[P.P.4ZC

Government
of South Australia

Report

of the

Auditor-General

Annual Report

for the

year ended 30 June 2017

Tabled in the House of Assembly and ordered to be published, 17 October 2017

Second Session, Fifty-Third Parliament

Part B: Agency audit reports

By authority: Sinead O'Brien, Government Printer, South Australia

2017

General enquiries regarding this report should be directed to:

Auditor-General
Auditor-General's Department
Level 9
State Administration Centre
200 Victoria Square
Adelaide SA 5000

www.audit.sa.gov.au

ISSN 0815-9157

Contents

Agency audit reports

Introduction

Part B: 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 and financial controls opinions are unmodified or modified (qualified). If modified, the key matters causing the 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. This commentary also contains selected financial ratios and information relevant for assessing an agency's financial performance and significant financial transactions.

Agencies not included in this Report

Section 36(2) of the *Public Finance and Audit Act 1987* gives the Auditor-General the discretionary power to exclude agencies from this Report. The decision to exclude an agency is based on many factors including:

- the materiality of its financial operations
- its significance to the operations and services of the SA Government
- the materiality of any impact on the public finances
- the inclusion of a parent entity's financial report and any consolidation requirements in this Report
- the timeliness of information
- the materiality of issues arising from the audit
- the public interest
- the timely completion of this Report and meeting the statutory deadline to deliver the Report to the presiding members of Parliament.

A list of the public sector agencies not included in this Report is provided at the end of Part A: Executive summary.

Modified Independent Auditor's Reports

Expressing an opinion on an organisation's financial report by an independent professional auditor adds credibility to that financial report 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. The opinion I give is usually unmodified but if circumstances warrant it a modified opinion is expressed. In extreme cases it may not be possible to express an opinion.

When a modified opinion is given, the Independent Auditor's Report explains the reasons for the modification. The reason is also explained in the commentary on those agencies in this Report.

Modified opinions were expressed on the financial reports of the following agencies included in this Report:

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

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

Assessment of controls

Section 36(1)(a)(iii) of the *Public Finance and Audit Act 1987* requires me to advise Parliament whether, in my opinion, the controls exercised by the Treasurer and by 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.

A controls opinion has been expressed for each public authority included in Part B of this Report. Where I have issued a modified controls opinion, the opinion and my reason(s) for issuing a modified opinion have been included.

Audit of the Auditor-General's Department

The *Public Finance and Audit Act 1987* requires the accounts of the Auditor-General's Department to be audited by an auditor appointed by the Governor. The audit for the financial year ended 30 June 2017 was conducted by Nexia Edwards Marshall, Chartered Accountants, who issued an unmodified Independent Auditor's Report on the Department's financial report and an unmodified controls opinion.

Adelaide Festival Centre Trust (AFCT)

Financial statistics	Net cost of providing services:	$21 million
	Revenues from SA Government:	$22 million
	Revenues from fees and charges:	$26 million
	Net assets:	$13 million
	Number of FTEs:	258 (including 176 casuals)
	Ticketed attendances:	554 630
	Total attendances:	852 916

Significant events and transactions

- In June 2017, the SA Government announced additional funding of $31 million to redevelop and expand Her Majesty's Theatre, bringing the revised total capital cost of the project to $66 million.
- In July 2017, the AFCT purchased Her Majesty's Theatre from Arts South Australia for total consideration of $8 million.
- The Treasurer approved the AFCT borrowing $62 million from the South Australian Government Financing Authority for a maximum term of 10 years to fund Her Majesty's Theatre redevelopment.
- The $90 million redevelopment of the Adelaide Festival Centre and Plaza continued in 2016-17.

Financial report opinion — **Unmodified**

Financial controls opinion — **Unmodified**

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 the Arts.

The AFCT is responsible for encouraging and facilitating artistic, cultural and performing arts activities throughout the State and managing and maintaining Her Majesty's Theatre (HMT) and the Adelaide Festival Centre and its facilities. Further information on the AFCT's objectives is provided in note 1 of the financial report.

The AFCT also operates the BASS ticketing system to sell tickets primarily for artistic performances held at the Adelaide Festival Centre and HMT.

Scope of audit

The 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 2016-17 included:

- revenues from theatre services and box office
- BASS ticketing system
- salaries and wages
- procurement and expenditure on supplies and services
- fixed assets.

Audit findings and comments

Communication of audit matters

Matters identified by the audit were detailed in a management letter to the Chief Executive Officer. The main matters related to improving policies to ensure the AFCT's functions are performed in the most efficient and effective way. We recommended that:

- a formal policy be implemented to capture and assess related party transactions to comply with accounting standards

- balance sheet reconciliations be performed promptly and a formal policy outlining the reconciliation process implemented

- controls over invoicing be revisited to prevent or detect promoters being over or under charged.

The AFCT responded that these matters will be addressed.

Interpretation and analysis of the financial report

Highlights of the financial report

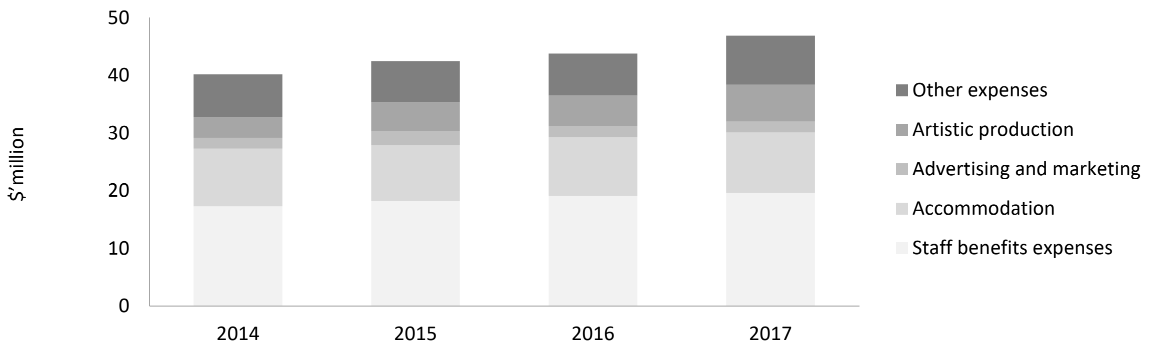
	2017 $'million	2016 $'million
Expenses		
Staff benefits expenses	20	19
Other expenses	27	25
Total expenses	47	44
Income		
User charges and interest	26	26
Net cost of providing services	21	18
Revenues from (Payments to) SA Government	22	17
Net result	1	(1)
Net cash provided by (used in) operating activities	(7)	2
Assets		
Current assets	10	17
Non-current assets	17	12
Total assets	27	29
Liabilities		
Current liabilities	11	14
Non-current liabilities	3	5
Total liabilities	14	19
Total equity	13	10

Statement of Comprehensive Income

The AFCT relies on SA Government funding to support its operations. That is, the net cost of services is met through funding provided by the SA Government. The AFCT's activities are largely dependent on the level of external demand for theatre services and the extent of AFCT programmed activities. Depending on the level and timing of these activities, the nature and amount of revenues and expenses will vary from year to year.

Expenses

An analysis of expenses for the AFCT for the four years to 2017 is presented in the following chart.

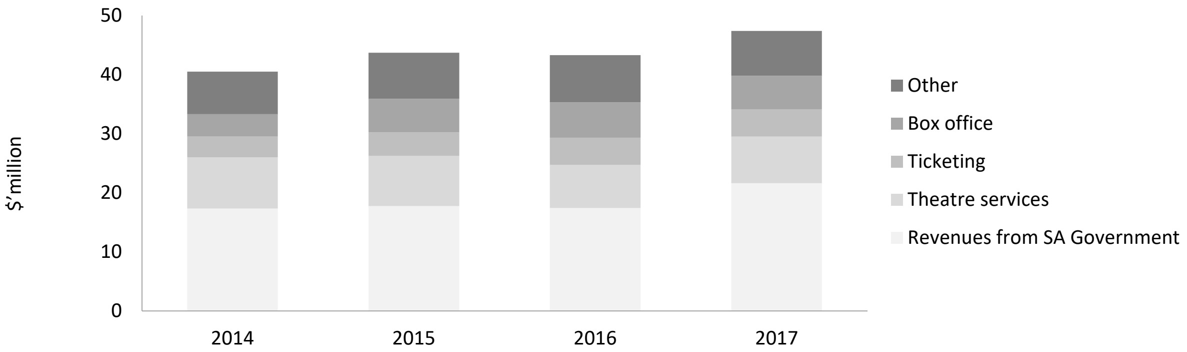


In 2017 the AFCT's expenses increased by $3 million to $46.9 million due mainly to:

- staff benefits expenses increasing by $507 000 to $19.6 million as a result of a 1.5% to 2.5% wage increase under new enterprise bargaining agreements
- depreciation and amortisation expenses increasing by $283 000 to $931 000 due to the acquisition of additional plant and equipment
- artistic production expenses increasing by $1.1 million to $6.4 million due to holding four festivals this year compared to two in 2015-16.

Income

An analysis of income for the AFCT for the four years to 2017 is presented in the following chart. Revenues from SA Government have been included in income for the purpose of this analysis.



In 2017 the AFCT's income increased by $4.1 million to $47.3 million due mainly to an increase in revenues from SA Government of $4.2 million. The main increases in revenues from SA Government were due to:

- base operating grant up $1.7 million to $18.4 million
- capital replacement grant up $2.5 million primarily as a result of the following non-cash transactions:
  - $1.9 million of technical equipment received free of charge from Arts South Australia
  - forgiveness by the Minister for the Arts of the $1.3 million loan relating to the redevelopment of HMT.

Statement of Financial Position

Current assets

The AFCT's current assets of $10.4 million ($17 million) include cash of $8.4 million ($15.1 million), of which $4.3 million ($7.1 million) is proceeds from ticket sales through BASS held in trust until distributed to promoters. Cash held on behalf of promoters was impacted by the commencement of the Adelaide Festival Centre and Plaza redevelopment. The closure of the Festival Theatre from July to December 2017 affected cash received in advance for ticket sales for events normally held during this time.

Non-current assets

The AFCT's non-current assets of $16.5 million ($12.3 million) comprise:

- works of art of $8.8 million ($6.1 million). The increase is attributable to a revaluation of this class of assets resulting in a revaluation increment of $2.7 million

- property, plant, equipment, capital works in progress and intangible assets of $7.7 million ($6.2 million). The increase of $1.5 million is mainly attributable to technical equipment received free of charge from Arts South Australia of $1.9 million.

Liabilities

The AFCT's liabilities decreased by $5.6 million to $13.5 million due mainly to:

- borrowings decreasing by $1.3 million. The loan was forgiven by the Minister for the Arts in 2016-17

- amounts payable to promoters decreasing by $2.8 million due mainly to the decrease in ticket sales for shows as a result of the Festival Theatre closing from July to December 2017.

Further commentary on operations

Redevelopment of Her Majesty's Theatre

In June 2016, the SA Government announced a $35 million redevelopment and expansion of HMT.

The upgrade will expand the existing auditorium to increase seating capacity from 970 to around 1500 seats, as well as provide a more spacious foyer, improved front-of-house amenities, and upgraded orchestral pit and technical facilities. It will allow the hosting of large scale commercial touring productions within this historic theatre.

The SA Government was to provide funding of $32 million, with the remaining $3 million to be covered by the AFCT through a fundraising campaign by the Adelaide Festival Centre Trust Foundation (the Foundation).

As part of the redevelopment project, the Foundation purchased the property adjacent to HMT in 2016 for $2 million for the purpose of expanding the HMT. This building will serve as new entrances and foyers on the western side of HMT. To facilitate the purchase, the AFCT took out a loan with the South Australian Government Financing Authority (SAFA). However, this loan was forgiven in 2016-17 at the drawn down amount of $1.33 million.

Additional unforeseen costs as well as new opportunities for the project were uncovered during the planning and design of the redevelopment. This included provision for an additional floor which would allow a rooftop bar and gallery space.

Subsequently, on 22 June 2017, the SA Government announced in the 2017-18 State Budget additional funding of $31 million over three years to undertake further works within the upgrade and expansion of the theatre. This brought the revised total capital cost of the project to $66 million. This initiative includes transferring the HMT and building from Arts South Australia to the AFCT from July 2017. Funding for the project will be provided by means of:

- a $62 million loan to the AFCT facilitated through SAFA. The loan will be a principal only loan for 10 years and will be drawn down as required. The interest will be subsidised by a grant from the SA Government
- $1.13 million already expended on the project in 2016-17 which will be capitalised and form part of the purchase of HMT in July 2017
- $3 million to be raised through a fundraising campaign by the Foundation.

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

Redevelopment of the Adelaide Festival Centre and Plaza

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

The redevelopment impacted the AFCT in 2016-17, with a loss of revenue from the car park, functions, Festival Theatre hire and lease revenue for the Kiosk, Bistro and Foyer Café. There were also additional security, marketing and wayfinding advertising costs. The closure of the Festival Theatre from July to December 2017 is likely to have an impact on ticket sales for 2017-18.

The Department of Treasury and Finance has allocated supplementary funding of $4.992 million over three years as a contingency to help cover the financial impact of the redevelopment to the AFCT. No additional funding was requested in 2016-17 from this contingency.

Adelaide Festival Corporation (AFC)

Financial statistics

Net cost of providing services:	$8.7 million
Total revenue from SA Government:	$8.6 million
Number of FTEs:	21.8*

* Base level of staff as at 30 June 2017 as the AFC is only in the preparatory stage for the 2018 Adelaide Festival of Arts.

The following information about the 2017 Adelaide Festival of Arts was provided by the AFC and is unaudited.

	2017 Number	2016 Number
Events	58	37
Performances	500	134
Tickets sold	64 562	65 939

Significant events and transactions

- Two outstanding events for the 2017 Adelaide Festival of Arts were the operatic event Saul and the dramatic event The Secret River.
- In 2016-17 the AFC constructed the Palais on the River Torrens for the 2017, 2018 and 2019 Festival of Arts. The total capitalised in 2016-17 was $1.02 million.

Financial report opinion

Unmodified

Financial controls opinion

Modified

Key issues:

- Bank reconciliations were not always performed promptly and independently reviewed
- Risk management policies and procedures had not been developed. The corporate risk register did not include the risk treatment plan and the expected date for risk treatments
- Purchases and payments were not always approved by the appropriate delegate

Functional responsibility

The AFC is a body corporate established by the *Adelaide Festival Corporation Act 1998*. The Board of the AFC is responsible to the Minister for the Arts.

The main function of the AFC is to conduct the Adelaide Festival of Arts. For details of the AFC's functions refer note 1 of the financial report.

Scope of audit

The 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 2016-17 included:

- revenue
- expenditure
- salaries and wages
- receipting and banking
- cash management procedures including bank reconciliations
- general ledger account reconciliations and journal processing.

Audit findings and comments

Assessment of controls

In my opinion, the controls exercised by the Adelaide Festival Corporation in relation to the receipt, expenditure and investment of money, the acquisition and disposal of property and the incurring of liabilities, except for all matters outlined under 'Communication of audit matters', are sufficient to provide reasonable assurance that the financial transactions of the Adelaide Festival Corporation have been conducted properly and in accordance with law.

Communication of audit matters

Matters identified by the audit were communicated in a management letter to the Chief Executive. The main matters raised and related responses are detailed below.

Bank account reconciliations not always performed promptly and independently reviewed

The audit of the AFC's bank account reconciliation processes found:

- there was no independent review of bank reconciliations for all AFC bank accounts
- a number of bank account reconciliations were not signed by the preparing officer
- a number of bank account reconciliations were not prepared promptly.

These findings increase the risk that errors may not be promptly detected and corrected.

In response the AFC advised that, due to the limited number of finance staff, bank reconciliations would not be independently reviewed. To mitigate this risk, the officer preparing the bank account reconciliation would not make payments from the bank account or request payment from the foreign exchange accounts.

Risk management

We reviewed the AFC's risk management processes and found:

- there is no risk management policy and procedure
- the corporate risk register did not include the risk treatment plan and the expected date for implementing the risk treatments.

Not having a risk management policy and procedure could lead to an inconsistent approach to risk throughout the AFC and may impact on the AFC's ability to meet its objectives.

The AFC indicated it had begun developing a risk management policy and would further develop the corporate risk register to show how risk would be measured and managed.

Financial management compliance program (FMCP) not performed

The AFC has an FMCP policy which clarifies the responsible officers, time frame and reporting processes. At the time of the audit, the 2016-17 FMCP had not been performed due to staff restructures and movements.

The AFC responded that the 2016-17 FMCP was completed and findings were presented to the Audit and Risk Committee in August 2017.

Purchases and payments not approved within delegations

Our review of a sample of invoices identified a number of instances where purchase orders and invoices were approved by delegates outside of their purchase and payment authorisation limits. In addition, a number of invoices were not signed by the financial delegate as evidence of their approval.

The AFC responded it would ensure purchase orders and invoices are approved by officers with appropriate delegations and invoices signed as evidence of approval.

Interpretation and analysis of the financial report

Highlights of the financial report

	2017 $'million	2016 $'million
Expenses		
Staff benefits expense	3.8	3.6
Supplies and services	11.9	8.8
Depreciation expense	0.3	0.1
Total expenses	16.0	12.5

	2017 $'million	2016 $'million
Income		
Grants from non-SA Government	0.1	0.4
Box office sales	4.0	2.4
Sponsorship	1.6	1.2
Other	1.6	1.1
Total income	7.3	5.1
Net cost of providing services	8.7	7.4
Revenues from (Payments to) SA Government	8.6	8.4
Net result and total comprehensive result	(0.1)	1.0
Net cash provided by (used in) operating activities	0.1	1.3
Assets		
Current assets	1.1	1.7
Non-current assets	1.0	0.2
Total assets	2.1	1.9
Liabilities		
Current liabilities	1.1	0.8
Non-current liabilities	-	0.1
Total liabilities	1.1	0.9
Total equity	1.0	1.0

Statement of Comprehensive Income

Expenses

Expenses increased in 2017 by $3.5 million to $16 million. The increase was due mainly to supplies and services increasing by $3.1 million, as a result of a $1.3 million increase in artist fees and payments and a $1.4 million increase in event staging and contracts (refer note 5 of the financial report). Expenditure fluctuates between years as the events, artists and venues change for each festival. The number of events staged in 2017 was 58, an increase of 21 over the previous year.

Income

Income increased in 2017 by $2.2 million to $7.3 million. The increase was due mainly to:

- box office sales increasing by $1.6 million, resulting from the increase in the number and scale of events held for the 2017 festival
- other income increasing by $500 000, resulting mainly from an increase in donations of $478 000.

These increases were offset by a decrease in grants from non-SA Government of $257 000. In 2015-16 $250 000 was received from the Commonwealth as funding for the 2017 festival event Saul.

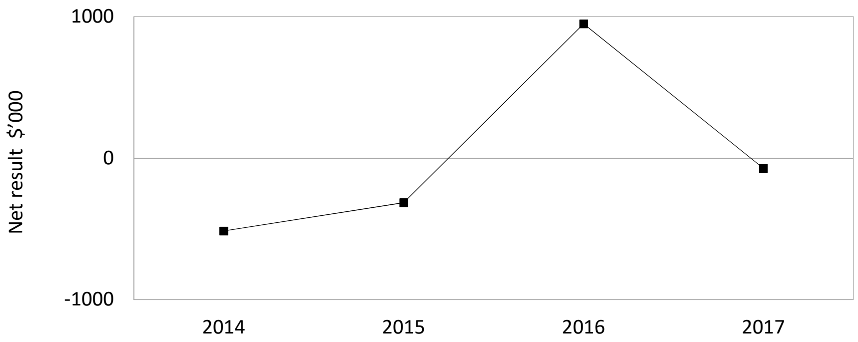
Revenues from SA Government

Revenues from the SA Government increased in 2017 by $203 000 to $8.6 million.

The AFC relies on the SA Government to fund its operations and government grants represent 54% (62%) of total revenue.

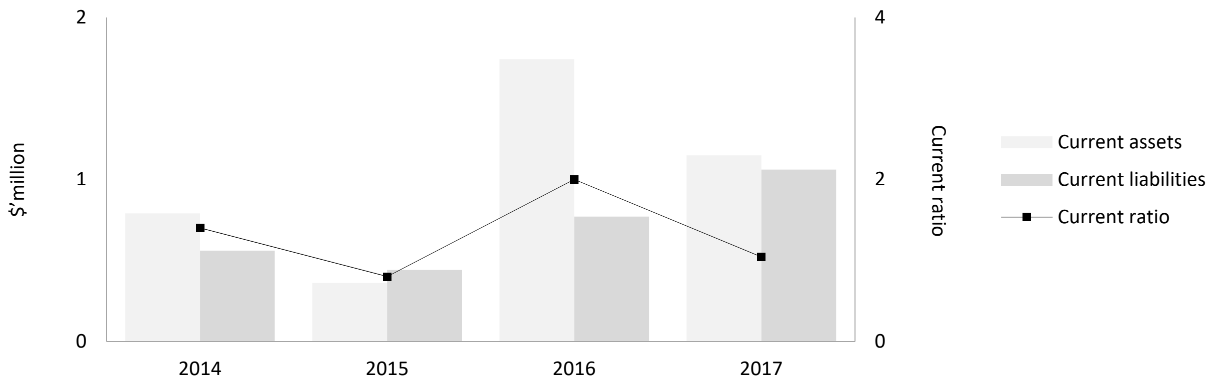
Net result

The net result for the year was a deficit of $30 000 (surplus of $949 000). The following chart shows the fluctuation in the net result for the four years to 2017.



Statement of Financial Position

The following chart shows that current assets decreased by $594 000 to $1.1 million as at 30 June 2017, mainly due to a $917 000 decrease in cash. The decrease in cash is explained further under 'Statement of Cash Flows'. Current assets exceeded current liabilities by $88 000 as at 30 June 2017.



Statement of Cash Flows

Net operating cash flows decreased by $1.2 million due mainly to increased payments for supplies and services, $3.6 million, and staff benefit payments, $427 000. These were offset by a $2.8 million increase in receipts from patrons, sponsors and donors.

Adelaide Oval SMA Limited (AOSMA)

Financial statistics	Net assets:	$5.6 million
	Profit from trading activities:	$2.1 million
	Net contributions from the SANFL and SACA from trading activities:	$540 000
	Money collected as agent on behalf of the SANFL and SACA:	$23.7 million
	Money collected as agent on behalf of parties other than the SANFL and SACA:	$16.4 million

Significant events and transactions

- A payment of $2.7 million was made into the sinking fund in line with the requirement of the *Adelaide Oval Redevelopment and Management Act 2011*.
- AOSMA has sublicensed the roof climb activities to the Commercial Operations Trust (COT) as at 1 July 2016. The directors of the COT trustee company are appointed by SACA and the SANFL in line with the trustee company's constitution. The COT has contracted AOSMA to provide management and staffing services to operate the roof climb.

Financial report opinion

Unmodified

Financial controls opinion

Not applicable

A financial controls opinion is not required as AOSMA is not a public authority.

Functional responsibility

AOSMA is a company whose directors and members are appointed equally by the South Australian National Football League (SANFL) and the South Australian Cricket Association (SACA). AOSMA is not a public authority. It was created in December 2009 as a non-profit public company limited by guarantee.

AOSMA manages, operates and maintains the redeveloped Adelaide Oval stadium owned by the State Government and also the area closely surrounding the stadium (the precinct). AOSMA also provides various services as agent on behalf of the SANFL, SACA and promoters in return for a fee.

Authority for audit

Section 9(3) of the *Adelaide Oval Redevelopment and Management Act 2011* provides for the Auditor-General to audit AOSMA's accounts each year.

Scope of audit

The audit program covered financial accounting records and processes and was directed primarily to obtaining sufficient evidence to form an opinion on the financial report.

For the year ended 31 October 2016 specific areas of audit attention included:

- revenue from car parks, sponsorships, service fees, sales of food and beverages and contributions from the State Government, SACA and the SANFL
- distribution of monies collected as agent on behalf of the SANFL, SACA and promoters including receipts from the sale of tickets to events, supply rights, Adelaide Oval football memberships, Stadium Club corporate seats and corporate suites
- controls for managing contracts and agreements with the SANFL, SACA, State Government, Australian Football League (AFL), Cricket Australia (CA), promoters, ticketing agent, car park operator, suppliers and various other parties
- procurement and expenditure on plant, equipment, supplies and services
- employee benefit expenses.

Audit findings and comments

Communication of audit matters

Matters identified by the audit were detailed in a management letter to the Chief Executive Officer. The main matters and responses are detailed below.

Audit matters raised with AOSMA

AOSMA agreed to improve its processes and policy documentation for a range of areas including: the negotiation of prices and documenting amendments to contracts for functions and events held at Adelaide Oval; delegations for pricing goods and services; maintaining a contracts register; and monthly reconciliations of balance sheet accounts. These recommended improvements will ensure AOSMA's functions continue to be performed efficiently and effectively.

Interpretation and analysis of the financial report

Highlights of the financial report

	Year ended 31.10.16 $'000	Year ended 31.10.15 $'000
Trading activities		
Income	66 936	58 395
Expense	64 824	59 614
Profit (Loss) from trading activities	2 112	(1 219)
Stakeholder contributions		
Contributions from the SANFL and SACA	8 919	6 263
Contributions to the SANFL and SACA	(8 379)	(7 572)
Net contributions	540	(1 309)
Trading result after net contributions to stakeholders	2 652	(2 528)
State Government related items		
State Government grants and other contributions	219	3 959
Lease to Minister	(200)	-
Acquisition of capital assets for the State Government	(254)	(334)
Write off of receivable	-	(1 817)
Total comprehensive result	2 417	(720)
Net cash provided by (used in) operating activities	7 670	5 910
Assets		
Current assets	16 663	11 004
Non-current assets	15 156	15 038
Total assets	31 819	26 042
Liabilities		
Current liabilities	16 254	14 518
Non-current liabilities	9 957	8 333
Total liabilities	26 211	22 851
Total equity	5 608	3 191

AOSMA operates under a complex set of arrangements with the SANFL and SACA that dictate the accounting treatment of certain financial transactions and their presentation in the financial report.

Statement of Comprehensive Income

The Statement of Comprehensive Income includes only the income and expenses that AOSMA controls. It does not include money that AOSMA collects as agent on behalf of the SANFL, SACA, COT, AFL, CA, football clubs or promoters.

Trading activities

AOSMA reported a trading profit of $2.1 million in the 12 months to 31 October 2016 compared to a trading loss of $1.2 in the previous year, a turnaround of $3.3 million. AOSMA's trading income of $66.9 million ($58.4 million) was mainly generated from catering activities, major events, recoveries and service fees charged to the SANFL, SACA and promoters under various agreements. Sales revenue improved by $4.2 million to $51 million ($46.8 million). Trading expenses increased by $5.2 million to $64.8 million ($59.6 million) and comprised employee benefit expenses, food and beverage purchases, stadium cleaning costs, building maintenance costs, security expenses and utility costs. Employee benefit expenses rose $1.8 million to $24.6 million ($22.7 million).

Stakeholder contributions

Net contributions to AOSMA by the SANFL and SACA were $540 000. Under various agreements, AOSMA contributed $8.4 million of its trading income to the SANFL and SACA while the SANFL and SACA contributed $8.9 million to AOSMA to support its operations. The $8.4 million contributed to the SANFL and SACA was in addition to $23.8 million collected and distributed by AOSMA to the SANFL, SACA and the COT as their agent. In respect of the SANFL and SACA, these distributions replace the funds formerly generated directly by SACA when it held the lease over the Adelaide Oval, and for the SANFL when AFL football was played at AAMI Stadium.

State Government related items

State Government grants and other contributions of $219 000 ($3.9 million) is grant income for safety, security and stadium operations provided by the State Government under a Deed of Grant agreement.

Statement of Financial Position

AOSMA's equity increased by $2.4 million in the 12 months to 31 October 2016, resulting in net assets of $5.6 million. The increase was mainly as a result of the transfer of $2.7 million to the Sinking Fund Reserve.

The major movements in assets and liabilities over the year were:

- a $1.5 million increase in the deferred income liability resulting from $2.3 million in licence fees from the COT under the Sales Agreement. This was offset by a decrease of $800 000 in unearned income mainly from customer deposits for catering events

- a $4.6 million increase in cash held, attributable to $2.5 million received from the COT for the licence to operate the RoofClimb business.

AOSMA's main assets comprise property, plant and equipment $15 million ($14.6 million), receivables $8.4 million ($7.2 million) and cash $6.9 million ($2.3 million).

Money collected on behalf of other parties

AOSMA collects money as agent on behalf of the SANFL, SACA, AFL, CA, football clubs and various promoters. Collecting this money involves selling, on their behalf, tickets to events, supply rights, Adelaide Oval football memberships, Stadium Club corporate seats and corporate suites.

For the year ended 31 October 2016, AOSMA collected $23.8 million on behalf of the SANFL, SACA and the COT. This amount is disclosed as related party transactions in note 17 of the financial report. AOSMA also collected $16 million during the same period on behalf of the AFL, CA, football clubs and promoters. These collections are not disclosed in the financial report, apart from the balance awaiting distribution at 31 October 2016. Most of these collections related to tickets sold through AOSMA's ticketing agent on behalf of CA, the Port Adelaide Football Club, the Adelaide Football Club and promoters.

The financial report does not include revenue generated at the Adelaide Oval that is not collected through AOSMA but directly by the SANFL, SACA, AFL, CA, football clubs or promoters.

Further commentary on operations

State legislative requirements

The operations of AOSMA are subject to the requirements of the *Adelaide Oval Redevelopment and Management Act 2011* which specifies the following matters:

- leasing and licensing requirements for the management of the Adelaide Oval. These requirements involve the Corporation of the City of Adelaide (the Adelaide City Council), the responsible Minister, the SANFL, SACA and AOSMA
- financial and audit reporting requirements of AOSMA and the redevelopment in general
- that the Auditor-General audit AOSMA's accounts each year
- the establishment of a sinking fund to be managed by AOSMA to pay for non-recurrent expenditure of the Adelaide Oval in the years after its completion. After consulting AOSMA the Treasurer must determine annually the amount payable by AOSMA into the sinking fund. A report on money paid into and out of the fund must be provided to the Minister by 1 September of each year.

AOSMA has established a bank account to hold sinking fund money. AOSMA obtained a report from a project consultant that provides an estimate of the forecast non-recurrent expenditure of the Adelaide Oval over a 20-year period and the required annual sinking fund contribution.

Sinking fund

AOSMA made its first contribution of $2.7 million to the sinking fund in 2015-16. This amount was based on the initial 20-year forecast of expenditure provided by the project consultant. The amount was approved by the Treasurer. No payments were made out of the sinking fund during 2015-16.

Leasing and licensing arrangements

AOSMA leases from the State Government the Adelaide Oval Core Area which includes the stadium. The rent payable by AOSMA to the State Government over the 80-year term of the lease is expected to be $74.3 million before indexation. Rent was not payable for the lease period before 1 July 2015. The first payment of rent was made in July 2016. The land situated in the Adelaide Oval Core Area is leased by the State Government from the Adelaide City Council for an equal term at $1 p.a.

AOSMA has licensed the SANFL the exclusive right to play football at the oval during the football season from 15 March to 7 October for a term of 20 years, with a right of renewal for three further 20-year terms. The licence enables the SANFL to enter into arrangements with the AFL and football clubs for the use of the oval. Likewise, AOSMA has licensed the SACA the exclusive right to play cricket at the oval during the cricket season from 8 October to 14 March for a term of 80 years. The licence enables SACA to enter arrangements with CA for the use of the oval. The licences preserve AOSMA's right to hold ad hoc events, such as concerts, at the oval at any time provided sufficient notice is given to the SANFL and SACA.

The Adelaide City Council has also licensed the State Government to use the area closely surrounding the stadium for a 20-year term for no fee, with a right of renewal for three further 20-year terms. The State Government has sublicensed the use of this area to the SANFL, SACA and AOSMA for an equivalent term for a fee of $10 each p.a.

Commercial Operations Trust

During 2015-16, the COT was established and a company was set up and appointed as trustee to operate the Adelaide Oval roof climb in the Adelaide Oval Core Area. AOSMA licensed the COT to operate the roof climb from 1 July 2016 to 16 November 2031. The issuing of the licence was approved by the Minister. AOSMA also entered into a service agreement with the COT which enables AOSMA to manage the roof climb business on behalf of the COT. The associated licence and management fees as outlined in the agreements are recognised in the financial statements. Net ticket sales collected on behalf of the COT are disclosed as related party transactions in note 17 of the financial report.

Insurance

AOSMA is required by the leasing and licensing requirements for the management of the Adelaide Oval to maintain certain insurance policies including public risk liability insurance and property insurance against material damage to the stadium. Relevant policies were in place for the year.

Adelaide Venue Management Corporation (AVMC)

Financial statistics

Income from trading activities:	$49.7 million
Profit from trading activities:	$9.2 million
Loss from property management activities:	$14.9 million
Net loss:	$5.7 million
Number of FTEs	319

The following information on the number of events held and patrons attending these events was provided by the AVMC and is unaudited.

	2017 Number	2016 Number
Adelaide Entertainment Centre:		
Events	93	72
Patrons	249 000	270 000
Coopers Stadium:		
Events	17	18
Patrons	191 000	198 000
Adelaide Convention Centre:		
Events/Functions	855	921
Patrons	262 000	280 000

Significant events and transactions

The Adelaide Convention Centre is currently being redeveloped. The total budget for the redevelopment is $396.8 million, of which $382.3 million will be funded from borrowings and $14.5 million from the AVMC's Future Asset Replacement account. To date $384.8 million has been spent on the redevelopment.

Financial report opinion

Unmodified

Financial controls opinion

Unmodified

Functional responsibility

The AVMC, formerly the Adelaide Entertainments Corporation, was established by Regulations under the *Public Corporations Act 1993*. The AVMC is responsible to the Minister for Tourism.

On 1 August 2015, the assets, rights, liabilities and all employees of the Adelaide Convention Centre Corporation were transferred to the AVMC.

The main function of the AVMC is to manage and operate the Adelaide Convention Centre, the Adelaide Entertainment Centre and Coopers Stadium. For details of the AVMC's functions refer note 1 of the financial report.

Scope of audit

The 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 2016-17 included:

- revenue from events, restaurants, bars and car parks
- salaries and wages
- expenditure on supplies and services
- inventory
- capital work in progress.

Audit findings and comments

Communication of audit matters

Matters identified by the audit were detailed in a management letter to the Chief Executive. While there were no major matters raised, we recommended that the AVMC implement a process to ensure that all changes to prices within the event management and inventory systems are independently checked. A positive response was received from the AVMC.

Interpretation and analysis of the financial report

Highlights of the financial report

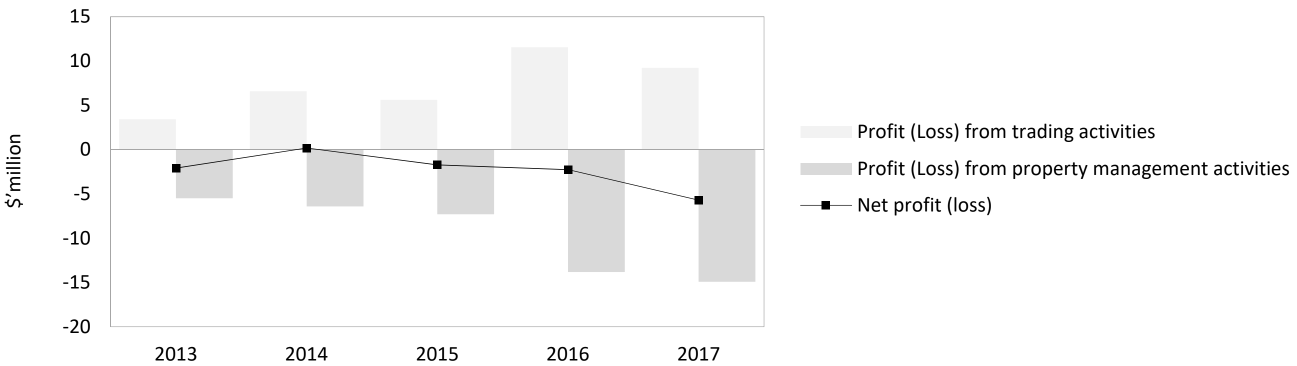
	2017 $'million	2016 $'million
Trading activities		
Expenses	41	38
Income	50	50
Profit (Loss) from trading activities	9	12
Property management activities		
Expenses	39	34
Income	24	20
Profit (Loss) from property management activities	(15)	(14)
Net profit (loss)	(6)	(2)

	2017 $'million	2016 $'million
Net cash provided by (used in) operating activities	27	25
Net cash provided by (used in) investing activities	(71)	(70)
Net cash provided by (used in) financing activities	49	84
Assets		
Current assets	45	28
Non-current assets	649	612
Total assets	694	640
Liabilities		
Current liabilities	23	29
Non-current liabilities	388	321
Total liabilities	411	350
Total equity	283	290

Statement of Comprehensive Income

The AVMC recorded a net loss of $5.7 million for 2017.

The following chart shows the profits (losses) from trading and property management activities and the AVMC's net profits (losses) for the five years to 2017.



For the five years represented, profits from trading activities have generally been exceeded or offset by losses on property management activities. With the operations of the Adelaide Convention Centre part of the AVMC from 2016, the chart shows that this trend has continued. The net loss has increased by $4 million to $6 million. The profit from trading activities has decreased by $3 million to $9 million and the loss from property management activities has increased by $1 million to $15 million. The increase in the loss from property management activities is largely as a result of the increased depreciation, building services and repairs and maintenance costs.

The AVMC's income from trading activities totalled $49.7 million and mainly comprised catering revenue ($23.5 million) and venue hire revenue ($8.3 million).

Expenses from trading activities amounted to $40.5 million and mainly comprised employee benefits expenses ($24.5 million) and supplies and services expenses ($12.8 million).

Expenses from property management activities were $38.6 million and mainly comprised depreciation ($11 million) and borrowing costs ($17.7 million).

The AVMC received $22.6 million in funding from the SA Government, which fully compensated borrowing costs and contributed to property management activities associated with the common areas of the Adelaide Convention Centre.

Statement of Financial Position

The main item in the AVMC's Statement of Financial Position is property, plant and equipment, representing 91% of total assets. The carrying value of property, plant and equipment is $633.4 million, which includes land, buildings and improvements of $434.7 million and work in progress of $180.1 million related to the Adelaide Convention Centre redevelopment.

The AVMC's main assets are the Adelaide Convention Centre and the Adelaide Entertainment Centre buildings. The redevelopment of the Adelaide Convention Centre is budgeted to cost $396.8 million, with $382.3 million being funded from borrowings and $14.5 million from the Future Asset Replacement account. To date $384.8 million has been spent on the redevelopment and the project was on budget at 30 June 2017.

Liabilities as at 30 June 2017 totalled $411.2 million and mainly comprised borrowings of $382.3 million and payables of $9.9 million.

Statement of Cash Flows

The AVMC had a net cash inflow from operating activities of $27.2 million for the year while cash used in investing activities was $71.1 million, primarily for payments associated with the Adelaide Convention Centre redevelopment.

Cash provided by financing activities was $48.8 million and this was impacted by:

- additional borrowings of $67.7 million
- borrowing costs of $17.7 million
- dividends paid to the SA Government of $1.6 million.

Dividends are paid in accordance with AVMC's Performance Statement.

Administered items

The AVMC administers, but does not control, gross box office receipts from its ticketing agency. These receipts are held in separate event funds bank accounts. Settlement occurs after each event through payment of funds held to promoters, the AVMC and other service providers. Total administered revenues for the year were $21.2 million and administered expenses were $19 million. The balance of funds held in trust as at 30 June 2017 was $7.4 million.

Art Gallery Board (Art Gallery)

Financial statistics	Net cost of providing services:	$758 000
	Revenues from SA Government:	$11.6 million
	Value of heritage collections:	$760 million
	Number of FTEs:	67
	Number of visitors:	787 713

Significant events and transactions

During the year the Art Gallery received bequests and donations of $10.7 million.

Financial report opinion

Unmodified

Financial controls opinion

Modified

Key issues:

— No risk management procedure in place detailing the Art Gallery's approach to risk management

Functional responsibility

The Art Gallery is established by the *Art Gallery Act 1939*. Its main function is to manage the Art Gallery of South Australia. For details of the Art Gallery's objectives refer note 1 of the financial report.

Scope of audit

The audit program covered major financial systems to obtain sufficient evidence to form an opinion on the financial report and internal controls.

In 2016-17 specific areas of audit attention included:

- legal compliance
- compliance with Treasurer's Instructions
- revenue
- expenditure
- payroll
- property, plant and equipment
- heritage collections
- cash and investments
- general ledger.

Audit findings and comments

Assessment of controls

In my opinion, the controls exercised by the Art Gallery Board in relation to the receipt, expenditure and investment of money, the acquisition and disposal of property and the incurring of liabilities, except for the matter outlined under 'Communication of audit matters', are sufficient to provide reasonable assurance that the financial transactions of the Art Gallery Board have been conducted properly and in accordance with law.

Communication of audit matters

Matters identified by the audit were detailed in a management letter to the Director. The main matter raised and related response is detailed below.

No risk management procedure in place

Last year we reported that the Art Gallery did not have a risk management procedure to support its risk register and policy documents. Our 2016-17 review found that while the Art Gallery had drafted a risk management procedure, it was not yet approved and would not be implemented until 2017-18. A lack of structured guidelines or procedure may prevent the Art Gallery from identifying and managing risks in the way the Board intends.

The Art Gallery responded that it would present an updated risk procedure to its audit committee in September 2017 with the intention to have it ratified by the Art Gallery Board and implemented at the earliest opportunity.

Shared Services SA – financial systems and transaction processing environments

SSSA processes financial transactions on behalf of the Art Gallery under service level determinations. The main systems and control environments include accounts payable, payroll and general ledger financial functions.

Our review and evaluation of controls for these systems concluded that controls were effective for 2016-17.

SSSA is discussed further as part of the commentary under 'Department of the Premier and Cabinet' in this Report.

Interpretation and analysis of the financial report

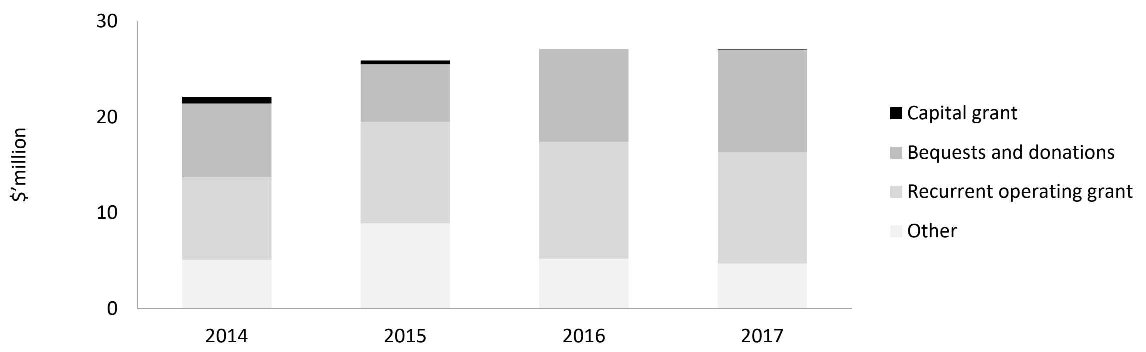
Highlights of the financial report

	2017 $'million	2016 $'million
Expenses		
Staff benefits	6	6
Other expense	10	13
Total expenses	16	19
Income		
Revenues from SA Government	12	12
Other income	15	15
Total income	27	27
Net result	11	8
Net cash provided by (used in) operating activities	6	2
Net cash provided by (used in) investing activities	(2)	(2)
Assets		
Current assets	8	5
Non-current assets	808	800
Total assets	816	805
Total liabilities	3	3
Total equity	813	802

Statement of Comprehensive Income

Income

Total income remained steady at $27 million. The following chart analyses the main sources of income for the four years to 2017.



The chart shows the Art Gallery continues to rely on the recurrent operating grant received from the SA Government to fund its operations, which represents 43% of total income received in 2016-17.

The main movements in income items were:

- revenues from SA Government decreased $600 000 to $11.6 million
- donations of heritage assets decreased $1.8 million to $5.7 million.

- bequests increased by $2.2 million and cash and investment donations by $600 000 bringing the total received for these two lines to $5 million.

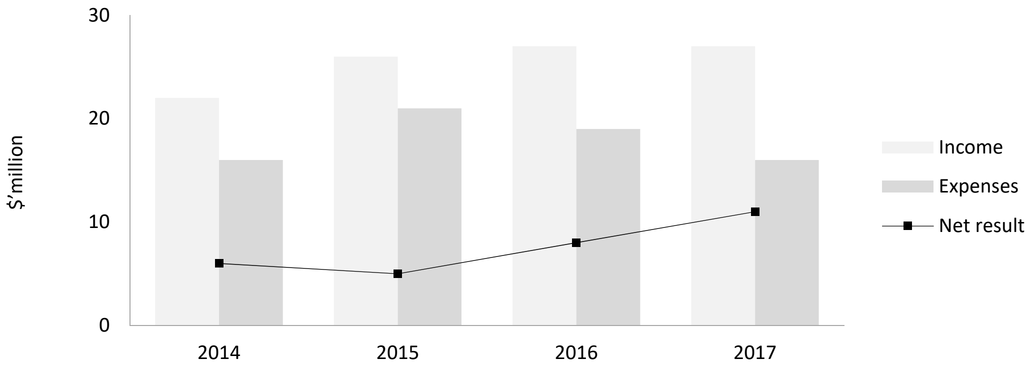
Expenses

Total expenses decreased by $2.3 million to $16 million in 2016-17. This was largely due to a $2.4 million decrease in supplies and services expenses, reflecting that the Art Gallery did not hold any major exhibitions. For example, marketing and promotion expenses decreased by $901 000 and fees for exhibitions and publications decreased by $569 000.

Net result

The net result for the year was a surplus of $11 million ($8 million).

The following chart shows the income, expenses and net results for the four years to 2017.



The net result is largely influenced by specific activities undertaken at the Art Gallery during the year. For example, a major exhibition was held in 2015 increasing expenditure and income and decreasing the net result. The 2016 and 2017 net results were impacted by significant bequests and donations of cash and heritage collection assets.

Statement of Financial Position

Total assets at 30 June 2017 were $816 million ($805 million), of which $760 million (93%) relates to the Art Gallery's heritage collections. Additions to the heritage collection during the year were $7.6 million, of which $5.7 million were donated. The heritage collection was last revalued as at 30 June 2016.

Attorney-General's Department (AGD)

Financial statistics	Employee benefits expenses:	$158 million
	Net cost of providing services:	$115 million
	Revenues from SA Government:	$117 million
	Number of FTEs (includes administered):	1534.6
	Administered:	
	Taxation revenue	$266 million
	Fines and related fees	$94 million
	Revenues from SA Government	$83 million
	Victims of Crime levies	$42 million
	Payments to Consolidated Account	$348 million

Significant events and transactions

— To comply with AASB 10 'Consolidated Financial Statements' the following entities have been excluded from the administered financial statements:

- Independent Commissioner Against Corruption
- Residential Tenancies Fund
- Agents Indemnity Fund
- Second-hand Vehicles Compensation Fund
- Professional Standards Council.

The comparatives for 2015-16 have been adjusted.

— $65 million from the Agents Indemnity Fund was invested with the Public Trustee.

Financial report opinion

Unmodified

Financial controls opinion

Modified

Key issues

— No regular review or no evidence of review of user access to a number of systems

— Key payroll reports not reviewed promptly

— Business processes in Consumer and Business Services and SafeWork SA need improvement

Functional responsibility

AGD is an administrative unit established under the *Public Sector Act 2009.*

The functions of AGD are to help create an inclusive, safe and fair South Australia. AGD 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.

Notes 1, 2(c), 4 and A1 of the financial report provide further information on AGD.

Scope of audit

The 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 2016-17 included:

- cash and debtors
- non-current assets
- payroll and employee entitlements
- expenditure including grants and subsidies
- revenue
- taxation receipts
- statutory and other funds including the Crown Solicitor's Trust Account
- fines revenue and collection
- SafeWork SA revenue
- financial accounting and reporting
- governance and accountability
- financial management performance program.

The audit took into account the controls and procedures performed by service providers including Shared Services SA (SSSA).

The work of AGD's internal auditors was also considered in planning and conducting the audit.

Audit findings and comments

Assessment of controls

In my opinion, the controls exercised by the Attorney-General's Department in relation to the receipt, expenditure and investment of money, the acquisition and disposal of property and the incurring of liabilities, except for all matters outlined under 'Communication of audit matters', are sufficient to provide reasonable assurance that the financial transactions of the Attorney-General's Department have been conducted properly and in accordance with law.

Communication of audit matters

Matters identified by the audit were detailed in management letters to the Chief Executive and other officers responsible for the governance of AGD's controlled and administered activities. The main matters raised and related responses are detailed below.

Payroll

Employee benefits expenses for both controlled and administered activities totalled $167 million for 2016-17, while employee benefits liabilities totalled $54 million as at 30 June 2017.

Key payroll reports not reviewed promptly

We found AGD's bona fide and leave return reports were not always reviewed promptly, signed or dated to evidence prompt review by the relevant manager. This finding is consistent with prior years. We also found instances where these reports could not be located.

The prompt review of bona fide and leave return reports provides assurance that:

- payments to employees are valid and authorised
- leave taken by employees is completely and accurately recorded.

AGD advised it would email key managers to remind them of their responsibility to promptly review bona fide and leave return reports. The current practice of providing instructions with the reports will also continue.

AGD also advised that it supports working with SSSA on a single whole-of-government solution to these issues.

Time worked and leave requests not approved

Most AGD business units use TimeWise to record time worked and apply for leave. Our review of reports for the three most material pay points for the pay periods from 25 June 2016 to 31 March 2017 identified many instances where:

- timesheets were completed but not approved by the manager
- timesheets were not completed
- annual leave requests were not approved
- sick leave requests were not approved
- special leave requests were not approved.

Completing and approving timesheets and leave requests provides assurance that:

- time recorded by employees is accurate
- leave taken by employees is approved and accurately recorded.

AGD advised it would email key managers to remind staff of their responsibility to complete and approve timesheets and leave applications in the time frames outlined in AGD's time and attendance policy.

Expenditure

Quarterly review of Basware user listing

User access reviews for the Basware payment processing system are performed quarterly to ensure that user access is appropriate and the financial delegations within Basware align with the delegations approved by the Chief Executive.

Our review of the quarterly process identified that:

- only 10% of active users and certifiers are sampled to ensure their financial delegations agree to that approved by the Chief Executive
- AGD emailed SSSA confirming the results of the review before the checking date recorded on the user listing.

Conducting an incomplete and inaccurate quarterly review could lead to transactions being approved using inappropriate delegations.

AGD responded that the quarterly review would now ensure that modifications made since the previous review had been implemented and the current process of checking a 10% sample of certifiers and approvers would continue. AGD will also advise SSSA after the quarterly review is complete and user modification forms will be resubmitted if any changes remain outstanding.

South Australian Government Radio Network (SAGRN)

SAGRN upgrade project review

The SAGRN is essential for the management of emergency services. It is important to the business operations of many government agencies and is part of the State's critical infrastructure. The SAGRN is a system of interconnected repeater sites, mobile (vehicle mounted), portable and static radio transceivers used for radio communications. The network is being upgraded to the current technology standard, which includes upgrading to a digital radio network.

In 2016-17 we assessed the status of the project in terms of its schedule, budget and required functionality. We also assessed aspects of the effectiveness of the governance arrangements and procurement activities for the project.

In conducting our review we were advised that the vendor has a contractual obligation to deliver on AGD's specified requirements. It is AGD's responsibility to test and accept the solutions delivered, not to design them.

Our review highlighted opportunities for AGD to strengthen the governance of the project and improve aspects of transparency and accountability. Specifically:

- independent technical verification of the vendor's contract deliverables needs to be continued
- the project plan and governance arrangements for the final phase of the upgrade need to be updated

- progress reporting needs to be more comprehensive for current and futures stages of the project
- certain risks were not captured and reported effectively
- SAGRN Board meeting minutes need to be more comprehensive
- internal audit needs to perform an ongoing review of the project.

AGD responded that:

- it would continue to engage independent expert advice at critical points in the upgrade
- the project plan is progressively updated to reflect changes needed to ensure effective governance over the final implementation phase of the upgrade
- project reporting and SAGRN Board reporting has been improved
- a comprehensive review and, where necessary, revision of project risks taking into account the final implementation phase of the upgrade is nearing completion.

No independent review of monthly financial reconciliation

The SAGRN asset management policy requires the SAGRN Manager, Operational Services Delivery to review and approve the monthly financial transactions reconciliation. The reconciliation ensures all asset acquisitions have been capitalised and recorded in the asset register and is used to prepare monthly journals to record SAGRN transactions in the general ledger. We found that monthly financial transactions reconciliations were prepared but there was no evidence of independent review and approval.

AGD advised that the monthly financial transactions reconciliation will be independently reviewed, signed and dated by the SAGRN Manager, Operational Services Delivery.

SafeWork SA

In 2016-17 the licence fees collected by SafeWork SA totalled $4.7 million.

Our audit of SafeWork SA identified:

- the Point of Sales (POS) and InfoNET reconciliations were not performed after April 2016. This reconciliation ensures that payments receipted in POS are accurately recorded in InfoNET as there is no interface between the systems. The reconciling items identified are caused by the inaccurate entry of POS receipt numbers in InfoNET and take time to investigate. We were advised that SafeWork SA was implementing a business improvement project to interface POS and InfoNET.
- no review of the user access for the BPoint, POS and InfoNET systems.
- no policies and procedures for reviewing user access to the BPoint and POS systems.

AGD advised that SafeWork SA will continue its business improvement project to automatically interface POS with InfoNET and will ensure monthly reconciliations between the two systems are performed and reviewed until the interface is implemented.

AGD also advised that SafeWork SA will adopt an annual review of BPoint user access, a quarterly review of POS users and reviews of InfoNET user access. SafeWork SA will also implement a policy/procedure for the periodic review of access to these systems.

No assessment of legislative compliance

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

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

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

Consumer and Business Services (CBS)

In 2016-17 licence and regulatory fees collected through LOGIC totalled $26.3 million and the total collected for gaming and taxation revenue through LOGIC was $265.6 million. Total fees collected for issuing birth, death and marriage certificates through the Promadis system were $5.8 million.

Our audit of CBS identified that:

- reviews of user access for the LOGIC and POS systems were not performed or not performed promptly. We also noted that there was no policy and procedure for either the LOGIC or POS user access reviews

- the LOGIC to general ledger reconciliations were not prepared and reviewed promptly. We found that the April 2017 reconciliation was not performed until July 2017 and included a $60 000 variance for which no supporting documentation was attached. We were advised that variances are caused by reports generated from LOGIC recognising the invoice amount instead of the receipted amount for partial payments and the reports not recording refunds accurately. Given the nature of these variances is known to relate to the reports generated from LOGIC, we were advised that not all variances are investigated as it is time consuming to identify the affected transactions

- the review of CommBiz access identified a gaming and taxation employee who was temporarily assigned to another role and had not had their access suspended or their token removed. This increases the risk of invalid or inappropriate transactions being processed.

AGD advised that:

- a user review policy for CBS systems has been developed and implemented
- it would remind staff to appropriately investigate variances, maintain supporting documentation, and promptly reconcile and independently review the LOGIC to general ledger reconciliation. The issues with LOGIC have been rectified
- CBS officers have been reminded to suspend CommBiz access when employees are assigned to another role.

Residential Tenancies Fund

As at 30 June 2017 total bonds lodged with the Residential Tenancies Fund were $96.2 million.

Bond Management System (BMS) user access reviews not performed

Our audit identified that although the quarterly user access reviews for the BMS were performed, appropriate evidence and any follow-up action was not always retained. We have previously raised this issue.

AGD indicated that the BMS user access review has been completed and reviews will continue to be performed quarterly in line with CBS's user access review policy.

Bond lodgement and refund audits not performed

We found that bond lodgement and refund audits were not performed for April to June 2017. These audits ensure that manual bond lodgement and refund details have been entered correctly in the BMS. If these audits are not performed there is an increased risk that the incorrect processing of transactions in BMS may not be promptly identified and corrected.

AGD responded that all audits have now been completed and the delay was largely due to staff on extended leave as well as training new staff.

Residential Parks bank reconciliation not reviewed and Residential Tenancies Unclaimed Bonds reconciliation not reviewed promptly

The April 2017 Residential Parks bank reconciliation was not signed and dated by an independent checking officer. We also found that the December 2016 Residential Tenancies Unclaimed Bonds reconciliation was not reviewed until February 2017.

In the absence of regular review, reconciliation variances may not be identified and addressed promptly.

AGD advised that it would ensure bank reconciliations and unclaimed bonds reconciliations are performed promptly and independently reviewed, with evidence of the independent review maintained.

Fines Enforcement and Recovery Unit (FERU)

As at 30 June 2017, the balance of outstanding debt managed by the FERU was $379 million.

Policies and procedures still need to be developed

Since the FERU was established in 2014, work has been progressing to develop internal policies and procedures reflecting its business processes.

Our previous audits have raised the issue of FERU policies and procedures being in progress or completed but not reviewed. We note that considerable progress has been made in this area, with additional resources assigned to it since July 2015.

Our follow-up in 2016-17 found that while there had been further progress to document and approve policies and procedures, some work instructions were awaiting completion and approval.

In the absence of approved policies and procedures, controls and processes may not be performed consistently or as intended by management.

AGD advised the work instructions have been finalised and published and that the FERU would continue to document and approve policies and procedures to support the operations of the unit.

Daily close-off processes not always reviewed promptly

FERU finance staff perform a daily close-off process for the fines system to ensure amounts received match the amounts recorded in the fines system and the amounts to be banked. This process also ensures amounts are promptly recognised and allocated against the correct outstanding amount and that receipts are banked promptly. An independent review of the daily close-off is also undertaken.

Our review of daily close-off processes found that the independent review process was not always performed promptly.

AGD responded that the FERU would amend its close-off policy to ensure that the independent review is performed within two weeks of the close-off date.

Shared Services SA – financial systems and transaction processing environments

SSSA processes financial transactions on behalf of AGD under service level determinations. The main systems and control environments include accounts payable, payroll and general ledger financial functions.

Our review and evaluation of controls for these systems concluded that controls were effective for 2016-17.

SSSA is discussed further as part of the commentary under 'Department of the Premier and Cabinet' in this Report.

Interpretation and analysis of the financial report

Highlights of the financial report – controlled items

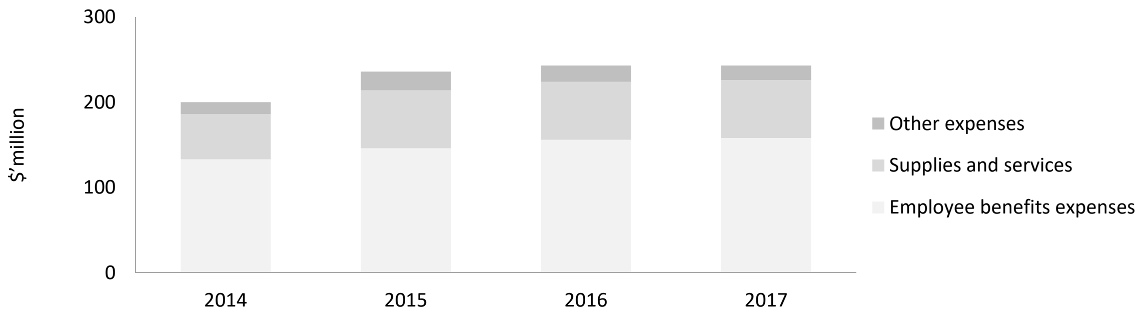
	2017 $'million	2016 $'million
Expenses		
Employee benefits expenses	158	156
Supplies and services	68	69
Other expenses	17	18
Total expenses	243	243
Income		
Revenues from fees and charges	102	103
Recoveries	18	19
Other	8	11
Total income	128	133
Net cost of providing services	115	110
Revenues from SA Government	117	112
Net result	2	2
Total comprehensive result	2	2
Net cash provided by (used in) operating activities	15	5
Assets		
Current assets	57	48
Non-current assets	33	34
Total assets	90	82
Liabilities		
Current liabilities	33	27
Non-current liabilities	41	41
Total liabilities	74	68
Total equity	16	14

Statement of Comprehensive Income

Expenses

In 2016-17 total expenses remained steady at $243 million. While employee benefits expenses increased by $1.6 million, this was offset by decreases in grants and subsidies of $814 000 and supplies and services of $684 000.

The following chart analyses the main expense items for AGD for the four years to 2017.



Employee benefits expenses represent 65% (64%) of total expenditure (refer note 5 of the financial report for details).

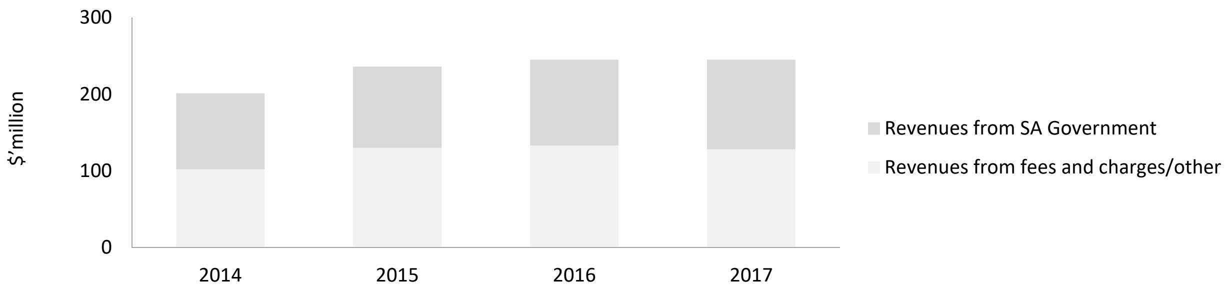
Salaries and wages increased by $5.1 million mainly reflecting the impact of the enterprise bargaining agreement indexation. This increase was offset by a decrease in long service leave expense of $3.9 million mainly due to the impact of $1.5 million from the increase in the bond rate used to calculate the long service leave liability and a decrease in the number of targeted voluntary separation payments made in 2016-17 compared to the previous year.

Grants and subsidies expenses decreased mainly due to a decrease in SafeWork SA work health and safety grants of $972 000 offset by increased community based crime prevention grants of $172 000.

Supplies and services expense is dominated by accommodation costs of $23.6 million ($22.6 million) and information and communications technology expenses of $16.6 million ($17.5 million), representing 59% (58%) of total supplies and services.

Income

The following chart analyses the main sources of income, excluding donated resources, for AGD for the four years to 2017.



AGD collected $102 million ($103 million) in fees and charges which represents 80% of total income, excluding revenues from the SA Government. Fees and charges collected in 2016-17 mainly comprise $56.8 million of licence and regulatory fees, $24 million in legal services fees and $11.8 million of network services fees.

Recoveries decreased by $1.4 million due to a decrease in recoveries from the funds administered by CBS and reduced funding for the South Australian Employment Tribunal.

Revenues from the SA Government increased by $4.8 million to $117.3 million, mainly due to additional funding of:

- $3.7 million to offset the cessation of cross-charging arrangements between Forensic Services SA and the Coroner's Office
- $1.3 million to the Office of the Director of Public Prosecutions for the Efficient Progression and Resolution of Major Indictable Matters project
- $1 million to establish the Child Protection System Royal Commission Response Unit.

Statement of Financial Position

Assets increased by $7.9 million to $89.9 million. This increase is mainly due to an increase in cash of $9.5 million and intangible assets of $2.6 million. These increases were offset by a decrease in property, plant and equipment of $2.7 million.

The increase in cash is mainly due to the increase in the Accrual Appropriation Excess Funds account of $4.6 million. Refer to the commentary under 'Statement of Cash Flows' below for an explanation of cash movements.

The $2.6 million increase in intangible assets is a result of additions to work in progress for the:

- Director of Public Prosecutions Case Management System of $1.2 million
- Fines Enforcement and Recovery System of $881 000
- Laboratory Information Management System of $839 000.

The decrease in property, plant and equipment mainly relates to depreciation and amortisation charges of $3.3 million for leasehold improvements.

Liabilities increased by $5.8 million to $73.9 million due mainly to increases in payables of $5.2 million and employee benefits of $1.6 million. These increases were offset by a decrease in lease incentive liability of $1.2 million.

The increase in payables is mainly due to an increase in accrued expenses as at 30 June 2017 of $4.6 million. Accrued expenses included $1.1 million for the purchase of information and communications technology hardware, $800 000 for licensing for the electronic document management system and $800 000 for office lease rental.

The main increases in employee benefits were $688 000 for annual leave and $710 000 for accrued salaries and wages. Annual leave increased due to increases in the number of hours accrued and rates of pay. Accrued salaries and wages increased due to more days accrued in 2016-17.

Statement of Cash Flows

Cash used in operations decreased by $6 million, with decreased payments for supplies and services of $8.3 million offset by an increase in employee benefits payments of $3.3 million.

Cash generated from operations decreased by $600 000 due to an increase in cash from fees and charges of $3 million, offset by decreases in cash from recoveries of $1.6 million and receipts from the Commonwealth of $1.8 million.

Cash generated from the SA Government increased by $4.8 million due to funding received for projects undertaken in 2016-17 (refer to commentary above).

Highlights of the financial statements – administered items

The administered items of AGD are identified in note A1 to the administered financial statements.

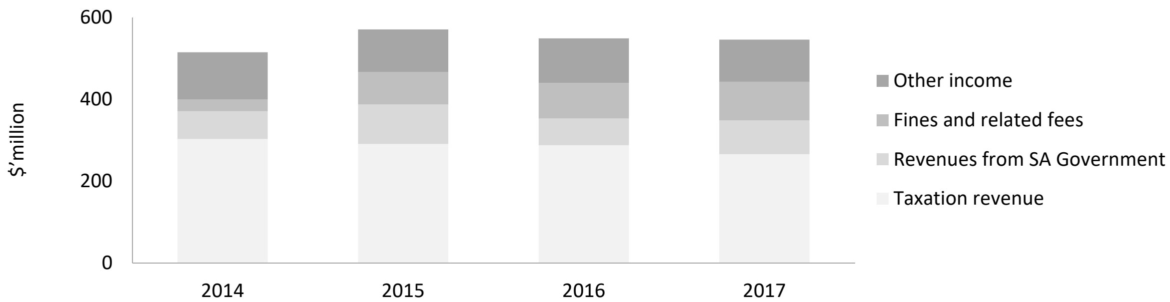
	2017 $'million	2016 $'million
Expenses		
Payments to Consolidated Account	348	362
Grants and subsidies	46	46
Other expenses	104	121
Total expenses	498	529

	2017 $'million	2016 $'million
Income		
Taxation revenue	266	288
Revenues from SA Government	83	65
Fines and related fees	94	87
Victims of Crime levies	42	42
Other income	61	67
Total income	546	549
Net revenue from providing services	48	20
Total comprehensive result	48	20
Net cash provided by (used in) operating activities	60	25
Assets		
Current assets	401	371
Non-current assets	77	58
Total assets	478	429
Liabilities		
Current liabilities	43	41
Non-current liabilities	2	2
Total liabilities	45	43
Total equity	433	386

Statement of Administered Comprehensive Income

Income

The following chart analyses the main sources of AGD's administered income for the four years to 2017.



Taxation revenue ($266 million) represents 49% of total administered income with fines and related fees ($94 million) and Victims of Crime levies ($42 million) accounting for a further 25% of the total.

Total administered income decreased by $3.7 million to $546 million ($549 million). The main components of this decrease were as follows:

- Taxation revenue – down $22 million due to decreased taxation from gaming machines. The tax is collected on behalf of government under the *Gaming Machines Act 1992*.

- Grants and subsidies – down $1.3 million due to once-off funding of $2.2 million received in 2015-16 from South Australia Police for the State Helicopter Service assets. This decrease was partially offset by contributions of $791 000 from the Compulsory Third Party Regulator for State Helicopter Rescue Services. This amount was previously received from the Motor Accident Commission.

- Recoveries and other income – down $5.8 million mainly due to lower activity for the gaming machine rounds of $4.2 million.

These decreases were offset by the following:

- Revenues from SA Government – up $17.8 million comprising:

  - $32.1 million increased funding for the SAGRN upgrade, due to the carry-over of project funding from previous years as there were project delays

  - $4.2 million and $3.8 million decreased funding for the Nuclear Fuel Cycle and Child Protection Systems Royal Commissions due to their completion

  - $1 million decreased funding for Native Title matters as a result of a lower number of claims

  - a $2.7 million decrease due to the cessation of the Cellar Door Liquor Subsidy Scheme in 2016-17

  - once-off funding in 2015-16 for the State Helicopter Rescue Service.

- Fines and related fees – up $7.7 million due to greater collection of fines during 2016-17.

Expenses

Total administered expenses decreased by $31 million to $498 million. Payments to the Consolidated Account of $348 million (mainly for gaming taxation) and grants and subsidies of $47 million, principally paid to the Legal Services Commission, are AGD's largest administered expenses and represent 79% of total expenditure.

The decrease in total expenses is mainly due to:

- a $14.7 million decrease in payments to the Consolidated Account due to the collection of lower gaming machine taxation revenue of $18.9 million and lower taxation revenue collected from the racing industry of $3 million. These decreases were offset by higher fines and related fees collected of $7.7 million

- a decrease in employee benefits expenses of $5.7 million largely due to a decrease in salaries and wages of $4.1 million as the Child Protection Systems Royal Commission and the Nuclear Fuel Cycle Royal Commission were completed

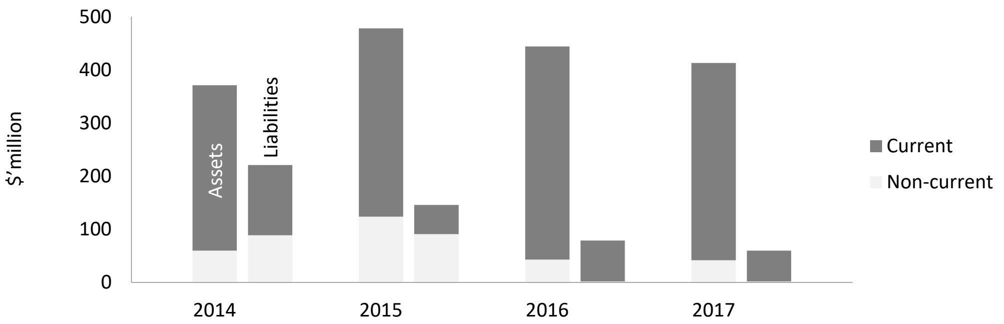
- other expenses decreasing by $19.8 million due to lower Native Title payments of $11.7 million, lower contract staff costs of $2.1 million and lower consultancy costs of $2.3 million due to the completion of the Royal Commissions and lower activity for the Gaming Machine Trading Rounds of $4.1 million.

These decreases were offset by increases in:

- Victims of Crime payments of $3.9 million due to higher compensation, ex gratia and related payments
- donated assets of $3.8 million due to the transfer of $3.7 million of State Helicopter Rescue Services assets to the South Australia Police.

Statement of Administered Financial Position

The following chart analyses the administered assets and liabilities of AGD for the four years to 2017.



Total assets increased by $49 million to $478 million. This was mainly a result of increases in cash and cash equivalents of $31 million and an increase in property, plant and equipment of $19 million.

The cash position as at 30 June 2017 is a result of increased receipts for fines and related fees, receipts from the SA Government and receipts from the Commonwealth. These are discussed further under 'Statement of Administered Cash Flows' below.

The major administered asset is the SAGRN. There is a major project underway to upgrade the SAGRN which resulted in additions to work in progress of $29.3 million. This increase was offset by depreciation of $5.8 million and donated assets of $3.8 million.

Other liabilities of $33.6 million ($34 million) represent 75% (78%) of total liabilities and are primarily made up of amounts owing to the Department of Treasury and Finance for gaming, fines and other receipts. The decrease in other liabilities is mainly due to the $2.2 million reduction in the amount owed to the Department of Treasury and Finance due to the lower amount of taxation revenue collected. This decrease was offset by the increased holdings in the Crown Solicitor's Trust Account of $1.2 million, with total funds held at 30 June 2017 being $4.1 million.

Statement of Administered Cash Flows

The net cash provided by operating activities increased by $32.9 million to $60 million, reflecting primarily a decrease in cash payments of $34.7 million compared with the previous year.

The decrease in cash payments was the result of a $12.1 million decrease in payments to the Consolidated Account due to lower collection of taxation revenue, a decrease in employee benefit payments of $4.7 million due to closure of Royal Commissions and a $22.1 million decrease in other payments. These decreases were offset by an increase in Victims of Crime payments of $3.9 million.

While cash received only decreased by $1.8 million overall, cash received from taxation fell by $22 million, offset by increased receipts from government of $17.8 million and an increase in fines and related fees of $7.2 million.

Further commentary on operations

Fines Enforcement and Recovery Unit

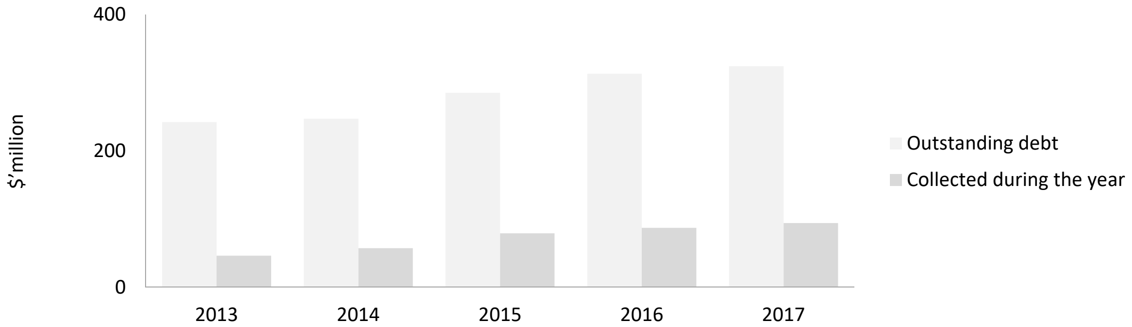
The FERU collects outstanding fines and related payments (suitor amounts and fees and charges associated with overdue amounts). The FERU performs this function for court fines, expiation fees (including overdue local government amounts referred) and other outstanding amounts, including Victims of Crime levies and third party suitor amounts.

Outstanding debt and related payments as at 30 June 2017 totalled $379.1 million ($369 million) and comprised:

- fines – $207 million
- Victims of Crime levies – $54.6 million
- FERU fees – $117.4 million.

$133 million relates to court penalties while $246.1 million relates to expiation notices.

The following chart shows the total outstanding debt from fines and related fees (excluding Victims of Crime compensation amounts) and total collections over the last five years.



2012-13 figures represent collections by the Courts Administration Authority (previously responsible for this function), while 2014 collections were undertaken by the Courts Administration Authority until February, and the FERU after that date.

The chart highlights that, while outstanding debts have continued to increase, the level of collections since the FERU was established increased significantly in 2015 with further increases in 2016 and 2017. The increased collections reflect different collections management by the FERU and the use of powers to suspend dealings with the Registrar of Motor Vehicles or driver's licences (amongst 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.

In 2016-17 fines lodged with the FERU totalled $171.2 million ($200 million). The 2016-17 figure exclude fines that have been quashed as they should not have been raised. Total collections of $124.5 million ($116.1 million), including Victims of Crime amounts, included $106.5 million ($99.6 million) collected on behalf of the SA Government and $18 million ($16.5 million) on behalf of non-government entities, including local government councils.

During 2016-17 the FERU engaged a panel of external debt collectors to help collect outstanding amounts, particularly those that were more difficult to recover. Previously this service was provided by one debt collection agency. The total outstanding amounts collected by debt collection agencies is $11.7 million with $5.6 million collected in 2016-17.

Of the $379 million ($369 million) in total outstanding debt and related payments, $306.5 million ($321 million) is under active management, with $125.8 million ($161 million) subject to payment arrangements, $40 million is subject to arrangements prior to fines being overdue and $32.6 million is not owed to the State. $24.9 million ($42 million) of fines were referred to debt collection agencies in 2016-17.

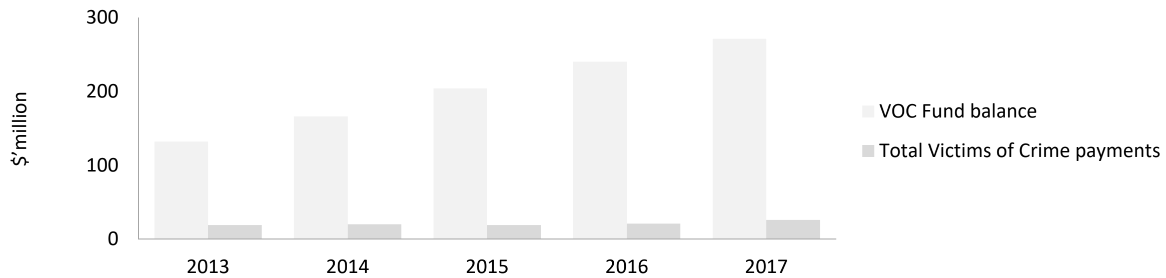
The FERU is currently replacing the existing fines management system, with implementation expected to commence in 2017-18.

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 the AGD's administered financial statements.

The balance of the VOC Fund as at 30 June 2017 was $270.6 million ($240 million).

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 that can be awarded under the VOC Act is $100 000, 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 no one has been 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 relevant offence. Recovery is difficult as most compensation claims are for unknown offenders. This is demonstrated by the following data:

- The amounts recovered directly from offenders during the year totalled $807 000 ($640 000).
- Outstanding amounts at 30 June 2017 were $90.7 million ($88.1 million). $27.1 million ($26.1 million) of this amount is the subject of a judgement and is being actively managed. The remaining $63.6 million represents amounts paid in compensation for which no judgement has occurred because the offenders have either not been identified or prosecuted as yet.

A further $1.5 million ($1.9 million) was recovered from offenders under the *Criminal Asset 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 2016-17 was $55.8 million ($56.5 million) and included Victims of Crime levies of $42 million ($42 million) and revenues from the SA Government of $8.4 million ($8 million). Total Victims of Crime expenses for 2016-17 were $25.7 million ($21 million) and included compensation payments of $17.3 million ($13 million), grants of $4.3 million ($4 million) and legal and other costs incurred in the administration of the VOC Fund of $4.1 million ($3.6 million).

The net result for the VOC Fund in 2016-17 was a surplus of $30.1 million.

Taxation

Taxation revenue for 2016-17 totalled $266 million ($288 million). This mainly comprises gaming machine taxes totalling $265 million ($284 million).

Gaming machine administration

Section 5 of the *Gaming Machines Act 1992* (GM Act) provides that the Liquor and Gambling Commissioner is responsible to the Independent Gambling Authority for scrutinising the operations of all licensees under the GM Act.

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

In July 2011 a new approved 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 the new 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 the entitlement if their offer was accepted
- sell a gaming machine entitlement and specify the lowest price they would be willing to accept as payment for the entitlement if their offer was accepted.

The following table summarises gaming machine activity for the four years to 2017.

	2017 Number	2016 Number	2015 Number	2014 Number
Machines (installed as at 30 June)	12 210	12 337	12 377	12 561

	2017 $'million	2016 $'million	2015 $'million	2014 $'million
Turnover	7 595	8 000	8 055	7 966
Amount won	6 915	7 282	7 329	7 265
Net gambling revenue	680	719	726	731
Tax	265	284	287	288

Independent Gaming Corporation Limited (IGC)

Under section 25 of the GM Act, the Liquor and Gambling Commissioner granted the Gaming Machine Monitor licence to the IGC. Under this licence the IGC monitors the operations of gaming machine licensees.

