

SOUTH AUSTRALIA

Report
of the
Auditor-General

Annual Report
for the
year ended 30 June 2007

Tabled in the House of Assembly and ordered to be published, 16 October 2007

Second Session, Fifty-First Parliament

Part A: Audit Overview

By Authority: T. Goodes, Government Printer, South Australia

2007



28 September 2007

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Gentlemen

REPORT OF THE AUDITOR-GENERAL: ANNUAL REPORT FOR THE YEAR ENDED 30 JUNE 2007

Pursuant to the provisions of the *Public Finance and Audit Act 1987*, I herewith provide to each of you a copy of my 2007 Annual Report. This Report includes the Honourable the Treasurer's Statements for the financial year ended 30 June 2007.

Content of the Report

This Report is in three parts – Part A, Part B and Part C.

Part A –The Audit Overview contains a summary of certain matters of importance regarding the audit program of work conducted at public sector agencies for 2006-07. More detailed comment on these matters is made in Part B Agency Audit Reports.

Part B – Agency Audit Reports (Volumes I, II, III, IV and V) contain comment on the operations of individual public authorities, the financial statements of those public authorities, and the Treasurer's Statements. A number of matters that, in my opinion, are of administrative significance or importance to the Government and the Parliament that are contained in Part B of this Report are listed separately under the heading 'References to Matters of Significance'. This list can be found immediately after the Table of Contents in the front of Volumes I, II, III, IV and V of Part B.

Part C –The State Finances and Related Matters contains a general review of, and report on the public finances of the State.

Auditor-General's Annual Report

In accordance with subsection 36(1)(a) of the *Public Finance and Audit Act 1987*, and subject to comments made within this Report, I state, that in my 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 financial year ended 30 June 2007;**
- (ii) the financial statements of each public authority reflect the financial transactions of the authority as shown in the accounts and records of the authority;**
- (iii) the controls exercised by the Treasurer and public authorities in relation to the receipt, expenditure and investment of money; the acquisition and disposal of property; and the incurring of liabilities, are sufficient to provide reasonable assurance that the financial transactions of the Treasurer and public authorities have been conducted properly and in accordance with law.**

Whilst I have not seen fit to express a qualified opinion with respect to matters referred to in subsection 36(1)(a)(iii) above, there have been cases where in some agencies, systems of internal controls have not, in my opinion, been of an acceptable standard. Where this has occurred, I have, in accordance with the provisions of subsection 36(1) of the *Public Finance and Audit Act 1987*, drawn attention to this fact and included comment on my reason(s) in the report on the agency concerned in Part B of this Report.

Report and Opinion on Controls

As required by subsection 36(1)(a)(iii) of the *Public Finance and Audit Act 1987*, the audit included an assessment of the controls exercised by the Treasurer and public authorities in relation to the receipt, expenditure and investment of money, the acquisition and disposal of property and the incurring of liabilities and also, where applicable, whether the controls in operation were consistent with the prescribed principles of the Financial Management Framework as required by Treasurer's Instruction 2 'Financial Management Framework'. The overall aim of that assessment was to establish whether those controls were sufficient to provide reasonable assurance that the financial transactions have been conducted properly and in accordance with the law.

It is not practical in any such assessment to review each and every control in respect of each and every transaction. Whilst every effort is made to test the sufficiency of controls across a representative range of transactions, it must be remembered that no system of control is 'fail-safe'.

The Parliament has recognised this in stating that the controls need only be sufficient to provide, at the time of audit, 'reasonable assurance' of the matters set out in subsection 36(1)(a)(iii).

The Audit assessment has been made by reviewing the adequacy of procedures and testing a number of control components against a range of financial transactions conducted at various levels of the organisation.

In assessing the sufficiency of these controls, particular regard has been had to the organisation's structure, risk and the inter-relation of policies, procedures, people, management's philosophy and operating style, demonstrated competence, and overall organisational ethics and culture. All of these matters serve as inter-related elements of control.

The standard by which Audit has judged the sufficiency of controls is whether and how well those controls provide reasonable assurance that financial transactions of the Treasurer and public authorities have been 'conducted properly and in accordance with law'. This concept requires the organisation to meet the standards of financial probity and propriety expected of a public authority and, at all times, discharge its responsibilities within the letter and spirit of the law, both in terms of its own charter and as an instrumentality of government discharging public functions.

Except for the matters detailed for each agency in Part B of my Report under the section 'Audit Findings and Comments', Audit formed the opinion that the controls exercised in relation to the receipt, expenditure and investment of money; the acquisition and disposal of property; and the incurring of liabilities were sufficient to provide reasonable assurance that the financial transactions were conducted properly and in accordance with the law. In respect of those matters where the controls exercised were not sufficient to provide that level of assurance, Audit has made recommendations as to where improvements are required.

Modified Independent Auditor's Reports

For the financial year ended 30 June 2007 modified opinions were expressed on the Financial Statements of the following agencies:

- Environment and Heritage, Department for
- Local Government Finance Authority of South Australia
- South Australian Forestry Corporation
- South Australian Motor Sport Board
- Transport, Energy and Infrastructure, Department for
- University of South Australia

In all cases where a modified opinion is given, the Independent Auditor's Report includes an explanatory paragraph clearly describing the reason for issuing a modified opinion. Further the reason for issuing a modified opinion is described in the commentary on each of those agencies to be found in Volumes I, II, III, IV and V of Part B of this Report.

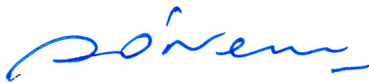
Acknowledgments

I would like to sincerely thank my staff for their dedicated efforts throughout the year. Their professionalism and dedication have been of the highest order and is reflected in the contents of this Report.

I would also like to pay special tribute to Mr K I MacPherson who retired from the Office of Auditor-General in February 2007 after seventeen years in this role. Mr MacPherson made a significant contribution to public sector management during his career throughout Australia, and importantly in this state in the role of Auditor-General.

In addition I extend my thanks to the Under Treasurer, Government Publishing SA, and their staff, and the report printing coordinator, Mr D O'Keefe, for their efforts which have assisted materially in the production of this Report. The cooperation of all public authorities with my staff during the financial year is also acknowledged.

Yours sincerely,



S O'NEILL
AUDITOR-GENERAL

**Report of the Auditor-General
Annual Report for the year ended 30 June 2007**

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AUDIT OVERVIEW

INTRODUCTION

The Executive Government and public sector agencies have significant responsibilities in the provision of public services to the community of South Australia. The responsibilities, particularly on a day-to-day basis, embody added complexities and difficulties when they are undertaken within the context of the implementation of administrative reform and responding to budget initiatives of efficiencies and savings.

The 2006-07 year was characterised by change. The Government Reform Commission was established and is implementing a change program with agencies; the 2006-07 Budget continued a reform and efficiency program that commenced in 2005-06; administrative agencies restructures occurred; and some major computing and infrastructure projects commenced or were implemented.

The Audit Process

The statutory audit process is directed mainly to the financial management and accountability aspects of government and public service administration. The process, however, by its review nature, provides some understanding of the demands that face public sector agencies and public service staff. In particular, the demands of meeting the significant program/service delivery or support responsibilities while responding to the impact of administrative and budget reform measures.

