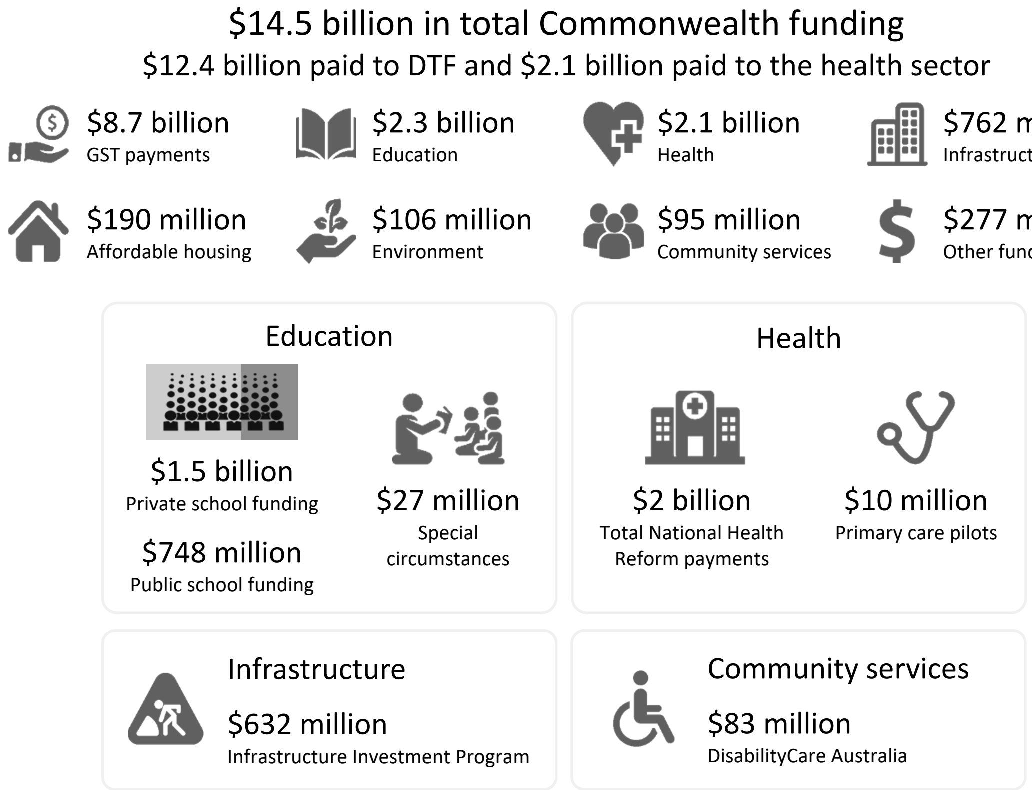
The IGAFFR is the framework for the Commonwealth's financial relations with the States and Territories. It provides for the following types of Commonwealth payments:

- general revenue assistance, including the ongoing provision of GST payments, to be used by the States and Territories for any purpose
- national specific purpose payments to be spent in the key service delivery sectors agreed to between the Commonwealth and the States. Each national specific purpose payment is linked to a national agreement that contains objectives, outcomes, outputs and performance indicators, and clarifies the roles and responsibilities of each jurisdiction
- national partnership payments to support the delivery of specified outputs or projects, to facilitate reforms or to reward those jurisdictions that deliver on nationally significant reforms.

Under the IGAFFR all Commonwealth funding, with the exception of funding under the National Health Reform Agreement, is provided to DTF, which distributes funds to agencies. The Treasurer has established a special deposit account to receive and disburse money paid to the State for the national specific purpose payment purposes and the national partnership payment purposes listed in the IGAFFR.

The balance of the IGAFFR account at 30 June 2024 was $124 million ($99 million). These are the funds that DTF is yet to transfer to other agencies.

Commonwealth funding, presented on a cash basis, was provided in 2023-24 for the purposes shown below. The Commonwealth provided $12.4 billion to DTF and $2.1 billion directly to the health sector. Of this, 60% related to GST revenue grants of $8.7 billion that can be used for any purpose, whereas most of the remaining Commonwealth funding is for specific purposes.



Source: Australian Government GovTeams report at 28 June 2024.

Local Government Infrastructure Partnership Program

In October 2020 the SA Government announced the Local Government Infrastructure Partnership Program to help local government accelerate spending on community infrastructure projects that:

- contribute to the future economic growth of the region
- support the SA Government's Growth State agenda
- improve local infrastructure facilities for businesses and community organisations to enable them to grow in the future
- upgrade key community facilities.

Under the program, the SA Government provides grants to councils for up to 50% of the cost of approved infrastructure projects. Councils fund the remaining 50% either through their own reserves or by borrowing. Infrastructure projects can involve other funding partners, including the Commonwealth Government and local businesses.

Applications for grants closed on 29 January 2021. They were assessed by a panel of staff from the Office of Local Government and DTF. The program was fully subscribed, with $106.9 million in grants approved for 57 projects across 58 local councils.

Grant payments to reimburse costs are made to local councils in line with key project milestones and as agreed with local councils in grant agreements. Most councils have experienced project interruptions and significant delays due to supply chain issues and labour shortages.

At 30 June 2024:

- 25 projects were completed
- three projects were terminated by councils
- 26 projects were in progress, with grant deeds for three of them not yet finalised.

Payments totalling $20.6 million were made in 2023-24. At 30 June 2024, $60.6 million in total payments had been made.

School loans scheme

In the 2021-22 State Budget the SA Government announced a new $320 million low interest loan scheme to help non-government schools upgrade their existing school facilities, including early learning centres co-located on a school site. Loans of between $500,000 and $10 million per school were made available for three years, with loan terms up to 15 years.

SAFA is administering the loan scheme. Since its inception there have been three funding rounds.

Total funds advanced to non-government schools at 30 June 2024 were $108 million. The total value of approved school loans at 30 June 2024 was $149 million, with $41 million not yet drawn down.