Section 75 of the GM Act specifically provides for the accounts and operations of the IGC to be audited by the Auditor-General.

With respect to the 2016-17 operations, the audit of the IGC is complete and an unmodified Independent Auditor's Report was issued for its 2016-17 financial report.

Residential Tenancies Fund (RTF)

The *Residential Tenancies Act 1995* (RT Act) is administered by the Commissioner for Consumer Affairs The RTF consists of amounts received by the Commissioner by way of security bonds and other amounts paid into the RTF under the RT Act. The Commissioner will refund security bonds from the RTF under the RT Act. Previously the financial transactions of the RTF were included in the AGD's administered financial statements, however in 2016-17 they were removed to comply with the requirements of AASB 10 'Consolidated Financial Statements'.

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 (which undertakes the functions previously performed by the Residential Tenancies Tribunal).

Security bonds received by the Commissioner in 2016-17 decreased by $29 000 and remained stable at $96.4 million. Security bonds refunded for 2016-17 increased by $752 000 to $87 million ($86.2 million).

Investment funds totalling $220 million are held by the Public Trustee in common funds. These are exposed to movements in the value of the underlying common fund assets. Investments increased by $8.4 million in 2016-17.

Public Trustee

Financial statistics	Profit before income tax equivalents:	$598 000
	Fees and charges revenue:	$21.4 million
	Number of FTEs:	172.6
	Number of estates under administration:	7827
	Total value of trust funds under administration:	$1.6 billion

Significant events and transactions

— Public Trustee rebalanced its investment portfolio on 1 November 2016, resulting in an increased allocation of funds to the Property Common Fund in the Capital Stable, Balanced and Growth Strategies. The rebalance resulted in significant movement of funds between the common funds.

— An additional $65 million was received from the Agents Indemnity Fund and invested across the common funds.

— $21.5 million was paid to Australian Super in June 2017 to ensure customers would receive maximum benefits prior to changes to superannuation rules.

Financial report opinion

Unmodified

Financial controls opinion

Modified

Key issues:

— Some branches had not updated their risk registers for a number of years

— Improvements could be made to the control self-assessment process, particularly in following up inconsistent control ratings

— Improvement required in the design and implementation of the payment delegations table

— No review of online banking access had been performed since May 2016

— Documentation supporting investigations for revaluations of real estate assets greater than 20% was not always available.

— Annual client assets reviews were not always returned to the Client Asset Management Team and supporting documentation was not always attached

Functional responsibility

Public Trustee is a body corporate established under the *Public Trustee Act 1995*.

The powers and functions of the Public Trustee are established by the *Public Trustee Act 1995*. 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. For information about Public Trustee's objectives refer note 1 of the corporate financial report.

Scope of audit

The audit program covered major financial systems to obtain sufficient evidence to form an opinion on the financial report and internal controls.

The 2016-17 audit covered the corporate, trust and common fund operations of Public Trustee. Specific areas of audit attention included:

- corporate governance
- expenditure
- payroll
- revenue
- cash and investments
- client assets
- fund manager reporting
- general ledger.

Audit findings and comments

Assessment of controls

In my opinion, the controls exercised by Public Trustee in relation to the receipt, expenditure and investment of money, the acquisition and disposal of property and the incurring of liabilities, except for all matters outlined under 'Communication of audit matters', are sufficient to provide reasonable assurance that the financial transactions of Public Trustee have been conducted properly and in accordance with law.

Communication of audit matters

Matters identified by the audit were detailed in management letters to the Public Trustee. The main matters raised and the responses received are detailed below.

Governance arrangements

Review of risk registers

We identified that at the time of the audit many branches had not updated their risk registers for a number of years. The Attorney-General's Department's risk management policy, used by Public Trustee, requires risk registers to be updated annually.

Not reviewing risk registers regularly increases the risk that new or emerging risks are not identified and added to the register, treatment plans are not monitored and residual risk ratings are inappropriate.

Public Trustee advised that since the audit all branch risk registers had been updated. It also advised that the creation of the Manager Governance and Risk Management role will ensure branch risk registers and the enterprise risk register are reviewed and updated annually.

Control self-assessment (CSA) responses

CSAs are performed twice yearly by each branch and outcomes are reported to the Audit and Risk Management Committee. CSAs review a branch's compliance with internal controls identified in policies, procedures and business process documentation.

Our review of the CSA process noted the following:

- There was inconsistency in how the rating of 'N/A' was applied. CSA procedures state that controls can be rated N/A when there are no instances of the control being applied in the assessment period. We identified instances of controls being rated N/A when they had changed or were no longer applicable. Our understanding is that in these circumstances a rating of one is appropriate to ensure an action plan item is created and the control can be amended or removed.
- In some branches a large proportion of controls had been rated N/A with no assessor or reviewer comment.
- There were instances where large discrepancies in ratings were not reviewed, in particular where the reviewer had rated the control higher than the assessor. Therefore, an action plan was not created for the control.
- There was no additional reporting to the Audit and Risk Management Committee about the controls that were ineffective or the number of controls that were rated N/A.

Public Trustee responded that it would reinforce and clarify the application of the N/A rating to managers and team leaders. It also advised that the CSA framework has been improved with:

- certification signed by managers at the completion of each CSA cycle. This will provide assurance that the control framework is effective and that corrective actions and time frames have been identified and endorsed
- certification provided to the Audit and Risk Management Committee so that it is aware of specific control deficiencies and corrective actions, therefore improving the monitoring of corrective actions and reinforcing the accountability of managers to verify controls.

Trust operations

Delegations table design and implementation

The Public Trustee delegates certain powers and functions to employees. These delegations are documented in a delegations table which is reviewed and approved annually. Our review of the delegations table identified that most sections had varying dollar limits that only applied to positions classified at ASO5 and below and no dollar limit for ASO6 and above. Some sections did not have a dollar limit specified at all. In particular, section 33 'Payment of Accounts (not dealt with elsewhere)' delegates financial authority to all employees without specifying a dollar limit to any positions.

It was also noted that the dollar limits in the 'Personal Estate – Manage Payments and Payment Arrangements' procedure was inconsistent with the delegation tables approved by the Public Trustee.

Discussions with staff identified that there was inconsistent application and interpretation of the delegations table.

The absence of monetary limits, and the inconsistent application and interpretation of the delegations table, creates the potential for inappropriate and unauthorised payments to be made. The existence of a catch-all section may create implementation issues, as employees could apply section 33 instead of other more relevant provisions.

Public Trustee responded that it would:

- review and revise the delegations table to standardise the delegation limits to improve the ease of checking whether correct delegations were applied and to include appropriate dollar limits for all payment delegations
- review a number of procedures to ensure consistency of delegation dollar amounts
- prepare a summary of payments delegations
- provide an information session to staff to ensure that they are fully aware of the revised delegations that apply to payment processing.

Review of online banking system

At the time of our audit we identified that the review of online banking system access was last performed in May 2016. We also found that the staff checking and signing the corporate and client accounts were not those assigned this responsibility in Public Trustee procedures.

To mitigate the risk of inappropriate access to the online banking system Public Trustee advised it would:

- update the online banking procedure to include a bi-annual review of the banking log
- remind staff of the correct requirements for checking and signing both the corporate and client accounts
- update the CSA to reflect the independent checking control.

Estate client file management – documentation not located

Our testing of a sample of client estate transactions, to ensure there was evidence of appropriate review and approval, identified that supporting documentation for a number of transactions could not be located in customer files.

Public Trustee advised that it was currently investigating the feasibility of scanning all supporting documentation for customer payments. This will create a more secure environment to retain data. It will also reinforce the need for estate officers to maintain relevant supporting documentation for transactions affecting each estate and file supporting documentation in customer files.

Lands Titles Office revaluations – supporting documentation

Real estate assets are revalued annually, using the Lands Titles Office online SAILIS software, as part of the process of preparing the Statement of Trusts for customers. Updated values are compared to the previous values and variances of greater than 20% are investigated. Supporting documentation is obtained to either support the revalued amount or to retain the previous value in Public Trustee records. The supporting documentation is required to be kept in the Statement of Trusts folder which is reviewed and signed off by the Manager, Client Financial Services when all processes for creating the Statement of Trusts are complete.

Our review of the 2015-16 Statement of Trusts found that documentation supporting investigations for revaluations greater than 20% was not always retained. We also noted that the Statement of Trusts procedure does not include the process for investigating large variances.

Public Trustee responded that it would develop/amend relevant procedures for the annual real estate valuation process and the variance analysis for large variances, and continue to retain the supporting documentation in the form of the SAILIS system report.

Estate Officer revaluations – supporting documentation

Bank accounts, motor vehicles, furniture and effects, life insurance, pensions and superannuation assets are reviewed and revalued annually (where appropriate) by the Estate Officer when preparing the Statement of Trusts.

A report identifies assets managed by each Estate Officer. Estate Officers are required to review the assets, record any adjustments and return the report to the Client Asset Management Team for updating of details in the Hi Portfolio investment management system.

Our review of the 2015-16 Statements of Trusts found a number of asset reviews were not returned and supporting documentation for asset adjustments was not always attached. We were advised that supporting documentation is provided at the discretion of the Estate Officer. If necessary, supporting documentation may be requested to confirm adjustment details and review the reasonableness of the adjustment. The requirement to provide supporting documentation for asset adjustments is not documented in the Statement of Trusts procedure or in the memorandum provided to the Estate Officers.

Public Trustee advised that a memorandum had been sent to Estate Officers in May 2017 seeking asset values to update Hi Portfolio for the preparation of the 2016-17 Statement of Trusts. Responses would be followed up and supporting documentation would also be requested from Estate Officers to ensure documentation is available when preparing the 2016-17 Statements of Trusts.

Information technology audit

Our 2016-17 information and communications technology (ICT) audit review assessed:

- the general ICT management and control arrangement with focus on specific financial systems and the overall ICT infrastructure environment
- whether change management and user management controls were effectively applied to Hi Portfolio and PeopleSoft Financials
- the adequacy of password control settings applied to access certain key business information systems.

The audit identified the following areas for improvement.

Limited support applied to Peoplesoft application and operating system environment

Previous audit reviews of Public Trustee's ICT environment have raised issues about outdated systems environments, in particular for its core business information system, Peoplesoft Financials and Customer Relationship Management. Software vendor maintenance for Peoplesoft expired in December 2010, with support limited to sustaining support.

These applications continue to reside on outdated operating systems.

Public Trustee advised that operating systems upgrades could not occur until Peoplesoft is upgraded or replaced. Public Trustee has a number of partial mitigating controls and has focused its efforts on the maintenance and decommissioning of the outdated system environment.

Public Trustee also advised that it has a management strategy in place for the Peoplesoft systems environment and will continue to assess and manage the risk associated with relying on unsupported software. It will continue to pursue options to upgrade or replace the Peoplesoft environment, recognising that significant funding approvals will be required.

Weaknesses in password controls setting

Our audit tested password controls applied to core business information systems, including Peoplesoft, Hi Portfolio and Hi Trust.

We identified aspects of the password control settings that could be further strengthened. Public Trustee advised it had taken the following action:

- promptly made changes to improve the password control settings applied to Hi Portfolio and Hi Trust applications
- drafted changes to its user ID and password standards
- started testing changes made to password policies in line with Public Trustee standards.

Shared Services SA – payroll transaction processing environment

SSSA processes payroll transactions on behalf of Public Trustee, as part of the overall arrangements for the Attorney-General's Department, under a service level determination.

Our review and evaluation of controls for the payroll systems concluded that controls were effective for 2016-17.

SSSA is discussed further as part of the commentary under 'Department of the Premier and Cabinet' in this Report.

Interpretation and analysis of the financial report

Highlights of the corporate financial report

	2017 $'million	2016 $'million
Income		
Fees and charges	21	21
Other revenues	2	2
Total income	23	23
Expenses		
Employee benefits	15	15
Supplies and services	7	6
Other expenses	1	2
Total expenses	23	23
Profit (Loss) before income tax equivalents	-	-
Income tax equivalents*	-	-
Profit (Loss) after income tax equivalents and total comprehensive result	-	-
Net cash provided by (used in) operating activities	2	-
Assets		
Current assets	9	8
Non-current assets	23	24
Total assets	32	32
Liabilities		
Current liabilities	3	3
Non-current liabilities	5	5
Total liabilities	8	8
Total equity	24	24

* Income tax equivalents expense of $179 000 in 2016-17 ($4000).

Statement of Comprehensive Income

Income

Public Trustee's main source of income is fees and charges, which principally comprise commissions from managing trusts and management fees for investing in common funds. During 2016-17 fees and charges income increased by $689 000 to $21.4 million.

Common fund management fees are set at 1% p.a. (charged monthly) in line with the *Public Trustee Act 1995*, based on the level of funds invested. These fees have increased slightly during the year, as the overall average monthly value of common funds was higher in 2016-17 and an additional investment of $65 million from the Agents Indemnity Fund was received in November 2016.

The increase in management fees has been offset by slightly lower collections of commissions, which are directly affected by the types and number of estates being administered and the nature of the assets held.

Personal estate commissions increased as a result of an increase in the number of estates under administration of 3.5% and the number of new estates administered increased by 27%. This was offset by a decrease in commissions for deceased estates due to a 24% decline in the number of new estates being administered.

Financial market movements in 2016-17 resulted in financial assets increasing in market value by $36 000. In 2015-16 unrealised losses of $628 000 were reported. This turnaround of $664 000 for 2016-17 is due mainly to the favourable performance of Australian and overseas equities markets.

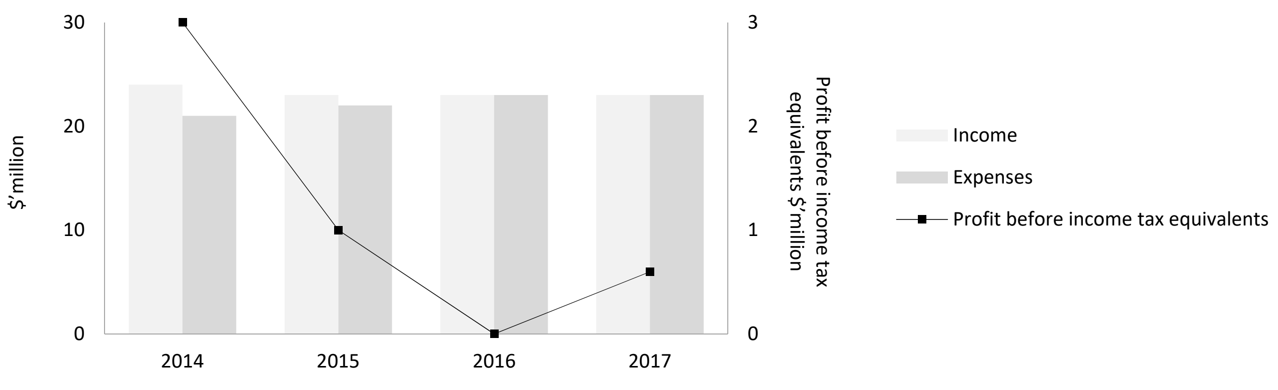
Expenses

Employee benefits account for 67% of total expenses and increased by $475 000 to $15.2 million in 2016-17. The increase in employee benefits is due a 2.5% enterprise bargaining agreement increase for Public Trustee staff and a small increase in the number of employees. These increases were offset by a decrease to the long service leave provision as a result of the actuarial assessment.

Supplies and services increased by $361 000 to $6.5 million ($6.2 million). The main increases were in costs for accommodation, service contractors, IT and insurance. These increases were primarily due to inflationary impacts and costs associated with responding to a fraud in the personal estates area that has been dealt with through the Courts and was partially funded by an insurance recovery.

Net result

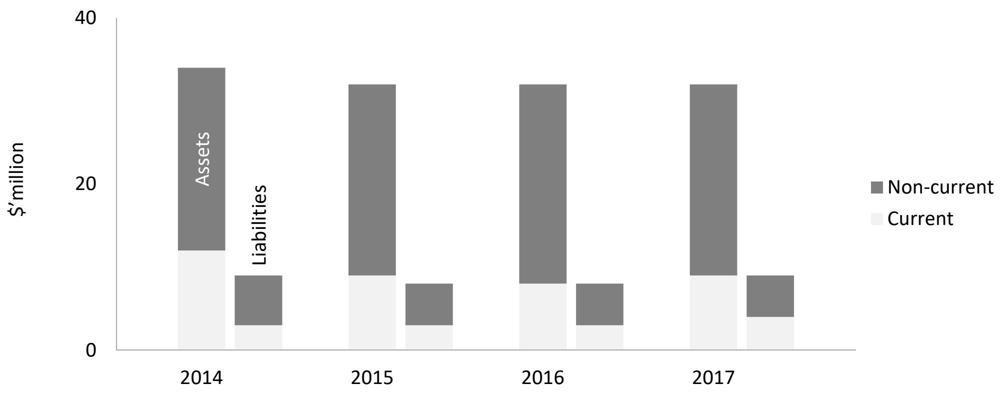
The following chart shows revenues, expenses and profit before income tax equivalents for the four years to 2017.



Profit before income tax equivalents of $598 000 ($14 000) increased mainly due to higher fees and charges revenue and sundry income. There were also unrealised gains on financial assets in 2017 compared to an unrealised loss the previous year. These increases were offset by higher supplies and services costs and employee benefits expenses.

Statement of Financial Position

The following chart analyses assets and liabilities for the four years to 2017.



Assets

Current assets increased by $927 000 to $9.2 million mainly due to an increase in short-term deposits held to maturity of $1.4 million, offset by a decrease in accrued investment income of $233 000.

Non-current assets decreased by $476 000 mainly due to the decrease in the value of property, plant and equipment and intangible assets. The decrease was due to depreciation and amortisation expenses of $970 000, partially offset by additions to plant and equipment of $458 000.

Liabilities

Current liabilities increased by $761 000 to $3.6 million due to increases in accrued expenses and Public Trustee being liable for income tax equivalent in 2016-17. There was also an increase in employee benefits mainly due to increases in accrued salaries and accrued annual leave liability.

Total non-current liabilities decreased by $672 000 to $4.7 million due to a decrease in employee benefits of $382 000 and lease incentive liability of $268 000. The long service leave liability decreased as a result of the increase in the yield on long-term Commonwealth Government bonds used to calculate the liability.

Statement of Cash Flows

Cash and cash equivalents increased by $1.6 million to $8 million in 2017. The main factors contributing to this increase were:

- a $2.2 million increase in net cash provided by operating activities. Cash generated from operations increased by $2.5 million mainly as a result of increased fees and charges of $1.5 million and increased distributions of $678 000. This was offset by an increase in cash used in operations of $388 000 mainly due to increased employee benefits and supplies and services payments

- offset by:

  — net cash used in investing activities of $462 000 primarily for the purchase of additional IT infrastructure equipment

  — $57 000 used in financing activities for the payment of a dividend to the SA Government as outlined in note 16 of the financial report.

Interpretation and analysis of Statement of Trusts being Administered

The value of trust funds administered by Public Trustee as at 30 June 2017 was $1.6 billion ($1.4 billion).

Detailed below are the number and value of trust funds under administration for the last two years.

	2017 Number	2016 Number	2017 $'000	2016 $'000
Deceased estates	1 331	1 325	181 540	160 062
Trusts	1 280	1 280	126 970	120 819
Administration matters	348	382	43 599	41 595
Court award orders	823	836	416 420	387 204
Protected estates	3 497	3 400	343 842	310 322
Workers compensation awards	6	3	323	201
Power of Attorney	296	306	55 457	57 832
Investors	246	273	384 568	315 892
	7 827	7 805	1 552 719	1 393 927

Of the total funds being administered, 64% (64%) were invested in the common funds with the remaining 36% (36%) represented by other estate assets.

The two largest categories of other estate assets are real estate assets of $333 million ($313 million) and superannuation of $139 million ($112 million).

Further commentary on operations

Common fund financial reports

Public Trustee operates seven common funds through which client funds are invested. These funds 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 in 2016-17 totalled $1.026 billion, increasing by $104 million from $922 million in 2015-16.

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 2017 and 30 June 2016.

	Net operating result		Assets	
	2017	2016	2017	2016
Common fund	$'000	$'000	$'000	$'000
Cash	9 201	8 558	*484 165	*432 706
Short-term Fixed Interest	1 032	993	56 505	49 546
Long-term Fixed Interest	779	3 584	93 245	91 842
Overseas Fixed Interest	861	1 555	54 341	44 304
Australian Shares	22 815	6 108	169 486	165 827
Overseas Shares	20 000	(2 219)	146 609	113 625
Property	4 988	9 100	103 919	75 605

* Includes $82 million ($51 million) deposited by other common funds.

Public Trustee invests client money in the common funds by purchasing units in one of five standard investment strategies (SISs). 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.

Public Trustee rebalanced its investment portfolio on 1 November 2016 to the strategic (or neutral) investment position, resulting in significant movement between the common funds as follows:

- an increase in the allocation of funds to the Property Common Fund in the Capital Stable, Balanced and Growth Strategies to accommodate additional investment in infrastructure
- a decrease in assets held in Australian Shares, an increase in the value of assets held in Property and an increase in assets held in Overseas Shares.

$65 million was received from the Agents Indemnity Fund in November 2016, of which $37 million was invested in the Capital Stable SIS and $16.3 million was invested in the Balanced SIS, with the remainder retained in cash. The $65 million was allocated across the following common funds: Cash ($17 million), Short-term Fixed Interest ($11.8 million), Long-term Fixed Interest ($9.4 million), Overseas Fixed Interest ($6.9 million), Australian Shares ($7 million), Overseas Shares ($5.8 million) and Property ($7.1 million). The investment of the Agents Indemnity Fund money was approved by the Attorney-General and the investment strategy adopted was approved by the Commissioner for Consumer and Business Services, who has responsibility for the management of the Fund.

The table below details the performance of each SIS and its performance against Public Trustee's established benchmarks as at 30 June 2017. These figures have been provided by Public Trustee and are unaudited.

Standard Investment strategy		1 Year %	3 years %	5 years %
Cash	Performance	1.85	2.25	2.76
	Benchmark	0.8	1.22	1.52
Capital stable	Performance	4.48	4.25	5.68
	Benchmark	3.26	3.68	4.98
Balanced	Performance	7.05	6.10	8.53
	Benchmark	5.81	5.41	7.79
Growth	Performance	9.71	7.30	10.61
	Benchmark	8.56	6.3	9.72
Equities	Performance	15.93	9.19	13.88
	Benchmark	14.45	7.78	12.92

The performance of each SIS against benchmarks for 2016-17 was good overall with all exceeding the established benchmark.

Net operating result

During 2016-17 all common funds achieved a net operating profit. However, the results when compared with the previous year were mixed, with the net result for some funds increasing while others decreased. This reflects the relative market performance of different asset classes.

The net operating result for the Australian Shares common fund increased by $16.7 million due to a significant distribution received from one fund manager of $7 million and an increase of $5.8 million in net gains on financial assets held at fair value due to the strong performance of the Australian share market during 2016-17.

The Overseas Shares common fund net operating result increased by $22.2 million mainly due to the $25 million increase in net gains on financial assets held at fair value as a result of the strong performance of the Overseas share market during 2016-17.

The net operating result for the Property common fund decreased by $4.1 million mainly due to a decrease in the net gain on financial assets held for sale of $9.6 million, reflecting less favourable market movements compared with 2015-16. The decrease was offset by an increase in distributions of $5.7 million due to the favourable market performance of fund managers.

All investments for the common funds are valued at market value, being market price at the reporting date.

Auditor-General's Department

Financial statistics	Net cost of providing services:	$16 million
	Total appropriation:	$17 million
	Audit fees:	$15 million
	Average number of FTEs:	120
Financial report opinion	**Unmodified**	
Financial controls opinion	**Unmodified**	

Functional responsibility

The Auditor-General's Department operates to assist the Auditor-General in discharging his/her statutory audit mandate.

Audit findings and comments

Under section 35(1) of the *Public Finance and Audit Act 1987*, the Governor, on the Treasurer's recommendation, appointed Nexia Edwards Marshall as auditor of the Department.

Nexia Edwards Marshall advised in their audit completion letter that there were no matters communicated to the Department for attention.

Interpretation and analysis of the financial report

Highlights of the financial report

	2017 $'million	2016 $'million
Expenses		
Employee expenses	12.2	12.7
Other expenses	3.8	3.8
Total expenses	16.0	16.5
Revenues from (Payments to) SA Government	17.0	15.6
Total assets	6.3	5.3
Total liabilities	5.4	5.4

Department for Child Protection (DCP)

Financial statistics

Employee benefit expenses:	$165 million
Grants and subsidies expenditure:	$153 million
Commercial care expenditure:	$127 million
Net cost of providing services:	$488 million
Total revenues from SA Government:	$502 million

The above amounts reflect the full-year impact of DCP's activities and include expenses and income of the Department for Education and Child Development (DECD) for the period 1 July 2016 to 31 October 2016.

Number of FTEs:	1802.3

3504 children were in out-of-home care at 30 June 2017 under the *Children's Protection Act 1993*.

Significant events and transactions

- DCP was established on 1 November 2016 after the SA Government accepted an interim recommendation of the Child Protection Systems Royal Commission that a separate department be established with child protection as its primary focus.
- Net liabilities of $30.8 million, mostly relating to employee leave and workers compensation provisions, were transferred from DECD to DCP due to the administrative restructure.
- DCP received $121 million of additional appropriation funding mainly to meet increased costs of children in care, particularly in commercial care.

Financial report opinion

Unmodified

Financial controls opinion

Modified

Key issues:

- Governance arrangements need management focus
- Commercial care expenditure processes need improving
- Controls over payments to non-government organisations need to improve

— Weaknesses in IT controls for the Connected Client and Case Management System were not addressed

— Management of DCP's advance accounts needs to improve

— Ineffective procedures for using and approving incidental payments

— Ineffective review of key payroll reports

Functional responsibility

DCP was established on 1 November 2016

On 21 June 2016 the SA Government announced its intention to transfer the Office for Child Protection (Families SA) from DECD to a new Department for Child Protection, in response to an interim recommendation by the Child Protection Systems Royal Commission.

DCP commenced operations on 1 November 2016 and is an administrative unit established by the *Public Sector Act 2009*. 1763 staff transferred from DECD to DCP on its establishment. The Minister for Education and Child Development is responsible for DCP.

Functions

DCP's primary objective is to care for and protect children and young people who are at risk of abuse and neglect within their families, or whose families do not have the capacity to protect them. Refer notes 1 and 4 of the financial report for details of DCP's functions and activities.

Scope of audit

The 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 2016-17 included:

- corporate governance
- grant payments to non-government organisations (NGOs)
- commercial care expenditure
- carer payments
- accounts payable
- payroll
- incidental payments
- management and use of purchase cards
- cash
- general ledger.

As DCP was formed on 1 November 2016 a number of functions continued to be performed by DECD on behalf of DCP during the financial year.

Audit findings and comments

Assessment of controls

In my opinion, the controls exercised by the Department for Child Protection in relation to the receipt, expenditure and investment of money, the acquisition and disposal of property and the incurring of liabilities, except for all matters outlined under 'Communication of audit matters', are sufficient to provide reasonable assurance that the financial transactions of the Department for Child Protection have been conducted properly and in accordance with law.

Communication of audit matters

Matters identified by the audit were detailed in management letters to the Chief Executive. The main matters raised and related responses are detailed below.

Governance arrangements need management focus

We reviewed elements of DCP's governance arrangements. While we acknowledge that DCP was recently formed, we identified a number of areas that will need focused management attention as a priority to ensure that governance and accountability arrangements are firmly embedded within DCP's operations and culture.

Risk management practices need to be reviewed

We identified that risks documented within the existing Families SA strategic risk register and operational risk register had not been reviewed and updated to reflect DCP's current operating environment and the views of DCP's current senior management. We also noted that DCP had not developed a risk management framework.

In our view risks that are not appropriately identified and managed may impact DCP's ability to meet its objectives and could result in financial loss and other exposures. While the functions of DCP were formerly performed by Families SA, there are significant strategic and contextual differences in DCP's operating environment compared to former arrangements; one of the key reasons for creating a separate department. It is therefore important for DCP to promptly establish structured processes to identify, assess, monitor and address risks to ensure they are properly managed.

Legal compliance processes need to be established

Our audit noted that DCP had not established a formal legislative compliance framework or program to help to monitor compliance with its legal and regulatory obligations. An effective legal compliance framework includes identifying relevant legislative and regulatory requirements, assigning responsibility for compliance, review processes to ensure legal requirements are complied with and mechanisms for dealing with non-compliance. Not having a coordinated legal compliance framework increases the risk of DCP not appropriately managing legislative and regulatory requirements and risks, potentially leading to reputational loss, litigation or financial losses.

DCP did not have an audit committee

We noted that DCP had not established an audit committee. We consider an audit committee plays an important role in an entity's governance framework by providing independent oversight, advice and assurance to the Chief Executive in areas such as internal controls, risk management and financial reporting. The nature, complexity and risks associated with DCP's responsibilities support the need for an audit committee to strengthen its governance framework. An audit committee would also be well placed to provide independent oversight and advice about DCP's governance framework as the elements are developed and implemented.

DCP did not have an internal audit function

DCP established an Audit and Risk unit towards the end of 2016-17 but an effective internal audit function was not yet in place. Effective internal audit provides assurance to the Chief Executive that the entity's financial and operational controls, designed to manage the organisation's risks and achieve its objectives, are operating effectively. Improvements identified through internal audit reviews can also help management to improve an entity's performance.

Policies and procedures need to be updated

DCP continued to apply a large number of DECD policies and procedures while developing and finalising its own policy documents. We were advised the process for DCP to establish its own policies and procedures may take up to two years.

Given this time frame, we noted a need for DCP to prioritise the order in which policy documents are reviewed, approved and finalised. In our view, this approach should consider areas of DCP's operations that have increased risk and a greater need for clear management direction to staff about their decision-making and actions.

DCP's response to governance matters identified

In response to the above governance matters DCP advised that:

- an internal committee had been established and met in August 2017 to progress high priority risk and audit requirements until DCP can establish an externally chaired audit and risk committee that is independent from management, including external members
- a strategic risk workshop will be held with the DCP Senior Executive Group in September 2017
- a risk management framework and legal compliance framework will be developed by November 2017
- recruiting staff to the risk management and internal audit functions will be completed by November 2017
- an external advisory firm had been engaged to facilitate a workshop covering ethical behaviours and cultural aspects of risk to help the DCP Senior Executive Group to implement a culture that promotes accountable leadership and appropriate governance mechanisms in July 2017
- a proposed structure for a Strategy and Performance unit had been developed, with responsibility for governance of corporate policies and procedures.

Commercial care expenditure processes need improving

For 2016-17, the cost of commercial care for out-of-home services was $127 million.

Commercial care placements and projected cumulative costs not always approved before costs are incurred

DCP's financial delegations include specific authorisations to place a child in commercial care and to approve the projected cumulative cost of that placement. These approvals can be provided for periods up to three months.

Commercial care approval memos are used to record the financial delegate's approval of the placement period and projected cumulative cost. If the placement period extends beyond the original approval, a new memo needs to be prepared and authorised. Further approval is also required when paying an invoice would result in the actual cost of a placement exceeding its approved projected cumulative cost.

Our sample testing found a number of instances where commercial care approval memos were authorised a long time after placements had commenced and after payments had been made to service providers. This included two examples where commercial care placements commenced three to four months before relevant approval memos were signed. Expenditure of $475 000 was incurred for one child during this period.

DCP work instructions require caseworkers to start preparing approval memos required for subsequent periods, noting this process should be initiated at least six weeks before the current approval ends. We noted that memos were not being promptly prepared and provided to delegates, which contributed to the approvals not being provided in time.

We were also advised that approval for a number of placements to commence had been provided verbally. It is important that approval is formally documented to ensure DCP is aware of its committed expenditure. This also evidences compliance with Treasurer's Instruction requirements.

Commercial care is an expensive placement option and DCP has stated it is working towards reduced reliance on this form of care. Services are provided by commercial carers where family based care, residential care or other forms of departmental care are not available. It is therefore important to obtain approval before services are provided to ensure the proposed placement of the child in commercial care is appropriate and the projected cost impact is adequately considered by DCP.

DCP responded that a review had commenced of existing approval and payment processes with the aim of implementing a more streamlined approach for approving commercial care payments.

Cumulative commercial care costs are not always properly tracked

DCP's commercial care and accommodation approval process requires business support teams to accurately record cumulative projected and actual expenditure for each child in commercial care. This helps business support teams to track invoices for a child's commercial care placement against the approved estimated cost.

Our review of this process for six children in commercial care found an instance where no tracking of cumulative costs was performed and two instances where the tracking of cumulative costs was not regularly performed as each invoice was received. We also noted that four of the five tracking spreadsheets we reviewed did not contain the value of approved projected cumulative costs.

We noted that the delays in tracking costs meant new approval memos were not prepared when required. As previously mentioned, commercial care is an expensive placement option and it is important that approval is obtained before services are provided.

DCP advised that a commercial care database had been developed to capture details of payments made for each child to enable greater transparency of variations and anomalies. DCP will also continue to monitor performance against procedures, including the tracking of cumulative costs.

Invoices are not reviewed to check the validity and accuracy of rates

Our sample testing of six commercial care payments found that in five cases rates charged by service providers were not checked to contracted or quoted rates for accuracy by either a caseworker or a business support officer before payment.

We also noted an instance where DCP did not obtain a quote from an accommodation provider and no details about expected or agreed charges were provided to the caseworker to enable an appropriate review of the invoices to be performed.

Where rates charged are not checked by staff before payment, DCP may pay for services not provided or not billed in line with contracted terms, including price.

DCP responded that all delegations and accounts payable workflows had been reviewed to enable prompt review of invoices by caseworkers and business support officers. DCP advised that recent changes to contract rates were distributed to staff in July 2017 and a database had been developed to capture details of payments for each child.

Risk management plans for commercial care contracts can be improved

We reviewed contract management processes for each of DCP’s three contracted commercial care service providers (Baptist Care (SA) Inc, Hessel Care Foundation Ltd and Hender Care Pty Ltd). We assessed whether contract management plans adequately covered the areas outlined in the State Procurement Board’s ‘Contract Management Guidelines’.

We found risk assessments and risk management plans for these contracts had been drafted but not finalised. As a result, DCP’s approach to managing service delivery or cost risks associated with these arrangements may be ineffective.

In response DCP advised that an out-of-home care working group had been established to review commercial care contract arrangements and that improved risk management plans would be considered as part of reforms associated with commercial care contracts.

Grants expenditure

Grants and subsidies for 2016-17 were $153 million.

Some of the following matters raised were the responsibility of DECD before DCP was formed. As DCP is now responsible for this area, they were reported to DCP as we have identified the need to improve internal controls.

Controls over payments to NGO service providers need to improve

Families SA started discussions with NGO service providers in June 2016 to increase the number of residential care placements by up to 100 places. This strategy aimed to reduce the number of children placed in commercial care and to generate stable and long-term placement options. It was also expected to reduce cost pressures from the high cost of commercial care placements. Children were expected to gradually transition into the additional residential care places during the year.

In 2016-17 the Minister entered into service agreements with 10 NGOs to provide additional residential care placements. We noted three NGOs contracted to provide these services received payments in September 2016 on the basis that children had transitioned from commercial care to residential care placements. However, we noted the NGOs experienced delays in securing and establishing properties, meaning they were unable to accept placements and provide the services DCP had paid for.

This resulted in payments being made both to the three NGOs and to commercial care providers for placements that had not yet transferred to residential care, effectively funding two placements for a number of children. As a result, DCP withheld third quarter payments to the three NGOs and payments to other service providers.

Without managing and monitoring actual and expected levels of NGO service provision DCP may unnecessarily provide NGOs with funds above those required to deliver services. While unexpended funds can be recovered by DCP under service agreements, paying funds without active consideration of services provided is not an effective use of DCP's limited resources.

NGOs seeking further payments in June 2017 were required to provide details of their projected fourth quarter expenditure to determine the amount of additional payments required (to offset forecast NGO deficits). Our review of the payment approval memo prepared by DCP staff found that it did not include any analysis or assessment of the expenditure details provided by the NGOs to support the recommendation to the Chief Executive that additional payments be made.

In response DCP agreed with the issues and advised that new practices were implemented for 2017 fourth quarter payments, where recent NGO performance against agreed services had been considered and adjustments made to payments where required.

DCP advised that all future grant payments would be adjusted as required on a quarterly basis to ensure prompt recovery of any unexpended funds. DCP further advised that memos containing recommendations for decisions and actions requiring executive approval would have appropriate details to support recommendations made by staff.

Payments made before executing agreements

We have reported to DECD for a number of years that some service agreements with NGOs were not being executed before grant payments were made.

We noted 37 service agreements expired on 30 June 2016. The Minister was advised by DECD on 27 June 2016 that 17 new service agreements may not be in place by 1 July 2016.

To ensure continuity of services the Minister approved emergency payments of $6.7 million to the NGOs affected, with payments made in July 2016.

We noted that a minute to the Minister stated the delay was a result of:

- the review of service agreements and frameworks for family support services
- the development of service agreements and frameworks for two new services
- delays with the DECD Procurement Unit and Cabinet approval processes.

Without a signed agreement, DCP may not be able to recover part of grant payments made in instances where services provided do not meet DCP's expectations.

DCP advised that payments would not be made prior to agreements being executed and that appropriate lead times would be considered for future approval processes.

Connected Client and Case Management System (C3MS)

C3MS is a significant system used by DCP to support its operations, including recording notifications of child abuse or neglect and case management of children in DCP's care. Data in C3MS is sensitive given the personal nature of case information recorded and controls are needed to properly protect and restrict access to this data.

Continued work is needed to address identified C3MS issues

Last year DECD engaged an independent accounting firm to perform an internal audit of IT controls for C3MS.

The review identified a number of high priority issues for management attention. Issues that needed prompt action included:

- the large number of stakeholders with overlapping roles and responsibilities involved in supporting C3MS, increasing the risk of control failures, inefficiency and misalignment of system support and functionality with business needs

- confusion over classifying information in C3MS with the review recommending this be assessed and confirmed with relevant stakeholders

- that C3MS user access was role based, however the security role structures were outdated and no longer clearly aligned to job roles, meaning users could gain access to functions they did not need for their job

- weaknesses in user access management, including that no periodic review of user access was performed to identify users who no longer need access or who have access beyond what was required

- a number of weaknesses in the protection of sensitive data with audit logging not being consistently applied across the whole C3MS application, which may result in some user activities not being easily traceable

- limited implementation of information security threat and vulnerability management tools and strategies over infrastructure that supports C3MS
- no updated business continuity plans to address planning for a significant outage of C3MS and the IT disaster recovery plan had not been finalised or formally approved.

The internal audit further highlighted that a number of these high priority issues breach the requirements of the SA Government's Information Security Management Framework.

In 2016-17 we reviewed actions taken by DECD and DCP to address issues identified by the internal audit. We found that further attention was required by DCP to complete outstanding actions and promptly address the control weaknesses and risks identified.

DCP has addressed some of the issues. However, actions for many of the issues remained in progress or had not yet progressed. We also noted that DCP had not developed a detailed plan to outline how the control weaknesses and risks were being addressed and the time frames to implement corrective actions.

Due to the significance of C3MS, it remains important that the issues identified by the internal audit, many of which were rated high risk, are promptly addressed to limit DCP's exposure to information security threats, strengthen the protection of sensitive data and ensure DCP can respond to a significant system outage.

In response DCP agreed it would develop a detailed action plan to address outstanding issues. It advised that progress against the plan would be monitored by the ICT and Information Management subcommittee which reports directly to the DCP Senior Executive Group.

Management of DCP's advance accounts needs to improve

DCP has 20 cheque accounts with four banks that operate as advance accounts and are used by metropolitan and regional offices. Each account also has a petty cash float. While these accounts were previously funded by a $285 000 advance from the Treasurer under section 9 of the *Public Finance and Audit Act 1987*, they are now funded by DCP directly.

There were no policies and procedures for the use of advance accounts

We noted that DCP had not provided staff with policies or procedures to explain management's views on the appropriate use of advance account funds as required by Treasurer's Instruction 6 'Deposit Accounts and Banking'.

We also found that advance accounts had been used by DCP staff for different purposes, some of which were not consistent with our understanding of the intended use of these accounts. We recommended DCP document policies and procedures to record permitted uses of the advance accounts.

DCP advised that a policy on cash management would be developed and would include advance accounts.

The ongoing need for advance accounts should be assessed

We noted that advance accounts are being used for various purposes including:

- pocket money and activity money for children in commercial care and non-family based placements

- instances where purchase cards could not be used and cash payments were needed
- cash advances for workers travelling interstate with children
- to receipt funds including cheques from vendors to recover overpayments, recovery of carer overpayments and staff phone reimbursements
- to receive repayments of a loan that had previously been provided to a carer
- to maintain a storage shed for a client.

The nature of these transactions suggests it is likely that many could be processed through DCP's operating account instead of through advance accounts managed by local offices. We consider DCP should investigate options to reduce the use of advance accounts where possible, to increase the central oversight and review of transactions managed and initiated by sites.

The use of advance accounts creates an increased risk of fraud as cash and cheque payments made through these accounts are not subject to the same level of controls and central oversight as other payment mechanisms, such as accounts payable and purchase cards.

In response DCP advised a review had commenced into the need for advance accounts and alternative payment and receipting mechanisms. DCP advised that 11 advance accounts could be closed in the short term and others would take longer for alternative mechanisms to be developed.

Advance account previously used to provide a loan to a carer

We identified that an advance account had been used to receipt repayments of a $10 000 loan previously provided to a carer by a regional office (before DCP was formed). We do not consider using funds to provide loans is an effective use of DCP's resources. The office responsible for managing the receipt of loan repayments did not have a copy of the original loan agreement document and advised that the outstanding balance of the loan as at 28 June 2017 was $4740.

DCP responded that it had been unable to find a documented loan agreement and that the nature and circumstances in which the loan was issued would be further investigated. DCP also advised a review of transactions processed through advance accounts had been performed which did not identify any further loan arrangements.

Incidental payments

DCP makes fortnightly carer support payments to help carers with the everyday costs of caring for children. Loading payments are also made to some carers to help with the extra costs associated with caring for children with special needs and extremely challenging behaviours.

Additional support payments to meet the individual needs of children in out-of-home care, that are not covered by the carer support payment or loading, are made by DCP where assessed as required and appropriate. These costs are referred to as incidental expenses. While each payment is small in value, total incidental payments for 2016-17 were about $19 million.

Carers who receive the additional loading are expected to use this payment to cover the extra costs associated with the care of a child that would ordinarily be paid for by DCP as incidental expenses.

Ineffective procedures for using and approving incidental payments

Last year DECD's internal auditors completed a review of incidental payments. The review identified a number of internal control weaknesses including:

- policies and procedures provided to Families SA staff did not clearly define incidental payments
- loadings were not always considered by staff before approving incidental payments
- finance agreements designed to document and agree with carers the payments they were expected to make from loadings received had not been completed.

We noted that DCP had drafted an out-of-home care support payments procedure to provide guidance to staff and communicate management's views on the appropriate use of incidental payments. However, this procedure had not been finalised and issued to staff.

Without current procedures to guide staff decision-making, a higher level of staff discretion and judgement is required to approve incidental expenses, which may result in the inconsistent application of incidental payments made by DCP.

Our discussions with staff from a number of service hubs revealed that, consistent with the previous internal audit review, staff did not always consider loadings before incidental payments were approved and finance agreements were generally not signed by carers and not referred to when approving incidental payments.

There is a risk that incidental expenses may be paid by DCP instead of by carers where loading payments provided to carers, or finance agreements, are not considered by the staff approving incidental payments. Further, without completed finance agreements carers may not understand and acknowledge their financial responsibilities in meeting the costs of caring for a child.

In response DCP agreed that the draft out-of-home care support payments procedure needed to be completed and communicated to staff.

A number of split transactions were paid using DCP purchase cards

Our analysis of DCP's purchase card transactions found instances of cardholder transactions being paid over multiple payments rather than as a single transaction. We noted a number of purchases were split into smaller payments so that each purchase was within the cardholder's transaction limit. We also noted that DCP did not have processes to identify and follow up potential instances of transaction splitting.

The splitting of invoices into smaller payments can occur to circumvent established authorisation levels and increases the risk of inappropriate purchases. With agencies being encouraged to increase the use of purchase cards as an efficient payment method, it is important that existing cardholder limits are continually reviewed and that staff are educated about processes for requesting increases to these limits when business needs change.

DCP agreed and advised that updated policies and procedures had been sent to staff that discuss mechanisms for changing purchase card limits. DCP also advised a new purchase card management system had been implemented since the audit and the enhanced reporting capabilities of this system would improve DCP's ability to identify inappropriate transactions. DCP noted that cardholders had been notified that any future policy breaches would result in their purchase card being cancelled.

Ineffective review of key payroll reports

Employee benefits of $165 million were DCP's main expense in 2016-17.

We noted that DCP had continued to work with Shared Services SA (SSSA) to give staff the ability to certify bona fide certificates (BFCs) and monthly leave returns (MLRs) online. In the absence of online certification, staff print and manually sign the reports as evidence of their review.

Our review of a sample of BFCs found that a significant proportion were not reviewed, or not promptly reviewed, by managers. We also found that most errors identified on BFCs related to incorrect reporting relationships in the Chris21 payroll system, with many instances of staff being incorrectly included or excluded on BFCs.

Our discussions with a number of DCP service hubs and offices revealed these sites all had different processes to monitor leave taken by employees. However, no site had reviewed and certified MLRs or established mitigating controls to ensure all leave taken by staff had been recorded in Chris21.

We noted a central monitoring process to identify and follow-up managers and sites who were consistently late in certifying BFCs and MLRs had not been implemented and that procedures related to these review processes had been drafted by DCP but not issued to staff.

Where BFCs and MLRs are not promptly checked, DCP has no assurance that only valid employees are paid, that employees are paid correctly or that leave balances recorded in Chris21 are accurate, impacting the reliability of associated liability balances.

In response DCP advised that SSSA had started testing the online processes and that the draft DCP procedures would be finalised once these processes were implemented. As an interim measure DCP advised that managers would be notified that reviewing and certifying BFCs and MLRs was required and provided with instructions to complete these processes.

Shared Services SA – financial systems and transaction processing environments

SSSA processes financial transactions on behalf of DCP under service level determinations. The main systems and control environments include accounts payable, payroll and general ledger financial functions.

Our review and evaluation of controls for these systems concluded that controls were effective for 2016-17.

SSSA is discussed further as part of the commentary under 'Department of the Premier and Cabinet' in this Report.

Interpretation and analysis of the financial report

The financial report is for the eight months from 1 November 2016 to 30 June 2017.

Expenses and income from 1 July to 31 October 2016, for activities now performed by DCP, are included in DECD's financial report.

Highlights of the financial report*

	2017 $'million
Expenses	
Employee benefit expenses	112
Grants and subsidies	83
Contracted out-of-home care services	82
Supplies, services and other expenses	34
Total expenses	311
Income	
Commonwealth revenues, grants and contributions and other revenues	5
Revenues from fees and charges	1
Total income	6
Net cost of providing services	305
Revenues from SA Government	326
Net result	21
Other comprehensive income	2
Total comprehensive income	23
Net cash provided by operating activities	16
Assets	
Current assets	36
Non-current assets	41
Total assets	77
Liabilities	
Current liabilities	42
Non-current liabilities	42
Total liabilities	84
Total equity	(8)

* Table may not add due to rounding

Statement of Comprehensive Income (DCP and DECD)

The following analysis includes expenses and income before 1 November 2016 that are recognised in DECD's financial report to show the full-year impact of DCP's activities.

Total income and expenses attributable to DECD are given in note 27 of the financial report.

Expenses

Total expenses were $495 million. The main expenses of DCP were employee benefits of $165 million, grants and subsidies of $153 million and contracted out-of-home care services (commercial care) of $127 million.

Grants and subsidies of $153 million mainly consists of:

- $100 million paid to NGOs for residential based care, home based care, family group homes and other supported placement services
- $34 million in subsidies paid to carers to help with the everyday costs of caring for a child. Carer payments are made to family based carers, kinship carers, specific child-only carers and carers of children under other person guardianship.

Commercial care expenditure continues to increase

Contracted out-of-home care services of $127 million relate to payments made to commercial care service providers (the main contracted providers are Baptist Care (SA) Inc, Hessel Care Foundation Ltd and Hender Care Pty Ltd). Commercial care is provided at any suitable commercial premises such as a private rental house or unit and is staffed by carers who work shifts on a rotating 24 hour, 7 days a week work roster. At 30 June 2017 there were 162 children in commercial care placements.

The cost of commercial care in 2016-17 rose by $43.7 million or 52%.

The following table shows the steeply rising cost of commercial care to DCP and the former Families SA over the past four years.

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

These costs reflect an increase in children in commercial care. The actual number of children in commercial care fluctuates depending on need but has seen a significant increase in the average number over the four years.

Income

DCP is predominantly funded by appropriation. Revenues from the SA Government were $502 million.

Additional appropriations from the Governor's Appropriation Fund of $121 million were approved by the Treasurer and provided to DCP to offset cost pressures incurred mainly from the increased cost of children in care, particularly in commercial care as previously mentioned.

Statement of Financial Position

Net liabilities of $30.8 million were transferred from DECD to DCP on 1 November 2016 as a result of the administrative restructure that resulted in DCP being formed.

Total assets of $61.3 million were transferred, offset by the transfer of total liabilities of $92.1 million.

The following table shows the most significant items in the Statement of Financial Position at 30 June.

	2017 $'million
Assets	
Property, plant and equipment	39
Cash and cash equivalents	32
Liabilities	
Employee benefits	46
Payables	22
Provisions	16
Net assets	(8)

Property, plant and equipment represents 51% of total assets, with cash and cash equivalents representing a further 41%. Property, plant and equipment of $39 million mainly consists of residential accommodation housing of $20 million and land of $17 million.

Employee benefits and payables collectively make up 81% of DCP's total liabilities. Included in payables is $13 million for commercial care services provided but not paid at 30 June. A provision for workers compensation claims of $16.2 million accounts for most of DCP's remaining liabilities.

DCP has a negative net asset and total equity position at 30 June of $7.8 million, representing a $23 million improvement from the $30.8 million net liabilities transferred from DECD on 1 November 2016. This improved position is due mainly to a $15.3 million increased cash balance, principally due to receiving additional appropriation funds as discussed previously.

DCP's current liabilities are also $6.4 million higher than current assets. DCP works with the Department of Treasury and Finance on its cash requirements on an ongoing basis, as evidenced by the substantial additional amounts ($121 million) provided through the Governor's Appropriation Fund in 2016-17.

Statement of Cash Flows

Cash at 30 June is $31.6 million. This includes $12.5 million for accrual appropriations (while controlled by DCP the use of these funds must be approved by the Treasurer).

Cash provided by financing activities of $16 million mainly reflects the $16.3 million cash balance transferred from DECD as a result of the administrative restructure.

Department for Communities and Social Inclusion (DCSI)

Financial statistics	Net cost of providing services:	\$1.1 billion
	Revenues from SA Government:	\$1.1 billion
	Total assets:	\$404 million
	Number of FTEs:	4306

Significant events and transactions

- In February 2017 the SA Government approved a number of significant changes to how disability and domiciliary care services will be provided in South Australia, in response to Commonwealth disability and aged care reforms. One of these changes includes the transition of domiciliary care to non-government management by June 2018.
- Disability clients continued to transition to the National Disability Insurance Scheme (NDIS) with all clients under the age of 18 eligible to transition during the year. As at 30 June 2017, 12 116 South Australians had transitioned to the NDIS, which is 94% of the 12 887 target.
- Improvements to energy concession reconciliation processes continued, including 100% verification of client eligibility prior to payment. DCSI advised that it has achieved net savings of approximately \$3.8 million between December 2015 and August 2017 because of these improved reconciliation processes.

Financial report opinion

Unmodified

Financial controls opinion

Modified

Key issues:

- Concessions data quality issues identified
- No formal review of user access to the Concessions and Rebate Tracking System and the Cost of Living Information system
- Limited validation of water and sewerage concession payments for pensioners prior to payment
- Known weaknesses in DCSI's brokerage care services controls and processes only partially addressed
- Some invoice and credit note requests showed no evidence of independent review and approval prior to processing

Functional responsibility

DCSI is an administrative unit established under the *Public Sector Act 2009.*

DCSI is committed to ensuring that all South Australians, particularly the most vulnerable and disadvantaged, have access to high quality services that protect and enhance the community's wellbeing and provide support to people when they need it. DCSI is committed to delivering better and more connected services to the vulnerable and disadvantaged in our community, and to building engaged, socially inclusive, strong and vibrant communities.

DCSI also functions as a service provider to the South Australian Housing Trust (SAHT) through its Housing SA division.

For more information about DCSI's objectives and functions refer notes 1 and 4 of the financial report.

Scope of audit

The 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 2016-17 included:

- follow-up of 2015-16 audit findings
- governance and legislative compliance
- compliance with Treasurer's Instructions
- NDIS implementation and governance
- grant expenditure
- brokerage care services
- concession payments
- accounts payable/expenditure
- contract management
- payroll
- cash and general ledger
- accounts receivable/revenue
- fixed assets
- client trust accounts.

The audit considered control processes performed by both DCSI and Shared Services SA (SSSA).

We also considered DCSI's internal audit coverage when designing and performing audit procedures.

Audit findings and comments

Assessment of controls

In my opinion, the controls exercised by the Department for Communities and Social Inclusion in relation to the receipt, expenditure and investment of money, the acquisition and disposal of property and the incurring of liabilities, except for matters outlined under 'Communication of audit matters', excluding those under 'Concessions – other matters', are sufficient to provide reasonable assurance that the financial transactions of the Department for Communities and Social Inclusion have been conducted properly and in accordance with law.

Communication of audit matters

Matters identified by the audit were detailed in management letters to the Chief Executive. The main matters raised and related responses are detailed below.

Concession payments

In 2016-17 DCSI made $152.8 million ($161 million) in concession payments. The scope of our concessions review during the year included:

- determining whether DCSI had remediated the issues raised in our Supplementary Report to Parliament 'Department for Communities and Social Inclusion – Concessions: June 2016'
- reviewing controls for assessing energy concessions, water and sewerage concessions, and cost of living concessions and concession payment processes
- testing a sample of concession payments to ensure that the recipient was eligible for that concession and the amount paid was accurate
- obtaining an update on the project to implement the Cost of Living Information system (COLIN).

The scope of the 2016-17 review was based on advice from DCSI that an external review of the ConcessionsSA business would begin in 2017-18 and would review concessions systems, processes and scheme design.

We identified that DCSI had remediated several issues raised in our June 2016 Supplementary Report and has significantly strengthened energy concession reconciliation controls. More information is provided on this under 'Cost savings from updated energy concession reconciliation processes' below. However, a number of issues raised in our June 2016 Supplementary Report remain outstanding, and a number of new issues were identified in 2016-17. These are discussed below.

Concessions data quality issues identified

In our June 2016 Supplementary Report we recommended that DCSI regularly reviews data quality in the Concessions and Rebate Tracking System (CARTS) to ensure there are no clients with missing details, duplicate clients or duplicate approved concession applications.

In this year's audit we confirmed that invalid or incomplete CARTS client records are rectified as staff identify them. However DCSI had not implemented a systematic checking process to review data quality for all records. Poor quality data limits DCSI's ability to reconcile concessions payment data to CARTS data. Where data quality issues exist, there is an increased risk of duplicate or ineligible concessions payments being approved.

DCSI responded that customer data in CARTS is reviewed when a discrepancy or error is identified as part of reconciliation processes, through the monthly Centrelink batch validation process or when a customer contacts DCSI to discuss their concessions. DCSI further advised that current resourcing requirements do not support systematic checking processes to review CARTS data quality for all records. Moving forward, DCSI will also implement a concessions data warehouse to allow for exception reporting and ad hoc analysis of CARTS data.

Deficiencies in the format of energy retailer data

In our June 2016 Supplementary Report we recommended that DCSI liaise with energy retailers to use a consistent format for identifying concession adjustments and backdated payments in their payment files.

In response to our follow-up enquiries this year, DCSI advised that energy retailers have not been able to identify concession adjustments and backdated payments in their payment files. Where corrected concession amounts or backdated payments cannot be easily identified in payment files, there is an increased risk that DCSI will be unable to reconcile these records back to client records in CARTS. This may lead to the processing of inaccurate concession payment amounts.

In response, DCSI advised that excessive retailer claims for an individual household are checked manually by DCSI employees undertaking the energy concession reconciliation process. DCSI will continue to liaise with energy retailers to achieve a consistent format for concession adjustments and backdated payments in payment files.

No formal review of user access to CARTS and COLIN

We reviewed DCSI's processes for adding and removing access to CARTS and COLIN, and the periodic checks performed to ensure user access remains appropriate. We identified that although CARTS user access is reviewed on an ad hoc basis, no formal periodic review of access is performed. We also identified that no review of user access to COLIN has been performed since the system was implemented.

If user access to CARTS and COLIN is not reviewed, DCSI employees may have inappropriate access to these systems and this may result in inappropriate transactions being processed.

DCSI responded that as of May 2017, user access administration for all concessions business technology systems except COLIN moved to the Business Services Manager, Concessions and Support Services. This allows user access to the various systems to be requested and monitored through one central point. Reviews of user access now occur regularly, but vary in frequency depending on the system. The review of COLIN user access is being implemented by the Project Manager, Cost of Living Concessions and the Business Services Manager, Concessions and Support Services.

Limited validation of water and sewerage concession payments for pensioners prior to payment

DCSI administers water and sewerage concessions to eligible recipients in South Australia. For pensioners, the concession amount is calculated by the South Australian Water Corporation (SA Water) and applied to their bills. A file of all concession amounts provided to pensioners is given to DCSI after each billing period, and a sample of 25 water concession recipients is reviewed by DCSI to ensure amounts were calculated correctly and paid to eligible pensioners, based on information recorded in CARTS. There is no review of sewerage concession payments performed by DCSI prior to payment.

We recommended DCSI implement processes to validate all water and sewerage concessions provided to pensioners. The current review process may result in water and sewerage concession payments being made to ineligible SA Water customers and this may not be identified and corrected, resulting in financial loss to DCSI.

DCSI advised that it has investigated the resources required to undertake a 100% validation and reconciliation process for water and sewerage concessions for pensioners. Due to the system changes and additional staffing that would be required, full reconciliation is not something that DCSI can currently undertake. DCSI did, however, advise that the positive impact on CARTS data achieved by implementing the energy concession reconciliation process will also provide positive outcomes for water and sewerage concession records.

DCSI and energy retailers operating outside of the established energy concession scheme

In 2004 DCSI and energy retailers established the SA Government Customer Concession Scheme for Energy. This scheme outlines the responsibilities assigned to the SA Government and energy retailers and acts as a contract between these parties. The scheme was last updated in 2014.

We identified that DCSI is operating outside of the established scheme. For example, the scheme requires payments to ineligible clients to be recovered in subsequent invoice periods. This is in contrast to DCSI's updated reconciliation process, which states that DCSI will not pay energy retailers until it can verify that clients are eligible.

DCSI advised that it believes it adheres to the intent of the scheme however it does not follow specific process arrangements under the scheme as it considers them impractical. To partially mitigate the risk of operating outside of the scheme, DCSI issued letters to energy retailers outlining each party's responsibilities.

Operating outside of the established scheme may expose the State to contractual risks. We recommended that DCSI update the scheme to reflect current energy concession payment processes.

DCSI responded that it agrees that the scheme should be updated after the upcoming external review of concession processes is completed.

Concessions – other matters

Status of the Cost of Living Information system project

DCSI is implementing COLIN for paying the cost of living concession in a three-phased approach. At the time of our audit, DCSI had nearly completed the second phase and expects to complete the final phase on schedule by December 2017.

The total project budget is $3.6 million and includes $1.4 million, approved by the Department of Treasury and Finance in 2015-16, for additional functionality. This includes optical character recognition software for scanning forms. The 31 May 2017 COLIN finance report showed that expenditure on the project was $1.7 million and was on budget.

From November 2016 DCSI made changes to the project's governance arrangements, following an external review. These changes included appointing a new project director and changing the terms of reference and the membership of the steering committee.

COLIN comprises several system components, most of which are being implemented by external contractors. Using this approach, DCSI has already implemented a number of system components, including the cost of living concession Payment and Administration System.

DCSI advised us that it has experienced issues with one of the external contractors not meeting contracted delivery time frames. It does not expect that this will impact the completion date of the COLIN project.

Cost savings from updated energy concession reconciliation processes

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

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

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

NDIS implementation and governance

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

The NDIS involves contractual payments between the SA and Commonwealth Governments to fund the scheme. Various agreements set out the responsibilities of each jurisdiction and specify operational deliverables to ensure the scheme is effectively transitioned and implemented in each participating State.

NDIS related expenditure was forecast to total $51 million for the year ended 30 June 2017 and will rise significantly in 2018-19 to $723 million. Actual NDIS and service reform program related expenditure for the year ended 30 June 2017 was $70 million, which included employee benefit expenses of DCSI employees.

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

- State/DCSI agreed responsibilities are effectively managed in accordance with the executed Heads of Agreement and other Bilateral Agreements with the Commonwealth Government
- multilateral government frameworks and work programs are documented, SA Government/DCSI employees are appropriately represented on implementation groups and the NDIS transition is on schedule
- DCSI internal governance, management and reporting is adequate
- NDIS risks are identified, understood, mitigated where possible and effectively monitored and reported upon

- State financial contributions to the scheme are in accordance with agreed schedules, compared to budget and operational information and reported regularly to senior management.

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

We recommended that DCSI:

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

In response, DCSI advised that it:

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

Brokerage care services

Known weaknesses in DCSI's brokerage care services controls and processes only partially addressed

In 2016-17 DCSI spent $180.9 million ($168.1 million) on brokerage care services to disability and domiciliary care clients. In the past, weaknesses in DCSI's brokerage care services controls and processes have been identified by us and by DCSI's internal audit.

We understand that when the NDIS is fully implemented in South Australia, which is planned to occur from 30 June 2018, responsibility for providing brokerage care services for eligible clients will be fully transferred to the National Disability Insurance Agency (NDIA). We have been advised that because of this, DCSI is unlikely to commit significant resources to addressing the known control weaknesses in the brokerage care services area that have been identified in the past.

Our review of brokerage care services in 2016-17 identified that DCSI has implemented a number of recommendations made by internal audit, however due to resourcing issues not all of the recommendations we and internal audit made in previous years have been fully implemented. This may result in DCSI paying for brokerage care services that are not received or are not of the standard required by contracts in place with service providers, resulting in financial loss to DCSI.

DCSI responded that the brokerage system manages 4500 client service agreements for over 3000 clients. Engaging sufficient resources to contact each client to determine whether services are being delivered and to an appropriate standard would not be feasible. To address the identified risks, the following controls have been implemented:

- an internal brokerage services team of 1.5 FTEs has been created to manage monitoring processes and is now fully operational
- system-generated letters are sent to all clients receiving brokerage care services advising of the provider contracted on their behalf and the services to be provided. These letters contain information on who to contact if clients have any concerns about the level or quality of services provided
- the brokerage system is designed to reject invoices for payment where no contract exists or where billing is outside of the scope of the contract. Exceptions can occur when invoices are paid through a forced reconciliation function. Forced reconciliations are tracked by DCSI to identify potentially fraudulent billing practices by service providers
- other alerts to potentially fraudulent behaviour considered by DCSI include investigating anomalies identified by staff when processing contracts and from complaints reported, and performance reviews of brokerage care services providers.

DCSI also confirmed that under the Transition to a National Disability Insurance Scheme Bilateral Agreement between the Commonwealth and South Australia, all eligible brokerage clients will transition to the NDIS by 30 June 2018. In the interim, DCSI will continue to monitor the quality of services delivered and potential fraudulent activity. Sufficient resources will be available to maintain current effort during the transition.

Payroll

DCSI had total employee benefit expenses of $377 million ($402.1 million) in 2016-17. This includes $67 million ($69.8 million) in employee benefit expenses for Housing SA staff.

Bona fide reports not reviewed and approved promptly

DCSI's bona fide procedure requires that designated employees review and approve bona fide reports within seven days of receiving them. A reminder is sent to these employees if reports are not approved and submitted after seven days. If a bona fide report remains outstanding after 14 days, it will be escalated to an officer at the next level, and if it remains outstanding after 21 days, it will be escalated to the relevant Executive Director. These requirements apply to both DCSI and Housing SA given DCSI is responsible for the bona fide reporting processes for Housing SA under the memorandum of administrative arrangements between the two agencies.

Our review identified that bona fide reports are not being reviewed and approved in the required time frames. As at 30 June 2017 we noted:

- there were 49 bona fide reports for DCSI and 181 bona fide reports for Housing SA that were overdue for more than 21 days
- there were 28 vacant positions in the CHRIS payroll system with responsibility for reviewing and approving bona fide reports. As a result there was no one in those positions to review and approve the bona fide reports
- 10 vacant positions that were filled during the year still had outstanding bona fide reports that had not been subsequently reviewed and approved
- two positions were removed from CHRIS during the year however these positions still had outstanding bona fide reports from December 2016.

If bona fide reports are not reviewed and approved in a timely way, payroll errors may not be identified and corrected and inappropriate payments may be made.

DCSI responded that its Quality Assurance, Risk and Business Improvement area reviews bona fide reports outstanding for more than 21 days and reminders are sent to relevant employees. A DCSI update will be circulated to remind employees to review and approve bona fide reports in line with DCSI procedure. A review of positions in CHRIS will also be undertaken to ensure vacant positions roll up to the relevant line manager. The review will also cover the effectiveness of escalation processes and these will be amended if required.

Revenue

Some invoice and credit note requests showed no evidence of independent review and approval prior to processing

Our review of a sample of invoice and credit note batches identified instances where the invoice or credit note request showed no evidence of approval before being forwarded to SSSA for processing. This contravenes DCSI's accounts receivable invoice and adjustments policy, which requires that all invoice and credit note requests be checked and approved by an authorised officer before being forwarded to SSSA for processing.

If invoice and credit note requests are not independently checked and approved, the risk that invoice and credit note data may be incorrect or incomplete is increased. This also increases the risk of inappropriate write-offs and adjustments to the accounts receivable balance.

DCSI advised that employees have been reminded of their responsibilities to have invoice and credit note requests approved by an authorised officer. Where instances of non-compliance are identified, DCSI will notify employees individually of the correct process. DCSI also advised that, in conjunction with SSSA, it will investigate the possibility of undertaking regular sampling to monitor compliance.

User access to systems

Improvements needed to various user access review processes

Our review in 2016-17 identified that improvements are required to user access review processes for the following systems:

- CommBiz banking

- CHRIS payroll
- the Funding and Grants Management System.

If regular reviews of user access are not performed, inappropriate system access may not be identified. This may result in the processing of inappropriate transactions and financial loss to DCSI.

DCSI responded that regular user access reviews will be performed and formally documented for these systems.

Shared Services SA – financial systems and transaction processing environments

SSSA processes financial transactions on behalf of DCSI under service level determinations. The main systems and control environments include accounts payable, payroll and general ledger financial functions.

Our review and evaluation of controls for these systems concluded that controls were effective for 2016-17.

SSSA is discussed further as part of the commentary under 'Department of the Premier and Cabinet' in this Report.

Interpretation and analysis of the financial report

Highlights of the financial report – controlled items

	2017 $'million	2016 $'million
Expenses		
Employee benefit expenses	377	402
Supplies and services	286	274
Grants, subsidies and client payments	567	535
Other expenses	110	78
Total expenses	1 340	1 289
Income		
Rent, fees and charges	117	121
Commonwealth revenues	75	71
Other revenues	28	22
Total income	220	214
Net cost of providing services	(1 120)	(1 075)
Revenues from (Payments to) SA Government	1 126	1 062
Net result	6	(13)
Other comprehensive income	-	23
Total comprehensive result	6	10
Net cash provided by (used in) operating activities	10	10
Assets		
Current assets	202	198
Non-current assets	202	205
Total assets	404	403

	2017 $'million	2016 $'million
Liabilities		
Current liabilities	121	124
Non-current liabilities	81	85
Total liabilities	202	209
Total equity	202	194

Statement of Comprehensive Income

Expenses

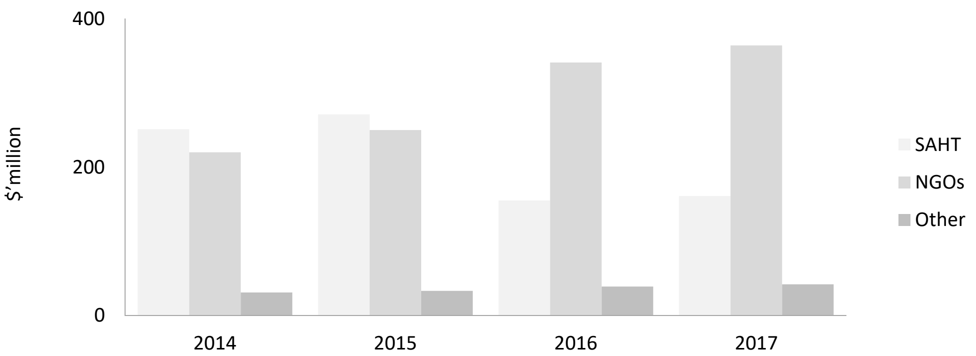
In 2016-17 total expenses increased by $51.1 million to $1.3 billion. This included increases in grants, subsidies and client payments ($32.2 million), other expenses ($31.7 million), and supplies and services ($12.3 million), offset by a decrease in employee benefit expenses ($25.1 million).

Grants, subsidies and client payments

Grants, subsidies and client payments of $567.1 million are DCSI's largest expenditure category. Note 8 of the financial report discloses a detailed list of grants, subsidies and client payments by program and recipient type.

In 2016-17 grants, subsidies and client payments increased by $32.2 million (6%). This was due to a $23.6 million increase in disability grants and a $6.6 million increase in grants to the SAHT. The increase in disability grants is due to increased demand for disability services. The increase in grants to the SAHT was mainly due to a $5.5 million increase in the State's contribution to the SAHT, including for the tax equivalents regime.

The following chart highlights grants, subsidies and client payments by recipient type for the four years to 2017.



Funding to non-government organisations (NGOs) continues to increase each year and totalled $363.5 million ($340.6 million) in 2016-17. Refer note 8.1 of the financial report for a detailed list of NGO payments by organisation. Grants to NGOs will decrease significantly in future years, however, as disability clients fully transition to the NDIS.

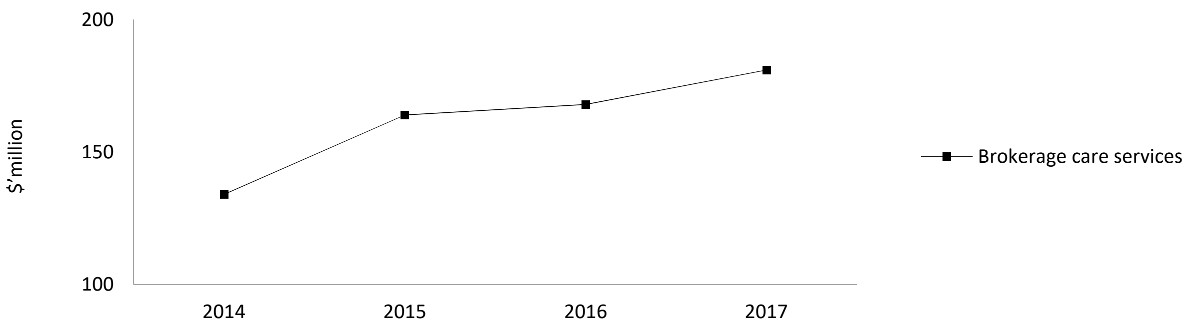
Other expenses

The increase in other expenses of $31.7 million is largely due to a $26.5 million increase in NDIS payments. This increase is due to the continuing transition of clients to the NDIS in 2016-17, with funding associated with these clients transferred from DCSI to the NDIA. Children aged between zero and 14 years were eligible to transition to the NDIS from 1 July 2013 (based on age), while young people aged between 15 and 17 were eligible to transition from 1 January 2017.

Supplies and services

During 2016-17 supplies and services expenses increased by $12.3 million to $285.8 million. Brokerage care services expenses of $180.9 million account for 63% of this total and increased by $12.7 million from 2015-16. This increase is primarily due to increased demand for disability services. When eligible disability clients fully transition to the NDIS, DCSI will no longer be responsible for providing brokerage care services as responsibility will transfer to the NDIA. Brokerage care services expenses will therefore significantly decrease for DCSI in future years.

The following chart highlights the growing demand for brokerage care services and the associated expenses for the four years to 2017.



Employee benefit expenses

Employee benefit expenses decreased by $25.1 million to $377 million in 2016-17. This is mainly due to:

- a $17.1 million decrease in long service leave expenses. This is due to an abnormally large long service leave expense of $21.4 million recognised in 2015-16, which resulted from changes in the actuarial assumptions used for calculating the long service leave liability. Such changes included a decrease in the discount rate used and an increase in the duration over which the liability was to be paid

- a $6.2 million decrease in workers compensation expenses. This was due to large (in both volume and amount) workers compensation payments in 2015-16 when compared to 2016-17. This has resulted in a $2.9 million decrease in redemption payments and a $700 000 decrease in lump sum payments and associated costs (for example, medical). This decrease is also due to a greater reduction in the workers compensation provision in 2016-17 when compared to the reduction in the provision in 2015-16

- a $2 million decrease in targeted voluntary separation package payments. 49 employees had packages paid out in 2015-16 compared to 12 in 2016-17.

Income

In 2016-17 total income increased by $6.1 million to $219.9 million. This included increases in other revenues ($5.6 million) and Commonwealth revenues ($4.5 million), offset by a decrease in revenues from rent, fees and charges ($4 million).

Revenues from SA Government

Revenues from the SA Government increased by $64.1 million to $1.1 billion. This relates to a $75.3 million increase in appropriations from the Consolidated Account, offset by an $11.3 million decrease in contingency funding.

The increase in appropriations from the Consolidated Account relates to increased funding for the provision of disability services to meet ongoing growth in demand and the increased costs for these services. Additional funds were also provided to cover costs associated with the transition to the NDIS.

The $11.3 million decrease in contingency funding was due to DCSI receiving $10.1 million in budget supplementation in 2015-16 for ongoing disability demand via the contingency account.

Statement of Financial Position

Assets

Cash and cash equivalents of $146 million and property, plant and equipment of $180.7 million represent 81% of DCSI's total assets. Total assets increased from $402.9 million to $404.3 million as at 30 June 2017. Information on what is making up the cash and cash equivalents balance is provided under 'Statement of Cash Flows' below.

Liabilities

Total liabilities decreased by $6.7 million to $202 million. This was due to an $8.8 million decrease in employee benefits and a $3.9 million decrease in provisions, offset by a $7 million increase in payables.

Statement of Cash Flows

The following table summarises the net cash flows for the five years to 2017.

	2017 $'million	2016 $'million	2015 $'million	2014 $'million	2013 $'million
Net cash flows					
Operating	10	9	39	36	26
Investing	(5)	(10)	(5)	(10)	(7)
Financing	-	-	-	(1)	-
Change in cash	5	(1)	34	25	19
Cash at 30 June	146	141	142	108	83

The movement in cash balances over the period reflects the outcome of the accrual budget process. DCSI is funded for budgeted expenses, which include non-cash items such as long service leave costs.

Where the funded amounts exceed the actual amounts paid the balance is recorded as cash and held in the Accrual Appropriation Excess Funds Account with the Department of Treasury and Finance.

Of DCSI's cash and cash equivalents balance of $146 million, $124.2 million is held in the Accrual Appropriation Excess Funds Account, which can only be used in accordance with the Treasurer's or Under Treasurer's approval.

Highlights of the financial report – administered items

	2017 $'million	2016 $'million
Expenses		
Grants, subsidies and client payments	187	196
Client trust fund payments	13	14
Other expenses	5	6
Total expenses	205	216
Income		
Grants and contributions	10	10
Client trust fund receipts	14	14
Other income	1	5
Total income	25	29
Net cost of providing services	180	187
Revenues from (Payments to) SA Government	191	188
Net result	11	1
Other comprehensive income	-	(1)
Total comprehensive result	11	-
Assets		
Current assets	68	63
Non-current assets	29	30
Total assets	97	93
Liabilities		
Current liabilities	13	20
Total liabilities	13	20
Total equity	84	73

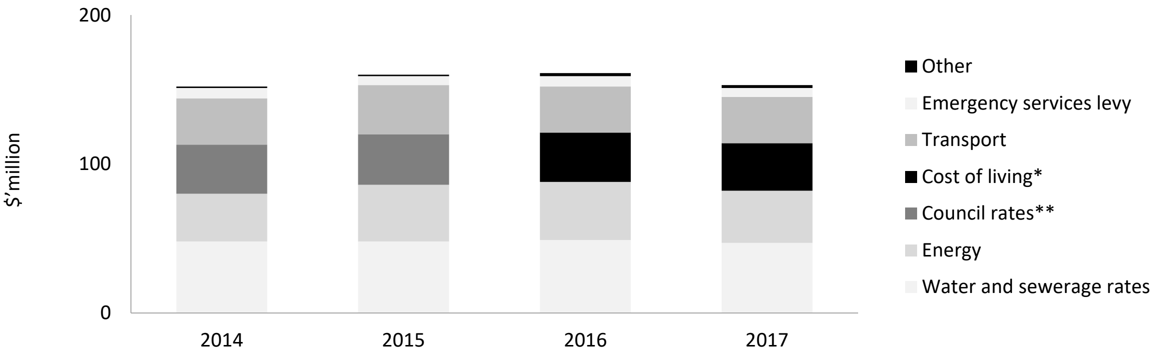
Statement of Administered Comprehensive Income

Administered expenses

Grants, subsidies and client payments of $186.8 million represent 91% of total administered expenditure. This balance is largely made up of concession payments (82%).

Concession payments decreased by $8.3 million to $152.8 million. This decrease is attributable to a $4.4 million decrease in energy concessions and a $2.4 million decrease in water and sewerage rate concessions. This decrease in energy concession payments is due to the improved energy reconciliation processes implemented by DCSI, which have identified ineligible or inaccurate concession payments before they are paid by DCSI. More information on the energy reconciliation process is provided under 'Cost savings from updated energy concession reconciliation processes' above.

The following chart highlights concession payments by type over the four years to 2017.



* No cost of living concession payments were made in 2014 and 2015.
** Only minor council rates concession payments were made in 2016 and 2017.

DCSI estimates that the following number of people received concession payments in 2016-17.

Concession type	Number
Transport	*
Water	173 000
Sewerage	129 000
Energy	182 000
Cost of living	181 000
Emergency Services levy	135 000
Other**	3 000

* The Department of Planning, Transport and Infrastructure advised approximately 17.7 million initial boardings were recorded by concession customers (excluding students and seniors) in 2016-17.

** Includes residential parks and emergency electricity payments.

DCSI advised that approximately 200 000 households received an SA Government concession in 2016-17. Most of these households received more than one concession type during the year and therefore one household may show up in more than one concession type category in the table above.