Public sector agencies and public servants are committed to meeting the challenges that confront them and to work for the public benefit.

Having said that, the South Australian community expects and needs to be confident that the statutory audit process is conducted in an objective, independent and professional manner, that results in the identification and reporting of matters to the Parliament where areas of public administration and finance and accountability have not achieved standards of appropriateness and adequacy. The audit process and this and subsequent Reports to Parliament will continue to be built on this tenet.

Furthermore, I see the audit process as being constructive in nature. It should raise issues of prevention or detection to the responsible officers of public sector agencies and the Parliament. This provides the opportunity for consideration of the issues to enhance the governance and control environments of agencies through appropriate risk mitigation and/or control improvements. Also, situations can arise where Audit is asked to provide advice or comment on proposals directed to improving the financial and accountability frameworks of government or its agencies. I and the Auditor-General's Department will seek to be helpful in this regard, but to do so without undermining the objective and independent nature of the audit responsibility and process.

Finally, the Auditor-General's Department receives communications about issues concerning areas or actions of public sector agencies. These can come from, for example, Members of Parliament, and the community. I will acknowledge receipt of these communications. Where upon preliminary examination it is considered that the issue referred warrants review, then the matter will be considered in the construct of the annual audit program of review work, and its execution undertaken as part of the statutory audit process. This requires, in line with statutory audit responsibilities, reporting on the outcome of the matter (if relevant) directly to the Parliament and not directly to the referrer.

This Audit Overview

This overview serves to summarise matters of importance regarding the audit program of work conducted by the Auditor-General's Department for 2006-07. It includes comment on matters that were identified and were common to a number of agencies. More detailed comment on these matters is made in the agency reports contained in Part B of this Report. The overview also relates on some matters that have been raised in previous Reports and on some other matters going forward.

THE PUBLIC FINANCES

Estimated Results for 2006-07

The 2007-08 Budget Papers show that the Government financial operations for 2006-07 are on target for a budgeted net operating balance surplus, although lower than was budgeted. The estimated result is a surplus of \$38 million (budget \$91 million). Solid growth in revenues that exceeded budget were, however, exceeded by increases in expenses. Net borrowing is estimated to be \$176 million (budget \$118 million).

Budget Forecasts 2007-08 to 2010-11

The projections for 2007-08 forecast a small reduction in the net operating balance from the estimated result in 2006-07. This follows budgeted real terms growth in expenses of nearly two percent for 2007-08 including the effect of government support to those suffering the adverse effects of a severe drought. State sourced assistance (exclusive of Commonwealth aid) is estimated to be \$18 million in 2007-08 apart from other effects that may flow through to the Budget.

Notably, the 2007-08 Budget projects that after 2007-08, the net operating balance surpluses are at higher levels than was estimated in the 2006-07 Budget, due to estimated real terms falls in expenses for the next two years to 2009-10.

The improved results for 2008-09 and 2009-10 are based on reducing expenditure trends that have not been experienced for the four years to 2006-07.

The 2007-08 Budget identifies operating savings over four years of \$202 million additional to the \$695 million of savings over four years under the 2006-07 Budget. The new 2007-08 savings are mainly in the health portfolio and involve operational savings and service delivery changes. The health sector has constantly experienced expenditure pressure over the years and received substantial additional resources in 2006-07.

Overall, the expenditure targets imply a need for strong control and reporting over future spending.

Net Lending

Estimates for net lending indicate that borrowing will be required across the forward estimates to meet planned capital investment. From 2007-08 the borrowing requirement is generally higher than was estimated in the 2006-07 Budget. This is due to increases in projected capital investment. There may be a heightened risk to the proper control and management of those outlays.

Major projects carry high inherent risks including cost estimating, escalations and timeliness of completion. Sustained higher capital outlays than have been made in past years, need to be supported by appropriate project management expertise, information systems and controls.

The effect of borrowings is that net debt is projected to increase over the forward estimates, reaching \$1.4 billion in 2011 compared to a net financial asset position of \$119 million in 2006.

One of the Government's stated primary fiscal targets is to achieve net lending outcomes that ensure the ratio of net financial liabilities to revenue continues to decline towards that of other triple-A rated States. The 2007-08 Budget settings result in the ratio rising from 69 percent in 2006-07 to 73.7 percent in 2010-11. This is not consistent with the fiscal target. It is evident though, that because of the national trend of increasing capital investments by governments, a similar situation exists for Victoria and Queensland and that South Australia's relative standing against most other triple-A rated States remains similar.

Public Private Partnerships and Other Projects

A feature of the 2006-07 Budget was the proposed substantial public private partnership (PPP) projects for the provision of correctional and educational infrastructure for use by the public sector. In 2006-07, expenses for these initiatives were limited to the costs of PPP consultants.

Whether PPPs are off-Balance Sheet and how the transactions will be represented in the various financial reports will be a matter to resolve when contractual arrangements are established. A significant consideration before a PPP procurement is initiated is whether the Government is satisfied that a PPP provides a net benefit to the public compared to conventional public sector procurement.

Since the Budget, the Government has announced the likelihood that both a desalination plant and a doubling of our water storage capacity in the Mt Lofty ranges will be built to guarantee South Australia's long-term water security. These could amount to an investment of more than \$2.5 billion. Depending on if and how these investments proceed, there may be implications for related fiscal measures and targets.

Budget Monitoring and Reporting

Audit reviewed aspects of the Government's and the Department of Treasury and Finance budget monitoring process for 2006-07. The review focussed on the processes and evidence of completion of the process. Agency audits in 2006-07 also resulted in the identification of certain issues with budgetary management. Agency reports in Part B of this Report, where applicable, include comments on these matters.

The reviews in 2006-07 indicated a need for focus on the improvement of data quality in most agencies. Factors that contribute to the quality of reported data should be reviewed with a view to achieving improvements where practical and beneficial. Audit has noted that improvements in information systems used in agencies is likely to be one area that would assist this aim.

The Department of Treasury and Finance have advised that the majority of savings initiatives are on track for 2007-08 and forward years. I note there are considerable risks to manage as certain savings initiatives advance. For example, the development of shared services, which commenced in 2006-07 and is budgeted to generate \$70 million

in net savings over four years, creates a new entity and all its attendant requirements. These include consolidating and rationalising systems and service support, implementing new or revised control environments, while at the same time, maintaining efficiency of service outcomes.

Past Reports have noted that roles and responsibilities of all parties need to be clearly set out in well constructed service level agreements. Audit experience in 2006-07 has shown that for existing, relatively small scale shared service arrangements, service level agreements are often not properly completed. Lack of clarity in roles, responsibilities and outcomes, leads to failure in control systems and the potential for non-achievement of benefits realisation. Further comments on these matters, where applicable, are included in the agency reports of Part B of this Report. I have also made observations on matters relevant to shared services under the heading 'ICT Governance and Control in Government - Strategy and Planning' in this Part of this Report.

Part C of this Report

More comprehensive commentary and audit observations on aspects of the State's finances are included in Part C of this Report.

That commentary includes observations on the Treasurer's Financial Statements, prepared pursuant to the *Public Finance and Audit Act 1987* to report on transactions and balances in the public accounts.