Fines Enforcement and Recovery Unit (FERU) – $431 million debt outstanding

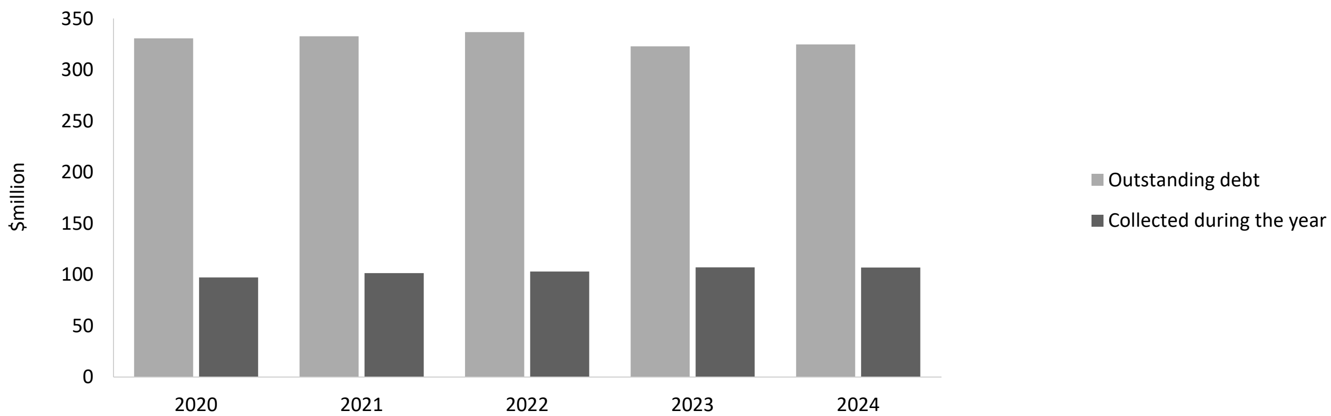
The FERU collects outstanding fines and related payments (suitor amounts and fees and charges associated with overdue amounts). It performs this function for court fines, expiation fees (including overdue local government amounts referred) and other outstanding amounts, including Victims of Crime levies and third-party suitor amounts.

The balance of debt managed by the FERU was $430.9 million ($419.1 million) at 30 June 2024, which includes $44.1 million ($39.8 million) that is not yet due. This comprises:

- fines – $239.4 million ($233.6 million). This includes expiations of $174.5 million ($167.1 million) and pecuniary sums of $65 million ($66.5 million)
- Victims of Crime levies – $106 million ($96 million)
- FERU fees – $85.5 million ($89.4 million).

$127.6 million ($123.6 million) of the debt relates to court penalties, while $303.3 million ($295.5 million) relates to expiation notices.

The following chart shows the total outstanding debt from fines and related fees (excluding Victims of Crime levies) and total collections over the last five years.



The chart shows that outstanding debts remained steady over the five years to 2024. Collections have increased since 2020, reflecting different collection management by the FERU and the use of powers to suspend dealings with the Registrar of Motor Vehicles or driver's licences (among other powers available).

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

Fines lodged with the FERU totalled $219.4 million ($229.9 million) in 2023-24. Collections totalled $117.9 million ($118.1 million), including Victims of Crime amounts. This included $107 million ($107.1 million) collected on behalf of the SA Government and $9.9 million ($10.1 million) collected on behalf of non-government entities, including local government councils.

The FERU has engaged a panel of external debt collectors to help collect outstanding amounts, particularly those that are more difficult to recover. The outstanding amounts collected by debt collection agencies since the start of the arrangements in 2016-17 total $34.9 million. The external debt collection deed expired in September 2022 and a new external debt collection deed was executed in August 2024.

Of the $430.9 million ($419.1 million) in total outstanding debt and related payments, $276 million ($254.8 million) is under active management, with $183.9 million ($175.9 million) subject to payment arrangements, $44.1 million ($39.8 million) subject to arrangements prior to fines being overdue and $47.4 million ($46.3 million) not owed to the State. No fines were referred to debt collection agencies in 2023-24 ($3.5 million).

In May 2019 the FERU started recovering State debt on behalf of other government agencies. At 30 June 2024 it was recovering State debt for 27 (26) government agencies. The total debt referred to the FERU in 2023-24 was $46.4 million ($48.9 million), of which $6.4 million ($7 million) was collected and $11.7 million ($11.1 million) is subject to payment arrangements. $3.1 million ($5.1 million) of debt has been paid back directly to government agencies.

Urban Renewal Authority (URA)

Financial statistics

167
FTEs

$220 million
SA Government equity contributions

$12 million
Profit before income tax equivalent

Significant events and transactions

— The URA paid $85 million in dividends to the SA Government.

— The URA sold land at Aldinga, which will be developed by Villawood Properties over 10 years. Discounting the future payments to their present value resulted in the URA recognising sales revenue of $46 million and a corresponding amount as a receivable. The difference between this amount and the sale price will be treated as a financing arrangement and recognised periodically as interest revenue over 10 years.

— The URA exchanged land, principally at Osborne and Northern Lefevre Peninsula, with the Commonwealth Government for land at Keswick, Smithfield and Cultana.

— The URA purchased Magill campus land from the University of South Australia for $65 million.

— The URA purchased land at the former West End Brewery at Thebarton for $61.5 million.

— Festival Plaza public realm assets were divided between the URA, the Department of the Premier and Cabinet (DPC) and the Adelaide Festival Centre Trust according to the land on which the assets reside. The URA purchased its assets from DPC during the year.

— The URA entered into a contract to construct a deeper maintenance and modification facility in Edinburgh so that major defence aircraft maintenance can be undertaken within South Australia.

Financial report opinion	**Unmodified**
Controls opinion findings	Opportunities to strengthen contract management controls.
Other audit findings	No significant findings.

Functional responsibility

The URA is established by the *Urban Renewal Act 1995* (URA Act). It is the SA Government's property development agency. Its functions include:

- developing residential, commercial and industrial land in the public interest, particularly for urban renewal purposes
- facilitating public and private investment, undertaking development activities that are attractive to potential investors and participating in the development of the State
- facilitating the orderly development of areas through the management and release of land
- holding land and other property to be made available as appropriate for commercial, industrial, residential or other purposes.

The URA's trading name is Renewal SA. It is a for-profit entity under the Treasurer's Instructions (Accounting Policy Statements).

Urban renewal program

The URA conducts its urban renewal program through a series of development projects. Its major projects are currently Lot Fourteen, Playford Alive, Tonsley, Bowden and Prospect. A separate business plan is prepared for each project and progress against the plan is monitored. See 'Major development projects' below for further discussion of these projects.

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. Areas of audit attention in 2023-24 included:

- management of projects, procurement and contracts
- land sales
- property income
- payroll
- capital and operating expenditure

- land inventory
- general ledger.

We reviewed internal audit activities to design and perform our audit procedures.

Controls opinion

We reviewed controls over the following areas as part of our overall controls opinion, which is discussed in Part B of this report:

- inventories, including land held for sale and development projects
- the Renewal SA Operating Account.

Audit findings

Communicating our audit findings

We communicated our audit findings in a management letter to the Chief Executive of the URA. The main findings and the URA's responses are discussed below.

Controls opinion findings

Opportunities to strengthen contract management controls

Contract management plans not prepared for two complex contracts

The URA was unable to provide contract management plans (CMPs) for two construction contracts we considered. We noted the absence of a CMP for one of these contracts last year. The URA's contract management policy and framework requires a CMP for all contracts with a complex rating. The URA has assessed both contracts as complex.

The URA acknowledged our recommendation to establish CMPs, and advised us that it had drafted a CMP for one of the contracts. It also noted other controls it uses to manage this risk, including fortnightly meetings with the contractor and appointing suitably qualified superintendents.