Further commentary on operations

Disability and aged care reform

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

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

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

Department for Correctional Services (DCS)

Financial statistics	Net cost of providing services:	$311 million
	Total appropriation:	$332 million
	Total prisoner numbers at 30 June 2017:	3050
	Number of FTEs:	2085

Significant events and transactions

- Capital works provided an additional 142 prisoner beds, with a further 288 prisoner beds in progress and due to become operational in 2017-18.
- An equity contribution of $48 million was received in 2016-17 to fund capital projects.

Financial report opinion

Unmodified

Financial controls opinion

Modified

Key issue:

- Key payroll report review processes could be strengthened

Functional responsibility

DCS is an administrative unit established by the *Public Sector Act 2009.*

The functions of DCS include contributing to public safety by safely, securely and humanely managing offenders and providing opportunities for their rehabilitation and reintegration.

For details of DCS's functions refer note 1 of the financial report.

Scope of audit

The audit program covered major financial systems and was directed primarily to obtaining sufficient evidence to form an opinion on the financial report and internal controls.

Specific areas of audit attention in 2016-17 included:

- payroll
- accounts payable
- general ledger
- revenue
- fixed assets
- workers compensation
- management of contracts
- governance.

We obtained an understanding of internal audit activities to identify and assess the risks of material misstatement in the financial statements and to design and perform audit procedures.

Audit findings and comments

Assessment of controls

In my opinion, the controls exercised by the Department for Correctional Services in relation to the receipt, expenditure and investment of money, the acquisition and disposal of property and the incurring of liabilities, except for the matter outlined under 'Communication of audit matters', are sufficient to provide reasonable assurance that the financial transactions of the Department for Correctional Services have been conducted properly and in accordance with law.

Communication of audit matters

Matters identified by the audit were detailed in a management letter to the Chief Executive. The main matter raised and related response are detailed below.

Key payroll report review processes could be strengthened

We identified a number of weaknesses in the process to review payroll bona fide reports. We noted more than half of the sample of reports we tested were either not reviewed or were not reviewed within the 10 business days required by DCS policy.

We also noted DCS's policy had not been updated to reflect changes to the review of bona fide reports resulting from the transition to the Chris21 payroll system. As a result of this change, DCS staff are now responsible for producing the reports for review. Our audit identified uncertainty about review processes and requirements from some staff.

Delays in completing the review of key payroll reports, such as bona fide reports, increases the risk that errors will not be identified promptly, with significant delays reducing the chance of errors being identified. A lack of relevant guidance for staff in policies or procedures results in a risk that processes will not be performed in line with management expectations and may not provide the prompt assurance they are designed to.

We recommended DCS closely monitor the timing and effectiveness of the bona fide review process to ensure reviews are undertaken promptly.

DCS responded that the procedure for bona fide processing would be updated to reflect current practice and the requirement that managers undertake timely compliance checks would be included.

Shared Services SA – financial systems and transaction processing environments

SSSA processes financial transactions on behalf of DCS under service level determinations. The main systems and control environments include accounts payable, payroll and general ledger financial functions.

Our review and evaluation of controls for these systems concluded that controls were effective for 2016-17.

SSSA is discussed further as part of the commentary under 'Department of the Premier and Cabinet' in this Report.

Interpretation and analysis of the financial report

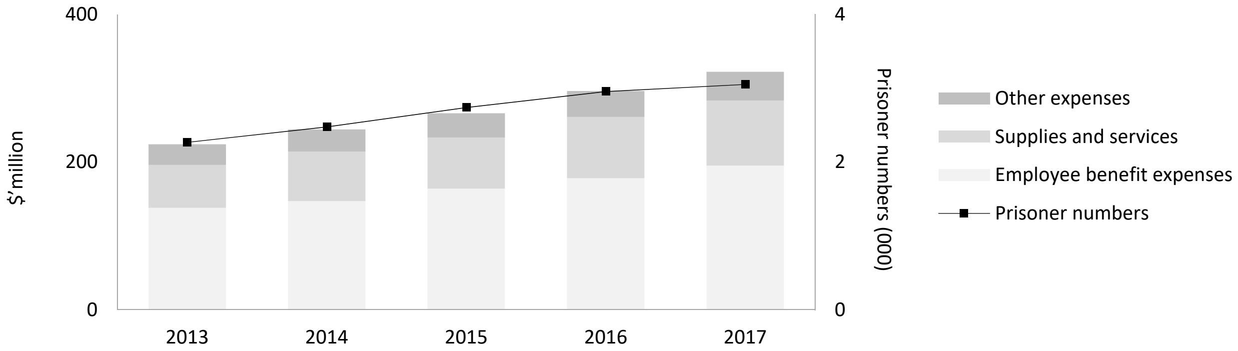
Highlights of the financial report

	2017 $'million	2016 $'million
Expenses		
Employee benefit expenses	195	178
Supplies and services	88	83
Other expenses	39	35
Total expenses	322	296
Income		
Income from prison labour and canteen and kitchen sales	6	6
Other income	5	5
Total income	11	11
Net cost of providing services	311	285
Revenues from SA Government	332	285
Payments to SA Government	-	(12)
Net result	21	(13)
Total comprehensive result	31	9
Net cash provided by (used in) operating activities	48	6
Net cash provided by (used in) investing activities	(52)	(31)
Net cash provided by (used in) financing activities	48	8
Assets		
Current assets	56	11
Non-current assets	569	522
Total assets	625	533
Liabilities		
Current liabilities	47	35
Non-current liabilities	39	37
Total liabilities	86	72
Total equity	539	461

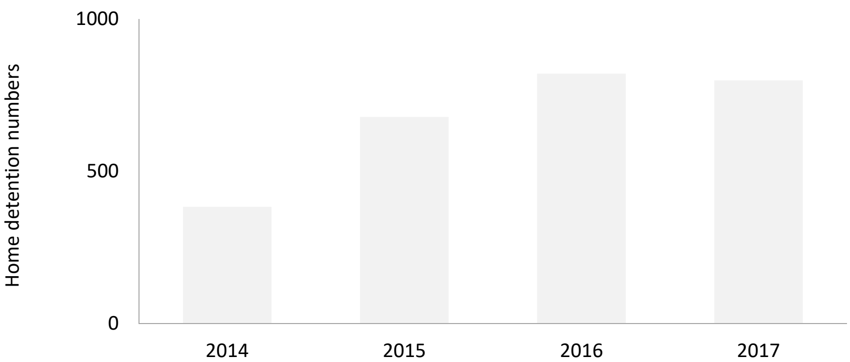
Statement of Comprehensive Income

Expenses

A structural analysis of DCS's main expense items and total prisoner numbers for the five years to 2017 is shown in the following chart. Over this period total prison numbers as at 30 June have increased by 790 (35%) and total expenses have increased by $98 million (44%). In 2016-17 total prisoner numbers increased by 96 (3%) and total expenses by $26 million (9%) from the previous year.



Home detention numbers have also increased from 383 in June 2014 to 798 at the end of 2016-17. This is attributable to legislative changes contained in the *Statutes Amendment (Home Detention) Bill 2015* which introduced additional home detention sentencing options in 2016. The growth in home detention has also resulted in increased electronic monitoring contract costs over this period from $759 000 in 2014 to $1.9 million in 2017.



Employee benefit expenses

The increase in employee benefit expenses of $17 million is mainly due to increased employee numbers in 2016-17 to 2085 FTEs (1932 FTEs). The additional staff are mainly for prisoner monitoring as a result of an increase in beds and the prisoner population.

Supplies and services expenses

Supplies and services expenses increased by $5.4 million mainly due to:

- an increase in contract expenditure of $3.3 million for the operation of the Mount Gambier Prison, electronic monitoring and prisoner transport, reflecting the impact of higher prisoner numbers and increased contract prices

- increased food and prisoner drug and alcohol testing costs of $1.3 million due to increased prisoner numbers
- workers compensation expenses increasing by $1 million due to the actuarial valuation of the workers compensation liability.

Income

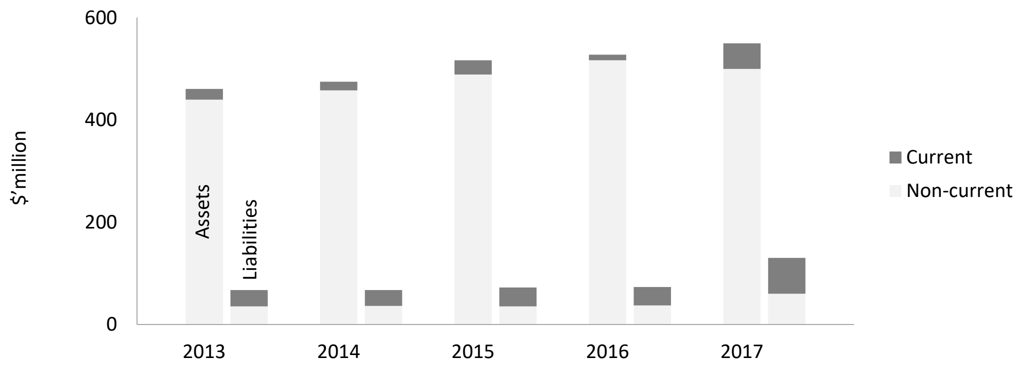
Revenues from the SA Government, DCS's primary income source, increased by $47 million to $332 million.

Equity contribution

Capital contributions (or government equity contributions) from the SA Government increased by $39 million to $48 million, bringing the total contributed capital to $145 million. This capital contribution is to fund capital works.

Statement of Financial Position

For the five years to 2017, a structural analysis of assets and liabilities is shown in the following chart.



Assets

DCS's current asset position has improved in 2016-17 with total current assets of $56 million now exceeding current liabilities of $47 million. The increase in current assets is driven by a $44 million increase in cash at 30 June 2016, discussed further below.

Cash and cash equivalents

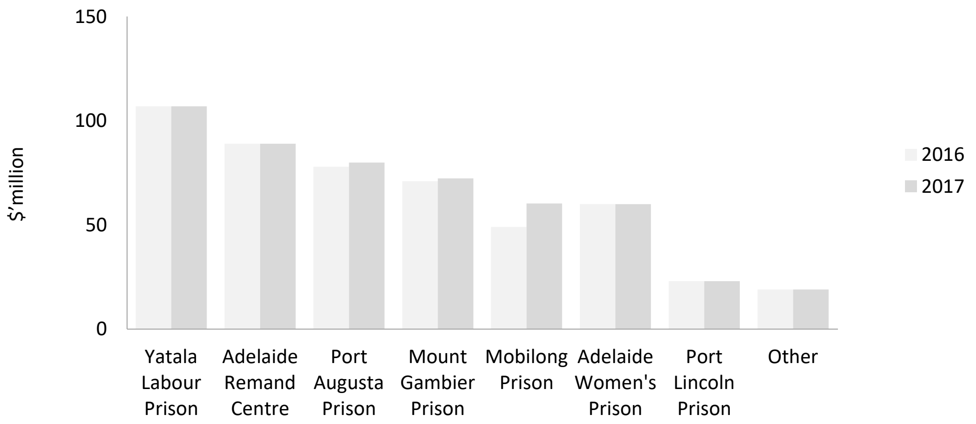
Cash and cash equivalents increased by $44 million. The increase in cash is predominantly due to the:

- increase in equity contributions of $39 million which were carried over to 2017-18, representing projects to increase prisoner accommodation at the Mount Gambier Prison and Port Augusta Prison
- low level of cash held at the end of 2015-16 ($7 million), compared to DCS's normal working capital balance of around $12 million.

Property, plant and equipment

The main item of DCS's Statement of Financial Position is property, plant and equipment, representing 83% of total assets.

Within property, plant and equipment the main category of assets is land and buildings with a value as at 30 June 2017 of $511 million (82% of total assets). The following chart shows asset values for DCS's land and buildings for the last two years.



The carrying value of land and buildings increased by $15.6 million due to:

- a revaluation of land and buildings as at 30 June 2017 resulting in a $9.6 million increase in value
- $24 million of completed capital works transferred into land and buildings. The main components were for additional accommodation and supporting infrastructure at Mobilong Prison, Port Augusta Prison and Mount Gambier Prison
- partially offset by depreciation charges of $18 million.

There were 142 additional beds from works completed in 2016-17 for the following correctional facilities:

- Mobilong Prison – 98 beds
- Mount Gambier Prison – 40 beds
- Port Augusta Prison – 4 beds.

Capital works in progress

As at 30 June 2017 capital works in progress totalled $48 million. They include the following prisoner accommodation yet to be commissioned:

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

Statement of Cash Flows

The following table summarises the net cash flows for the five years to 2017.

	2017 $'million	2016 $'million	2015 $'million	2014 $'million	2013 $'million
Net cash flows					
Operating	48	6	23	11	17
Investing	(52)	(31)	(41)	(27)	(35)
Financing	48	8	28	13	28
Change in cash	44	(17)	10	(3)	10
Cash at 30 June	51	7	24	14	17

In 2016-17 cash increased by $44 million. This is predominantly due to the increase in equity contributions of $39 million to $48 million, shown in financing activities.

The table shows a history of investing cash outflows, representing the continual capital expenditures over the period relating primarily to additional prisoner accommodation. This expenditure has been funded in part through capital contributions from the SA Government, which are reflected in financing activities, and through the normal government appropriations received through operating cash flows.

Courts Administration Authority (CAA)

Financial statistics	Net cost of providing services:	$88.3 million
	Total appropriation:	$85.5 million
	Administered total expenses:	$63.7 million
	Number of FTEs:	
	Controlled	638.1
	Administered	84

Significant events and transactions

- The procurement process for the new electronic courts management system was finalised. Cabinet approval was received in June 2017. The estimated cost is $23 million.
- As part of the 2017-18 budget, CAA received a $31 million allocation to redevelop the Higher Courts precinct.

Financial report opinion

Unmodified

Financial controls opinion

Modified

Key issues:

- Leave taken may not be reported on the bona fide report
- Bona fide reports are not appropriately reviewed
- Payroll master file changes are not appropriately reviewed

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 function of the CAA, which is independent of the control of Executive Government, is to provide courts with the administrative facilities and services needed for the proper administration of justice. For more information about the CAA's objectives and priorities refer note 1 of the financial report.

Scope of audit

The 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 2016-17 included:

- expenditure
- revenue and receipting
- payroll
- cash
- fixed assets
- financial accounting
- financial management compliance program
- trust accounts.

Internal audit activities were considered in designing audit procedures.

Audit findings and comments

Assessment of controls

In my opinion, the controls exercised by the Courts Administration Authority in relation to the receipt, expenditure and investment of money, the acquisition and disposal of property and the incurring of liabilities, except for all matters outlined under 'Communication of audit matters', are sufficient to provide reasonable assurance that the financial transactions of the Courts Administration Authority have been conducted properly and in accordance with law.

Communication of audit matters

Matters identified by the audit were detailed in management letters to the State Courts Administrator. The main matters raised and related responses are detailed below.

Payroll

Employee benefits expenses totalled $51 million for 2016-17 and the liability for employee benefits at 30 June 2017 was $15 million.

Leave taken may not be recorded on the bona fide report

Our review found instances where leave taken is not recorded on the bona fide report. As a result pay point managers cannot review leave taken by employees.

In response the CAA stated that it would review its reports and controls for recording and managing leave taken.

Bona fide reports are not appropriately reviewed

Our review found an instance where an overpayment was not identified by the review of bona fide reports. The employee was paid an additional 7.5 hours per week from 31 October 2015 to 20 January 2017, a total of $13 000. We found that bona fide reports during 2016-17 had all been certified as correct.

In response the CAA indicated that it would reinforce reporting requirements. It also indicated that the overpayment was being recovered.

Master file changes are not appropriately reviewed

Our review identified that one employee's Assignment and Engagement Form was incorrectly completed, resulting in the employee being overpaid. The error was not identified by the delegate or the payroll team during their review. The overpayment was identified by our audit process.

In response the CAA indicated that it would reinforce to reviewers the importance of reviewing payroll forms in a detailed way. It also advised that the overpayment was expected to be fully recovered by October 2017.

Interpretation and analysis of the financial report

Highlights of the financial report – controlled items

	2017 $'million	2016 $'million
Expenses		
Employee benefits expenses	51	52
Supplies and services	31	35
Other expenses	10	9
Total expenses	92	96
Income		
Revenues from fees and charges	3	3
Other revenues	1	1
Total income	4	4
Net cost of providing services	88	92
Revenues from (Payments to) SA Government		
Revenues from SA Government	85	94
Total revenues from (payments to) SA Government	85	94
Net result	(3)	2
Total comprehensive result	(3)	2
Net cash provided by (used in) operating activities	5	11

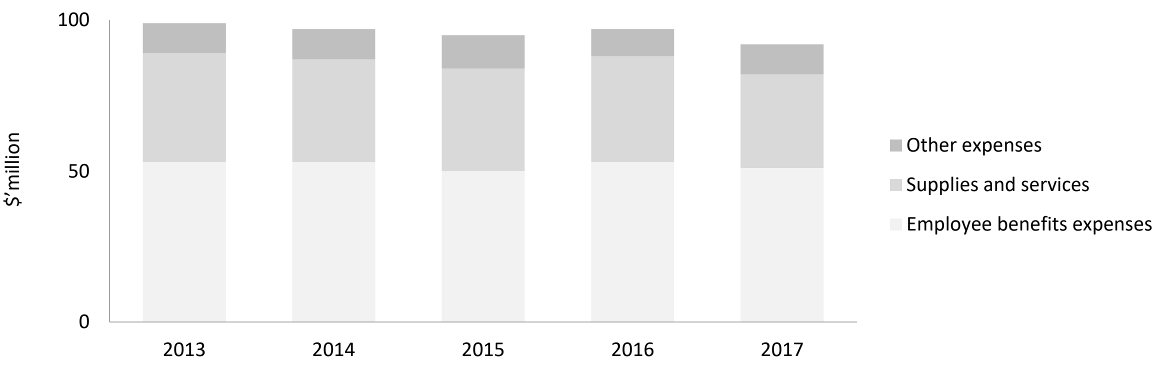
	2017 $'million	2016 $'million
Assets		
Current assets	60	60
Non-current assets	198	203
Total assets	258	263
Liabilities		
Current liabilities	11	11
Non-current liabilities	21	23
Total liabilities	32	34
Total equity	226	229

Statement of Comprehensive Income

The CAA's expenses reflect the costs 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.

Expenses

The following chart shows the main expense items for the five years to 2017.



The chart shows that overall 2016-17 expenditure has decreased, with decreases in all categories except other expenses.

Employee benefits expenses are the major expense category for the CAA, accounting for 56% (54%) of total expenses. Employee benefits expenses decreased by $936 000 in 2016-17 mainly because of a $1.5 million decrease in long service leave expense resulting from the revaluation of the long service leave liability. The revaluation was impacted by an increase in the discount rate.

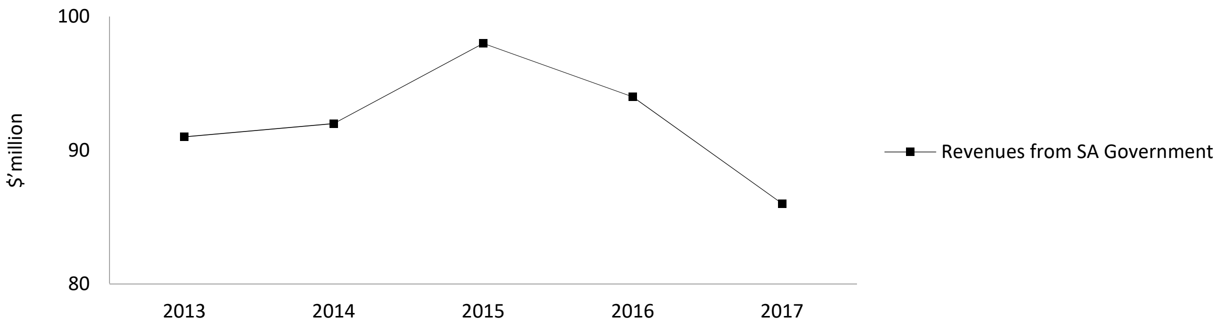
Supplies and services account for 34% (36%) of total expenses and include $14 million ($14 million) in accommodation and services expenses and $5.5 million ($5.9 million) in computing and communications expenses. Supplies and services decreased by $3.2 million in 2016-17 mainly because of a $3.9 million decrease in coronial charges, a result of the transfer of forensic charges to the Attorney-General's Department.

Other expenses increased by $334 000 mainly due to the increased workers compensation provision, which is advised by the Department of the Premier and Cabinet.

Income

Revenues from the SA Government are the major source of funding for the CAA, accounting for 95% (95%) of total income.

The following chart shows the level of revenues from the SA Government for the five years to 2017.



Revenues from the SA Government decreased by $9 million in 2016-17. This was mainly due to a funding adjustment of $8 million as a result of the procurement process for the new electronic courts management system being finalised later than originally planned.

Statement of Financial Position

Non-current assets mainly comprise land and buildings totalling $178 million ($182 million), which accounts for 90% (90%) of non-current assets.

Current assets mainly comprise cash and cash equivalents totalling $58 million ($58 million), which accounts for 97% (97%) of current assets. Included in cash at 30 June 2017 are deposits with the Treasurer, including $53 million ($53 million) held in the Accrual Appropriation Excess Funds Account.

The balance of these funds is not available for general use and can only be used with the Treasurer's/ Under Treasurer's approval. Approved purposes include meeting capital spending and employee leave entitlement payments.

Court facilities planning

Last year we reported that the Department of Planning, Transport and Infrastructure would receive $1 million for a CBD Court facilities planning study in 2016-17.

This initiative was described as the development of a business case that considers the future accommodation requirements of the criminal and civil functions of the CAA and the civil and tribunal functions of the Attorney-General's Department.

As part of the 2017-18 budget, CAA received a $31 million allocation to redevelop the Higher Courts precinct. This will fund the conversion of civil courts in the Sir Samuel Way building into three criminal courts, as well as the renovation of civil courts in the Supreme Court complex.

Interpretation and analysis of the financial report for administered activities

Highlights of the financial report – administered items

	2017 $'million	2016 $'million
Expenses		
Judicial benefits expenses	39	40
Payments to the Fines Enforcement Recovery Unit (FERU)	1	1
Payments to the Consolidated Account	23	17
Other expenses	1	1
Total expenses	64	59
Income		
Revenues from SA Government	39	40
Court and transcript fees	21	17
FERU income	1	1
Other income	3	1
Total income	64	59
Net and total comprehensive result	-	-
Net cash provided by (used in) operating activities	3	-
Assets		
Current assets	11	11
Total assets	11	11
Liabilities		
Current liabilities	8	7
Non-current liabilities	11	12
Total liabilities	19	19
Total equity	(8)	(8)

Statement of Administered Comprehensive Income

Expenses

Payments to the Consolidated Account totalling $23 million comprise mainly court and transcript fees.

Judicial benefits expenses were $39 million, a decrease of $1 million from the previous year mainly as a result of the revaluation of long service leave liability.

Income

Court fees

Court fees are raised and collected by the CAA and paid directly to the Consolidated Account. The increase in court fees is due to the full-year effect of probate fee increases implemented in February 2016, and an increase in the number of probate lodgements.

Revenues from SA Government

Revenues from the SA Government are received by the CAA to fund employment expenses of the Judiciary. In 2016-17 revenues of $39 million ($40 million) were received from the SA Government to pay the recurrent expenditure associated with the Judiciary.

Defence SA

Financial statistics	Net cost of providing services:	$22.7 million
	Revenues from SA Government:	$20.8 million
	Non-current assets held for sale:	$230 million
	Number of FTEs:	36.5

Significant events and transactions

- A Memorandum of Understanding was signed between the State and Commonwealth Governments for the sale of Techport and related infrastructure to the Commonwealth for a total of $230 million across a number of tranches in 2017-18.
- An impairment loss of $11.5 million to the Techport assets was recognised on the reclassification of these assets to non-current assets held for sale as at 30 June 2017.
- Grants revenue was received for industry assistance programs and contributions to infrastructure of $8.8 million.

Financial report opinion	**Unmodified**
Financial controls opinion	**Unmodified**

Functional responsibility

Defence SA is an administrative unit established under the *Public Sector Act 2009* and is responsible to the Minister for Defence Industries.

The Defence SA Advisory Board provides high-level advice to the SA Government on strategy and policy required to deliver defence industry and facility growth in South Australia.

The functions of Defence SA are to:

- facilitate the development and growth of a competitive and sustainable defence industry in South Australia in line with South Australia's Strategic Plan objectives
- deliver the SA Government's commitments to the Air Warfare Destroyer project
- maximise Defence presence, including personnel and facilities, in South Australia.

Further details of Defence SA's functions are contained in note 1 of the financial report.

Scope of audit

The 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 2016-17 included:

- payroll
- expenditure
- revenue and cash
- general ledger
- fixed assets
- governance and financial compliance.

Audit findings and comments

Communication of audit matters

A small number of minor issues were communicated in a management letter to the Chief Executive as a result of the audit.

Defence SA provided a response to these matters indicating they had been addressed.

Shared Services SA – financial systems and transaction processing environments

Shared Services SA processes financial transactions on behalf of Defence SA under service level determinations. The main systems and control environments include accounts payable and payroll.

Our review and evaluation of controls for these systems concluded that controls were effective for 2016-17.

Shared Services SA is discussed further as part of the commentary under 'Department of the Premier and Cabinet' in this Report.

Interpretation and analysis of the financial report

Highlights of the financial report

	2017 $'million	2016 $'million
Expenses		
Employee benefits expenses	6	5
Supplies and services	8	8
Impairment losses	12	-
Depreciation and amortisation	7	7
Other expenses	4	2
Total expenses	37	22
Income		
Revenues from fees and charges	5	5
Grants	9	-
Total income	14	5
Net cost of providing services	23	17
Revenues from (Payments to) SA Government		
Revenues from SA Government	21	19
Net result and total comprehensive result	(2)	2
Net cash provided by (used in) operating activities	15	10
Net cash provided by (used in) investing activities	(8)	(1)
Assets		
Current assets	268	28
Non-current assets	-	240
Total assets	268	268
Liabilities		
Current liabilities	3	2
Total liabilities	3	2
Total equity	265	266

Sale of Techport infrastructure and land assets

In May 2017 a Memorandum of Understanding was signed between the Commonwealth Minister for Finance and the State Minister for Defence Industries for the sale of Techport and related land and infrastructure assets to the Commonwealth for $230 million. The transfer of the assets is to occur in three tranches between 1 July 2017 and 31 December 2017.

As a result of the Memorandum of Understanding being signed, the value of the Techport related assets was reduced to the $230 million that the Commonwealth will pay. The resulting $11.5 million reduction in the fair value of these assets was recognised in Defence SA's operating result.

The assets were also reclassified as non-current assets held for sale, as the sale is expected to be finalised by the end of December 2017.

Statement of Comprehensive Income

Defence SA’s total expenses increased to $36.8 million ($22.2 million). This increase was mainly due to an impairment loss of $11.5 million being recognised for the write-down of Techport land and related infrastructure assets from $241.5 million to the agreed price of $230 million. Grants and subsidies expense also increased to $4.5 million ($2 million) due to increased industry assistance payments.

Defence SA’s grant revenue increased by $8.3 million due to an increase in industry assistance program funding from other government agencies of $4.4 million and contributions from the Australian Submarine Corporation for dredging around the Common User Facility of $3.9 million.

Statement of Financial Position

As mentioned above, Defence SA’s Techport Australia harbour and port facilities assets were transferred to non-current assets classified as held for sale for $230 million on signing of the Memorandum of Understanding with the Commonwealth. These assets were previously classified as non-current assets in 2015-16 for $240.3 million. The assets classified as held for sale include the harbour and port facilities, $208.2 million, land, $16.4 million and buildings and other assets, $5.4 million.

Cash increased by $7 million mainly due to:

- an increase in receipts from the SA Government of $2.2 million
- a $2.7 million increase in industry assistance grant funding
- a $1.9 million increase in funds to cover payroll tax incentives payable under the Air Warfare Destroyer agreement.

Payables increased by $1 million mainly due to increased industry assistance amounts payable.

Statement of Cash Flows

Defence SA’s cash at 30 June 2017 comprises a Defence SA operating account of $8.4 million ($3.9 million) and an accrual appropriation excess fund balance of $26.2 million ($23.7 million). The accrual appropriation excess funds are not available for general use and can only be used with approval from the Treasurer.

Net cash provided by operating activities improved in 2016-17 by $5.3 million as a result of an increase in receipts from the SA Government of $2.2 million, coupled with a $7.7 million increase in receipts from increased grant activity. This was offset by increased grant expenditure of $1.7 million and an increase in payments for supplies and services of $1.6 million, mainly for increased spending on promotional events.

Department for Education and Child Development (DECD)

Financial statistics	Net assets:	$4436 million
	Net cost of providing services:	$2469 million
	Total revenues from SA Government:	$2524 million
	Total comprehensive result:	$682 million
	Number of FTEs:	23 189
	Number of school and preschool sites:	916
	Number of students enrolled in DECD schools at term 1, 2017:	173 537

Significant events and transactions

- On 1 November 2016 the functions of Families SA transferred from DECD to the new Department for Child Protection. The administrative restructure resulted in the transfer of 1763 FTEs and net liabilities of $30.8 million, mostly relating to employee leave and workers compensation provisions.
- DECD recorded a $545 million gain on the revaluation of buildings and improvements.
- Construction of the new $100 million Adelaide Botanic High School started in December 2016.
- The $250 million upgrade of science, technology, engineering and mathematics facilities at 139 DECD schools commenced.

Financial report opinion

Unmodified

Financial controls opinion

Modified

Key issues:

- Management of SA Schools Investment Fund balances needs improvement
- Controls for minor works and maintenance expenditure did not ensure all charges were valid or accurate
- No robust legal compliance framework
- Weaknesses in the recovery of salary overpayments
- Management of contracted school bus services needs to improve

Functional responsibility

DECD is an administrative unit established under the *Public Sector Act 2009* and responsible to the Minister for Education and Child Development (the Minister).

DECD administers certain activities on behalf of the Minister, including making payments of Commonwealth and SA Government contributions to non-government schools. Refer note 1 of the financial report for details of DECD's functions.

On 1 November 2016 the functions of Families SA transferred from DECD to the new Department for Child Protection, in response to an interim recommendation by the Child Protection Systems Royal Commission.

Scope of audit

The 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 2016-17 included:

- accounts payable
- minor works and maintenance expenditure
- payroll
- contract management
- grants to non-government schools
- management and use of purchase cards
- cash
- general ledger.

We also considered the work of DECD's internal auditors in planning and conducting the audit. We made use of their work for the audit of:

- school enrolment data used to determine the amount of funding provided to each government school
- government schools performed by contractors appointed, managed and monitored by DECD's internal audit team.

The audit also took into account the controls and procedures performed by service providers including Shared Services SA (SSSA).

Audit findings and comments

Assessment of controls

In my opinion, the controls exercised by the Department for Education and Child Development in relation to the receipt, expenditure and investment of money, the acquisition and disposal of property and the incurring of liabilities, except for all matters outlined under 'Communication of audit matters', are sufficient to provide reasonable assurance that the financial transactions of the Department for Education and Child Development have been conducted properly and in accordance with law.

Communication of audit matters

Matters identified by our audit were detailed in management letters to the Chief Executive. The main matters raised and related responses are detailed below.

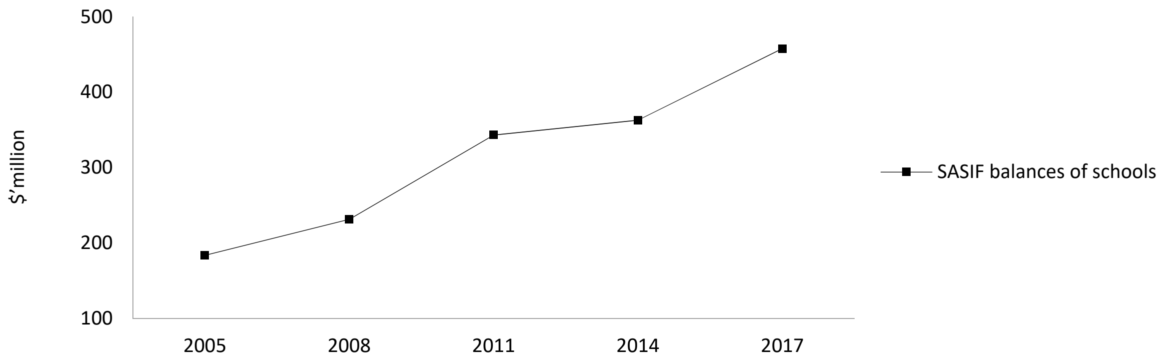
Management of SA Schools Investment Fund (SASIF) balances needs improvement

DECD provides recurrent funding to more than 900 school and preschool sites. These sites are largely resourced by DECD, with site generated income being minimal in comparison. A total of $2.1 billion in funding is expected to be allocated to sites in 2017.

While sites are allocated funding, a significant amount of site expenditure is for staff salaries which are paid centrally by DECD. As a result, DECD only physically distributes net funding to site SASIF accounts each month, after deducting the expenses that are centrally paid by DECD.

We noted that sites collectively had SASIF balances of $491.9 million as at 30 June 2017, with $457.4 million held by schools and $34.5 million held by preschools.

The chart below show that total SASIF balances for schools have substantially increased in the last 12 years, from $183.5 million in 2005 to $457.4 million in 2017.



Our analysis of SASIF balances at 30 June 2017 also revealed that:

- 126 sites had SASIF balances above $1 million
- 10 sites had SASIF balances above $3 million
- the highest individual site SASIF balance was $13.1 million.

Our review of monthly SASIF balances for the above sites found that over the last few years the balances of these accounts had either been increasing or had remained at similar levels.

The primary objective of DECD's site funding is to ensure that sites have the necessary resources for their core needs and that funds provided are spent on these areas. In our view, this site funding approach should not result in the long-term accumulation of funds.

We contacted a number of school sites with a trend of increasing SASIF balances to understand their cash management processes and the intended purpose(s) for their accumulated funds. We found that a number of sites believed they needed to have about 5% of their total annual funding allocation in their SASIF account, while one site advised that its SASIF balance should equate to its total annual funding of $14 million.

While site staff advised that the 5% level was consistent with DECD guidance, we noted that this was not a DECD policy requirement. We also noted that sites that made this comment had SASIF balances above this 5% benchmark, even after deducting committed expenditure.

DECD has established benchmarks to identify when a site's cash balance may be insufficient, potentially putting the site at risk, and monitors these regularly. We noted, however, that DECD did not have benchmarks or processes to identify sites with excessive SASIF balances. We consider it important that DECD establishes processes to actively monitor and manage sites with high SASIF balances to understand the reasons for these balances, including the planned use and future need for these funds.

High SASIF balances may indicate that sites are not using funds for their intended purposes to meet agreed outcomes or have been funded at levels above their current resourcing requirements. This may result in the ineffective use of DECD's resources.

We also recommended DECD continue with established strategies to review funding allocations and ensure DECD funds are being appropriately allocated to meet current site resourcing needs. In our view these strategies should consider providing continued incentives for sites to achieve efficiencies, including how these efficiencies are shared between sites and DECD.

DECD advised that it would develop a policy on managing cash reserves for schools and preschools and ensure that site leaders and governing councils understand the reasons for holding cash reserves, including how these reserves should be used to improve student educational outcomes. DECD also advised that it would continue with established and new strategies to ensure that funding allocations target students in the most effective way to achieve the best possible educational outcomes.

Controls for minor works and maintenance expenditure did not ensure all charges were valid or accurate

Minor works and maintenance tasks for DECD sites are performed by contracted facilities managers organised through the Department of Planning, Transport and Infrastructure (DPTI), and recorded in DPTI's asset management system (FAMIS). Under the contractual arrangements with the facilities managers, if the charges recorded in FAMIS are not approved or disputed by sites within 30 days, they are automatically paid.

Our 2016-17 audit of $86.1 million in FAMIS expenditure between July 2016 and April 2017 identified that while there had been an improvement in sites approving charges, 43% were still not validated before they were automatically paid.

The table below provides a further breakdown of this expenditure.

	Charges reviewed and approved by sites		Charges automatically paid by facilities manager	
Job type	$'million	%	$'million	%
Replacement refurbishment	12.2	47	14.0	53
Breakdown maintenance	15.3	60	10.0	40
Minor works	11.8	58	8.6	42
Preventative maintenance	5.6	58	4.0	42
Other	3.7	80	0.9	20
Total	48.6	57	37.5	43

We have raised this matter for a number of years and consider that where automatic payments continue to occur, there is an increased risk of DECD paying for works not performed or being overcharged. In our view these payments also breach the Treasurer's Instructions as no DECD delegate has approved the payments.

The improved performance, with 43% rather than last year's 80% automatically approved, is likely due to two factors:

- DECD published new procedures outlining site responsibilities for approving FAMIS charges
- DPTI implemented an email reminder function in FAMIS which emails sites 15 days before claims are automatically paid, reminding them to review and approve them.

While there was significant improvement in 2016-17, more than $37 million was still automatically paid.

We noted DECD did not perform any follow-up for sites that consistently had not approved claims in FAMIS. We consider that implementing a process to regularly follow up sites that do not approve claims would help to further reduce the significant dollar value of automatically approved payments.

Consistent with our approach last year, we contacted a number of schools with a high level of automatic payments to understand the issues or barriers that impact on site approvals. Some staff:

- advised they were unaware of the expectation to approve claims in FAMIS before payment
- indicated they deliberately did not approve claims due to the automatic payment function
- advised they had not received the FAMIS email reminders.

In responding to our findings in previous years DECD had advised that the risk of inaccurate charges was minimal and was reduced by DPTI engaging an independent accounting firm to review a sample of maintenance charges. We noted that the testing commissioned by DPTI was limited to unplanned breakdown maintenance and minor works charges, with no assurance from this process for the other significant job types that make up almost half the amounts in the table above.

This year, DECD advised that since our audit it had performed targeted analysis of monthly payment details to determine the top 10 sites with the most automatically approved payments. DECD advised that a strategy to identify and communicate with the 10 sites with the most automatic payments each month would be implemented from term 4 of the 2017 school year.

DECD did not have a robust legislative compliance framework

Last year we reported that DECD did not have a systematic approach to monitor legal compliance and report to the Chief Executive. While a number of compliance programs existed for specific legal obligations, they had not been captured or considered as part of a broader legislative compliance framework. We consider that not having a coordinated legal compliance framework increases the risk of DECD not appropriately identifying and managing legislative and regulatory requirements and risks, potentially causing reputational loss, litigation or financial loss.

DECD continued to work on this area in 2016-17, in particular:

- finalising a legislative compliance policy
- obtaining feedback from DECD executives on draft legislative compliance reporting templates
- developing assessment criteria for legislative provisions to help staff identify the legal provisions that will be reported to the Chief Executive.

We noted the assessment criteria and categories of legislative obligations to be reported to the Chief Executive and the frequency of reporting were being finalised at the time of our audit.

DECD's work to date focused on legislation directly committed to the Minister for Education and Child Development and the Minister for Child Protection Reform. We noted DECD's need to comply with many other legal requirements and that a process to identify and assess these requirements had not yet been completed.

DECD responded that it would identify and assess its compliance with legislative obligations by the end of 2017 and that further actions to ensure its compliance would include:

- finalising and testing a legislative responsibilities monitoring tool to identify legal obligations and manage and assess risks
- completing and approving the legislative provision assessment criteria
- identifying and assessing legal requirements other than those directly committed to its Ministers.

Payroll

Total employee expenses exceeded $2.2 billion in 2016-17, representing 70% of total expenses. DECD had more than 23 000 FTEs at 30 June 2017. Payroll controls are therefore included in our reviews annually.

Weaknesses in the recovery of salary overpayments

Recovering salary overpayments to DECD staff is a shared responsibility between DECD and SSSA. Overpayments are initially managed by SSSA before being transferred to the DECD Debt Recoveries Team. As at 28 June 2017 salary overpayments totalled $2 million (a similar level to prior years), with $1.1 million managed by SSSA and $922 000 managed by DECD.

We have previously reported that the cause and recovery of salary overpayments needed to be addressed by DECD and SSSA.

Our 2016-17 audit found there is still a need for DECD to work with SSSA to improve monitoring and reporting tools used to manage salary overpayments. As a result, there is a risk that debts may not be managed efficiently or recovered promptly.

In 2016-17 DECD enhanced the payroll system to include an overpayment age counter, enabling SSSA to better track overpayments, as some debts without recent recovery action are now more easily identified and addressed. Despite this improvement, we noted ongoing deficiencies in the reporting capabilities of the overpayments ledgers used by DECD and SSSA.

Reporting from the overpayments ledgers did not readily identify the age of debts, the range of debt values (including largest overpayments) and when all debts were last actively followed up.

Our review of actions taken by DECD to manage a sample of outstanding overpayment balances also noted instances of delays in follow-up and recovery actions taken.

In response DECD advised that it expects the number of overpayments and underpayments to reduce once further enhancements to the payroll system are completed in November 2017. DECD will also investigate establishing a report that outlines the age of all debts.

No authority for salary loading paid to emergency relief teachers (ERTs) in lieu of long service leave

We have reported for the last two years that DECD paid 2.5% salary loading to ERTs that was not supported by an industrial agreement. We found further payments of this loading totalling $510 000 between July and December 2016.

We could find no legal basis for these payments in the absence of an industrial agreement requirement. We noted these payments ceased from the start of the 2017 school year when DECD implemented a revised ERT payment process.

DECD responded that the ERT payment rates had ceased and that teachers working as ERTs are now paid their normal salary and entitlements.

No central process to monitor sites that did not review key payroll reports

We have identified and reported delays in the certification of bona fide certificates (BFCs) and monthly leave returns (MLRs) for a number of years. This is a particular focus for the audit as DECD does not have any other processes to provide assurance about the accuracy and validity of its payroll payments.

In 2016-17 we noted improvements in the number of BFCs and MLRs being certified by management. While most reports were certified we still found delays in the prompt review of these reports and there were a number of sites and business units that consistently did not review them.

While DECD previously advised us that an escalation process and a process to review non-compliant sites would be implemented by September 2016, these processes only started in March 2017. We consider that central monitoring and follow-up of sites where there are ongoing issues with certifying BFCs and MLRs will help DECD to reduce delays in the prompt review of these reports and further improve certification rates.

DECD advised that processes implemented in March 2017 involve targeting sites with outstanding reports through emails to site leaders of actions required and escalation to Education Directors.

Management of contracted school bus services needs to improve

DECD provides school bus services to transport children to and from government schools and has entered into over 250 contracts with almost 50 operators to provide these services. Payments of about $25 million were made by DECD to contracted operators in 2016-17.

We noted that DECD had drafted a contract management framework for school bus services but not finalised and approved it. In the absence of a framework, we were advised that DECD performs a number of activities to manage contracted school bus services including inspecting buses owned by contracted operators, reviewing school bus routes and reviewing driver accreditation requirements.

While we were advised that a small number of operators have met with DECD and that meetings were held with a number of schools responsible for the day-to-day management of bus operators, minutes of these meetings had not been prepared to record the agreed outcomes.

In our view not having a documented framework could result in ineffective contract management and lead to contract risks and the failure to identify and address issues with contractor performance or non-compliance with contractual requirements.

DECD agreed and advised that the draft contract management framework would be finalised before the 2018 school year.

A number of split transactions were paid using DECD purchase cards

Our analysis of DECD's purchase card transactions found instances of cardholder transactions being paid over multiple payments rather than as a single transaction. We noted a number of purchases were split into smaller payments so that each purchase was within the cardholder's limit.

DECD reviews a random sample of ten cardholders each month and this process includes assessing if any transactions were split, as part of considering compliance with delegations. We noted, however, that this process was not designed to specifically target potential instances of transaction splitting. In our view the instances we identified demonstrate the need for DECD to implement specific processes designed to identify and follow up potential instances of transaction splitting.

Splitting invoices into smaller payments can occur to circumvent established authorisation levels, increasing the risk of inappropriate purchases. While cardholder limits are annually reviewed by DECD executive, we consider it important that existing cardholder limits are continually reviewed and that staff are educated about processes for requesting increases to these limits when business needs change.

DECD agreed and advised that a new purchase card system would be implemented and the enhanced reporting capabilities of this system would improve DECD's ability to monitor the use of purchase cards. DECD also advised that its purchase card policy and fact sheet had been updated since the audit to highlight to cardholders that transaction splitting is not permitted.

Shared Services SA – financial systems and transaction processing environments

SSSA processes financial transactions on behalf of DECD under service level determinations. The main systems and control environments include accounts payable, payroll and general ledger financial functions.

Our review and evaluation of controls for these systems concluded that controls were effective for 2016-17.

SSSA is discussed further as part of the commentary under 'Department of the Premier and Cabinet' in this Report.

Interpretation and analysis of the financial report

Highlights of the financial report (Consolidated)

	2017 $'million	2016 $'million
Expenses		
Employee benefits expenses	2 270	2 312
Supplies and services	675	674
Other	302	397
Total expenses	3 247	3 383
Income		
Commonwealth revenues	498	479
Student and other fees and charges	161	151
Other	119	95
Total income	778	725
Net cost of providing services	2 469	2 658
Revenues from (Payments to) SA Government		
Revenues from SA Government	2 524	2 682
Payments to SA Government	-	(61)
Net result	55	(37)
Other comprehensive income		
Changes in revaluation surplus	627	42
Total comprehensive income	682	5
Net cash provided by operating activities	167	15
Assets		
Current assets	1 016	914
Non-current assets	4 533	3 997
Total assets	5 549	4 911
Liabilities		
Current liabilities	363	369
Non-current liabilities	750	818
Total liabilities	1 113	1 187
Total equity	4 436	3 724

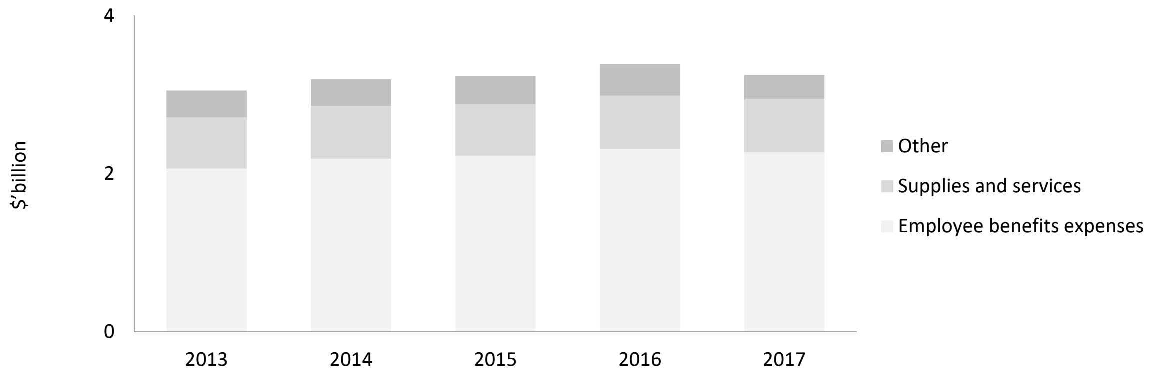
Transfer of Families SA to the Department for Child Protection (DCP)

DECD's functions and responsibilities changed during the year as a result of the transfer of Families SA to the new DCP from 1 November 2016. As a result of this change some of the 2017 and 2016 figures are not directly comparable.

Statement of Comprehensive Income

Expenses

A structural analysis of the main expense items for DECD for the five years to 2017 is shown in the following chart.

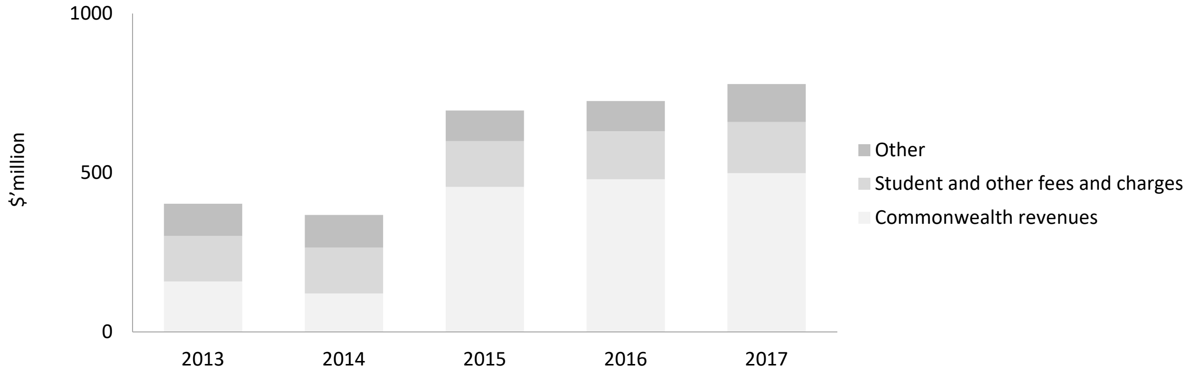


Total expenses decreased by $135 million (4%) to $3.2 billion. This comprised:

- a $41.5 million decrease in employee benefits expenses reflecting:
  - a $66 million decrease in long service leave expense due mainly to an increase in the bond rate used in the actuarial calculation to value the long service leave liability, resulting in a decrease in the liability
  - a $3.3 million decrease in workers compensation mainly due to the transfer of Families SA staff to DCP
  - a $31.4 million increase in salaries and wages (including annual leave) that resulted from an $85 million increase from enterprise bargaining increases, an $82 million decrease in Families SA salaries and wages following the transfer to DCP, and increased salary costs related to governing council employees and an increased number of school term days in 2016-17
  - a $3.6 million increase in targeted voluntary separation payments, which includes an accrued expense of $8.1 million for separation packages accepted by 178 staff under the teacher renewal program
- an $84 million decrease in grants and subsidies primarily due to reduced Families SA expenditure following the creation of DCP.

Income

A structural analysis of the main income items for DECD for the five years to 2017 is shown in the following chart.



The increase in Commonwealth revenues in 2015 reflects the reclassification of National Education Reform Agenda receipts, previously recorded as revenues from SA Government.

Total income increased by $54 million (7%) to $778 million. This included:

- a $19.3 million increase in Commonwealth revenue due mainly to:
  - a $28.2 million increase in National Education Reform Agenda funding, reflecting indexation under the new funding arrangement that commenced in 2014-15
  - offset by a $5 million decrease in funding due to national partnership agreements ceasing for Improving Literacy and Numeracy and More Support for Students with Disabilities, and the Trade Training Centres program also ending
- an $11.7 million improvement in the net gain/loss from disposal of non-current assets due to favourable sale prices for a number of surplus sites
- a $10.6 million increase in other grants and contributions and a $10.3 million increase in student and other fees and charges, primarily due to a $7.2 million increase in student enrolment fees and charges.

Revenues from SA Government

Revenues from the SA Government decreased by $158 million (6%) to $2.5 billion, including a $204 million decrease due to the transfer of Families SA, partially offset by the receipt of additional investing funding of $35 million for science, technology, engineering and mathematics (STEM) capital projects in schools.

Statement of Financial Position

Assets

Current assets increased by $102 million to $1 billion due mainly to:

- a $110.9 million increase in cash and cash equivalents due mainly to a $62 million increase in cash held by schools in SASIF accounts and a $44.3 million increase in DECD's deposits with the Treasurer, with $18.3 million of this increase in funds requiring the Treasurer's approval to spend
- offset by a $7.4 million decrease in receivables, due mainly to a $5.9 million decrease in prepayments for insurance when compared to 2015-16.

Non-current assets increased by $536 million to $4.5 billion

The major movements within property, plant and equipment for the year were:

- a $638 million increment on the revaluation of assets which consists of:
  - a $545 million increment on the revaluation of buildings and improvements
  - an $81 million increment on the revaluation of land by the Valuer-General
  - a $12 million increment on the revaluation of buildings under finance lease
- asset additions of $57 million which included:
  - $13 million to build and upgrade STEM facilities at schools
  - $12 million for the Adelaide Botanic High School, with a total of $14.4 million recognised in construction works in progress at 30 June 2017 for this project
- annual depreciation and amortisation charges of $102 million
- assets transferred to the Department for Child Protection of $37 million
- impairment of land, buildings and improvements of $11 million
- assets reclassified as held for sale of $9 million.

Revaluation of buildings and improvements resulted in a $545 million increase in value

DECD's buildings and improvements (predominately school and preschool facilities) are revalued every three years. The 2017 revaluation resulted in a $545 million increase in value.

DECD uses an asset management system maintained by DPTI to record data about the physical infrastructure of its buildings and improvements. Data from this system is used in the revaluation process to calculate the current replacement cost of these assets, multiplying building data by industry based unit costs.

The rates used to revalue DECD buildings and improvements are indexed each year based on an annual building cost index. Since the last revaluation in 2014 the index applied by DPTI has increased by 12%. For the 2017 revaluation DPTI applied further increases to rates as it determined that replacement costs had not kept up with current industry based valuations. The catch-up of industry unit rates resulted in a further 16.5% increase over the three years.

To ensure that calculated replacement costs were appropriate, DECD engaged an independent valuer to perform a valuation for a sample of 20 sites. The calculated replacement cost of $863 million for these 20 sites was not materially different to that determined by the independent valuer, providing assurance that the calculated values for DECD's other sites are appropriate.

Liabilities

As at 30 June 2017 the employee benefits and related on-cost liability of $738 million ($801 million) comprised 66% (68%) of total liabilities. Borrowings of $169 million ($171 million) relating to obligations under the finance lease for the schools' facilities Public Private Partnership agreement comprised 15% (14%) of total liabilities. The $72 million ($92 million) provision for workers compensation claims accounts for a further 6% (8%) of total liabilities.

Workers compensation payments increased steadily between 2012-13 and 2014-15, reduced in 2015-16 and further decreased in 2016-17, partially due to the transfer of Families SA employees.

Movements over the past five years are shown in the following table.

	2016-17 $'million	2015-16 $'million	2014-15 $'million	2013-14 $'million	2012-13 $'million
Payments	20.7	30.4	30.9	26.9	22.0
Balance of the provision	72.2	92.5	101.4	117.1	109.9

The closing balance of the workers compensation provision varies according to actuarial assessments undertaken each year and reduced by $20.3 million in 2017 mainly due to the transfer of Families SA staff to DCP. The actuarial assessment reflects a range of items, including economic assumptions, experience of actual claims and the impact of any legislative changes to workers compensation arrangements.

Statement of Cash Flows

DECD's cash position increased by $111 million in 2016-17 with the main movements being:

- a $151 million increase in net operating cash flows, resulting mainly from:
  - a $93 million decrease in payments of grants and subsidies
  - a $55 million decrease in payments for supplies and services
  - a $76 million decrease in employee benefit payments
  - a $61 million decrease in payments to the SA Government under the cash alignment policy
  - offset by a $158 million decrease in receipts from the SA Government
- a $16 million increase in net cash flows used in finance activities, predominantly due to cash transferred as a result of the administrative restructure

The overall reduction in payments and the reduced receipts from the SA Government reflect that costs and funding associated with the operations of Families SA transferred to DCP from 1 November 2016.

Cash of $949 million at 30 June 2017 includes deposits with the Treasurer of $481 million (including $441 million in the Accrual Appropriation Excess Funds Account, which can only be used as approved by the Treasurer) and $431 million in cash held by schools in SA School Investment Funds accounts.

Administered items

DECD administers certain funds on behalf of the Minister for Education and Child Development. The funds are received from the Commonwealth and SA Governments and used mainly to pay:

- grants to non-government schools of $1029 million ($996 million)
- subsidies of $13 million ($13 million) to DPTI for student travel concessions on metropolitan and country transport services
- an operating grant to the SACE Board of South Australia of $20 million ($19 million).

Grants to non-government schools included $194 million ($188 million) in State grants. The grants were based principally on the average annual enrolment of the schools and the needs of the schools and their students.

Further commentary on operations

Staffing

DECD employed the following employees by category at 30 June for the past three years.

	2017 FTEs	2016 FTEs	2015 FTEs
Department			
Education Act 1972	14 755	14 524	14 310
Schools Services Officers Award	5 042	4 791	4 520
Children's Services Act 1958	1 334	1 284	1 213
Public Sector Act 2009	1 431	2 855	2 918
Weekly paid	304	302	293
Other	323	356	284
Total	23 189	24 112	23 538

	2017 FTEs	2016 FTEs	2015 FTEs
Administered activities			
Public Sector Act 2009	20	11	12
Education Act 1972	-	1	1
Children and Young People (Oversight and Advocacy Bodies) Act 2016	1	-	-
Total	21	12	13

The number of FTEs fell by 923 in 2017 due to the transfer of 1763 FTEs to the Department for Child Protection, offset by an increase of 840 FTEs.

Environment Protection Authority (EPA)

Financial statistics

Net assets:	$22.9 million
Net revenue from providing services:	$11.9 million
Total comprehensive result:	$6.1 million
Number of FTEs:	214

Significant events and transactions

— Solid waste levies received and transferred to the Green Industries Fund (Green Industries SA) was reported as an administered activity this financial year. In prior years it was reported as a controlled activity. The amounts reported for 2015-16 in note 38 of the financial report represent the financial impact of the corrections to the EPA's financial report.

— Surplus cash of $5.8 million was returned to the SA Government under the cash alignment policy.

— $27 million of solid waste levies was transferred to the Green Industries Fund (Green Industries SA).

Financial report opinion

Unmodified

Financial controls opinion

Modified

Key issues:

— A large number of bona fide reports for 2016-17 were not reviewed and certified as at April 2017

— A large number of TimeWise attendance records were incomplete and unapproved

— The appropriateness of Basware user access granted could not be fully assessed

— The existence and condition of furniture and fittings is not verified in the annual stocktake of major assets

Functional responsibility

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

The EPA financial reporting entity comprises the following:

- a statutory authority with an appointed board established by the *Environment Protection Act 1993* (the 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 make use of 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 audit

The 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 2016-17 included:

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

Audit findings and comments

Assessment of controls

In my opinion, the controls exercised by the Environment Protection Authority in relation to the receipt, expenditure and investment of money, the acquisition and disposal of property and the incurring of liabilities, except for all matters outlined under 'Communication of audit matters', are sufficient to provide reasonable assurance that the financial transactions of the Environment Protection Authority have been conducted properly and in accordance with law.

Communication of audit matters

Matters identified by the audit were detailed in management letters to the Chief Executive. The EPA's responses indicated that appropriate actions would be taken to address the matters raised. The main matters raised are detailed below.

Payroll

Employee benefits, $23 million, were EPA's largest expense in 2016-17.

Volume of outstanding bona fide reports

The EPA's bona fide procedure requires pay point delegates to review and certify fortnightly bona fide reports. Certified bona fide reports are recorded on a central register. This certification provides the EPA with assurance that only valid employees are paid and that employees are paid correctly. The EPA's People and Capability branch monitors compliance with this procedure.

We noted that about 15% of bona fide reports for the financial year were not recorded on the register as certified as at 4 April 2017.

The EPA responded that it has a reminder process in place and will continue to use it. Regular updates on outstanding bona fide certification will be provided to the EPA executive to reinforce the importance of the certification process.

Large number of outstanding attendance records

The EPA uses the TimeWise system to monitor employee attendance and approve leave taken. We noted a large number of:

- TimeWise attendance records were yet to be completed by EPA employees, some dating back to July 2016
- completed TimeWise attendance records were yet to be reviewed and approved, some dating back to July 2016.

Leave transactions recorded in TimeWise are reconciled with leave records in the CHRIS payroll system.

The EPA relies on these controls to ensure all leave taken is deducted from an employee's leave entitlement. If they are not operating effectively the EPA's leave liabilities may be overstated. Further, without accurate CHRIS leave records, managers may approve leave that is in excess of actual entitlement, resulting in salary overpayments.

The EPA responded that an email is sent to managers every three months to reinforce to staff and managers the requirements of EPA's time and attendance recording procedure. Training for managers will also be conducted later this year to further reinforce these requirements.

Accounts payable

Review of Basware user access

Shared Services SA (SSSA) provides the EPA with quarterly reports detailing user access information and financial authorisation limits for the Basware payment processing system . The EPA is required to review the accuracy of the reports and provide written confirmation of this and any changes required to SSSA.

The EPA cannot fully assess whether the access granted to EPA users is appropriate because the EPA officer reviewing the reports does not understand some of the information they contain.

Inappropriate Basware user access may result in invalid and unauthorised transactions.

The EPA responded that it has obtained an explanation of information in the user access reports from SSSA. This has been communicated to the EPA staff who review the reports.

Fixed assets

Major asset stocktake

Furniture and fittings of $2 million comprise just over half of the EPA's total property, plant and equipment.

We noted that details of furniture and fittings are not included in the annual EPA stocktake reports, meaning their existence and condition is not verified as part of the annual stocktake of major assets.

The EPA responded that a revaluation of assets is scheduled for 2017-18. The EPA will use information provided by the valuer to conduct a stocktake of furniture and fittings as part of its annual stocktake of major assets.

Shared Services SA – financial systems and transaction processing environments

SSSA processes financial transactions on behalf of the EPA under service level determinations. The main systems and control environments include accounts payable, payroll and general ledger financial functions.

Our review and evaluation of controls for these systems concluded that controls were effective for 2016-17.

SSSA is discussed further as part of the commentary under 'Department of the Premier and Cabinet' in this Report.

Interpretation and analysis of the financial report

Highlights of the financial report*

	2017 $'million	2016 $'million
Expenses		
Employee benefits expense	23	24
Supplies and service	8	8
Other expenses	2	2
Total expenses	33	34
Income		
Fees and charges	44	38
Other revenues	1	2
Total income	45	40
Net revenue from providing services	12	6
Net payment to SA Government	6	6
Net result	6	(1)
Net cash provided by (used in) operating activities	6	-
Assets		
Current assets	27	20
Non-current assets	6	7
Total assets	34	27
Liabilities		
Current liabilities	4	4
Non-current liabilities	7	7
Total liabilities	11	10
Total equity	23	17

* Table may not add due to rounding

Statement of Comprehensive Income

Expenses

Total expenses decreased by $1.1 million in 2016-17, due mainly to a $971 000 decrease in employee benefits expenses. Employee benefits expenses decreased due primarily to a decrease in the long service leave expense. The reduction in long service leave expenses reflects less leave taken or paid out on termination in 2016-17 compared to last year, and the reduction in the long service leave liability (refer notes 6 and 23 of the financial report).

Income

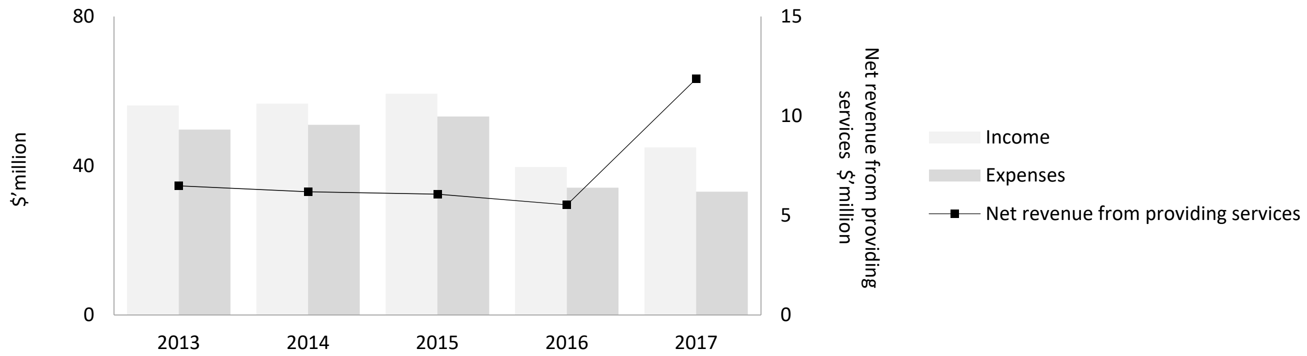
Total income increased by $5.3 million in 2016-17. This was due primarily to an increase in waste levies recognised in revenues from fees and charges.

In 2016-17 the collection of solid waste levies increased to $27.9 million ($22.9 million). Solid waste levies are discussed further under 'Further commentary on operations' below.

Net benefit of providing services

The chart below shows the income, expenses and net revenue from providing services for the five years to 2017. The consistent level of net revenue from providing services since 2013 is mainly due to increases in waste levy rates since then.

Since 2014, the EPA has funded its operations by raising fees and charges and has not required any appropriation funding from the Consolidated Account. Over this period, under the cash alignment policy, the EPA has in fact returned $24.8 million in surplus cash directly to the Consolidated Account.



Note that income and expenses in years 2013 to 2015 in this chart include solid waste levies received and transferred to the Green Industries Fund (Green Industries SA). In 2016-17 the EPA reported this income and expense as an administered activity (refer notes 28 and 38 of the financial report). This change in reporting reflects the recognition that the EPA does not control the use of these funds, but is required by legislation to transfer 50% of solid waste levies collected from waste depot licence holders to the Green Industries Fund.

Payments to SA Government

The EPA has achieved operating surpluses and generated surplus cash from operations for a number of years.

The EPA has returned $24.8 million to the Consolidated Account over the past four years.

The following table sets out payments to the SA Government and cash balances at 30 June for those years.

	2014 $'million	2015 $'million	2016 $'million	2017 $'million
Payments to SA Government	5.4	7.3	6.3	5.8
Cash	16.5	15.8	15.6	21.6

Statement of Financial Position

Current assets – cash and cash equivalents

Cash and cash equivalents, $22 million ($16 million), represent 79% (76%) of total current assets and 64% (57%) of total assets. Cash and cash equivalents include the Environment Protection Fund deposit account of $7 million.

Use of the money held in the Environment Protection Fund requires approval of the Minister and must be consistent with the requirements of the EP Act.

Non-current assets – property, plant and equipment

In 2016-17 this item makes up 11% (16%) of total assets. Furniture and fittings is the dominant item of property, plant and equipment. Furniture and fittings include leasehold improvements made to EPA premises in Victoria Square, Adelaide.

Property, plant and equipment decreased by $532 000 due to the transfer of capital works in progress to intangibles of $258 000 and depreciation charges of $714 000, partly offset by asset additions of $440 000. The remaining balance of capital works in progress ($26 000) relates to designing and developing the EPA's website. The completed asset will be transferred to intangibles in 2017-18 when all expenditure has been finalised.

Notes 19 and 20 of the financial report provide further details on these items and amounts.

Administered items

The EPA's administered activities comprise:

- solid waste levies collected and transferred to the Green Industries Fund
- revenue arising from the litter provisions in the *Local Nuisance and Litter Control Act 2016*.

Note 38 of the financial report contains the administered financial statements.

Transfer of solid waste levies to the Green Industries Fund (Green Industries SA)

The EPA receives solid waste levies from waste depots under section 113 of the EP Act. There was an increase in solid waste levy rates of 9% from 1 July 2016 and a further 23% from 1 September 2016, compared to a 10% increase from 1 July 2015. Section 17 of the *Green Industries Act 2004* requires the EPA to transfer 50% of these levies to the Green Industries Fund.

This fund may be applied by Green Industries SA in line with the approved Green Industries SA business plan, or in any other way authorised by the responsible Minister for the purposes of the *Green Industries Act 2004.*

The EPA transferred $27 million ($22 million) to the Green Industries Fund during the year.

The balance of the Green Industries Fund at 30 June 2017 was $108.3 million ($86.8 million).

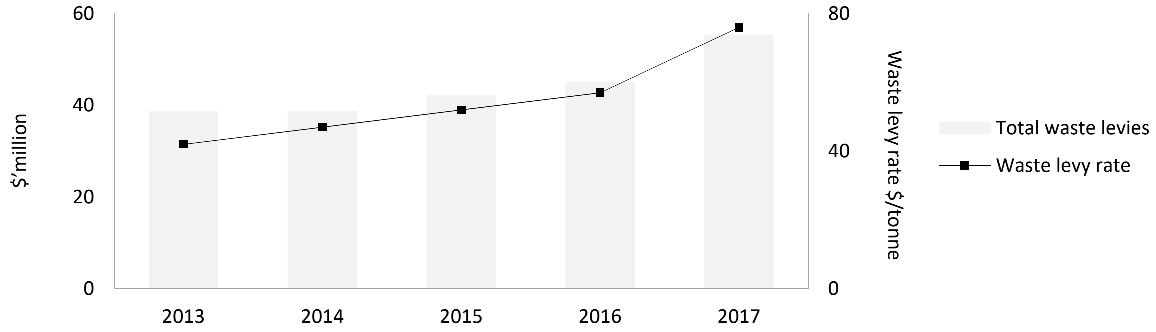
Further commentary on operations

Waste levies

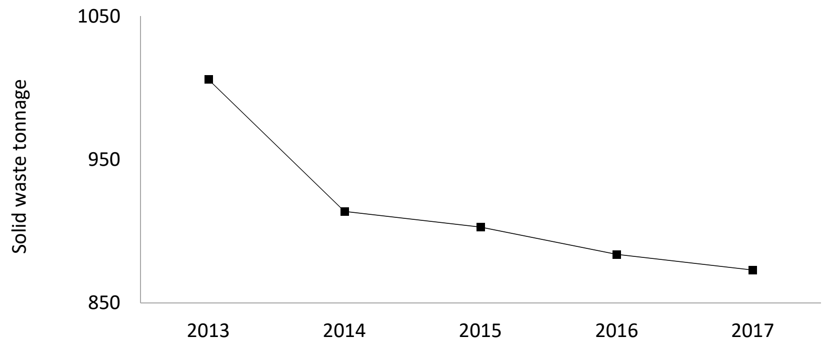
Waste levies collected by the EPA (controlled and administered) totalled $55.4 million ($45.1 million) (refer notes 11 and 38 of the financial report).

There has been an increasing trend in solid waste levy rates that has been offset by a decrease in solid waste tonnage reported as received by waste depots.

The following chart shows the amounts collected from waste levies from 2013 to 2017.



The following chart shows the decrease in solid waste tonnage reported by waste depots over the same period. This data was provided to us by the EPA.



Department of Environment, Water and Natural Resources (DEWNR)

Financial statistics	Net cost of providing services: Total appropriation: Employee benefits expenses: Property, plant and equipment: Number of FTEs:	$160.2 million $149 million $155.5 million $636 million 1562.1
Significant events and transactions	— Property, plant and equipment revaluations resulted in an adjustment of $49.2 million. — There was a $14 million movement in the State's joint interest in the assets of the Murray-Darling Basin Authority recognised in the Statement of Administered Financial Position. — Severe storm events damaged several hundred DEWNR assets, including buildings, camp grounds, fencing, roads, tracks and trails. At 30 June 2017 DEWNR had incurred $7.6 million in remedial works and the estimated cost of completing these works is $9.1 million.	
Financial report opinion	**Unmodified**	
Financial controls opinion	**Modified** Key issues: — Retail Touch point of sale system and Tenement and Billing system user access not regularly reviewed — Errors in mapping new product codes and rates in the Water Information and Licencing Management Application resulted in invoicing errors in the South Eastern region — Large numbers of incomplete and unapproved TimeWise attendance records, with reconciliation of TimeWise leave transactions with CHRIS payroll system leave records not performed for some branches and regions since 2013-14 — Improvements are needed to the monthly bank reconciliation process	

Functional responsibility

DEWNR is an administrative unit established under the *Public Sector Act 2009*, and is responsible to the Minister for Sustainability, Environment and Conservation, the Minister for Water and the River Murray and the Minister for Climate Change.

DEWNR leads the management of South Australia's natural resources to ensure the protection of the environment and that healthy and productive natural resources sustain wellbeing and the economy.

Scope of audit

The 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 2016-17 included:

- fees and charges revenue
- water licence and levy revenue
- grant revenue
- accounts payable
- grants and subsidies expenditure
- payroll
- cash
- fixed assets
- purchase cards
- general ledger.

Audit findings and comments

Assessment of controls

In my opinion, the controls exercised by the Department of Environment, Water and Natural Resources in relation to the receipt, expenditure and investment of money, the acquisition and disposal of property and the incurring of liabilities, except for all matters outlined under 'Communication of audit matters', are sufficient to provide reasonable assurance that the financial transactions of the Department of Environment, Water and Natural Resources have been conducted properly and in accordance with law.

Communication of audit matters

Matters identified by the audit were detailed in management letters to the Chief Executive. The main matters raised and related responses are detailed below.

Income

Revenues from fees and charges

In 2016-17 revenues from fees and charges, excluding water licence and levy revenue, were $96 million.

The following matters all relate to access to DEWNR's main fees and charges revenue systems and increase the risk of error when raising fees and charges.

Nature of Retail Touch point of sale system (RT POS) user access could not be explained

At the time of our audit there were 378 RT POS users across 20 sites. These users were allocated one of 10 security levels.

DEWNR officers were unable to explain the access capabilities across the 10 different security levels. Further, we identified 30 staff with the same level of access to RT POS as the two officers granting access to new users.

These observations indicated that DEWNR had not implemented effective controls to assign and monitor access to RT POS.

DEWNR acknowledged the need to rationalise and consolidate the different levels of user access to RT POS, committing to review these user access levels in August 2017.

Further, DEWNR advised that it would develop policies and procedures for the regular review of user access to RT POS by December 2017.

DEWNR noted that it was comfortable that the levels of access for existing users are commensurate with their positions and roles.

RT POS user access not regularly reviewed

We noted that DEWNR had not documented its policy or procedure for the regular review of RT POS user access.

While we were advised that access to RT POS is required to be reviewed each quarter, we noted the last user access review occurred in July 2016.

DEWNR responded that it would develop policies and procedures for the regular review (at least annually) of user access to RT POS by 31 December 2017.

Tenement and Billing System (TABS) user access not regularly reviewed

Invoices are raised in TABS for all leases, licences and other land and related tenements administered by DEWNR's Crown Lands and other branches.

DEWNR procedure requires the Crown Lands branch to review TABS user access every six months.

We noted that the last TABS user review had occurred in March 2016.

DEWNR responded that the Crown Lands branch had developed new reports to ensure TABS user access is reviewed every six months. Evidence of each review will be retained within the Crown Lands branch.

Water licence and levy revenue

Water licence and levy revenue in 2016-17 was $18.7 million.

Errors in mapping 2016-17 water levy product codes and rates in the Water Information and Licencing Management Application (WILMA)

Under the *Natural Resources Management Act 2004* the Minister for Sustainability, Environment and Conservation approves annual water levy rates, effective 1 July each financial year.

DEWNR officers must update the rate tables in WILMA to reflect the approved water allocation, entitlement and usage rates.

This system update initially occurs in the WILMA test environment, with checks performed to ensure that the rate tables have been completely and accurately updated and that invoices are correctly calculating in WILMA. Once testing is complete, the new rates are loaded into the WILMA production environment and levy invoices raised.

During this year's audit we were advised that a number of 2016-17 invoicing errors were identified by licence holders in the South East region.

The errors resulted from a change from hectare to volume metric charging of rates in the South East region. This change required an update of product codes and rates within WILMA. DEWNR investigations identified that some product codes were mapped to incorrect rates but that these mapping errors were not identified by checks performed.

Remedial action taken by DEWNR comprised:

- forwarding additional invoices and letters to affected licence holders explaining the correct fee
- remapping the South East region product codes to correct rates in WILMA.

DEWNR advised that to prevent similar errors occurring in the future, they engaged external consultants to audit the mapping of 2017-18 levy rates. All errors identified during the audit were corrected before levies were raised for 2017-18.

Accounts payable

Ineffective review of Basware user access

Shared Services SA (SSSA) provides DEWNR's Finance and Business Services (FBS) branch with quarterly reports that detail user access and financial authorisation limits in the Basware payment processing system. DEWNR is required to review the accuracy of the reports and provide SSSA written confirmation of report accuracy and details of any changes required.

Basware reports are loaded onto DEWNR's network and the FBS branch emails business managers requesting they review them.

When we queried them, relevant officers were unable to explain some of the user profile information contained in the Basware IP User reports, meaning business managers were also unlikely to fully understand the user profile information they are required to check.

This level of understanding is necessary to ensure DEWNR business managers can effectively assess the access profiles granted to Basware users.

DEWNR advised that it met with SSSA to clarify the information received for the quarterly Basware reviews, and agreed that it would review all report data provided on a quarterly basis. Information contained in the IP User Report will be communicated to business managers as part of the next quarterly review, scheduled for October 2017.

Insufficient checking of transactions approved by Basware special/super delegates

Some Basware users have special and/or super delegation limits. The purpose of these delegation limits is to allow users in authorised circumstances to approve transactions that exceed their normal financial delegated amount.

Each month SSSA provides DEWNR's FBS branch with Basware reports that detail transactions approved using a special and/or super delegation. Transactions listed on the reports cover DEWNR transactions and also payments approved on behalf of other environment portfolio entities. DEWNR is required to review all transactions on these reports to ensure the delegation was appropriately exercised and the payment valid.

We were advised that most transactions listed on the reports are for Natural Resources Management Boards (NRMBs).

The FBS branch reviews the NRMB transactions listed on the Basware reports for reasonableness by confirming that transactions are posted to NRMB cost centres and where necessary contacting the approving officer.

However, up until April 2017 FBS branch did not have access to the NRMB instruments of expenditure delegation and so was unable to verify that transactions were approved in line with them.

DEWNR responded that where transactions apply the NRMB financial delegations, reports will be provided to the relevant regional DEWNR officers for review. The results of those reviews will be communicated to DEWNR's Accounting and Procurement Team with evidence of the review being retained within the region.

Transactions that apply the financial authorisations approved by the Minister or DEWNR's Chief Executive will continue to be reviewed centrally by DEWNR's Accounting and Procurement Team, with evidence of these reviews retained centrally.

Payroll

Employee benefits expenses were $155 million in 2016-17 and the liability for leave entitlements at 30 June 2017 was $50 million.

Bona fide report certification

The DEWNR bona fide policy requires pay point delegates to review and certify fortnightly bona fide reports. This provides DEWNR with assurance that only valid employees are paid and that employees are paid correctly. Certified bona fide reports are recorded on a central register.

We noted that about 8% of bona fide reports for the financial year were not recorded as certified on the register as at 1 May 2017.

DEWNR responded that in July 2016, managers were reminded of their responsibilities in relation to certifying of bona fide reports. DEWNR will again send an email to all managers reminding them of their responsibilities.

DEWNR also advised that the bona fide guideline is currently under review and the updated version will include an escalation process.

Large numbers of incomplete and unapproved attendance records

DEWNR uses the TimeWise system to monitor employee attendance and approve leave taken. We noted a large number of:

- TimeWise attendance records were yet to be completed by DEWNR employees, some dating back to July 2016
- completed TimeWise attendance records were yet to be reviewed and approved, some dating back to September 2016.

We also noted that the reconciliation of leave transactions recorded in TimeWise with leave records in the CHRIS payroll system had not been performed for all branches/regions, with some of the outstanding reconciliations relating to 2013-14.

DEWNR relies on these controls to ensure all leave taken is deducted from an employee’s leave entitlement. If they are not operating effectively DEWNR’s leave liabilities may be overstated. Further, without accurate CHRIS leave records, managers may approve leave in excess of actual entitlement, resulting in salary overpayments.

DEWNR responded that in July 2017 all staff were reminded of their responsibilities through both a system notification in TimeWise and an article in DEWNR’s staff newsletter. In August 2017 all managers and delegates were forwarded an email to follow up incomplete and unapproved attendance records within their branch/region. DEWNR also reviewed the managing time and attendance procedure and guideline, and once approved it will be distributed to all managers and delegates for their reference.

Responsibility for preparing four of the six group TimeWise to CHRIS leave reconciliations has now been transferred out of DEWNR’s Organisational Performance Branch to the individual DEWNR groups. The remaining two group TimeWise to CHRIS leave reconciliations will continue to be performed by the Organisational Performance Branch until transferred.