The main public accounts are the Consolidated Account and special deposit accounts and deposit accounts established pursuant to the Act. Items of particular interest are:

- supplementation of agency appropriations discussed under the heading 'Appropriation Flexibility';
- revised arrangements discussed under the heading 'Accrual Appropriation Excess Funds Account'. At 30 June 2007, the balance of that Account was \$398 million, the highest of all special deposit accounts;
- cessation of payment of interest on many special deposit and deposit accounts to discourage the build up of cash and reduce administrative costs discussed under the heading 'Interest Payments on Operating Accounts'.

GOVERNANCE AND ACCOUNTABILITY PRACTICES OF AGENCIES

Introduction

Public sector agencies operate under various legislative and administrative and financial control requirements. These requirements are set in specific enabling legislation of agencies. They are also established under generally prevailing legislation and financial frameworks (for example, the *Public Finance and Audit Act 1987* and Treasurer's Instructions and the Financial Management Framework).

The effective discharge of those management responsibilities and accountabilities require agencies to implement and maintain appropriate governance and risk management frameworks, control and authority frameworks, and financial accounting and reporting systems. These frameworks and systems enable agencies to exercise and evidence adequate control over public resources, and also demonstrate that financial transactions are being conducted properly and in accordance with law.

The 2006-07 audit program identified deficiencies in the governance and accountability practices of a number of agencies. The areas of weaknesses related to legislative compliance, gaps in governance frameworks, and limitations and shortcomings in the control environments or specific financial systems' controls of agencies.

Gaps in Governance and Risk Management Frameworks

For governance and risk management practices to be effective certain elements need to be in place and operating satisfactorily. These include:

- soundly based organisational structures
- clearly stated responsibility and authority relationships
- policy and planning
- risk profiling and assessment including control mitigation strategies
- monitoring and reporting systems.

As remarked in last year's Report there continues to be gaps in governance/risk management frameworks in agencies. Agency reports in Part B of this Report include, where relevant, comment on areas of agencies' practices that need to be addressed or where improvements need to be implemented.

As mentioned above, enabling legislation of agencies may specify certain governance/risk management requirements. For example, the South Australian Fire and Emergency Services Commission and the Adelaide Festival Centre Trust. The 2006-07 audit of those agencies identified that some requirements had not been addressed in a complete and timely manner.

It also needs to be mentioned that governance/risk management frameworks and practices continually need to be revisited in response to changing circumstances. For example, administrative changes that are made to agencies, can alter the operating and financial risk profile of the particular agencies. The governance/risk management regimes of those agencies need to be revisited in a timely manner to ensure new or potential risks are appropriately identified, considered and attended to appropriately within the agency's control environment.

The 2007-08 audit program will continue to focus on governance and risk management and report to agencies on any significant shortcomings. Looking ahead, this will enable agencies to take account of reported findings in their overall consideration of work to be done to meet the requirements of a revised Treasurer's financial management principles and compliance framework that will come into effect from 2008-09.

Control Environments and System Controls

The Auditor-General is required to opine on the adequacy of the internal controls that are established and operating within agencies.

This has been an integral part of the audit mandate in South Australia for many years. It is a direct reporting responsibility of the Auditor-General and is required by the *Public Finance and Audit Act 1987*. In this sense internal control becomes a specific and separate reporting objective in its own right as distinct from being one of a number of sources of evidence used to support the basis of an opinion on the public accounts and agency financial statements.

An adequate control environment supported by specific internal controls covering the agency business segments and financial systems, is fundamental to the overall effective working of a governance and risk management framework.

Agency reports in Part B of this Report, indicate in relation to a number of agencies, the need to strengthen their control environments and/or specific internal controls. This is necessary to ensure public resources are safeguarded and the financial transactions of government and agencies are properly conducted and are in accordance with law.

The requirement for agencies to continually review and adjust their control environment and internal controls is necessary in order to prevent a serious breakdown in control and the attendant rise in the risk of adverse events.

Authority Frameworks

A significant element of an effective control environment of an agency is developing, documenting and implementing of appropriate delegations of authority. Of no lesser importance is ensuring that the authority framework is revisited for changing circumstances, and that there is a clear understanding within the agency of the requirements of the framework and to comply with the requirements.

As illustrated in comments contained in a number of agency reports in Part B of this Report, more attention needs to be given to the requirements of currency, completeness, compliance and approval of the frameworks.

A change in 2006-07 that affected delegations of authority frameworks of certain agencies (generally statutory authorities) was the operation of Treasurer's Instruction 8 (TI8), which was revised with effect from 1 July 2006.

The revised TI 8 applied to all agencies and required ministerial approvals 'Unless a public authority's enabling legislation otherwise provides ...'. In the course of audits in 2006-07, it was apparent that some statutory authorities had difficulty in interpreting when TI8 applied or had not understood the significance of the implications of the changes to TI8. A number of agencies found it necessary to seek advice from the Crown Solicitor in interpreting its application. The Crown Solicitor's advice noted that general statutory provisions do not override the requirements of TI8. Accordingly, it was necessary that enabling legislation contained quite specific provisions to avoid the additional requirements of TI8.

While agencies established and operated under delegations of authority frameworks, some agencies did not obtain formal approval of aspects of their frameworks in accordance with the revised requirements of TI 8. Where this was identified it was taken up with any other matter with the agency.

A further revision of TI8 applies from 1 July 2007.

During the preparation of this Report, Audit was advised that the Government Reform Commission was proposing to review the area of authority delegations within government.

From the observed experience of 2006-07, it is critical that after review, any revised framework of authority and approvals applying to agencies is drafted so that it is readily understood and applied and supports agencies in decision making and setting up control systems. It will also be important that the outcome of any further review be fully communicated to statutory authority.

Financial Reporting Accountability

A significant legislative and accountability responsibility and requirement of public sector agencies is to prepare in a timely manner, a financial report (financial statements) of their annual financial operations. This has not been able to be achieved for 2005-06 in respect of a number of bodies under the *Natural Resources Management Act 2004* (NRM Act).

The NRM Act established eight Regional Natural Resource Management Boards (NRM Boards). The NRM Act provides that these NRM Boards are subject to audit by the Auditor-General.

The NRM Act also provided for the continued existence of a number of prescribed bodies established under repealed legislation and made the Auditor-General responsible for the audits of these prescribed bodies from 1 July 2005. The NRM Act captured three main types of prescribed bodies:

- Animal and Plant Control Boards
- Soil Conservation Boards
- Catchment Water Management Boards.

The prescribed bodies are subject to the direction of the relevant NRM Board.

Of these three bodies, only the Catchment Water Management Boards were previously exposed to public sector standards of financial reporting and were audited by the Auditor-General. The majority of the prescribed bodies were dissolved by 30 June 2006.

An impact of the NRM Act was to establish a requirement for the Auditor-General to audit around 50 prescribed bodies and eight NRM Boards for the first time in the 2005-06 financial year. This was in addition to the existing requirement to audit the eight Catchment Water Management Boards.