Incorrect industry participation weighting used to assess procurement for a complex contract

In March 2023, the URA updated its procurement policy and framework to comply with amendments to Treasurer's Instruction 18 *Procurement* and the South Australian Industry Participation Policy, which came into effect in January 2023. Its updated policy and framework includes the requirement to give a minimum weighting of 20% to industry participation in the evaluation criteria for procurements over $10 million, up from 15%.

In a sample of five procurements we tested, one procurement valued at $10.8 million had not complied with the new 20% weighting.

The URA accepted this finding, noting that a lower percentage was accepted by the Office of the Industry Advocate for this procurement. It also advised us that it had implemented a new online training program to help its staff to understand and apply its procurement framework.

Contract authorisation not in line with the URA's delegations

In a sample of five contracts we reviewed, we found one worth $4 million that was not approved in line with the URA's delegations.

The URA accepted this finding, noting that it has implemented a technology solution to ensure future contracts are approved in line with its delegations.

Interpretation and analysis of the financial report

Highlights of the financial report*

	2024 $million	2023 $million
Income		
Sales	177	64
Cost of sales	(94)	(35)
Revenues from SA Government	8	7
Property income	36	33
Gain from changes in the value of non-current assets	-	115
Other revenues	10	18
Total income	137	202
Expenses		
Employee benefits expenses	22	17
Operating expenditure, depreciation and amortisation, and other expenses	65	55
Net loss from changes in the value of non-current assets	20	-
Borrowing costs	18	9
Total expense	125	82
Profit before income tax equivalent	12	121
Income tax equivalent	(4)	(36)
Total comprehensive result	8	84
Net cash provided by (used in) operating activities	(241)	(48)
Net cash provided by (used in) investing activities	(76)	6
Net cash provided by (used in) financing activities	299	55
Assets		
Current assets	145	190
Non-current assets	838	493
Total assets	983	683
Liabilities		
Current liabilities	309	182
Non-current liabilities	400	370
Total liabilities	709	552
Total equity	274	131

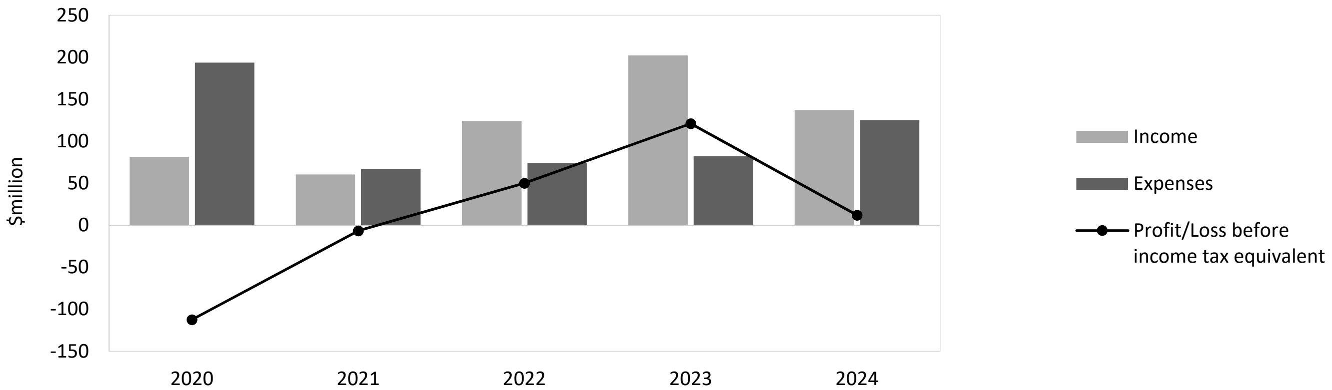
* Table may not add due to rounding.

Statement of Comprehensive Income

The Treasurer has classified the URA as a for-profit entity. The URA's capacity to generate profits is significantly influenced by a range of matters, including government policy. Some are discussed below.

Profit (Loss) before income tax equivalent

The following chart shows the URA's income, expenses and profit (loss) before income tax equivalent for the five years to 2024.



The URA's profit before income tax equivalent of $12 million for 2023-24 was significantly lower than its 2022-23 profit of $121 million. The $108 million decrease was mainly due to gains recognised in 2022-23 from the reversals of previous inventory write-downs. No gains were recognised in 2023-24.

The nature of the URA's business means that its profit (loss) before income tax equivalent is influenced by movements in the value of its inventory and investment property. Losses in 2019-20 were driven by a decrease in rental income largely resulting from the reduced number of investment properties and additional borrowing costs to compensate the Treasurer for the market value of debt that was repaid early. A more detailed analysis of the income and expenses that resulted in the 2023-24 profit is provided below.

Income

Total income decreased by $65 million to $137 million, mainly due to:

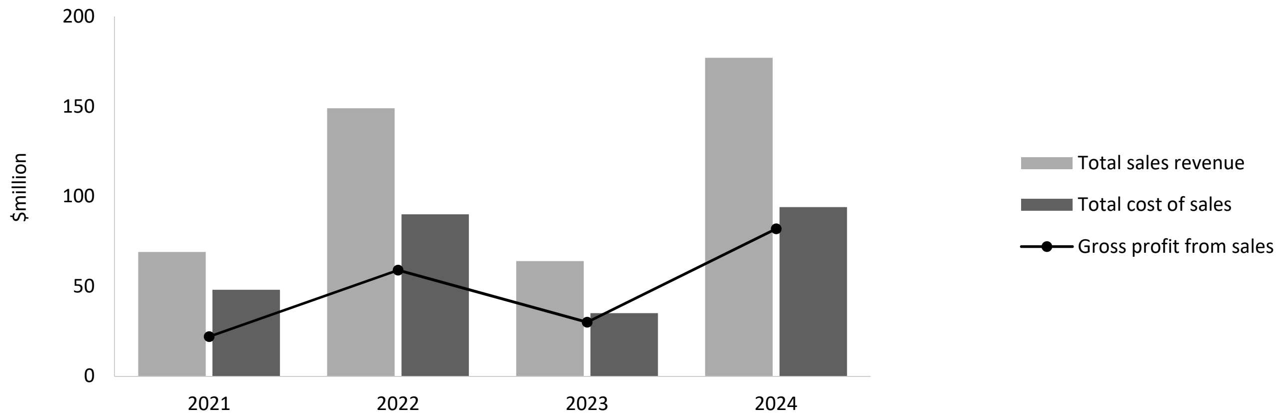
- gains recognised in 2022-23 from the reversals of previous inventory write-downs of $103 million. No gains were recognised in 2023-24
- gross profits from sales increasing by $53 million to $82 million. The increase largely reflects the $46 million gross profit from the sale of land at Aldinga: The details of this sale are as follows:
  - In June 2024 the URA signed a development agreement with Villawood Properties for 45 hectares of land at Aldinga.
  - The URA recognised the development agreement as a sale as required by AASB 15 *Revenue from Contracts with Customers.*
  - Because the developer is paying the sale amount over 10 years, the URA discounted the future payments to their present value of $46 million, recognising this amount as the sale value in 2023-24 and a corresponding amount as a deferred payment receivable. The difference between this amount and the sale price will be treated as a financing arrangement and recognised periodically as interest revenue over 10 years, with a corresponding amount added to the deferred payment receivable. The receivable reduces as the developer makes payments.