Completion of the TimeWise to CHRIS leave reconciliations by groups will be regularly monitored in 2017-18.

Cash

Clearing of reconciling items

We noted a large number of reconciling items totalling $1.66 million in the DEWNR bank reconciliation for May 2017. They were due mainly to issues associated with transactions processed through DEWNR's Hospitality and Leisure Point of Sale, Bookeasy, Desert Park Passes and Parks Passes systems.

DEWNR responded that it had identified the nature of the system issues resulting in the large number of reconciling items, and had developed a manual solution to resolve these matters for the 30 June 2017 bank reconciliation.

DEWNR will continue to use this manual solution until a longer term system solution is developed, tested and implemented during 2017-18.

Design of the DEWNR bank reconciliation

The DEWNR bank account is used by 16 separate entities and 22 funds (bureau entities) established to support specific Commonwealth and SA Government programs.

The bank reconciliation is a fundamental control for both DEWNR and its bureau entities. Performed regularly, it helps to confirm the integrity of accounting records and identify errors or irregularities requiring action.

SSSA performs the bank reconciliation but requires DEWNR's assistance, particularly in relation to revenue.

We noted the bank reconciliation does not separately identify or classify reconciling items between DEWNR and its bureau entities.

Without this level of detail SSSA cannot assess the impact that reconciling items have on DEWNR's, or its bureau entities', financial reporting.

DEWNR responded that it had cleared most reconciling items in the DEWNR bank account up to and including 30 June 2017.

DEWNR also advised that future outstanding reconciling items will be classified between DEWNR and its bureau entities, before being promptly cleared.

Shared Services SA – financial systems and transaction processing environments

SSSA processes financial transactions on behalf of DEWNR under service level determinations. The main systems and control environments include accounts payable, payroll and general ledger financial functions.

Our review and evaluation of controls for these systems concluded that controls were effective for 2016-17.

SSSA is discussed further as part of the commentary under 'Department of the Premier and Cabinet' in this Report.

Interpretation and analysis of the financial report

Highlights of the financial report *

	2017 $'million	2016 $'million
Expenses		
Employee benefits expenses	155	161
Supplies and services	93	84
Grants and subsidies	32	36
Depreciation and amortisation expense	25	20
Other expenses	13	5
Total expenses	319	307
Income		
Fees and charges	97	96
Grants revenues	59	66
Other income	3	9
Total income	159	171
Net cost of providing services	160	135
Revenues from (Payments to) SA Government	141	142
Net result	(19)	7
Other comprehensive income	49	49
Total comprehensive income	30	56
Net cash provided by (used in) operating activities	25	30
Assets		
Current assets	162	169
Non-current assets	641	581
Total assets	803	750
Liabilities		
Current liabilities	52	39
Non-current liabilities	58	61
Total liabilities	110	100
Total equity	693	650

* Table may not add due to rounding

Statement of Comprehensive Income

Expenses

Total expenses increased by $12.7 million. The major items causing this change were:

- a $9 million (11%) increase in supplies and services reflecting:
  - a $7.6 million increase in expenditure for remedial work to address damage caused by severe storm events to DEWNR assets, including buildings, camp grounds, fencing, roads, tracks and trails

- a $2.6 million (148%) increase in bore drilling services which are mainly associated with the Great Artesian Basin Sustainability Initiative

- a $2.8 million (17%) decrease in accommodation and property management expenses reflecting the full-year savings associated with consolidating DEWNR's office accommodation into a single CBD location in May 2016

- a $2 million (53%) decrease in contractor expenses due mainly to the reduced use of contractors on the SA Riverland Floodplain Integrated Infrastructure Program and the National Framework for Compliance and Enforcement Systems for Water Resource Management program

• a $7.7 million (356%) increase in the net loss from the disposal of non-current assets due mainly to a $6 million increase in assets transferred free of charge (refer note 10 of the financial report)

• a $5.2 million (26%) increase in depreciation and amortisation expense reflecting:

- a $1.9 million (61%) increase in depreciation of buildings and improvements due mainly to the revaluation as at 1 July 2016

- a $1.5 million (482%) increase in depreciation of leasehold improvements reflecting the full-year financial effect of depreciating the improvements to the new CBD head office

- a $1.2 million (28%) increase in depreciation of roads, tracks and trails due mainly to the revaluation as at 1 July 2016

- a $1.2 million (1743%) increase in depreciation of regulators and embankments due mainly to significant transfers from work in progress during the year

• a $5.1 million (3%) decrease in employee benefits reflecting:

- a $3.7 million (62%) decrease in long service leave expense. Last year there was a $3.85 million increase in the long service leave liability which resulted in a significant increase in the long service leave expense. This did not occur in 2016-17 as the long service leave liability decreased by $332 000

- a $2.1 million (22%) decrease in workers compensation expense due mainly to a $1 million fall in the workers compensation liability and a decrease in workers compensation payments compared to last year

• a $4.4 million (12%) decrease in grants and subsidies due mainly to a $2.7 million decrease in funding for the Coorong, Lower Lakes and Murray Mouth – Long-Term Plan, a $2.2 million decrease in funding for the Great Artesian Basin Initiative and $2 million decrease in funding for the River Murray Improvement Program, offset by a $1.7 million increase in funding for the Nilpena Station Ediacaran Fossil site (refer note 7 of the financial report).

Income

Total income decreased by $12 million. The major items causing this change were:

• a $7 million (11%) decrease in grant revenues primarily due to:

  - a $10 million decrease in funding from the Commonwealth for the SA Riverland Floodplain Infrastructure Program due to a variation in the timing of the milestone payments in the funding agreement
  - a $7.3 million decrease in funding from the Commonwealth for the Murray Futures – Riverine Recovery program due to a re-profiling of the program for factors such as high water flows
  - a $9.1 million increase in funding from the Commonwealth for the Coorong, Lower Lakes and Murray Mouth – Long-Term Plan

- a $6.2 million decrease in other income due mainly to a $6.5 million reduction in the sale of water entitlements.

Statement of Financial Position

DEWNR's assets comprise two main items: property, plant and equipment and cash.

Non-current assets – property, plant and equipment

Property, plant and equipment is $636 million and represents 79% of total assets.

Land comprises $267 million of property, plant and equipment and represents national, conservation and recreation parks and wilderness protection areas and reserves. In addition, related park infrastructure amounts to $26.8 million and roads, tracks and trails total $23.3 million.

Property, plant and equipment increased by $60 million due mainly to a $49.2 million adjustment on revaluation of buildings and improvements, park infrastructure, roads, tracks and trails, groundwater monitoring wells and surface water monitoring network, and additions of $34.5 million, all partially offset by $24.6 million in depreciation charges.

Refer note 22 of the financial report for an analysis of this significant disclosure item.

Current assets – cash

This item, $144 million ($147 million), represents 89% (87%) of total current assets and 18% (20%) of total assets. DEWNR's cash at 30 June 2017 comprises operating deposit accounts of $78 million ($88 million) and an Accrual Appropriation Excess Funds Account of $66 million ($59 million). Access to the latter account is subject to the Treasurer/Under Treasurer's approval.

The large operating deposit account balance reflects unspent grant funding at 30 June (refer note 13 of the financial report).

Liabilities

Total liabilities increased by $9.9 million (10%) to $100 million. The major item causing this change was an $11.9 million increase in creditors due mainly to higher than normal spending at the end of the year. This related to remedial work to address damage caused to DEWNR assets by the severe storm events. Funding for remedial work was approved late in the year with no carryover funds permitted, resulting in significant spend in a short period of time.

Administered items

DEWNR's administered activities include:

- the National Landcare Program (South Australia)
- the Natural Resources Management Fund
- the State's joint interest in the Murray-Darling Basin Authority (MDBA).

The Schedule of Administered Expenses and Income attributable to Administered Activities provides further details on these items and amounts.

National Landcare Program (South Australia)

The National Landcare Program is administered by the Commonwealth and SA Governments under section 19(2) of the *Natural Heritage Trust of Australia Act 1997* (Cwlth) and section 5 of the *Natural Resources Management (Financial Assistance) Act 1992* (Cwlth).

The National Landcare Program items administered by DEWNR include grant revenues from the Commonwealth Government of $13.6 million ($14.1 million), grant expenses of $13.7 million ($14.2 million) and a cash balance of $431 000 ($536 000).

Natural Resources Management Boards and Natural Resources Management Fund

DEWNR has primary responsibility for helping the Minister to administer the *Natural Resources Management Act 2004* (NRMA). The main purpose of the NRMA is to promote sustainable and integrated management of the State's natural resources and to protect these natural resources.

The NRMA provides for a range of entities with specific responsibilities, including eight regional NRMBs.

Water levies are collected by DEWNR for prescribed water resources within specific natural resources management regions under section 101 of the NRMA. The levies are subsequently paid to the regional NRMBs under section 116(1)(a)(ii)(A).

In 2016-17, $17.1 million ($14.6 million) in water levies, penalties and expiation fees was transferred to the NRMBs from DEWNR. DEWNR also received $2.5 million ($3 million) in appropriation funding for the NRMBs.

Payments to NRMBs from the Natural Resources Management Fund during the year were $19.5 million ($18.4 million). These payments relate to water levies and out of council land levies invoiced and collected by DEWNR. The NRMA requires the Minister to issue the levies and collect the revenue into the Natural Resources Management Fund. The Minister then distributes funds collected to the NRMBs based on receipts.

Murray-Darling Basin Authority

The MDBA is established under the *Water Act 2007* (Cwlth). It assumed all functions of the former Murray-Darling Basin Commission in December 2008.

The MDBA's functions are to:

- prepare, implement, monitor and enforce the Basin Plan
- implement the decisions of the Ministerial Council and Basin Officials Committee.

DEWNR has recognised in its administered financial statements the State's joint interest in the MDBA infrastructure assets and water rights as an interest in a joint operation. 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, the states of NSW, Vic and SA, the ACT and the MDBA on 12 June 2009:

- asset agreement for River Murray operations assets

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

For further information refer note A12 to the administered financial statements.

Health sector activities

Structure of this section of the Report

Collectively the Department for Health and Ageing (DHA), the local health networks (LHNs) and the SA Ambulance Service Inc (SAAS) are known as SA Health or the Health sector.

This section of the Report includes Health sector commentary and/or financial information for the following matters:

- comment on some health sector challenges
- an overview of governance arrangements
- health sector staffing and patient activity data – unaudited.

Health sector challenges

In 2016-17 the Health sector continued its significant reform agenda including major infrastructure changes, replacement of IT systems and a significant transformation of the health care system. Individually these are major, generational projects. Combined, the reform agenda's scale and interdependencies present many challenges and risks to achieving intended health care and productivity outcomes and improved financial sustainability.

Some of the most significant events and challenges faced by SA Health in 2016-17 and into the future are discussed below.

The new Royal Adelaide Hospital (RAH) project

In 2017 the public private partnership project, the new RAH achieved two key milestones: technical completion on 15 March 2017 and commercial acceptance on 13 June 2017.

Commercial acceptance marked the date on which the new RAH was handed over to the State for use and also the date from which quarterly service payments were incurred. All activity from the old RAH was transferred to the new RAH in early September 2017, with the Emergency Department opening on 5 September 2017.

The new RAH arrangements have had a significant effect on the financial reports of the Central Adelaide Local Health Network Incorporated (CALHN) and SA Health. Liabilities of $2.771 billion and assets of $2.809 billion were reported as at 30 June 2017. SA Health has included details of the total commitments for the new RAH.

When the effect of discounting is excluded, the total nominal cost of the new RAH arrangements to the State over the term to June 2046 is $11.41 billion.

Further commentary on the arrangements, legal action and financial impact are included in the section of this Report titled 'Central Adelaide Local Health Network Incorporated'.

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

Transforming Health

Transforming Health is described as the biggest transformation of South Australia's health care system ever planned for the State. The reforms were initiated based on emerging evidence that the configuration and performance of the State's health care system did not optimise the safety and quality of patient care, and was not financially sustainable into the future.

SA Health recognises that the scale, timeline and interdependencies for the program created a significant risk to achieving its aims, including realising productivity outcomes and improving financial sustainability.

SA Health advised that the Transforming Health program will cease after the Repatriation General Hospital (RGH) is decommissioned and the new RAH opens. Clinical innovation service reforms to improve the consistency and quality of care, and to support the financial sustainability of the health system, will transition to business as usual.

Our review of Transforming Health in 2016-17 focused on aspects of governance, financial management arrangements and contract management. This was our second review of the program and followed on from work we conducted and reported on in 2015-16.

Our 2016-17 review found areas for improvement, including SA Health's financial management reporting and planning strategies to realise financial benefit targets. In 2016-17 savings targets were not achieved and there was a lack of mitigating strategies to address savings shortfalls. Our findings and recommendations from the review are discussed in detail in Part A of this Report under 'Transforming Health'.

Financial sustainability and budget

The financial sustainability of our public health care system is an ongoing financial risk managed through the State's *Health Care Act 2008* and related structural and governance arrangements. Hospital expenditure is a significant component of the State's budget and growth can therefore have a substantial impact on the budget. 2017-18 Budget Paper 3 'Budget Statement' provides a measure of impact, stating that a 1% growth in hospital expenditure above the level incorporated in the 2017-18 State Budget would increase expenditure by approximately $53 million p.a.

In 2016-17 we looked at aspects of SA Health financial management including a review of its financial performance and its reported outcomes against saving targets and budgets. In 2016-17 the LHNs and SAAS failed to achieve savings targets and associated FTE reductions. The outcomes of our review are discussed in Part A of this Report under 'Budget and performance management'.

Property infrastructure and investment

The Health reform agenda includes changing some of the locations in which health services are to be provided. These changes have resulted in significant infrastructure investments including the new RAH, Glenside campus redevelopment and significant infrastructure works at the Flinders Medical Centre and Lyell McEwin Hospital.

Consequently, certain significant property assets have been vacated or will soon be vacated, becoming redundant for hospital purposes. The major property sites affected are discussed below.

Old Royal Adelaide Hospital site

Land and buildings associated with the old RAH site have been recognised at $0 value, reflecting uncertainty associated with the future use of the assets and advice that CALHN would transfer these assets to the Urban Renewal Authority for $0 consideration. It is anticipated that this will occur in 2017-18.

Repatriation General Hospital site

Cabinet approved the sale of the RGH site in October 2016 and a sales contract was signed in June 2017. Decommissioning and vacating the RGH site is dependent on completing the Flinders Medical Centre redevelopment and transferring all effective services from the RGH. Further comments are included in the section of this Report titled 'Southern Adelaide Local Health Network Incorporated'.

Glenside site

A portion of the previous hospital site at Fullarton Road, Glenside was sold for $25.863 million. Settlement occurred on 27 June 2017.

Information technology and system change

Over a number of years, DHA has progressed replacing a range of legacy IT systems used to support financial and health related services, such as patient administration and clinical functions. Many of these replacement systems and their dependencies are critical for the successful operations of the health system, including the new RAH. They include:

- Enterprise Patient Administration System
- Enterprise System for Medical Imaging
- Oracle Corporate System and the One Procurement Solution
- Enterprise Pathology Laboratory Information System (EPLIS)
- pharmacy systems.

Developing and implementing these systems concurrently with other major projects, including the new RAH and Transforming Health, presents SA Health with challenges, including managing interdependencies and resources. Identifying and addressing these challenges will be important to successfully achieving the improved health service delivery performance, financial management and control and accountability expected under the health reform agenda.

Major IT developments and their associated systems within DHA and the various LHNs has continued as an area of audit focus in 2016-17. We tabled two Supplementary Reports detailing the outcomes of our reviews.

Our Supplementary Report for the year ended 30 June 2016 'Health information technology systems: November 2016' provided an update of our review of systems development and implementation. While we noted progress and a number of benefits associated with the enterprise systems, we reported that SA Health continued to face a number of challenges, in particular ensuring system readiness for the opening of the new RAH and resolving system workflow functionality and integration challenges.

Our Supplementary Report for the year ended 30 June 2016 'Enterprise Pathology Laboratory Information System: June 2017' conveyed the results and recommendations from our review of the EPLIS program. We noted that despite progress the program was behind schedule and would not be delivered within the original approved budget. We also found the program was continuing to work through a number of challenges that had the potential to further impact its rollout to future sites.

We are currently conducting a review of information and communications technology disaster recovery controls, and we intend to communicate the outcomes of that review in an upcoming Supplementary Report to Parliament.

In addition to implementing new systems, SA Health continues to operate a number of legacy systems including patient administration and revenue systems. These legacy systems present a number of support and security challenges.

Governance arrangements

Health care legislation

The *Health Care Act 2008* (the HC Act) provides the legislative framework for the operation of the South Australian health sector. Provisions in the HC Act encompass hospitals and other health services administration and consultative councils; systems to support the provision of high-quality health outcomes; licensing systems for ambulance services and private hospitals; providing laboratory services and facilities associated with veterinary science; and other purposes.

Minister for Health and the Chief Executive have specific functions and responsibilities

The Minister for Health and the Chief Executive have specific functions in connection with the operation of the HC Act.

The Minister's functions include to:

- ascertain the community's health and health services requirements and how to meet those requirements to the best advantage of the community
- plan, implement or support a system of health services that is comprehensive, coordinated and readily accessible to the public
- establish health services within the community
- ensure that hospitals established under the HC Act, or hospitals or other health services established, maintained or operated by or with the assistance of the SA Government, are operated in an efficient and economical manner
- ensure resources are properly allocated to health services established under the HC Act
- establish mechanisms to keep the policies and standards of health and health services developed by DHA under evaluation and review.

The Chief Executive's functions include to:

- assist the Minister in administering the HC Act and exercise statutory powers conferred by the HC Act

- be responsible to the Minister for the overall management, administration and provision of health services within the Minister's portfolio
- assume direct responsibility for administering incorporated hospitals
- ensure that DHA has a leadership role in administering health services
- ensure appropriate standards of patient care and service delivery are adopted and applied in delivering of health services
- facilitate the efficient and economic operation of the public health system
- advise the Minister on the operation or administration of the HC Act, the provision of health services within the State, or the protection or promotion of public health within the State.

Neither the Minister or the Chief Executive can give a direction about a person's clinical treatment.

The Chief Executive may, by instrument in writing, appoint a specified person, or a person occupying a specified office or position, as the chief executive officer of an incorporated hospital. LHN and SAAS Chief Executive Officers are subject to the control and direction of the Chief Executive.

The Department for Health and Ageing

DHA is an administrative unit established under the *Public Sector Act 2009*.

DHA is responsible to the Chief Executive, DHA and is a funder or service purchaser, policy setter and strategic planner and provider of services.

DHA is charged with broad ranging policy and administrative responsibilities associated with health.

Local health networks

National Health Reform Agreement (NHRA)

In August 2011 the Commonwealth, State and Territory Governments entered into the NHRA. The NHRA establishes governance, funding and financial management arrangements for delivering public hospital services and other health services.

The NHRA required the States to establish LHNs to directly manage the delivery of public hospital and other health services. An LHN can contain one or more hospitals, and is usually defined as a business group, geographical area or community. Every Australian public hospital is part of an LHN. These requirements were to place responsibility and accountability for health service delivery to local health areas.

South Australian local health networks

LHNs are incorporated hospitals and body corporates established under the HC Act.

The LHNs are responsible to the Minister for Health and the Chief Executive, DHA.

Chief executive officers at LHNs have significant accountabilities

The Chief Executive, DHA has appointed chief executive officers at LHNs. They work to an annual service level agreement (SLA) that assigns accountability for the high level outcomes required for the term of the agreement. It also sets out the parties' respective statutory and other legal functions and obligations.

The SLAs are comprehensive agreements. Some key financial management responsibilities are:

- the LHN chief executive officers are responsible for providing safe, high quality health care services within agreed financial parameters and managing the LHN budget and performance outcomes as determined by DHA in accordance with the SLA
- the Chief Executive, DHA is responsible for allocating the financial resources provided by the SA Government to the health service providers and support service providers in a transparent way
- where an LHN chief executive officer considers they cannot manage within their budget constraints they must report this through the mechanism outlined in the SA Health Performance Framework.

LHN Health Advisory Councils have a statutory advocacy role

LHNs have Health Advisory Councils appointed under section 15(1) of the HC Act.

Under the HC Act, these councils have an advocacy role on behalf of the community, to provide advice and to perform other functions as determined under the HC Act.

LHNs operating in South Australia

In 2016-17 the following LHNs operated in South Australia:

- Central Adelaide Local Health Network Incorporated (CALHN)

  The principal units within CALHN were the RAH, The Queen Elizabeth Hospital, Hampstead Rehabilitation Centre, GP Plus Health Care Centres and primary, subacute and mental health services located in the local area. CALHN also includes state-wide clinical support services covering pharmacy, medical imaging and pathology.

- Southern Adelaide Local Health Network Incorporated (SALHN)

  The principal units within SALHN were the Flinders Medical Centre, RGH, Noarlunga Hospital, GP Plus Health Care Centres and primary, subacute and mental health services located in the local area, and drug and alcohol services.

- Northern Adelaide Local Health Network Incorporated (NALHN)

  The principal units within NALHN were Lyell McEwin Hospital, Modbury Hospital, GP Plus Health Care Centres and primary, subacute and mental health services located in the local area.

- Country Health SA Local Health Network Incorporated (CHSALHN)

  CHSALHN provided a network of hospitals and health services located throughout regional South Australia.

- Women's and Children's Health Network Incorporated (WCHN)

  The principal unit within WCHN was the Women's and Children's Hospital.

SAAS has operated since 1992 and was not affected by the requirements for change under the NHRA. SAAS is the principal provider of emergency ambulance services in South Australia.

The following table highlights total expenditure and total assets of the SA Health entities.

	DHA $'million	CALHN $'million	SALHN $'million	CHSALHN $'million	NALHN $'million	WCHN $'million	SAAS $'million
Total expenses	*5 129	2 211	982	862	616	440	296
Total assets	612	3 689	722	974	470	282	134

* Includes grants to incorporated hospitals of $4.4 billion.

Consolidated financial statements

In line with AASB 10 'Consolidated Financial Statements', DHA prepared financial statements for the consolidated entity which comprises DHA, the LHNs and SAAS.

Health sector staffing and patient activity data – unaudited

The following staffing and patient activity information was provided by DHA in response to our request and is unaudited.

Health sector staffing statistics

The following table details the staffing levels as at 30 June in the health sector, excluding staff of DHA and SAAS, for the past three years.

Health sector FTE mix (unaudited)

	2017 Number	2016 Number	2015 Number
Staff categories:			
Nurses and midwives	12 578	12 471	12 598
Medical staff	3 020	2 938	3 001
Scientific and technical	1 065	1 092	1 121
Administrative and clerical	4 491	4 168	4 249
Allied health, hotel and other staff	6 760	6 689	6 705
Total staff	27 914	27 358	27 674
Increase (Decrease)	556	(316)	17
Percentage increase (decrease)	2%	(1.1%)	0.06%

Department for Health and Ageing staffing statistics

The following table details the staffing levels of DHA as at 30 June for the past three years.

Department for Health and Ageing FTE (unaudited)

	2017 Number	2016 Number	2015 Number
Total staff	1 702	2 036	2 096

The decrease in DHA's FTEs is mainly attributable to the transfer of finance and workforce services from DHA to LHNs and SAAS.

SA Ambulance Service Inc staffing statistics

The following table details the staffing levels of SAAS as at 30 June for the past three years.

SA Ambulance Service Inc FTE (unaudited)

	2017 Number	2016 Number	2015 Number
Total staff	1 349	1 244	1 219

Hospital activity statistics

The tables below indicate the trends over past years in inpatient activity (unweighted), length of hospital stay, and casualty and outpatient activity (unweighted). For comparative purposes DHA has reclassified the activity data for 2015 and 2016 to reflect new data definitions and service classifications made under Transforming Health initiatives.

The data in the tables below has been sourced from the reporting systems of DHA and has not been audited. DHA advised that its processes to collate activity data for 2016-17 were not complete at the time of this Report and the figures presented are not final.

Inpatient activity (unaudited)

	2017 Number	2016 Number	2015 Number
Metropolitan hospitals:			
Overnight stay	177 559	176 377	170 737
Same day	147 881	153 689	145 026
Total	325 440	330 066	315 763
Country hospitals:			
Overnight stay	51 320	51 510	52 054
Same day	59 971	56 345	54 543
Total	111 291	107 855	106 597

Average length of overnight hospital stay (unaudited)

	2017 Days	2016 Days	2015 Days
Metropolitan hospitals	5.3	5.4	5.7
Country hospitals	4.8	5.0	4.6

Emergency Department and public outpatient activity (unaudited)

	2017 Number	2016 Number	2015 Number
Metropolitan hospitals:			
Emergency Department attendances	403 893	394 948	383 999
Outpatient occasions of service	1 117 322	1 058 846	1 037 222
Country hospitals:			
Emergency Department attendances	183 572	179 116	173 946
Outpatient occasions of service	137 810	140 094	154 450

Department for Health and Ageing (DHA)

Financial statistics	Total expenses:	$5129 million
	Net cost of providing services:	$3387 million
	Total appropriation:	$3401 million
	Employee benefits liability and related on-costs:	$63 million
	Workers compensation liability:	$2 million
	Number of FTEs:	1702

Significant events and transactions

- SA Health progressed its Transforming Health reforms to the health care system. Transforming Health will cease after the Repatriation General Hospital is decommissioned and the new Royal Adelaide Hospital opened.
- The DHA senior leadership team changed with new staff in the role of Chief Executive and two deputy chief executives during 2016-17.

Financial report opinion

Unmodified

Financial controls opinion

Modified

Key issues:

- A significant proportion of SA Health expenditure is not subject to contractual arrangements
- Contract management processes require improvement
- Missing conflict of interest declarations on a large procurement process
- Probity advisor not required to formally report
- Internal audit reported concerns with the across government facilities management arrangements
- Processes not adequate to ensure consistent and appropriate management of medical officers' professional development leave and reimbursements
- Inadequate review of employee payroll and leave management information
- Expenditure systems access and approval profiles not regularly reviewed
- The most recent SA Health strategic plan expired in June 2014
- Legal compliance framework not implemented

Functional responsibility

DHA is an administrative unit established under the *Public Sector Act 2009.*

DHA is a funder or purchaser of health services, policy setter and strategic planner and provider of services. Note 1 of the financial report provides details about DHA's objectives.

DHA is charged with broad ranging policy and administrative responsibilities associated with health. The *Health Care Act 2008* (HC Act) makes the Chief Executive of DHA responsible for ensuring the proper allocation and use of resources between health regions and health services incorporated under the HC Act.

In line with AASB 10 'Consolidated Financial Statements', consolidated financial statements have been prepared comprising DHA, the local health networks (LHNs) and SA Ambulance Service Inc (SAAS).

Collectively DHA, the LHNs and SAAS are known as SA Health or the Health sector.

Scope of audit

The audit program covered major financial systems to obtain sufficient evidence to form an opinion on the financial report and internal controls.

Financial services are provided through a mix of:

- central services provided by DHA for LHNs and SAAS
- services provided by Shared Services SA (SSSA).

Specific areas of audit attention in 2016-17 included:

- payroll
- accounts payable
- cash
- general ledger
- funding to health services
- grants to not-for-profit organisations
- interstate patient transfers
- non-current assets
- inventory management
- revenues from the Commonwealth
- insurance services
- information and communications technology developments
- professional development entitlements
- agency nursing contracts
- maintenance of biomedical and clinical equipment
- procurement
- contract management

- financial performance management
- across government facilities maintenance
- financial management compliance
- legal compliance
- strategic planning and governance.

Internal audit activities were considered in designing and conducting audit procedures. Use was made of the work performed by internal audit in its review of across government facilities maintenance arrangements.

Audit findings and comments

Assessment of controls

In my opinion, the controls exercised by the Department for Health and Ageing in relation to the receipt, expenditure and investment of money, the acquisition and disposal of property and the incurring of liabilities, except for all matters outlined under 'Communication of audit matters', are sufficient to provide reasonable assurance that the financial transactions of the Department for Health and Ageing have been conducted properly and in accordance with law.

Communication of audit matters

Matters identified by the audit were detailed in management letters to the Chief Executive of DHA. The main matters raised and related responses are detailed below.

There were no matters raised in relation to services provided by SSSA.

Governance and accountability

SA Health and LHN strategic planning out of date

The most recent SA Health strategic plan relates to 2008-2010 and was extended to June 2014. With the exception of the Country Health SA Local Health Network Incorporated and SAAS, LHNs do not have current strategic plans.

Strategic plans establish the organisation's direction and priorities. Their absence can impact cultural and organisational alignment with these priorities. We recommended DHA complete and approve SA Health and LHN strategic plans.

DHA responded that it intended to release its SA Health Strategic Plan 2017-2020 and an action plan in late 2017. It will use the action plan to operationalise the strategic plan across the health system. DHA expects LHNs and SAAS to develop their own strategic management plans that link to the new SA Health Strategic Plan in 2017-18.

Legal compliance framework not in place

We have previously noted that internal audit reported that DHA did not have a legal compliance framework. We recommended it develop one.

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

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

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

Procurement and contract management

The following section contains our findings and comments about a number of DHA procurement and contract management areas.

For some of these areas DHA, in its response to our findings, has expressed a different view about the maturity of its processes to what we have reported.

We will follow up these matters in our 2017-18 audit.

Significant uncontracted expenditure

A significant proportion of SA Health expenditure is not subject to contractual arrangements

A large proportion of SA Health expenditure is not subject to contractual arrangements. In May 2017 SA Health reviewed its expenditure and found that of total annual expenditure:

- $1.6 billion could be influenced by procurement practices (addressable)
- $550 million (34%) of its addressable spend was not subject to contracted arrangements (based on 2015-16 data).

High levels of uncontracted spend may cause lost opportunities for value for money or savings. It may also reduce SA Health's ability to ensure accountability and transparency in procurement operations. We recommended DHA increase the proportion of expenditure subject to contractual arrangements.

DHA responded that it had commenced a number of strategic projects and anticipates the uncontracted spend will fall from $550 million to $465 million by the end of 2017-18 and decrease by a further $72 million by the end of 2018-19.

DHA also indicated it had commenced further analysis on its 2017-18 spend, which will provide a more up-to-date reflection of contracted SA Health spend.

Uncontracted purchase of inventory supplies

DHA annually spends around $95 million on medical, surgical and laboratory inventory through its distribution centre and bulk stores. Based on the DHA's records, only 21% of this inventory was purchased under a current contract. A further 10% was purchased under expired contracts. The remaining 69% was not subject to any contractual arrangements.

The State Procurement Board mandates particular procurement approaches when expenditure reaches certain thresholds. For example, it states that for low risk contracts up to $220 000, the standard purchase order terms and conditions may be used. Expenditure greater than $220 000 requires procurement processes which usually result in formal contractual arrangements.

Our review of the 30 highest annual spend internal catalogue items found that only 50% were currently subject to formal contracts. The annual spend on these items significantly exceeds $220 000.

High levels of uncontracted spend may cause lost opportunities for savings. We recommended DHA ensure its inventory purchases meets the State Procurement Board's requirements.

DHA responded that all of its procurements, including uncontracted spend, are processed in line with State Procurement Board requirements. It indicated that a number of procurement projects with annual uncontracted spend of $42 million were either in progress or finalised.

Freight services contract out of date

DHA maintains contracts for providers of freight distribution services including transport between the inventory warehouse and hospital sites. Our review found the contract for freight distribution services had expired in 2012 and no formal extensions were made.

Any period without a formal instrument of agreement potentially impacts on DHA's ability to manage contractual obligations and conditions, including price. We recommended DHA complete its procurement processes for freight distribution services.

DHA responded it had released a request for tender to the market in November 2016 and anticipated a contract with a preferred supplier would be finalised by the end of September 2017.

Procurement of orthopaedic and cardiovascular prostheses and associated consumables

In 2016-17 DHA implemented State-wide contracts for orthopaedic and cardiovascular prostheses and associated consumables. DHA's analysis prior to the procurement suggested that prices paid by SA Health were higher compared with other states and that most items were not subject to contractual arrangements.

The procurement established a panel contract covering over 100 000 separate items and numerous suppliers. The resulting contracts are for three years with the option to extend for two further two-year periods. The anticipated total cost of the procurement including the extension options was $568 million (including GST) with projected savings of $45.5 million (including GST). In January 2017 Cabinet approved:

- the Minister for Health to enter into panel contracts after completing the tender process

- SA Health to incur expenditure and make payments to the successful suppliers up to a maximum of $568 million should the contract extend over the full seven years.

We reviewed the procurement documentation against the mandated requirements of the State Procurement Board and found that DHA complied with most requirements. We found the following areas that needed improvement.

Missing conflict of interest declarations

We found instances where procurement and steering committee members did not complete conflict of interest declarations and confidentiality agreements. Formal statutory declaration of interests and confidentiality certifications demand accountability from external and internal members of key panels and committees. Where these certifications are not executed as expected or do not contain information that could be perceived as important to consider, DHA may not be able to manage its risk that a stakeholder's behaviour may be influenced by a conflict of interest.

DHA confirmed that it did not have a conflict of interest declaration on record for six of the 63 stakeholders involved in the procurement. It responded that the issue appeared to be caused by an administrative oversight and was inconsistent with its normal procurement practices and policy. DHA indicated it would remind staff of its conflict of interest requirements.

No formal reporting from the probity advisor

The appointed probity advisor did not provide a report and his advice was received on ad hoc matters by email or phone. We found the probity plan intended that the advisor report prior to the purchase recommendation, however the requirement was not included in the contractual arrangement with the advisor. Where the probity advisor does not provide a report, there is an increased risk any actions required to meet probity standards are not identified before the key elements of the procurement process are progressed.

DHA advised that an email received from the appointed probity advisor indicated that no probity issues were identified, and this was accepted as sufficient reporting. DHA agreed that contracts with probity advisors should include a requirement to report.

Inventory procurement

Capacity for unauthorised purchase price changes

The order price of common (catalogue) medical, surgical and laboratory supplies is based on price records in the Oracle inventory management system. We found that changes to prices in Oracle could occur without the required approval, increasing the risk of payments outside of contracted or expected terms. We recommended DHA limit access to ensure that only employees authorised to approve prices can make changes to Oracle.

DHA responded it would review the profiles set up in Oracle to ensure appropriate authorisations are reflected and managed in the system.

Contract management

DHA is subject to the State Procurement Board's contract management policy which details mandatory requirements for managing contracts with suppliers of goods and services. SA Health's records show it spends more that $600 million on contracted supplies and services each year.

Our review found there is scope for DHA to improve its contract management processes. The key findings from our review are summarised below.

Inadequate contract management framework

While SA Health had developed a range of policies and guides for contract management it had not established a framework for supplier and contract management. The State Procurement Board's policies require agencies to adopt a framework. The absence of a comprehensive contract management framework, including clearly defined responsibilities and expectations, may result in inconsistent practice. For example, DHA's existing policies and guidelines did not establish management's expectations about:

- quality assurance including monitoring and reporting on the adequacy of contract management processes
- approving contract management plans
- contract risk management processes.

We recommended SA Health develop a framework as required by the State Procurement Board's policies.

DHA's response provided a list of policy and advisory documents it considered formed its contract management framework. DHA indicated it would provide further clarity by developing a diagram showing how all these components align to form a framework. Some of the documents listed by DHA as part of its contract management framework were not implemented at the time of our audit.

Monitoring and reporting requires improvement

With the exception of large whole-of-SA Health contracts, our review found there was no central monitoring and reporting of contract management practices. Without a framework that requires central monitoring and reporting of contract management, SA Health may not identify and address breakdowns in controls designed to ensure contractual responsibilities and obligations are met. We recommended DHA develop and implement processes to monitor compliance with mandatory elements of the State Procurement Board's guidelines for all significant contracts across SA Health.

DHA's response discussed how its procurement policy ensured appropriate contract management, including reporting, was established. It stated that it was satisfied that it had adequate governance and reporting across SA Health.

DHA's response did not specifically address our concerns about the lack of central monitoring or reporting on contract management practices across SA Health. We will follow this up in our 2017-18 audit.

Approved contract management plans not in place

Our review of four major contracts found that two did not have approved contract management plans for considerable periods of the contract life. The absence of approved and implemented contract management plans may impact the consistency and systematic nature of contract management processes.

DHA acknowledged that contract management plans were not in place when the contracts were executed, but stated that this had not prevented contract management activity from occurring. DHA indicated that it would remind staff of the importance of establishing contract management plans either prior to contract execution or within a short period afterwards.

Contract management plans missing important actions

Our review of a sample of contract management plans found that the actions needed to manage and monitor important obligations and responsibilities were not always adequately documented. Consequently, the contract management plans were not always an effective management tool.

DHA responded that it would review the contract management plans and consider the matters we raised. DHA also stated that while the contract management plans were not detailed, contract managers were fully conversant with the content of the contracts they manage.

We consider reliance on an individual manager's knowledge does not consider the potential loss of corporate knowledge following staff turnover.

Inadequate key performance measures

For one of the large contracts tested we found that the contract management plan did not include adequate key performance measures to describe acceptable performance expectations. Inadequate performance measures may prevent a measurable and benchmarked performance assessment and the ability to take corrective measures where expected performance is not met. We recommended DHA ensure contracts and management plans adequately document achievable, measurable and results orientated key performance measures to maximise contractor performance.

DHA responded that it would review the contract and include any additional key performance indicators in the contract management plan.

Contract risk management plans not adequate

We found that contract management plans did not always include plans for risk management. We also noted instances where documentation was insufficient to demonstrate the contract manager had monitored treatment and mitigation of identified risks. Understanding and managing the most significant risks in a contract can help manage an organisation's exposure to the cost of contract failure. We recommended DHA ensure its contract management plans include robust risk management processes that effectively review, manage and monitor risks throughout the contract period.

DHA responded that it considered there are a number of generic risks that apply across all contracts and would be managed by the contract manager. It also responded that it would review the contracts and add any additional risks identified to the contract management plan.

Non-compliance with extension clauses in contract

We identified instances where SA Health extended the term of contracts but did not comply with specific clauses relating to contract extensions. We found that for two of the four large contracts we tested, DHA had not given the contractor the required 90 calendar days' notice of the intention to extend.

We also found extension decisions were not always completed before the end of the existing term and in some instances management could not provide documents supporting the evaluation and decision-making process for extensions given.

Lack of notification can increase uncertainty, impacting the potential for contractual disputes, litigation and the service provider's ability to budget and allocate resources effectively.

DHA responded that it would formalise the processes for contract extensions and include them in its forward procurement planning. It also indicated it would instruct its contract managers to be mindful of administrative activities during contract renewals.

Across Government Facilities Management Arrangements (AGFMA)

Under the AGFMA, the Department of Planning, Transport and Infrastructure (DPTI) provides SA Health with asset maintenance, management and improvement services through two facilities management (FM) service providers.

DPTI's internal Facilities Services unit provides services to the Lyell McEwin, Modbury and regional hospitals, while Spotless Services (contracted by DPTI) provides services to the Flinders Medical Centre, Noarlunga Hospital, The Queen Elizabeth Hospital and the old Royal Adelaide Hospital (RAH).

SA Health is mandated to use these FM service providers for:

- unplanned breakdown maintenance
- planned preventative maintenance
- planned and unplanned minor works and replacement/refurbishment.

In 2015-16 FM services providers claimed over $53 million in work across SA Health. DPTI charges an additional 10-15% management fee for monitored services.

In 2016-17 SA Health's internal audit reviewed these arrangements to assess the management framework and management practices adopted for facilities management across SA Health. The review considered:

- governance, roles and responsibilities and reporting, with reference to better practice
- general processes and controls
- overhead allocation

- controls over after-hours callouts
- resolution of high risk events.

Internal audit concluded that controls over facilities management processes at LHNs were largely ineffective.

The internal audit identified 12 findings, with the following matters rated by SA Health as high risk.

Clarity on roles and responsibilities

SA Health representatives are unclear on the respective roles and responsibilities of the AGFMA parties and the services it must have delivered through the AGFMA. Internal audit noted that while a draft service level agreement with DPTI exists, there are further opportunities to tailor the agreement to suit SA Health's requirements and reflect current contracted arrangements.

Tracking of preventative maintenance

LHNs require additional information from FM service providers to track whether individual assets have been appropriately serviced (preventative maintenance). This is particularly relevant for biomedical equipment, where detailed service records must be maintained for hospital accreditation. This information is also important for LHNs to check that they only pay for services actually received.

Key performance indicators for breakdown maintenance

Performance criteria for the timely actioning of breakdown maintenance requires improvement. The performance of FM service providers is currently measured from the time a job is raised to the time that the FM service provider or contractor attends the site. This measure does not, however, consider the time to rectify the breakdown. In SA Health's view, performance measures based on job completion are more appropriate.

DPTI has recognised this limitation, noting however that IT system and user limitations currently preclude accurately measuring the time frames for completed jobs. We understand that reliably measuring the time to complete jobs would require a consistent approach to recording this data, and require agency users to check its accuracy.

Contract management

SA Health has not developed a formal coordinated approach for internally managing the AGFMA arrangements. Internal audit recommended that SA Health develop a contract management plan (or similar) for identifying and consolidating strategic issues across DHA and LHNs, and for escalating these to the DPTI contract manager.

Claims review for breakdown maintenance

Many LHNs have not established a process to assess and review breakdown maintenance claims from FM service providers before payment. Internal audit noted that 32% of claims had not been reviewed but had been automatically system approved. LHN staff had not verified that work was complete and the claims were accurate before automated system approval.

Audit comment

In July 2017 we received an update on SA Health's actions to address the matters raised by internal audit. While SA Health is satisfied that it has addressed a large number of the individual findings, many issues remained unresolved and in progress. SA Health indicated that it plans to address all remaining matters by June 2018.

Agency nursing and midwifery staff services panel contract review

In 2015 SA Health established panel contracts for the provision of temporary nursing/midwifery staff. The total estimated value of the contracts is $152 million (including GST) over five years.

Last year we reported concerns about the management of the panel contracts.

Our follow-up in 2016-17 found DHA had successfully addressed many of our concerns. However, SA Health could improve its management of the contracts in the following areas.

Improvements needed to monitor supplier leakage

The State Procurement Board's panel contracts guideline requires public authorities managing a panel contract to monitor the use of non-panel providers, to ensure that only suppliers from the panel contract are used.

Last year we reported SA Health had not implemented processes to detect and take action where LHNs are using non-panel providers of temporary nursing/midwifery staff.

Our follow-up of these matters found that while DHA's Procurement and Supply Chain Management division had improved reporting on leakage, reporting did not occur regularly and consistently throughout the year. We also found that the expected management of leakage required by the contract management plan was not adequately documented and communicated. The use of panel contracts provides SA Health with an agreed rate for agency nursing and midwifery services. Where LHNs engage agency staff outside these panel arrangements they are at risk of paying more than this agreed rate.

DHA indicated that non-panel members may be required where suitable nurses or midwives cannot be found from the panellists. It responded that it had a process to monitor leakage and report to LHNs and that it would not provide expected actions and plans to the LHNs. It also responded that it planned to review the panel to determine whether it is operating effectively.

Performance review requires improvement

The panel agreements require DHA to undertake a performance review, including reviewing the achievement of key performance indicators, every three months. Our follow-up of these matters in 2016-17 found that while SA Health had improved its review of contractor performance, the panel providers did not always provide contractually required quarterly reports that:

- demonstrated the panellist's compliance with important obligations in the agreement including qualifications, criminal checks and financial viability

- detailed key performance indicator results for the monitoring committee's review.

Where reporting by the provider is not sufficient to assess the panel provider's compliance, SA Health has a reduced capacity to identify performance concerns.

DHA advised that it would review whether its adopted practice is sufficient or amendment is required.

Accounts payable

Accounts payable services are provided to DHA, LHNs and SAAS by SSSA under service level determinations.

System-based expenditure approval profiles not regularly reviewed

Our review of the Basware payment processing system found financial delegations assigned to users within the system were not regularly compared to approved financial delegations. Consequently, management may not detect employees with approval capacity outside of their responsibilities, resulting in the potential for invalid or unauthorised payments. This issue was raised last year.

DHA responded it would compare the authorities in Basware with approved delegations to ensure they align. It also indicated that it would develop a formal process to ensure changes in approved financial delegations are reflected correctly in Basware.

No review of expenditure system access

Our review found improvements are necessary to ensure user access to Basware is restricted to authorised officers and permissions are only provided where necessary to meet each user's responsibility. We found the review of access profiles was not performed. Failures in controls over user access increase the risk of invalid or unauthorised transactions. This issue was raised last year.

In response DHA indicated it was introducing new procedures across SA Health to review user profiles in Basware.

Super delegate, special delegate and manual transactions are not adequately reviewed

We reviewed controls over transactions approved by super or special delegates in Basware, as well as manual payments. These transactions are processed outside of the normal Basware system approval processes and are generally of a higher value and/or higher risk. This issue was raised last year.

Our review found that DHA had not established processes to ensure these payments were independently reviewed.

DHA responded that it would monitor the review of manual payments and super/special delegation transactions. It indicated it would follow up any non-performance or transactions marked for further investigation.

Concerns over vendor master data quality

Last year we reported that our testing of accounts payable data found multiple instances of invalid, incomplete and/or duplicate vendor information in the vendor masterfile, highlighting the need to improve vendor management controls.

Our testing of accounts payable data in 2016-17 found similar concerns.

Where vendor details in the system are incomplete or inaccurate there is an increased risk that the vendor might not be a valid supplier, potentially allowing invalid or duplicate payment transactions to occur.

In its response DHA indicated it had commenced a vendor maintenance improvement project that included the review of vendor records and the implementation of corrective actions for incomplete or duplicate vendor records.

Medical officer professional development (PD)

SA Health's enterprise agreements establish medical officers' PD entitlements. They include paid leave and reimbursement of expenses incurred in obtaining PD. Entitlements vary under each enterprise arrangement. For example, certain medical officers are entitled to:

- up to 20 days PD leave over any two-year period
- a cumulative reimbursement, for eligible PD expenditure over any two-year period, up to a maximum of $43 000.

Last year we reported concerns about SA Health's management of PD entitlements.

In 2016-17 we followed up DHA's actions to address the matters raised. We found DHA had not addressed the concerns raised and could improve its management of PD in the following areas.

Inadequate central direction to LHNs for consistent and adequate management of medical officers' PD entitlements

Last year we recommend DHA establish an SA Health-wide policy to provide central direction to LHNs for consistent and adequate PD control processes. Our follow-up found DHA had not developed this central direction.

DHA responded that its People and Culture division would draft a minute from the Chief Executive of DHA to the LHN Chief Executive Officers advising them of the need to maintain a register of PD reimbursements. The response also indicated DHA was starting a project to extend its allied health professional development database to cover medical officers' PD.

The payroll system did not maintain a PD leave entitlement balance

Last year we reported that employee PD leave entitlements were not maintained on the payroll system or in any other centralised record.

Our follow-up in 2016-17 found that the payroll system still does not record employee PD entitlement balances. Our concerns remain and we again recommended a central record of leave entitlements be maintained so that leave applications can be assessed against the caps established by enterprise agreements.

DHA responded that its People and Culture division was undertaking a two-stage process to address the recording of medical officer PD including investigating whether SSSA can:

- add a leave code to the payroll system to record PD leave
- set up a PD leave type to be accrued in the payroll system. It indicated this is a complex accrual as PD leave can be accrued for two years and then drops off if not used.

No guidance on reimbursements that may be seen as disproportionate to reasonable alternatives

Last year we recommended DHA establish formal criteria to describe its expectations about costs that may be seen as disproportionate to reasonable alternatives, including business class flights and luxury accommodation. Our follow-up found that DHA did not develop criteria. Its position on this matter is that no policy can override entitlements prescribed in the enterprise agreement and prescribing expectations would conflict with the enterprise agreement.

While expectations set in policy cannot and should not override employee entitlements, they can guide and support approving officers in their assessment of whether they should approve reimbursement claims. Our discussions with SA Health staff revealed a commonly held view that the reasonableness of the expenditure or its value for money is not relevant in the approval process as long as it is for PD and within entitlement caps. We continue to recommend that SA Health develop guidelines to help both approving officers and SA Health to meet their responsibilities over the use of public money.

DHA responded its People and Culture division would draft a minute from the Chief Executive of DHA to the LHN Chief Executive Officers advising them of the need to consider the reasonableness of the expenditure and its value for money when approving PD requests. It noted, however, that the enterprise agreement does not impose any restrictions on how money is spent, as long as it relates to PD.

Payroll

Employee benefit expenses are a significant cost, totalling $190 million for DHA and $3.6 billion across the consolidated entity in 2016-17.

In 2016-17 SA Health migrated its payroll databases from Chris5 to a new Chris21 payroll system.

Payroll services are provided through a mix of:

- central payroll services provided by DHA for SA Health
- central payroll services provided by SSSA for SA Health
- payroll activities located in each LHN.

A summary of our findings for payroll activities in LHNs can be found under 'Communication of audit matters' in the sections of this Report for each LHN.

Findings relating to the central and DHA specific payroll services provided by DHA are reported below.

Payroll (relating to DHA and LHNs)

The same officer can input data and perform a quality assurance review

Our review considered whether all changes to classifications, hours of work, allowances and employee names on CHRIS were independently reviewed. We found that an independent officer reviewed data input forms to ensure changes were accurately entered by HR Data Input Officers. However, this review was limited to data input forms provided for checking. If a change was made without a form or if the form was not provided, it would not be reviewed.

Consequently the existing control, while helping to identify and rectify errors, is unlikely to identify deliberately inappropriate or unauthorised changes. We recommend DHA implement a process to ensure all changes to classifications, hours of work, allowances and employee names are independently checked to source documents.

DHA responded that its current capacity and resources prevent it from implementing an independent check of changes.

Delegations and authorisations not reviewed as intended

Last year we reported that DHA's Instrument of HR delegations and authorisations had not been updated and approved since November 2012. DHA had advised its intention to finalise delegations in September 2016. Our follow-up review in 2016-17 found this did not occur as expected.

DHA responded that it had substantially revised its schedule of delegations to reflect Premier's Directives, Commissioner's Determinations and guidelines and anticipated they would be approved in November 2017.

Payroll (relating to DHA only)

Bona fide certificates not reviewed

Most DHA employees are paid standard hours without direct reference to actual time records. In this environment it is important to ensure regular management review of individual employee payment details on the bona fide reports. In recent years we have reported weaknesses in management's review of bona fide reports.

Our 2016-17 review of the register of returned bona fide reports found that many reports were returned late or not returned at all.

DHA responded that it had updated its instructions to managers and now reminds managers of their responsibilities five days after delivering of bona fide reports. It anticipated that it would implement a new fully automated approach to authorising and monitoring bona fide reports in September 2017. It further indicated that it proposes to include bona fide management as a key performance indicator in managers' performance reviews.

Leave reports not reviewed

Our audit of payroll considered DHA's processes to ensure employee leave entitlements are reduced when leave is taken. We found management's review of leave reports was delayed or not performed at all. We also noted there were a number of DHA employees with either negative leave or excessive leave balances. These issues were both raised last year.

DHA responded that it had implemented measures to address the concerns including reminding managers of their responsibilities and updating its instructions. It also indicted it would implement a new fully automated approach to authorising and monitoring leave taken in September 2017 and will include these responsibilities as key performance indicators in managers' performance reviews.

CHRIS access profiles not regularly reviewed

Our review found that CHRIS user assess reports were not reviewed quarterly by an appropriate delegate in line with SSSA's user access policy guideline. This issue was raised last year.

Failure to detect inappropriate user access permissions may allow processing of unauthorised transactions, potentially resulting in financial loss. We recommended DHA review quarterly CHRIS user access profiles to ensure user access is limited to the functionality required to meet an individual's responsibilities and to ensure incompatible duties are segregated.

DHA responded that it had reviewed CHRIS access profiles as it migrated to its updated payroll system, Chris21. It also responded that it had drafted a procedure to assist its ongoing review of CHRIS access profiles.

Absence of a time recording policy

In response to concerns raised in 2015-16 about the absence of a time recording policy, DHA indicated it would develop a formal policy and procedure for time recording processes by December 2016.

Our follow-up of this matter found that although DHA had started to draft a policy directive, it was not final or approved. The absence of time recording may impact a supervisor's ability to:

- monitor that attendance is in line with standard hours
- follow up leave forms
- manage flexible working hours.

DHA responded that it intended to complete its new time recording policy by November 2017.

Maintenance of biomedical and clinical equipment

AssetPlus asset management database incomplete

SA Health's asset management database, AssetPlus, was commissioned in June 2015 and involved transferring information held in numerous legacy registers throughout LHNs.

Last year we reported concerns that while the most material assets were recorded, details of maintenance work performed was not completely uploaded from previous legacy registers. Our follow-up in 2016-17 found that while DHA had made some progress it had not transferred all information from the legacy systems into AssetPlus. DHA responded that it expected to transfer the information by September 2017.

We also found that processes do not ensure lower value asset purchases at local sites are approved, tested and recorded by SA Biomedical Engineering. Where assets are not approved and managed through AssetPlus, important acceptance testing and management of maintenance may be overlooked. DHA's response indicated it now has a process to monitor monthly minor equipment purchase reports.

Information and communications technology and control

We reviewed IT controls within DHA's central financial management system, Oracle Corporate System (OCS). The reviewed considered aspects of general IT and security controls applied at the OCS enterprise level. We also followed up matters raised with DHA in 2015-16.

We found that while DHA addressed most matters we raised last year, some remain outstanding and need attention. These include:

- segregation of duties conflicts related to OCS business roles and responsibilities, increasing the potential for unauthorised, malicious or fraudulent activity
- privileged user access on the OCS database is not regularly reviewed, increasing the risk that users could inappropriately access and modify system configuration and data
- excessive user access privileges granted across various business processes, including access to sensitive business functions
- passwords that had not been changed for over five years
- DHA backup testing could not restore the OCS application from backup tapes.

IT control weaknesses increase the risk of inappropriate or unauthorised access, potentially resulting in a loss of confidentiality, integrity or availability of SA Health's financial data.

DHA's response detailed its actions taken or proposed to address these matters including:

- strengthening its segregation of duties matrix to reduce access and segregation of duties concerns
- implementing a quarterly review of user access accounts
- establishing a policy for the assignment and review of all user access authorities
- implementing a process to regularly change passwords
- working to address concerns about recovery from backup tapes
- regular review of audit logs.

Interpretation and analysis of the financial report

Highlights of the financial report – Department for Health and Ageing (parent)

	2017 $'million	2016 $'million
Expenses		
Employee benefit expenses	190	196
Supplies, services and other expenses	535	542
Grants, subsidies and client payments	4 403	4 213
Total expenses	5 128	4 951
Income		
Fees and charges	360	319
Grants and contributions	1 350	1 324
Other	31	68
Total income	1 741	1 711
Net cost of providing services	3 387	3 240
Revenues from (Payments to) SA Government		
Revenues from SA Government	3 401	3 121
Payments to SA Government	-	(44)
Total revenues from (payments to) SA Government	3 401	3 077
Net result	14	(163)
Total comprehensive result	14	(163)
Net cash provided by (used in) operating activities	25	(203)
Assets		
Current assets	480	405
Non-current assets	132	145
Total assets	612	550
Liabilities		
Current liabilities	213	197
Non-current liabilities	146	171
Total liabilities	359	368
Total equity	253	182

Statement of Comprehensive Income – Department for Health and Ageing (parent)

Expenses

Grants and subsidies

Grants and subsidies include recurrent and capital funding to incorporated health services of $4.4 billion ($4.2 billion) and funding to not-for-profit organisations of $18 million ($15 million).

Employee benefit expenses

Employee benefit expenses decreased by $6 million to $190 million. Salaries and wages rose by $4 million and were offset by a $6 million decrease in long service leave expense, caused by changes in actuarial assumptions used to estimate the associated liability including discount rates and predicted wage growth in 2015-16 and 2016-17, and a $3 million decrease in workers compensation expense.

The number of employees whose remuneration received/receivable exceeded base executive level ($147 000) totalled 79 (81), comprising (37) 41 executive, 31 (31) non-medical and 11 (nine) medical, nursing and operational employees. Total remuneration for these employees was $18 million ($18 million).

Supplies and services expenses

Supplies and services expenses amounted to $479 million ($492 million). Significant components of supplies and services were:

- contract of services – $100 million ($105 million)
- cost of goods sold to incorporated health services – $96 million ($96 million)
- computing costs – $75 million ($66 million). The increase is due mainly to higher licence costs and costs associated with the Enterprise Patient Administration System (EPAS)
- insurance – $28 million ($58 million). The decrease is due mainly to the effect of the movement in provision for insurances, reflecting the cost of claims incurred and not reported and current claim values as assessed by an actuary as at 30 June 2016 and 30 June 2017
- interstate patient transfers – $45 million ($31 million). The increase is due mainly to revised estimates for revenues receivable for current and prior years
- repairs and maintenance – $20 million ($21 million)
- consultants – $14 million ($21 million). The decrease is mainly due to reduced costs for consultants engaged for the Transforming Health program.

Revenues

Income

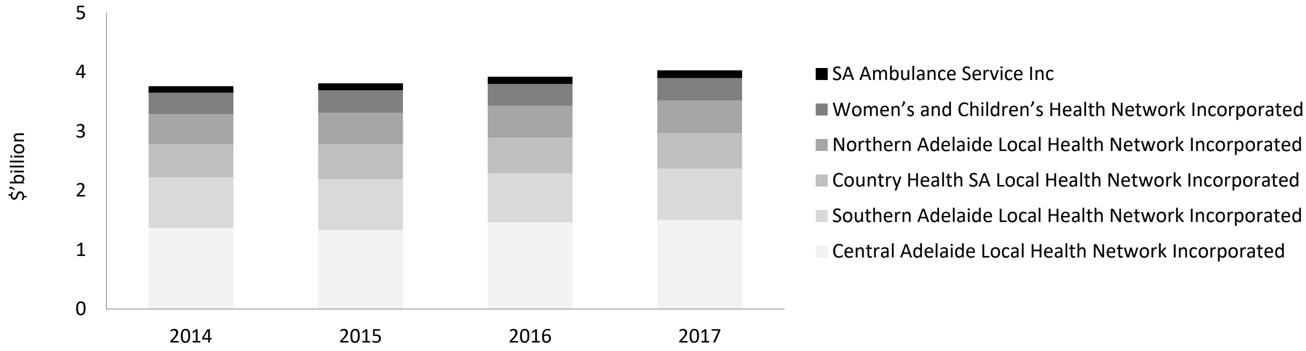
Income for 2016-17 amounted to $1.7 billion ($1.7 billion) and principally comprised Commonwealth Government grants of $1.3 billion ($1.3 billion). DHA receives Commonwealth Government grants paid from the State Pool account in line with the revised funding agreement under the National Health Reform Agreement rather than from the Department of Treasury and Finance through SA Government appropriation.

Revenues from the SA Government increased by $280 million to $3.4 billion. Contributing to the increase was:

- funding for increased investment expenditure including the new RAH and major capital works programs and the roll out of EPAS at The Queen Elizabeth Hospital
- funding for enterprise bargaining salary increases and supplies and services cost increases.

Recurrent funding to incorporated health services

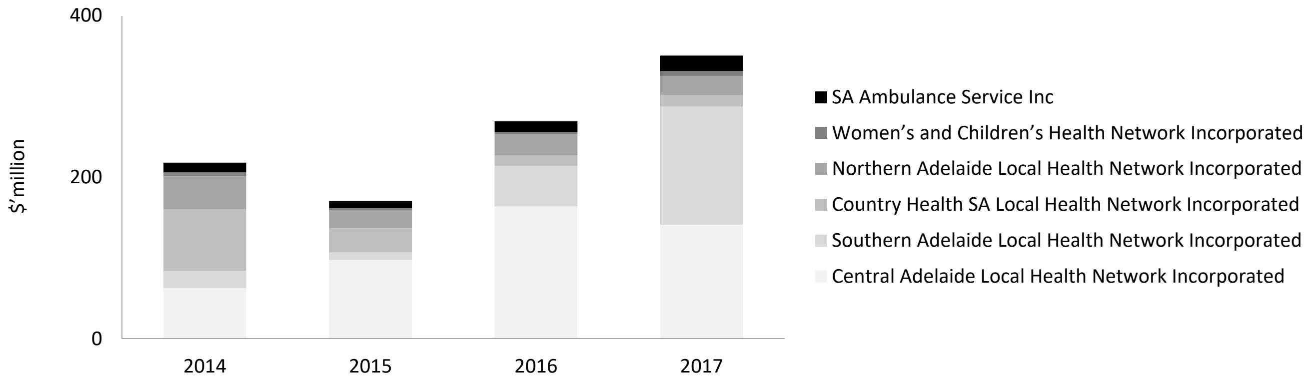
The following chart shows recurrent funding to incorporated health services for the four years to 2017.



The chart shows that total recurrent funding has increased over the four years, from $3.8 billion in 2014 to $4 billion in 2017 (refer note 7.1 of the financial report).

Capital funding to incorporated health services

The following chart shows capital funding to incorporated health services for the four years to 2017.



The chart highlights that in 2017 total capital funding increased by $82 million to $351 million. The increase in capital funding was due mainly to funding for works associated with the Transforming Health capital projects, including the Flinders Medical Centre redevelopment (refer note 7.1 of the financial report).

Statement of Financial Position – Department for Health and Ageing (parent)

Assets

Current assets increased $75 million to $480 million as at 30 June 2017. Contributing to this increase were:

- a $104 million increase in cash and cash equivalents to $286 million. Contributing to this increase was funding received in 2016-17 that had not been spent for the purposes it was provided as at 30 June 2017, including for the new RAH
- a $30 million decrease in assets classified as held for sale. During the year a portion of the former hospital site at Fullarton Road, Glenside was sold for $25.9 million.

Liabilities

DHA's total liabilities were $359 million at 30 June 2017. Significant components of liabilities were:

- payables, $181 million ($169 million)
- provision for insurance, $105 million ($122 million)
- employee benefits liabilities and related on-costs, $63 million ($63 million).

The provision for insurance estimates DHA's liability for professional indemnity (including medical malpractice) and general public liability. The determination of the insurance provision was carried out through an actuarial assessment in line with AASB 1023 'General Insurance Contracts' and takes into account prudential margins, inflation, taxes, claims incurred but not reported and current claim values (refer note 30 of the financial report).

Equity

As at 30 June 2017, DHA had a net assets position of $252 million ($182 million). During the year DHA received an equity contribution from the SA Government of $57 million ($178 million) relating to its capital program.

Highlights of the financial report – consolidated entity

	2017 $'million	2016 $'million
Expenses		
Employee benefit expenses	3 643	3 665
Supplies, services and other expenses	1 878	1 888
Depreciation and amortisation	174	189
Grants, subsidies and client payments	39	35
Total expenses	5 734	5 777
Income		
Fees and charges	592	574
Grants and contributions	1 709	1 656
Other	104	94
Total income	2 405	2 324
Net cost of providing services	3 329	3 453
Revenues from (Payments to) SA Government		
Revenues from SA Government	3 401	3 121
Payment to SA Government	-	(44)
Total revenues from (payments to) SA Government	3 401	3 077
Net result	72	(376)
Other comprehensive income	34	(48)
Total comprehensive result	106	(424)
Net cash provided by (used in) operating activities	282	11
Assets		
Current assets	946	916
Non-current assets	5 896	3 061
Total assets	6 842	3 977

	2017 $'million	2016 $'million
Liabilities		
Current liabilities	1 043	1 002
Non-current liabilities	3 537	875
Total liabilities	4 580	1 877
Total equity	2 262	2 100

Statement of Comprehensive Income – consolidated entity

Expenses

Total expenses were $5.7 billion and principally comprised employee benefit expenses of $3.6 billion and supplies and services expenses of $1.7 billion.

Employee benefit expenses

Salaries and wages rose to $2.9 billion, an increase of 3.4%.

Decreases in long service leave and workers compensation expense resulted in total employee benefit expenses remaining at $3.6 billion.

The number of employees whose remuneration received/receivable exceeded base executive level ($147 000) totalled 3222 (2833), comprising 107 executive, 136 non-medical and 2979 medical, nursing and operational employees. Contributing to the increases was the impact of an extra pay this year, enterprise agreement wage rises and SAAS back pays.

Total remuneration for these employees was $836 million ($747 million).

The following table provides further details on the remuneration of employees for 2016-17 included in note 4 of the financial report.

	Executive Number	Non-medical Number	Medical Number	Nursing Number	Operational Number	Total Number
$147 001 - $207 000	52	119	861	250	380	1 662
$207 001 - $307 000	39	15	493	7	85	639
$307 001 - $407 000	11	1	440	2	-	454
$407 001 - $507 000	3	-	277	-	-	280
$507 001 - $607 000	1	1	135	-	-	137
$607 001 - $707 000	-	-	39	-	-	39
$707 001 - $807 000	-	-	9	-	-	9
$807 001 - $907 000	-	-	1	-	-	1
$907 001 - $997 000	1	-	-	-	-	1
Total	107	136	2 255	259	465	3 222

Supplies and services expenses

Significant components of supplies and services were:

- contract of services – $124 million ($126 million)

- fee-for-service payments to medical practitioners – $142 million ($139 million)
- medical, surgical and laboratory supplies – $293 million ($298 million)
- housekeeping – $92 million ($94 million)
- contractors – agency staff – $69 million ($74 million)
- drug supplies – $250 million ($232 million).

Other expenses

Other expenses decreased by $56 million to $104 million. Key items contributing to this decrease were:

- a $29 million decrease in impairment expense. In 2016-17 this item related mainly to the impairment of building assets at the old RAH site. In 2015-16 the impairment expense related mainly to assets at the Repatriation General Hospital

- a $36.5 million payment in 2015-16 associated with a deed of settlement with the builders of the new RAH.

Income

Income for 2016-17 amounted to $2.4 billion ($2.3 billion) and principally comprised Commonwealth Government National Health Reform Agreement grants of $1.3 billion ($1.2 billion) and revenue from fees and charges of $592 million ($574 million).

DHA receives Commonwealth Government grants paid from the State Pool account in line with the revised funding agreement under the National Health Reform Agreement rather than from the Department of Treasury and Finance through SA Government appropriation.

Statement of Financial Position – consolidated entity

Liabilities

Employment liabilities make up $1.3 billion of the consolidated entity's total liabilities at 30 June 2017, comprising:

- employee benefits liabilities and related on-costs, $1.2 billion ($1.2 billion)

- provision for workers compensation, $88 million ($100 million). The worker compensation provision was estimated by an independent actuary as at 30 June 2017. The actuary reported that the reasons for the decrease included a decrease in non-serious injury claims and the impact of existing claims being one year older.

As at 30 June 2017, the consolidated entity had a net assets position of $2.3 billion.

Assets

The consolidated entity's financial position is dominated by non-current property, plant and equipment assets, representing 84% of total assets.

The carrying value of property, plant and equipment increased $2.8 billion to $5.7 billion. Key movements during the year were:

- additions of $2.8 billion relating to the new RAH including buildings of $2.4 billion, plant and equipment of $258 million and lifecycle service assets of $145 million. These assets are held under a public private partnership arrangement

- other additions of $306 million, including $284 million capital works in progress additions.

The main categories of property, plant and equipment were:

- land, $347 million
- buildings, $2.1 billion
- buildings under Public Private Partnership, $2.6 billion
- capital work in progress, $319 million
- plant and equipment, $129 million
- plant and equipment under Public Private Partnership, $258 million.

It is also important to note that certain buildings and site improvements at the old RAH site have been recognised at $0 value, reflecting the uncertainty of their future use and the planned transfer of these assets in 2017-18 to the Urban Renewal Authority for $0 consideration.

Other commentary on operations

Comparison of actual expenses to original budget

Note 39 of the financial report provides budgetary reporting information, including explanations of major variances between DHA's original budget provided to Parliament and actuals reported in the financial statements. Total actual expenses were under the 2016-17 State Budget by $71 million. Contributing to this result was a reduction in the following budgeted expenditure relating to the delay in opening the new RAH:

- borrowing costs of $143 million
- depreciation costs of $81 million.

Other unbudgeted costs incurred were less than the reduced expected outlays for the new RAH, resulting in a net favourable budget outcome.

Total revenue exceeded the 2016-17 State Budget by $112 million. The net result is favourable against the original budget by $84 million. It is important to note that the budget data is not subject to audit.

Central Adelaide Local Health Network Incorporated (CALHN)

Financial statistics

Total expenses:	$2211 million
Net cost of providing services:	$1637 million
Revenues from SA Government:	$1637 million
Staff benefits liability and related on-costs:	$431 million
Workers compensation liability:	$22 million
Number of FTEs:	10 941

Significant events and transactions

— A Completion Deed for the new Royal Adelaide Hospital (RAH) was executed by the Minister in March 2017. The Deed agreed the approach to completing construction and facilitated the achievement of technical completion on 15 March 2017. It outlined certain alleged major defaults that would be resolved separately through arbitration, rather than delaying technical completion.

— Commercial acceptance of the new RAH was achieved on 13 June 2017.

— Some outpatients were treated at the new RAH from 14 August 2017 and the Emergency Department opened on 5 September 2017.

— The new RAH was recognised in CALHN's financial report at a value of $2.809 billion. This comprised a leased building asset of $2.551 billion and leased furniture, fixtures and equipment of $258 million.

— The builder has initiated legal action in the Federal Court of Australia against Celsus (previously SA Health Partnership Nominees Pty Ltd), the independent certifier and the State over contractual and other matters related to the construction of the new RAH.

— CALHN recognised a $31 million expense in 2016-17 to reduce the value of the land and a number of remaining buildings on the old RAH site to $0. This expense reflects that SA Health will no longer have control over these assets and will not receive any income on transfer of these sites to the Urban Renewal Authority (due to occur in 2017-18).

— CALHN had three Chief Executive Officers and two Chief Operating Officers during 2016-17.

Financial report opinion	**Unmodified**
Financial controls opinion	**Modified** Key issues: — Inadequate review of employee payroll and leave management information — No process to ensure nurses' and medical officers' timesheets were always approved prior to payment — Weaknesses in processes to ensure the completeness of revenue and prompt debt collection — No reviews of user access for a number of systems — Retrospective approval of SA Pharmacy expenditure through purchase orders — Inadequate review of invoices against contracted rates

The new Royal Adelaide Hospital

New Royal Adelaide Hospital public private partnership (PPP) arrangement

The PPP project to construct the new RAH commenced in May 2011. The estimated total value of the contractual arrangement provided for a nominal capital cost for design and construction of $1.85 billion. The budget for State funded works is $588 million, of which $388 million had been spent as at 30 June 2017. The total nominal cost of the project was $2.4 billion.

In 2017 two key milestones for the project were achieved:

- technical completion on 15 March 2017
- commercial acceptance on 13 June 2017.

Commercial acceptance was a key event as it marked the date on which the new RAH was handed over to the State for use and also marked the date from which quarterly service payments from the State to Celsus commenced. The estimated average annual service payment is $390 million ($318 million to repay design, construction and financing costs and $72 million for service payments covering cleaning, security and other costs). Quarterly service payments will be paid throughout the term of the arrangement until it concludes in June 2046.

Deed of Settlement and Release agreed between the State and SAHP

Consistent with a Cabinet submission approved on 14 September 2015, the Minister for Health and SA Health Partnership Nominees Pty Ltd (SAHP) executed a Deed of Settlement and Release (the Settlement Deed) which revised certain contractual arrangements between the State and SAHP (now known as Celsus). The Settlement Deed, which was executed on 17 September 2015, provided for commercial settlement of a number of matters including SAHP releasing the State from claims relating to:

- contamination remediation
- clinical equipment related modifications
- modifications
- other matters.

In addition, under the Settlement Deed the Minister for Health agreed to exercise the State's right to unilaterally extend the date for technical completion and the date for commercial acceptance by 76 days.

The State makes payments to SAHP under the Settlement Deed

Under the terms of the Settlement Deed the State agreed to pay SAHP $68.6 million. The State paid $30 million in October 2015 for contamination remediation and modifications, and paid a further $36.5 million in August 2016 for delay costs and to extend the date of technical completion (4 April 2016) and commercial acceptance (3 July 2016). The extended dates under the Settlement Deed were not achieved.

The remaining amount of the Settlement Deed, $2.1 million, was paid in July 2017 for remaining modifications and a range of other costs.

Completion Deed

In March 2017 the State and Celsus entered into a Completion Deed which formally agreed the approach to resolving a range of outstanding matters including access to the site and dealing with alleged major defects in order to allow technical completion to be achieved, and subsequent commercial acceptance.

The Completion Deed agreed to a separate arbitration process to address alleged defects and related legal proceedings, so that any delays in resolving these issues would not delay the technical completion and commercial acceptance dates.

Following the Completion Deed, technical completion was achieved on 15 March 2017, marking the start of a three-month period of testing and commissioning the new RAH.

Commercial acceptance and commencement of service delivery

Commercial acceptance was achieved on 13 June 2017, signalling the transfer of control of the new RAH to the State. It also marked the start of repayments to Celsus from the State and additional payments of new RAH servicing costs (also to Celsus) through quarterly service payments.

As at 30 June 2017 no quarterly service payments had been made. CALHN recorded a liability of $18 million for the 17 days between commercial acceptance and 30 June 2017, with the first actual payments made to Celsus in August 2017.

While commercial acceptance meant control of the new RAH passed to the State, services at the new RAH commenced after that date. The treatment of some outpatients commenced from 14 August 2017, with the transfer of inpatients and all activity from the old RAH taking place in early September 2017. The Emergency Department opening on 5 September 2017 marked a major milestone in this process. The last inpatient transfers from the old RAH occurred on 6 September 2017, with all medical services from that date provided at the new RAH.

Legal action in progress

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

Financial impact of the completion of the new RAH

The date of commercial acceptance, 13 June 2017, also marked the date on which CALHN recognised the financial transactions associated with the new RAH arrangements.

The new RAH arrangements have a significant impact on CALHN's financial report in a number of areas, as outlined below.

Framework for the recognition of the new RAH

The new RAH has been accounted for as a finance lease arrangement under Australian Accounting Standards. In broad terms, this required CALHN to recognise the liabilities for the repayments to Celsus over the life of the agreement and the new RAH building and leased equipment as assets on the date of commercial acceptance.

The values at which the assets and liabilities have been recognised are described further below.

In addition to the recognition of assets and liabilities, CALHN has also included details of the commitments for payments for services, including security and cleaning amongst others, that will be provided by Celsus to the State over the term of the arrangements, which conclude in 2046. While these commitments are not recognised as a liability in CALHN's financial report, it is an important disclosure that outlines the base costs to the State from the provision of these services.

Substantial liabilities associated with the new RAH

CALHN recognised total liabilities of $2.771 billion as at 30 June 2017. This is split between current and non-current finance lease liabilities of:

- current: $31.213 million
- non-current: $2.74 billion.

These liabilities represent the present value of the future minimum lease payments for the new RAH building and equipment. The future payments represent payments to Celsus for the design, construction and financing of the new RAH building and the furniture, fittings and equipment that Celsus has provided to the State as part of the arrangement.

Also included in these payments are amounts for the planned maintenance of the building and planned maintenance or replacement of items of furniture, fittings and equipment through the life of the contract. These payments are termed lifecycle costs and represent the projected costs the State has agreed to pay Celsus to maintain the facility in the condition required by the arrangements until the new RAH is handed back to the State in June 2046.

Significant assets recognised for the new RAH

CALHN also recognised significant assets totalling $2.809 billion following commercial acceptance of the new RAH. These were:

- $2.5 billion for the leased building as a result of the PPP arrangements
- a further $50 million in State costs associated with the building
- $258 million in leased furniture, fittings and equipment.

These assets have been recognised at cost, based on the amounts the State has agreed to pay Celsus, or the amount the State incurred directly in the case of the additional $50 million in building costs. The additional building costs incurred by the State represent amounts spent to modify the new RAH from the original agreed design.

The recognition of these assets offsets the liabilities recognised as discussed above. With the exception of the $50 million directly incurred by the State, the other costs have been determined as the present value of the minimum lease payments (the same basis as the liabilities), as allowed by Australian Accounting Standards.

The value of the assets above includes $145 million, split between the building and the furniture, fittings and equipment in recognition of the future costs that will be paid to maintain these assets throughout the term of the arrangement (lifecycle costs).

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

Significant future commitments for operating costs of the new RAH

In addition to the assets and liabilities discussed above, CALHN has included details of the commitments for payments to Celsus for the provision of services including security, maintenance and cleaning at the new RAH for the term of the arrangements. The total nominal cost of these arrangements is $2.984 billion.

The committed amounts are not recognised as a liability as the State is only liable to pay them once the services have been delivered and the State has been invoiced for the costs. Accordingly, they will be recognised as expenses for each year of operation of the new RAH until 2046.

The total payments to Celsus over the term for these commitments will also vary depending on, among other factors, the number and types of patients in the new RAH and the quantity of maintenance required.

Total nominal cost of the new RAH arrangements

The liabilities recognised for the new RAH in CALHN's financial report are the present value of the minimum lease payments to Celsus. This figure is determined by discounting the nominal payments to Celsus using the discount rate (interest rate) which is implicit in the arrangements. The discount rate used for the new RAH is 9.929%.

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

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

As mentioned above, these costs will change over the course of the arrangements for the operations and maintenance element due to changes in the number of patients in the new RAH and other factors. These amounts are disclosed as commitments (refer notes 31.3 and 31.4 of the financial report).

The composition of the payments to Celsus will vary over the term according to the planned maintenance schedule (lifecycle) costs and variations in the levels of maintenance and other operational costs incurred. The State will make quarterly service payments to Celsus of approximately $390 million p.a., noting that the amount paid in any given year will vary, as previously explained.

The arrangements provide for the indexation of the lifecycle costs and the pass through of operations and maintenance costs based on volume. The lifecycle costs will therefore change over the course of the arrangement through the effects of indexation.

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

Further reporting on the new RAH

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

Functional responsibility

CALHN is established under the *Health Care Act 2008.*

The powers and functions of the CALHN are to establish, provide, maintain and enhance hospital, medical and allied health services in its local area.

Under the *Health Care Act 2008* the Chief Executive, Department for Health and Ageing (DHA) assumes direct responsibility for administering incorporated hospitals. This includes appointing the Chief Executive Officer of CALHN. The Chief Executive, DHA cannot give a direction about a person's clinical treatment.

Scope of audit

The audit program covered major financial systems to obtain sufficient evidence to form an opinion on the financial report and internal controls.

Financial services for CALHN are provided through a mix of:

- central services provided by DHA through an integrated finance service model
- finance services located within CALHN
- services provided by Shared Services SA (SSSA).

The audit included review of systems and completing audit work at DHA's central services, 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
- SSSA matters.

Specific areas of audit attention in 2016-17 included:

- payroll
- expenditure and accounts payable
- inventory
- patient billing and sundry revenue
- private practice revenue
- grants and contributions revenue
- accounts receivable and other revenue
- property, plant and equipment
- new RAH accounting treatment
- general ledger
- cash and online banking
- SA Pharmacy
- SA Pathology.

Review of the financial management compliance program was addressed through the audit of DHA.

Internal audit activities were reviewed to assess the risks of material misstatement in the financial report and to inform the design of audit procedures.

Audit findings and comments

Assessment of controls

In my opinion, the controls exercised by the Central Adelaide Local Health Network Incorporated in relation to the receipt, expenditure and investment of money, the acquisition and disposal of property and the incurring of liabilities, except for all matters outlined under 'Communication of audit matters', are sufficient to provide reasonable assurance that the financial transactions of the Central Adelaide Local Health Network Incorporated have been conducted properly and in accordance with law.