As the prescribed bodies were required to be audited by the Auditor-General from 1 July 2005, the 2005-06 financial year involved a significant resource allocation from both the NRM Boards and the Auditor-General's Department. A number of issues had to be considered and resolved to arrive at an agreed financial reporting framework. There has been considerable delay experienced in finalising the preparation and consequently the audit of the 2005-06 financial statements of the Boards and related prescribed bodies. The key reasons for the delays are:

- some Boards have not been able to access the appropriate staff with the accounting skills to satisfactorily prepare the financial statements to the quality expected by public sector reporting standards;
- difficulty has been experienced by Boards in locating supporting financial information for the prescribed bodies (ie, Soil Conservation Boards and Animal and Plant Control Boards) to enable preparation of financial statements of quality. As mentioned the prescribed bodies operated outside the public sector environment prior to 2005-06.

For these reasons, there have been some difficulties experienced by the Boards in meeting the public sector standards of financial statements preparation, principally for the large number of prescribed bodies that have not operated within the public sector.

When there are major legislative changes that introduce reporting entities into the public sector there needs to be early and structured analysis of the financial reporting obligations that are to apply to the entities, complemented by an analysis of the capacity of the entities to prepare financial statements in an effective and timely manner.

I have also commented on financial reporting under the heading 'Responses to Previously Raised Audit Issues: Financial Reporting' in this Part of this Report.

Audit Comment

Public sector agencies need to meet certain requirements of legislation and financial and accountability frameworks, concerning the implementation and maintenance within agencies, of appropriate and adequate governance and accountability systems and practices. These requirements exist to ensure that agencies properly manage and safeguard public resources and adequately account and report on their financial operations.

The 2006-07 audit program of work conducted at agencies revealed instances of shortcomings and weaknesses in areas of governance and risk management frameworks, internal control environments, financial system controls, and financial reporting practices. The agency reports in Part B of this Report outline the main deficiencies that have been brought to the attention of those agencies during the year, and also include the agencies' responses of actions to be taken to address the deficiencies.

Public sector agencies need to continually review their governance and control structures to ensure they are meeting legislative and other requirements, and that they are of a satisfactory standard to effectively control public resources and their use, and to facilitate adequate financial accountability of those resources.

PROJECT AND CONTRACT MANAGEMENT

Introduction

Some public sector agencies have administrative and financial responsibility for projects and contracts that can involve a significant commitment of public monies. They can also include participation of the private sector.

The projects and contracts include building construction or leasing, information technology, and outsourcing of government agency management or service delivery.

As these types of projects and contracts (for example, the enlarged private partnership program for infrastructure of government), involve material expenditure outlays or commitments, there is a Parliamentary and community expectation that these projects and contracts will be subject to high standards of management and control.

Agency Reviews of Project Capability

While undertaking the 2006-07 work program it came to the notice of Audit that certain agencies have been pro-active in initiating a review of their project management practices. For example, the Department for Families and Communities and the Department of Water, Land and Biodiversity Conservation.

The reviews were undertaken by external independent consultants and their reports recommended areas to be addressed and/or avenues for improvement for each agency.

The actions taken by the agencies to address the particular review outcomes will be reviewed by Audit during 2007-08.

2006-07 Audit Review Observations

The 2006-07 audit program of work at agencies identified certain matters that indicate that these areas of government activity and administration warrant ongoing focussed attention by agencies, where relevant. This attention is required to ensure projects are initiated, managed and delivered effectively, and contracts are administered in such a way to ensure obligations regarding performance are being fulfilled.

Certain areas identified by Audit and raised with agencies during 2006-07 are subject to comment in some agency reports in Part B of this Report. These include the South Australian Water Corporation, South Australian Housing Trust and the Department for Transport, Energy and Infrastructure.

Audit Comment

Significant public funds are applied in some public sector agencies to various project developments and contract management arrangements.

Government agency initiated reviews and Audit reviews of aspects of project and contract management activities within agencies have identified matters for remedial actions or improvements.

High standards of management supported by quality systems and processes are required to ensure value for money and accountability obligations associated with particular project developments or contract arrangements are achieved.

This area of government activity will be a continuing area of focussed attention in the Annual Audit program review of agencies.

ICT GOVERNANCE AND CONTROL IN GOVERNMENT

Introduction

Information and Communications Technology (ICT) is a major enabler to government for the efficient delivery of services to the public and private sector communities. It is indispensable in supporting public sector agencies' operations and in meeting their management and financial reporting requirements. Outlays on ICT services represent a major spend of government in the vicinity of \$600 million dollars per annum.

For a number of years Audit has reported on the arrangements in place for ICT governance and control in government. In particular, those Reports have identified some key inhibitors to the effectiveness of ICT governance and control arrangements, both at a whole-of-government and agency level.

The matters identified have included:

- a lack of whole-of-government ICT strategy and policy framework;
- no alignment of agency ICT strategy and planning with government direction;

- problems with risk and project management arrangements for major ICT projects;
- inadequacies in major ICT project monitoring.

They have led in certain instances to problems with some major ICT projects of government. These projects involve the expenditure of many millions of dollars.

Audit considered these matters could be best addressed in the main by the appointment of a whole-of-government Chief Information Officer (CIO). The Government established the Office of the Chief Information Officer (OCIO) in December 2004 with responsibility for improvements in certain arrangements for governance and planning at a whole-of-government and agency level.

During 2006-07, Audit continued to review these and other related matters. The review process has addressed developments towards the finalisation of a whole-of-government ICT Strategy/Planning document and implementation of the ICT policy and procedural frameworks developed by the OCIO and approved by government.

The results and observations from the 2006-07 review work are provided in the following commentary.

Strategy and Planning

Previous Reports have highlighted that there has been an absence of a formalised whole-of-government Strategy/Planning document for ICT. Last year's Report noted that in Audit's opinion finalisation of such a document in 2006-07 would be a further significant contribution to improving across government and agency aspects of planning, prioritising, investing, and managing and controlling ICT.

At the time of preparation of this Report the OCIO had finalised the preparation of a South Australian Government ICT Strategy and had submitted it for government consideration.

The ICT Strategy represents a significant document particularly at this point in time. The Strategy has as one of the major priorities, to help ensure the success and achievement of efficiencies and savings of the Government's Shared Services initiative. That success is expected to be realised through a number of means, including, a reduction in duplication of ICT assets and services and the standardisation and reduced complexity of government ICT infrastructure.

The effectiveness of achievement of this and other priorities expressed in the ICT Strategy are heavily reliant on the successful implementation of a number of ICT governance, policy and planning frameworks that have been developed by the OCIO and approved by Cabinet. The frameworks are being implemented progressively.

The policy and procedural frameworks cover significant matters. They relate to ICT structure and organisation, including the governance role of the ICT Board¹ which reports to Cabinet on, amongst other matters, the progress of major ICT projects. They establish policies for the effective investment and prioritisation of ICT initiatives of government and individual agencies. They also provide for the coordination of whole-of-government ICT strategy and planning and the alignment of agency ICT projects with across government implications.

¹ The ICT Board oversees strategic ICT planning activities at a whole-of-government level and provides advice and information to Ministers and Cabinet on ICT matters from an across government perspective.

The frameworks and policies include two key ICT planning requirements:

- The submission of agency basic ICT plans to the OCIO by early 2007-08.
- The establishment and maintenance by agencies of ongoing annual ICT plans and provision of those plans to the OCIO/ICT Board as a part of the annual agency business planning process.

These are important planning document requirements. They are expected to define key targets and outcomes, assign resources and responsibilities and include funding estimates and procurement initiatives.