— The sale resulted in a $46 million profit being recognised in 2023-24.

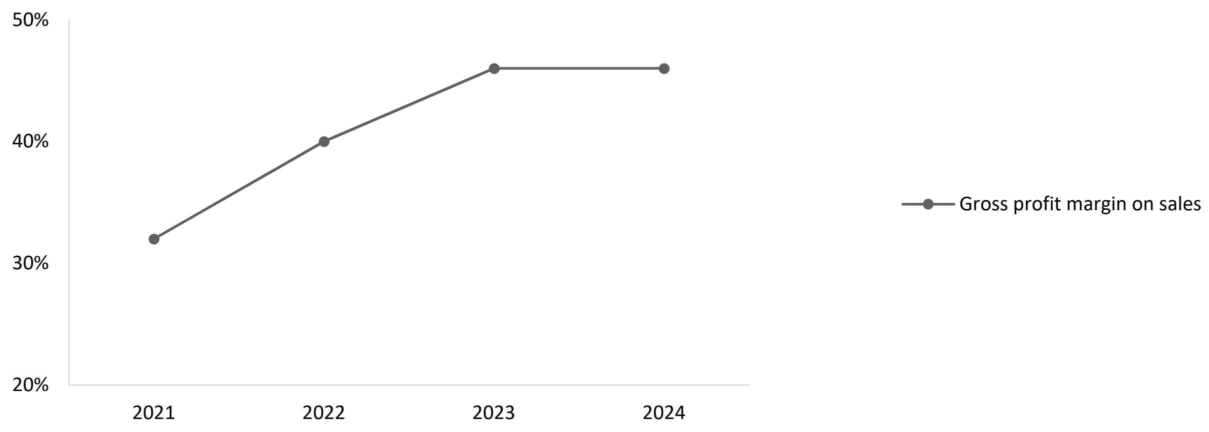
- property income increasing by $4 million to $36 million, reflecting higher rental income resulting from increased tenancies and indexation adjustments to tenant rents.

Further information on changes in the value of inventories and investment properties is provided under ‘Assets’ below.

The following chart shows the total land sales and cost of sales for the four years to 2024.



The gross profit margin on sales shown in the chart below is an important driver of the URA’s profitability and is influenced by market prices for land and the costs of acquisition and development. Gross profit margins on sales remained steady at 46% in 2023-24.



Sales of properties carried at their net realisable value (which is their likely sales value less future development costs) usually have lower gross profit margins than sales of properties carried at cost and below their net realisable value. The SA Government sometimes requires the URA to undertake development projects that are not purely commercial in nature. These projects are often written down because their net realisable value is below their cost.

Expenses

Expenses were $125 million ($82 million), with the $43 million increase reflecting the following key movements:

- the net loss from changes in the value of non-current assets of $20 million ($0), mainly due to $34 million in inventory write-downs, offset by a $15 million increase in investment properties resulting from valuations
- operating expenses increasing by $11 million to $63 million, mainly due to increased land tax payments of $5 million following increases in land values, and a $7 million increase in administration and other expenditure that was mainly due to expensing design costs of $4.1 million associated with a terminated development agreement at Lot Fourteen
- borrowing costs increasing by $8 million to $18 million, due to higher weighted average interest rates across the debt portfolio and the higher balance of borrowings throughout 2023-24 compared to the prior year.

Dividend

Under the URA Act, the URA is required to recommend to the Minister whether it will pay a dividend each financial year based on its accounting profit. The URA is also required to declare a dividend of 100% of the after-tax profit relating to the Adelaide Station and Environs Redevelopment (ASER) site in line with its financial ownership framework, which was approved by the Minister and Treasurer.

The URA paid $85 million ($35 million) in dividends to the SA Government, comprising the following:

- The Minister, in consultation with the Treasurer, approved a dividend payment of $3.992 million for 2023-24, with the provision that any difference between the URA's expected and final 2023-24 profits will be adjusted for in the 2024-25 dividend declaration process.
- An additional dividend of $80.3 million in 2023-24 was calculated on the final profit for 2022-23.
- A special dividend of $1.072 million was paid for the after tax profit on the ASER site.

Statement of Financial Position

The URA's total assets of $983 million, mainly comprising investment properties and inventories worth $740 million, exceeded its total liabilities of $709 million. Its total liabilities mainly comprise South Australian Government Financing Authority (SAFA) borrowings of $625 million.

The URA's net asset position improved by $143 million to $274 million, mainly due to an equity contribution from the SA Government of $220 million and profits after income tax equivalent of $8 million, partially offset by the $85 million dividend payment.

The major movements in the Statement of Financial Position are discussed below.

Assets

Total assets were $983 million ($683 million). The $300 million increase is mainly due to increases in inventories of $177 million, property, plant and equipment of $72 million, receivables of $52 million and investment properties of $16 million.

Property, plant and equipment

Property, plant and equipment increased by $72 million, mainly as a result of acquiring land and Public Realm assets at the Festival Plaza from DPC for $76 million.

Receivables

Receivables increased by $52 million to $147 million, due because of a $46 million increase in deferred amounts arising from the Aldinga land sale. Receivables include $122 million of deferred payment arrangements arising from the upfront recognition of sales at Oakden, Aldinga, Tonsley, Bowden and Woodville St Clair.

Investment properties

Investment properties increased by $16 million to $127 million, driven by gains of $15 million in their fair values.

Inventories

The URA's primary activities involve holding and developing land inventory for sale. The value of its inventory at 30 June 2024 was $612 million ($435 million). The $177 million increase mainly reflected inventory additions comprising:

- $240 million ($20 million) in land purchases for future development, which included the purchases of land at the University of South Australia's Magill campus for $64.5 million, the former West End Brewery site at Thebarton for $62 million, Commonwealth land at Keswick and Smithfield for $73 million and the former Franklin Street Bus Station for $27 million
- $65 million ($56 million) in capitalised development costs, including direct materials and salaries where they are directly attributable to land currently under development. These costs are then expensed as part of cost of sales when inventories are sold
- inventory reductions comprising $94 million ($35 million) of inventory sold and included in cost of sales.