Communication of audit matters

Matters identified by the audit were detailed in management letters to the Chief Executive Officer, CALHN and copied to the Chief Executive, DHA. SSSA matters were reported to the Chief Executive, Department of the Premier and Cabinet.

A summary of our findings for centralised processes performed by DHA and SSSA can be found in the section of this Report titled 'Department for Health and Ageing' under the heading 'Communication of audit matters'. The main matters raised with CALHN and related responses are detailed below.

Payroll

Payroll related costs for CALHN are significant, with more than $1.3 billion in staff benefit expenses paid in 2016-17 and $404 million in staff benefit liabilities at 30 June 2017. Payroll controls are therefore a key focus of our audit each year.

No regular review of payroll information by CALHN

Consistent with our previous findings, we found CALHN did not have an effective process to ensure the accuracy of employee-level pay information. In particular:

- the validity of payments to employees was not certified
- there was no regular review of employee classification levels
- the validity of long-term allowances was not reviewed.

Last year CALHN advised that the implementation of the Chris21 payroll system's bona fide module would address these gaps. CALHN also advised it would develop a local procedure for these requirements, in consultation with DHA and SSSA.

In 2016-17 we found a local procedure had not been developed and the Chris21 bona fide module, which will cover employees paid automatically each fortnight such as medical officers and administration staff, was not yet implemented.

CALHN advised the bona fide module of Chris21 would be implemented as part of further enhancements to the payroll system. CALHN also advised the rollout process would include data validation, a communication plan and training for managers.

Inadequate leave management processes

CALHN did not have an effective central mechanism to ensure leave management reports were reviewed as required by policies and procedures. There were 197 CALHN staff members with negative leave balances and 662 with excessive annual leave balances, reinforcing the need to improve leave management.

CALHN noted the findings and advised that, since Chris21 was implemented, individual managers have the ability to see their employee's up-to-date leave balances. CALHN advised it would soon have an automated leave approval workflow function following further enhancements to Chris21, which is expected to assist in leave management.

Nurses' timesheets are not always approved prior to payment

We have previously reported that not all timesheets for nursing, midwifery and patient services staff, were approved prior to payment. This issue is mainly a result of adjustments made to approved timesheets, meaning the timesheets require re-approval. We noted an average of 90% of timesheets were approved prior to payment.

CALHN responded that a CEO Bulletin would be prepared to remind employees and managers of their responsibilities and obligations for accurate time keeping.

No process to ensure all medical officers' timesheets are approved and submitted

Consistent with our previous findings, there remained no process to ensure all medical officers submit timesheets and accompanying leave forms for approval.

Where there is no complete review of outstanding timesheets and associated leave forms incorrect payments may be made to staff or leave taken may not be captured. We consider this is particularly important where staff are automatically paid in the payroll system, regardless of whether a timesheet is submitted, which is typically the case for medical officers. While they are automatically paid, medical officers' timesheets identify allowances they are entitled to be paid, meaning the accuracy of total payments requires completed timesheets to be processed promptly.

CALHN responded that it would develop a guideline to help staff identify unsubmitted timesheets and leave forms, remind staff of their responsibilities and offer training to managers and staff.

Expenditure

CALHN paid over $738 million for supplies and services in 2016-17. A large proportion of these expenses are approved for payment using online approval functions in SA Health's key financial systems: Oracle and Basware.

Invoices not always matched to purchase orders

When goods or services are received and receipted against an Oracle purchase order, an expense and matching liability is recognised in the general ledger. If goods or services received are not matched against the purchase order this can result in the duplication of expenses and liabilities, as a liability has remained although the associated invoice may already have been paid. We noted there was a $1.8 million liability for unmatched receipted purchase orders as at 30 June 2017.

Not matching invoices with their corresponding purchase orders prior to payment can result in an overstatement of liabilities and associated expenses. There is also an increased risk of payments being made for goods or services not received or at a price inconsistent with the agreed purchase order.

CALHN's response acknowledged that not all invoices are matched to purchase order receipts. While SSSA was not mandated to match all purchase orders to invoices, they have recently changed procedure to ensure that more invoices will be matched to goods or services ordered and received.

No evidence charges were checked to pricing schedules

Our sample testing of payments identified a lack of evidence that invoices had been checked to price schedules to confirm that CALHN had been invoiced at the correct rate. We found there was a focus on whether the good or service had been provided, but not on whether the invoiced amount agreed to the contract pricing schedule.

Where invoice rates are not agreed to contracts (or contract summaries), CALHN may be paying more than is required for the goods or services provided. This could result in financial loss to CALHN.

CALHN responded that it would ensure that reviewers checked the rates charged by contracted providers to the pricing schedule in the relevant contract. A mechanism to note that the rates had been checked would also be implemented.

Intellectual property (IP) register is not kept up to date

Each local health network (LHN) is responsible for maintaining its own IP register as there is no central IP register across SA Health. We found CALHN's register had not been updated for several years, although we noted it did contain adequate information for each IP asset that was recorded.

We consider the IP register needs to be regularly updated to ensure it can be used to effectively manage IP rights and obligations, which in turns helps to determine IP claims.

CALHN responded that the IP register was being reviewed and updated, with the process expected to be completed in 2017-18.

SA Pharmacy

SA Pharmacy spent more than $206 million on drug supplies in 2016-17.

Stock adjustments not approved by authorised delegates

Pharmacy stock records are regularly adjusted for damaged, obsolete or expired pharmaceuticals. Consistent with our previous finding, we found there were instances where approval for stock disposals was not recorded. We also found instances where the officer approving disposals did not have the authority to write off stock.

Where established delegations are not followed, there is a risk of inappropriate or unauthorised disposal of pharmaceuticals.

SA Pharmacy noted our finding and advised it would develop a disposal procedure for the appropriate disposal delegates.

Monitoring access to pharmacies requires improvement

We have previously identified that monitoring swipe card access and after-hours access to pharmacies needed to improve to ensure access was restricted and stock was safe.

In 2016-17 we found that formal reviews of pharmacy access at some sites had started in the last half of the year but there was no procedure to support this review or to ensure that it was performed consistently across all sites. As a result, we considered there remained a risk of unauthorised access to pharmacies and pharmaceuticals.

SA Pharmacy noted this and advised it would develop an 'After-Hours Pharmacy Access Principles Policy' to provide policy and procedural guidance to all sites.

Retrospective authorisation of purchase orders

Treasurer's Instruction 8 'Financial Authorisations' (TI 8) requires authorised delegates to approve expenditure before it is incurred, including purchases. We found that the authorisation for pharmaceutical purchases was, in most instances, provided after the purchase order had been placed with the supplier.

SA Pharmacy's previous responses to this issue have acknowledged the TI 8 requirements but noted that delaying electronic orders until the authorisation was complete could result in substantial delays, potential shortages and patient harm.

We requested that SA Pharmacy investigate changes to their processes and delegations to align them with TI 8 requirements. We noted this issue remained in 2016-17.

SA Pharmacy responded that it acknowledged the recommendation but did not believe there was a need to change the established process.

We believe SA Pharmacy needs to further consider its approach to this issue to ensure compliance with the Treasurer's Instructions.

Pharmaceutical Benefits Scheme (PBS) revenue reconciliations are incomplete

Last year we reported that LHNs did not reconcile PBS subsidy claims to receipts from the Commonwealth Government (Medicare). In 2016-17 we found that pharmacy system reporting errors continued to prevent an effective reconciliation with receipts from Medicare. Consistent with last year, we found some reconciliations had not been performed, others had no evidence of independent review and some had unexplained variances that were being investigated. Consequently, LHNs cannot be certain they have received all PBS subsidies they are entitled to.

SA Pharmacy advised it would continue to implement and monitor the PBS reconciliations procedure.

SA Pathology

SA Pathology patient fees for public and private patients totalled more than $116 million for 2016-17.

Improvements needed to ensure billing is complete

Consistent with prior years we found improvements were needed to ensure billing was complete and accurate. We found SA Pathology did not effectively:

- monitor or follow up pathology services completed that had not been invoiced
- reconcile its laboratory system, Ultra, records to revenue system records.

Unbilled pathology charges that are not followed up may result in delayed or lost revenue.

We also noted SA Pathology made a business decision not to invoice certain categories of private patients, amounting to approximately $5.7 million in 2016-17.

SA Pathology advised it was working with Hospital Revenue Services to develop a report of unbilled services, noting current limitations in Ultra. It advised a policy and procedure would be developed to support the process once the report was available and it would ensure revised processes were adopted with the implementation of the Enterprise Pathology Laboratory Information System, expected in December 2017.

Pathology system access

For a number of years, we have reported concerns about SA Pathology's review of user access to Ultra. Consistent with last year, we found that no regular review of access to Ultra had occurred this year, in our view increasing the risk of inappropriate access to records.

SA Pathology advised that it reviews Ultra access when positions are created or when staff leave or revert to a substantive position. SA Pharmacy advised it would implement a quarterly user access review by December 2017.

Patient billing

CALHN's revenue from patient and client fees was over $230 million in 2016-17, with a further $35 million recorded in private practice fees controlled by CALHN. In addition, $63 million was collected on behalf of medical officers and DHA in administered revenue from private practice arrangements.

Inadequate review of revenue system access levels

For a number of years, we have reported concerns about CALHN's review of user access to its revenue systems. We noted that the last review of the Facility Information Management System (FIMS) at the RAH was in February 2016 and user access to the Enterprise Patient Administration System (EPAS), used at The Queen Elizabeth Hospital (TQEH), was not reviewed in 2016-17.

Without a regular review of EPAS and FIMS user access and profiles there is a risk of inappropriate access, which could result in inaccurate or unauthorised changes being made to data or unauthorised access to patient information.

CALHN accepted the recommendation and responded that:

- FIMS legacy system access was reviewed in August 2017 with several user deletions requested
- a review of EPAS user access would be performed for TQEH revenue staff by 30 November 2017
- ongoing reviews of user access to both EPAS and FIMS would be performed every six months.

EPAS repricing report for backdated transactions

EPAS cannot currently generate a backdated transactions revenue report to highlight any billing changes due to backdated changes to patient records. Backdating of patient records occurs when additional information is provided after initial admission or treatment.

As a workaround, TQEH reviews a repricing report to identify potential unbilled amounts. The repricing report includes all changes, not only those that may impact patient billing. This means the reviewer has to go through each change to determine whether a new invoice is needed.

While TQEH requires a daily review of the report by the Hospital Billing team, we found no reviews had been performed since February 2017.

CALHN responded that it would perform a daily review of the repricing report and advised a change request for a backdated repricing report was being developed for EPAS.

Debt management

Our review of 2016-17 CALHN debt management reports found that:

- total debts outstanding were $38.5 million
- debts outstanding for over 90 days were $16.7 million.

Delays in effectively managing debts increase the likelihood of not recovering the amount owed. We noted that SA Health commenced an onsite role to review and collect all Medicare eligible private insured inpatient debt aged less than 12 months in June 2017, in an effort to improve the level of debt collected. We recommended CALHN continue to work with DHA to further improve debt recovery practices.

CALHN accepted our recommendation.

Private practice billing

Private practice revenues are billed on behalf of salaried medical officers and subsequently distributed to the LHNs, DHA and salaried medical officers according to private practice agreements.

Private practice audits

We have previously noted that specialist private practice agreements allow for the Chief Executive, DHA, through DHA, the LHNs or the engagement of an independent auditor, to review (including audit):

- specialists' private practice
- amounts transferred to CALHN under a private practice agreement
- accounts rendered by a specialist or on behalf of a specialist.

CALHN has previously responded that a risk based approach would be considered but a regular program of review or audit of specialists' private practice had not been established.

In April 2017, CALHN performed a review to identify where specialists had a Medicare provider number at an offsite address that was not included or disclosed on their private practice agreement. This process identified 34 specialists, 16 at TQEH and 18 at the RAH, where further information was needed to confirm the arrangements were in line with approved private practice agreements.

Clinicians were asked to provide a written response to CALHN on the identified matters but as at July 2017 only 15 responses from TQEH had been received, with RAH responses still being pursued. We recommended CALHN continue to develop and document a risk based approach to reviewing/auditing specialist private practice arrangements, as provided for in private practice arrangements.

CALHN responded that it would continue to adopt a risk based approach to reviewing/auditing specialists' private practice arrangements and noted it was still following up outstanding responses from its earlier review.

Interpretation and analysis of the financial report

Highlights of the financial report

	2017		2016	
	Consolidated $'million	Parent $'million	Consolidated $'million	Parent $'million
Expenses				
Staff benefit expenses	1 336	1 330	1 345	1 339
Supplies and services	738	735	704	701
Depreciation and amortisation	47	47	60	60
Other expenses	90	89	106	106
Total expenses	2 211	2 201	2 215	2 206
Income				
Revenue from fees and services	326	317	313	305
Grants and contributions	204	204	186	186
Other income	44	43	40	38
Total income	574	564	539	529
Net cost of providing services	1 637	1 637	1 676	1 677
Revenues from SA Government	1 637	1 637	1 619	1 619
Net result	-	-	(57)	(58)
Other comprehensive income	(7)	(7)	(8)	(7)
Total comprehensive result for the year	(7)	(7)	(65)	(65)
Assets				
Current assets	192	181	218	207
Non-current assets	3 497	3 491	745	740
Total assets	3 689	3 672	963	947
Liabilities				
Current liabilities	323	321	319	317
Non-current	2 985	2 985	259	259
Total liabilities	3 308	3 306	578	576
Net assets	381	366	385	371

Statement of Comprehensive Income

Expenses

In 2016-17 total expenses decreased slightly by $4 million to $2.2 billion.

Staff benefit expenses

Staff benefit expenses, $1.3 billion, represent 60% of CALHN's total expenses and decreased slightly by $9 million in 2016-17.

The decrease in staff benefit expenses is due to:

- a $34 million increase in salaries and wages, mainly from wage rises associated with enterprise agreements offset by a $41 million decrease in long service leave expenses due to:
  - an increase in the bond rate used in 2017 (2.51%) from that used in 2016 (1.95%) in the actuarial calculation of the long service leave liability, resulting in an $11 million decrease in the liability
  - the stable salary inflation rate of 4% compared to the 1% increase in this rate in 2015-16 that resulted in a $17.5 million increase in the expense for that year
- an $8 million decrease in workers compensation reflecting a change in 2016-17 where seriously injured workers were allocated directly to the employing entity.

In 2016-17 targeted voluntary separation packages of $1.5 million ($1.5 million) were paid to 13 (10) employees.

The number of employees whose remuneration received/receivable exceeded the base executive level ($147 000) totalled 1170 (1111), comprising 968 medical, 86 non-medical, 90 nursing and 26 executive employees. Nursing remuneration included in these figures increased by 41 employees and $7 million due to an increase in the new enterprise agreement and as a result of there being an extra pay run in the year. Total remuneration for these employees was $329 million ($313 million).

Supplies and services expenses

Supplies and services expenses increased by $34 million (5%) to $738 million. Significant components of supplies and services expenses were:

- drug supplies, which increased by $19 million (10%) to $206 million
- medical, surgical and laboratory supplies, which increased by $3 million (2%) to $158 million
- legal expenses, which increased by $6 million to $7 million mainly related to the new RAH.

Other expenses

Other expenses decreased by $47 million to $51 million. Significant components of other expenses were:

- impairment expenses of $31 million mostly related to the write-down in value of the old RAH site, recognising it will transfer to the Urban Renewal Authority in 2017-18 for $0 consideration
- bad and doubtful debts increasing by $4 million to $6 million
- reductions in other expenses in 2016-17 due to the once-off nature of the payment of Settlement Deed fees of $36.5 million associated with payments to SAHP for the construction of the new RAH and the transfer of assets to DHA of $31 million in 2015-16.

Revenues

CALHN is dependent on revenue from the Commonwealth and SA Governments.

CALHN received $1.637 billion in funding from the SA Government in 2016-17. This included capital funding of $141 million, a decrease of $23 million (14%). The decreased capital funding mainly reflects the timing of amounts required for the State works associated with the new RAH.

Commonwealth grants and contributions received directly by CALHN increased by $17 million to $187 million, due mainly to an increase of $18 million in the PBS Commonwealth subsidies to $182 million, partially offset by a decrease of $1 million in Commonwealth grants and donations.

The $17 million increase in Commonwealth funding offsets the increase in drug supplies costs in 2016-17.

Statement of Financial Position

Property, plant and equipment

Property, plant and equipment represent 93% of total assets.

The carrying value of property, plant and equipment increased by $2.7 billion to $3.4 billion.

Significant movements in property, plant and equipment in 2016-17 were:

- $2.809 billion in additions relating to the new RAH, with $2.407 billion relating to the new RAH building, $258 million in plant and equipment and $145 million in lifecycle service assets
- revaluation decrements and impairment losses associated with surplus assets totalling $38 million, mostly related to the write-down in value of the old RAH site as discussed above
- $82 million in additions, $50 million of which was for building work associated with work in progress for State works for the new RAH
- depreciation and amortisation expenses decreasing by $16 million to $44 million due to assets being decommissioned, written down to $0 value and coming to the end of their useful life.

There were also additions totalling $31 million to CALHN's intangible assets in 2016-17. These additions include amounts associated with developing software and information and communications technology systems for the new RAH.

Valuation of assets – existing RAH

The existing RAH land and buildings were valued at $0 for most of the RAH site as at 30 June 2015 and the Frome Road Dental Hospital as at 30 June 2016. This valuation reflected the uncertainty about the future use of these assets, which are still subject to further SA Government decisions.

In 2016-17, CALHN wrote down the value of the heritage buildings and old RAH site land to $0 as well, reflecting advice that CALHN would transfer these assets, as well as the parts of the RAH site previously written down to $0, to the Urban Renewal Authority for $0 consideration. It is anticipated that this transfer will occur in 2017-18.

New RAH State works

In addition to the works and services provided by Celsus under the PPP arrangement, the State was required to deliver and finance important elements of the project including core clinical equipment, information and communications technology hospital enterprise systems, precinct works, project and contract management costs, and transition costs. The budget for State funded works increased by $112 million from 30 June 2016 to $588 million, of which $388 million had been spent as at 30 June 2017. The budget increase was due to additional costs for delay funding, contingency funding for modifications and dual running costs.

Liabilities

Current liabilities increased by $4 million to $323 million during the year and exceeded current assets of $192 million at 30 June 2017. CALHN works with DHA to ensure sufficient funding is provided to CALHN to meet expected cash flows for its administration and program delivery. Cash and cash equivalents of $88 million are sufficient to meet current payables of $86 million.

Staff benefits are the largest element of current liabilities, totalling $193 million at 30 June 2017, and include leave entitlements expected to be taken within 12 months. Total liabilities increased by $2.7 billion to $3.3 billion, reflecting the finance lease liabilities associated with the new RAH.

Staff liabilities and associated on-costs make up $453 million of CALHN's total liabilities at 30 June 2017, comprising:

- staff benefits liabilities and related on-costs, $431 million ($431 million)
- provision for workers compensation, $22 million ($28 million).

The decrease in the provision for workers compensation reflects a reduction in claim numbers, therefore reducing the actuarial assessment of the liability.

Country Health SA Local Health Network Incorporated (CHSALHN)

Financial statistics

Total expenses:	$862 million
Net cost of providing services:	$648 million
Revenues from SA Government:	$618 million
Staff benefits liability and related on-costs:	$161 million
Workers compensation liability:	$14 million
Number of FTEs:	5641

Significant events and transactions

- Commonwealth aged care and disability services reforms commenced and introduced individualised funding to the consumer, replacing block funding to the provider. Designed to provide greater choice in services, the reforms are intended to create a competitive market for aged care and disability services, including in regional South Australia.
- The Waikerie Health Advisory Council received a significant bequest of $3 million.

Financial report opinion

Unmodified

Financial controls opinion

Modified

Key issues:

- Inadequate review of payroll information
- Employee time records were not always approved
- Timesheets were not always approved prior to payment
- Medical officer claims are not always matched to records of service provided

Functional responsibility

CHSALHN is established under the *Health Care Act 2008.*

The powers and functions of CHSALHN are to provide health services in rural areas of South Australia.

Under the *Health Care Act 2008* the Chief Executive, Department for Health and Ageing (DHA) assumes direct responsibility for administering incorporated hospitals. This includes appointing the Chief Executive Officer of CHSALHN. The Chief Executive, DHA cannot give a direction about a person's clinical treatment.

The consolidated accounts of CHSALHN include the assets, liabilities, revenues and expenses of the Health Advisory Councils (HACs). The HACs were established under the *Health Care Act 2008* to undertake an advocacy role on behalf of the community, to provide advice about the provision of health services, health issues, goals, priorities, plans and other strategic initiatives, and to perform other functions as determined under the *Health Care Act 2008.*

Scope of audit

The audit program covered major financial systems to obtain sufficient evidence to form an opinion on the financial report and internal controls.

Financial services for CHSALHN are provided through a mix of:

- central services provided by DHA through an integrated finance service model
- finance services located within CHSALHN
- services provided by Shared Services SA (SSSA).

CHSALHN continued to operate some legacy systems. Consequently, our audit included the review of new and legacy systems and completing audit work at DHA's central services, CHSALHN 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
- SSSA matters.

A Chartered Accounting firm assisted the Auditor-General with the audit of CHSALHN.

Specific areas of audit attention in 2016-17 included:

- payroll
- accounts payable
- patient revenue including accounts receivable
- fee-for-service
- Enterprise Patient Administration System (EPAS) – Port Augusta
- property, plant and equipment
- cash
- general ledger.

Review of the financial management compliance program was addressed through the audit of DHA.

Internal audit activities were considered in designing and performing audit procedures.

Audit findings and comments

Assessment of controls

In my opinion, the controls exercised by the Country Health SA Local Health Network Incorporated in relation to the receipt, expenditure and investment of money, the acquisition and disposal of property and the incurring of liabilities, except for all matters outlined under 'Communication of audit matters', are sufficient to provide reasonable assurance that the financial transactions of the Country Health SA Local Health Network Incorporated have been conducted properly and in accordance with law.

Communication of audit matters

Matters identified by the audit were detailed in a management letter to the Chief Executive Officer, CHSALHN and copied to the Chief Executive, DHA.

A summary of our findings for centralised processes performed by DHA can be found in the section of this Report titled 'Department for Health and Ageing' under the heading 'Communication of audit matters'.

There were no matters raised for services provided by SSSA.

The main matters raised with CHSALHN and related responses are detailed below.

Payroll

Insufficient review of payroll information

Consistent with last year's findings, we found CHSALHN supervisors and team leaders did not always review payroll reports to ensure the accuracy and completeness of employee payments. Failure to ensure payroll information is valid and accurate may result in fraudulent or incorrect payments.

We recommended management implement a process to ensure supervisors regularly review employee-level pay information.

CHSALHN responded that it was contributing to a Chris21 project to develop an online approach to authorising and monitoring bona fide reports. It also indicated that, in the interim, it had developed a work instruction for a bona fide review process that incorporates the different arrangements for all CHSALHN staff not paid based on timesheet or roster records (auto-pay).

Time records not always approved

Timesheets are created in the ProAct rostering system. Managers are required to electronically authorise timesheets before they are uploaded to Chris21 for payment. We noted instances where the ProAct file was uploaded to Chris21 without all timesheets authorised. Specifically, our testing revealed approximately 30% of our sampled timesheets were not approved prior to processing of the payroll. We recommended CHSALHN ensure all ProAct timesheets are approved before the ProAct file is uploaded to CHRIS for payroll processing.

CHSALHN responded that it would review the protocols and business rules supporting ProAct sign-offs prior to payroll file transfer.

Access to ProAct roster system not adequately reviewed

Our audit considered management's processes to ensure only authorised and appropriate people have access to ProAct. We found that CHSALHN's review of system access had not occurred regularly. Failure to prevent or detect inappropriate access may allow processing of unauthorised payroll transactions. We recommended CHSALHN regularly review ProAct user access and remove staff who no longer require access.

CHSALHN responded it would review user access biannually and remove access as appropriate.

Payments to medical practitioners – fee-for-service

CHSALHN pays medical practitioners in line with the terms of the South Australian Medical Schedule of Fees and the Rural Health Enhancement Package. Our review identified a number of opportunities to improve control processes relating to fee-for-service payments.

Medical officers' claims are not always matched to records of services provided

Last year we reported that fee-for-service payments claimed by medical officers are only matched to medical records when the procedure related to life threat or complicated delivery. Treasurer's Instruction 2 'Financial Management' provides that the chief executive must ensure that any expenditure is paid only where goods are received and services are provided.

CHSALHN's response in August 2016 indicated that its legacy system, Chiron, does not have the system functionality to electronically match fee-for-service payments to medical records. It indicated that it reviewed claims for characteristics that may signal an error, for example multiple consults claimed in a short time.

Our follow-up in 2016-17 found that CHSALHN had implemented a process to review a random sample of fee-for-service payments, however we found they are not reviewed to medical records to confirm the services were received. We recommended that where system based matching is not possible CHSALHN regularly test a risk based sample of payment claims to medical records to confirm the services were received.

CHSALHN responded that it reviews all high cost and time based fee-for-service payments. It indicated it would review a sample to medical records on a regular basis.

Staff can override fee-for-service rates on the system

Fee-for-service payments are generated automatically by Chiron based on code rates maintained in the system. We found staff can manually override these code rates, increasing the opportunity for error or fraud.

Responding to similar concerns last year CHSALHN explained that Chiron system limitations prevent its ability to restrict access to the codes. We recommended that where system based preventative controls are not possible, CHSALHN introduce additional review processes to identify and action any manual overrides.

CHSALHN responded that it would consider the feasibility of a review of processes to help with segregation of duties.

Improvements needed to prevent payments to medical practitioners with expired credentials

The CHSALHN Credentialing and Scope of Clinical Practice Advisory Committee approves an individual medical practitioner's right to provide services to CHSALHN and admit patients. A register is maintained of all currently approved medical practitioners. The register includes the scope of clinical practice and an expiry date.

Chiron restricts payment to any medical practitioner with expired credentials based on its record of expiry dates. We found the accuracy and completeness of medical practitioners' details in Chiron was not regularly reviewed to the register of approved practitioners, potentially increasing the risk of payments to practitioners with expired credentials. We recommended CHSALHN implement a review of Chiron records to identify and prevent payment to health practitioners with expired credentials.

CHSALHN responded that it was reviewing the accuracy of details in the system.

Improvements needed to prevent payments to uncontracted medical practitioners

Our review of fee-for-service payments found payments to a specialist health practitioner whose contract expired in 2012. The practitioner was paid in excess of $400 000 in 2016-17. Any period without a contract potentially impacts CHSALHN's ability to manage contractual obligations and conditions.

CHSALHN responded that it was reviewing doctors' details in the system and indicated it appeared to be a once-off issue.

Supplies and services expenditure

Invoices received are not always matched to purchase orders

Our review of payments noted instances where invoices were not matched to the purchase order prior to payment. Where this occurs there is an increased risk that payments may be made for goods or services not received or not at the agreed price. In addition the associated expense records may be overstated. This matter was also raised last year.

CHSALHN's indicated it would review its procedures and provide training to staff.

System-based expenditure approval profiles not regularly reviewed

Our review of the Oracle expenditure system found financial delegations assigned to users within the system were not regularly compared to approved financial delegations.

Consequently, management may not detect employees with capacity to approve expenditure outside of their job responsibilities, resulting in the potential for invalid or unauthorised payments.

CHSALHN responded that from May 2017 it reviewed Oracle and Basware payment system user profiles quarterly.

Using a copy/scanned signature to approve expenditure

We found instances where CHSALHN staff had used copied/scanned signatures to approve expenditure by inserting a copy of a person's signature into a word or PDF document.

This form of electronic signature provides only a low level of assurance, as it is easily replicated and the signatory cannot be confidently linked to the authorising officer. This is in contrast to a true digital signature, the authenticity and source of which is electronically confirmed.

We also found that CHSALHN does not have a policy or procedure to address the use of digital signatures and how they are stored. We recommended CHSALHN only use electronic signatures when they can be confidently linked to the actions of an authorising officer. Controls relating to using and storing of electronic signatures should be documented in a policy or procedure.

CHSALHN's indicated it would develop a procedure on the use of electronic signatures.

Revenue

Incompatible roles not adequately segregated

Our review of patient billing found staff responsible for billing patients could modify admission and discharge dates and charge rates on the billing system, potentially impacting the amounts charged. This matter was also raised last year.

We recommended that staff responsible for invoicing patients should be restricted from modifying dates and charge types and should not perform the receipting. Where system based preventative controls are not possible, we recommended CHSALHN introduce additional review processes to identify and action any segregation of duty breaches.

CHSALHN responded that Chiron system limitations prevent certain access restrictions but it was investigating whether it could implement a review to identify segregation of duty breaches. The response also indicated that receipting is adequately segregated.

Policies and procedures

In recent years we have reported to CHSALHN that policies and procedures for patient invoicing, aged care residential fees and sundry invoicing processes were not documented. Our follow-up of actions taken found opportunities for improvement remain. We also found instances where control practices were inconsistently performed. CHSALHN responded that it was reviewing its policies and procedures for all billing types.

EPAS revenue – Port Augusta

Need to restrict access to make billing changes

EPAS is operational at the Port Augusta Hospital and Health Service.

Compensable and private patients are invoiced through EPAS based on a number of different variables including admission and discharge dates, patient elections and admission type. We found access to make changes to these inputs is not adequately restricted. We also found management did not review reports or audit trails of changes made. Where management does not detect inappropriate or unauthorised changes to invoices or invoicing masterfiles there is an increased risk of fraud or error. We recommended CHSALHN restrict access to make changes or introduce additional review processes to identify and assess changes made.

CHSALHN responded it would liaise with DHA to receive the necessary reports from EPAS.

Interpretation and analysis of the financial report

Highlights of the financial report

	2017		2016	
	Consolidated $’million	Parent $’million	Consolidated $’million	Parent $’million
Expenses				
Staff benefit expenses	521	521	532	532
Supplies and services	302	302	301	301
Depreciation and amortisation	34	19	35	19
Other expenses	5	8	4	6
Total expenses	862	850	872	858
Income				
Revenue from fees and services	75	75	76	76
Grants and contributions	131	133	129	131
Other income	8	3	5	2
Total income	214	211	210	209
Net cost of providing services	648	639	662	649
Revenues from SA Government	618	618	618	618
Net result	(30)	(21)	(44)	(31)
Total comprehensive result for the year	(30)	(21)	(44)	(31)
Assets				
Current assets	139	121	157	143
Non-current assets	836	433	857	443
Total assets	974	554	1 014	586
Liabilities				
Current liabilities	190	190	191	192
Non-current liabilities	105	105	114	114
Total liabilities	295	295	305	306
Net assets	679	259	709	280

Statement of Comprehensive Income – Consolidated

Expenses

In 2016-17 total expenses decreased by $10 million to $862 million.

Staff benefit expenses

Staff benefit expenses decreased $10 million to $521 million mainly due to:

- an increase in salaries and wages of $9 million to $425 million
- offset by:
  - a $14 million decrease in long service leave expenses mainly due to the impact of changed actuarial assumptions used to estimate the associated liability, including discount rates and predicted wage growth in 2015-16 and 2016-17
  - a $7 million decrease in workers compensation expenses caused by a decrease in the workers compensation provision which was estimated by an independent actuary as at 30 June 2017. The actuary reported the reasons for the decrease included a decrease in non-serious injury claims and the impact of existing claims being one year older.

Staff benefit expenses represent 60% of CHSALHN's total expenses. The number of employees whose remuneration received/receivable exceeded base executive level ($147 000) totalled 132 (107), comprising 65 (63) medical, 52 (27) nursing, 12 (13) executive and three (four) non-medical employees. Total remuneration for these employees was $36 million ($29 million).

Supplies and services expenses

Supplies and services expenses increased by $2 million to $302 million.

Significant components of supplies and services were:

- fee-for-service payments to medical practitioners – $81 million ($79 million)
- medical, surgical and laboratory supplies – $38 million ($39 million)
- contractors – agency staff – $13 million ($14 million)
- patient transport – $19 million ($19 million)
- repairs and maintenance – $25 million ($22 million).

Revenues

Revenues from SA Government

CHSALHN is principally funded by DHA. In 2016-17, funding of $618 million comprised recurrent funding of $604 million and capital funding of $14 million.

Statement of Financial Position – Consolidated

Property, plant and equipment

Property, plant and equipment represents 85% of CHSALHN's total assets. The carrying value of property, plant and equipment decreased by $23 million to $829 million. This decrease is due mainly to $33 million of depreciation and amortisation expense, partly offset by additions of $11 million including capital work in progress.

Liabilities

Current liabilities of $190 million exceeded current assets of $139 million at balance date.

Cash and cash equivalents of $25 million were not sufficient to meet current payables of $37 million. CHSALHN is funded to meet expected cash flows for its current program delivery.

Staff related liabilities make up $175 million of CHSALHN's total liabilities at 30 June 2017, comprising:

- staff benefits liabilities and related on-costs, $161 million ($163 million)
- provision for workers compensation, $14 million ($19 million).

Contributing to the decrease in staff benefits liabilities was an increase in the discount rates applied in calculating outstanding long service leave liabilities as at 30 June 2017.

Northern Adelaide Local Health Network Incorporated (NALHN)

Financial statistics	Total expenses:	$616 million
	Net cost of providing services:	$582 million
	Revenues from SA Government:	$572 million
	Staff benefits liability and related on-costs:	$124 million
	Workers compensation liability:	$8 million
	Number of FTEs:	3372

Significant events and transactions

- Construction of the $32 million Modbury Hospital Transforming Health project to upgrade facilities and significantly expand elective surgery capacity was substantially finalised.
- A number of investigations into the management of the Oakden Older Persons Mental Health Facility occurred in 2016-17.

Financial report opinion

Unmodified

Financial controls opinion

Modified

Key issues:

- Inadequate review of payroll information
- Nurses' timesheets were not always approved prior to payment
- Inadequate management of excessive annual leave balances
- Delegations in key financial systems were not always consistent with the authorised financial delegations
- Contracts were not established with some significant suppliers

Functional responsibility

NALHN is established under the *Health Care Act 2008*.

The powers and functions of NALHN are to establish, provide, maintain and enhance hospital, medical and allied health services in its local area.

Under the *Health Care Act 2008* the Chief Executive, Department for Health and Ageing (DHA) assumes direct responsibility for administering incorporated hospitals. This includes appointing the Chief Executive Officer of NALHN. The Chief Executive, DHA cannot give a direction about a person's clinical treatment.

Scope of audit

The audit program covered major financial systems to obtain sufficient evidence to form an opinion on the financial report and internal controls.

Financial services for NALHN are provided through a mix of:

- central services provided by DHA through an integrated finance service model
- finance services located within NALHN
- services provided by Shared Services SA (SSSA).

NALHN continued to operate some legacy systems. Consequently, our audit included the review of new and legacy systems and completing audit work at DHA'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
- SSSA matters.

Specific areas of audit attention in 2016-17 included:

- governance
- payroll
- expenditure and accounts payable
- property, plant and equipment
- patient billing
- cash and online banking
- medical, surgical and laboratory supplies inventory
- general ledger.

Review of the financial management compliance program was addressed through the audit of DHA.

Internal audit activities were also reviewed to assess the risks of material misstatement in the financial report and to inform the design of audit procedures.

Audit findings and comments

Assessment of controls

In my opinion, the controls exercised by the Northern Adelaide Local Health Network Incorporated in relation to the receipt, expenditure and investment of money, the acquisition and disposal of property and the incurring of liabilities, except for all matters outlined under 'Communication of audit matters', are sufficient to provide reasonable assurance that the financial transactions of the Northern Adelaide Local Health Network Incorporated have been conducted properly and in accordance with law.

Communication of audit matters

Matters identified by the audit were detailed in management letters to the Chief Executive Officer, NALHN and copied to the Chief Executive, DHA. SSSA matters were reported to the Chief Executive, Department of the Premier and Cabinet.

A summary of our findings for centralised processes performed by DHA and SSSA can be found in the section of this Report titled 'Department for Health and Ageing' under the heading 'Communication of audit matters'. The main matters raised in our audit of NALHN are detailed below.

Payroll

Payroll related costs for NALHN are significant, with $414 million in staff benefits paid in 2016-17 and $116 million in staff benefit liabilities at 30 June 2017. Payroll controls are therefore a key focus of our audit each year.

No regular review of payroll information by NALHN

Consistent with prior years, business unit managers and team leaders did not review the validity, accuracy and completeness of staff pay information. NALHN managers did not certify the validity, accuracy and completeness of information about the staff who had been paid, including their classification and the ongoing relevance of long-term allowances. Failure to ensure payroll information is valid, accurate and complete may result in fraudulent or incorrect payments.

Last year NALHN advised that it supported implementing bona fide reports once the transition to the Chris21 payroll system was complete. Transition for NALHN was completed in April 2017.

NALHN responded this year that it will implement procedures requiring divisions to review the staff pay information sourced from Chris21 in 2017-18. Evidence of reviews performed and any follow-up will be maintained.

Nurses' timesheets were not always approved prior to payment

The ProAct rostering and time recording system is used to initiate payroll payments to nurses across the various areas of NALHN. Our review of controls for ProAct found that ProAct timesheets were not always approved prior to submission to SSSA for processing into the CHRIS payroll system. Processing unauthorised timesheets into CHRIS increases the risk that employees are paid for hours not actually worked.

NALHN advised that it is developing a procedure outlining review and escalation processes for unauthorised timesheets.

Inadequate management of excessive annual leave

NALHN has an excessive leave management policy that requires leave reduction plans for staff with more than two years of annual leave accrued. We identified a number of NALHN staff with excessive annual leave balances and when we sampled a small number of these staff, NALHN was unable to provide us with reduction plans.

NALHN responded that it will establish a central mechanism to ensure regular and consistent reviews of leave balances occur across all divisions.

Accounts payable

NALHN paid $172 million for supplies and services in 2016-17. A large proportion of these expenses are approved for payment using online approval functions in SA Health's key financial systems: Oracle and Basware.

Delegations in key financial systems were not always consistent with the authorised financial delegations

Oracle and Basware allow the electronic approval of payments by NALHN. The approval is based on established access and delegation profiles in both systems. In previous years NALHN would review the users of both systems using quarterly reports.

We found this control activity did not operate as intended in 2016-17. Specifically:

- the reports were not sent by SA Health's Procurement Supply Chain Management (PSCM) from July 2016 to April 2017, preventing NALHN from performing the review
- a report was provided in May 2017 however NALHN representatives identified areas of concern with the report which were communicated to PSCM.

Further, our review of Basware users found seven users were not listed in NALHN's financial delegations and the delegation limits in Basware for three users exceeded their delegated authority.

These matters increase the risk that invoices are not approved in line with authorised financial delegations.

In response NALHN advised that it will re-engage with PSCM to ensure that the reports received are adequate and will perform the required reviews.

Contracts were not established with some significant suppliers

Our review identified that NALHN had spent significant amounts with a number of suppliers that did not have existing contract arrangements in place, either through NALHN-specific contracts or whole-of-health arrangements. Negotiating contracts with major suppliers can provide opportunities to reduce prices or improve services, as well as clarifying terms and conditions of the arrangement to provide avenues to deal with disputes.

NALHN acknowledged this finding and is working with PSCM to tender these services.

Invoices not always matched to purchase orders

We have previously reported that receipted goods or services ordered through purchase orders were not always matched to invoices. Despite NALHN reminding staff of the need to receipt goods against invoices, we still identified a number of old purchase orders ($428 000) that had not been matched to invoices. Where this occurs there is an increased risk that payments may be made for goods/services not received or not at the agreed price. In addition the associated expense records maybe overstated.

NALHN responded that it will review its processes to ensure all long outstanding purchase orders are closed.

Interpretation and analysis of the financial report

Highlights of the financial report

	2017 $'million	2016 $'million
Expenses		
Staff benefit expenses	414	412
Supplies and services	172	167
Depreciation and amortisation expense	27	27
Other expenses	3	2
Total expenses	616	608
Income		
Revenue from fees and charges	26	24
Grants and contributions	3	4
Other income	5	4
Total income	34	32
Net cost of providing services	582	576
Revenues from SA Government	572	563
Net result and total comprehensive result	(11)	(13)
Assets		
Current assets	29	29
Non-current assets	441	447
Total assets	470	476
Liabilities		
Current liabilities	78	71
Non-current liabilities	69	69
Total liabilities	147	140
Net assets	323	336

* Table may not add due to rounding

Statement of Comprehensive Income

Expenses

In 2016-17 total expenses increased by $7.8 million (1%) to $616.1 million.

Staff benefit expenses

Staff benefit expenses of $414.1 million represent 67% of NALHN's total expenses. These costs have increased by $1.9 million which is attributable to:

- a $13.9 million increase in salaries and wages and a $2.4 million increase in annual leave due to increased staffing, including staff transferred from the Central Adelaide Local Health Network Incorporated, and wage rises associated with enterprise agreements
- offset by a $10.6 million decrease in long service leave expense due mainly to:
  - an increase in the bond rate in 2017 (2.61%) from that used in 2016 (1.97%) in the actuarial calculation of the long service leave liability, resulting in a decrease in the liability
  - the stable salary inflation rate of 4% compared to the 1% increase in this rate in 2015-16 that resulted in a $5.5 million increase in the expense for that year
- a $4.5 million decrease in workers compensation expense due mainly to a decrease in the number of claims.

The number of staff whose remuneration received/receivable exceeded base executive level ($147 000) totalled 335 (312), comprising 300 medical, four executive, 29 nursing and two non-medical employees. Total remuneration of these staff was $95 million ($89.8 million).

Supplies and services expenses

Supplies and services expenses increased by $4.9 million (3%) in 2017 to $172.1 million. Significant components of supplies and services were:

- medical, surgical and laboratory supplies, which increased by $3.9 million (8%) to $50.8 million. This increase reflects that NALHN now pays for medical imaging provided by Statewide Clinical Support Services. These services were previously provided at no cost to NALHN
- housekeeping, which remained stable at $22.8 million
- repairs and maintenance, which increased by $1.9 million (25%) to $9.6 million as a result of increases in costs charged by the Department of Planning, Transport and Infrastructure for regular maintenance and unplanned maintenance predominantly at Modbury Hospital
- contractors – agency staff, which decreased by $3.8 million (23%) to $13.1 million due mainly to decreases in the use of nursing agency staff.

Revenues

Revenues from SA Government

NALHN is principally funded through recurrent and capital funding from DHA. In 2017, NALHN received recurrent funding of $547.7 million and capital funding of $24 million mainly for the Modbury Hospital Transforming Health redevelopment.

Recurrent funding increased by $10.7 million which was due mainly to:

- the funding allocation for the new medical imaging charging arrangements

- the change to block funding for Compulsory Third Party patient revenue as a result of the arrangement with the new provider
- increased patient activity.

Statement of Financial Position

Property, plant and equipment

Property, plant and equipment assets represent 94% of total assets.

The carrying value of property, plant and equipment decreased by $5.1 million to $439.9 million. The major movements in property, plant and equipment in 2017 were asset additions ($24.2 million), depreciation ($27 million), donated assets disposed ($1.3 million) and administrative restructure disposal ($1.5 million).

Asset additions for 2017 primarily related to the Modbury Hospital Transforming Health redevelopment.

Liabilities

Current liabilities increased by $6.9 million to $77.9 million during the year and exceeded current assets of $28.8 million. NALHN works with DHA to ensure sufficient funding is provided to NALHN to meet expected cash flows for its administration and program delivery. Cash and cash equivalents of $18.4 million are currently just short of meeting current payables of $19.5 million.

Current payables increased by $3.8 million due mainly to a number of significant purchases processed near year end.

Staff benefits are the largest element of current liabilities, totalling $55.1 million at 30 June 2017. They mainly comprise leave entitlements expected to be taken within 12 months.

Total liabilities increased by $6.1 million to $146.5 million, due mainly to increases in payables mentioned above and staff benefits liabilities.

Staff liabilities make up $132 million of NALHN’s total liabilities of $146.5 million at 30 June 2017, comprising:

- staff benefits liabilities and related on-costs, $123.9 million ($117.8 million)
- provision for workers compensation, $8.2 million ($11.7 million).

The movement in staff benefits liabilities principally relates to increases in salary rates and staffing, including staff transferred from the Central Adelaide Local Health Network Incorporated. This is offset by an increase in the bond rate applied to calculate the long service leave liability at 30 June 2017.

The movement in the provision for workers compensation relates predominantly to a decrease in the number of claims.

Further commentary on other operations

Oakden Older Persons Mental Health Facility (Oakden Facility)

In December 2016 the Chief Executive of NALHN contacted the Chief Psychiatrist raising concerns over clinical care at the Oakden Facility. An external independent review was requested. In April 2017 the Chief Psychiatrist issued a report on the Oakden Facility highlighting a number of findings and recommendations, including its closure. A response was provided by SA Health in April 2017 outlining how it will address the recommendations.

In March 2017 the Commonwealth Department of Health issued a Notice of Decision to Impose Sanctions under section 67-5 of the *Aged Care Act 1997* (Cwlth) on services provided at the Makk and McLeay nursing home in the Oakden Facility.

In May 2017 the Independent Commissioner against Corruption announced a maladministration investigation into the Oakden Facility. This investigation is currently underway.

As at 30 June 2017 residents of a number of houses within the Oakden Facility have been transferred to Northgate House as part of SA Health’s response to the Chief Psychiatrists report, and $13.7 million has been committed in the 2018 budget for a new specialised Older Persons Mental Health Facility with an estimated completion date of June 2019.

We will consider the financial impact of these matters, and the outcomes of the Independent Commissioner Against Corruption’s investigation, in 2017-18.

SA Ambulance Service Inc (SAAS)

Financial statistics	Total expenses:	$296 million
	Net cost of providing services:	$161 million
	Revenues from SA Government:	$150 million
	Staff benefits liability and related on-costs:	$96 million
	Workers compensation liability:	$10 million
	Number of FTEs:	1349

Significant events and transactions

- A backdated enterprise bargaining agreement resulted in significant back pays.
- An actuarial assessment of SAAS's defined benefits superannuation scheme significantly decreased the value of the associated liability by $34 million to $27 million.
- SAAS commenced its $11.9 million program to replace stretchers and loaders on its ambulance vehicles. $5.2 million was spent on the program in 2016-17.

Financial report opinion

Unmodified

Financial controls opinion

Modified

Key issues:

- Improvements are needed to better manage leave payments
- Inadequate review of payroll information

Functional responsibility

SAAS is a body corporate constituted under the *Health Care Act 2008.*

SAAS 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.

Under the *Health Care Act 2008* the Chief Executive, Department for Health and Ageing (DHA) assumes direct responsibility for administering SAAS. This includes appointing the Chief Executive Officer of SAAS. The Chief Executive, DHA cannot give a direction about a person's clinical treatment.

Scope of audit

The audit program covered major financial systems to obtain sufficient evidence to form an opinion on the financial report and internal controls.

Financial services for SAAS are provided through a mix of:

- central services provided by DHA through an integrated finance service model
- finance services located within SAAS
- services provided by Shared Services SA (SSSA).

Our audit included the review of new and legacy systems and completing audit work at DHA's central services, SAAS 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
- SSSA matters.

A Chartered Accounting firm assisted the Auditor-General in the audit of SAAS.

Specific areas of audit attention in 2016-17 included:

- payroll
- accounts payable
- revenue
- accounts receivable
- fixed assets
- general ledger
- cash.

Review of the financial management compliance program was addressed through the audit of DHA.

Internal audit activities were considered in designing and performing audit procedures. Use was made of the work performed by internal audit in its review of payroll leave management.

Audit findings and comments

Assessment of controls

In my opinion, the controls exercised by the SA Ambulance Service Inc in relation to the receipt, expenditure and investment of money, the acquisition and disposal of property and the incurring of liabilities, except for all matters outlined under 'Communication of audit matters', are sufficient to provide reasonable assurance that the financial transactions of the SA Ambulance Service Inc have been conducted properly and in accordance with law.

Communication of audit matters

Matters identified by the audit were detailed in a management letter to the Chief Executive Officer of SAAS and copied to the Chief Executive, DHA.

A summary of our findings for centralised processes performed by DHA can be found in the section of this Report titled 'Department for Health and Ageing' under the heading 'Communication of audit matters'.

There were no matters raised for services provided by SSSA.

Payroll

Insufficient review of payroll information

Consistent with last year we found SAAS supervisors or team leaders did not always review payroll reports to ensure the accuracy and completeness of staff payments. Failure to ensure payroll information is valid and accurate may result in fraudulent or incorrect payments.

SAAS responded that it migrated to a new Chris21 payroll platform in May 2017 and was contributing to a project lead by SSSA to implement, among other objectives, bona fide review processes for all staff.

Staff timesheets not reconciled to roster time records

Operational staff are paid two weeks in advance based on their contracted hours and roster cycle. Penalties, overtime hours or leave is processed in the CHRIS payroll system only when operational staff provide a manual timesheet to SSSA.

We found SAAS does not reconcile manual timesheets or CHRIS payment records to the record of actual hours worked in its GRS rostering system. Consequently it may fail to identify instances where payments do not reflect time worked.

SAAS responded that it was investigating a potential interface between GRS and CHRIS. It indicated that in the interim it was exploring whether SSSA could input leave taken based on GRS reports.

Leave management concerns reported by internal audit

In March 2017 internal audit reported on its review of leave management at SAAS. The review focused on the accurate and timely completion and processing of operational staff's leave forms and/or timesheets. It identified the following significant control breakdowns:

- possible instances where leave records in GRS were not recorded in Chris21, causing the potential for duplicate costs as leave liabilities are not reduced for leave taken
- time and attendance records were not always maintained for staff under the Salaries and Wages Enterprise Agreement, impacting SAAS's capacity to manage flexi time
- the approval and processing of leave applications was not prompt and the accuracy of their processing not reviewed.

SAAS actions to address the matters raised by internal audit include investigating:

- discrepancies identified and taking appropriate action
- the potential for systems updates to allow online leave applications and transition to fully electronic timesheets.

Revenue

Improvements necessary to ensure the validity of changes made to patient transport charges

Our review of revenue resulted in the following recommendations to ensure the validity of changes made to patient transport charges:

- prevent billing officers from amending charge codes
- ensure all adjustments to revenue information are independently reviewed.

SAAS responded that it had an administrative process to manage changes to services charges and, from May 2017, reviewed a report detailing adjustments to revenue information daily.

Improvements necessary to ensure transport charges are completely and accurately raised

SAAS runs legacy revenue systems that require considerable manual processing, including manual card records and associated data entry. Our review of these processes found improvements are necessary to ensure:

- management raises invoices for all relevant dispatches
- data is completely and accurately interfaced between the South Australian Computer Aided Dispatch system and the AMBS invoicing system.

SAAS responded that it had established a project team to develop reports to ensure the completeness of revenue.

Use of gazetted call-out fees

The South Australian Government Gazette lists two categories of call-out fee. SAAS only ever charges public call-outs at the higher classification. Its website also only indicates one rate (the higher category 1 rate). While this practice is supported by an internal memorandum, the categories and practice are not defined in policy. We recommended SAAS ensure its categories of emergency call-out fees are clearly defined by policy, match the gazetted rates and are available to and interpretable by the general public.

SAAS responded that the category 2 rate is only charged to other SA Health entities and would seek to remove the rate from future gazettal notices. It indicated its rationale behind the lower charge for Health entities is that patients are already within the State's clinical governance framework, reducing the assessments needed by the attending paramedics.

Supplies and services expenditure

Inappropriate use of purchase orders

SA Health's requisition, purchase order and invoice management policy mandates that purchase orders be created in the Oracle financial system. We found that the fleet services team raises manual, Excel-based purchase orders outside of Oracle which do not benefit from system-based controls built into Oracle.

SAAS responded that where manual purchase orders are needed for urgent purchases it would look to have them subsequently loaded into Oracle. It also indicated that it would investigate whether training across SAAS is needed to reemphasise the use of Oracle purchase orders.

Invoices received are not always matched to purchase orders

Our review of payments noted instances where invoices were not matched to purchase orders prior to payment. Where this occurs there is an increased risk that payments may be made for goods or services not received or not at the agreed price. In addition the associated expense records may be overstated. This issue was raised last year.

SAAS's response indicated that as this was an SA Health-wide issue it would work with central teams to find a system-based solution. It indicated that in the interim it would continue to educate staff on processing invoices related to Oracle purchase orders.

Interpretation and analysis of the financial report

Highlights of the financial report

	2017 $'million	2016 $'million
Expenses		
Staff benefit expenses	194	173
Supplies and services	71	64
Depreciation and amortisation expense	11	11
Other expenses	20	18
Total expenses	296	266

	2017 $'million	2016 $'million
Income		
Revenue from fees and charges	126	125
Other income	9	8
Total income	135	133
Net cost of providing services	161	133
Revenues from SA Government	150	128
Net result	(11)	(5)
Other comprehensive income	40	(28)
Total comprehensive result for the year	29	(33)
Assets		
Current assets	37	41
Non-current assets	97	86
Total assets	134	127
Liabilities		
Current liabilities	63	49
Non-current liabilities	53	89
Total liabilities	116	138
Net assets	18	(11)

Statement of Comprehensive Income

Expenses

In 2016-17 total expenses increased by $30 million (11%) to $296 million. This was due mainly to a $20 million increase in staff related expenses and a $7 million increase in supplies and services.

Staff benefit expenses

Staff benefit expenses of $194 million represented 65% of SAAS's total expenses. Salaries and wages rose $22 million (18%) to $144 million. The increase was due mainly to the impact of a backdated enterprise bargaining agreement that resulted in significant back pays and increased salary rates.

Long service leave expense decreased by $8 million to $3 million mainly due to the impact of changed actuarial assumptions used to estimate the associated liability, including discount rates and predicted wage growth in 2015-16 and 2016-17.

The number of staff whose remuneration received/receivable exceeded the base executive level ($147 000) totalled 475 (297), comprising 465 (286) operational, nine (nine) executive and one (two) non-medical staff. The increase in staff numbers in these categories is partly caused by significant back pays to staff during the year. Total remuneration for these staff was $86 million ($51 million).

Supplies and services expenses

Significant components of supplies and services were:

- contractors – agency staff – $16 million ($15 million)
- patient transport – $17 million ($15 million)

- motor vehicle expenses – $5 million ($4 million)
- medical, surgical and laboratory supplies – $4 million ($3 million).

Revenues

Revenues from SA Government

In 2016-17 total revenues from DHA increased $21 million to $149 million and comprised recurrent funding of $130 million and capital funding of $19 million.

Capital funding was primarily for ambulances, stretchers and loaders and a rescue retrieval and aviation base.

Statement of Financial Position

Property, plant and equipment

Property, plant and equipment represents 71% of SAAS's total assets. The carrying value of property, plant and equipment increased by $12 million to $95 million. This increase is due mainly to $15 million additions to capital work in progress and $6 million of other additions, offset by depreciation and amortisation of $10 million. Additions relate mainly to ambulances, stretchers and loaders and a rescue retrieval and aviation base.

Liabilities

Staff liabilities make up $106 million of SAAS's total liabilities at 30 June 2017, comprising:

- staff benefits liabilities and related on-costs, $96 million ($125 million)
- provision for workers compensation, $10 million ($8 million).

Staff benefits decreased significantly by $28 million to $92 million. This decrease was primarily due to:

- a $34 million decrease in defined benefits superannuation scheme liabilities reflecting an actuarial assessment as at 30 June 2017. Major factors impacting the decrease were changes in the assumptions used to calculate the defined benefit liability, including a 0.6% increase in the discount rate and a 0.5% decrease in the predicted salary inflation rate

- a $4 million increase in annual leave liabilities. Contributing to the increase was the impact of the backdated enterprise bargaining agreement.

Current liabilities, $63 million, exceeded current assets, $37 million, at 30 June 2017. Cash and cash equivalents of $10 million were not sufficient to meet current payables of $11 million. SAAS is funded to meet expected cash flows for its current program delivery.

Equity

Total assets of $134 million exceeded total liabilities of $116 million, resulting in a positive equity position as at 30 June 2017. This is an improved equity position from last year when there was a negative equity position of $11 million. The main factor contributing to this change was the $34 million decrease in the defined benefits superannuation liabilities.

Southern Adelaide Local Health Network Incorporated (SALHN)

Financial statistics	Total expenses:	$982 million
	Net cost of providing services:	$902 million
	Revenues from SA Government:	$1015 million
	Staff benefits liability and related on-costs:	$221 million
	Workers compensation liability:	$26 million
	Number of FTEs:	5346

Significant events and transactions

- The Flinders Medical Centre expansion project continued with a total of $157.2 million spent to 30 June 2017.
- A new contract to sell the Repatriation General Hospital to the Aged Care and Housing Group Incorporated (ACH Group) was approved following the withdrawal of the previous bid from RSL Care SA. The revised contract results in an increased sale price.
- SALHN experienced significant turnover in key executive positions, with new staff in the role of Chief Executive Officer, Chief Operating Officer, Chief Finance Officer and Chief Workforce Officer.

Financial report opinion

Unmodified

Financial controls opinion

Modified

Key issues:

- Inadequate review of payroll information and leave management reports
- No process to ensure all medical officers' timesheets are approved and submitted
- Nurses' timesheets were not always approved prior to payment
- Delegations in key financial systems were not always consistent with the authorised financial delegations
- Contracts were not established with some significant suppliers
- No review of EPAS patient administration system user access
- Control weaknesses around the completeness of private practice income

Functional responsibility

SALHN is established under the *Health Care Act 2008*.

The powers and functions of SALHN are to establish, provide, maintain and enhance hospital, medical and allied health services in its local area.

Under the *Health Care Act 2008* the Chief Executive, Department for Health and Ageing (DHA) assumes direct responsibility for administering incorporated hospitals. This includes appointing the Chief Executive Officer of SALHN. The Chief Executive, DHA cannot give a direction about a person's clinical treatment.

Scope of audit

The audit program covered major financial systems to obtain sufficient evidence to form an opinion on the financial report and internal controls.

Financial services for SALHN are provided through a mix of:

- central services provided by DHA through an integrated finance service model
- finance services located within SALHN
- services provided by Shared Services SA (SSSA).

SALHN continued to operate a legacy revenue system at the Flinders Medical Centre. Consequently, our audit included the review of new and legacy systems and completing audit work at DHA's central services, SALHN 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
- SSSA matters.

Specific areas of audit attention in 2016-17 included:

- governance
- payroll
- expenditure and accounts payable
- property, plant and equipment
- patient billing and sundry revenue
- cash and online banking
- medical, surgical and laboratory supplies inventory
- general ledger
- SALHN infrastructure changes.

Review of the financial management compliance program was addressed through the audit of DHA.

Internal audit activities were also reviewed to assess the risks of material misstatement in the financial report and to inform the design of audit procedures.

Audit findings and comments

Assessment of controls

In my opinion, the controls exercised by the Southern Adelaide Local Health Network Incorporated in relation to the receipt, expenditure and investment of money, the acquisition and disposal of property and the incurring of liabilities, except for all matters outlined under 'Communication of audit matters', are sufficient to provide reasonable assurance that the financial transactions of the Southern Adelaide Local Health Network Incorporated have been conducted properly and in accordance with law.

Communication of audit matters

Matters identified by our audit of SALHN were detailed in management letters to the Chief Executive Officer, SALHN and copied to the Chief Executive, DHA. SSSA matters were reported to the Chief Executive, Department of the Premier and Cabinet.

A summary of our findings for centralised processes performed by DHA and SSSA can be found in the section of this Report titled 'Department for Health and Ageing' under the heading 'Communication of audit matters'. The main matters raised with SALHN and related responses are detailed below.

Payroll

Payroll related costs for SALHN are significant, with $676 million in staff benefit expenses paid in 2016-17 and $205 million in staff benefit liabilities at 30 June 2017. Payroll controls are therefore a key focus of our audit each year.

No regular review of payroll information by SALHN

Consistent with prior years, SALHN did not have a mechanism to ensure employee-level pay information in the payroll system was valid and accurate. The Chris21 payroll system was implemented in 2016-17, but the bona fide module was not and SALHN had not introduced any interim procedures to ensure the accuracy of employee-level pay information.

We consider the failure to ensure payroll information is valid and accurate may result in fraudulent or incorrect payments, resulting in a financial loss to SALHN or additional processing costs where overpayments occur and/or manual payments are required.

SALHN advised that the bona fide process to be implemented with further enhancements to Chris21, would cover employees paid automatically each fortnight (approximately 2020 staff) and not employees paid based on timesheets. SALHN also advised that:

- an annual review schedule for high volume or high value allowances was being designed
- a monthly FTE report based on payroll actuals is published on the Workforce dashboard for cost centre managers to review and that instructions or guidelines would be developed for this process.

Inadequate leave management processes

As we have identified previously, SALHN did not have a consistent process to ensure staff leave management reports were reviewed and actioned. In particular, there was still no central mechanism to ensure prompt review of these reports was occurring.

There were 368 SALHN staff members with negative leave balances and 469 with excessive annual leave balances.

When leave reports are not promptly reviewed, there is an increased risk that details of leave taken are not appropriately recorded in the payroll system. This could result in leave balances in excess of the staff member's entitlement being recorded and taken and a potential overstatement of leave liabilities in the financial statements.

In response SALHN indicated that current SA Health procedures did not address leave planning and management and that a local SALHN procedure would be developed. SALHN also accepted our recommendations to improve the review of excessive and negative leave balances, noting procedures to address negative leave balances would be implemented following further enhancements to Chris21.

No process to ensure all medical officers' timesheets are approved and submitted

Consistent with our previous findings, there remained no process to ensure all medical officers submit timesheets and accompanying leave forms for approval. We also noted there were still no documented policies or procedures about the processes to check medical officers' attendance records at SALHN, although SALHN had previously advised a strategy and process would be identified.

Where there is no complete review of outstanding timesheets and associated leave forms, incorrect payments may be made to staff or leave taken may not be captured. We consider this is particularly important where staff are automatically paid in the payroll system, regardless of whether a timesheet is submitted, which is typically the case for medical officers. While they are automatically paid, medical officers' timesheets identify allowances they are entitled to be paid, meaning the accuracy of total payments requires completed timesheets to be processed promptly.

SALHN responded that it would continue work to identify a strategy to improve the governance of medical officers' timesheets covering the accuracy, approval and submission of these timesheets to SSSA.

Nurses' timesheets were not always approved prior to payment

We have previously identified that nursing staff timesheets could be submitted to SSSA for payment without approval. While SALHN created a new procedure this year and there was a slight improvement in the percentage of approved timesheets in 2016-17, in our view there remains a risk that staff may be paid for time not actually worked.

In response SALHN advised that work instructions would be updated to include a requirement on the timesheet signoff report to document the follow-up of unapproved timesheets.

Accounts payable

SALHN paid over $268 million for supplies and services in 2016-17. A large proportion of these expenses are approved for payment using online approval functions in SA Health's key financial systems: Oracle and Basware.

Delegations in key financial systems were not always consistent with the authorised financial delegations

Last year we identified that while Basware delegations were reviewed, they were not checked to ensure they agreed to SALHN's authorised financial delegations. We also identified that there were a number of inconsistencies between the SALHN authorised financial delegations and the approval limits established in Oracle and Basware.

SALHN's response stated that system delegations would be reviewed against the SALHN authorised financial delegations and a procedure would be documented.

Our 2016-17 review found that quarterly delegation reports were not consistently reviewed and that there were a number of inconsistencies between the authorised financial delegations and the delegations established in the two systems.

Where established delegations in online systems are not adequately reviewed, or do not agree to the authorised delegations, unauthorised or inappropriate payments could be made.

In response SALHN indicated that a new quarterly report would be requested and that delegations in the systems would be checked to the SALHN authorised financial delegations.

Contracts were not established with some significant suppliers

We have identified in previous years that SALHN had spent significant amounts with a number of suppliers that did not have existing contract arrangements in place. In 2016-17 there were still a number of significant suppliers whose arrangements were not covered by current contracts, either through SALHN-specific contracts or whole-of-health arrangements. We were advised by SALHN that contracts for some of these suppliers were being negotiated.

We consider that negotiating contracts with major suppliers would provide opportunities to reduce prices or improve service delivery.

SALHN also indicated that an extensive program of establishing whole-of-health contracts for goods and services was undertaken by SA Health. SALHN advised that procurement processes were underway for some arrangements that were out of scope of the whole-of-health contracts.

Invoices not always matched to purchase orders

We have previously reported that receipted goods or services ordered through purchase orders were not always matched to invoices. This has resulted in the potential duplication of expenses and liabilities, as a liability has remained although the associated invoice may already have been paid.

Despite SALHN reminding staff of the need to receipt goods against invoices, as at 30 June 2017 the outstanding liability for unmatched purchase orders waiting to be cleared was $2.8 million ($2.5 million).

Not matching invoices with their corresponding purchase orders prior to payment can result in an overstatement of liabilities and associated expenses. There is also an increased risk of payments being made for goods or services not received or at a price inconsistent with the agreed purchase order.

SALHN advised that it had requested DHA provide a training course on how unmatched invoices can be matched in Oracle. SALHN also advised that SA Health Procurement and Supply Chain Management performed a monthly review of purchase orders for which goods were received but not invoiced, and purchase orders were closed where appropriate.

No evidence charges were checked to pricing schedules

Last year we identified that amounts invoiced were not always agreed to established contract rates to check that the correct price was charged. During 2016-17 SALHN established a list of whole-of-health and whole-of-government contracts which included pricing schedules for some contracted suppliers. However in our sample testing it was evident that some invoice approvers and reviewers did not have access to the relevant contract or any price list to confirm the accuracy of the rates charged.

Where invoice rates are not agreed to contracts (or contract summaries), SALHN may be paying more than is required for the goods or services provided. This could result in financial loss to SALHN.

SALHN's response indicated that SA Health was responsible for ensuring the pricing of catalogue items is correct in the systems used. SALHN agreed that contracted services needed to be checked by SALHN and advised that a staff communication would be sent when a contract was established and a link to pricing details would be added to the SALHN intranet.

Hospital billing – Enterprise Patient Administration System (EPAS)

Our audit covered the major financial functions for hospital billing (including administered private practice). Currently EPAS is used for patient billing at the Repatriation General Hospital (RGH) and Noarlunga Hospital, and Homer is used for patient billing at the Flinders Medical Centre.

SALHN's revenue from patient and client fees was over $27.5 million in 2016-17, with a further $5 million recorded in private practice fees controlled by SALHN. In addition, a further $25 million was collected on behalf of medical officers and DHA in administered revenue from private practice arrangements.

No review of EPAS user access

In 2016-17 there was still no complete review of EPAS user access and there remained no policy or procedure covering the review of user access to EPAS. In 2016-17 SALHN reviewed user access to the network as EPAS is also accessed using this login credential. However, there was no assurance from this process that only required personnel had access to EPAS, or that the access was relevant to their role.

Regular reviews of user access minimise the risk of unauthorised changes to data or inappropriate access to patient information.

SALHN advised it had requested a list of EPAS users from e-Health systems and that this would be reviewed to ensure only authorised staff had access to systems with appropriate user profiles. A work instruction was being developed for managers and supervisors covering user access management for patient billing systems.

Backdated billing transaction report unavailable

We previously identified that backdated patient discharge reports could not be generated from EPAS to highlight amendments that may result in changed billing for discharged patients. In 2016-17 SA Health progressed implementing a report, however there was still no adequate report to facilitate this review. The absence of this report could result in charges not being raised and, in turn, lost revenue for SALHN.

SALHN's response indicated that work to develop a backdated transaction report was approved with expected delivery in October 2017.

Hospital billing – Homer

No review of private practice accounts receivable to general ledger reconciliations

We found private practice accounts receivable to general ledger reconciliations were not independently reviewed since July 2015. Our review of the May 2017 reconciliation found a $2.8 million variance that had been present for a number of years. Independent review of reconciliations ensures inaccuracies between subsidiary and general ledger systems are rectified promptly.

SALHN advised that it would liaise with the central finance group to ensure any differences between systems were identified and unexplained reconciling items were resolved.

Private practice arrangements

Inadequate recording and monitoring of Rights of Private Practice (ROPP) doctors who perform offsite billing

Consistent with our previous findings, we noted issues with the recording and monitoring of ROPP doctors who perform offsite billing under private practice arrangements. A number of doctors did not have the necessary approvals in place to perform offsite billing. Adequate monitoring of doctors helps to ensure SALHN receives the money it is entitled to under the terms of the ROPP arrangements.

SALHN advised that ROPP arrangements were reviewed to ensure consultants' offsite billing was approved and that appropriate ROPP agreements were established. Instances where appropriate approvals or agreements were not in place were being addressed. Further, SALHN indicated that a new process was established for new consultants in 2016-17 to ensure appropriate agreements and approvals were in place, noting a work instruction would be developed for this process.

No private practice audits were conducted

Consistent with prior years, we noted no private practice audits were conducted in 2016-17 as allowed under the private practice agreements. SALHN instead performed a targeted review of doctors approved to perform offsite billing where no receipts had been recorded for some time. While this provided some assurance over the completeness of receipts, an annual program of audits would provide a greater opportunity for SALHN to identify all entitled revenue from ROPP arrangements.

In response SALHN advised that an auditing framework would be established with DHA to identify the best approach for private practice audits.

Interpretation and analysis of the financial report

Highlights of the financial report

	2017 $'million	2016 $'million
Expenses		
Staff benefit expenses	676	692
Supplies and services	269	255
Depreciation and amortisation	31	30
Other expenses	6	65
Total expenses	982	1 042
Income		
Revenue from fees and charges	60	61
Grants and contributions	7	7
Other income	13	9
Total income	80	77
Net cost of providing services	902	965
Revenues from SA Government	1 015	882
Net result	113	(83)
Other comprehensive income	1	(11)
Total comprehensive result for the year	114	(94)
Assets		
Current assets	66	57
Non-current assets	656	553
Total assets	722	610
Liabilities		
Current liabilities	142	140
Non-current liabilities	138	142
Total liabilities	280	282
Total equity	442	328

Statement of Comprehensive Income

Expenses

In 2016-17 total expenses decreased by $60 million (6%) to $982 million.

Staff benefit expenses

Staff benefit expenses of $676 million represent 69% of SALHN's total expenses. These costs have decreased by $16 million in 2016-17 due to:

- a $22.5 million decrease in long service leave expense due mainly to:
  - an increase in the bond rate used in 2017 (2.51%) from that used in 2016 (1.9%) in the actuarial calculation of the long service leave liability, resulting in a $5.4 million decrease in the liability

- the stable salary inflation rate of 4% compared to the 1% increase in this rate in 2015-16 that resulted in an $8.8 million increase in the expense for that year

- a $9.4 million increase in salaries and wages expense to $547 million mainly from wage rises associated with enterprise agreements
- workers compensation liabilities expense decreasing by $5.6 million reflecting a change in 2016-17 where seriously injured workers were allocated directly to the employing entity. Previously, costs were allocated across all local health networks. Consequently in 2016-17 the provision increased by a further $2 million predominantly due to an increase in the claims for seriously injured workers at SALHN.

The number of staff whose remuneration received/receivable exceeded the base executive level ($147 000) totalled 554 (533), comprising 515 medical, 32 nursing, one non-medical and six executive staff. Total remuneration for these staff was $152 million ($144 million).

Supplies and services expenses

Supplies and services expenses increased by $13.3 million (5.2%) to $269 million in 2016-17. Significant components of supplies and services were:

- medical surgical and laboratory expenses, which increased by $12.6 million (17%) to $87 million. This increase reflects that SALHN now pays for medical imaging provided by Statewide Clinical Support Services. These services were previously provided at no cost to SALHN
- drug supplies, which decreased by $1.1 million (6%) to $17.8 million
- fee-for-service, which increased by $1.1 million (3.7%) to $32.8 million
- repairs and maintenance, which decreased by $400 000 to $11.2 million
- contractors – agency staff, which remained stable at $15.2 million.

Other expenses

Other expenses decreased by $59 million compared to the previous year due to the once-off transactions in 2015-16 for the impairment of the RGH buildings and site improvements of $47.3 million, and assets transferred to DHA of $11 million.

Revenue

SALHN is dependent on revenue from the Commonwealth and SA Governments.

Revenues from the SA Government increased by $132.9 million (15%) in 2016-17 to $1015 million. Capital funding increased by $96.5 million to $146 million, predominantly for the Flinders Medical Centre Transforming Health capital works. Recurrent funding increased by $36.5 million mainly due to:

- the funding allocation for the new medical imaging charging arrangements, offsetting the increased costs mentioned above

- a change to block funding for Compulsory Third Party (CTP) patient revenue as a result of the arrangements with the private sector CTP providers
- increased patient activity.

Revenue from fees and charges decreased by $1 million (1.4%) as a result of:

- a decrease in patient and client fees of $4.3 million due to changes to CTP funding for compensable patients, which is now received through SALHN's recurrent funding from DHA
- an increase in recoveries of $2.4 million predominantly for the recovery of salary and wages expenses paid by SALHN for staff working for other local health networks
- an increase of $1 million in private practice fees received by SALHN in 2016-17.

Statement of Financial Position

Property, plant and equipment

Property, plant and equipment represents 90% of SALHN's total assets. The carrying value of property, plant and equipment increased by $103 million to $649 million. This increase is due mainly to:

- additions of $146 million for the new facilities at the Flinders Medical Centre ($120.5 million) and for other infrastructure projects including the veterans' mental health precinct ($8.2 million) and Noarlunga Hospital capital works ($7.9 million)
- a decrease in the balance from depreciation and amortisation expense of $31.4 million and from reclassifying the RGH site as an asset held for sale resulting in a $15.9 million reduction.

Liabilities

Current liabilities increased by $2 million to $142 million during the year and exceeded current assets by $77 million at balance date. SALHN works with DHA to ensure sufficient funding is provided to SALHN to meet expected cash flows for its administration and program delivery. Cash and cash equivalents of $25.5 million are sufficient to meet current creditors and accrued expenses of $20.2 million.

Total liabilities decreased by $2 million to $280 million.

Staff liabilities make up $246.8 million (88%) of SALHN's total liabilities at 30 June 2017, comprising:

- staff benefits liabilities and related on-costs, $220.5 million ($225.8 million)
- provision for workers compensation, $26.3 million ($24.3 million).

The movement in staff liabilities, in particular long service leave liabilities, mainly reflects the decrease in the discount rate applied to the liability calculation, offset by increases in salary rates and leave accruals.

Further commentary on operations

SALHN infrastructure changes

The Health reform agenda includes changing some of the locations in which health services are to be provided. These changes have resulted in significant infrastructure investments at the Flinders Medical Centre and the planned redundancy and sale of most of the RGH site.

Flinders Medical Centre redevelopment

The total budget for this build is $185.5 million.

Cabinet approved a $170.5 million budget for the redevelopment in August 2015. A further $15 million of funding for two additional levels of car parking was approved by Cabinet in August 2016. The main components of the build will deliver:

- a new 55 bed rehabilitation building, which will include a palliative care unit
- a new older persons mental health facility
- a multi-deck car park delivering 1820 car spaces.

The Flinders Medical Centre redevelopment is being delivered for DHA by the Department of Planning, Transport and Infrastructure (DPTI). In 2016-17 the contract between DPTI and the builder was modified to a fixed price arrangement to minimise the risk of budget overruns.

Total spend to 30 June 2017 was $157.2 million. The target completion date for the construction works is late 2017 to allow for the relocation of services from the RGH.

Repatriation General Hospital site change of proponent

The original proponent for the sale of the RGH site, RSL Care SA, rescinded their offer in 2016. Cabinet approved the sale to the next proponent, the Aged Care and Housing Group Incorporated (ACH Group) on 24 October 2016.

The new proponent’s contract of sale signed in June 2017 resulted in an increase of $767 000 to the land revaluation reserve and other income of $3.98 million.

Decommissioning and vacating the RGH site is dependent on completing the Flinders Medical Centre redevelopment and transferring all affected services from the RGH, which is expected to occur in late 2017.

Women's and Children's Health Network Incorporated (WCHN)

Financial statistics

Total expenses:	$440 million
Net cost of providing services:	$388 million
Revenues from SA Government:	$384 million
Staff benefits liability and related on-costs:	$101 million
Workers compensation liability:	$7 million
Number of FTEs:	2614

Significant events and transactions

The 2017-18 State Budget announced funding of $528 million for a new Adelaide Women's Hospital to be completed in 2024.

Financial report opinion

Unmodified

Financial controls opinion

Modified

Key issues:

- Inadequate review of payroll information
- Nurses' timesheets were not always approved prior to payment
- Delegations in key financial systems were not regularly reviewed

Functional responsibility

WCHN is established under the *Health Care Act 2008*.

The functions of WCHN include the provision of health services to women and children. The principal unit within WCHN is the Women's and Children's Hospital.

Under the *Health Care Act 2008* the Chief Executive, Department for Health and Ageing (DHA) assumes direct responsibility for administering incorporated hospitals. This includes appointing the Chief Executive Officer of WCHN. The Chief Executive, DHA cannot give a direction about a person's clinical treatment.

Scope of audit

The audit program covered major financial systems to obtain sufficient evidence to form an opinion on the financial report and internal controls.

Financial services for WCHN are provided through a mix of:

- central services provided by the DHA through an integrated finance service model
- finance services located within WCHN
- services provided by Shared Services SA (SSSA).

Consequently, our audit included the review of new and legacy systems and completing audit work at DHA's central services, WCHN 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
- SSSA matters.

A Chartered Accounting firm assisted the Auditor-General with the audit of WCHN.

Specific areas of audit attention in 2016-17 included:

- payroll
- accounts payable
- patient revenue including accounts receivable
- property, plant and equipment
- cash
- general ledger.

Review of the financial management compliance program was addressed through the audit of DHA.

Internal audit activities were considered in designing and performing audit procedures.

Audit findings and comments

Assessment of controls

In my opinion, the controls exercised by the Women's and Children's Health Network Incorporated in relation to the receipt, expenditure and investment of money, the acquisition and disposal of property and the incurring of liabilities, except for all matters outlined under 'Communication of audit matters', are sufficient to provide reasonable assurance that the financial transactions of the Women's and Children's Health Network Incorporated have been conducted properly and in accordance with law.

Communication of audit matters

Matters identified by the audit were detailed in a management letter to the Chief Executive Officer, WCHN and copied to the Chief Executive, DHA.

A summary of our findings for centralised processes performed by DHA can be found in the section of this Report titled 'Department for Health and Ageing' under the heading 'Communication of audit matters'.

There were no matters raised for services provided by SSSA.

The main matters raised with WCHN and related responses are detailed below.

Payroll

Insufficient review of payroll information

Consistent with last year's findings, we found WCHN supervisors and team leaders did not always review payroll reports to ensure the accuracy and completeness of staff payments. Failure to ensure payroll information is valid and accurate may result in fraudulent or incorrect payments.

We recommended management implement a process to ensure supervisors regularly review employee-level pay information.

WCHN responded that expected updates to its Chris21 payroll system will support a bona fide review of employee information. In the interim it indicated it would rely on its cost centre managers regularly reviewing payroll costs.

Nurses' time records not always approved

Timesheets for nurses are created in the ProAct rostering timesheet system. Managers are required to electronically authorise timesheets before they are uploaded to Chris21 for payment.

We noted instances where the ProAct file was uploaded to CHRIS without all timesheets being authorised. Specifically, our testing revealed approximately 33% of our sampled timesheets were not approved prior to processing of the payroll. We recommended WCHN ensure all ProAct timesheets are approved prior to the ProAct file being uploaded to CHRIS for payroll processing.