Not all agencies had fulfilled the requirement to provide the basic ICT plans to the OCIO by early 2007-08.

It is essential that agencies meet the requirement for basic ICT plans in order to be in a position to develop and provide more detailed ongoing annual ICT plans to the OCIO. These plans are integral for the effectiveness of the agencies ongoing management and control of ICT. They also provide the OCIO with the necessary knowledge and timely information on planned major ICT projects of government agencies.

Up-to-date agency ICT planning information is a key requirement for the OCIO. It is necessary for the OCIO's involvement in whole-of-government ICT strategic planning and prioritisation for ICT investment, alignment and oversight of programs with across government ICT strategy implications, and the provision of advice to government and agencies on the effective use of ICT.

Monitoring and Reporting

The ICT monitoring and reporting role of the OCIO and the ICT Board is especially important over the next two years in respect of the Government's aims for its Shared Services initiative involving the consolidation and rationalisation of ICT infrastructure, systems and services.

As mentioned, not all agencies had provided the OCIO with basic ICT plans within the required timeframe and therefore the OCIO is not fully in a position of knowledge with respect to individual agency planning for ICT developments. This inhibits the OCIO in discharging its responsibility to provide the ICT Board with reports on the identification and realisation of across agency opportunities and benefits. It also limits the OCIO in reporting matters intended to contribute to the resolution of across agency issues or risks.

Another important reporting matter is the requirement of the ICT Board to monitor and report to Cabinet on the progress of major ICT project developments.

For across-government reporting, there is an expectation of provision of regular reports from the agency to the ICT Board. The OCIO had received agency reports in July 2007 and had commenced collation of these reports for provision of an executive summary and portfolio report to the ICT Board for proposed reporting to Cabinet.

The matter of major ICT project reporting is further commented on in the following section of this Report.

Audit Comment

The effectiveness of a whole-of-government ICT strategy is reliant on:

- government consideration and finalisation of a formal whole-of-government ICT Strategy/Planning document and the successful implementation of the ICT frameworks developed by the OCIO;
- timely provision of the agency annual ICT plans to the OCIO by agencies.

As mentioned in the 2005-06 Report, finalisation of a whole-of-government ICT Strategy/Planning document will significantly contribute to overall ICT management and control across government. Such a document is being considered by government.

Furthermore, compliance with the OCIO ICT policy and frameworks, including development by agencies of annual ICT plans is fundamental in supporting the coordination of actions that will take place at the whole-of-government and agency level in respect of the consolidation and rationalisation of ICT infrastructure, systems and services as part of the Government's Shared Services initiative. The 2006-07 audit indicates that the planning requirements of the ICT frameworks were not being met by all agencies.

In my opinion, the OCIO and the ICT Board need to continue to monitor agency compliance with the approved frameworks and continue to report on the progress of significant ICT projects. Not to do so, puts at risk the achievement of priorities of a whole-of-government strategy, including the realisation of benefits expected from the Government's Shared Services initiative. The matters discussed in the following section of this Audit Overview clearly demonstrate the critical nature of the project monitoring and reporting role of the OCIO and the ICT Board.

EFFECTIVE DELIVERY OF MAJOR ICT PROJECTS

Introduction

Past Reports have included findings on some major ICT projects of the Government and its agencies with a focus on project and risk management. The findings have included:

- project delays and extended timeframes for completion;
- lack of advice of significant change in status of projects and/or the failure to provide periodic status reports to the Minister/Cabinet;
- inadequacies in agencies' risk and project management arrangements;
- inadequate recording/monitoring of project costs and benefits;
- risk management arrangements not revisited on a regular basis.

Last year's Report included comment on the outcomes of the Audit review of four major ICT projects. These projects were being developed/implemented and involved anticipated expenditure in the vicinity of \$50 million.²

² This review did not include a comprehensive examination of each project development/implementation process to date. A comprehensive examination would cover such matters as governance of planning arrangements, project/risk management practices, financial analysis, quality assurance, project monitoring, and reporting processes.

A specific finding was that Cabinet, which gave approval to these ICT projects, had not been provided with periodic updates concerning the progress of the projects.

Audit opinion was that it was imperative that a report on the position of major ICT projects in progress be prepared for review by the Executive Government. Further, the OCIO, in conjunction with the ICT Board, should be directly involved in the preparation of such a report.

The OCIO commissioned an independent review of the four major ICT projects that were reviewed by Audit last year. The report of the independent review finalised in March 2007 was used as the basis for reporting to Cabinet in May 2007.

Towards the end of the financial year, Audit further reviewed the progress of the four major ICT projects commented on in last year's Report. A review was also undertaken of another major ICT project of government.

Update Review of the Four Major ICT Projects

The four projects reviewed were:

- a computerised information system to support the Government's new facility management contract (e-FM) for the Department for Administrative and Information Services (DAIS), now the responsibility of the Department for Transport, Energy and Infrastructure (DTEI);
- a computer system to integrate the delivery of vehicle registrations, driver licensing and road freight operation services on a modern computing environment (TRUMPS) for DTEI;
- a land administration system for the provision of survey infrastructure, land titling systems, property valuation service, and property information (ATLAS) for DAIS, now the responsibility of DTEI;
- an information technology system for the collection of State taxation revenue (RISTEC Project) for the Department of Treasury and Finance.

The commentary below provides a brief update status of the projects. It includes some specific project observations from the March 2007 independent review report produced for the OCIO.

Electronic Facilities Management (e-FM) System

DAIS was to develop a new Electronic Facilities Management (e-FM) system at an estimated cost of \$2 million to be ready for use in July 2006. The system would support the Government's facility management contract with an external service provider. The contract is to provide building maintenance, minor works and property services in the range of \$500 to \$900 million over nine years.

The e-FM system was being developed within a business unit of DAIS and was to replace the legacy Facilities Asset Management Information System (FAMIS). At the time of preparation of last year's Report, the in-house development of e-FM had been discontinued after an internal review determined that it could not be delivered on time for the approved sum, and various options were being considered. That Report indicated that Cabinet was not formally advised of the discontinuance of the project.

During 2006-07, the DAIS business unit responsible for the system development was transferred to DTEI.

The March 2007 OCIO commissioned independent review report included observations concerning the e-FM project. The observations included that it was not evident that a detailed approved specification had been prepared for the new system, and confirmed the earlier determination by DAIS that the e-FM could not be delivered on time for the approved sum.

A more recent review by Audit this year ascertained that the OCIO was assisting with the e-FM by investigating the suitability of existing systems in government for their potential to replace FAMIS. At the time of preparation of this Report the Department continues to use the legacy FAMIS system. In regard to the continued use of FAMIS, DTEI had commenced work to address the limitations with FAMIS, including implementing certain access security improvements. Other planned improvements were subject to funds being available.

Transport Regulation User Management Processing System (TRUMPS)

In November 2003, Cabinet approved the development of TRUMPS to replace the legacy Drivers and Vehicle Registration System (DRIVERS). The TRUMPS system is an enhanced system development of the Western Australian TRELIS system. It was to have been implemented in June 2006 at a cost of \$9.5 million.

The system was to incorporate licensing and client transactions, registrations and finance transactions, and the development of a heavy vehicle road control system. The system will manage revenue in the vicinity of \$900 million each year.