Inventory valuations and write-downs

In line with AASB 102 *Inventories*, the URA recognises inventory at the lower of its cost and net realisable value. The measurement of the net realisable value of inventories depends on their intended use. The URA has grouped its inventories into the following two classes:

- Land held for sale requiring low capital investment. The carrying amount of land in this class was $120 million ($231 million) at 30 June 2024. The decrease was mainly due to the sale of land and the reclassification of land to development projects as a result of a change in or refinement of the delivery strategy.
- Development projects requiring significant capital investment over extended periods of time before the land can be sold. These projects may be initiated by the SA Government, which provides community service obligation (CSO) funds to partly support the costs of these projects. From 2019-20 funding for capital works on the Lot Fourteen, Bowden and Tonsley projects was provided to the URA as equity contributions. Before that all CSO funding was provided as grants.

  The URA valued its development projects at $491 million ($204 million) at 30 June 2024. The increase in 2023-24 was mainly due to the $240 million in land purchases, including parcels in Keswick, Magill, Thebarton, Smithfield and Adelaide for future development projects, and the $65 million in capitalised development costs.

The following table shows the inventory write-downs and write-ups (reversals) and the investment property fair value gains and losses that have occurred over the last five years.

Inventory	Write-ups (Write-downs) 2020 $million	2021 $million	2022 $million	2023 $million	2024 $million	Carrying amount 30.06.24 $million	Land area 30.06.23 Hectares	Land area 30.06.24 Hectares
Development projects:								
Tonsley	(1)	-	-	16	-	40	29	24
Playford Alive	3	-	-	-	-	16	111	107
Bowden	(2)	(2)	-	22	-	17	8	7
Lot Fourteen	-	-	-	-	(17)	92	7	7
Prospect	-	-	-	-	-	11	2	2
Forestville	-	-	-	-	-	30	4	4
Other land held for development	-	-	-	-	(17)	286	-	65
Land held for sale	-	2	-	64	-	120	3,044	3,034
Total inventory	(1)	2	-	103	(34)	612	3,206	3,250
Investment property	(28)	2	16	13	15	127	116	116
Total inventory and investment property	(29)	4	16	115	(20)	739	3,321	3,366

Note: Table may not add due to rounding.

The values shown in the table are influenced by the impact of the URA's capitalisation policy and sales forecasts on the carrying amount of long-term development projects and their net realisable value.

Sales forecasting

Development project write-downs and reversals relate mainly to changes in the cash flow models the URA uses to determine the net realisable value of its development projects. Importantly, these changes include revised revenue forecasts that occur when the URA reassesses the likely outcomes of its business strategies for these projects. The revised revenue forecasts take into account the prevailing market conditions and the extent to which the conditions are expected to continue into the future. Where market conditions are challenging for a development project, the URA sometimes modifies its business strategy to increase future sales proceeds or lower future costs. However, if it considers that its revised strategy will be insufficient to fully recover the past costs of a project, it will write it down. If there is clear evidence that market conditions have improved or the circumstances that caused the previous write-downs no longer exist, it reverses the write-downs.

Inventory is valued at the lower of cost and net realisable value

AASB 102 requires the value of inventory to be measured at the lower of cost and net realisable value. Cost represents the actual cost of acquiring or constructing inventories, while net realisable value represents the estimated proceeds that will be received from the sale of the inventories less any selling costs and remaining estimated construction costs.

The URA initially measures the carrying value of its inventories at their actual cost. At the end of each financial year, it estimates the net realisable value of the inventories for comparison to their carrying values. Inventory carrying values are written down when they exceed their net realisable values.

Land held for sale is classified an inventory and has a carrying value of $120 million. If these assets were not classified as inventory, they would need to be recognised at their fair value, estimated by the URA to be $503 million. The fair value was estimated using a variety of valuation sources over the last three years, reducing the reliability of the estimate.

Measuring net realisable value involves estimating

The net realisable value of inventory may not equal its fair value if the entity does not intend to sell the inventory in its current condition in the most advantageous market at measurement date. The URA estimates the net realisable value of its land held for sale using independent valuations of current market value less estimated selling costs. Measuring the net realisable value of large development projects is more complex. The URA determines their net realisable values by estimating the future net cash flows of the projects (before interest) and discounting them back to present values. Inventory valuations can therefore change from year to year because of changes that influence these estimates.

The estimated cash flows are based on the amount and timing of sales and development costs, which for some projects extend many years into the future. The URA estimates when the development of each land parcel under its current strategies will be completed and its market price once developed, and also estimates the development costs, taking into account inflation. Changes to market conditions, policies or project strategies can also change the net realisable value of projects.

Liabilities

Total liabilities increased by $157 million to $709 million, largely reflecting:

- liability increases, mainly due to:
  - SAFA borrowings increasing by $165 million to $625 million. These borrowings make up 88% of total liabilities. They are primarily required to fund property purchases, capital development costs for inventories and operating expenditure. See ‘Borrowings, equity contributions and gearing’ below for further commentary on debt management
  - payables increasing by $14 million to $28 million, reflecting an increase in capital accrued expenses, and an increase in accrued interest associated with increased debt and higher weighted average interest rates across the debt portfolio
- a decrease in the provision for income tax equivalent of $32 million to $4 million, payable on the URA’s $12 million profit for 2023-24.

Statement of Cash Flows

Cash and cash equivalents decreased by $18 million to $9 million following large movements in cash flows.

Net cash used in operating activities deteriorated by $193 million to $241 million, mainly reflecting:

- payments for land purchases and development increasing by $213 million to $291 million
- an increase in income tax equivalents paid of $21 million
- receipts from sales, recoveries and sundry receipts increasing by $84 million to $135 million.

Net cash flows from investing activities deteriorated by $82 million to $76 million, largely reflecting the acquisition of land and Public Realm assets at the Festival Plaza from DPC.

Net cash provided by financing activities increased by $245 million to $299 million, mainly due to:

- proceeds from borrowings increasing by $274 million to $537 million
- equity contributions from the SA Government increasing by $209 million to $220 million
- repayments of borrowings increasing by $187 million to $372 million
- the dividend paid increasing by $50 million to $85 million, representing the additional dividend calculated on the final profit for 2022-23.