WCHN accepted the recommendation but indicated it could not stop the sending of timesheets as it would result in staff not being paid. It indicated that as part of its project to roll out ProAct to other staff it would aim to improve these controls, including reporting and monitoring unapproved timesheets.

Controls over access to ProAct require improvement

Our audit considered management's processes to ensure only authorised people have access to ProAct. We recommended WCHN:

- regularly review ProAct user access with a view to removing staff who no longer require access
- formalise the process for adding a ProAct user including developing an authorisation form.

WCHN accepted the findings and indicated it would review access and develop new authorisation forms.

Supplies and services expenditure

System-based expenditure approval profiles not regularly reviewed

Our review of the Basware payment processing system found financial delegations assigned to users within the system did not always match approved financial delegations. Incorrect approval limits in Basware increase the risk of invalid, unbudgeted or unapproved expenditure.

WCHN accepted the recommendation and indicated it would regularly review Basware reports for correct delegations.

Invoices received are not always matched to purchase orders

Our review of payments noted instances where invoices were not matched to the purchase order prior to payment. Where this occurs there is an increased risk that payments may be made for goods or services not received or not at the agreed price. In addition, the associated expenses recorded may be overstated.

WCHN advised its monthly review of goods received but not yet invoiced greater than 90 days old mitigated the potential for duplicated records of expense. It also advised it would engage with DHA's Procurement and Supply Chain Management division to identify measures to address the concern and assist in providing targeted training and education to its staff.

Patient billing

Changes to fees and charges rates table not independently reviewed

Our review of patient billing considered WCHN's processes to ensure patients are charged according to approved fee schedules. We recommended improvements to ensure all changes to the fees schedule in the Homer revenue system are independently reviewed.

WCHN advised that it would develop a suitable report for the Chief Finance Officer's sign-off.

Revenue system access rights not reviewed

In 2016 we reported that management did not review a complete list of user access rights in Homer. Our follow-up in 2016-17 found that although WCHN had developed a report for the Chief Finance Officer's review, it did not contain sufficient information and was not reviewed. Without regular management review WCHN may not detect inappropriate levels of access within Homer, increasing the risk of inaccurate or unauthorised changes to revenue transactions.

WCHN responded that it would investigate the potential for a specially developed report in its next software upgrade July 2018. It also indicated it would develop interim measures to identify inappropriate levels of access.

Interpretation and analysis of the financial report

Highlights of the financial report

	2017 $'million	2016 $'million
Expenses		
Staff benefit expenses	323	327
Supplies and services	107	104
Depreciation and amortisation expense	8	7
Other expenses	2	1
Total expenses	440	439
Income		
Revenue from fees and charges	36	35
Grants and contributions	7	7
Other income	9	8
Total income	52	50
Net cost of providing services	388	389
Revenues from SA Government	384	377
Net result	(4)	(12)
Total comprehensive result for the year	(4)	(12)
Assets		
Current assets	26	32
Non-current assets	256	255
Total assets	282	287
Liabilities		
Current liabilities	57	58
Non-current liabilities	59	59
Total liabilities	116	117
Net assets	166	170

Statement of Comprehensive Income

Expenses

In 2016-17 total expenses increased by $570 000 to $440 million.

Staff benefit expenses

Staff benefit expenses, $323 million, represent 73% of WCHN's total expenses. The number of staff whose remuneration received/receivable exceeded the base executive level ($147 000) totalled 249 (221), comprising 211 (201) medical, 24 (9) nursing, eight (five) non-medical and six (six) executive staff. Total remuneration for these staff was $67 million ($63 million).

Supplies and services expenses

Supplies and services expenses increased $3 million to $107 million. Significant components of supplies and services were:

- medical, surgical and laboratory supplies – $26 million ($22 million)
- drug supplies – $9 million ($9 million)
- contractors – agency staff – $8 million ($9 million)
- housekeeping – $10 million ($10 million).

Revenues

Revenues from SA Government

WCHN is principally funded by DHA. In 2016-17, funding of $384 million comprised recurrent funding of $378 million and capital funding of $6 million.

Statement of Financial Position

Property, plant and equipment

Property, plant and equipment represents 84% of WCHN's total assets. The carrying value of property, plant and equipment decreased by $1 million to $237 million. This decrease is due mainly to $8 million of depreciation and amortisation expense, partly offset by additions of $6 million and property received free of charge of $1 million.

Liabilities

Current liabilities decreased by $1 million to $57 million during the year and exceeded current assets of $26 million at balance date. Cash and cash equivalents of $17 million are sufficient to meet current payables of $11 million.

Staff benefits are the largest element of current liabilities, totalling $43 million at 30 June 2017. They mainly comprise leave entitlements expected to be taken within 12 months.

Staff liabilities make up $108 million of WCHN's total liabilities at 30 June 2017, comprising:

- staff benefits liabilities and related on-costs, $101 million ($99 million)
- provision for workers compensation, $7 million ($5 million).

Health Services Charitable Gifts Board (HSCGB)

Financial statistics	Total income:	$20.1 million
	Total assets:	$128.4 million
	Total trust assets:	$7.4 million

Significant events and transactions

- On 26 October 2016, under section 20(5)(b) of the HSCGB Act, the Minister issued directions to transfer all assets of the South Australian Health and Medical Research Institute Charitable Health Trust to the SAMHRI Foundation Ltd. The Trust was wound up on 23 March 2017 with $8.5 million transferred to the new trustee.
- Investment revenue increased by $8.1 million.

Financial report opinion — **Unmodified**

Financial controls opinion — **Unmodified**

Functional responsibility

The HSCGB is established under the *Health Services Charitable Gifts Act 2011* (the HSCG Act).

The functions of the HSCGB are to prudently manage the charitable assets vested in the HSCGB and apply them for the benefit of public health entities or otherwise in accordance with the HSCG Act. Note 1 of the financial report provides further details of the HSCGB's functions and responsibilities. In addition, note 18 of the financial report discloses details of funds held on behalf of public health entities at 30 June 2017.

Scope of audit

The 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 2016-17 included:

- gifts to public health entities vesting in the HSCGB
- investment revenue
- rental revenue
- trust income
- administrative expenses and liabilities
- funds distributed to public health entities and prescribed bodies
- cash and cash equivalents
- investments and investment properties
- financial management compliance program
- governance, accountability and reporting.

Audit findings and comments

Communication of audit matters

The audit did not identify any notable matters requiring formal communication to the HSCGB.

Interpretation and analysis of the financial report

Highlights of the financial report

	2017 $'million	2016 $'million
Income		
Gifts to public health entities vesting in the HSCGB	6	7
Investment revenue	11	3
Rental and other revenue	3	3
Total income	20	13
Expenses		
Funds distributed to public health entities	9	7
Other expenses	-	1
Total expenses	9	8
Total comprehensive result	11	5
Net cash provided by (used in) operating activities	-	3
Net cash provided by (used in) investing activities	-	(3)
Assets		
Current assets	11	10
Non-current assets	117	107
Total assets	128	117
Liabilities		
Current liabilities	-	-
Total liabilities	-	-
Total equity	128	117

Statement of Comprehensive Income

The HSCGB recorded a net profit of $11 million ($5 million) for 2016-17 and this reflects an increase in investment revenue of $8 million. The main increases in investment revenue were from:

- net gains from the fair value adjustment of investment properties of $4.5 million
- gains from financial assets of $3 million
- distributions from unlisted unit trusts of $763 000.

These increases were offset by a decrease in revenue from gifts to public health entities vesting in the HSCGB of $1.4 million. Gift revenue varies from year to year depending on the nature and value of amounts provided by third parties.

Funds distributed to health units increased by $1.9 million to $9 million and are impacted by total gifts, funds held and approved claims for application of the funds.

Statement of Financial Position

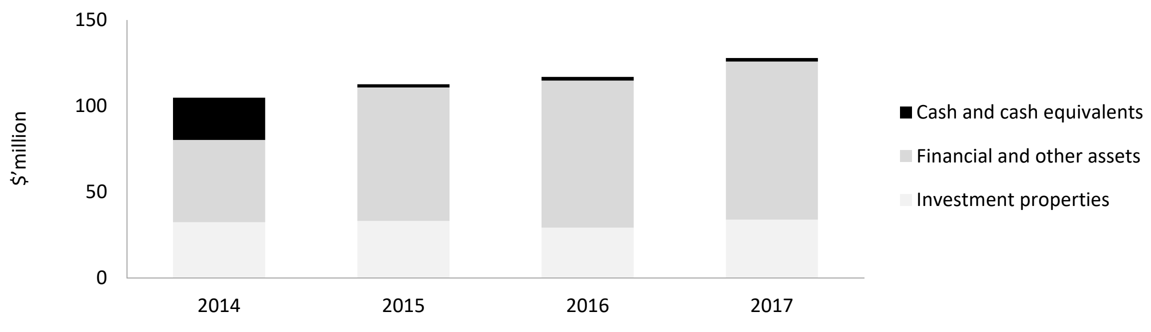
Assets and liabilities

The HSCGB's main assets consist of units in unlisted trusts totalling $76 million ($70 million), investment properties of $34 million ($29 million), a long-term loan of $15 million ($15 million) and short-term deposits of $2 million ($2 million). There are no material liabilities recognised by the HSCGB.

In 2013-14 the HSCGB provided a loan of $15 million to the South Australian Health and Medical Research Institute to establish a cyclotron facility in South Australia. The loan is for 15 years and interest only is repayable for the first five years (refer note 12 of the financial report).

The HSCGB continues to hold significant investment properties for return. In 2016-17 the HSCGB entered into a contract to sell an investment property held at Torrens Road. Settlement did not occur until 31 July 2017, therefore the carrying value of the property was included in assets held for sale as at 30 June 2017.

A structural analysis of assets and funds held for the four years to 2017 is shown in the chart below.



Over the four years net assets have increased by $23 million to $128 million.

In addition to these assets, the HSCGB as trustee holds $7.4 million in other trust funds.

Further commentary on operations

Section 21 of the HSCG Act enables the HSCGB to act as a trustee or co-trustee. A summary of the financial results for the trustee arrangements is included in notes 24 and 25 of the financial report.

Ray and Shirl Norman Cancer Research Trust

The HSCGB assumed the role as sole trustee of the Ray and Shirl Norman Cancer Research Trust in 2011. All income derived from this Trust is to be used for preventing and curing cancer.

The balance of the trust funds as at 30 June 2017 was $7 million ($6.6 million).

South Australian Health and Medical Research Institute Charitable Health Trust (the Trust)

During 2013-14 the HSCGB was appointed trustee of the Trust. The Trust was established by ministerial direction and an initial sum was provided to the HSCGB by the Minister for Health. The funds are to be used for health and medical research and infrastructure.

On 26 October 2016, under section 20(5)(b) of the HSCGB Act, the Minister issued directions to transfer all assets of the Trust to the SAMHRI Foundation Ltd. The Trust was wound up on 23 March 2017 and $8.5 million was transferred to the SAMHRI Foundation Ltd.

Dorothy E Brown Charitable Trust

The Dorothy E Brown Charitable Trust was established by Deed Poll dated 17 December 2014 with the HSCGB appointed as trustee. All trust money is to be applied to benefit hospital patients suffering kidney disease.

The balance of the trust funds at 30 June 2017 was $316 000 ($300 000).

HomeStart Finance (HomeStart)

Financial statistics	Loans and advances:	$1.8 billion
	Short-term borrowings:	$83 million
	Long-term borrowings:	$1.6 billion
	Profit before income tax:	$20 million
	Dividends paid:	$7.1 million
	Number of FTEs:	98.3
	Number of loans outstanding at 30 June:	13 027

Significant events and transactions

— A dividend of $7.1 million relating to HomeStart's operating profit for the year was paid in June 2017 after a recommendation from the Board and approval by the Minister and the Treasurer.

— Loans and advances increased by $75 million mainly due to growth in graduate and construction loans.

Financial report opinion — **Unmodified**

Financial controls opinion — **Unmodified**

Functional responsibility

HomeStart is a statutory corporation established by Regulation under the *Urban Renewal Act 1995*. It has a Board of Management appointed by the Minister for Housing and Urban Development and is subject to the control and direction of the Minister.

HomeStart's functions include:

- lending money or providing other financial assistance to facilitate home ownership for people who would otherwise have difficulty obtaining finance
- providing, marketing and managing home finance products
- providing, managing or facilitating finance for housing schemes or 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.

Scope of audit

The audit 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 2016-17 included:

- lending, including arrears management and allowance for impairment
- investments
- purchases and payments
- payroll
- treasury
- regulatory framework
- general IT controls.

We also considered the work of HomeStart's internal auditors in planning and conducting the audit.

Audit findings and comments

Communication of audit matters

A small number of minor matters identified by the audit were outlined in a management letter to the Chair of the HomeStart Audit Committee.

The matters raised were opportunities to improve HomeStart's financial delegations and the review of user access to application systems.

HomeStart provided a satisfactory response to these matters.

Interpretation and analysis of the financial report

Highlights of the financial report

	2017 $'million	2016 $'million
Interest income	96	98
Interest expense	(35)	(41)
Net interest income	61	57
Other income	12	14
Other expenses	(26)	(27)
Government guarantee fee	(27)	(27)
Profit (Loss) before income tax equivalents	20	17
Income tax equivalents expense	(6)	(5)
Profit (Loss) after income tax equivalents expense	14	12
Other comprehensive income	2	(1)
Total comprehensive result	16	11

	2017 $'million	2016 $'million
Assets		
Loans and advances	1 842	1 768
Other assets	73	125
Total assets	1 915	1 893
Liabilities		
Borrowings	1 730	1 713
Other liabilities	20	23
Total liabilities	1 750	1 736
Total equity	165	157

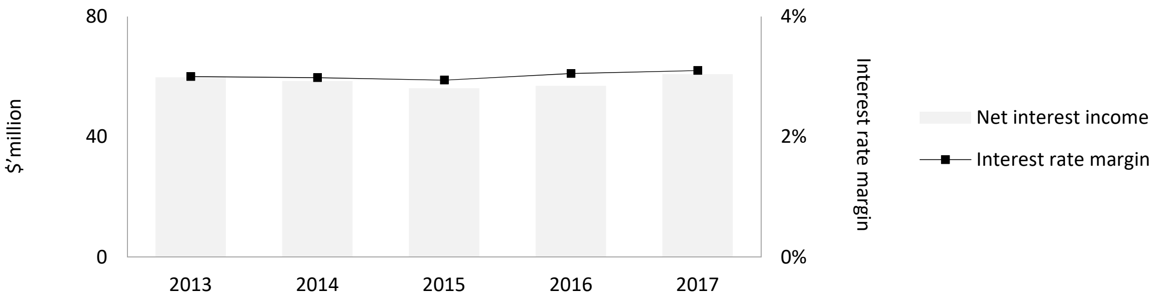
Statement of Comprehensive Income

Profit for the year

Profit before income tax equivalents increased by $3.2 million to $20 million. The analysis below outlines the main factors contributing to this result.

Net interest income

The following chart compares the net interest income to the interest rate margin between loans and cost of funds, excluding the cost of the government guarantee fee of 1.56% for loans written from 1 July 2016 (1.6% for loans written before this).



Net interest income increased by $3.9 million (7%) to $60.8 million. The increase mainly reflects a 4% increase in net loans and advances during the year.

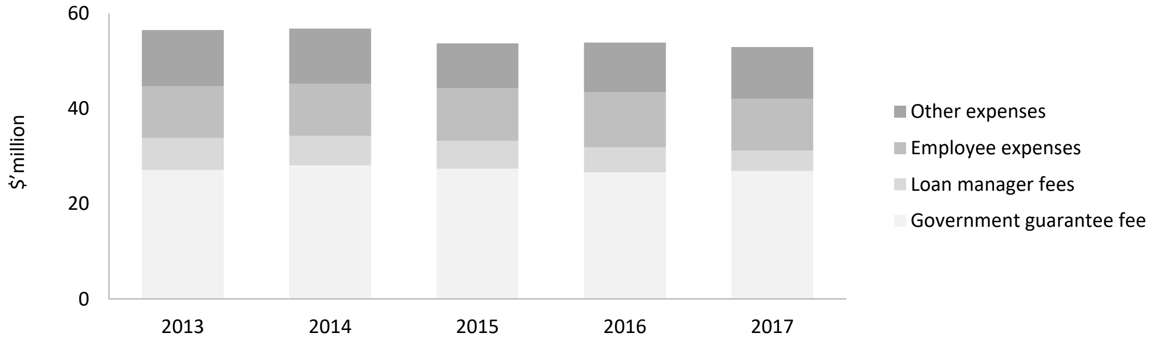
The chart shows the interest rate margin between loans and cost of funds has remained stable at around 3% over the last five years.

Other income

Other income decreased by $1.4 million to $12.5 million. This decrease was mainly due to less interest income from term deposits, which all matured during the year and were not reinvested, and a $700 000 decrease in the unrealised gain in fair value of breakthrough loans.

Expenses other than interest

The movement in expenses other than interest over the last five years is illustrated in the following chart.



Expenses have declined slightly since 2013. More significant movements in 2017 were:

- loan manager fees decreased by $936 000 reflecting the transition of loans to being managed internally by HomeStart, partially offset by an increase in broker activities
- employee benefits expenses decreased by $592 000 reflecting the inclusion of termination payments in 2015-16, offset by an increase of FTEs and a 2.5% increase in the salary and wages rate.

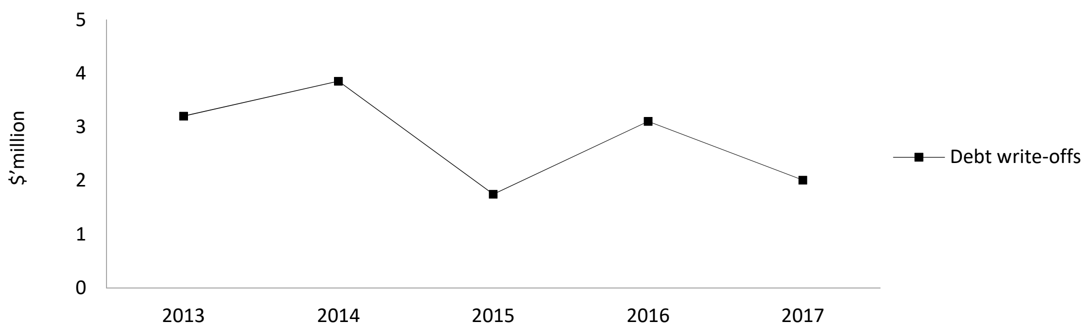
In 2017 the government guarantee fee reduced slightly to 1.56% (1.6% in 2016), with the expense increasing by $378 000 due to a higher level of borrowings in 2017. The $1 million increase in the guarantee fee shown in the chart above for 2014 was a result of an increase in the fee rate to 1.6% in that year.

Bad and impaired loans expense

The bad and impaired loans expense for the year was $2.9 million ($2.4 million). The increase in this expense is explained by:

- a $1.1 million increase in the specific and collective provisions, discussed further below, as a result of an increase in the overall loan portfolio on which the provisions are calculated
- a $644 000 decrease in the bad debts written off through the income statement.

The total provision for impairment as at 30 June 2017 was $18.2 million ($17.3 million). The following chart shows the actual debt write-offs through the provision and the Statement of Comprehensive Income for the last five years.



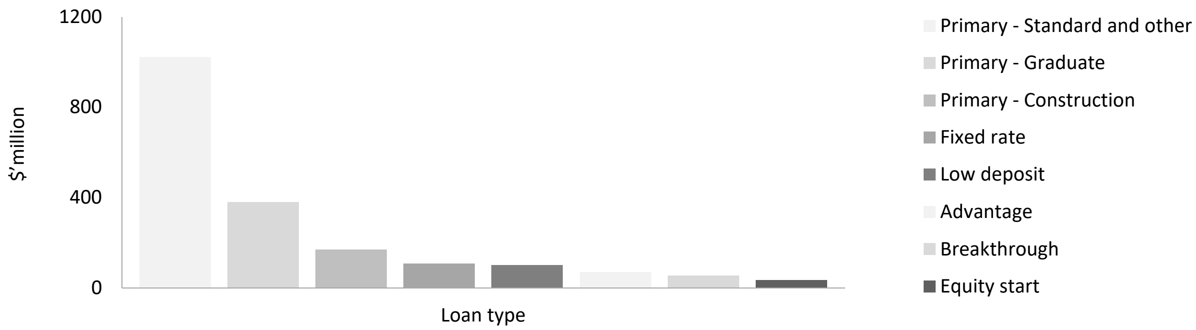
The chart shows that in 2014 there was a higher level of actual bad debts, reflecting the softer property market and increasing loan portfolio. The reduction in bad and impaired loans expense and bad debts written off in 2015 was partly attributable to a change in the approach to recognising unearned income for impaired loans, ceasing to accrue interest as income for loans already in arrears. Higher total debt write-offs in 2016 were mainly attributable to a number of high value losses on long-held regional properties that were sold in 2016 and an increase in costs from the mid-north regional areas where there was an overall increase in mortgagees in possession. In 2017 these factors were less significant and the level of write-offs reduced as a result.

Statement of Financial Position

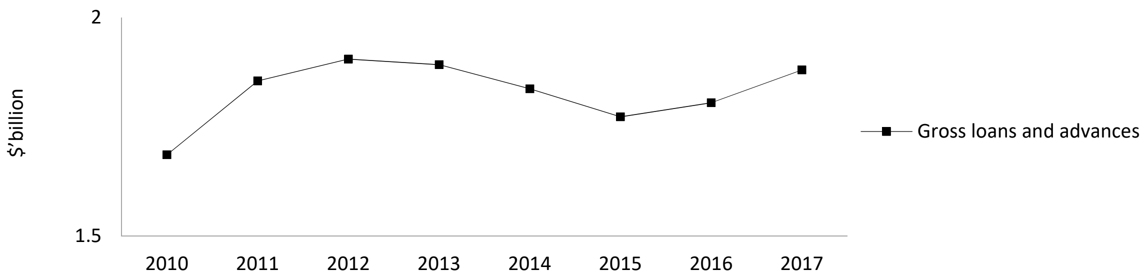
Loans and advances

As at 30 June 2017 gross loans and advances amounted to $1.88 billion, an increase of $74.6 million from the previous year. This increase was mainly a result of a $76.4 million increase in graduate loans and an increase in fixed rate loans of $43.6 million, partially offset by a decrease in balances for other loan products. Graduate loans now total $380 million.

The following chart shows the value, by loan type, of HomeStart's loan portfolio at 30 June 2017.



The following chart shows the value of gross loans and advances over the past eight years.



HomeStart had a significant increase in the value of lending over the period to 2012, reflecting a range of factors including:

- approval from the SA Government for HomeStart to grow its asset base
- market acceptance of new products
- the increase in the average value of loans settled in line with the general increase in property values

- additional first home owner incentive grants from the Commonwealth and SA Governments in 2010 and 2011
- a reduction in the number of non-bank lenders and tighter lending practices by other financial institutions.

Between 2012 and 2015 gross loans reduced, reflecting higher levels of loan discharges. This was driven by refinancing as a result of lower market interest rates from other lenders, and higher loan repayments and discharges due to lower interest rates allowing faster repayment of outstanding principal amounts.

The increase in gross loans again from 2015 is primarily the result of the growth in graduate loans discussed above. HomeStart changed the lending criteria for these loans in 2015, and allowed for higher maximum loan sizes and revised eligibility criteria in 2016, meaning it is easier to meet the employment requirements.

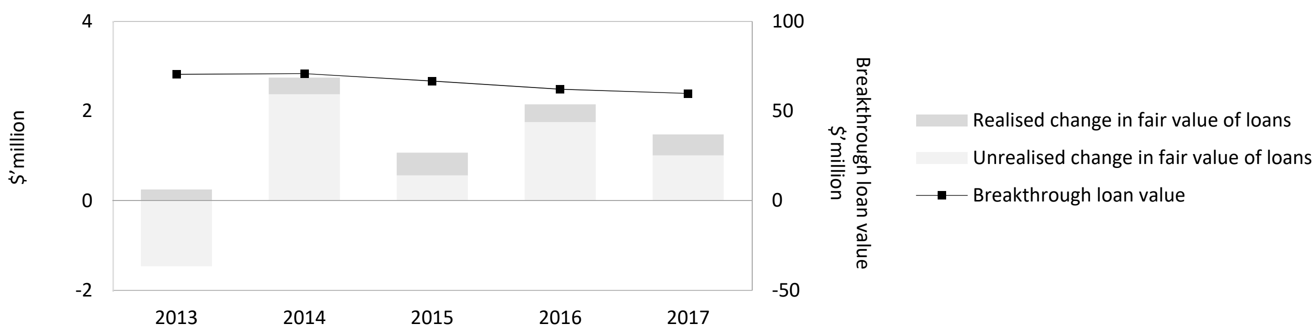
Breakthrough loans

The breakthrough loan facility has a standard loan component with standard interest rates and repayments, and a shared appreciation component where the loan is repaid along with a percentage of the increase in property value when the property is sold (refer note 2.10.2 of the financial report).

The value of the shared appreciation component of breakthrough loans was $59.8 million ($62.4 million) at 30 June 2017. HomeStart recognises this component at market value in the Statement of Financial Position based on valuations of the properties concerned. Refer to further commentary under 'Investments' below.

In 2017 a net $1.5 million gain ($2.1 million gain) was recognised for this product, comprising a $1 million gain ($1.8 million gain) recognised from revaluation and a $468 000 gain ($395 000 gain) recognised on discharge of breakthrough loans. The movement in the value of the shared appreciation component, and the impact of these loans on the operating result, follows general property market movements for the areas in which the properties are located.

The chart below shows the impact of the breakthrough loans on HomeStart's operating result and the total value of loans since 2013.



HomeStart has specific risk management strategies in place for breakthrough loans, recognising the impact that the shared appreciation component has on the operating result. One of those strategies is placing a cap on the total value of breakthrough loans that will be written or outstanding at any given time.

Provisions for impairment

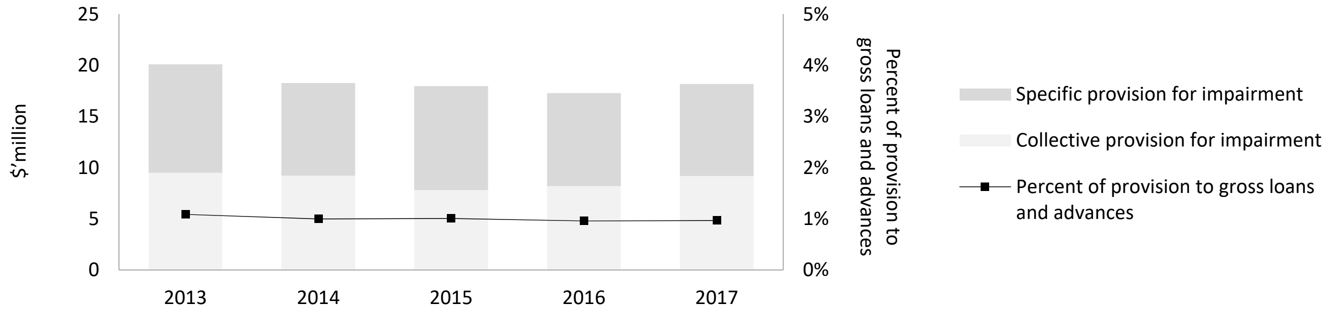
HomeStart assesses whether there is objective evidence that a financial asset or a portfolio of financial assets is impaired at each balance date.

The total provision for impairment has increased by $892 000 to $18.2 million. The total provision for impairment has two components:

- the specific provision – representing loans and advances that are individually assessed as impaired. As at 30 June 2017 this was $9 million ($9.1 million)

- the collective provision – this arises where HomeStart determines that no objective evidence of impairment exists for an individually assessed financial asset. As at 30 June 2017 this was $9.2 million ($8.2 million). To calculate this provision, assets are included in a group of financial assets with similar credit risk characteristics and collectively assessed for impairment.

The following chart shows the level of the total provisions and their composition over the past five years.



The chart shows the overall level of provisioning has remained at a similar proportional level to gross loans and advances across the years.

In 2017, the overall increase in the provision is due to the increase in the collective provision, reflecting a higher number of loans identified with a lower credit score. This reflects growth in graduate and construction loans. The specific provision remained at a similar level.

Note 2.10.3 of the financial report details HomeStart's policies for determining the provision for impairment.

General reserve for credit losses

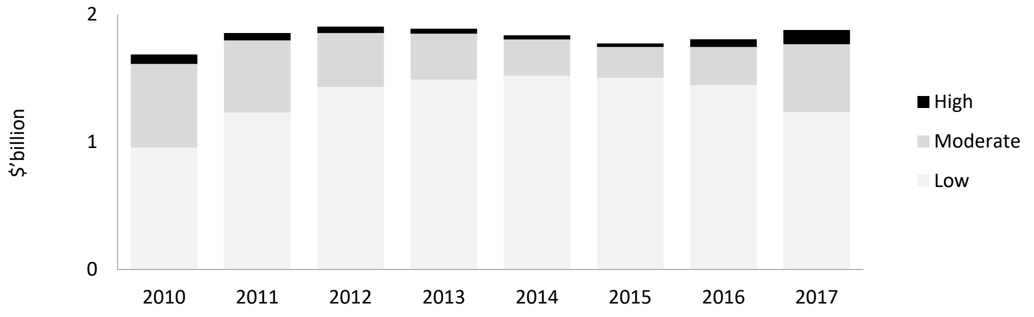
The general reserve for credit losses is used to set aside additional funds in excess of the specific and collective provisions determined under AASB 139 'Financial Instruments: Recognition and Measurement'. Maintaining this reserve is consistent with the Australian Prudential Regulation Authority's prudential risk management requirement to retain sufficient retained earnings for capital adequacy purposes.

The balance of the reserve at 30 June 2017 was $8.3 million ($8 million).

The combined provisions for impairment and general reserve for credit losses take the total amount set aside for potential losses to $26.5 million ($25.3 million), representing 1.4% (1.4%) of gross loans and advances.

Loan quality

HomeStart has assessed the gross value of loans and advances to customers by credit risk grading (refer note 33.2.1(d) of the financial report). The following chart summarises that assessment.



The chart shows the proportion of high and moderate credit risk category loans reduced until 2015, with most loans assessed as low credit risk. There was an increase in high and moderate credit risk loans from 2016 mainly as a result of changes to the credit risk classifications based on credit scores. This resulted in more loans being classified as a high credit risk.

Risk management for loans

HomeStart's risk profile for its loans has a higher inherent risk than a commercial lender's loan portfolio. Key differences include:

- 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 mortgage insurance because HomeStart self-insures losses incurred.

As outlined in note 33.2.1(b) of the financial report, HomeStart has some geographic areas where there is a greater concentration of its loans. 34% of loans by value are secured against properties in the City of Playford and the City of Salisbury. A further 24% 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 predominantly 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. HomeStart manages this risk by monitoring property valuations annually and complying with loan to valuation ratios for new loans.

As discussed above, HomeStart seeks to manage the risks associated with loan quality by maintaining a specific provision, a collective provision and a general reserve for credit losses.

HomeStart also seeks to maintain appropriate capital reserves to cover any significant losses arising from loan defaults.

Investments

HomeStart's financial investments amounted to $61 million ($114 million), a decrease of $42.4 million.

The decrease in financial investments was primarily due to:

- the maturing of term deposits valued at $37 million that were not reinvested
- the disposal of investments in the SAFA Cash Management Fund of $2.8 million
- a decrease in the fair value of breakthrough loans of $2.6 million.

The shared appreciation component of the breakthrough loan product amounted to $59.8 million ($62.4 million) or 96% (55%) of total financial investments. The discharge of a breakthrough loan is at the discretion of the property owner through refinancing or sale. Consequently, HomeStart cannot liquidate these investments to meet any future potential funding requirements.

Liabilities

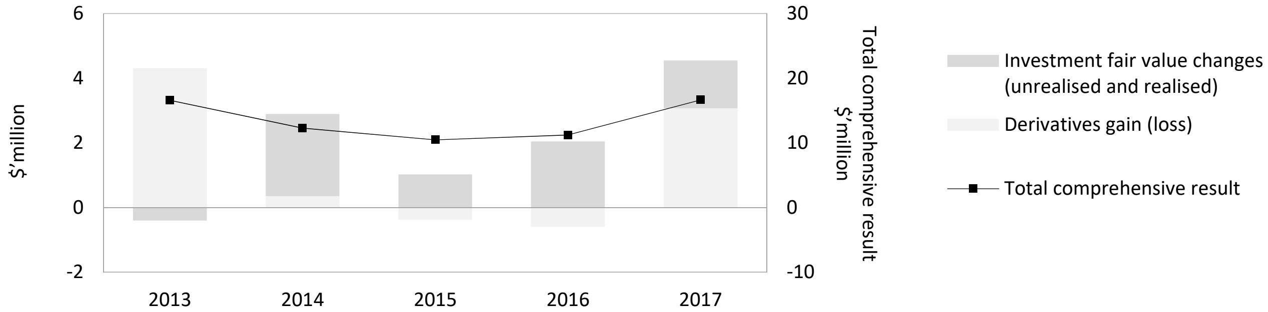
Borrowings at 30 June 2017 were $1.7 billion ($1.7 billion) and represent 99% (99%) of HomeStart's liabilities. HomeStart is required to use the South Australian Government Financing Authority (SAFA) as its sole counterparty for all funding transactions. At 30 June 2017, HomeStart had a current approved borrowing limit of $2.1 billion ($2.1 billion). Most of HomeStart's borrowings from SAFA ($1.6 billion) mature within five years. Note 33.3 of the financial report provides further information on HomeStart's exposure to liquidity risk.

Fair value and comprehensive result

HomeStart recognises derivatives and certain investments, including the breakthrough loan product, at fair value. The changes in market value of these items can impact HomeStart's Statement of Financial Position and Statement of Comprehensive Income.

Derivatives are used to hedge (protect against) changes in interest rate risks. Whilst these hedges remain effective (as defined by the accounting standards), changes in the fair value of hedges do not affect profit as they are recognised in the derivatives valuation reserve within equity. However, the realised and unrealised changes in investments at fair value are recorded in other expenses or income in the Statement of Comprehensive Income.

The impact of all these changes is included in the total comprehensive result reported in the Statement of Comprehensive Income. HomeStart's total comprehensive result increased by $5.4 million to $16.6 million. The chart below shows the impact of the changes in the fair value of derivatives and investments on HomeStart's total comprehensive result for the last five years.

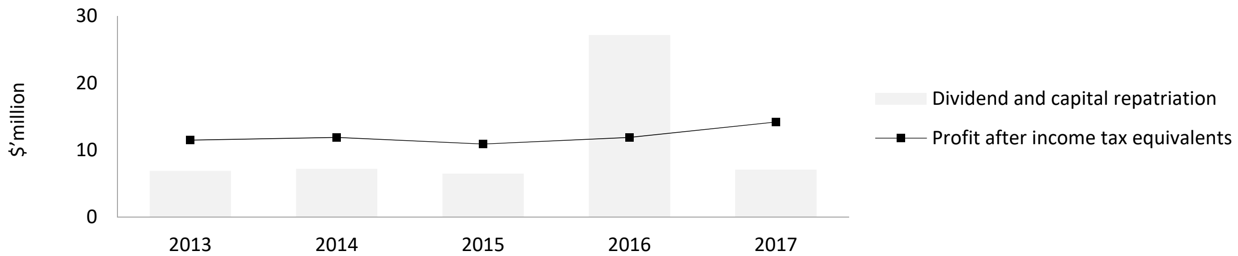


The chart reflects the increasing positive impact of fair value changes from 2015 on total comprehensive income. In 2017 there was a $3.1 million gain in the value of derivatives due to maturing higher interest rate swaps being replaced by newer lower interest rate swaps.

It is important to appreciate that the financial report combines the financial assets and financial liabilities measured at either fair value or at cost. Note 34.1 of the financial report shows the fair value of net financial assets is $159.2 million ($151.6 million), while the carrying value of net financial assets is $165.5 million ($153.7 million). The slight increase in the margin between fair value and carrying value is mainly due to the increased volume of fixed interest rate loans from 2016, accounted for at amortised cost.

Distributions to government

The following chart shows profit after income tax equivalents and distributions made for the past five years, highlighting HomeStart's sustained profit performance over that period.



In June 2017 the Treasurer approved the payment of a dividend of $7.1 million, noting the remaining dividend from HomeStart's final operating result would be paid in 2017-18. The total dividend for 2016-17 is $8.5 million, 60% of HomeStart's actual the 2016-17 profit after tax. HomeStart recognised a dividend payable of $1.4 million at 30 June 2017, which is not included in the chart above.

The 2016 dividend of $27.1 million included a dividend of $7.1 million (60% of the 2015-16 after tax profit) and an interim dividend of $20 million. The Board recommended paying the dividend in August 2015, and the Treasurer approved it in October 2015.

HomeStart aims to return dividends to the SA Government regularly, in line with its established performance statement and the requirements of the *Public Corporations Act 1993*. Dividends have to be recommended by the Board and then approved by the Minister for Housing and Urban Development and the Treasurer.

As well as dividends, HomeStart pays guarantee fees and income tax equivalents.

In return for providing certain categories of loans, HomeStart receives community service obligation (CSO) funding.

The following table summarises these transactions with the SA Government for the four years to 2017.

	2017 $'million	2016 $'million	2015 $'million	2014 $'million
SA Government:				
Dividend	7	27	7	7
Tax	6	5	5	5
Government guarantee fee	27	27	27	28
Total to SA Government	40	59	39	40
CSO income	(6)	(6)	(6)	(5)
Net amount provided to SA Government	34	53	33	35

The table shows the net amount provided to the SA Government as consistent since 2014, apart from 2016 when the additional $20 million interim dividend was paid.

Statement of Cash Flows

Net cash flows

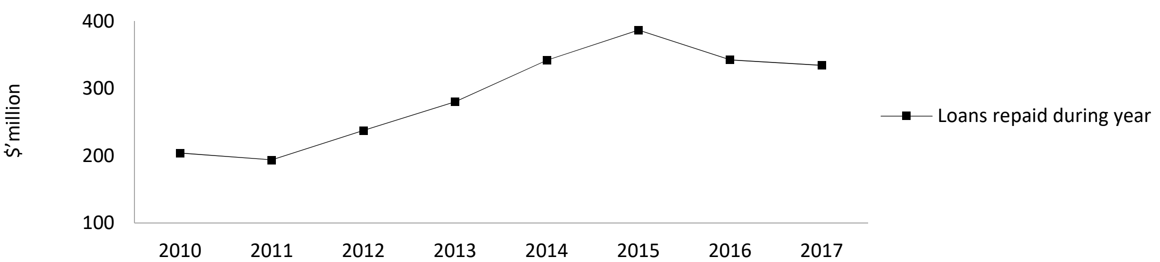
The following table summarises the net cash flows for the four years to 2017.

	2017 $'million	2016 $'million	2015 $'million	2014 $'million
Net cash flows:				
Operating	12	10	6	8
Investing	(19)	(29)	71	61
Financing	10	19	(78)	(70)
Change in cash	3	-	(1)	(1)
Cash at 30 June	5	2	2	3

Investing activities relate primarily to the provision of loans to customers. In 2017 there was a net $72.2 million cash outflow ($30.8 million cash outflow) for customer loans, and this corresponded to the increase in gross loans and advances. The net financing cash inflow of $10 million ($19 million net inflow) reflects new borrowings taken out with SAFA exceed the repayment of borrowings, partially offset by the payment of the interim dividend during the year. The increase in net operating cash flows reflects the decrease in interest income being less than the decrease in borrowing costs and payments to loan managers.

Customer loans repaid

The repayment of customer loans is shown in the chart below.



Customer repayments increased substantially from 2012 to 2015. The increase was due largely to the reduction in interest rates resulting in:

- customers choosing to repay more debt or refinance with other institutions to take advantage of more suitable loan arrangements
- fixed repayment loan products repaying proportionately more principal.

From 2016 new lending increased while discharges decreased in comparison to prior years. Discharges in 2017 were $246 million ($262 million), a reduction of $16 million.

HomeStart operating parameters

Cabinet approved revised operating parameters for HomeStart in April 2012. The purpose of reviewing the parameters was to enable a higher degree of certainty in HomeStart's business operations and delivery of home ownership opportunities.

Cabinet also approved HomeStart preparing a charter and performance statement, to be approved annually by the Treasurer and the Minister for Housing and Urban Development. The charter and performance statement for 2016-17 were approved in May 2016.

Performance targets

HomeStart's performance targets compared to actual results are detailed below.

	Cabinet approved operating parameters	Performance statement target for 2017	2017 result	2016 result
Operating profit before tax	n/a	$16.2 million	$20.2 million	$17 million
Return on equity	9%	10.1%	12.57%	10.3%
Cost to income ratio	55%	55.1%	49.96%	55.9%
Capital adequacy ratio	12%	14.8%	15.6%	15.5%

To enable HomeStart to meet the return on equity target of 9%, the April 2012 Cabinet approval included a new CSO payment that will phase out over time. No CSO receipts of this type have occurred since $4.4 million was received in 2012.

The most significant factor contributing to HomeStart's above-parameter return on equity in 2017 was its strong net interest income.

Dividend payout ratio

Cabinet approved a dividend payout ratio of 60%, based on after tax profit. The Treasurer approved a dividend based on this ratio in June 2017 as discussed above.

Borrowing limit

In April 2012 Cabinet approved increased borrowing limits for HomeStart, to a maximum of $2.5 billion in 2016, subject to the Treasurer's approval. These increases were to reflect the projected long-term house price growth rate.

The borrowing limit approved by the Treasurer was increased to $2.105 billion from 1 July 2012 and it has not changed since.

Independent Commissioner Against Corruption (ICAC)

Financial statistics	Net cost of providing services:	$10.8 million
	Revenues from SA Government:	$10 million
	Number of FTEs:	48.1
Significant events and transactions	The *Police Complaints and Discipline Act 2016* was passed in December 2016 effectively closing the Office of the Police Ombudsman and transferring those functions to the Office for Public Integrity as at September 2017. ICAC incurred expenditure in 2017 relating to infrastructure and software in readiness for these increased activities.	
Financial report opinion	**Unmodified**	
Financial controls opinion	**Unmodified**	

Functional responsibility

The Independent Commissioner Against Corruption (the Commissioner) and the Office for Public Integrity (the OPI) are established under the *Independent Commissioner Against Corruption Act 2012*.

The activities of both the Commissioner and the OPI are included in the financial report as they constitute a single entity ICAC for financial reporting purposes.

The primary functions of the Commissioner are to identify and investigate corruption in public administration and prevent or minimise corruption, misconduct and maladministration in public administration through referral of potential issues, education and evaluating practices, policies and procedures.

The primary function of the OPI is to receive and assess complaints and reports about public administration, corruption, misconduct and maladministration and to make recommendations for taking action on them.

Note 1 of the financial report further explains the objectives and functions of the Commissioner and the OPI.

Scope of audit

The 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 2016-17 included:

- governance
- expenditure
- payroll
- revenue
- cash
- general ledger processing.

Internal audit activities were reviewed to assess the risks of material misstatement in the financial report and to design and perform audit procedures.

Audit findings and comments

Communication of audit matters

No significant matters were identified by the audit.

Shared Services SA – financial systems and transaction processing environments

Shared Services SA processes financial transactions on behalf of ICAC under service level determinations. The main systems and control environments include accounts payable, payroll and general ledger financial functions.

Our review and evaluation of controls for these systems concluded that controls were effective for 2016-17.

Shared Services SA is discussed further as part of the commentary under 'Department of the Premier and Cabinet' in this Report.

Interpretation and analysis of the financial report

Highlights of the financial report

	2017 $'million	2016 $'million
Expenses		
Employee benefits expenses	7	6
Supplies and services	3	3
Other expenses	1	1
Total expenses	11	10
Net cost of providing services	11	10
Revenues from SA Government	10	8
Net result and total comprehensive result	(1)	(2)

	2017 $'million	2016 $'million
Net cash provided by (used in) operating activities	1	(1)
Net cash provided by (used in) investing activities	(1)	(1)
Assets		
Current assets	3	3
Non-current assets	5	5
Total assets	9	8
Liabilities		
Current liabilities	2	1
Non-current liabilities	1	1
Total liabilities	3	2
Total equity	6	6

* Table may not add due to rounding

Statement of Comprehensive Income

Expenses

ICAC's expenses increased by $1.1 million to $10.9 million. The main cause of the increase was a $786 000 increase in employee benefits expenses due mainly to an increase in the number of employees.

Income

ICAC relies on revenues from the SA Government, which increased by $2.5 million to $10 million in response to ICAC's operating and investing costs.

Statement of Financial Position

Assets

ICAC's assets decreased by $228 000 to $8.6 million. The major item causing this change was a $192 000 decrease in property, plant and equipment and intangibles, reflecting asset additions of $871 000 partly offset by depreciation and amortisation of $1.1 million.

ICAC has purchased a number of information technology assets and software to further support its operations. In 2017 assets totalling $455 000 were transferred from work in progress to information technology assets and intangible assets.

Liabilities

ICAC's liabilities increased by $486 000 to $2.8 million. The major items causing this change were:

- employee benefit liabilities increasing by $385 000 to $1.5 million due mainly to increases in annual and long service leave as a result of an increase in the number of employees and the associated transfer of leave entitlements

- payables increasing by $218 000 to $657 000 due primarily to creditors for office fitout costs and increased employment on costs
- lease incentives for ICAC's accommodation decreasing by $117 000 to $697 000, reflecting the recording of lease incentives as a reduction of rental expense over the lease term on a straight-line basis.

Statement of Cash Flows

Cash and cash equivalents at 30 June 2016 were $3.2 million ($3.3 million). Net cash provided by operating activities was $596 000, up $1.7 million from 2016 due mainly to an increase in revenues from the SA Government, partially offset by increases in employee benefit and supplies and services payments.

Legal Services Commission (LSC)

Financial statistics	Net cost of providing services:	$38.8 million
	SA Government grant:	$22.7 million
	Commonwealth grant:	$16.3 million
	Number of FTEs:	189.4
	Number of in-house cases:	5115
	Number of cases assigned to private practitioners:	10 232

Significant events and transactions

- Work commenced on implementing a new electronic document and records management system with an estimated cost of $860 000.
- LSC undertook an internal restructure that resulted in the creation of Chief Operating Officer and Legal Practice Manager positions.

Financial report opinion

Unmodified

Financial controls opinion

Modified

Key issues:

- Audit Compliance and Risk Committee improvements needed to meet best practice
- Internal audit plans need updating and work programs have not been achieved

Functional responsibility

LSC is a body corporate established under section 6(1) of the *Legal Services Commission Act 1977* (LSC Act). Section 6(3) of the LSC Act states that LSC is not an instrumentality of the Crown and is independent of the SA Government.

The functions and principles of LSC are detailed in sections 10 and 11 of the LSC Act. Core functions and principles include:

- providing or arranging for the provision of legal assistance and determining the criteria under which that assistance is granted
- ensuring legal assistance is provided in the most efficient and economical manner, and making the best endeavours to make legal assistance available to people throughout the State.

Scope of audit

The 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 2016-17 included:

- revenue and receivables
- expenditure and accounts payable
- private practitioner services
- payroll and employee entitlements
- cash and cash equivalents
- property, plant and equipment
- financial accounting, general ledger and journals
- governance, business planning and risk management
- information and communications technology.

Audit findings and comments

Assessment of controls

In my opinion, the controls exercised by the Legal Services Commission in relation to the receipt, expenditure and investment of money, the acquisition and disposal of property and the incurring of liabilities, except for all matters outlined under 'Communication of audit matters', are sufficient to provide reasonable assurance that the financial transactions of the Legal Services Commission have been conducted properly and in accordance with law.

Communication of audit matters

Matters identified by the audit were detailed in a management letter to the Chairman. The main matters raised and related responses are detailed below.

Governance matters

We recommended that LSC consider and action the following:

- the Audit Compliance and Risk Committee's (the Committee) charter, terms of reference and related documentation had not been recently reviewed and needed to be improved to meet best practice

- internal audit plans were a number of years old, documented work programs had not been achieved for multiple years and working papers did not demonstrate that professional requirements were practised
- internal audit independence needs to be further considered and internal audit should function separately, where practicable, from operational management
- user access reviews for the Finance One system need to be documented.

In response LSC advised that it:

- has recently reviewed the Committee's charter and terms of reference
- has developed a Committee forward plan for the next 12 months, which includes a structured work program for meetings throughout the year and was considered at the September 2017 Committee meeting
- engaged an external provider to develop a three to five year risk-based internal audit plan and assurance map
- will consider a review of Committee performance against best practice in 2017-18
- does not consider creating an independent audit function with no conflicts of interest, as envisaged by professional standards and best practice, to be practicable due to the size of LSC
- considers the development of a three to five year risk-based internal audit plan and the recent appointment of a Chief Operating Officer will provide additional and sufficient independence and governance
- has also focused on its risk management program in 2016-17 to support these developments
- will complete a user access review for Finance One by December 2017 and will retain evidence of it on file.

Interpretation and analysis of the financial report

Highlights of the financial report

	2017 $'million	2016 $'million
Expenses		
Employee benefits expenses	19	19
Private practitioner services (including expensive cases)	19	18
Other expenses	7	7
Total expenses	45	44
Income		
Legal Practitioners Act 1981 revenue	3	3
Other income	3	3
Total income	6	6
Net cost of providing services	39	38

	2017 $'million	2016 $'million
Revenues from Government		
Commonwealth Government	16	16
SA Government	23	21
Total revenues from governments	39	37
Net result and total comprehensive result	-	(1)
Net cash provided by (used in) operating activities	1	-
Assets		
Current assets	14	14
Non-current assets	12	11
Total assets	26	25
Liabilities		
Current liabilities	4	3
Non-current liabilities	6	6
Total liabilities	10	9
Total equity	16	16

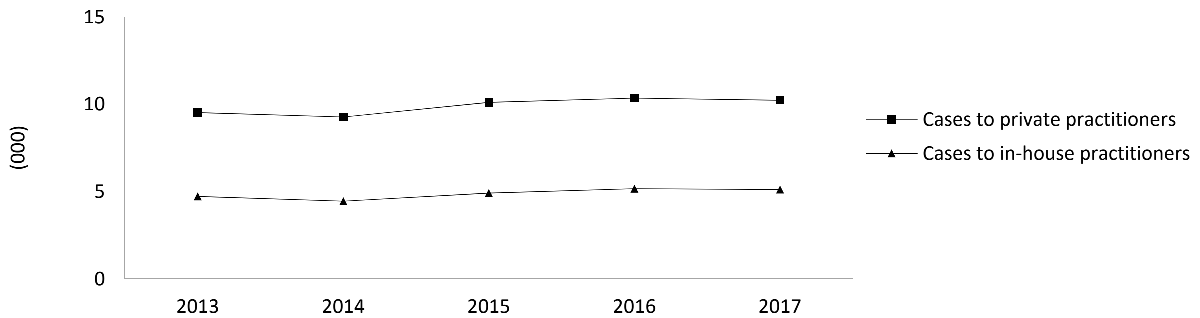
Statement of Comprehensive Income

Operating expenses

Referrals to private and in-house practitioners

Legal aid is provided by either LSC's in-house practitioners or private practitioners.

The following chart details the split between approved cases assigned to private and in-house practitioners over the past five years. This data was provided by LSC and is unaudited.



Applications assigned to in-house practitioners totalled 5115 (5164) cases or 33% (33%) of new case applications approved. Private practitioner assigned cases totalled 10 232 (10 353) or 67% (67%) of new case applications approved. Fees to private practitioners for these cases (private practitioner services) amounted to $19 million ($18 million) and comprised 43% (41%) of total LSC expenditure.

In interpreting the relationship between case numbers and the cost of representation, LSC advised that a grant of legal aid for serious crime matters has a significant time lag, generally more than one year, before actual costs are incurred. Therefore, timing differences between the case numbers reported and the reporting of the costs associated with those cases may occur.

Note 20(a) of the financial report explains legal expense commitments on legal cases referred to private practitioners, which were $8 million ($8 million) at 30 June 2017.

Income

Commonwealth and SA Government funding

Commonwealth and SA Government grant payments to LSC form part of the administered activities of the Attorney-General's Department. The Attorney-General's Department initially receives the annual grant funding from the Commonwealth which, together with the SA Government component, is paid to LSC.

Commonwealth Government grants

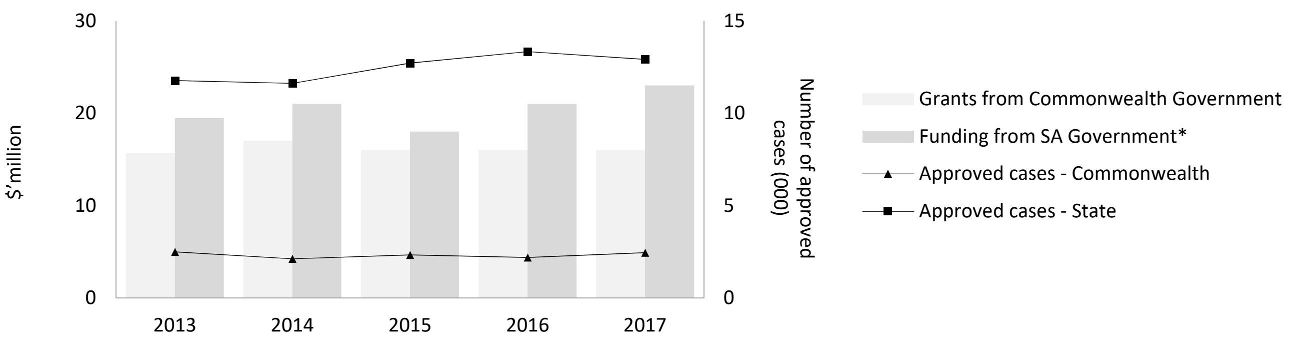
Legal assistance is provided in South Australia for matters arising under Commonwealth law. The matters are predominantly in the area of family law and, to a lesser extent, criminal and specific civil matters. In meeting the cost of providing this legal aid, LSC receives funding from the Commonwealth Government under an agreement between the Commonwealth and SA Governments. Grants received must be spent in line with the agreement.

Grants from the Commonwealth Government totalled $16.3 million ($15.8 million) and comprised 36% (37%) of total LSC revenue.

SA Government funding

The amount of SA Government funding provided is determined through budgetary processes.
SA Government funding totalled $22.7 million ($21.5 million) and comprised 50% (50%) of LSC's total revenue. This funding is expended on State law matters, which are predominantly criminal cases.

The following chart shows the amount of Commonwealth and SA Government funding (not including expensive case funding) provided to LSC for the past five years. It also shows the number of approved cases that relate to Commonwealth and SA Government funding.



* Excluding expensive case grants.

Net result

The net result for 2016-17 was a surplus of $206 000 compared with a deficit of $650 000 in 2015-16. The improvement in the net result is mainly attributable to increased government funding of $1.7 million.

The Legislature

Financial statistics

	House of Assembly $'million	Legislative Council $'million	Joint Parliamentary Service $'million
Net cost of services	15.0	9.3	10.3
Total appropriation	15.2	9.5	11.5
Members' salaries and allowances	10.3	5.4	n/a

	House of Assembly Number	Legislative Council Number	Joint Parliamentary Service Number
Members	47	22	n/a
Employees (FTEs)	25	19	65

Significant events and transactions

- The Joint Parliamentary Service spent $1.4 million on a broadcast system to film, record and televise the proceedings of both Houses of Parliament. The system was completed in June 2017 and a webcast of the proceedings is now available to the public on programmed sitting days.

Financial report opinion

Modified

The Auditor-General has issued a disclaimer of opinion on the Joint Parliamentary Service's financial report as we were not provided with unrestricted access to:

- the minutes of the Joint Parliamentary Service Committee meetings
- catering division financial information.

Unmodified

The Auditor-General has issued unmodified opinions on the financial reports of the House of Assembly and the Legislative Council.

Financial controls opinion

Not applicable

A financial controls opinion is not required because the House of Assembly, Legislative Council and Joint Parliamentary Service are not public authorities.

Functional responsibility

The Legislature, for the purposes of this Report, comprises the:

- House of Assembly established under the *Constitution Act 1934*
- Legislative Council established under the *Constitution Act 1934*
- Joint Parliamentary Service (JPS) established under the *Parliament (Joint Services) Act 1985.*

The House of Assembly and the Legislative Council constitute the Parliament of South Australia. The main purpose of Parliament is to legislate for peace, order and responsible governance of South Australia.

The JPS provides services to Parliament including Hansard reporting, library facilities, catering, financial administration and building accommodation. The JPS is administered by the Joint Parliamentary Service Committee, comprising the Speaker and two Members of the House of Assembly and the President and two Members of the Legislative Council.

Scope of audit

Our audit program covered major financial systems to obtain sufficient evidence to form an opinion on the financial reports.

Specific areas of audit attention in 2016-17 included:

- Members' salaries and allowances
- employees' salaries
- accounts payable and procurement
- general ledger
- asset register.

Audit findings and comments

Auditor's report on the financial reports

Joint Parliamentary Service

The following is an extract of the Auditor-General's Independent Auditor's Report, which expresses a disclaimer opinion over the financial report of the JPS.

> ***Disclaimer of opinion***
>
> *I do not express an opinion on the accompanying financial report. Because of the significance of the matters described in the Basis for disclaimer of opinion section of my report, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.*

Basis for disclaimer of opinion

The Members of the Joint Parliamentary Service Committee are responsible for the management of the Joint Parliamentary Service. The Members have not provided unrestricted access to the minutes of their meetings. As a result, I cannot assess whether matters deliberated and decided by the Members that have financial consequences have been recognised or disclosed in the financial report.

The Members of the Joint Parliamentary Service Committee are responsible for the control and management of the dining and refreshment services of Parliament House. Certain income from the provision of these services and associated expenditure has been omitted from the financial report. As the Members have not provided access to this financial information, I am unable to determine the effect of the omission on the financial report.

We also issued a disclaimer on the JPS's general purpose financial statements in 2015-16. Our disclaimer results from a limitation of scope of audit (granting of access to service records, including catering records) and the limitation in the completeness of disclosures in the financial report relating to the dining and refreshment services of Parliament House.

Our inability to perform a complete audit of the functions and financial activity of the JPS as a result of this restriction was again raised during the audit. We have been advised that there is no change in the Committee's position of not providing us access to the Committee's minutes of meetings and to the records and accounts relating to the catering division trading account activities.

In our opinion, the financial accountability and auditability of the JPS falls short of that adopted and applied to the public accounts and the financial operations and accounts of public authorities.

Communication of audit matters

The audit did not identify any notable matters requiring formal communication.

Interpretation and analysis of the financial reports

Highlights of the financial reports

House of Assembly

	2017 $'million	2016 $'million
Expenses		
Employee benefits	2.6	2.7
Members' salaries and allowances	10.3	9.5
Other expenses	2.1	2.9
Total expenses	15.0	15.1
Revenues from SA Government	15.2	15.1
Net result	0.2	-
Total assets	3.9	3.7
Total liabilities	1.7	1.6

Legislative Council

	2017 $'million	2016 $'million
Expenses		
Employee benefits	2.1	2.2
Members' salaries and allowances	5.4	5.0
Other expenses	1.8	1.9
Total expenses	9.3	9.1
Revenues from SA Government	9.5	9.0
Net result	0.2	(0.1)
Total assets	3.0	2.8
Total liabilities	2.0	2.0

Joint Parliamentary Service

	2017 $'million	2016 $'million
Expenses		
Employee benefits	6.0	6.5
Other expenses	5.0	16.2
Total expenses	11.0	22.7
Total income	0.7	0.6
Net cost of services	10.3	22.1
Revenues from SA Government	11.5	11.0
Net result	1.2	(11.1)
Total assets	81.9	81.0
Total liabilities	3.0	3.3

House of Assembly

The increase in Members' salaries and allowances of $800 000 reflects the full year effect of changes introduced from 1 January 2016, which replaced certain travel benefits and fees to ordinary members on Parliamentary committees with a common allowance to all members of $30 294 p.a. A Shadow Minister's allowance was also introduced from 1 January 2016.

Only the salaries and allowances of Members who are not Ministers are recorded in the House of Assembly's financial report. Ministers' salaries and allowances are paid for and recorded in the relevant Department's financial report.

Legislative Council

The balances presented in the financial report of the Legislative Council remained relatively stable compared to the previous year, with only a marginal increase in total expenses.

Joint Parliamentary Service

The highlights of the financial report and the detailed financial report for the JPS need to be viewed in the context of the Disclaimer of Opinion that has been issued on the financial report.

The $11.2 million decrease in other expenses reflects that an asset revaluation occurred in 2015-16 and a revaluation decrement of $11.1 million was recognised as an expense for that year. No revaluation occurred in 2016-17.

Libraries Board of South Australia (Libraries Board)

Financial statistics	Net cost of providing services:	$35 million
	Revenues from SA Government:	$34 million
	Subsidies to public libraries:	$11 million
	Staff benefit expenses:	$14 million
	Research and heritage collections:	$142 million
	Property, plant and equipment:	$61 million
	Number of FTEs:	134

Significant events and transactions

In December 2016 a new system was installed for public libraries to place orders for library resources. The Blue Cloud Acquisition system replaced P2, which was decommissioned in March 2017.

Financial report opinion

Unmodified

Financial controls opinion

Modified

Key issues:

- Delegations for approving Public Library Service expenditure had not been approved by the Libraries Board
- Expenditure delegations not reflected in the Sierra ordering system
- Lack of segregation of duties between the ordering and approving functions in Sierra

Functional responsibility

The Libraries Board is established under the *Libraries Act 1982* and is responsible for administering the State Library of South Australia (SLSA) and Public Library Services (PLS). For details of the Libraries Board's functions refer note 1 of the financial report.

Scope of audit

The audit program covered major financial systems and was directed primarily to obtaining sufficient evidence to enable an opinion to be formed on the financial report and internal controls.

Specific areas of audit attention in 2016-17 included:

- payroll
- accounts payable
- subsidies expense
- revenue and cash
- general ledger
- fixed assets
- governance and financial compliance.

Audit findings and comments

Assessment of controls

In my opinion, the controls exercised by the Libraries Board of South Australia in relation to the receipt, expenditure and investment of money, the acquisition and disposal of property and the incurring of liabilities, except for all matters outlined under 'Communication of audit matters', are sufficient to provide reasonable assurance that the financial transactions of the Libraries Board of South Australia have been conducted properly and in accordance with law.

Communication of audit matters

Matters identified by the audit were detailed in a management letter to the Director of the State Library. The main matters raised and related responses are detailed below.

Delegations for approving PLS expenditure not approved

The delegations giving PLS staff and the Executive Director of Arts South Australia authority to approve PLS expenditure had not been approved by the Libraries Board. While PLS delegations had previously been approved by the Board, they had not been approved at Board level following the change in the employing authority to the Chief Executive of the Department of State Development on 1 July 2014.

While payments were being approved in line with delegations, the delegations for PLS expenditure had not been approved by the Libraries Board as required by the *Libraries Act 1982.*

The Libraries Board responded that it would submit delegations for its staff and Department of State Development (including relevant Arts South Australia) staff to the Board for approval.

Expenditure delegations not reflected in the Sierra ordering system

Sierra is a system used by SLSA staff to create, approve and receive library material orders.

Individual users' expenditure delegations are not reflected in the system, meaning there is no system restriction on their ability to approve orders. The expenditure delegations that staff hold outside of the system differ between staff members, reflecting expectations that higher level expenditure can only be approved by a limited number of people.

We noted there were no other controls to prevent officers from incurring expenditure above their delegation when processing orders in Sierra. Our testing also identified an instance where an officer had purchased an item for an amount that exceeded their delegation.

Where systems do not restrict the ability of staff to order and approve items within their own delegations, there is a risk that inappropriately authorised expenditure can occur, leading to potential financial losses for the Libraries Board.

The Libraries Board responded that a system solution was not currently available. Instead, a manual control would be implemented and orders manually approved before being sent to suppliers.

Lack of segregation of duties between the ordering and approving functions in Sierra

Our review identified four staff who could create and approve orders. We also identified that one of these staff could receive orders and was responsible for Sierra access permissions. We noted that segregation of duties requirements for Sierra were not covered by a policy or procedure.

A lack of segregation of duties leads to a risk of misappropriation of goods and financial loss to the Libraries Board.

The Libraries Board indicated that SLSA would implement further segregation of duties and document this in a procedure.

Shared Services SA – financial systems and transaction processing environments

SSSA processes financial transactions on behalf of the Libraries Board under service level determinations. The main systems and control environments include accounts payable, payroll and general ledger financial functions.

Our review and evaluation of controls for these systems concluded that controls were effective for 2016-17.

SSSA is discussed further as part of the commentary under 'Department of the Premier and Cabinet' in this Report.

Interpretation and analysis of the financial report

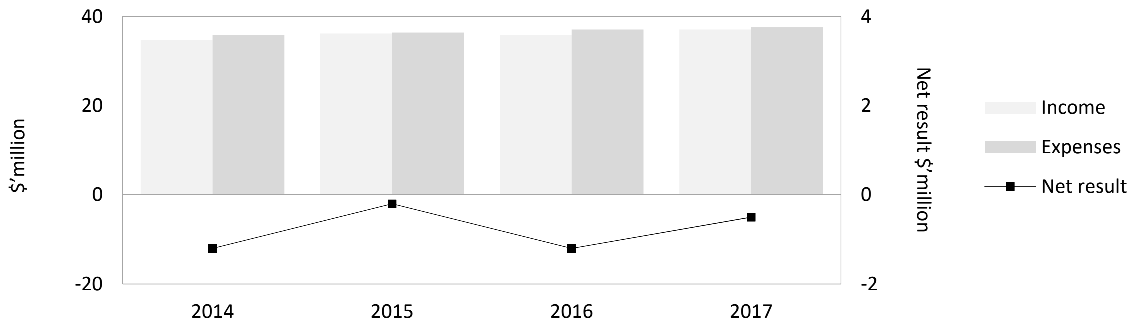
Highlights of the financial report

	2017 $'million	2016 $'million
Expenses		
Staff benefits	14	13
Subsidies to public libraries	11	11
Other expenses	13	13
Total expenses	38	37
Income		
State Government grants	34	33
Other income	3	3
Total income	37	36
Net cost of providing services	(1)	(1)
Other comprehensive income	-	29
Total comprehensive result	(1)	28
Net cash provided by (used in) operating activities	2	-
Net cash provided by (used in) investing activities	-	(1)
Assets		
Current assets	9	7
Non-current assets	211	213
Total assets	220	220
Liabilities		
Current liabilities	3	2
Non-current liabilities	3	3
Total liabilities	6	5
Total equity	214	215

Statement of Comprehensive Income

Net result

The following chart shows the income, expenses and net result for the four years to 2017.



The chart shows that the level of activity has remained consistent over the four-year period.

The main expenses are staff benefits of $13.6 million ($13.1 million) and subsidies to public libraries of $10.6 million ($11.2 million). These expenses have remained relatively stable over the past four years.

The Libraries Board is dependent on revenues from the SA Government which amounted to $34.4 million ($33.1 million) and represent 93% (92%) of total income.

Statement of Financial Position

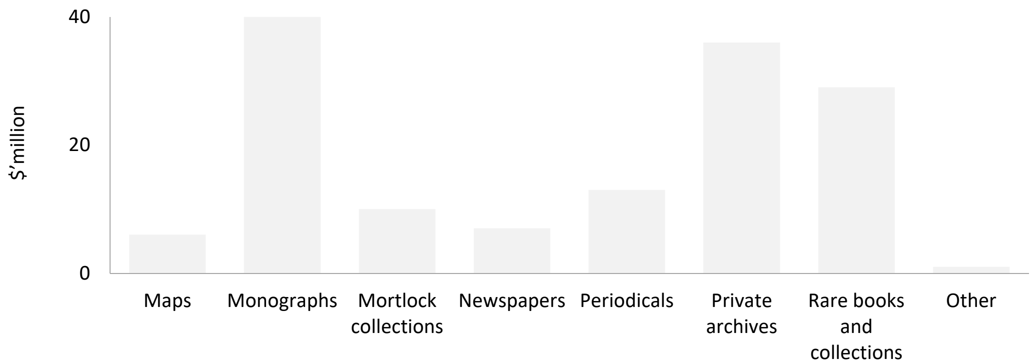
Current assets

The Libraries Board's main current asset is cash deposits with the Treasurer of $7.9 million ($5.3 million), representing 84% (80%) of current assets.

Non-current assets

Total non-current assets of the Libraries Board amounted to $211 million ($213.4 million) comprising mainly research and heritage collections of $142 million ($141.7 million) and land, buildings and improvements of $58.7 million ($60.5 million).

Research and heritage collection assets were revalued in 2016 resulting in an increase of $29.2 million. The chart below shows the values of the different categories within the research and heritage collections in 2017.



Lifetime Support Authority of South Australia (LSA)

Financial statistics	Provision for future costs of current participants:	$306 million
	Lifetime Support Scheme Fund levy net of duty:	$134 million
	Investments:	$441 million
	Net assets:	$157 million
	Number of FTEs:	27.4
	Number of interim participants as at 30 June:	81
	Number of lifetime participants as at 30 June:	32

Significant events and transactions

- The provision for the future cost of caring for current participants increased by $103 million to $306 million.
- The total number of participants increased from 76 in 2015-16 to 113 in 2016-17.
- The LSA made an operating surplus of $67 million and has net assets totalling $157 million, meaning the Lifetime Support Scheme remains fully funded at 30 June 2017.

Financial report opinion

Unmodified

An emphasis of matter was included in the financial report opinion relating to significant inherent uncertainty surrounding the estimate of the provision for participants' treatment, care and support services because of the long-term nature of the provision and limited participants' experience to date.

Financial controls opinion

Unmodified

Functional responsibility

The LSA is established under the *Motor Vehicle Accidents (Lifetime Support Scheme) Act 2013* (the LSS Act).

The LSA 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 for the Scheme expenses are collected by the Registrar of Motor Vehicles and paid into the LSS Fund. The LSA invests the levies with the Superannuation Funds Management Corporation of South Australia (Funds SA) until needed to pay for participants' treatment, care and support and other costs of operating the Scheme.

Scope of audit

The 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 2016-17 included:

- processes for determining applications from people injured in motor vehicle accidents
- procurement of service providers
- payment for service providers according to service plans tailored to the needs of each participant
- salaries and other administrative expenses
- investments
- service level agreements with other SA Government agencies.

Internal audit activities were considered in planning and conducting the audit.

Audit findings and comments

Auditor's report on the financial report

The following is an extract from the Independent Auditor's Report issued for the LSA's 2016-17 financial report, which is unmodified but notes a significant inherent uncertainty relating to the provision for participants' treatment, care and support services.

> ***Opinion***
>
> *In my opinion, the accompanying financial report gives a true and fair view of the financial position of the Lifetime Support Authority of South Australia as at 30 June 2017, its financial performance and its cash flows for the year then ended in accordance with the Treasurer's Instructions promulgated under the provisions of the* Public Finance and Audit Act 1987 *and Australian Accounting Standards.*

Significant inherent uncertainty – provision for participants' treatment, care and support services

Without qualification to the opinion expressed above, attention is drawn to notes 2.11 and 20 of the financial report. There is significant inherent uncertainty surrounding the estimate of the provision for participants' treatment, care and support services because of the long-term nature of the provision and limited participants' experience to date. This uncertainty will remain until sufficient participants' experience is available.

Communication of audit matters

Our audit did not identify any matters that required formal communication to the LSA.

Shared Services SA – financial systems and transaction processing environments

Shared Services SA processes financial transactions on behalf of the LSA under service level determinations. The main systems and control environments include accounts payable, payroll and general ledger financial functions.

Our review and evaluation of controls for these systems concluded that controls were effective for 2016-17.

Shared Services SA is discussed further as part of the commentary under 'Department of the Premier and Cabinet' in this Report.

Interpretation and analysis of the financial report

Highlights of the financial report

	2017 $'million	2016 $'million
Expenses		
Participant treatment, care and support expenses	114	118
Duty on LSS Fund levy	15	14
Other	9	8
Total expenses	138	140
Income		
LSS Fund levy	149	145
Investment revenue	33	9
Other	23	1
Total income	205	155
Net result from operating activities	67	15
Total comprehensive result	67	15
Net cash provided by operating activities	116	117
Net cash used in investing activities	116	118

	2017 $'million	2016 $'million
Assets		
Current assets	3	3
Non-current assets	465	294
Total assets	468	297
Liabilities		
Current liabilities	28	12
Non-current liabilities	283	195
Total liabilities	311	207
Total equity	157	90

Statement of Comprehensive Income

This is the fourth year of operation of the LSA and the third year of the LSS. The level of financial activity of the LSA rose as more participants entered the Scheme and the investment base increased.

Net result

The LSA achieved a surplus of $67 million, meaning the levy set for 2016-17 was sufficient to meet Scheme expenses for the year. Actual outcomes during 2016-17 were better than estimated in the following areas:

- the LSS Fund levy received was $3.1 million over the $145.8 million estimate
- actual LSS costs were $8 million below the $145.8 million estimate.

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 participants' treatment, care and support services determined at the end of the year. Both the levy and the provision are determined using reports prepared by an independent actuary appointed by the LSA (refer to commentary under 'Liabilities' and 'Required fund contribution' below).

The net result was also impacted by investment revenues of $32.8 million ($9.5 million) and reinsurance recoveries of $22.5 million ($1 million).

Expenses

The LSA's expenses of $137.8 million ($140.5 million) comprised:

- $113.5 million ($117.8 million) for participant treatment, care and support expenses, of which $102.8 million was the increase in the estimate of future expenses for participants injured in motor vehicle accidents up to 30 June 2017

- $14.8 million ($14.4 million) paid to the SA Government for the 11% duty on the LSS Fund levy payable under the *Stamp Duties Act 1923*

- $3.2 million ($3.4 million) for brokerage fees and premiums paid to reinsurers who provide cover for significantly larger than expected liabilities for estimated future participant care costs

- $6.3 million ($4.9 million) for general operating expenses including $3.1 million ($2.6 million) for employee benefits, and $581 000 ($595 000) for research, education and programs.

Income

The LSA's income of $204.6 million ($155.5 million) mainly comprised:

- $149 million ($145 million) of LSS Fund levy on South Australian motor vehicle registrations. No GST is payable on the levy
- $32.8 million ($9.5 million) of investment revenue. The result reflected favourable investment markets. There were no changes in Fund strategy during the financial year
- $22.5 million included in other revenues for expected recoveries from reinsurance providers. These expected recoveries relate to estimated claims costs exceeding a specified level over the next three years and form part of the actuarial valuation of the provision for participants' treatment, care and support services.

Statement of Financial Position

The LSA's financial position depends significantly on the value of its investments exceeding the provision for participants' treatment, care and support services. The LSA's net assets increased by $66.9 million to $156.8 million and reflect the net result from operations discussed under 'Net result' above.

Assets

The LSA's assets of $468 million consist mainly of cash, investments and receivables. Receivables of $25.4 million ($2.9 million) relate mainly to recoveries from the LSA reinsurance program.

Investments

At 30 June 2017 the LSA had $441.1 million invested with Funds SA in line with the investment strategy approved by the LSA Board.

The LSA must maintain investments to fund its present and likely liabilities for participants' treatment, care and support services. The LSA 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 9.4% in 2016-17 compared to its target of 6.25%.

Liabilities

The LSA's liabilities of $311.5 million consist mainly of the provision for participants' treatment, care and support services.

Provision for participants' treatment, care and support services

The provision was estimated to be $305.8 million at 30 June 2017, a rise of $102.8 million.

The main reason for the increase was the rise in the number of participants during the year from 76 in 2015-16 to 113 in 2016-17. The inflation rate and investment return rate used in the actuarial calculation remained the same as in 2015-16. Other assumptions such as the weighted mean term (estimated length of claim) decreased only marginally over 2015-16. Refer note 20 of the financial report for further details.

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 2017, including claims incurred but not yet reported. The LSA Board approved the valuation prepared by the scheme actuary after also considering the report from the peer review actuary.

Information relating to the actuarial estimation is provided in notes 2.11 and 20 of the financial report.

Significant inherent uncertainty in the provision

The LSA's financial report refers to the significant inherent uncertainty surrounding the actuarial estimation and the sensitivities of the estimation to changes in key assumptions, and comments on the long-term nature of the liabilities and volatility around the number of participants and their injury severity. In estimating the liability at 30 June 2017, the actuary noted that the LSS is in its infancy and limited experience exists to assess the reasonableness of initial LSS costings. The actuary also noted that, due to the very long-term nature of the LSS, the actual experience in the short period since 1 July 2014 tells very little about the Scheme and is not sufficient, in isolation, to inform long-term future assumptions.

The independent actuary referred to the significant inherent uncertainty in the projected outcomes of future claim costs for long-term claims. The main areas of uncertainty identified were the:

- adequacy of benchmarks for defining the lifetime care and support needs of participants, including models of expected cash flows for an individual of a specific age with a specific injury
- future inflation levels for services, especially increases in attendant care hourly rates. Changes in best practice treatment also mean liabilities could increase significantly
- final stable severity for each participant's injury. The current assessment for each participant is at very early duration since injury.

The sensitivity analysis in note 20 of the 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 1% increase in the mortality improvement assumption can increase the provision by $10.6 million and a 1% increase in the long-term discount rate can reduce the provision by $47.5 million.

Note 20 of the financial report also indicates the time frame over which the LSA must manage claims. The uninflated, undiscounted weighted mean term is 20.9 years.

Independent reviewing actuary

The LSA had the actuarial estimate confirmed by an independent reviewing actuary, who noted that the valuation results were not unreasonable in the circumstances and early development of the Scheme.

Having an independent reviewing actuary is prudent given the long-term purpose of the Scheme and the critical role actuarial expertise has in setting the levy annually and estimating the outcome at the end of each year.

The Scheme is not an insurance scheme

The LSA determined the provision under AASB 137 'Provisions, Contingent Liabilities and Contingent Assets' and not AASB 1023 'General Insurance Contracts'. The latter is more prescriptive in the permitted choice of the rate of investment return (discount rate) to be adopted in deriving the present value of liabilities. It also requires risk margins to be added to the central estimate of the liability, increasing the liability. Consistent with similar interstate schemes, the LSA has not applied a risk margin to its central estimate.

Probability of sufficiency

As at 30 June 2017 the probability of sufficiency for the LSS was 78%. The LSA has increased its target minimum probability of sufficiency from 65% to 70% (the chance that the capital of the LSS is expected to be adequate to cover actual outcomes) through a solvency margin in excess of actuarial provisions.

Current liabilities

At 30 June 2017 current liabilities exceeded current assets by $25.5 million. The LSA is able to access funds from its Funds SA investments if required.

Required fund contribution

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 amounts estimated
- 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.

That determination is made in accordance with a report from an independent actuary engaged by the LSA after consulting the Treasurer. The LSA must report its determination to the Minister before the beginning of each financial year.

The Minister must, on receiving a report and taking into account such matters (including matters not covered by the report) as the Minister thinks fit, and after consulting the Treasurer, 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 Minister 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 eventually exceed assets causing the LSS to be under-funded.

Annual contribution and levy

The estimated levy of $145.8 million including duty was required to cover the costs of operating the Scheme in 2016-17 and probable liability at 30 June 2017.

The following table sets out the required fund contribution and levy for the past three years.

	2018	2017	2016
Required fund contribution:			
LSA recommended ($'million)	147.6	145.8	142.3
Minister approved	Yes	Yes	Yes
Average levy ($)	102.54	102.54	102.49
Average increase per vehicle over previous year ($)	-	0.05	3.99

The actuary's estimates used to set the 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 significantly on the estimates.