The licensing and client transactions component of the system was implemented in November 2005 together with the Graduated Driver Licensing Scheme (GLS). The GLS was an approved change in scope of the development which resulted from requirements of changed legislation. Cabinet approved additional funding of \$1 million to implement the GLS. The heavy vehicle road control system component was deferred.

Last year's Report indicated that \$12.2 million had been expended on TRUMPS to 30 June 2006, and that the responsible Minister had approved an additional \$3.3 million to complete the registration and financial transactions component of the system and to decommission DRIVERS. It also conveyed that a formal report on the development of this major system project had not been provided to Cabinet.

The March 2007 OCIO commissioned independent review report made the observations that the project was adversely impacted by the need to address the legislative change requirement associated with the GLS and that the complexity of the business analysis work relating to the development had been underestimated in the original business case.

The recent update review by Audit established that the registration and financial transactions component of the system was implemented in early September 2007. Audit noted that during 2006-07, reporting on the system development and implementation progress was made to the responsible Minister/Cabinet.

At 30 June 2007 the expenditure recorded for the project amounted to \$14.7 million.

Automated Torrens Land Administration System Program (ATLAS)

DAIS was to undertake certain developments for an Automated Torrens Land Administration System program (ATLAS) as a precursor to the replacement of the legacy land administration systems. The developments included planning for the replacement

of the current Land Ownership and Tenure System (LOTS) as well as certain business reforms and the development of electronic services. Approved funding for these developments was \$12.8 million and completion was estimated by June 2005.

The land administration systems collect direct revenue in the vicinity of \$125 million per annum. In addition, the systems record statutory valuations which are the basis for raising over \$1 billion in rates and taxes covering the State and local governments.

Last year's Report indicated that since 2002, Cabinet had not been provided with a report outlining reasons for program delay and revised costs in regard to significant components of the ATLAS program.

During 2006-07, the DAIS Land Services Group business unit was transferred to DTEI.

The March 2007 OCIO commissioned independent review report included observations concerning the ATLAS project. The observations related to the impact of uncertainty in funding levels for the program and that Cabinet had not been provided with periodic updates on progress. Progress reporting was essentially to the Chief Executive and the Minister.

The OCIO had also commissioned a high level review of business processes and the proposed Land Services Business Reform Program. From that review the OCIO was progressing a pilot for certain standard presentation enhancements to the existing legacy systems.

The more recent review by Audit of the ATLAS project status in 2006-07 identified the following developments.

In May 2007, DTEI informed Cabinet on ATLAS progress advising of the successful implementation of stages one and two. Cabinet was also advised that benefits relating to systems replacement and associated business reforms were anticipated from the proposed stage three, now known as the Land Services Business Reform Program.

The Government has provided \$17.1 million for the Land Services Business Reform Program over the next four years.

Replacement of RevenueSA's Taxation Revenue Management System (RISTEC)

In July 2002, Cabinet approved the development of the RISTEC system for the collection of State taxation revenue that was to have been implemented by June 2006 at a cost of \$22.6 million. The new integrated system was to replace existing legacy systems.

Taxation revenue collection is in the vicinity of \$2.9 billion.

Last year's Report conveyed that the replacement system development did not meet implementation timeframes advised to Cabinet, and that project advice to Cabinet was not comprehensive in respect of reasons for delay and revision of cost estimates.

The March 2007 OCIO commissioned independent review report included observations concerning the RISTEC project. The observations indicated that whilst the original timeframes have been exceeded, project changes have been based on careful analysis and it was expected that the project would be successfully concluded.

Recent review by Audit this year identified that a Request for Proposal for a commercial software package was released to the market and closed in November 2006. A number of proposals were received and were to be subject to evaluation, short listing and due diligence processes. It is envisaged that contracts, for the engagement of an implementation partner and the licence and maintenance of the commercial software package, would be finalised by late 2007. It is anticipated that the project would be implemented in stages in the period from 2008 to 2010.

A submission on the project was made to Cabinet in July 2007.

As at June 2007, in the vicinity of \$6.1 million had been expended on the project.

2007 Audit Review of Connected Client and Case Management System

In September 2007, Audit reported to the Department for Families and Communities (DFC) on the review of the development and progress of the Connected Client and Case Management System (CCCMS). The system is essential for better integrated and effective case management and care for clients of DFC. The current system relies heavily on manual processes, is unable to provide a single view of clients across program areas, cannot monitor client outcomes and does not provide effective workload management capability.

In late 2002, a business case for Case Management (including a computer system) was prepared. The business case reflected a development/implementation cost of about \$2.2 million over five years. It reflected the thinking of the time and did not foresee coming changes, for example, implications from the review of child protection in South Australia conducted by the Honourable Robyn Layton.

The Report³ on the review of child protection was delivered in March 2003. The Report contained a significant number of recommendations, including some relating to aspects of case management.

DFC undertook a review of interstate and New Zealand jurisdiction case management systems during 2005. A system built for an interstate government department was considered the best option.

Cabinet approved a submission in May 2006, which included, amongst other matters, brief commentary regarding the proposed implementation of the interstate system. The total estimated cost of adapting and implementing that system was advised at \$8.9 million (over 2006-07 and 2007-08). It was conveyed that a full business case would be presented to Cabinet as part of the 2006-07 Budget process.

DFC forwarded draft Cabinet submissions on system replacement proposals to the OCIO for assessment in June 2006. The OCIO, following assessment of one of the draft Cabinet submissions, informed DFC that it was not in a position, on the information submitted, to support the system replacement proposal. The OCIO sought a business case, including a project plan, and the technical architecture for the system, before continuing with the assessment of the submission.

DFC, without further referral to the OCIO and a formally approved business case, obtained funding in the 2006-07 budget for the replacement of their existing system with

³ The Report of the Review was titled 'Our Best Investment: A State Plan to Protect and Advance the Interests of the Children'.

the interstate CCCMS solution. That funding supplemented approved allocations in the previous two year's budgets. The requirement for approval of a comprehensive business case is detailed in Treasurer's Instruction 17.⁴ For the CCCMS project, the approval of the responsible Minister was required.

DFC progressed the implementation of the system on the basis of an October 2006 business case updated from a July 2006 business case. These business cases had not been approved by the responsible Minister.

DFC advised that as at July 2007, the project expenditure was in the vicinity of \$2.3 million. The updated business case identifies total project costs of \$10.6 million with the replacement system expected to be in operation by mid 2009.

In summary, DFC progressed the system replacement project without finalisation of an assessment by the OCIO, and without the presentation to the responsible Minister/Cabinet of a comprehensive submission regarding the project, supported by a detailed business case, for formal approval.

In relation to the abovementioned summary Audit findings, DFC advised the following:

- A recent review report by the DFC Internal Audit (conducted by an external accounting firm) indicated that effective control procedures are being maintained in relation to the CCCMS project. The review report also identified certain risks including potential for project delays and a lack of any specific benefit measurement in the business case. The review report outlines recommended actions to address these issues.
- The process relating to the budgeting and funding of the project was addressed with the Department of Treasury and Finance, and although the responsible Minister did not formally sign a business case, the Minister was fully aware of the development of CCCMS by DFC.