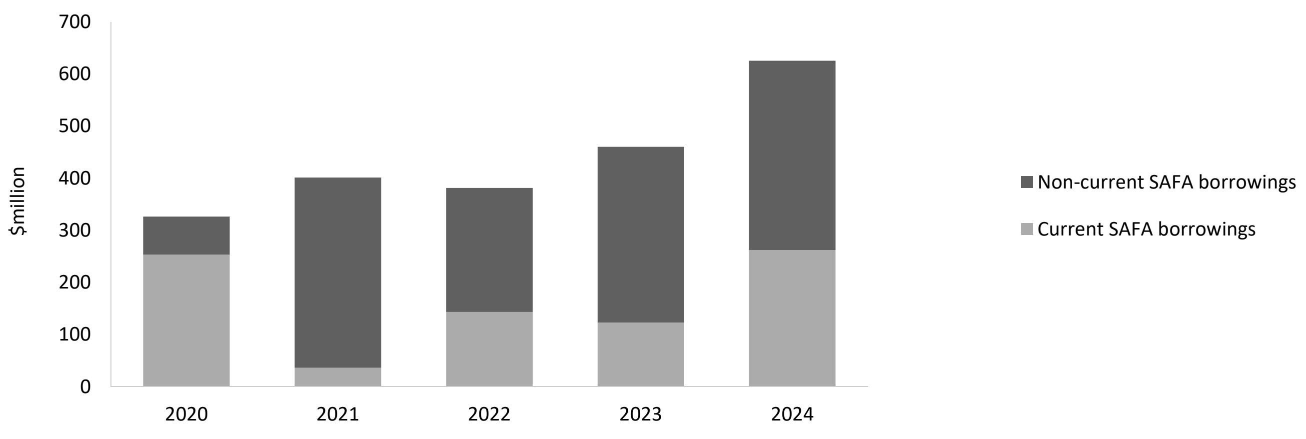
Further commentary on operations

The URA's strategic and business plans

The URA Act requires the URA Board to ensure, as far as practicable, that appropriate strategic and operation plans and targets are established for the URA. In July 2023 the URA Board approved the URA's strategic plan for 2023–2026 and noted the URA's business plan for 2023-24. The URA Board also noted the annual business plans for each of the URA's major development projects. The URA Board receives reports on progress against the goals and measures in these plans.

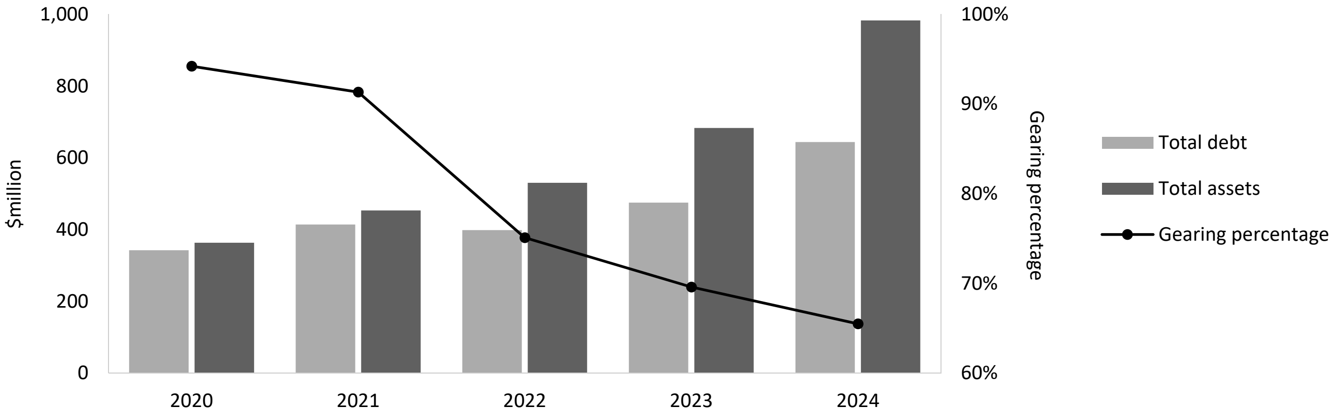
Borrowings, equity contributions and gearing

The URA borrows from SAFA to fund land developments and operating expenditure. Its current business model requires a level of up-front investment in projects that result in an accumulation of borrowings, until such time as sufficient revenues are realised to progressively retire the loan.
The chart below shows the value of its SAFA borrowings since 2020.



The URA's loans from SAFA increased by $165 million to $625 million at 30 June 2024, reflecting increased borrowing activity. SAFA borrowings of $262 million will mature in 2024-25.

The chart below shows the trend in the URA's gearing ratio, measured as total debt (loans and lease liabilities) divided by total assets.



A higher gearing ratio in the private sector normally indicates a higher financial risk for lenders and investors, whereas for the URA its entire debt is guaranteed by the SA Government. Gearing as at 30 June 2024 was 64% (70%). Under the financial ownership framework, the Treasurer and the Minister approved that gearing for the URA be under 90% and that, if exceeded, gearing be returned to below 90% within a reasonable period. The Treasurer also approved a performance statement for the URA that sets the gearing target at 76% for 2023-24. The decrease in the gearing ratio reflects the significant acquisition of assets over the past 12 months without the need for a corresponding increase in in debt.

Debt management and financial sustainability

The URA adopts a core debt management facility approach, consistent with other public non-financial corporations. This requires an annual debt ceiling to be approved by the Minister and Treasurer.

In August 2023 the Treasurer approved an increase in the URA's debt ceiling from $510 million to $990 million until 30 June 2026, which includes a core debt facility of $940 million and an overdraft facility of $50 million. The URA's borrowings from SAFA were $625 million at 30 June 2024. The debt ceiling has increased to accommodate future funding requirements to reflect the nature and uncertain timing of a number of the URA's proposed projects.

Status of major development projects

Lot Fourteen

In March 2018, the former Royal Adelaide Hospital site (renamed Lot Fourteen) was transferred to the URA from the then Department for Health and Ageing for no consideration. The then SA Government approved a publicly available Development Master Plan for Lot Fourteen in December 2019 that required it to be developed into an Innovation and Commercialisation Precinct, which will include:

- the Innovation Centre
- the International School of Culinary Excellence, Hospitality and Tourism
- the National Aboriginal Art and Cultures Gallery
- Space Mission Control
- the Space Discovery Centre.

The Development Master Plan only relates to the URA's component of the broader project, comprising mainly demolition works, refurbishing heritage buildings and delivering infrastructure and public realm works. Only the estimated costs and revenues for delivering the Development Master Plan are reflected in the URA's project budget. Construction and ownership models for the Innovation Centre, the International School of Culinary Excellence, Hospitality and Tourism, and the National Aboriginal Art and Cultures Gallery will be considered separately by the SA Government. Their estimated construction costs and revenues are not included in the URA's project budget.

Following Cabinet approval in February 2019, the former Premier delegated responsibility for the overarching management and delivery of the Lot Fourteen project to the State Project Lead, a senior employee of DPC. These governance arrangements aim to provide a single point of accountability for the project, given the multiple government agencies involved. In addition to the URA those agencies are:

- DPC
- Department for Innovation and Skills
- TAFE SA
- Defence SA
- Arts South Australia
- Department for Trade and Investment
- Department of Treasury and Finance.

A Lot Fourteen Strategic Steering Committee, comprising members from some of the above agencies and chaired by the State Project Lead, helps coordinate and monitor the progress of the project.

In May 2019, the former Premier directed the URA to implement any instructions issued by the State Project Lead within specified boundaries. The Chief Executive of DPC issued the governance and operational protocols to operate between the URA and DPC for delivering the Lot Fourteen project. The protocol specifies that, among other things, the URA is responsible for providing development services including demolition works, refurbishing heritage buildings and delivering infrastructure and public realm works, in line with the scope of works approved by the State Project Lead.