2017-18 levy

The estimated 2017-18 levy was based on an actuarial estimate at 31 December 2016.

Statement of Cash Flows

The Statement of Cash Flows reflects the investment of $115.3 million with Funds SA using the LSS Fund levy of $148.4 million. The LSA will use these investments to meet the costs of treatment, care and support services over the life of the Scheme participants.

Local Government Finance Authority of South Australia (LGFA)

Financial statistics	Net loans and advances:	$676 million
	Profit before income tax equivalents:	$5.1 million
	Income tax equivalents:	$1.5 million
	Bonus payments to councils and local government bodies:	$2 million
	General reserve:	$63.6 million
	Number of FTEs:	6.2
Financial report opinion	**Unmodified**	
Financial controls opinion	**Unmodified**	

Functional responsibility

The LGFA is established by the *Local Government Finance Authority Act 1983* (the LGFA Act). It is managed and administered by a Board of Trustees.

The main functions of the LGFA are to develop and implement borrowing and investment programs for the benefit of councils and prescribed local government bodies. For more information about the LGFA's functions refer note 1 of the financial report.

Liabilities incurred or assumed by the LGFA in line with the LGFA Act are guaranteed by the Treasurer under section 24(1) of the LGFA Act. For this the LGFA pays an annual guarantee fee to the Treasurer.

Scope of audit

The 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 2016-17 included:

- loans and advances
- deposits
- borrowings

- investments
- derivatives
- payroll
- general ledger.

To comply with Treasurer's Instruction 2 'Financial Management' and Treasurer's Instruction 28 'Financial Management Compliance Program' the LGFA engages an external party to execute a financial management compliance program (FMCP). The FMCP checks compliance with documented policies, procedures and internal controls.

The 2016-17 FMCP was considered and reviewed to help plan, conduct and assess specific areas of the review of the LGFA's operations.

Audit findings and comments

Communication of audit matters

Our audit did not identify any matters that required formal communication to the Chief Executive.

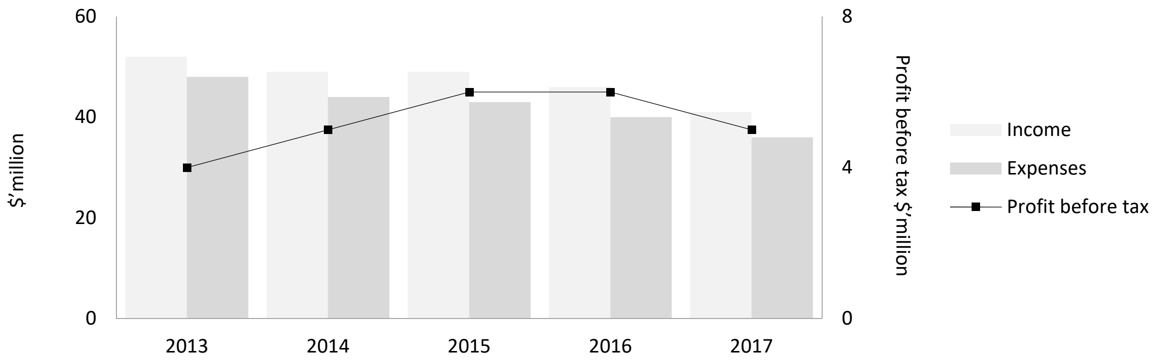
Interpretation and analysis of the financial report

Highlights of the financial report

	2017 $'million	2016 $'million
Income		
Interest and other income	41	46
Expenses		
Interest expense	32	36
Other expenses	4	4
Total expenses	36	40
Profit before income tax equivalents	5	6
Income tax equivalents	2	2
Total comprehensive result	3	4
Net cash provided by (used in) operating activities	4	5
Assets		
Net loans and advances	676	680
Other assets	34	47
Total assets	710	727
Liabilities		
Deposits and borrowings	613	612
Other liabilities	33	52
Total liabilities	646	664
Total equity	64	63

Statement of Comprehensive Income

The following chart shows income, expenses and profit before income tax expense for the five years to 2017.



Income

As the LGFA is a financial institution servicing local government, its main operating revenue is interest income, with other income being insignificant.

Interest income from loans and advances decreased by $4.6 million from the previous year mainly due to:

- a $1.5 million decrease in interest received from interest rate swap agreements due to lower average interest rates
- a $1.4 million decrease in cash advance interest due to lower average daily cash advances and interest rates
- a $1.1 million decrease as the previous year included income from the early repayment of fixed term debenture loans, which did not occur in 2016-17.

Interest income from investments increased by $110 000 to $1.3 million, primarily due to $120 000 of income from interest rate futures contracts that the LGFA entered into in 2016-17.

Expenses

The LGFA's main operating expense is interest expense, with other expenses being less significant.

Interest expense reduced by $3.9 million from the previous year mainly due to:

- a $2.4 million decrease in interest on borrowings as a result of:
  - a $1.2 million decrease in interest paid on interest rate swap agreements due to lower average interest rates
  - an $848 000 decrease as the previous year included a loss on interest rate swaps due to the early repayment of fixed term debenture loans, as previously discussed.
- a $1.5 million decrease in interest paid on deposits due to the impact of lower interest rates, offset by higher average daily deposits.

Profit before tax

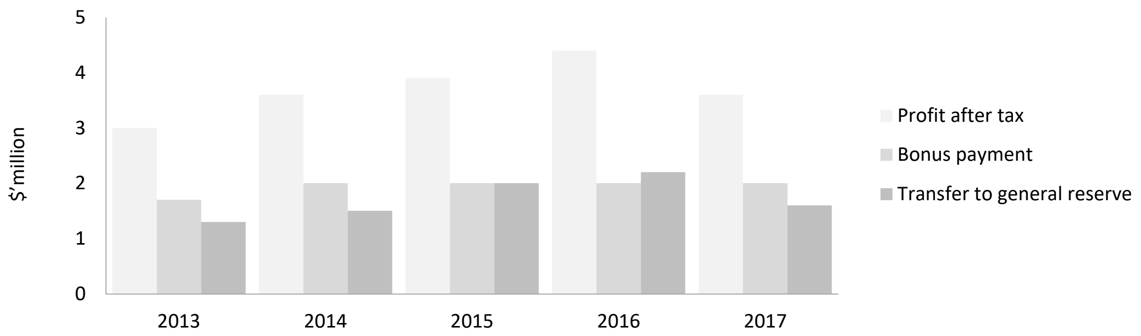
Profit before tax decreased by $1.1 million to $5.1 million. The reduction results from a $4.8 million decrease in income and a $3.7 million decrease in expenses, as previously discussed.

Tax equivalent payments

The LGFA is required to make payments equivalent to company income tax under the taxation equivalent payments system. The amounts are paid into an account established with the Treasurer titled 'Local Government Taxation Equivalents Fund'. The funds are available for local government development purposes as recommended by the Local Government Association of South Australia and agreed by the Minister for Finance under section 31A of the LGFA Act. For this financial year, the amount payable for income tax equivalent was $1.5 million.

Net profit and distributions

In 2017 the LGFA achieved a profit after tax of $3.6 million ($4.4 million), which was available for distribution or transfer to a general reserve. The profit and principal distributions for the past five years are presented in the following chart.



Under section 22(2) of the LGFA Act, the LGFA has discretion to make distributions from the surplus for the year to councils and local government bodies. These distributions are recorded as bonus payments in the financial report. In 2017 the LGFA provided $2 million ($2 million) for bonus payments.

The LGFA also transferred $1.6 million ($2.2 million) to a general reserve.

Statement of Financial Position

Assets and liabilities

The Statement of Financial Position shows net assets of $64.3 million ($62.7 million).

Total assets decreased by $17.5 million from the previous year, mainly due to:

- a $13.3 million decrease in investment securities
- a $4.1 million reduction in net loans and advances, comprising a decrease of $17.2 million in advances and a net movement in the fair value adjustment for certain hedged loan assets of $19.5 million, offset by a $32.7 million increase in term loans.

Total liabilities decreased by $19.1 million from the previous year, principally due to:

- a $78.2 million increase in deposits from customers, as the 2016-17 deposits included substantial financial assistance grants paid in advance to councils, which was not the case for 2015-16
- a $77.7 million decrease in borrowings due to more deposits being available for lending
- a $19 million decrease in derivatives, due mainly to a net movement in the fair value adjustment for derivative liabilities of $19.2 million.

Equity

Total equity of $64.3 million is predominantly the balance of the general reserve ($63.6 million). The general reserve, which increased by $1.6 million in 2017, has accumulated from profits earned by the LGFA. It was established by the LGFA to provide a strong financial position and a safeguard against the risk of future adverse conditions.

Asset quality

The LGFA primarily lends to councils and local government bodies on a secured basis. The security is by debentures providing a charge over the council's general revenue. Refer notes 2(g) and 23(c) of the financial report for more detail.

The LGFA has not experienced defaults or losses associated with these loans. Consequently there is no provision for doubtful debts against the assets.

Liabilities of the LGFA

The LGFA funds loans to customers through customer deposits, borrowings or from its own accumulated reserves.

To mitigate interest rate risk the LGFA hedges its interest rate exposures using interest rate swap agreements and futures contracts. Note 23(b)(i) of the financial report refers to the LGFA's interest rate risk management.

Cash advance facilities

In October 2016 the Treasurer approved a $500 million borrowing limit for the LGFA. The LGFA's borrowings at 30 June 2017 of $150.7 million are about $350 million below this approved limit.

The LGFA has approved cash advance facilities of $651.3 million with $192.7 million used by customers at 30 June 2017.

As a result the LGFA has approved total unused cash advance facilities of $458.6 million with councils and local government bodies. This is about $108 million greater than the LGFA's remaining borrowing capacity under the current limits established by the Treasurer.

The LGFA works with councils and local government bodies regularly to understand their borrowing needs in advance of their requirements and assesses the risk of drawing down the total unused cash advance facilities as remote.

Lotteries Commission of South Australia (LCSA)

Financial statistics	Sales revenue:	$450 million
	Prizes:	$272 million
	Master Agent fee:	$55 million
	Gambling tax:	$73 million
	Number of FTEs:	3.2
Significant events and transactions	A new lottery, Lucky Lotteries, commenced operation in March 2017.	
Financial report opinion	**Unmodified**	
Financial controls opinion	**Unmodified**	

Functional responsibility

The LCSA is a statutory authority established under the *State Lotteries Act 1966* (the Lotteries Act) with the principal function of promoting and conducting lotteries for South Australia. The LCSA is constituted of a Commissioner appointed by the Governor.

The LCSA, through its Master Agent (Tatts Lotteries SA Pty Ltd (Tatts)), administers and promotes the following lotteries in South Australia:

- Saturday X Lotto
- Keno
- Powerball
- Oz Lotto
- Monday and Wednesday X Lotto
- Instant Scratch-Its tickets
- Super 66
- The Pools
- Set for Life
- Lucky Lotteries.

The LCSA has entered Bloc arrangements with interstate lottery operators for all of its lotteries except Keno. Bloc arrangements allow the various lottery organisations throughout Australia to pool money to provide larger prizes to players. The licensing structure and operations of each operator remain independent and autonomous.

Appointment of Tatts as exclusive Master Agent of the LCSA

On 26 November 2012 the SA Government appointed Tatts as the exclusive Master Agent to operate the LCSA's brands and products for 40 years. The terms and conditions of the appointment and its ongoing operation are governed by a number of transaction documents.

As exclusive Master Agent, Tatts has responsibility:

- for selling entries into all lottery games operated by the LCSA and paying prizes associated with those entries
- to appoint retail agents
- to authorise the premises at which retail agents may sell tickets.

Tatts receives a Master Agent fee in line with the transaction documents. The basis for calculating this fee is outlined in note 7 of the financial report.

The LCSA has control of the Lotteries Fund established under section 16(1) of the Lotteries Act. As a result, the LCSA reports all activity through the Lotteries Fund in its financial report. The Lotteries Fund reflects all activity related to gambling operations.

The transaction documents require Tatts to hold and operate the Lotteries Fund for and on behalf of the LCSA.

The LCSA has an ongoing responsibility to monitor whether the Master Agent's operations comply with all applicable laws, regulations, codes of practice, contractual agreements and policies to ensure the LCSA complies with the Lotteries Act and the transaction documents. The LCSA must also maintain processes to ensure the effectiveness of Tatts' internal controls over the financial reporting of gambling activity and the Lotteries Fund.

Under the Master Agent agreement, Tatts must obtain the LCSA's approval before introducing a new game. The LCSA must not unreasonably delay or withhold this approval. In 2016-17 the LCSA approved Tatts introducing a new lottery – Lucky Lotteries.

Scope of audit

The 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 2016-17 included:

- transaction documents contract management arrangements
- information and communications technology
- gambling revenue
- prize payments
- general ledger.

Internal audit activities and reports were also reviewed to assess the risks of material misstatement in the financial report and to design and perform audit procedures.

Audit findings and comments

Communication of audit matters

No significant matters were identified by the audit.

Information and communications technology and control

On 7 April 2014 the TattsTech system was implemented to process all of its South Australian gambling transactions. It was internally developed by Tatts and is used in other Australian jurisdictions where Tatts has gambling operations.

In 2016-17 the LCSA's internal audit function reviewed the Tatts IT control environment and TattsTech system. We subsequently reviewed the internal audit report and performed a high level review of Tatts IT operations.

Our review indicated the overall control environment was effective. In particular, we noted Tatts has a formal security management regime based on internationally accepted security standards that is subject to ongoing independent review by an external party.

Interpretation and analysis of the financial report

Highlights of the financial report

	2017 $'million	2016 $'million
Expenses		
Master Agent fee	55	57
Supplies and services and employee benefits expenses	1	1
Total expenses	56	58
Income		
Sales revenue	450	464
Cost of sales	(395)	(407)
Total income	55	57
Net cost of providing services	1	1
Revenues from SA Government	1	-
Net result	-	(1)
Net cash provided by (used in) operating activities	6	1
Assets		
Current assets	59	54
Non-current assets	2	2
Total assets	61	56
Liabilities		
Current liabilities	40	38
Non-current liabilities	21	18
Total liabilities	61	56
Total equity	-	-

Statement of Comprehensive Income

Expenses

Total expenses decreased by $2.8 million to $55.7 million due mostly to:

- the Master Agent fee decreasing by $2.5 million to $54.6 million
- employee benefits expenses decreasing by $304 000 to $571 000, reflecting a decrease in the number of employees.

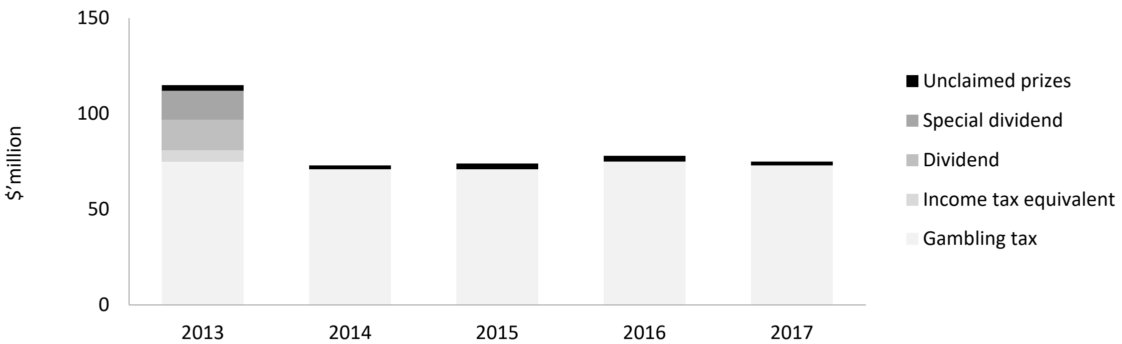
The Master Agent fee of $54.6 million is payable to Tatts as the LCSA's exclusive Master Agent for operating the LCSA's brands and products. The fee calculation is shown in note 7 of the financial report. The fee depends mostly on the value of net gambling revenue (ie gross sales less total prizes paid). The fee decreased in line with the decrease in net gambling revenue.

Distributions to government

The LCSA made payments to the SA Government in line with the requirements of the Lotteries Act, which are detailed in notes 2(j) and 15 of the financial report.

The amount provided for distribution to government decreased by $2.9 million to $75 million. The decrease comprises a $2 million decrease in gambling tax and an $868 000 decrease in unclaimed prizes. Gambling tax is calculated as 41% of net gambling revenue. The gambling tax decreased in line with the decrease in net gambling revenue.

The following chart details the distributions provided to government for the five years to 2017.



The chart highlights that, after the Master Agent arrangements with Tatts started on 11 December 2012, distributions to government have comprised only of gambling tax payments and paying 50% of unclaimed prizes.

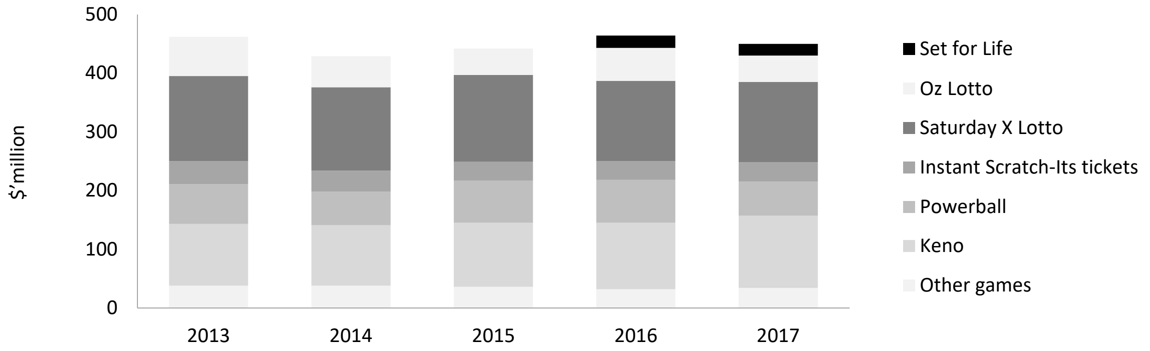
Income

Total income decreased by $2.5 million to $54.6 million due to a $13.8 million decrease in sales, partially offset by the resulting decrease in cost of sales of $11.3 million.

Sales revenue decreased following a $25.2 million decrease in sales for Oz Lotto and Powerball, while Keno sales increased by $9.9 million. Sales of $922 000 were generated from a new lottery, Lucky Lotteries, that commenced operation in March 2017. The decrease in sales impacts the cost of sales, with prizes paid decreasing by $7.5 million and gambling tax decreasing by $2.6 million.

Sales revenue

A structural analysis of sales revenue generated by the LCSA's lottery products in the five years to 2017 is presented in the following chart.



The games Saturday X Lotto (30%), Keno (27%), Powerball (13%) and Oz Lotto (10%) make up the largest proportion of sales. Sales activity for the various games is primarily driven by the frequency and amount of high value jackpots.

The following table sets out key changes in sales and jackpot activity and amounts between the current and prior year.

Game	Sales increase (decrease)	Key changes in jackpot activity
Keno	$9.9 million	Higher jackpot amounts
Powerball	($14.4 million)	One $55 million jackpot in 2017 compared to two $70 million jackpots in 2016
Oz Lotto	($10.8 million)	Two $40 million jackpots in 2017 compared to one $60 million jackpot and three $40 million jackpots in 2016

Revenue from SA Government

All gambling taxes and unclaimed prizes are distributed to the SA Government. To fund its operations the LCSA receives subsidies from the SA Government. In 2017 the LCSA received a subsidy of $777 000. No subsidies were received by the LCSA in 2016 as it had sufficient cash to fund its operations.

Statement of Financial Position

Assets

Total assets increased by $4.8 million to $61.1 million. The major items causing this change were as follows:

- Cash and cash equivalents increased by $6.1 million to $56.3 million due mostly to funds held by the Master Agent increasing by $6.3 million to $55.9 million. These funds represent the Lotteries Fund bank account which is managed by Tatts on behalf of the LCSA. Variations in the Lotteries Fund balance are primarily attributable to differences in the timing and amount of retail agent bank account sweeps, Bloc receipts and payments, and prize payments.

- Receivables decreased by $1.3 million to $4.7 million due mostly to a decrease in retail agent debtors of $1 million as a result of the timing of retail agent bank account sweeps. Lotteries sales revenues held in retail agent bank accounts are swept twice weekly into the Lotteries Fund bank account.

Liabilities

Total liabilities increased by $5.1 million to $61.1 million. The major items causing this change were as follows:

- Payables increased by $4.2 million to $30.5 million due primarily to an increase in non-current prizes payable of $4 million. This increase is due to a division 1 winner in South Australia for the Set for Life game. The prize payout for this game is $20 000 each month for 20 years. The non-current prizes payable for this game will increase each year as new winners receiving prize payouts over 20 years accumulate. Tatts holds the funds used to pay these winners. Interest on the funds is retained by Tatts under the Master Agent agreement.

- Other liabilities increased by $945 000 to $30.3 million due mostly to:

  - an increase in sales in advance of $785 000 due to sales increasing near financial year end as a result of high jackpots in early July 2017

  - an increase in prize reserves of $1.3 million to $15.5 million and a decrease in unclaimed prize reserves of $1.2 million to $11.7 million. This reflects unclaimed prizes and the timing of payments from reserves that are accumulated in line with the Lotteries Act and the Game Rules approved by the Minister.

Statement of Cash Flows

Net cash provided by operating activities increased by $5.3 million due to a decrease in receipts from customers of $9.6 million, offset by a $770 000 increase in the SA Government subsidy received and a net decrease of $14.1 million in payments for prizes, Master Agent fees, gambling tax, GST, suppliers and employees.

Motor Accident Commission (MAC)

Financial statistics	Outstanding claims liability:	$1197 million
	Other financial assets:	$1002 million
	Assets held for sale:	$565 million
	Net result:	$361 million
	Number of FTEs:	29

MAC Fund assets exceeded the targeted solvency level by $359 million (129% of the targeted level).

Significant events and transactions

- From 1 July 2016 MAC ceased its role as the provider of compulsory third party (CTP) insurance.
- MAC made a $688.2 million payment to the Highways Fund as a return of capital.
- The outstanding claims liability reduced by $515 million.
- MAC sold its investment property portfolio for $565.5 million with settlement occurring on 31 July 2017.
- MAC made a $105 million payment to distribute premiums collected for periods after 30 June 2016 to the four new private insurers and the CTP insurance regulator.
- From 1 January 2017 the nominal defendant function transferred from MAC to the CTP insurance regulator.

Financial report opinion: **Unmodified**

Financial controls opinion: **Unmodified**

Functional responsibility

MAC is established under the *Motor Accident Commission Act 1992* (the MAC Act).

The main functions of MAC are to promote road safety awareness and manage the run-off of claims against CTP insurance policies issued to motor vehicle users in South Australia before 1 July 2016.

MAC's responsibility to perform the functions of the nominal defendant transferred to the CTP insurance regulator (the CTP Regulator) from 1 January 2017.

Return of capital – payment to the Highways Fund

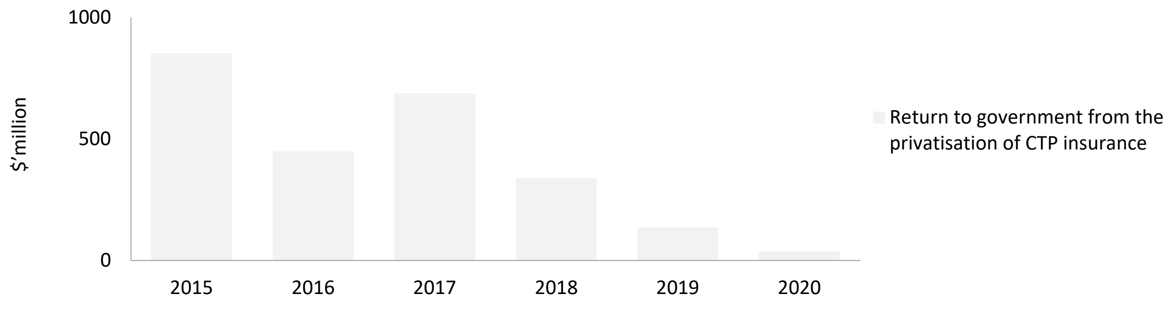
The 2014-15 State Budget identified that, after ceasing to be the sole provider of CTP insurance for South Australia, MAC would be able to return surplus net assets to the Highways Fund to improve road safety.

In June 2017 MAC paid $688.2 million ($448.5 million) to the Highways Fund. This payment was made out of the net assets in excess of the level required for sufficient solvency of the MAC Fund, according to a formula approved by the Treasurer.

The payment was consistent with section 26(2) of the MAC Act which provides for payments to the Treasurer, or as the Treasurer directs, to be made where a surplus exists in the MAC Fund. In this instance, consistent with the prior year, the Treasurer directed that the payment be made to the Highways Fund, which is administered by the Department of Planning, Transport and Infrastructure.

As the payment has been made from surplus net assets of MAC as directed by the Treasurer, the payment has been treated as a return of capital in the financial report and is recorded as reductions in MAC's assets and total equity. As such, this payment is not reflected in MAC's net result or total comprehensive result for 2016-17.

The following chart demonstrates the 2017-18 State Budget projection that a total of $2.5 billion will be returned to government by MAC from 2014-15 to 2019-20, reflecting an increase of $687 million since the 2016-17 State Budget. This includes the payments of $2 billion already made by MAC to the Highways Fund and a budgeted payment of $338.6 million in 2017-18.



Further capital returns are projected

MAC's solvency position provides a margin of $359.4 million more than the established sufficient solvency target at 30 June 2017. The projected return of a further $338.6 million, as outlined in the 2017-18 State Budget, will reduce this margin. This is expected to be offset by reductions in the outstanding claims actuarial estimate as claims continue to settle and there is greater certainty of the remaining liability.

It will be important for MAC to continue to focus on managing claims within the established estimates to maintain a margin above solvency, and to provide for further returns in future years.

Scope of audit

The audit program covered major financial systems and was directed primarily to obtaining sufficient evidence to form an opinion on the financial report and internal controls.

Specific areas of audit attention in 2016-17 included:

- investment assets
- investment income
- claim payments
- outstanding claims liability
- return of capital.

Audit findings and comments

Communication of audit matters

Our audit did not identify any matters that required formal communication to the Chief Executive.

Shared Services SA – financial systems and transaction processing environments

Shared Services SA processes financial transactions on behalf of MAC under service level determinations. The main systems and control environments include accounts payable, payroll and accounts receivable functions.

Our review and evaluation of controls for these systems concluded that controls were effective for 2016-17.

Shared Services SA is discussed further as part of the commentary under ‘Department of the Premier and Cabinet’ in this Report.

Interpretation and analysis of the financial report

Highlights of MAC’s consolidated financial report

	2017 $’million	2016 $’million
Underwriting result		
Net premium	-	455
Net claims	259	(142)
Underwriting expenses	(47)	(108)
Contributions	-	(12)
Underwriting profit (loss)	212	193

	2017 $'million	2016 $'million
Investment result		
Net investment revenue	52	41
Investment market value movements	97	79
Revenue from investment activities	149	120
Total comprehensive result	361	313
Net cash inflows (outflows) from operating activities	668	302
Assets		
Current assets	787	1 050
Non-current assets	804	1 488
Total assets	1 591	2 538
Liabilities		
Current liabilities	369	460
Non-current liabilities	861	1 390
Total liabilities	1 230	1 850
Equity	361	688

Significant transactions in MAC's financial report from its changing role

The impact of changes to MAC's role and functions from that of a traditional insurer to a focused role to promote road safety and manage the claims run-off process has effectively resulted in a number of significant transactions in MAC's 2016-17 financial report.

Return of capital

In June 2017 MAC paid $688.2 million ($448.5 million) to the Highways Fund. The payment has been treated as a return of capital in the financial report and is recorded as reductions in MAC's assets and total equity. For further information about this payment refer to 'Return of capital – payment to the Highways Fund' above.

Assets held for sale

MAC's property portfolio was offered for sale through an expression of interest in 2015-16, with these properties classified as assets held for sale.

On 6 July 2017, following Cabinet approval, the Minister for Finance directed MAC, under section 5(3) of the MAC Act, to approve the sale of its property portfolio for $565.5 million. The sale was finalised on 31 July 2017, with the sale price reflected as the fair value of the assets held for sale at 30 June 2017. The sale price represents a $22.4 million decrease in the value of these assets from their previous independent valuations as at 30 June 2016.

The property portfolio was sold because of the need for the MAC Fund to have greater liquidity during the claims run-off process. MAC's revised role requires a transition to a higher proportion of defensive assets in its investment portfolio, to protect capital, while achieving a portfolio of investments with characteristics that are sufficiently liquid to allow MAC to meet identifiable claims as and when they are due.

Premiums held for other entities

Premium income of $120.1 million received by MAC but not yet earned, as premiums were for the period after 30 June 2016, was recognised as a liability for premiums held for other entities at 30 June 2016. This amount was payable to the Department of Treasury and Finance, for subsequent payment to four private insurers and the CTP Regulator.

In July 2016 the Minister for Finance directed MAC, under section 5(3) of the MAC Act, to pay $105 million to the Department of Treasury and Finance for distribution to these entities in line with section 25(5)(a) of the MAC Act. It is anticipated that the $15 million balance of this liability will be subject to future directions from the Minister.

Road safety funding

In July 2016 MAC entered into a funding arrangement with the CTP Regulator. Funding of $13.5 million was provided to MAC in 2016-17 to continue to perform its road safety functions. These activities were previously funded from MAC's premium revenues but are now specifically funded through the CTP Regulator as a component of CTP premiums. As required by MAC's charter, transactions related to road safety activities are maintained by MAC in a separately established Road Safety Fund.

Solvency level is above the target level

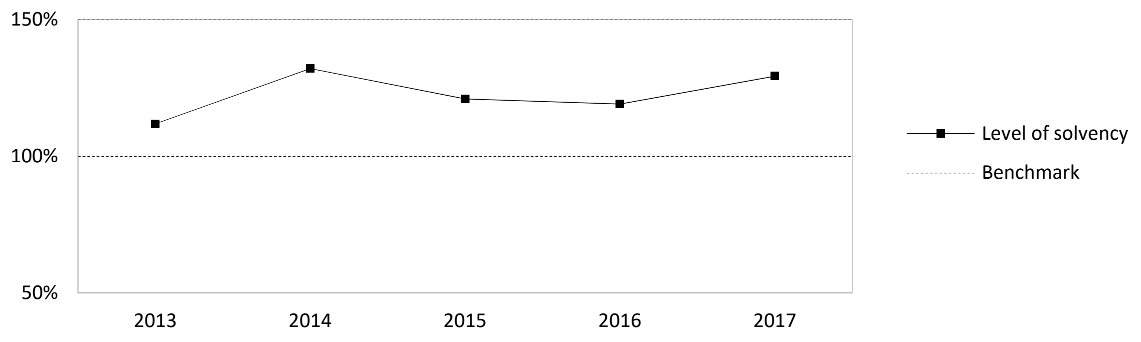
Section 13A of the MAC Act requires MAC to seek to achieve and maintain a sufficient level of solvency for the MAC Fund using a formula determined by the Treasurer.

A revised formula was issued by the Treasurer in December 2016. It specifies that the MAC Fund will have a sufficient level of solvency if its assets exceed its liabilities. The previous formula required additional amounts to be included on top of total liabilities, in part reflecting the risks associated with ongoing insurance provision, which ceased from 1 July 2016. Full details of the current and previous calculations are included in note 26 of MAC's financial report.

As at 30 June 2017 the target level of assets, determined by applying the revised formula, was $1228.2 million. The assets of the MAC Fund as at that date were $1587.7 million, $359.4 million above the target level. This equates to 129.3% (119.1%) of the targeted solvency level.

MAC's increased level of solvency in 2017 is principally due to the formula changing. In approving the revised formula, the Treasurer noted that a number of factors, including recent favourable claims experience in the run-off period and MAC's liabilities being guaranteed by the Treasurer under section 21 of the MAC Act, were considered in reducing the targeted level of assets required.

The following chart shows the level of solvency achieved over the past five years.



As discussed above, the level of solvency has increased importance given MAC has ceased writing new CTP policies and is now running off existing claims. Any shortfalls or deterioration in claims experience cannot be met by future premiums.

Outstanding claims liability

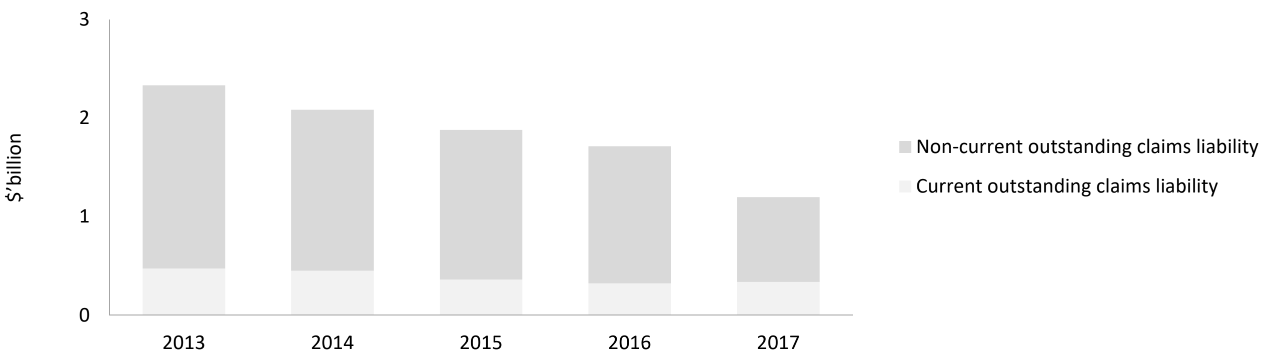
MAC's primary liability is for outstanding claims. The liability covers claims reported but not yet paid, claims incurred but not yet reported, the anticipated direct and indirect costs of settling those claims and estimated reinsurance and other insurance costs.

Calculating the liability is an estimation process and a range of factors, including economic assumptions, affect the calculation. As a result, professional actuaries need to perform the calculation and, for reporting purposes, detailed disclosure of a range of the assumptions made in the calculation needs to be included in the notes of the financial report.

The liability is calculated and reviewed by independent actuaries for MAC. For 2016-17 MAC's primary independent actuary was Finity Consulting Pty Ltd (Finity), consistent with the prior year. Details of the actuary's calculations are provided in notes 2(e) and 17 of the financial report.

In 2017 the liability decreased by $515 million ($166 million decrease) to $1.2 billion.

The following chart shows the outstanding claims liability for the five years to 2017.



Factors considered by the actuary that impact the estimate of amounts required to settle claims include the:

- number of claims incurred
- length of time taken to settle the claim
- average amount of claim payments
- 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 Finity.

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 note 17 of the financial report. Some of these are shown in the table below.

	Impact on provision %	Financial impact $'million
Average size of large claims increased by 33% (old scheme)	7.1	84.9
Number of claims involving a settlement decreases by 15% (new scheme)	(6.8)	(81.6)
Discount rate increased from 2.25% to 2.75% p.a.	(1.4)	(16.4)

The risk margin achieves 80% probability the provision is adequate

Also impacting on the outstanding claims liability calculation are the solvency requirements determined by the Treasurer under the MAC Act that require a risk margin to be included in the provision to achieve an 80% probability that the provision is adequate. This requirement exceeds the Australian Prudential Regulation Authority's nominated target of 75% probability of sufficiency, as set out in Prudential Standard GPS 320 'Actuarial and Related Matters'.

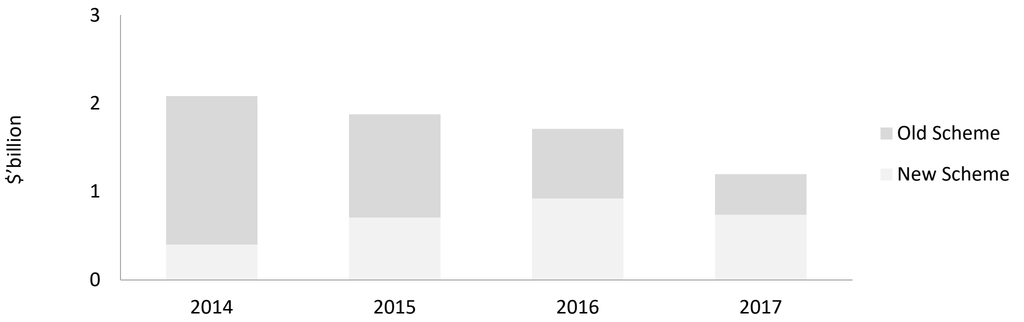
$515 million reduction in the outstanding claims liability

The $515 million decrease in the liability at 30 June 2017 was predominantly due to payments totalling $255 million made to settle claims during 2016-17 and changes to a range of assumptions in the actuarial calculations, particularly:

- a $94 million reduction for new scheme claims from assuming fewer settlements, partially offset by increased average settlement sizes
- a further $75 million reduction from favourable development (reductions) on case estimates, mostly for old scheme claims, and the release of the allowance for superimposed inflation following favourable (reduced) average claim size experience
- revisions to the large claim case estimates as MAC has a history of settling large claims for amounts materially less than case estimates two or more years before settlement, resulting in a $38 million reduction
- decreases in the allowance for the future number of claims that will settle for large amounts, which reduced the liability by $37 million in line with favourable claims experience
- changes in economic assumptions that resulted in a further $20 million reduction due to an increase in the discount rate from 1.8% to 2.25%.

Finity also reviewed the risk margins they had adopted for previous valuations given the scheme has entered run-off mode. This resulted in a decrease in the risk margin for the old scheme, reflecting a more stable legal environment and claims management process. The risk margin for new scheme claims increased in response to differences between the actual and expected experience of the new scheme and the potential for external factors to influence new scheme performance. Overall the changes to the risk margins increased the provision by $17 million.

In calculating the outstanding claims, Finity has also taken into account the increasing proportion of outstanding claims that relate to the new scheme – CTP claims from 1 July 2013 as shown in the chart below.



As at 30 June 2017, CTP claims under the new scheme represent 62% (54%) 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 experience to date.

While the higher proportion of new scheme claims has a role in the reduction of 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 compared to the risk margin applied to the older claims, increasing the estimated liability when calculating the outstanding claims liability.

The claim estimate process is externally peer reviewed

As was the case in 2016, in 2017 the claims liability calculation was subject to external peer review by Taylor Fry Consulting Actuaries. The independent reviewing actuary reported that:

- nothing had come to their attention that would lead them to believe that the actuarial assessment conducted by Finity was unreasonable
- while the 2017 actuarial assessment conducted by Finity had considerably reduced the outstanding claims liability the reduction was based on recent claims experience and did not appear unreasonable
- the valuation provides a balance between optimistic and cautious assumptions and therefore represents a reasonable central estimate, noting that if the 2016-17 claims experience continues the estimated liabilities may turn out to be conservative
- the adopted average claims sizes for larger claims appear reasonable, however there is considerable uncertainty surrounding the impact of the new scheme and the (separate) lifetime support scheme
- there is an adequate allowance in the risk margin to capture the impact of a small number of very large claims should the adopted average size not include sufficient allowance
- as claims run off in future years they would expect the risk margins to increase (in percentage terms) as total outstanding claim numbers reduce.

Estimated timing of the settlement of claims

The estimated timing of payments to settle claims as follows.

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	Later $'million	Total $'million
336.1	601.4	182.8	52.9	18.8	0.4	-	1 192.4

Statement of Comprehensive Income

MAC's financial performance is significantly influenced by two interrelated aspects of its business:

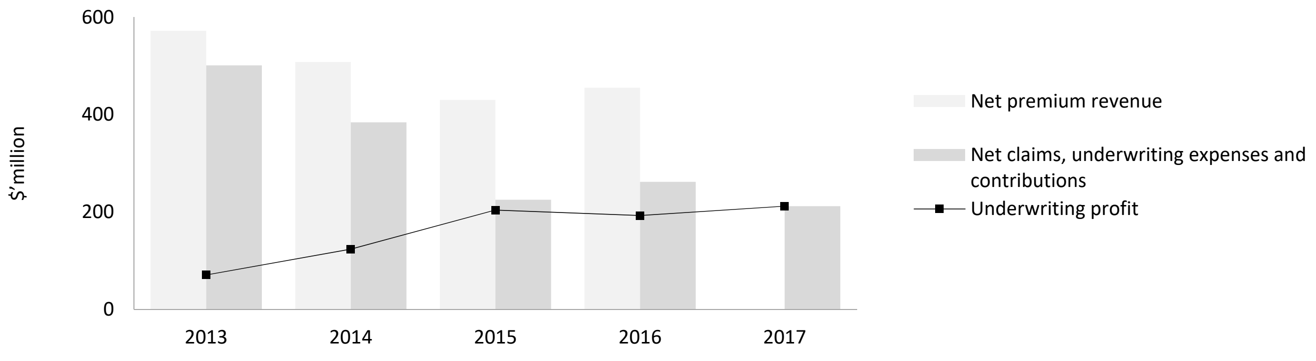
- Underwriting result – underwriting operations are influenced by the number of claims and the estimated costs of settling those claims, and, previously, the level of premium income. The underwriting result is determined as premium revenue less claims expense (after the cost and recoveries associated with reinsuring a portion of the insurance portfolio's risk with third parties), other underwriting costs and contributions.

- Investment result – investment operations are an integral part of any insurance business as the estimated return on invested funds is a significant component of the business strategy.

AASB 1023 'General Insurance Contracts' requires market value accounting to be adopted when valuing investments. This means that the investment result includes not only interest and related income received, but also changes in the market values of investments held at balance date. Changes in the market values of investments can be subject to wide fluctuations and it is important to emphasise that investment market value movements recognised in MAC's financial report are unrealised. That is, until the investments are sold, no gain or loss is actually received or incurred by MAC.

Underwriting result

An analysis of MAC's underwriting result for the five years to 2017 is presented in the following chart.



There was no premium income for 2017 as MAC ceased issuing new policies from 1 July 2016.

The underwriting result for 2017 was a profit of $212 million compared with a profit of $193 million in 2016.

The most significant contribution to the underwriting result in 2017 was the $400 million reduction in net claims expense, with a positive result of $259 million compared to a previous expense of $142 million. The reduction is a combination of actual claim payments and the movement in the outstanding claims liability. The $400 million reduction is mainly from:

- a $51 million decrease in gross claim payments to $255 million ($306 million)
- a $349 million decrease in the movement of the outstanding claims provision at 30 June 2017 compared to the equivalent movement in 2016, which is explained further under 'Outstanding claims liability' above.

Other underwriting expenses of $47 million are the other component of the underwriting result for 2017. There was a $77 million reduction in these costs this year due to MAC no longer paying fees associated with collecting premium revenue.

The 2016 underwriting result also included the impact of a $12 million contribution to SA Health for construction of the SA Ambulance Service Inc's MedSTAR facility at the Adelaide Airport, offset by the $16.1 million reversal of MAC's unexpired risk liability.

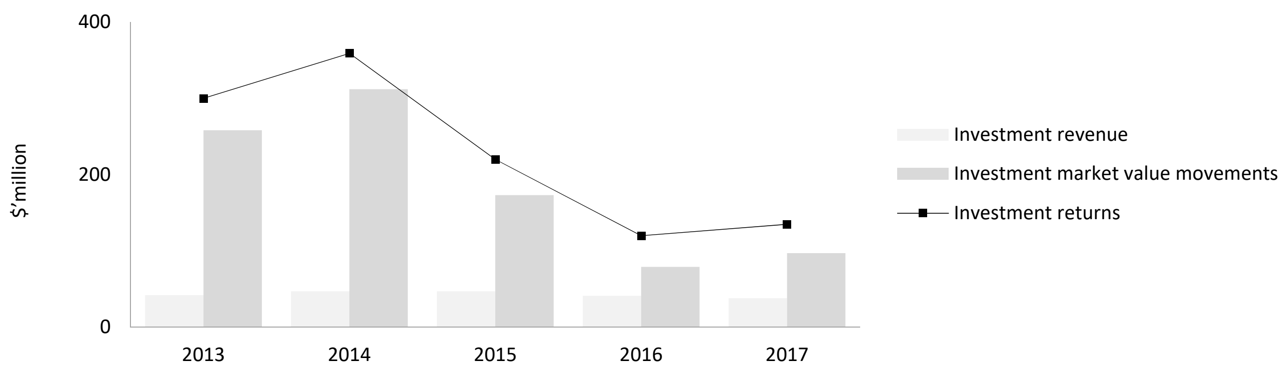
Investment result

MAC uses the Superannuation Funds Management Corporation of South Australia (Funds SA), the SA Government investment body, to manage most of its investment portfolio. MAC holds investments in unit trusts within Funds SA where the majority of income is derived through movements in the value of unit holdings rather than through direct receipt of interest and dividend income.

MAC's investment returns this financial year resulted in a surplus of $135 million compared with $120 million the previous year. The investment result is a combination of investment revenue and investment market value movements, offset by Funds SA management fees. Investment returns increased by $15 million due mainly to an $18 million increase in the market value movement for the year to $97 million.

MAC also received rental income from its investment properties. This income remained steady in 2017 at $45 million. As previously mentioned MAC's investment property portfolio was sold in July 2017.

An analysis of MAC's investment result for the five years to 2017 is shown in the following chart.



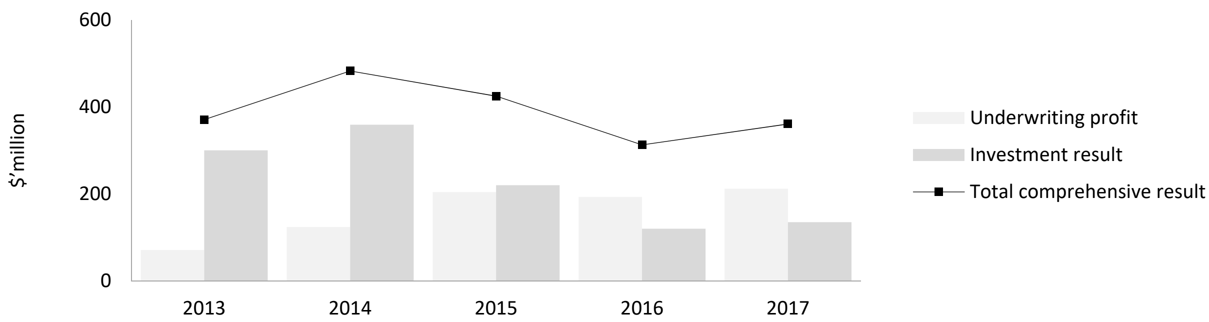
Note 20(6) of the financial report explains market risk and illustrates the effect of market movements. Examples of the impact of market risk are as follows:

	Movement %	Financial impact $'million
Interest rates	1.0	(19.6)
Australian equities	(5.0)	(3.9)
International equities	(5.0)	(4)

Total comprehensive result

MAC's total comprehensive result for 2017 was a profit of $361 million compared to a $313 million profit in the previous year. The $48 million increase is a result of a number of factors as previously mentioned.

The following chart provides a breakdown of the contribution of the underwriting and investment results to the total comprehensive result.

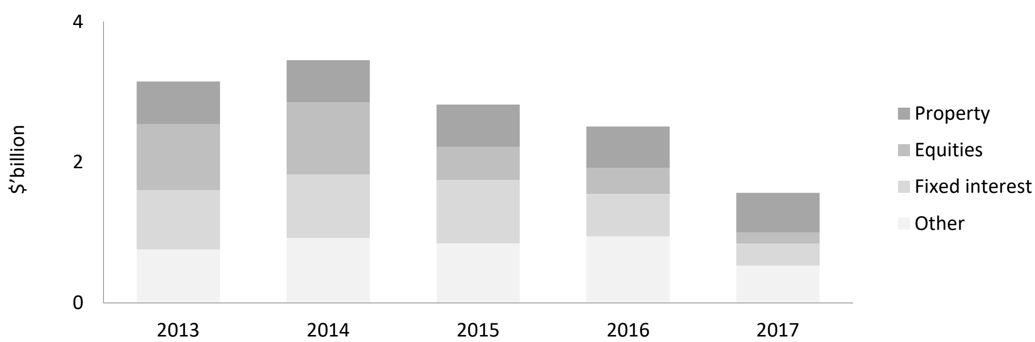


Statement of Financial Position

Investments

MAC does not directly hold investments such as equities but rather has interests in Funds SA's pooled investment portfolios. MAC is responsible for setting the investment objectives and strategic asset allocation for the various investment sectors. Funds SA is responsible for managing the investment portfolios in line with the agreed asset allocations and regularly reporting investment performance to MAC.

For the five years to 2017 a structural analysis of investment assets (excluding cash) is shown in the following chart.



The chart shows the steady decline in total investment assets, excluding cash, from a high of $3.5 billion in 2014 to $1.6 billion in 2017. The decrease of $942 million in 2017 was principally due to:

- the return of capital of $688.2 million
- a $105 million payment for distributions to four private insurers and the CTP Regulator
- claim payments of $255 million being primarily paid through the redemption of Funds SA investments (as there is no longer any premium income to offset these expenses).

The above movements are offset by investment market value increases totalling $97 million as discussed above.

MAC aims to increase the proportion of defensive assets

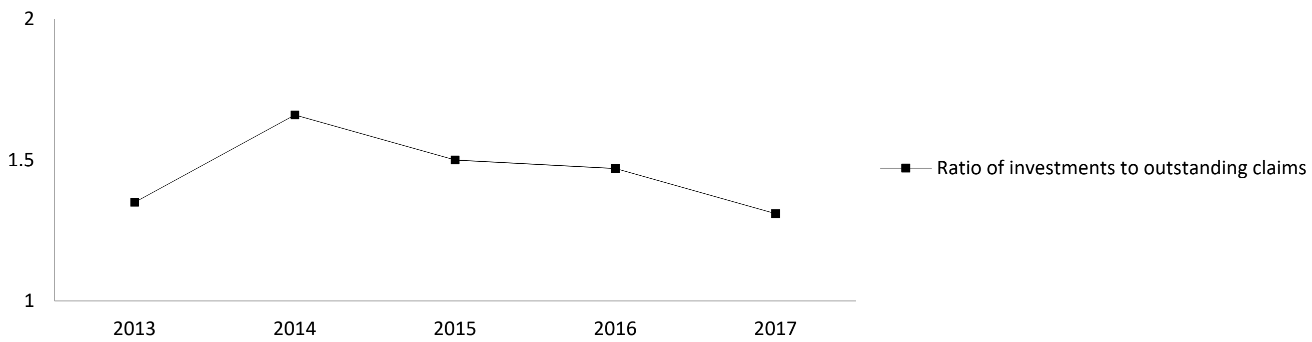
At 30 June 2017 the actual asset allocation of investments managed by Funds SA was a 55.4% allocation to growth assets and a 44.6% allocation to defensive assets.

In June 2017 the Treasurer approved MAC’s 2017-18 asset allocation, which has been revised to a 10% (20%) allocation to growth assets and 90% (80%) to defensive assets. The transition to the intended 90% exposure to defensive assets is expected to be achieved in 2017-18 following the recent sale of MAC’s investment property portfolio, as discussed above.

The move to an increased allocation to defensive assets reflects the need to carefully manage existing holdings while running down the outstanding claims.

Investments exceed estimated liability

The ratio of investments, excluding cash, to outstanding claims liability is shown in the following chart. The ratio shows that the value of MAC’s investments is sufficient to cover the value of its outstanding claims at 30 June 2017. The decrease in the ratio in 2017 reflects the $942 million decrease in the value of investments relative to the smaller $515 million reduction in outstanding claims liability. This further highlights the need to carefully manage existing holdings while running down the outstanding claims.



Statement of Cash Flows

MAC's cash position decreased by $20 million. This reduction was $127 million less than 2016 due to:

- a $367 million increase in net operating cash flows, resulting mainly from:
  - a $763 million increase in interest and other investment income (predominantly relating to the redemption of Funds SA investments to fund claim payments in 2017, the $688.2 million return of capital and the $105 million payment for distributions to four private insurance and the CTP Regulator)
  - offset by a $472 million reduction in cash receipts from CTP insurance premiums, as there was no premium income for 2017
- a $240 million increase in net cash flows used in financing activities, relating to the higher return of capital in 2017 compared to 2016.

Cash at 30 June 2017 includes deposits at call of $4 million.

Museum Board (Museum)

Financial statistics	Net cost of providing services:	$12.5 million
	Total revenues from SA Government:	$11.6 million
	Value of heritage collections:	$294 million
	Number of FTEs:	76
	Number of visitors:	772 705

Significant events and transactions

The Museum revalued its foreign archaeology collection as at 30 June 2017 resulting in a revaluation increment of $4.4 million.

Financial report opinion

Unmodified

Financial controls opinion

Modified

Key issues:

— Employee bona fide and leave reports not reviewed

— Service level agreement with the Department of State Development not signed

— No agreement in place for use of storage location

— Manually approved expenditure not adequately reviewed

Functional responsibility

The Museum is established by the *South Australian Museum Act 1976.* The main function of the Museum is to manage the South Australian Museum. For details of the Museum's functions refer note 1 of the financial report.

Scope of audit

The 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 2016-17 included:

- legal compliance
- compliance with Treasurer's Instructions
- Board and finance, audit and risk committee meeting minutes
- revenue
- expenditure
- payroll
- property, plant and equipment
- heritage collections
- cash and investments
- general ledger.

Audit findings and comments

Assessment of controls

In my opinion, the controls exercised by the Museum Board in relation to the receipt, expenditure and investment of money, the acquisition and disposal of property and the incurring of liabilities, except for all matters outlined under 'Communication of audit matters', are sufficient to provide reasonable assurance that the financial transactions of the Museum Board have been conducted properly and in accordance with law.

Communication of audit matters

Matters identified by the audit were detailed in a management letter to the Director of the Museum. The main matters raised and related responses are detailed below.

Governance and compliance

Incomplete service level agreement with the Department of State Development

Last year we recommended the Museum update and sign its Service Design and Operating Level Responsibilities document with the Department of State Development (DSD). This document defines the relationship between the parties and the services to be provided by DSD.

In May 2017, DSD provided an updated document to the Museum for its consideration and signing but at the time of our audit the Museum had not signed it.

An unsigned agreement can cause uncertainty as to each party's obligations, contributing to breakdowns in controls that are important to financial and other operating processes.

The Museum responded that it was working with DSD to resolve some inconsistencies in the document and it would continue to pursue a formally signed agreement.

Inadequate documentation supporting the financial management compliance program (FMCP)

We have previously reported and recommended that the Museum update its FMCP to ensure all documentation is complete and complies with the requirements of Treasurer's Instruction 28 'Financial Management Compliance Program' (TI 28). Of particular concern was the absence of a documented FMCP framework, policy and procedures.

Our 2016-17 review found that while the Museum had developed an overarching framework it did not have the policy and procedure documents required by TI 28. We recommended the Museum develop an FMCP policy and procedure documents that describe:

- how the FMCP will be implemented across the Museum
- who is responsible for the FMCP and its outcomes
- how it will address identified control breakdowns
- the need to report all relevant financial management compliance and governance matters to the Director.

Without a comprehensive FMCP the Museum may not identify and address breakdowns in financial controls and applicable financial management legislation.

The Museum responded that it had successfully undertaken an FMCP in 2016-17 and would complete associated policy and procedure documents by December 2017.

Expenditure

No current agreement in place for use of storage location

The Museum has an offsite storage location for some of its heritage collection. In recent years we reported that there was no agreement for the Museum's use of this storage location. Our follow-up in 2016-17 found that there is still no agreement in place. Undocumented lease arrangements may impact the Museum's ability to manage the obligations and conditions of the arrangement, including upkeep, maintenance and security.

The Museum responded that it did not support the execution of the agreement as it considered doing so would commit the Museum to occupying a storage location it considered inadequate. The Museum advised that it had strongly expressed its views about the suitability of the storage facility, specifically informing the Minister for the Arts and the Premier that the storage did not have appropriate environmental controls or necessary space.

The Museum indicated it will continue to work with Arts South Australia, the Department of Planning, Transport and Infrastructure and the building owner to address its concerns.

Manually approved expenditure not adequately reviewed

We reviewed controls over transactions approved by super and special delegates, as well as manual payments. These transactions are processed outside of the Basware payment processing system approval processes and are generally of a higher value or risk.

Our review identified instances where the expected independent review of these payments did not occur. We recommended the Museum review the monthly manual payment listing provided by Shared Services SA (SSSA) to ensure payments are valid and appropriately approved.

The Museum responded it was confident it had controls in place and that the reports were reviewed. It also responded that it had introduced controls to communicate the confirmation of the review and approval to Arts South Australia.

Revenue

Fees policy does not address complete and timely receipt of revenue

Last year we recommended the Museum develop processes to ensure that all funding receivable by the Museum is invoiced and received in a timely manner. In August 2016 the Museum advised that it would update its Fees for Professional and Commercial Services policy and procedure to support all revenue being promptly requested and received. Our 2016-17 review found this did not occur as anticipated.

The Museum advised it would establish a new revenue policy and a contract register by December 2017. The contract register will be used to ensure contractual commitments are adhered to, including the timing of invoices raised.

Payroll

Bona fide and leave reports not reviewed

We have previously reported breakdowns in the Museum's review of bona fide certificates and leave taken reports to ensure the accuracy and completeness of employee payments.

Our review found that bona fide and leave reports were not generated and reviewed before 6 January 2017. Our testing also found that bona fide reports were not generated and reviewed for casual employees after 6 January 2017. Failure to ensure payroll information is valid and accurate may result in fraudulent or incorrect payments. We recommended bona fide certificates and leave reports be reviewed and returned to the Museum Administration Group as required by the Museum's policy.

The Museum responded that it has now implemented a process to generate and distribute bona fide and leave reports for review and confirmation.

Shared Services SA – financial systems and transaction processing environments

SSSA processes financial transactions on behalf of the Museum under service level determinations. The main systems and control environments include accounts payable, payroll and general ledger financial functions.

Our review and evaluation of controls for these systems concluded that controls were effective for 2016-17.

SSSA is discussed further as part of the commentary under 'Department of the Premier and Cabinet' in this Report.

Interpretation and analysis of the financial report

Highlights of the financial report

	2017 $'million	2016 $'million
Expenses		
Staff benefits	8	8
Other expenses	10	10
Total expenses	18	18
Income		
Revenues from SA Government	11	12
Other revenue	6	8
Total income	17	20
Net result	(1)	2
Net cash provided by (used in) operating activities	1	1
Net cash provided by (used in) investing activities	(1)	(2)
Assets		
Current assets	5	5
Non-current assets	333	329
Total assets	338	334
Liabilities		
Current liabilities	2	2
Non-current liabilities	2	2
Total liabilities	4	4
Total equity	334	330

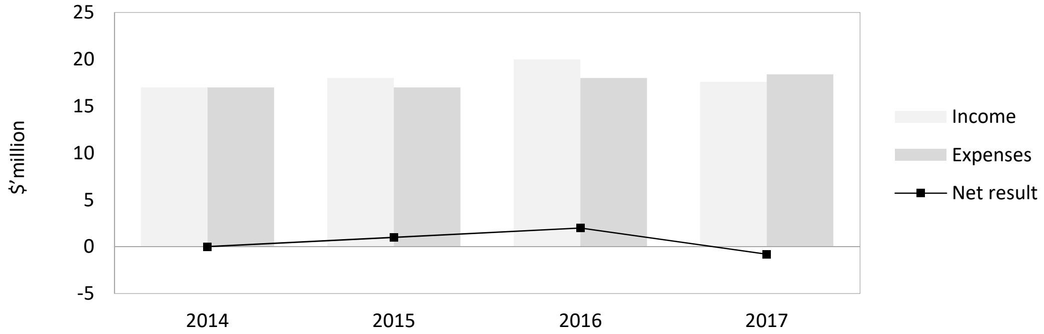
Statement of Comprehensive Income

Income

Total income decreased $2.2 million to $17.5 million. This was mainly due to a $2.3 million decrease in donations of heritage assets. In 2015-16 opals valued at $1.5 million were donated as part of the opals exhibition. Similar donations did not occur in 2016-17.

Net result

The following chart shows the income, expenses and net result of the Museum for the four years to 2017.



The chart shows that in 2017 the Museum's expenditure exceeded its income. It was the first reported net deficit since 2011. The Museum's expenditure and income are generally consistent but can be impacted by one-off transactions. For example the 2016 spike and 2017 drop in income mainly reflect differences in donated heritage assets in those years.

Statement of Financial Position

Total assets at 30 June 2017 were $338 million, of which $294 million (87%) relates to the Museum's heritage collections.

Additions to the heritage collection during the year were $1 million of which $558 000 were donated. The Museum revalued its foreign archaeology collection as at 30 June 2017 resulting in a revaluation increment of $4.4 million. Other elements of the collection were last revalued as at 30 June 2016.

Office of the National Rail Safety Regulator (ONRSR)

Financial statistics	Revenues from fees and charges:	$34.6 million
	Service level agreement expenses:	$15.6 million
	Number of FTEs:	118.07

Significant events and transactions

— New South Wales transitioned to direct ONRSR control and delivery of regulatory services in March 2017, replacing the previous service level agreement.

— Preparation continued for the transition of regulation in Queensland to be performed directly by the ONRSR from 1 July 2017.

Financial report opinion	**Unmodified**
Financial controls opinion	**Unmodified**

Functional responsibility

The ONRSR is a body corporate established under the *Rail Safety National Law (South Australia) Act 2012* (RSNL Act).

The Schedule to the RSNL Act sets out the Rail Safety National Law (the Law) to apply to a participating jurisdiction (state or territory). The RSNL Act applies the Law to South Australia.

The principal function of the ONRSR is to facilitate the safe operations of rail transport in Australia through regulation of the rail industry in accordance with the Law, supporting regulations and policies and the promotion of safety as a fundamental objective in the delivery of rail transport services. For details of the ONRSR's functions refer note 1 of the financial report.

Scope of audit

The 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 2016-17 included:

- corporate governance

- payroll
- expenditure
- revenue, receipting and banking
- general ledger.

Audit findings and comments

Communication of audit matters

A small number of minor matters were communicated in a management letter to the Chief Executive as a result of the audit. A satisfactory response to these matters was received from the ONRSR.

National reform progress

The ONRSR was established on 1 July 2012 and commenced regulatory activities on 20 January 2013. As at 30 June 2017, the ONRSR is the rail safety regulator for rail activities under the RSNL Act in New South Wales, Victoria, Western Australia, South Australia, Tasmania, the Australian Capital Territory and the Northern Territory. New South Wales transitioned to the direct ONRSR delivery of regulatory services in March 2017, moving away from the previous service level arrangement.

Specific regulatory duties are undertaken in Victoria by Transport Safety Victoria under a service level agreement with the ONRSR. The Victorian State Government is currently undertaking a review of the service level arrangements in Victoria.

Queensland will come within the regulatory framework of the ONRSR from 1 July 2017 for the first time. Service delivery in Queensland will come directly from the ONRSR from the date of transition.

Interpretation and analysis of the financial report

As the transition to national regulation continues, the financial report of the ONRSR has also changed. 2016-17 includes the full year impact of Western Australia being regulated and, for the first time, the impact of New South Wales regulation being delivered directly through the ONRSR for part of the year.

As outlined above, further change will occur in 2017-18 as Queensland transitions to ONRSR regulation for the first time, with direct service delivery from commencement.

In the longer term it is also expected that the ONRSR will move to being fully funded by industry contributions, rather than predominantly by state and territory government contributions.

Highlights of the financial report

	2017 $'million	2016 $'million
Expenses		
Employee benefits expenses	12	8
Service level agreement	16	19
Supplies and services	6	5
Total expenses	34	32

	2017 $'million	2016 $'million
Income		
Revenues from fees and charges	35	33
Other income	2	-
Total income	37	33
Net result and total comprehensive results	3	1
Net cash provided by (used in) operating activities	3	5
Assets		
Current assets	14	13
Non-current assets	6	3
Total assets	20	16
Liabilities		
Current liabilities	8	7
Total liabilities	8	7
Total equity	12	9

Statement of Comprehensive Income

Expenses

Employee benefits expenses have increased by $4 million due to additional staff numbers following the transition of Western Australia, which joined the ONRSR in November 2015, and with staff from New South Wales transitioning in March 2017. Service level agreement expenses have reduced by $4 million as a consequence of these transitions. Supplies and services have increased by $1 million mainly due to the rental costs for the New South Wales office.

Income

Revenues from fees and charges of $34.6 million are represented by $18.9 million ($20.5 million) from Australian state and territory governments and $15.7 million ($11.7 million) from rail industry operators. The increase in revenues from rail industry operators reflect the increase from the Western Australian transition and increased charges to industry operators as the ONRSR moves towards full cost recovery. These increases were offset by a reduction in state and territory government contributions for a number of jurisdictions.

Statement of Financial Position

Assets

Property, plant and equipment increased by $2.5 million to $3.4 million ($900 000) mainly due to leasehold improvements and the acquisition of other office related equipment for the New South Wales and Queensland offices.

Liabilities

Employee benefits liabilities increased by $1.1 million to $2.5 million ($1.4 million) mainly due to additional long service and annual leave liabilities arising from increased staff numbers following the New South Wales office transition. Employee numbers at the end of 2016-17 are 118 FTEs, up from 63 FTEs the previous year.

Department of Planning, Transport and Infrastructure (DPTI)

Financial statistics

Total expenses:	$1749 million
Commonwealth grants income:	$557 million
Net cost of providing services:	$49 million
Net revenues from SA Government:	$1543 million
Equity contributions from SA Government:	$169 million
Capital expenditure:	$981 million
Total non-current assets:	$25 billion
Number of FTEs (excluding Rail Commissioner):	2447
Administered	
Total income:	$1213 million
Disbursements to third parties:	$986 million
Payments to Consolidated Account:	$188 million

Significant events and transactions

- $688 million was received from the Motor Accident Commission and paid into the Highways Fund.
- $259 million was received from the Department of Treasury and Finance and paid into the Highways Fund, representing the initial fee paid by private insurers for participating in the compulsory third party insurance scheme.
- Commonwealth grants income increased by $313 million to $557 million mainly to fund road construction projects.
- $56 million surplus cash was returned to the Consolidated Account.
- Water and sewerage assets worth $51 million were donated to the South Australian Water Corporation.

Financial report opinion

Unmodified

Financial controls opinion	**Modified** Key issues: — Procurement, contract management and project delivery require further improvement — Across government facilities services arrangements require improvement — Further improvements in risk management and legal compliance are required — Payroll controls require improvement to ensure all payments are bona fide and accurate, and that all leave taken is recorded

Functional responsibility

DPTI is an administrative unit established under the *Public Sector Act 2009* and is responsible for transport systems and services, infrastructure planning and provision, sporting infrastructure and strategic land use for South Australia.

Scope of audit

The 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 2016-17 included:

- accounts payable
- payroll
- bus contract payments
- grants and subsidies
- fees and charges, including motor registrations, driver licences, land services and Metrotickets
- income and expenditure for maintenance, property rental and building construction services
- accounts receivable
- Commonwealth revenues
- bank reconciliations
- general ledger
- governance, including risk management and legal compliance
- project delivery, procurement and contract management
- fixed assets, including capital works, network assets, land, buildings and facilities, and plant and equipment.

In addition, we considered internal audit activities to identify and assess the risks of material misstatement in the financial report and to design and perform audit procedures.

Audit findings and comments

Assessment of controls

In my opinion, the controls exercised by the Department of Planning, Transport and Infrastructure in relation to the receipt, expenditure and investment of money, the acquisition and disposal of property and the incurring of liabilities, except for all matters outlined under 'Communication of audit matters', are sufficient to provide reasonable assurance that the financial transactions of the Department of Planning, Transport and Infrastructure have been conducted properly and in accordance with law.

Communication of audit matters

Matters identified by the audit were detailed in management letters to the Chief Executive. The main matters raised and related responses are detailed below.

Further opportunities to improve procurement and contract management

Procurement and contract management is a significant aspect of DPTI's operations, with DPTI spending over $2 billion on goods, services and construction annually.

Award of Project Manager contracts for the Festival Plaza project State works

We reviewed the procurement and contract management arrangements for two contracts, totalling $3.4 million, awarded to project manage the State works for the Adelaide Riverbank (Festival Plaza) project.

We found significant shortcomings in the controls, as the processes did not meet accepted standards of procurement and contract management practice and behaviour. These included the following:

- DPTI did not adequately document why it did not use a competitive tender process to engage the contractor.
- The single offer price was revised after receiving the offer and did not support the achievement of value for money.
- Key procurement processes were implemented and approvals obtained after services commenced.
- The instructions and approval to incur expenditure before commencing services were not documented.
- Work commenced before the full contract value (about $2 million) was approved.
- DPTI did not have an effective process to identify actual or potential conflicts of interest.
- The contractor started providing project management services without having executed a written contract.

Full details of the findings and DPTI's responses are included in Part A of this Report.

DPTI identified need for improvements in procurement and contract management

Since August 2014 DPTI has undergone a significant organisational restructure and has reformed its operations. As part of these changes, DPTI began a procurement transformation program.

In prior years we noted that, as a part of the organisational reform processes, DPTI reviewed its approach to procurement and contract management. It identified important issues to be addressed in its procurement and contact management and found:

- that DPTI operated as a collection of silos
- a lack of strategic procurement capability
- a lack of centralised overview
- fragmented IT systems
- no common procurement policy and framework
- a disjointed structure
- poor capability and processes.

Progress during 2016-17

In early 2016-17, DPTI approved 39 recommendations for the future operating model for procurement and contract management. DPTI's implementation plan classified the recommendations into the following areas:

- governance
- reporting, analysis and strategy
- people and change management
- policy and process
- technology
- category management.

We noted that DPTI has worked to implement the recommendations during the year. This included:

- reviewing governance arrangements, including establishing a steering committee and an implementation team

- establishing a new organisational structure aimed at bringing all procurement and contract management functions together. This included creating over 70 new positions. As at June 2017, the recruitment processes for these new positions was ongoing

- planning for a common procurement management framework. This includes reviewing existing procurement policies and procedures for compliance with all legal and other requirements, and working on supporting policies and procedures

- engaging external consultants to develop and implement a 'quick wins' program to further progress the project

- planning for technology solutions in supplier relationship management, online catalogue and workflow approval, and contract lifecycle management.

DPTI advice of progress as at August 2017

DPTI provided an update on its progress in implementing its reform as at August 2017 and advised that:

- the Procurement and Contracting Section will become a directorate reporting directly to a Chief Officer to recognise its strategic importance
- the Procurement and Contracting leadership team will become responsible for implementing the remaining elements of the procurement reform program
- a committee to address audit matters created for the Procurement and Contracting Directorate
- a working group has been formed to develop new process flows, policy framework and procedures. A new suite of policies and associated procedures are expected to be largely complete by the end of March 2018. A procurement centre of excellence is being created as a central gateway for procurement and contracting policies, procedures and related documentation
- along with category management, DPTI is reviewing opportunities to better procure both infrastructure and goods and services
- the Procurement and Contracting Directorate will pilot a new system and investigate systems to manage procurement processes, supplier relationships, contracts and workflows
- a Contract Management Section has been established in the organisational structure to provide both central and outposted contract managers in DPTI business units.

Further improvements required in project delivery and governance arrangements

Project delivery is a core component of DPTI's operations that warrants a strong control environment. In 2016-17, DPTI spent $981 million on constructing and purchasing assets, and $340 million on building projects for other SA Government agencies.

DPTI has previously identified gaps in how it manages project and program delivery

DPTI's organisational restructure has included changes to support how it manages project and program delivery.

DPTI engaged an external firm to help develop a new project delivery governance framework. The review in May 2015 made numerous observations on DPTI's delivery governance, including:

- no consistent approach to project governance across DPTI
- no regular forum to consider project issues from a whole-of-department perspective
- roles and responsibilities for project planning and delivery were not clear
- an inconsistent approach to governance and accountability through the life cycle of a project
- no formal staged approval process for major projects
- a large amount of rework, duplication and inefficiency, due to the siloed approach
- steering groups were not common for major projects
- a lack of high level independent scrutiny of project progress
- no consistent reporting framework that considers all elements of project monitoring

- a lack of focus on benefits realisation
- post-delivery reviews were not always performed.

The review also made a range of recommendations to improve project delivery governance arrangements across all aspects of DPTI's operations, including projects, programs operating expenditure and projects delivered on behalf of other government agencies. The recommendations included to:

- establish a Portfolio Management Office
- develop ongoing project status reporting
- implement a consistent project management framework
- implement governance regimes based on the assessed risk and value of projects
- mandate the use of a structured approval process at strategic stages of the project cycle
- establish an executive oversight framework
- update the Portfolio Management Committee's terms of reference.

The need to improve DPTI's project management arrangements was also identified in our Supplementary Report for the year ended 30 June 2016 'The Torrens Road to River Torrens South Road Upgrade Project: June 2017'.

Progress during 2016-17

We note there has been significant effort and change to progress the reform of project delivery in 2016-17.

While DPTI had implemented measures to address the recommendations, there was continual review and change of the processes to refine, improve and implement the project delivery governance arrangements. Some activity we noted included:

- progressively implementing a portfolio management staged approval and review process to provide transparency of decision-making
- updating the Portfolio Management Framework to align with the Project Implementation Process
- updating the Portfolio Management Office implementation plan milestones, with completion of the plan targeted for December 2017
- establishing controls for project change management
- further improving and refining reporting information and protocols
- implementing a framework to prioritise projects and initiatives that align to DPTI strategies and decision-making processes
- progressively implementing a framework that measures project performance to categories aligned to DPTI's strategic plan
- establishing post-implementation reviews to improve planning and lessons learned for future projects
- establishing a Project Office under the Portfolio Management Office to independently review project governance structures, reporting and monitoring, and establish the minimum governance, monitoring and reporting requirements applicable to all projects.

DPTI advice of progress as at August 2017

DPTI provided an update on the continued improvement of its project delivery as at August 2017 and advised:

- a forward major programs work plan and new approach to program delivery was presented to the industry in August 2017. All tenders for standalone and bundled projects are targeted to be out by the end of September 2017, with contracts signed and works started by December 2017
- a new Capital Initiatives Directorate has been created and work is underway to establish the structure, resources, and governance processes supporting the new directorate and procurement bundling and project management
- DPTI's Gateway Review Process (staged approval steps) is being developed and tools and resources are now available on DPTI's intranet site. The process is being piloted on several ongoing projects between August 2017 and November 2017 before staged rollout to other projects
- regular reporting on projects in DPTI's portfolio is now well established. Enhancements to the reporting tool are being implemented to better analyse the project portfolio.

Across government facilities management arrangements

DPTI is responsible for managing outsourced across government facilities management arrangements (AGFMA). These arrangements provide SA Government agencies with access to planned and unplanned maintenance, minor works and other services and are managed by DPTI's AGFMA unit. Services are provided to the SA Government by an outsourced contractor for central and northern Adelaide regions and are coordinated by the DPTI facilities service provider for southern Adelaide and country South Australia regions. Expenditure in 2016-17 through these arrangements amounted to $244 million, comprising $139 million with the outsourced provider and $105 million with the DPTI internal provider.

Improvement required for contract management practices for the AGFMA

Our audit found some of the processes and practices to ensure key requirements of the contract are met were not established and/or finalised. The main findings were as follows:

- Service level agreements between DPTI and client agencies were not completed and signed, increasing the risk that the facilities management arrangements are inefficient or ineffectively managed because DPTI and client agencies are unclear on their respective roles, rights and responsibilities.
- Independent audits to ensure facilities management jobs are accurate and valid did not include all types of work performed and did not ensure rates charged were in line with the rates negotiated with the subcontractor. Approximately 66% of financial activity was not subject to DPTI's audit coverage, increasing the risk that performance issues and incorrect charging are not identified and actioned.
- Subcontractors were not approved by the AGFMA Unit as required by the contract and the details of the contractor's audits of subcontractor certificates, licences and clearances were not reviewed. Consequently, there is a risk that Spotless subcontractors may not have all the certificates, licences and clearances required by law or the policy of the relevant agency to perform the tasks they were engaged for.

- The independent audits of the internal DPTI facilities management provider were not reported to the governance group responsible for oversight of the AGFMA. As a result, action may not be taken to address the issues raised.

DPTI's management agreed with the actions we recommended and advised it had or would implement appropriate corrective actions including reissuing updated service level agreements to agencies by September 2017, increasing the number and scope of audits planned for 2017-18, and reporting the results of audits of the internal DPTI facilities service provider to the governance group from August 2017.

Facilities Services improvements required

Facilities Services manages jobs for southern Adelaide and country South Australia regions, with expenditure of $105 million in 2016-17. The main findings from our review of Facilities Services were:

- the Facilities Management Services Framework was not finalised and approved, increasing the risk that roles and responsibilities are not clearly understood and key objectives are not met

- some reconciliations between systems were either not performed or were not correctly performed, increasing the risk that general ledger accounts may be misstated.

In response DPTI advised the Facilities Management Services Framework and improvements to reconciliations processes are expected to be completed by December 2017.

Implementation of improved governance arrangements for risk management and legal compliance requires completion

Risk management processes need further development

Risk management is designed to help organisations establish a reliable basis for decision-making and planning, ensure resources are efficiently and effectively allocated, and support incident management.

The Treasurer has recognised the importance of risk management, with Treasurer's Instructions requiring chief executives to establish and maintain effective policies, procedures and systems for identifying, assessing, monitoring, managing and reviewing financial and tax risks.

In 2015-16 we concluded that DPTI had not fully implemented an effective and robust risk management system, noting:

- an incomplete risk management action plan
- no annual review of risk management processes
- the need to implement risk registers for business sections.

Follow-up in 2016-17 noted that DPTI made significant progress towards implementing a risk management system, including:

- finalising the risk management action plan and endorsing a strategic risk profile

- completing an annual review of the risk management processes

- establishing a new risk appetite statement to inform risk management decision-making
- implementing regular reporting on strategic risks and the progress of risk management to the executive group and the Audit and Risk Committee
- establishing a unit to develop strategies to implement risk management processes across DPTI
- educating staff on their risk management responsibilities.

We noted, however, that further work is required. In particular, we found:

- as at May 2017 only 25 of 60 business sections had entered their risks into DPTI's risk register, and a substantial number of operational risk assessments and treatments in DPTI's risk register were not current
- DPTI's risk management policy refers staff to a risk management operating procedure. There is no document titled 'Risk Management Operating Procedure' and neither DPTI's risk management policy or framework provides staff with detailed instructions to identify, manage, record and report operational risks to ensure a standard and consistent approach across DPTI.

DPTI responded in September 2017 that:

- 84% of business sections have now completed risks in DPTI's risk register, with remaining business sections planning to complete their risks in DPTI's risk register by the end of 2017
- the risk management procedure will be finalised in late 2017, noting that key elements of the procedure are included in the risk management policy.

Legal compliance management framework was not fully established

DPTI's operations are diverse and cover a wide range of responsibilities. It administers approximately 80 statutes and is bound by many other legal requirements.

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

In 2016-17 DPTI made substantial progress in establishing its legal compliance and legislative review program. In particular it had:

- reviewed legal compliance against 30 statutes
- developed a register of key legislation and assigned them to specific section managers
- developed a draft legal compliance policy and framework, that includes procedures to manage organisational compliance with legislation.

We noted, however, that DPTI has not yet finalised and implemented an approved policy and procedure for the ongoing monitoring of legal compliance. Non-compliance with legislative and regulatory requirements could lead to litigation and subsequent financial losses.

In response DPTI advised it planned to finalise and implement a legislative compliance management policy by the end of 2017.

Land Services system user access did not support the segregation of duties controls

The South Australian Integrated Land Information System (SAILIS) is used to record land information, including ownership and related information.