Furthermore, DFC has advised the following:

- The business case will be updated with baseline costings reconciled to the allocated budget.
- A copy of the business plan will be provided to the OCIO for comment.
- The business case and the OCIO comment will be presented to the Minister for authorisation.
- A progress report of the project will be developed.

OCIO Commissioned Independent Review

The OCIO commissioned independent review provided specific observations on the four major ICT projects that were reported on in last year's Report. Certain of those specific observations have been incorporated in the commentary herein relating to Audit's update review of the projects.

⁴ Treasurer's Instruction 17: Guidelines for the Evaluation of Public Sector Initiatives (effective 22 February 2004).

The independent review report also contained a number of important general observations regarding aspects of project governance and control. The more relevant observations were:

- the quality and comprehensiveness of business cases vary substantially;
- project management and risk management methodologies vary from agency to agency;
- there had been inadequate advice to Cabinet of the progress of ICT projects.

Cabinet was informed in May 2007 of the outcome of the OCIO commissioned independent review. The submission included reference to a recommendation from the independent review that Cabinet should be kept informed of the progress of major ICT projects by exception reports, coordinated by the OCIO through the ICT Board.

This reinforces one of the key requirements that is included in the frameworks developed by the OCIO and approved by government.

Audit Comment

ICT projects of government are often large in nature and typically expensive to develop, implement and maintain. Such projects have long lead times from inception to implementation.

Last year's Report indicated the need to regularly review, monitor and report on ICT projects to the responsible Minister/Cabinet. Regarding the four major ICT projects reviewed by Audit last year, Cabinet has been provided with updates on the progress of those projects. These have been both by submissions, in some cases from the Departments responsible for implementing the projects, and by the OCIO/ICT Board through the responsible Minister.

It is of concern that a recent review by Audit of another major project has again identified deficiencies associated with project governance and control. The replacement case management system project of DFC proceeded without the presentation to the responsible Minister/Cabinet of a comprehensive submission regarding the project, supported by a detailed business case, for formal approval.

In my opinion, on the basis of the outcomes of reviews undertaken by Audit and the OCIO of agency ICT project developments in 2006 and 2007, it is paramount that the OCIO continues to monitor and review major ICT agency project developments and assists the ICT Board to report issues in progress to the responsible Minister/Cabinet.

MATTERS RAISED BY THE FORMER AUDITOR-GENERAL IN RELATION TO THE OFFICE OF THE DIRECTOR OF PUBLIC PROSECUTIONS

During 2006 and into 2007, the former Auditor-General reviewed and considered various matters associated with the Office of the Director of Public Prosecutions (ODPP).

The Supplementary Report of the Auditor-General for the year ended 30 June 2006, tabled in the Parliament on 22 November 2006, included comment and discussion on a number of matters that were considered by the former Auditor-General. The matters that were fully discussed in that Report with reference to the ODPP included:

- comment on the matter of the audit inquiry that had been made of the ODPP regarding the procedural control tasks that were implemented in the ODPP in

order to ensure that DNA evidence presented in court proceedings meets the statutory requirements of the *Criminal Law (Forensic Procedures) Act 1998*. This matter was one of a number of issues considered in the detailed audit undertaken of the Government's SACCREd system which is used to store, search and match DNA profiles for criminal justice purposes;

- explanation regarding the statutory responsibilities and powers of the Auditor-General to audit and access information for statutory audit purposes from agencies of government, including the ODPP;
- discussion on the matters of statutory independence and accountability as it relates to Public Officers, including the Director of Public Prosecutions (DPP).

A further matter that was being reviewed and considered by the former Auditor-General related to the appointment and use of a public relations consultant by the ODPP.

In April 2005, the ODPP issued a request for tender seeking expert services for a variety of public relations activities including:

- provision of media advice;
- media monitoring;
- media skills training for executives and staff;
- corporate communications;
- government relations;
- issues management in crisis communications;
- assistance in management of integrated public relations projects such as design and publishing projects;
- research.

Prior to this occurring the ODPP had been utilising the services of a public relations consultant on an as-needs basis.

In May 2005, the tender process for engaging the public relations consultant was completed following a tender evaluation and negotiation process.

Prior to the retirement of the former Auditor-General some issues of consideration by the Auditor-General regarding the engagement process and the nature of use of the public relations consultant were raised with the ODPP, the current and former DPPs, and the public relations consultant.

In relation to the engagement process, clarification was obtained regarding the tender evaluation and negotiation process and the involvement of the current DPP in the consultant's appointment. The tenderer selection was conducted by a team of which the DPP was not a member. The team recommended a tenderer who met with the DPP. Following the meeting with the recommended tenderer, the DPP sought and had a meeting with the other tenderer who was offered the engagement. Approval was then obtained from the Chief Executive of the Attorney-General's Department for the contract engagement. Executing the contract required the approval of the Attorney-General. This was not provided and so the use of public relations consultancy services were discontinued.

The former Auditor-General raised issues in relation to the use of the services that had been provided by the public relations consultancy to the current DPP and former incumbents of the position. As indicated previously the types of services that can be provided are wide ranging, including media advice, media skill training, government relations and issues management in crisis communication.

The review of the ODPP use of a public relations consultant confirmed that the services provided by the consultant covered the range of areas detailed above. It was noted that in some instances the consultant not only supported the statutory functions of the ODPP, but also had potential to provide benefit to the incumbent Director or staff of the ODPP.

A central feature of the use of the consultant was to assist the ODPP in responding to emerging issues and issues which involved some complexity. An example of one such issue considered by the review was the resignation of the former DPP. The consultant was engaged by the ODPP to prepare media releases and assist the Director in responding to media inquiries regarding his leaving the Office.

The review highlighted the importance of Public Officers, when using public relations consultants, to exercise care in ensuring the activity and associated expenditure is necessary for the conduct and for the benefit of their agency. Concurrent with this is an obligation to avoid, wherever possible, obtaining private benefit that could arise from the activity.

In circumstances, such as the use of a public relations consultancy, where there is a lack of clarity with respect to the linkage between the activity and the agency's statutory functions, it is important that the Public Officers ensure that the dominant purpose of the activity accords with the statutory functions, before proceeding with the activity.

LOCAL GOVERNMENT ADMINISTRATION: ACCOUNTABILITY AND AUDIT

In the 2005-06 Report to Parliament the former Auditor-General made some observations and comments concerning accountability and auditing of Local Government. These matters were further discussed during the Auditor-General's attendance before the Economic and Finance Committee in December 2006.

Acknowledging Recent Changes

Last year's Report acknowledged that significant legislative changes have been made to the financial management, auditing and reporting arrangements for Local Government.

These changes result from the *Local Government (Financial Management and Rating) Amendment Act 2005* and the *Local Government (Financial Management) Variation Regulations 2007*. The changes principally operate from 2007 and are directed to achieving enhanced governance and auditing practices for Local Government.

It was also acknowledged that important initiatives to improve financial management and auditing were being undertaken within the Local Government Sector itself.

Emphasis of Audit Comments

The main emphasis of the comments of the former Auditor-General in last year's Report and to the Committee in December 2006, related to the difference in the legislative mandate of the Auditor-General vis-à-vis the State Public Sector and the legislative audit mandate of the private sector auditor vis-à-vis the Local Government Sector.