The URA expects to complete the capital component of the project by 2026-27 with sales ending in 2027-28, and estimates that its capital expenditure will be $337 million over the life of the project.

The URA's costs will be partially funded through the long-term lease of allotments, with the balance funded by the SA Government. The URA currently owns the Lot Fourteen land and redeveloped allotments and intends to sell some through long-term ground leases.

Lot Fourteen inventory is valued at $92 million ($91 million) after a $17 million write-down due to additional capital expenditure pressures when compared to the whole-of-life budget set in December 2019. Lot Fourteen capital expenditure was $18 million ($29 million) in 2023-24, while CSO funding received from the SA Government to fund the operating costs of managing the project, including the car park, was $4 million ($2 million).

Playford Alive

The Playford Alive project was approved by Cabinet in February 2006. The project involves renewing the suburbs of Davoren Park and Smithfield Plains and developing land at Munno Para, Munno Para Downs, Andrews Farm and Penfield. The URA expects that capital expenditure on the project will go beyond 2026-27, substantially ending in 2027-28, with sales and other costs continuing beyond this time.

Playford Alive inventory is valued at $16 million ($17 million). Income from inventory sales was $14 million ($13 million), while capital expenditure was $9 million ($12 million).

Tonsley

In December 2009, the SA Government approved the purchase of the former Mitsubishi Motors Tonsley Park manufacturing site at Clovelly Park. The URA is developing the site into a precinct that supports knowledge-intensive industries helping the economic growth of southern Adelaide. Land is also being developed and sold from the site. The URA expects 2023-24 to be the final year of significant capital expenditure on the project, with sales continuing beyond that time.

Tonsley inventory is valued at $40 million ($36 million). Income from inventory sales was $6 million ($4 million), while capital expenditure was $8 million ($5 million).

Bowden

Bowden is a higher density urban infill project expected to house around 3,200 residents in over 1,850 dwellings, and has a substantial commercial and retail component. The URA manages land development, remediation, infrastructure works, community engagement and marketing, with the private sector purchasing vacant developed land for building construction. The URA expects 2024-25 to be the final year of significant capital expenditure on the project, with sales continuing until 2030-31.

Bowden inventory is valued at $17 million ($22 million). Income from inventory sales was $12 million ($5 million), while capital expenditure was $5 million ($2 million).

Prospect

Prospect is a residential development on land purchased in 2020-21. The project aims to deliver 180 new dwellings with at least 55% of them being affordable housing. The URA expects that 2025-26 will be the final year of significant capital expenditure on the project, with sales continuing until 2026-27.

Prospect inventory is valued at $11 million ($9 million), while capital expenditure in 2023-24 was $3 million ($300,000).

Forestville

Forestville will be a residential and food-orientated retail development on the former Le Cornu site purchased in 2020-21. The URA has contracted a consortium to deliver the development. The project currently aims to deliver 219 high-quality apartments and 71 townhouses.

Forestville inventory is valued at $30 million ($29 million), while capital expenditure in 2023-24 was $1 million ($100,000).

Other notable transactions

Deeper maintenance and modification facility (DMMF)

The URA has entered into a contract to construct a DMMF in Edinburgh so that defence aircraft can be maintained within South Australia. The URA proposes to lease the facility, which includes warehousing, workshops and offices, to the Commonwealth Government once completed. Capital expenditure on the DMMF was $8 million ($8 million). Total capital expenditure to date is $20 million, including $9 million of land acquisitions.

Land exchange between Commonwealth and SA Governments

In March 2023, the Commonwealth and SA Governments announced a land exchange involving land owned by the URA and land parcels owned by the Commonwealth Government. A project deed entered into by both parties in November 2023 outlines the exchange of URA land, predominantly at Osborne and the Northern Lefevre Peninsula, with Commonwealth land, mainly the Keswick and Smithfield barracks, for no consideration.

Settlement of the land exchange occurred in two tranches in 2023-24. The first stage exchanged land at Osborne for land at Keswick and Smithfield. The second stage exchanged land at the Northern Lefevre Peninsula for land at Cultana. The URA recognised the newly acquired land as a development project in inventory for a cost of $73 million.

In addition to the transfers, lease agreements were entered into for Keswick for up to eight years and Smithfield for up to three years, to give the Commonwealth time to decamp from the sites. No consideration is paid for these lease agreements.

Adelaide Festival Plaza

In May 2016 the SA Government signed a development agreement with Walker Corporation for the integrated development of the Festival Plaza. The development includes:

- a mixed-use development by Walker Corporation, comprising a five-level car park, 29-storey office tower, three-storey retail building and surrounding public realm
- upgrades to the Adelaide Festival Centre and civic spaces
- an upgrade to the northern entrance of the Adelaide Railway Station
- State-delivered elements of the public realm.

An agreement was also entered into with SkyCity Adelaide to expand the SkyCity Casino.

Development agreement for second tower

In June 2024 the URA entered into a development deed for a second tower at the Festival Plaza with the following entities (collectively the Walker Parties):

- Walker Riverside Developments Pty Limited
- Walker Riverside (Carpark) Pty Limited
- Walker Riverside (Retail) Pty Limited
- Walker Riverside (Office) Pty Limited
- Walker Group Holdings Pty Limited.

The development deed provides the Walker Parties with development rights to construct the second tower on the Festival Plaza site, subject to a range of conditions that must be met within 12 months of signing the deed.

Festival Plaza public realm assets

Upgrades to the Festival Plaza public realm include both Walker Corporation and State-delivered components. The Department for Infrastructure and Transport substantially completed the State-delivered elements in 2021-22, with these assets recognised by DPC at 30 June 2023.

In 2023-24, DPC sold $14 million of land and $60.5 million of plant and equipment for public realm assets to the URA.

Since it opened to the public in 2021-22, the following interim governance arrangements for the public realm have applied:

- responsibility for activation and marketing – Adelaide Festival Centre Trust
- responsibility for operations and maintenance – the URA.

A Festival Plaza Marketing and Curation Committee, comprising representatives from the Adelaide Festival Centre Trust, SkyCity Adelaide, Walker Corporation, the Adelaide Oval SMA Limited, the URA and the Corporation of the City of Adelaide and chaired by Andrew Daniels (Chair, Adelaide Venue Management Corporation), provides advice on the curation and activation of the Festival Plaza.

Annexure – Agency financial statements that we will publish on the Audit Office of South Australia's website

The *Public Finance and Audit Act 1987* (PFAA) requires me to publish the audited financial statements of all public authorities on a website. This is a significant accountability measure that ensures they are all available centrally. The PFAA also allows me to publish other documents on that website, including the financial statements of agencies that are not public authorities.

Under section 36(1)(4) of the PFAA I will publish the financial statements of the following agencies on the Audit Office of South Australia's website (www.audit.sa.gov.au).

A.1 Agency financial statements included in this Annual Report to be published immediately after it is tabled

The following agencies are included in Part C of this report and their financial statements will be published on our website immediately after the report is tabled.

Adelaide Festival Centre Trust
Adelaide Venue Management Corporation
Attorney-General's Department
Auditor-General's Department
Barossa Hills Fleurieu Local Health Network Incorporated
Central Adelaide Local Health Network Incorporated
Child Protection – Department for
Correctional Services – Department for
Courts Administration Authority
Education – Department for
Energy and Mining – Department for
Environment and Water – Department for
Environment Protection Authority
Eyre and Far North Local Health Network Incorporated
Flinders and Upper North Local Health Network Incorporated
Health and Wellbeing – Department for
HomeStart Finance
Human Services – Department of
Independent Commission Against Corruption
Lifetime Support Authority of South Australia
Limestone Coast Local Health Network Incorporated
Motor Accident Commission
Northern Adelaide Local Health Network Incorporated
Premier and Cabinet – Department of the
Preventive Health SA

Primary Industries and Regions – Department of
Public Trustee
Return to Work Corporation of South Australia
Riverland Mallee Coorong Local Health Network Incorporated
SA Ambulance Service Inc
South Australia Police
South Australian Fire and Emergency Services Commission
South Australian Government Financing Authority
South Australian Housing Trust
South Australian Superannuation Board
South Australian Superannuation Scheme
South Australian Tourism Commission
South Australian Water Corporation
Southern Adelaide Local Health Network Incorporated
Southern State Superannuation Scheme
Super SA Retirement Investment Fund
Superannuation Funds Management Corporation of South Australia
TAFE SA
Trade and Investment – Department for
Treasurer's statements
Treasury and Finance – Department of
Urban Renewal Authority
Women's and Children's Health Network Incorporated
Yorke and Northern Local Health Network Incorporated

A.2 Agency financial statements not in this Annual Report and to be published after their audits are completed

The financial statements of the following agencies that are not included in Part C of this report will be published on our website as soon as practical after their audits are completed.

Aboriginal Lands Trust
Adelaide Cemeteries Authority
Adelaide Festival Corporation
Adelaide Film Festival
Agents Indemnity Fund
Alinytjara Wilurara Landscape Board
Art Gallery Board
Australian Energy Market Commission
Board of the Botanic Gardens and State Herbarium
Carrick Hill Trust
Coast Protection Board
Commission on Excellence and Innovation in Health
Construction Industry Training Board
CTP Regulator
Dairy Authority of South Australia

Defence SA
Dhilba Guuranda-Innes National Park Co-management Board
Distribution Lessor Corporation
Dog and Cat Management Board
Dog Fence Board
Electoral Commission of South Australia
Essential Services Commission of South Australia
Eyre Peninsula Landscape Board
Gawler Ranges Parks Co-management Board
Generation Lessor Corporation
Governors' Pensions Scheme
Green Adelaide Board
Health Services Charitable Gifts Board
Hills and Fleurieu Landscape Board
History Trust of South Australia
House of Assembly
Ikara-Flinders Ranges National Co-management Board
Independent Gaming Corporation Ltd
Industry, Innovation and Science – Department for
Infrastructure and Transport – Department for
Infrastructure SA
International Koala Centre of Excellence
Joint Parliamentary Service
Judges' Pensions Scheme
Kangaroo Island Landscape Board
Kanku-Breakaways Conservation Park Co-management Board
Legal Services Commission
Legislative Council
Libraries Board of South Australia
Limestone Coast Landscape Board
Local First Nations Voice (Central)
Local First Nations Voice (Far North)
Local First Nations Voice (Flinders and Upper North)
Local First Nations Voice (Riverland and South East)
Local First Nations Voice (West and West Coast)
Local First Nations Voice (Yorke and Mid-North)
Local Government Finance Authority of South Australia
Lotteries Commission of South Australia
Mamungari Conservation Park Co-management Board
Minister for Primary Industries and Regional Development – Adelaide Hills Wine Industry Fund
Minister for Primary Industries and Regional Development – Barossa Wine Industry Fund
Minister for Primary Industries and Regional Development – Citrus Growers Fund
Minister for Primary Industries and Regional Development – Clare Valley Wine Industry Fund
Minister for Primary Industries and Regional Development – Grain Industry Fund
Minister for Primary Industries and Regional Development – Grain Industry Research and Development Fund

Minister for Primary Industries and Regional Development – Langhorne Creek Wine Industry Fund
Minister for Primary Industries and Regional Development – McLaren Vale Wine Industry Fund
Minister for Primary Industries and Regional Development – Riverland Wine Industry Fund
Minister for Primary Industries and Regional Development – South Australian Apiary Industry Fund
Minister for Primary Industries and Regional Development – South Australian Cattle Industry Fund
Minister for Primary Industries and Regional Development – South Australian Grape Growers Industry Fund
Minister for Primary Industries and Regional Development – South Australian Pig Industry Fund
Minister for Primary Industries and Regional Development – South Australian Sheep Industry Fund
Murraylands and Riverland Landscape Board
Museum Board
Native Vegetation Fund
Ngaut Conservation Park Co-management Board
Northern and Yorke Landscape Board
Office for Early Childhood Development
Office for Public Integrity
Office for Recreation, Sport and Racing
Office of Green Industries SA
Office of Hydrogen Power South Australia
Office of the Commissioner for Public Sector Employment
Office of the Industry Advocate
Office of the National Rail Safety Regulator
Office of the South Australian Productivity Commission
Outback Communities Authority
Parliamentary Superannuation Scheme
Planning and Development Fund
Police Superannuation Scheme
Premier's Delivery Unit
Professional Standards Council
Rail Commissioner
Residential Tenancies Fund
Retail Shop Leases Fund
Rural Industry Adjustment and Development Fund
Second-hand Vehicles Compensation Fund
Small Business Commissioner
South Australian Ambulance Service Superannuation Scheme
South Australian Arid Lands Landscape Board
South Australian Country Arts Trust
South Australian Country Fire Service
South Australian Film Corporation
South Australian Forestry Corporation

South Australian Local Government Grants Commission
South Australian Metropolitan Fire Service
South Australian Motor Sport Board
South Australian Skills Commission
South Australian State Emergency Service
South Eastern Water Conservation and Drainage Board
State First Nations Voice
State Opera of South Australia
State Owned Generators Leasing Co Pty Ltd
State Planning Commission
State Theatre Company of South Australia
Stormwater Management Authority
StudyAdelaide
Super SA Select Fund
Teachers Registration Board of South Australia
Transmission Lessor Corporation
Vulkathunha-Gammon Ranges National Park Co-management Board
West Beach Trust
Witjira National Park Co-management Board
Yumbarra Conservation Park Co-management Board