The principal focus of the audit mandate of the Local Government auditor concern matters relating to the financial statements of the Local Government authority, whereas the mandate of the Auditor-General not only covers financial statements but also the adequacy of controls and general governance issues (for example, propriety and lawfulness considerations) of a State Government agency.

The authority of Local Government is derived under legislation passed by the Parliament. Further, Local Government authorities discharge important governance responsibilities, including the administration of public monies. They also have governmental powers conferred on them, including prosecutorial powers against citizens.

It was within this context that the former Auditor-General concluded in the 2005-06 Report to Parliament and in explanation to the Economic and Finance Committee that the legislative audit mandate and audit authority of the Local Government auditor should as far as practicable be comparable to the Auditor-General.

Economic and Finance Committee Report of June 2007

On 20 June 2007, the Economic and Finance Committee report titled 'Local Government and Audit Oversight' was tabled in Parliament. The report has made twelve recommendations, including the involvement of the Auditor-General in the Local Government audit process.

The report is currently under consideration by the Minister for State/Local Government Relations and the Office for State/Local Government Relations.

RESPONSES TO PREVIOUSLY RAISED AUDIT ISSUES: AMENDMENTS TO THE PUBLIC FINANCE AND AUDIT ACT 1987

During the year Parliament passed two bills that provide for amendments to the *Public Finance and Audit Act 1987*. The amendments respond to matters raised in previous annual Reports of the Auditor-General to Parliament.

Public Finance and Audit (Refund or Recovery of Small Amounts) Amendment Act 2007

The 2002-03 Report of the Auditor-General raised the matter of the practice of 'administrative convenience' sometimes applied within government agencies, involving the non-collection of small underpayments or non-refunding of small overpayments.

While recognising that the cost associated with recovering minor underpayments or refunding minor overpayments can exceed the amounts to be recovered or paid, the Report indicated that unless the practice is provided for in legislation then there is a legal obligation to collect underpayments or refund overpayments.

The amending Act, which comes into operation on 3 December 2007, establishes the legal authority and procedure for dealing with small underpayments or overpayments.

Public Finance and Audit (Certification of Financial Statements) Amendment Act 2007

This amendment Act addresses a matter highlighted in the 2004-05 Report of the Auditor-General to Parliament.

The matter concerns the certification obligation of agency presiding officers, Chief Executives and officers responsible for financial administration within agencies, in relation to the annual financial statements prepared by agencies for audit.

The financial statements of each agency, together with a certificate that certifies as to the underlying integrity of the information in the financial statements, are required to be submitted to the Auditor-General for the purpose of the statutory audit.

Subsection 23(2) of the *Public Finance and Audit Act 1987* is the authority for the certificate and also states the requirements to be incorporated in this certificate.

The 2004-05 Report raised the matter that subsection 23(2) has remained unamended since 1987 and that in certain respects the requirements of the section did not reflect recent changes to financial reporting practices and related requirements.

It was further commented in the Report that the unchanged position of subsection 23(2) has been recognised in an Accounting Policy Statement issued pursuant to the Treasurer's Instructions. That policy statement prescribes the content of the certificate reflecting both the provisions of subsection 23(2) of the *Public Finance and Audit Act 1987* and the present day reporting requirements of prevailing accounting standards and financial accounting and reporting conditions of the Treasurer.

The amending Act, which comes into operation on 31 December 2007, updates the form and content of the certificate to be provided by agencies in company with the agencies' financial statements. To reinforce the seriousness of the integrity of the certificate to be given by the agency presiding officer, Chief Executive and the officer responsible for financial administration, the amending Act includes an offence provision. The offence provision is to apply in circumstances where a person intentionally or recklessly provides a certificate in contravention of the requirements covering this certificate.

RESPONSES TO PREVIOUSLY RAISED AUDIT ISSUES: PREPARATION AND TIMELY SUBMISSION OF FINANCIAL STATEMENTS

The *Public Finance and Audit Act 1987* requires public authorities to submit their financial statements to the Auditor-General within 42 days of the end of the financial year. I am, in turn, required to deliver my Report, including agencies' audited financial statements, to the President of the Legislative Council and the Speaker of the House of Assembly by 30 September annually. The timeframe for delivery of my Report imposes tight time constraints on the completion of the audit of agencies' financial statements and the compilation of the Report. My 2006-07 Report includes the financial reports and Audit commentary for 57 separate agencies (56 separate agencies in 2005-06).

Last year's Report commented on the need for improvements in the way many agencies prepare their financial statements to avoid the risk that audits can not be completed, consistent with professional auditing standards and the standards expected by Parliament, in time for inclusion in my Annual Report. Suggested improvements included allocating sufficient experienced and qualified personnel, implementing soundly planned and managed processes for compiling the financial statements and associated supporting documentation, and implementing quality assurance processes.

In June this year, I wrote to relevant agencies, as has occurred in past years, setting out the statutory timeframes and other requirements for financial reporting, but also setting out a range of areas where audit had identified risk to agencies preparing financial statements of an appropriate standard.

I observed that audit experience over recent years had identified certain factors or circumstances that have caused difficulty to both agencies and Audit staff fulfilling our responsibilities. Those matters were:

- draft financial statements, presented for audit within the timeframe specified by the *Public Finance and Audit Act 1987*, were incomplete or otherwise unreliable and were significantly amended during the audit;
- information required to support the financial statements and complete the audit was not prepared;
- draft financial statements incorporated errors or misstatements which would have been identified had the financial statements been quality reviewed before the statements were presented for audit.

The experience for the 2006-07 audits was that issues continue to arise, including the degree of changes to statements from the original versions and the availability of timely and quality supporting documentation. This again resulted in significant demands on Audit staff to complete audits and meet reporting deadlines. Nonetheless, this Annual Report contains the audited financial statements of the majority of agencies planned for inclusion, including agencies that require further improvement in their year end reporting processes, so that Parliament has that information on a timely basis.

For this I again acknowledge the considerable efforts and long hours put in by my staff and contractors in the short period of time available to them.

Following the completion of this Report, my Department continues with audits of other agencies, funds and grant certificates not included in the Report, the largest being the various public sector health agencies. A consequence of unnecessarily prolonged audits of the agencies included in the Auditor-General's Annual Report, is to delay the completion of these other audits. In turn, delays to the remaining audits reduce my Department's ability to consider other areas of possible audit risk and risk not meeting statutory timeframes. Each year involves continual assessment of where limited Audit resources should be applied to complete Audit responsibilities in the most efficient and effective manner.

It is unavoidable that under current circumstances not all financial reports will be included in my Annual Report or will meet other statutory timeframes. The quality of financial statements forwarded for audit is integral to my Department's ability to meet the statutory timeframes with reasonable access to audit resources. Consequently, I am of the view that there continues to be a risk that without improvements in the way some agencies prepare their financial statements, that audits will not be completed, in time to meet statutory reporting time limits.

My Department will continue to relate with agencies in 2007-08 to seek further improvements in processes to support the preparation and audit of public authorities' financial statements.

AUDIT REVIEWS IN PROGRESS

At the time of preparation of this Report there are certain matters that are in progress of review that will result in reporting to the Parliament. The reviews relate to aspects of goods and services procurement and matters associated with the Future Information Communications Technology (ICT) Service Arrangements of Government.