Our audit found that SAILIS user access did not support the segregation of duties controls that require land information entered into SAILIS to be independently reviewed before being registered. The access provided to some officers enabled them to input and register land information changes in SAILIS. Consequently, there is a risk that invalid changes to the land information database as a result of error or fraud may not be detected.

DPTI responded that it has implemented a change in the process to ensure changes to SAILIS are independently input and checked.

Payroll controls did not ensure all payments were bona fide and accurate, and that all leave was recorded

Payroll processing services are provided by Shared Services SA (SSSA) in line with a service level determination. While SSSA is responsible for the complete and accurate processing of the payroll data it receives, DPTI is responsible for ensuring payroll transactions are valid, accurate and complete.

Previous audits have identified weaknesses in DPTI's controls to monitor the validity, completeness and accuracy of SSSA payroll processing. In response to our 2015-16 audit, DPTI advised that it would consider improvements to these controls as part of the upgrade of the payroll system.

While DPTI has addressed some findings from last year, the results of our 2016-17 audit are generally consistent with those of the prior year. In particular, we noted:

- some officers' review of payroll reports did not ensure that all relevant payroll details for employees were valid and accurate
- there was no effective process to ensure all exceptions identified from the review of bona fide reports are followed up and appropriately actioned.

Ineffective review of the payroll reports increases the risk that employee leave taken, time worked and information is incorrectly recorded in the payroll system, resulting in incorrect payments to employees.

DPTI advised that it intends to implement new processes by December 2017.

Improvements for managing construction projects for other SA Government agencies

The project services function delivers major building construction projects for other SA Government agencies and DPTI.

To ensure that projects are managed within the approved funding limits, a report is generated to identify projects that have exceeded the approved project funding limit. Our review of this report noted that as at 30 June 2017, excess expenditure was $8 million from 68 items, of which $4 million was in excess for more than 12 months. We note that delays in identifying and addressing problems with projects increases the risk that DPTI incurs unnecessary and/or unrecoverable project costs.

We also noted user access to the system used to process project payment transactions allows officers to enter invoices and process a batch for payment without an independent review. Transactions may be processed in the system that are not valid or accurate.

DPTI responded that it:

- will continue to ensure long outstanding projects with excess expenditure are followed up and resolved and that as at August 2017 projects with excess expenditure had decreased to $3 million from 24 items
- is investigating controls to ensure that only independently reviewed transactions are processed for payment.

Government office accommodation management weaknesses

DPTI manages the SA Government's office accommodation, including leases in privately owned buildings, government owned office buildings and day-to-day property management, which includes payment and collection of rent. Our audit found that:

- the Department of the Premier and Cabinet Circular PC018 'Government Office Accommodation Framework', which sets the policy adopted by Cabinet to govern office accommodation, has not been updated since the Government Office Accommodation Committee ceased in October 2014. The Committee was responsible to the Minister and its endorsement of major accommodation proposals was required as part of the approval process. The Committee was abolished in a major reform of government boards and committees. The approval for the abolishment indicated that PC018 would be updated and submitted to Cabinet. The outdated Circular increases the risk that office accommodation is not reviewed and controlled in line with Cabinet's expectations
- some officers had a user access that allowed them to amend accounts payable and accounts receivable data after it has been checked, increasing the risk of processing invalid or inaccurate transactions.

DPTI responded that PC018 has been redrafted ready for review by relevant parties and options for resolving the weakness in user access are under review.

Shared Services SA – financial systems and transaction processing environments

SSSA processes financial transactions on behalf of DPTI under service level determinations. The main systems and control environments include accounts payable, payroll and general ledger financial functions.

Our review and evaluation of controls for these systems concluded that controls were effective for 2016-17.

SSSA is discussed further as part of the commentary under 'Department of the Premier and Cabinet' in this Report.

Other commentary

Adelaide Oval redevelopment

On 29 September 2011 the *Adelaide Oval Redevelopment and Management Act 2011* (the AORM Act) came into operation. The primary purpose of the AORM Act is to facilitate the redevelopment of Adelaide Oval and to provide for the future care, control and management of Adelaide Oval. DPTI has the principal construction management role and responsibility for the redevelopment project.

The AORM Act also requires financial supervision of the project by the Auditor-General and provides for the Auditor-General to report to Parliament on specific financial matters associated with the redevelopment and the ongoing management of Adelaide Oval. Six-monthly reports are provided to the Parliament discharging the requirements of the AORM Act. The first Report was provided to the Parliament on 29 February 2012 and the most recent Report was on 31 August 2017.

Interpretation and analysis of the financial report

Highlights of the financial report

	2017 $'million	2016 $'million
Expenses		
Employee benefits expenses	222	230
Supplies and services	891	834
Depreciation and amortisation	429	397
Grants and subsidies	132	109
Other expenses	75	42
Total expenses	1 749	1 611
Income		
Fees and charges	625	614
Commonwealth revenues	557	244
Sale of goods and services	151	142
Rental income	214	215
Other income	153	120
Total income	1 700	1 336
Net revenue from (cost of) providing services	(49)	(276)
Revenues from (Payments to) SA Government		
Revenues from SA Government	1 604	875
Payments to SA Government	(61)	(6)
Total revenues from (payments to) SA Government	1 543	870
Net result	1 494	594
Other comprehensive income		
Changes in revaluation surplus	101	44
Total comprehensive result	1 595	638
Net cash provided by (used in) operating activities	1 957	1 057

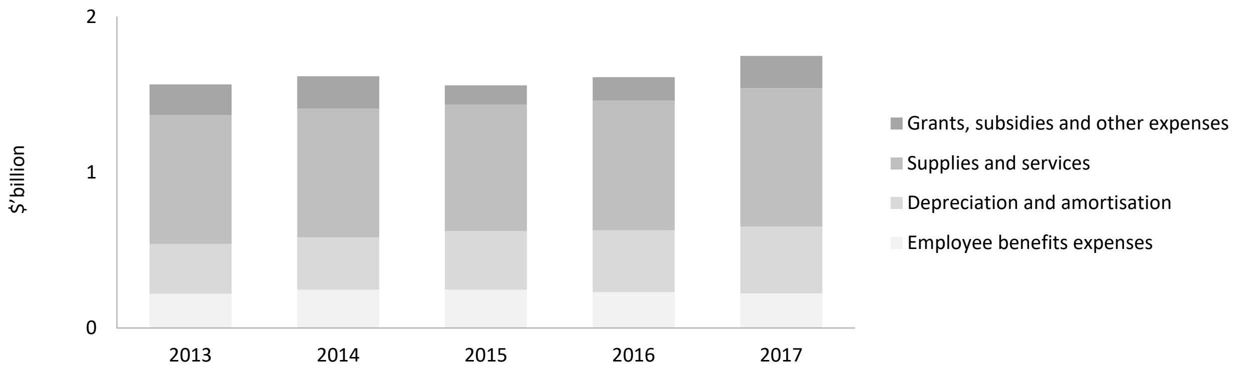
	2017 $'million	2016 $'million
Assets		
Current assets	3 551	2 491
Non-current assets	25 084	24 351
Total assets	28 635	26 841
Liabilities		
Current liabilities	339	295
Non-current liabilities	156	169
Total liabilities	495	464
Total equity	28 140	26 377

* Table may not add due to rounding

Statement of Comprehensive Income

Expenses

For the five years to 2017, a structural analysis of DPTI's major expense items is shown in the following chart.



Expenses for the year totalled $1749 million ($1611 million) and are mainly attributable to:

- supplies and services expenses of $891 million (51%), of which $202 million was for bus service contract payments, $175 million was for operating costs of major infrastructure maintenance and other service contracts, $169 million was for operating lease expenses and $123 million was for property expenses
- depreciation and amortisation expense of $429 million (25%), of which $276 million was for network assets, $74 million was for plant and equipment and $72 million was for buildings and facilities
- employee benefits expenses of $222 million (13%)
- grants, subsidies and other expenses of $207 million (11%).

Total expenses increased by $138 million (9%) to $1749 million. The more notable variances were:

- other expenses rising to $75 million due mainly to assets of $51 million donated to the South Australian Water Corporation (SA Water) for assets constructed as part of the North-South Corridor Darlington Upgrade and the Torrens to Torrens Project

- other service contracts expense increasing by $20 million due mainly to increases in the level of relocation works funded by SA Water of $13 million, and additional costs of emergency response to road works associated with storm damage of $9 million
- depreciation and amortisation expenses increasing by $32 million, due mainly to the addition of new assets, transfer of property from assets held for sale, revaluation upwards of asset values and review of useful lives
- grants and subsidies increasing by $23 million due mainly to additional grants:
  - by the Office for Recreation and Sport, including $7 million to the City of Charles Sturt to upgrade the St Clair Recreation facility, $5 million to the City of Port Adelaide to purchase land to establish a recreation hub and $4 million to various organisations to fund new female changeroom facilities
  - to local councils, including $7 million to the Adelaide City Council for the Riverbank to Central Market laneway revitalisation
- Rail Commissioner reimbursements increasing by $11 million due to a revised enterprise bargaining agreement with wage rate increases backdated to January 2014.

Income

Income (excluding revenues from the SA Government and changes in the revaluation surplus) for the year totalled $1700 million ($1336 million) and comprised mainly:

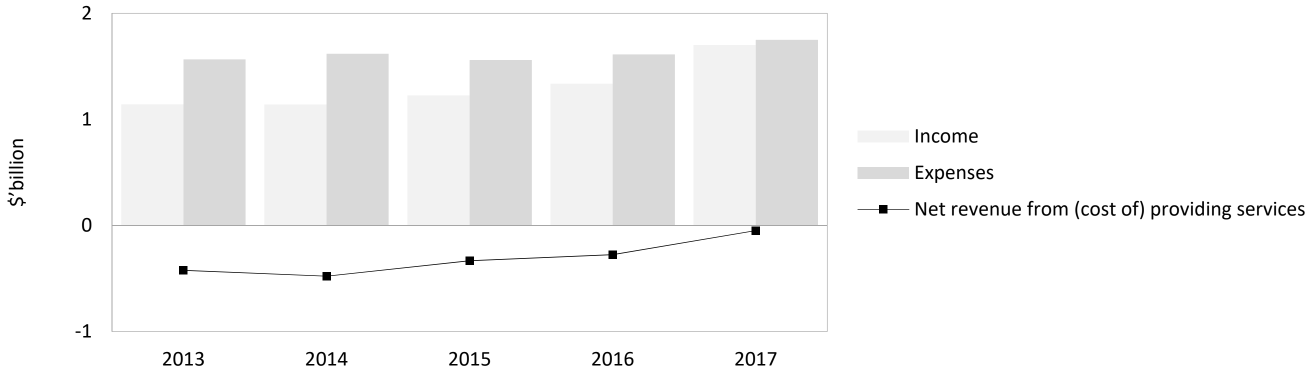
- fees and charges of $625 million (37%), of which $474 million is driver and vehicle registration income and $91 million is Metroticket income
- Commonwealth revenues of $557 million (33%), including $230 million for the Northern Connector project, $150 million for the North-South Corridor Darlington Upgrade, $103 million for the Torrens to Torrens Project and $28 million for road maintenance programs
- rental income of $214 million (13%), including $178 million for office accommodation and $27 million for residential accommodation
- sale of goods and services income of $151 million (9%), of which $113 million was for facilities maintenance services provided to SA Government agencies and $38 million attributable to sales of other goods and services
- grants and subsidies largely from other SA Government agencies of $58 million (3%), of which $57 million is for passenger transport concessions.

Total income (excluding revenues from the SA Government and changes in the revaluation surplus) for the year increased by $365 million (27%) to $1700 million. The increase reflects mainly:

- Commonwealth funding increasing by $313 million predominantly for road projects (refer to comments above)
- DPTI receiving assets of $21 million relating to the Leigh Creek township free of charge, comprising $15 million in land and buildings and $6 million in roads. Buildings and roads were valued at depreciated current replacement cost
- an increase in works performed for other entities of $12 million.

Net cost of providing services

The following chart shows the income, expenses and net cost of providing services for the five years to 2017.



DPTI has recorded a net cost of providing services for the year of $49 million ($276 million). A significant factor reducing the net cost of services was the level of Commonwealth funding received, which increased by $313 million to $557 million. Commonwealth funding was mainly for capital projects.

Revenues from (Payments to) SA Government

Net revenues from the SA Government increased by $673 million to $1543 million. They include a transfer of $688 million ($449 million) from the Motor Accident Commission and $259 million from the Department of Treasury and Finance (DTF) representing the initial fee paid by private insurers to participate in the compulsory third party insurance scheme. Further details on the transfer from the Motor Accident Commission are included in the commentary under 'Motor Accident Commission' in this Report.

Payments to the SA Government totalled $61 million ($6 million). In 2017 payments to the SA Government included a $56 million return of surplus cash under the SA Government's cash alignment policy.

In 2017 DPTI received an equity contribution from the SA Government under the *Appropriation Act 2016* of $169 million ($298 million). Equity contributions are recognised in the Statement of Changes in Equity.

Statement of Financial Position

DPTI's total assets as at 30 June 2017 were $28.6 billion ($26.8 billion), and include network assets of $20.2 billion ($20.2 billion), land, buildings and facilities of $2.7 billion ($2.6 billion) and cash of $3.3 billion ($2.1 billion).

The increase in total assets of $1.8 billion results mainly from:

- an increase of $1.1 billion in cash due mainly to the receipt of $688 million from the Motor Accident Commission and the $259 million from DTF for private insurer participation
- an increase in non-current assets of $733 million. This increase includes asset additions of $981 million, assets transferred from held for sale of $121 million and net revaluation increments of $101 million, which were offset by depreciation and amortisation of $429 million and donated assets of $51 million.

DPTI's liabilities amounted to $495 million ($464 million) and mainly comprised payables of $291 million ($255 million), employee benefits of $99 million ($98 million) and lease incentives of $50 million ($56 million). Payables increased mainly because of increased accrued expenses for capital projects.

Network assets

Network assets amounted to $20.2 billion and represented 81% of total non-current assets. Network assets comprise roads with a written down value of $16.1 billion (79%), structures with a written down value of $2.2 billion (11%) and rail and bus track assets with a written down value of $1.9 billion (10%).

While the written down value of network assets of $20.2 billion was similar to last year, the following significant movements occurred:

- capitalisation of network projects totalling $214 million, comprising $120 million for roads, $50 million for structures and $44 million for rail and bus track assets
- a net revaluation increment of $103 million, comprising a $104 million increment for roads, a $37 million increment for structures and a $38 million decrement for rail and bus track assets
- depreciation charges of $276 million, comprising $174 million for roads, $44 million for structures and $58 million for rail and bus track assets
- the donation to SA Water of $51 million of assets constructed as part of the North-South Corridor Darlington Upgrade and the Torrens to Torrens Project.

Capital works in progress

The value of capital works in progress increased by $687 million to $1.4 billion. The major movements in capital works are shown in the following table.

Projects	Carrying amount 01.07.16 $'million	Additions $'million	Transfer to assets $'million	Closing balance 30.06.17 $'million
Torrens to Torrens Project	292	185	38	439
Northern Connector	31	204	-	235
North-South Corridor Darlington Upgrade	92	162	37	217
O-Bahn Extension	50	79	-	129
Torrens Rail Junction	4	72	-	76
Port Bonython Jetty Refurbishment	17	8	-	25
Railcar overhaul	-	23	-	23
Bald Hill and Southern Freeway Intersection	17	5	-	22
Festival Precinct Plaza	6	11	-	17

Land, buildings and facilities

The value of land, buildings and facilities increased from $2.6 billion to $2.7 billion. The main movements affecting this increase were:

- the reclassification of assets from assets held for sale of $121 million, reflecting that State Administration Centre precinct is no longer designated as held for sale

- depreciation charges of $73 million
- asset additions from purchases, transfers from capital works in progress and assets received free of charge amounting to $62 million. Major additions included Leigh Creek township assets received free of charge of $21 million, and buildings and land acquisitions for road projects of $29 million.

Plant and equipment

Plant and equipment totalled $670 million, a decrease of $55 million from the previous year. The main movements for the year were:

- asset additions and transfers from capital works in progress of $26 million, including $10 million for the bus purchase program and $5 million for the River Murray ferries replacement program
- depreciation expense of $74 million.

Non-current assets held for sale

The Statement of Financial Position separately discloses non-current assets held for sale of $13 million ($140 million). The decrease in assets held for sale is due mainly to the reclassification of the State Administration Centre to the land, buildings and facilities asset classes. The financial report details that the assets no longer meet the requirements for classification as held for sale.

Statement of Cash Flows

Cash increased by $1.1 billion to $3.3 billion. The main contributing factors were the receipt of $688 million from the Motor Accident Commission and $259 million from DTF and the timing of expenditure for capital works programs.

The cash outflows used in investing activities increased by $317 million to $992 million, reflecting an increase in DPTI's capital works program.

The net cash flows from financing activities decreased by $129 million to $166 million, due mainly to a decrease in the equity contribution from the SA Government from $298 million to $169 million.

Gross cash flows from the SA Government amounted to $1.8 billion ($1.2 billion) including the transfer of $688 million ($449 million) from the Motor Accident Commission, $259 million from DTF, operating appropriations of $640 million ($385 million) and equity contributions of $169 million ($298 million).

Administered items

DPTI's administered activities include $1.2 billion of revenue and expenses. The main administered activities are for the collection and disbursement of money to other SA Government entities and the Consolidated Account.

The main administered activities are:

- compulsory third party insurance and related fees collected with motor vehicle registrations of $509 million ($482 million), of which $400 million was paid to private insurers and $109 million was paid to the compulsory third party insurance regulator

- regulatory land services fees on land transactions to be paid to the Consolidated Account of $188 million ($184 million). The increase is due mainly to increased activity in the property market and an increase in fees
- stamp duties charged with motor vehicle transactions and paid to DTF of $169 million ($159 million)
- the Lifetime Support Scheme levy collected with motor vehicle registrations on behalf of the Lifetime Support Authority of South Australia of $149 million ($145 million)
- amounts collected with motor vehicle transactions and paid to DTF for the Hospital Fund of $70 million ($69 million)
- the Emergency Services levy charged with motor vehicle transactions and paid to the South Australian Fire and Emergency Services Commission of $43 million ($43 million).

Department of the Premier and Cabinet (DPC)

Financial statistics	Net cost of providing services:	$129 million
	Total appropriation:	$153 million
	Number of FTEs:	1712.57

Significant events and transactions

- The Public Sector (Reorganisation of Public Sector Operations) Notice 2017, effective 1 April 2017, transferred 329 FTEs from a number of business units in the Department of State Development to DPC.
- DPC is undertaking procurement processes as part of implementing the SA Government's energy plan announced in March 2017.
- The transition of agencies from the Chris5 payroll system to Chris21 was completed.
- A new Chief Executive was appointed following the resignation of the previous Chief Executive in February 2017.

Financial report opinion

Unmodified

Financial controls opinion

Modified

Key issues:

- Review of payroll reports by managers was not performed in line with DPC expectations
- No control in place across some DPC business units to ensure payroll reports were reviewed by managers promptly
- Not all employees appear on payroll bona fide reports

Functional responsibility

DPC is an administrative unit established under the *Public Sector Act 2009*.

DPC's responsibilities include providing specialist policy advice, supporting the Cabinet process, leading implementation of the SA Government's strategic priorities and policy commitments, and providing a range of other government services. Details are contained in notes 1 and 5 of the financial report.

Scope of audit

The 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 2016-17 included:

- accounts payable
- payroll
- revenue
- bank reconciliations
- financial accounting
- contract management
- legislative compliance
- Shared Services SA (SSSA)
- Service SA.

The audit also considered the nature of the review work undertaken by internal audit.

Audit findings and comments

Assessment of controls

In my opinion, the controls exercised by the Department of the Premier and Cabinet in relation to the receipt, expenditure and investment of money, the acquisition and disposal of property and the incurring of liabilities, except for the matters raised in relation to payroll as outlined under 'Communication of audit matters', are sufficient to provide reasonable assurance that the financial transactions of the Department of the Premier and Cabinet have been conducted properly and in accordance with law.

Communication of audit matters

Matters identified by the audit were detailed in management letters to the Chief Executive. The main matters raised and related responses are detailed below.

Corporate

Accounts payable

Our review identified that the outcome of the review of 2016-17 financial delegations was not communicated to SSSA and updated in the Basware payment processing system before the start of the 2016-17 financial year. This increases the risk of officers approving payments that are not within their authorised delegation limit.

In response DPC advised us the dates it communicated the outcomes of the review of financial delegations to SSSA.

Payroll

Total payroll expenses for 2016-17 were $148 million.

Our review of controls over payroll processes identified some control weaknesses that were raised for management attention, notably:

- the review of payroll reports by managers was not performed in line with DPC expectations, increasing the risk of invalid or inaccurate processing of payments and leave taken
- there was no control in place across some DPC business units to ensure that payroll reports were reviewed by managers promptly, increasing the risk of overpayments and errors in payroll reports not being identified and corrected
- there was no process in place to identify positions that do not have a reporting relationship set up in the Chris21 payroll system resulting in those positions not appearing in payroll reports, increasing the risk of invalid or inaccurate processing of payments and leave taken.

In response DPC advised it would reiterate to all approvers/reviewers the importance of generating and actioning reports in line with the requirements of its bona fide and leave returns guideline. DPC also advised that SSSA will be implementing a new online bona fide certification process. The new process enables reporting on bona fide and leave taken reports that have not been certified. DPC also advised that it would perform a monthly check of auto-paid employees not assigned to a bona fide report, and will follow up with business units to update reporting relationships where possible.

Contract management

Our review identified that two contract managers who manage significant contracts had not undertaken the necessary State Procurement Board training, increasing the risk that contracts are not effectively managed.

In response DPC advised that it will ensure the required State Procurement Board training is undertaken by any contract manager assigned a significant contract to manage.

Shared Services SA – financial systems and transaction processing controls

SSSA processes financial transactions on behalf of a large number of SA Government agencies under service level determinations. The main systems and control environments include accounts payable, accounts receivable, payroll and general ledger financial functions.

Our review and evaluation of controls for these systems concluded that controls were effective for 2016-17.

Shared Services SA – payroll controls

SSSA processes payroll transactions specific to the CHRIS payroll system on behalf of a large number of SA Government agencies under service level determinations.

In 2016-17, the transition of agencies from Chris5 to Chris21 was completed. This two-year project involved migrating 27 Chris5 databases and three existing standalone Chris21 databases into the new Chris21 environment. As a result SSSA now maintains only two databases for the SA Government's general agencies and the Department for Health and Ageing. In 2017-18 SSSA will transition South Australia Police and TAFE SA from their existing payroll databases to Chris21.

Our 2016-17 audit considered the controls over the Chris21 payroll system, including the payroll process and internal controls of SSSA and the external bureau provider of the CHRIS payroll service to SSSA, Frontier.

SSSA payroll functions include:

- payroll maintenance comprising processing changes to employee master data and salaries
- processing employee pays through CHRIS
- calculating payroll payments (via CHRIS)
- disbursing payroll payments (via CommBiz)
- identifying and managing overpayments
- terminating employees (ie calculating termination payments).

The SSSA teams that perform these functions comprise the following functional streams: work management, payroll data input, quality assurance, customer service, pay run processing and technical specialist.

We found that SSSA has continued to improve controls over processing payroll transactions in the Chris21 payroll environment and there were no significant findings from our audit.

Shared Services SA – accounts payable controls

SSSA processes payments on behalf of SA Government agencies. The SSSA accounts payable function employs several systems to make these payments, including the e-Procurement system for ordering, receiving and invoice processing and the Masterpiece system for payment transaction processing through EFT and cheques and general ledger maintenance.

In 2016-17, we reviewed key financial systems to assess the adequacy of IT security controls managed by SSSA covering user access, segregation of duties, management of IT security policies and procedures and general controls over access to the online banking system. The review did not identify any significant issues.

Interpretation and analysis of the financial report

The Public Sector (Reorganisation of Public Sector Operations) Notice 2017, effective 1 April 2017, transferred employees from the following business units of the Department of State Development (DSD) to DPC:

- Mineral Resources Division
- Energy Resources Division
- Energy Markets and Programs Division
- Resource Infrastructure and Investment Task Force (with the exception of the Case Management Function)
- Strategy and Governance Unit
- Office of the Economic Development Board.

As a result a total of 329 employees and net assets of $33 million were transferred. The impact of this transfer was to materially increase DPC's expenses, assets and liabilities.

Highlights of the financial report – controlled items

	2017 $'million	2016 $'million
Expenses		
Employee benefits	148	139
Supplies and services	124	115
Grants and subsidies	42	7
Other expenses	9	10
Total expenses	323	271
Income		
Fees and charges	189	194
Other	5	4
Total income	194	198
Net cost of providing services	129	73
Revenues from (Payments to) SA Government		
Revenues from SA Government	153	79
Payments to SA Government	(5)	(2)
Total revenues from (Payments to) SA Government	148	77
Net result and total comprehensive result	19	4
Net cash provided by (used in) operating activities	62	19
Net cash provided by (used in) investing activities	(9)	(7)
Net cash provided by (used in) financing activities	6	-
Assets		
Current assets	160	89
Non-current assets	79	34
Total assets	239	123

	2017 $'million	2016 $'million
Liabilities		
Current liabilities	86	36
Non-current liabilities	47	33
Total liabilities	133	69
Total equity	106	54

Statement of Comprehensive Income

Net cost of providing services

The transfer from DSD resulted in an increase in the net cost of providing services. This follows decreases over the previous two years due to internal restructures and machinery of government changes.

The following chart shows the net cost of providing services for the five years to 2017.

Expenses

As a result of the DSD transfer, total expenses for the year increased by $52.6 million (19%). The total expenses attributable to the DSD transfer were $57.6 million.

Employee benefits expense increased by $8.9 million (6%). This is mainly due to an increase in salaries and wages costs of $8.5 million. The amount of the increase attributable to the DSD transfer for salaries and wages is $6.9 million.

Supplies and services increased by $9 million (8%). The amount of the increase attributable to the DSD transfer is $9.9 million. The following highlights the material movements in individual expense items with the explanation of the movement applicable to DPC:

- Promotion and marketing expenses increased by $3.7 million as a result of an increased number of campaigns, including Energy and promoting South Australia nationally and internationally.
- IT and computing charges decreased by $3.4 million as a result of decreased software expenses of $1.5 million and decreases in network and gateway charges of $3.4 million, offset by increases in database and telephone rental charges of $1.4 million.
- Microsoft licence and support decreased by $15 million due to this no longer being centrally managed by DPC.
- Contractors increased by $5.7 million. The main increases were for contractors for the Energy Plan Implementation Taskforce ($1.4 million) and an increase in information and communications technology contractors ($792 000).

- Consultants increased by $3.5 million mainly due to consultants engaged for advice on energy market transition and electricity generation projects. The cost of consultants for these two projects was $2.7 million.

- Intra-government transfers increased by $5.3 million and included a $1.2 million payment to the Department for Communities and Social Inclusion for the National Disability Insurance Scheme and a $500 000 payment to Arts South Australia for the production of the movie Storm Boy.

- Other supplies and services increased by $3.7 million mainly as a result of increased legal fees of $1.1 million for the Electricity Reform Project.

Grants and subsidies increased by $35.2 million to $42.2 million. This was due to resource and energy grants previously paid through DSD. The grants included:

- $23.8 million under the PACE Gas grant program. This program aims to increase the supply of gas in South Australia's energy market and increase competition between gas suppliers.

  The five PACE Gas Grant projects comprise:

  - $6 million for the Beach Energy Otway Basin exploration project targeting conventional reservoirs
  - $6 million for the Santos Cooper Basin underbalanced drilling project
  - $5.82 million for the Senex-Santos Cooper Basin pipeline project
  - $3.96 million for the Santos Cooper Basin refracture stimulation project
  - $2 million for the first phase of the Strike Energy Cooper Basin deep coal project

- $3 million to OZ Minerals. This is the second instalment of a grant totalling $10 million over three years. The grant is to be used towards:

  - Oz Mineral's research into a new copper concentrate treatment process
  - collaboration with the SA Government to facilitate infrastructure development in the eastern Gawler Craton mineral province
  - the relocation of Oz Mineral's head office to Adelaide.

Income

Total income (excluding revenues from the SA Government) for the year decreased by $2.8 million (1%). Income from the DSD transfer was $11.7 million. The decrease is mainly due to ceasing charging for Microsoft licence and support charges, $15.7 million, offset by a $9.7 million increase in fees and charges as a result of the DSD transfer.

Net revenues from the SA Government increased by $71.4 million (93%). $67.7 million of the increase is attributable to the DSD transfer.

Statement of Financial Position

Net assets increased by $52.7 million (98%) as a result of the DSD transfer, which saw net assets of $33.4 million transferred in.

As at 30 June 2017 total current assets increased by $71.4 million. Current assets attributable to the DSD transfer totalled $67.1 million, mainly made up of cash and cash equivalents of $62.4 million and receivables of $4.7 million. Non-current assets increased by $44.6 million, with $45.4 million attributable to the DSD transfer of which property, plant and equipment accounted for $42.4 million. This included $27.5 million for the Drill Core reference library at Tonsley.

Current liabilities increased by $49.6 million. Current liabilities attributable to the DSD transfer were $45.4 million, mainly made up of payables of $33.1 million, other liabilities of $8.2 million and employee benefits provisions of $4.2 million. Non-current liabilities increased by $13.7 million with $11.9 million attributable to the DSD transfer, mainly comprising of employee benefits provisions of $8.4 million.

Cash and cash equivalents of $127.3 million make up 53% of the total asset balance. The cash balance includes an amount of $8.8 million held in the Accrual Appropriation Excess Funds Account. The balance of these funds is not available for general use and can only be used with the Treasurer's/Under Treasurer's approval.

DPC had creditors payable at 30 June 2017 of $48.8 million. This was due to a large number of outstanding payments made in relation to PACE Gas grants ($22 million) in early 2017-18.

Other liabilities include security deposits of $5.6 million received from mine operators (refer note 26 of the financial report).

Highlights of the financial report – administered items

	2017 $'million	2016 $'million
Expenses		
Disbursements on behalf of third parties	359	406
Payments to SA Government	66	3
Other expenses	3	3
Total expenses	428	412
Income		
Collections on behalf of third parties	359	406
Royalties	66	-
Revenues from SA Government	2	2
Fees and charges	1	-
Total income	428	408
Net result	-	(4)
Total comprehensive result	-	(4)
Net cash provided by (used in) operating activities	7	(4)
Net cash provided by (used in) financing activities	11	-
Assets		
Current assets	34	5
Total assets	34	5

	2017 $'million	2016 $'million
Liabilities		
Current liabilities	32	2
Total liabilities	32	2
Total equity	2	3

Statement of Administered Comprehensive Income

Disbursements and collections on behalf of third parties

DPC, through Service SA, collects various fees on behalf of third parties and disburses them to the responsible recipient agency. The main amounts collected and disbursed related to registrations, licences and other fees collected on behalf of the Department of Planning, Transport and Infrastructure ($345 million) and expiation notices and firearms licences on behalf of South Australia Police ($11 million).

Collections decreased by $47 million, with the Department of Planning, Transport and Infrastructure collections decreasing by $5 million and South Australia Police collections decreasing by $41 million. This is largely due to expiation notices now being collected directly by South Australia Police following the decommissioning of Bizgate and a decrease in over-the-counter motor registration and licence transactions.

Royalties

As a result of the DSD transfer, DPC receives royalties levied on minerals and petroleum production on behalf of the SA Government. The royalties received are paid into the Consolidated Account. Total royalties received and paid during the year were $66 million.

Other comments on operations

Promotion and marketing

Expenditure on promotion and marketing activities increased to $7.2 million in 2016-17 from $3.6 million in 2015-16. The expenditure on the main activities over the last two years applicable to DPC are included in the following table.

Promotional and marketing activities	2017 $'million	2016 $'million
Promoting South Australia nationally	1.4	-
Promoting South Australia internationally	0.8	-
Jobs	0.6	0.1
Energy	0.5	-
Open State	0.5	-
Other*	3.4	3.5
	7.2	3.6

* Comprises campaigns costing less than $250 000.

Department of Primary Industries and Regions (PIRSA)

Financial statistics	Net cost of providing services:	$103 million
	Net revenues from SA Government	$121 million
	Commonwealth revenues:	$57 million
	Advances and grants revenue:	$55 million
	Grants and subsidies expense:	$89 million
	Number of FTEs:	927.3

Significant events and transactions

- PIRSA continued to deliver the $265 million South Australian River Murray Sustainability (SARMS) program. $52.5 million in SARMS funding was received from the Commonwealth in 2016-17 and $41.5 million was paid out in grants for SARMS projects during the year.
- PIRSA continued to support projects and initiatives through the Regional Development Fund (RDF). $18.4 million was paid out in grants for RDF projects in 2016-17.

Financial report opinion

Unmodified

Financial controls opinion

Modified

Key issues:

- Improvements needed to internal audit planning processes
- Issues with the approval of South Australian Research and Development Institute revenue contracts
- RDF milestone payment approved outside of delegations
- No evidence of independent review and approval of manual journals
- Bona fide and leave return reports not promptly reviewed

Functional responsibility

PIRSA is an administrative unit established under the *Public Sector Act 2009*.

PIRSA's main responsibilities include coordinating and delivering the economic priority of premium food and wine for the State. PIRSA also has a lead role in coordinating and delivering development initiatives to improve economic and social outcomes for regional South Australia.

For more information about PIRSA's role and objectives refer note 1 of the financial report.

Scope of audit

The 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 2016-17 included:

- follow-up of 2015-16 audit findings
- governance and legislative compliance
- compliance with Treasurer's Instructions
- payroll
- revenue including sundry revenue, licence revenue, South Australian Research and Development Institute (SARDI) grant revenue and SARMS program Commonwealth revenue
- expenditure including supplies and services, and expenditure for the SARMS program, SARDI and the RDF program
- cash and general ledger
- concessional loans schemes
- fixed assets.

The audit considered control processes performed by both PIRSA and Shared Services SA (SSSA).

We also considered PIRSA's internal audit coverage when designing and performing audit procedures.

Audit findings and comments

Assessment of controls

In my opinion, the controls exercised by the Department of Primary Industries and Regions in relation to the receipt, expenditure and investment of money, the acquisition and disposal of property and the incurring of liabilities, except for all matters outlined under 'Communication of audit matters', are sufficient to provide reasonable assurance that the financial transactions of the Department of Primary Industries and Regions have been conducted properly and in accordance with law.

Communication of audit matters

Matters identified by the audit were detailed in management letters to the Chief Executive. The main matters raised and related responses are detailed below.

Governance

Improvements needed to internal audit planning processes

At the time of our audit, we identified that little progress had been made in completing the 2016-17 internal audit program outlined in the three-year rolling 2016-18 internal audit plan. We were also advised that the plan had not been updated to reflect the current risks and priorities PIRSA identified in a detailed risk identification process conducted in early 2017.

Although internal audit performed a number of ad hoc reviews requested by management throughout the year, these were not reflected in an updated internal audit plan.

Without an up-to-date audit plan based on PIRSA's current risks and priorities, resources may be directed at internal audit projects that are no longer a priority.

We recommended that an updated internal audit plan be developed that addresses PIRSA's current risks and priorities. We also recommended that PIRSA consider whether additional resources are needed to achieve the planned internal audit program.

PIRSA responded that in June 2017 the Audit and Risk Committee recommended the Chief Executive's approval of a draft three-year rolling internal audit plan covering July 2017 to June 2020. This draft plan has a strong link to the risk register recently endorsed by PIRSA executive. The Chief Executive was expected to consider it in July 2017. PIRSA also responded that it will continue to actively manage its internal audit program and monitor the resources applied to achieving the program.

No centralised legislative compliance framework in place

We identified that there is no central legislative compliance framework in place to ensure a consistent and coordinated approach to managing compliance with the legislation PIRSA must comply with.

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

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

As a result, PIRSA may not be effectively applying resources to meet its legislative responsibilities. Non-compliance with legislation may also lead to litigation and subsequent losses to PIRSA.

PIRSA responded that it will consider the most appropriate method to deliver a legislative compliance framework for the agency.

South Australian Research and Development Institute

Issues with the approval of SARDI revenue contracts

We identified a number of general revenue contracts signed by SARDI employees that did not meet the definition of research and development (R&D) contracts, however had been signed under the R&D contract delegation. As a result, a number of general revenue contracts were signed by financial delegates who did not have the right delegation. This may result in PIRSA entering into revenue contracts that do not meet its objectives.

PIRSA acknowledged that a small number of general revenue contracts were inappropriately approved using the R&D contract authority as reference. PIRSA advised that the distinction between R&D contracts and general revenue contracts has been reinforced with those senior managers with delegated R&D revenue contract authority. General revenue contract delegations for SARDI employees will be established as part of the 2017-18 financial and procurement authorisation review, with effect from 1 July 2017.

Regional Development Fund

Total payments from the RDF for the year were $18.4 million ($17.6 million).

Milestone payment approved outside of delegations

In November 2016 the Acting Deputy Chief Executive approved an RDF milestone payment of $3.5 million under a special delegation of $10 million held at the time. This special delegation did not, however, provide the authority to approve RDF payments. This payment approval was outside of PIRSA's financial delegations established under Treasurer's Instruction 8 'Financial Authorisations' (TI 8), which provide the Acting Deputy Chief Executive with authority to approve RDF payments up to $500 000.

Although we are satisfied that the payment was in line with the approved funding deed between the Minister for Regional Development and the funding recipient, approving officers should comply with the payment authorisation requirements of TI 8 and PIRSA's financial delegations. Non-compliance may result in payments being made that are not in PIRSA's best interests.

PIRSA responded that payment authorisation by the Acting Deputy Chief Executive was based on approval from the Minister for Regional Development to provide the grant and the execution of a funding deed formalising the grant arrangements. PIRSA did, however, acknowledge that payment authorisation was not formally provided to a PIRSA officer to make this payment. PIRSA has reminded delegates for RDF payments to seek specific RDF payment authority from the Minister in the future if payment amounts are greater than their specified authorisation limits.

General ledger

No evidence of independent review and approval of manual journals

Manual journal approvers are responsible for ensuring that all manual journals are correct and independently checked and authorised before submitting them to SSSA for processing. Our sample testing of 30 manual journals identified 10 that did not have sufficient evidence of independent review and approval. This increases the risk that inappropriate journals may be processed to the ledger.

PIRSA noted the audit finding and advised that staff have been reminded of the independent review requirements for manual journals. PIRSA also noted that the audit did not identify any inappropriate journal adjustments.

Payroll

Employee benefits expenses for the year were $92.1 million ($92.1 million).

Bona fide and leave return reports not promptly reviewed

Our review in 2016-17 identified instances of bona fide and leave return reports that were not reviewed and approved in a timely way. For example, our review of two material pay points for the period July 2016 to March 2017, identified a bona fide and leave return report that was reviewed and approved 86 days after the end of the pay period. We also found one instance in Rural Solutions SA where there was no evidence that errors identified in a bona fide report were actioned.

If bona fide and leave return reports are not promptly reviewed and approved, payroll errors may not be identified and corrected and inappropriate payments may be made.

PIRSA responded that this issue would be addressed by continuing to issue reminders to bona fide and leave return report approvers and through additional training.

This was also raised as an issue with PIRSA in 2015-16.

Reconciliation of TimeWise and CHRIS not promptly performed

TimeWise is the system PIRSA uses to record attendance at work and to apply for leave. It interfaces with the CHRIS payroll system maintained by SSSA and a reconciliation is performed between the two systems to ensure that leave recorded in TimeWise has completely and accurately transferred to CHRIS. Our review of the reconciliations completed between July 2016 and December 2016 identified that five of the six monthly reconciliations were not completed in a timely way.

If leave data from TimeWise is not completely and accurately reflected in CHRIS, leave taken may not be deducted from an employee's leave entitlement. This may lead to employees taking leave in excess of their entitlements, resulting in salary overpayments. It may also lead to inaccurate employee liability balances in the financial report.

PIRSA responded that this reconciliation would be performed on a timely basis in the future.

This was also raised as an issue with PIRSA in 2015-16.

Payroll documents not approved by an appropriate HR delegate

Our testing identified instances of payroll documents not being approved in line with PIRSA's HR delegations. They included:

- two variation in hours requests made in TimeWise

- one timesheet and sick leave request
- one term engagement contract.

Non-compliance with PIRSA's HR delegations may result in HR approvals that are not in PIRSA's best interests.

PIRSA responded that it will raise awareness of these audit findings with staff. When changes are made to HR delegations, a link to the new delegations will be provided to all HR delegates.

Shared Services SA – financial systems and transaction processing environments

SSSA processes financial transactions on behalf of PIRSA under service level determinations. The main systems and control environments include accounts payable, payroll and general ledger financial functions.

Our review and evaluation of controls for these systems concluded that controls were effective for 2016-17.

SSSA is discussed further as part of the commentary under 'Department of the Premier and Cabinet' in this Report.

Interpretation and analysis of the financial report

Highlights of the financial report – controlled items

	2017 $'million	2016 $'million
Expenses		
Employee benefits	92	92
Supplies and services	49	54
Grant and subsidies	89	110
Other expenses	8	7
Total expenses	238	263
Income		
Fees and charges	14	14
Advances and grants	55	58
Commonwealth revenues	57	86
Other income	9	18
Total income	135	176
Net cost of providing services	103	87
Revenues from (Payments to) SA Government		
Revenues from SA Government	127	105
Payments to SA Government	(6)	(1)
Net result	18	17
Other comprehensive income	(1)	-
Total comprehensive income	17	17

	2017 $'million	2016 $'million
Net cash provided by (used in) operating activities	24	16
Assets		
Current assets	184	179
Non-current assets	139	126
Total assets	323	305
Liabilities		
Current liabilities	52	62
Non-current liabilities	43	32
Total liabilities	95	94
Total equity	228	211

Statement of Comprehensive Income

Expenses

Supplies and services

Supplies and services decreased by $5 million to $49.5 million largely due to decreases in:

- professional and technical services of $3.6 million for contractor payments and temporary operational staff payments
- administrative and operating costs of $1.3 million for the purchase of minor plant and equipment, plant and equipment hire, and the purchase of chemicals, feed and fertiliser.

Grants and subsidies expense

Total grants and subsidies decreased by $20.5 million to $89.4 million, mainly due to:

- a $26.6 million decrease in grants paid under the SARMS program (see discussion under 'South Australian River Murray Sustainability Program' below)
- a $2.8 million decrease in payments from the Jobs Accelerator Fund.

These decreases were offset by:

- a $2.9 million increase in payments under the South East Forestry Partnership Program
- a $2.4 million increase in payments for Natural Disaster Recovery Programs including $1.2 million in Gawler floodplain recovery grants, $700 000 in Pinery bushfire recovery grants and $500 000 in Riverland storm recovery grants
- a $2.9 million increase in industry development and restructuring initiatives grants including $1.6 million for the Northern Adelaide Irrigation Scheme feasibility study and $1.3 million for an Orana Foundation research and development grant

- an $800 000 increase in grant payments made from the RDF (see discussion under 'Regional Development Fund' below).

South Australian River Murray Sustainability Program

In August 2013 a National Partnership Agreement between the Commonwealth and SA Governments was signed, allocating $265 million in Commonwealth funding to the SARMS program over six years, with the aim of returning 40 gigalitres of water to the River Murray. Of the $265 million, $240 million has been allocated to the Irrigation Industry Improvement Program and $25 million to the Regional Economic Development Program. These components are designed to provide a comprehensive set of programs supporting regional research, economic diversification and development in River Murray communities.

– *Irrigation Industry Improvement Program (3IP)*

3IP is a competitive grants program created by industry to support the restoration of a healthy Murray-Darling Basin environment. It supports SA River Murray irrigators to remain at the forefront of irrigation practices, and also helps irrigators and the wider community respond to the Murray-Darling Basin Plan and be more resilient to the effects of fluctuating water availability.

Since 3IP's inception, PIRSA has entered into the following grant funding agreements:

- round one (2014-15) – 108 grant funding agreements for $102.5 million to return 19.8 gigalitres of water to the River Murray
- round two (2014-15) – 53 grant funding agreements for $60.9 million to return 13.1 gigalitres of water to the River Murray
- round three (2015-16) – 21 grant funding agreements for $12.7 million to return 1.9 gigalitres of water to the River Murray.

Round four of the 3IP opened in March 2017 and applications closed in June 2017. No funding for round four was approved before 30 June 2017.

PIRSA advised that as at 30 June 2017, $142.7 million has been paid out in grants for 3IP projects and 35 gigalitres of water has been returned to the River Murray.

– *Regional Economic Development Program*

Funding of $25 million for the Regional Economic Development Program has been allocated across three areas as follows:

- $12.5 million for the Regional Development and Innovation Fund – to date there have been $11.5 million in grants awarded to support 17 projects across four rounds of funding
- $5 million for the Industry-Led Research Sub-Program – to date there has been $2.9 million in grants awarded to support nine projects across two rounds of funding. There was no round of funding offered in 2016-17
- $7.5 million for the Loxton Research Centre redevelopment.

The Loxton Research Centre redevelopment commenced in February 2016 and was mostly completed in 2016-17, however some minor works and upgrades were continuing. As part of the redevelopment, existing facilities were refurbished, including the reception area, offices, kitchen, meeting rooms and laboratories. The redevelopment also involved the construction of a new building that provides a state-of-the-art conference facility, meeting areas, a demonstration kitchen and flexible working spaces.

Total SARMS grant payments for the year for both 3IP and the Regional Economic Development Program were $41.5 million ($68.1 million) as funds are not paid on approval, but over time as project milestones are achieved.

Regional Development Fund

Grant funding from the RDF supports the SA Government's efforts to grow stronger, more sustainable and competitive regions. Grants are intended to support economic growth, improved infrastructure and job creation in the regions.

Since the RDF's inception, PIRSA has entered into the following grant funding agreements:

- round one (2014-15) – $17.8 million for 39 projects. These projects involve direct investment of around $331 million and aim to create 637 direct, ongoing FTE jobs
- round two (2015-16) – $14.2 million for 25 projects. These projects involve direct investment of around $152 million and aim to create 273 direct, ongoing FTE jobs
- round three (2016-17) – $13.9 million for 23 projects. These projects involve direct investment of around $148 million and aim to create 425 direct, ongoing FTE jobs.

Total payments from the RDF for the year were $18.4 million ($17.6 million) as funds are not paid on approval, but over time as project milestones are achieved.

Income

Advances and grants

Advances and grants revenue decreased by $3.5 million to $54.6 million. This was largely due to a $2.1 million decrease in grants received from SA Government entities and an $800 000 decrease in grants received from the Commonwealth.

Commonwealth revenues

Commonwealth revenues decreased by $29 million due to a $31.5 million decrease in SARMS funding. The amount of Commonwealth SARMS funding received in 2016-17 of $52.5 million ($84 million) is in line with the funding schedules in the National Partnership Agreement on South Australian River Murray Sustainability Program Part A and Part B, taking into account any approved variations to the funding schedules.

This was offset by a $3.2 million increase in Commonwealth funding received in 2016-17 to undertake a feasibility study funded from the National Water Infrastructure Development Fund.

Other revenue

Other revenue decreased by $9.2 million to $8.9 million in 2016-17. This was largely due to the transfer of the Lincoln Marine Science Centre from The Flinders University of South Australia to PIRSA in 2015-16. The Centre was transferred free of charge with a value of $9.2 million.

Revenues from (Payments to) SA Government

Revenues from the SA Government increased by $22 million to $126.9 million, mainly due to funding for the Northern Adelaide Food Park project, the South East Forestry Partnership Program, Natural Disaster Recovery Programs and the RDF.

Payments to the SA Government also increased by $4.5 million to $5.7 million, largely due to the return of proceeds from the sale of land and buildings at Flaxley and Lenswood during the year.

Statement of Financial Position

Assets

Total assets increased by $17.8 million to $322.6 million. This increase was primarily due to a $9.8 million increase in cash and an $8.7 million increase in receivables. These increases were offset by a $3 million decrease in assets held for sale.

PIRSA held cash of $165.6 million ($155.9 million) as at 30 June 2017. The main components of cash held were:

- funds held in the Accrual Appropriation Excess Funds Account – $13.3 million
- funds held under the *Rural Industry Adjustment and Development Act 1985* and other State and Commonwealth schemes for rural financial assistance – $57.8 million
- external funds held in the nature of grants or under cooperative agreements where unspent funds may be returned to the funder – $12.7 million
- Commonwealth funds held for the SARMS program – $34.3 million
- Commonwealth funds held for the various concessional loans schemes – $10.3 million
- deposits with the Treasurer held as working capital – $37.2 million.

The increase in cash is largely represented by a $16.3 million increase in deposits held with the Treasurer as working capital and a $4.6 million increase in funds held in the Accrual Appropriation Excess Funds Account. The increase in PIRSA's cash held as working capital is largely due to delayed or lower expenditure associated with the items for which additional appropriation was received by PIRSA in 2016-17. These items are discussed under 'Revenues from (Payments to) SA Government' above.

These increases in cash were offset by an $8.8 million decrease in Commonwealth funds held for the various concessional loan schemes and a $4.9 million decrease in external funds held for grants or under cooperative agreements where unspent funds may be required to be returned to the funder.

The $8.7 million increase in receivables is mainly due to an $8.2 million increase in loans receivable. A new loan scheme, the Dairy Recovery Concessional Loans Scheme, commenced in July 2016 and closed to new applicants on 31 October 2016. The scheme was introduced to assist dairy farm businesses affected by the May 2016 decision of Murray Goulburn and Fonterra to reduce farm gate milk prices. As at 30 June 2017 PIRSA had $6.8 million in loans outstanding under this scheme. This is discussed further under 'Concessional loans schemes' below.

Concessional loans schemes

PIRSA's borrowings balance of $25.7 million is largely made up of borrowings associated with the following concessional loans schemes:

- Farm Finance Concessional Loans Scheme
- Drought Concessional Loans Scheme
- Drought Recovery Concessional Loans Scheme
- Dairy Recovery Concessional Loans Scheme
- Farm Business Concessional Loans Scheme.

The Commonwealth pays funds for the above loans schemes in advance in agreed amounts and these funds are held in a special deposit account until paid to approved applicants. When the loan schemes are closed to new applicants, any amounts that are not paid to loan recipients are returned to the Commonwealth.

Farm finance concessional loans were made available to applicants to restructure their debt. This scheme closed on 30 June 2015.

Drought concessional loans were made available to applicants for debt refinancing, operating expenses and to meet the costs of drought recovery and readiness activities. Applications for round one of the scheme closed on 30 June 2015 and applications for round two of the scheme closed on 31 October 2016.

Drought recovery concessional loans were made available to applicants for new debt for planting and restocking activities or refinancing of an existing drought concessional loan. This scheme closed on 31 October 2016.

Dairy recovery concessional loans were made available to dairy farm businesses affected by the May 2016 decision of Murray Goulburn and Fonterra to reduce farm gate milk prices. They were for debt restructuring or new debt, operating expenses and costs associated with productivity enhancement measures. This scheme commenced in July 2016 and closed on 31 October 2016.

Farm business concessional loans are made up of drought assistance concessional loans and dairy recovery concessional loans. This scheme commenced in December 2016 and closed on 30 June 2017. Concessional loan payments under this scheme will be made by PIRSA to eligible applicants in 2017-18 and any unpaid amounts will be returned to the Commonwealth.

Concessional loans drawn down as at 30 June 2017 totalled $14.3 million, made up of the following amounts:

- Farm Finance Concessional Loans Scheme – $400 000
- Drought Concessional Loans Scheme – $2.1 million (round one)

- Drought Concessional Loans Scheme – $4.2 million (round two)
- Drought Recovery Concessional Loans Scheme – $800 000
- Dairy Recovery Concessional Loans Scheme – $6.8 million.

As at 30 June 2017 there were no impaired loans and all amounts are expected to be repaid in line with the repayment schedules.

Administered items

PIRSA administers 17 funds that are reported in the administered financial report. 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.

Total fees and charges revenue, including industry contributions and aquaculture and fishing licences, was $30.1 million ($26 million) and grants and subsidies totalled $30.8 million ($30 million). The increase in fees and charges revenue in 2016-17 is a result of improved production levels, which increased the value of contributions paid into the administered funds by industry participants.

PIRSA also received $4.7 million ($4.7 million) in revenues from the SA Government for the administered activities. $4 million of this amount was for payments to the South Australian Forestry Corporation for community service obligations.

Cash of $22.6 million ($21.3 million) is the main asset recognised for the administered activities.

Return to Work Corporation of South Australia (RTWSA)

Financial statistics

Total comprehensive result:	$175 million
Premium revenue:	$517 million
Net claims paid:	$355 million
Outstanding claims liability:	$2.5 billion
Net assets:	$501 million

The number of workers receiving income support for a year or more decreased by 36.6%, and for less than a year decreased by 25.8%.

The average premium rate was 1.95% in 2016-17.

Number of FTEs: 257

Significant events and transactions

- Net investment profit increased by $87 million to $210 million.
- RTWSA achieved a funding ratio of 119.5%, meaning that the Return to Work Scheme is fully funded.
- RTWSA paid income tax equivalents amounting to $73 million.
- The probability of sufficiency, used in determining the outstanding claims liability, was increased from 65% to 75%.

Financial report opinion

Unmodified

An emphasis of matter was included in the financial report opinion relating to inherent uncertainty in the estimate of the outstanding claims liability and the funding ratio.

Financial controls opinion

Unmodified

Functional responsibility

RTWSA was established under the *Return to Work Corporation of South Australia Act 1994*.

RTWSA 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 have impacted significantly on the Scheme. The changes aim to get injured workers back to work more promptly and reduce the cost of the Scheme. This will lead to reductions in the Scheme's net liability and premium rates.

On 4 December 2014 the RTW Act was proclaimed, with most provisions commencing on 1 July 2015 and some commencing earlier. The RTW Act replaced the *Workers Rehabilitation and Compensation Act 1986* on 1 July 2015.

The legislative changes separate claims into two categories:

- short-term claims for injured workers with less than 30% whole person impairment (WPI) – will receive income support for up to two years and treatment costs for up to three years. The legislation also introduces 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 – will receive income support until retirement age, and treatment and other care costs for life.

The Scheme will focus on getting short-term claimants back to work and, in the case of serious injury claimants, providing lifetime care.

Under transitional arrangements, claimants injured before 1 July 2015 with a WPI below 30% received income support until 30 June 2017, unless they exited the Scheme earlier.

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 current legislation, a worker's income support will not be reduced until 52 weeks, at which point it will be reduced to 80% of their pre-injury earnings. This means workers will receive more income support in their first year under current legislation.

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 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. Small employers are not required to pay a premium, while self-insured employers must pay a fee instead of a premium.

Uncertainty with estimate of outstanding claims liability

Under previous legislation, RTWSA often stopped income support to claimants with some capacity to work. When this occurred, many claimants successfully disputed the decision on the grounds of being unable to find suitable work, then received income support until retirement age. Under the new legislation, existing short-term claimants with a WPI below 30% stopped receiving income support by 30 June 2017. This was the main reason for the reduction in outstanding claims liability in 2014-15. The Scheme's independent actuary noted that the robustness of the WPI assessment rules under the new legislation has not been tested in practice, and if these rules do not operate as intended, the cost implications may be significant. Uncertainties in estimating the outstanding claims liability are covered in more detail below.

Scope of audit

The 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 2016-17 included:

- agent assurance framework
- premiums
- investments
- actuarial estimates of outstanding claims liabilities
- determination of claims for workers compensation
- workers compensation payments such as income support, lump sums and medical costs
- general operating expenses
- information and communications technology infrastructure and systems.

Internal audit activities were reviewed to help plan and conduct the audit of RTWSA's control environment.

Audit findings and comments

Auditor's report on the financial report

The following is an extract from the Independent Auditor's Report on RTWSA's 2016-17 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 2017, its financial performance and its cash flows for the year then ended in accordance with the Treasurer's Instructions promulgated under the provisions of the* Public Finance and Audit Act 1987 *and Australian Accounting Standards.*
>
> ***Inherent uncertainty – outstanding claims liability and funding ratio***
>
> *Without qualification to the opinion expressed above, attention is drawn to notes 4, 10 and 11 of the financial report.*

There is 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 cost of claims described in notes 10 and 11 are greater than the balances recorded in the financial statements, this will adversely impact the funding ratio described in note 7.

Communication of audit matters

Matters identified by the audit were detailed in management letters to the Chief Executive Officer. The matters raised related to enhancing existing controls for the Claims Agent Assurance Program. RTWSA responded positively to the matters raised.

Interpretation and analysis of the financial report

Highlights of the financial report

	2017 $'million	2016 $'million
Underwriting result		
Premium revenue from registered employers	517	495
Net claim paid	(355)	(560)
Decrease (Increase) in net outstanding claims liability	6	51
Claim management fees	(66)	(73)
Other underwriting expenses	(16)	(23)
Underwriting result	86	(110)
Net investment and other income		
Net investment profit	210	122
Other income	12	13
Net investment profit and other income	222	135
Operating expenses		
Employee benefits expenses	(37)	(33)
Other expenses	(27)	(33)
Total operating expenses	(64)	(66)
Result from operating activities before tax equivalents	244	(41)
Tax equivalents	(73)	-
Other comprehensive income		
Re-measurements of defined benefits liability	4	(3)
Total comprehensive result	175	(44)
Net cash provided by (used in) operating activities	115	(156)
Net cash provided by (used in) investing activities	(70)	57
Assets		
Investments	2 992	2 750
Other assets	83	100
Total assets	3 075	2 850
Liabilities		
Outstanding claims	2 460	2 481
Other liabilities	114	44
Total liabilities	2 574	2 525
Total equity	501	325

Statement of Comprehensive Income

Total comprehensive result

RTWSA's comprehensive result depends significantly on:

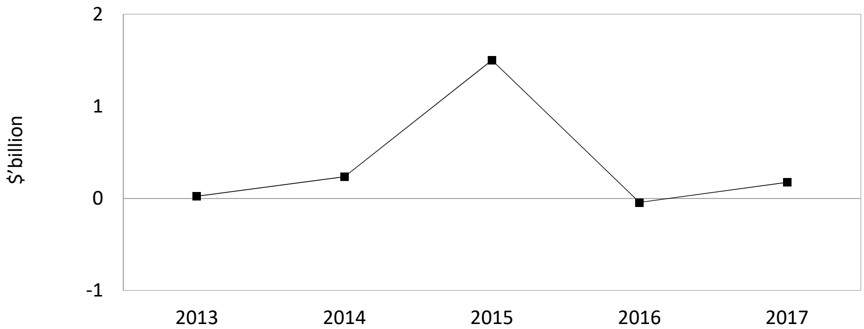
- premium rates being set before the start of the financial year with the aim of ensuring premium revenue and investment income will at least cover the cost of new claims received during the financial year and administrative costs. The premium setting process depends significantly on the actuarial estimate 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
- the market value of its investments.

The total comprehensive result for the year was a profit of $175 million (loss of $44 million in 2015-16). The increase of $219 million in the total comprehensive result was due mainly to:

- premium revenue increasing by $22 million to $517 million, mainly because of the higher remuneration reported by employers and additional premiums collected as a consequence of the forensic investigation team actions
- net investment profit increasing by $87 million to $210 million, due to increases in the market values of investments (refer to commentary under 'Investment profits' below)
- claims paid decreasing by $218 million to $365 million, mainly due to redemptions decreasing by $146 million from $169 million in 2016 to $23 million in 2017. A high level of redemptions were paid in 2015-16 due to carry over from the 2014-15 redemptions program. The policy of paying redemptions relates to the transition from the old legislation. The amount and value of redemptions is expected to continue to decrease in the future. Income support also decreased by $37 million due to lower claims volumes and better return to work outcomes
- the smaller movement in the net outstanding claims liability. In 2015-16, the outstanding claims liability decreased by $51 million compared to $6 million in 2016-17.

The total comprehensive result also includes $73.4 million in tax equivalents required to be paid under Treasurer's Instruction 22 'Tax Equivalent Payments'. The *Return to Work Corporation of South Australia Act 1994* restricts the application of tax equivalents to financial years in which RTWSA has achieved both a funding level of at least 100% (with its outstanding claims liabilities at a 75% probability of sufficiency) and a profit from insurance operations. Under the tax equivalents regime the corporate tax rate (30%) is applied to the operating profit.

The following chart shows RTWSA's total comprehensive result for the five years to 2017.



Over the five years the comprehensive result has been relatively stable apart from 2015, when there was a significant increase. This was due to the introduction of the new legislation in July 2015 which resulted in a significant decrease in the net outstanding claims liability.

Underwriting result

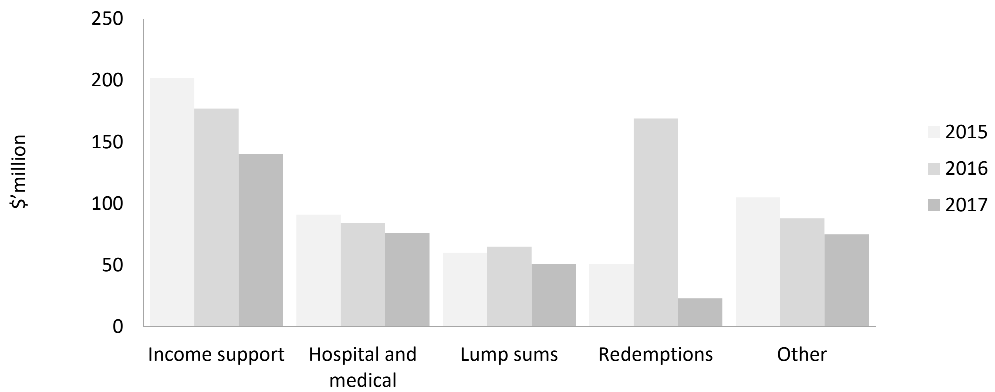
The underwriting result is essentially registered employer premium revenue less claims expense. Investment income does not form part of the underwriting result. AASB 1023 'General Insurance Contracts' requires the underwriting result to be shown separately in the Statement of Comprehensive Income to help show the extent to which underwriting activities rely on investment income for the payment of claims.

The underwriting result was a profit of $86 million compared to a loss in 2015-16 of $110 million. The $196 million turnaround reflects:

- a $218 million decrease in claim payments due mainly to:
  - redemptions paid to claimants decreasing by $146 million from $169 million in 2016 to $23 million in 2017. This is due to lower redemption payments for pre-July 2015 claims
  - income support decreasing by $37 million to $141 million as a result of fewer claimants receiving income support, due mainly to RTWSA's initiatives to get claimants back to work sooner. This is consistent with an increase of $5 million in vocational rehabilitation expense
- a $22 million increase in premiums due mainly to higher levels of remuneration reported by employers.

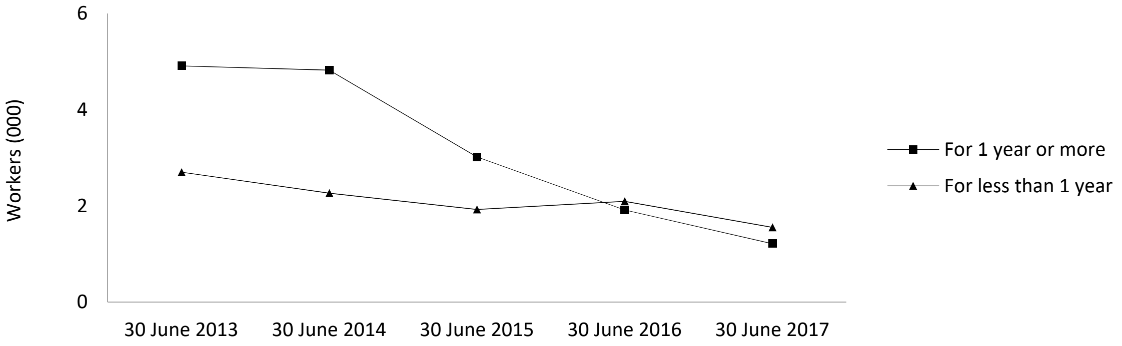
Claim payments

The following chart analyses claim payments for the three years to 2017.



The chart shows the downturn in income support and medical expenses in 2017, due mainly to RTWSA's focus on early intervention by mobile case managers to get claimants back to work sooner. The payment of redemptions was brought forward in 2016 and consequently redemptions were lower in 2017.

The change in the number of workers receiving income support for the five years to 2017 is reflected in the following chart.

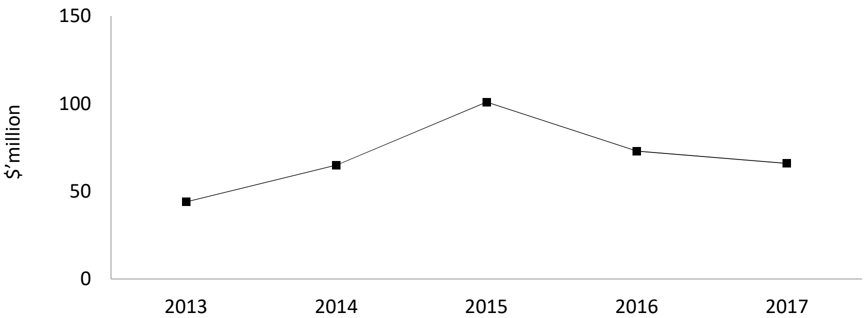


The numbers shown in this chart were provided by RTWSA and are unaudited.

The chart shows that the number of workers receiving income support started decreasing in 2014. In 2017 the number of workers receiving income support for a year or more (long-term claims) decreased by 36.6%, and for less than a year decreased by 25.8%. RTWSA's actuary has attributed the reduction in the number of workers receiving income support for one year or more to an increase in the number of claimants paid redemptions and other settlements to exit the Scheme.

Claim management fees

The following chart shows claim management fees for the five years to 2017.



Claim management fees are paid to RTWSA's two claims agents for managing workers compensation claims.

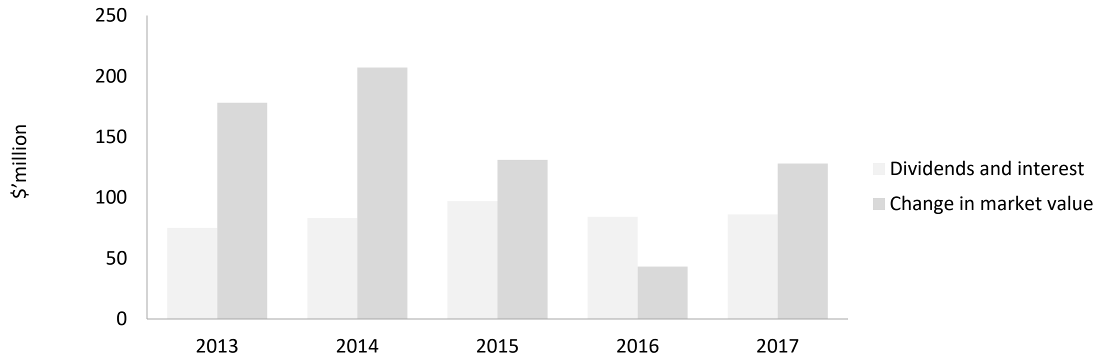
Claim management fees increased from 2013 to 2015, peaking in 2015 due mainly to new incentives for managing RTWSA's initiatives for getting claimants back to work, as well as additional payments being made to cover the extra costs incurred by the agents due to Scheme reform.

In 2017, claim management fees decreased by $7 million to $66 million. The decision to align the fees between the two agents resulted in an overall reduction in the base fees and a consequential reduction in effect on performance fees and business reform costs, which are calculated based on 20% of the base fee.

Investment profits

RTWSA's investment profits have fluctuated significantly over recent years as a result of changes in the market value of its investments, which depend on financial market conditions.

The following chart shows RTWSA's investment income for the five years to 2017.

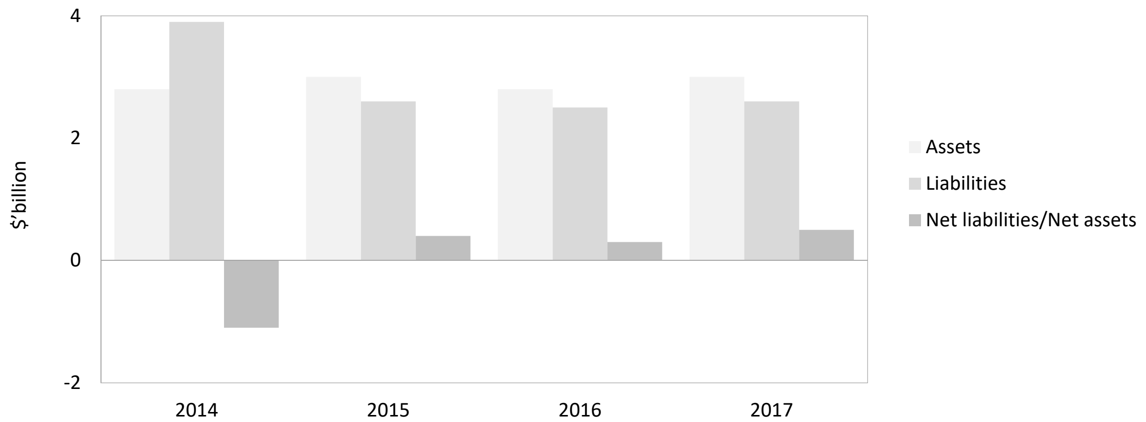


As shown, dividend and interest income has remained relatively stable over these years. The market values of RTWSA's investments have significantly increased since 2016 as a result of the upturn in investment markets.

Statement of Financial Position

In 2017 there was an increase in net assets of $175 million due mainly to investments increasing by $242 million to $3 billion as a result of increases in the market values of investments. This was offset by a tax equivalent liability of $73 million in 2017 compared to $0 in 2016.

The following chart analyses RTWSA's assets and liabilities for the four years to 2017.



The chart reflects the impact on RTWSA's financial position of the 2014 legislative changes and its initiatives to get claimants back to work sooner. In 2014-15 the Scheme became fully funded for the first time in many years. The funding ratio (assets divided by liabilities) was 119.5% in 2016-17 compared to 112.9% in 2015-16.

Liabilities

Outstanding claims – Compensation Fund

Outstanding claims for the Compensation Fund comprised 93% (95%) of RTWSA's liabilities. The outstanding claims liability covers 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. Information about the actuarial estimation of outstanding claims liabilities is provided in notes 4 and 10 of the financial report.

The net central estimate of outstanding claims liabilities was $2017 million at 30 June 2017. The net outstanding claims provision was $2320 million at 30 June 2017, including a risk margin of $303 million intended to achieve a 75% probability of sufficiency. In 2015-16 the risk margin of $152 million intended to achieve a 65% probability of sufficiency.

The net central estimate of outstanding claims liabilities has decreased from $2176 million at 30 June 2016. The $159 million decrease can be attributed to:

- a $463 million increase in claims incurred during the year
- a $95 million decrease due to economic assumptions reflecting increases in risk free long-term discount rates. An increase in the discount rate leads to a decrease in the liability. Although changes to discount and inflation rate assumptions are impacted by events outside of RTWSA's control, the actuary determines the rates with reference to market practice. The actuary increased the discount rate from 3.28% in 2016 to 3.87% in 2017
- a $439 million decrease in expected payments during the year
- an $89 million decrease due to improved claims performance reducing the number of claimants receiving income support, which stems from RTWSA's management actions to get claimants back to work more promptly.

The liability for long-term claims may extend for many years beyond the current year, causing the liability to grow. The reduction in short-term claims has resulted in long-term claims becoming a greater proportion of total claims. This is reflected in the weighted average expected term to settlement of claims remaining at 15 years in 2017 (refer note 10(a) of the financial report).

Impact of outstanding claims liability on funding ratio and premiums

As a result of legislative changes and RTWSA's initiatives to get claimants back to work sooner, the Scheme became fully funded for the first time in many years in 2014-15. The funding ratio (assets divided by liabilities) was 112.9% in 2015-16 and 119.5% in 2016-17.

Given the improved financial results, RTWSA reduced the average premium rate from 2.75% in 2014-15 to 1.95% in 2015-16. The average premium rate for 2016-17 remained at 1.95%.

The total liability for outstanding claims reduced by $20.9 million in 2016-17.

Legislative reform and other developments affecting the uncertainty of the outstanding claims liability

The actuarial estimation is primarily based on the anticipated impact of new legislation. The impact will only become clearer as actual claims experience emerges under the legislation. Further, note 10 of the 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. Of particular note are the uncertain actual experience for short-term claims and serious injury claims and WPI assessments. The independent actuary noted the following:

- Interpretation and legal challenge – the *Return to Work Act 2014* has elements that are subject to interpretation and legal challenge. The outcome of any challenges and the potential impact on the Scheme are unknown.

- WPI assessments – are the gateway to lifetime benefits for serious injury claimants and new lump sum benefits for economic loss. The robustness of the WPI assessment rules under the legislation has not been tested in practice. If these rules do not operate as intended, the cost implications may be significant.

- Future cost escalation – future cost growth in medical treatment and personal care is a particular risk for the lifetime benefits payable to serious injury claimants.

- Return to work – the potential improvements to Scheme culture as a result of new hard boundaries may encourage earlier return to work for short-term claims. Counter to this, the potential for benefits to continue while claims are in dispute may encourage further disputes and worsen return to work experience up to the two year cut-off.

- Outcomes for claims with current disputes – the valuation basis assumes a high level of success on currently disputed claims.

Audit approach to the estimate of outstanding claims liability

Due to the nature and significance of the Scheme estimate of outstanding claims liability, our audit approach has 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 legislative changes continued to warrant a high level of audit scrutiny, particularly at the start of the new Scheme arrangements.

Our audit 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 2017 should be adjusted in any material way. The inherent uncertainty associated with the new Scheme arrangements, however, prevents the degree of certainty over the estimate that would warrant no comment or clarification to the audit opinion.

The key valuation uncertainties in this valuation are: potential legal challenges; the unwind of legislative changes; the eventual outcomes from operational strategies; resolution of existing disputes; future cost growth in medical and treatment related expenditure items for long-term claims; actual experience for two-year income support claims; and WPI assessments and actual experience for serious injury claims. The uncertainties may have favourable as well as unfavourable outcomes for the Scheme.

Probability of sufficiency

In June 2017, RTWSA's Board of Management approved an increase in the probability of sufficiency from 65% to 75%. As disclosed in note 10 of the financial report, the estimate of outstanding claims liability is determined by reference to a 75% probability that the provision for outstanding claims will be adequate. Given the greater uncertainty with the estimate, RTWSA increased the risk margin from 7% at 30 June 2016 to 15% at 30 June 2017, so that the net liability is adequately provided to approximately a 75% probability of sufficiency. RTWSA's performance statement, authorised by the Treasurer and the Minister for Industrial Relations, requires it to estimate its claims liabilities using a risk margin with at least 65% 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 adopted by RTWSA are consistent with the requirements of the standard.

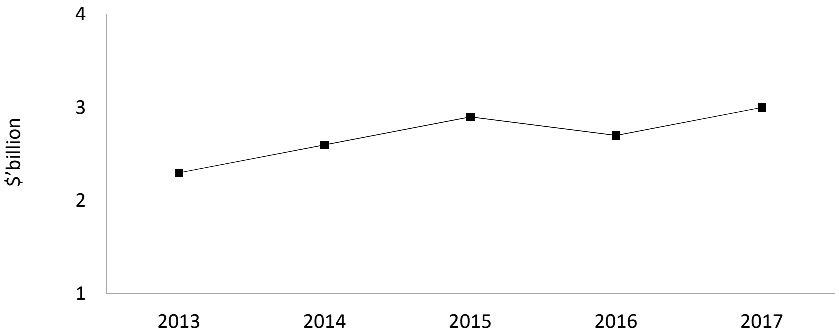
Investments

RTWSA's investment portfolio of $3 billion ($2.7 billion) mainly comprises investments in pooled funds, discrete mandate funds and fixed-term deposits. RTWSA has appointed the National Australia Bank to be custodian of the pooled funds and discrete mandate funds.

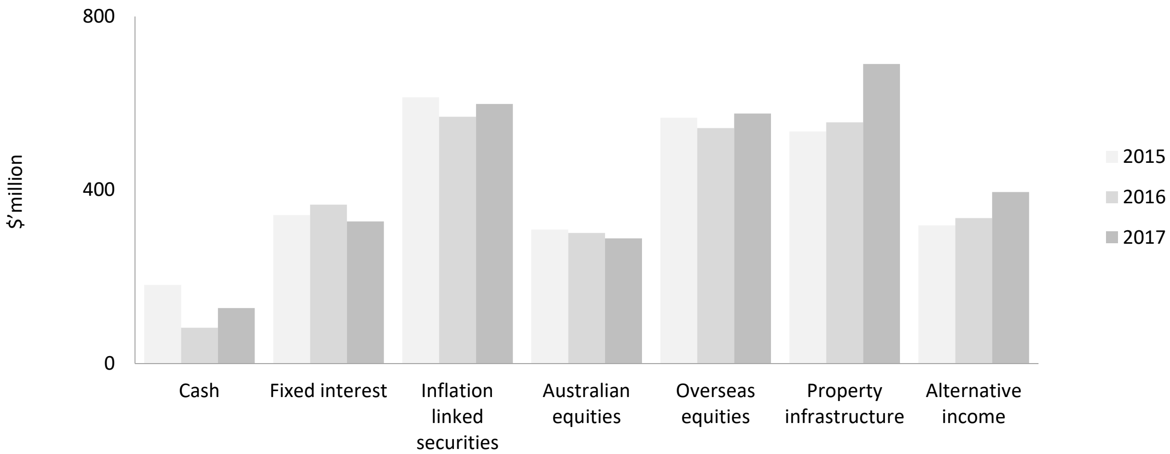
Investment decisions

RTWSA investment officers 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 officers 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 2017.



The following chart shows the RTWSA's investments by asset class for the three years to 2017.



According to RTWSA, the return on investments measured in accordance with Australian Investment Performance Standards for the last five years to 2017 were as shown in the following table.

	2017	2016	2015	2014	2013
Return on investments	7.7%	4.6%	8.6%	12.6%	13.1%
RTWSA Board of Management approved targeted return	4.9%	4.5%	5.0%	6.5%	n/a

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. The actual return on investments has exceeded these targets.

South Australia Police (SAPOL)

Financial statistics

Employee benefits expense:	$721 million
Net cost of providing services:	$858 million
Total revenues from SA Government:	$853 million
Property, plant and equipment:	$345 million
Employee benefits liability and related on-costs:	$297 million
Provisions including workers compensation liability:	$97 million
Number of active FTEs:	
Police Act 1998 employees	4 816
Protective Security	132
Unsworn employees	921
Total	5 869
Administered items:	
Revenue from expiation fees	$67 million
Revenue from Victims of Crime levy	$11 million

Significant events and transactions

— An Injury and Income Protection Policy (IIPP) was established in February 2017 resulting in a new IIPP liability of $15.2 million.

— On 28 September 2016, South Australia experienced an extreme weather event which triggered a State-wide power outage. An independent review of the emergency management response to this event identified 15 recommendations requiring a response from SAPOL. SAPOL advised that, as at 30 June 2017, three recommendations were complete, 11 were underway and one is still being considered.

Financial report opinion

Unmodified

Financial controls opinion

Modified

Key issues:

— Controls over payroll – leave recording:

- Controls to ensure all leave forms are submitted and processed for non-commissioned officers and unsworn staff need improving
- Controls to ensure missing timesheets are submitted for processing need improving

- Controls over workers compensation:
  - No monitoring of claim payments created and approved by the same officer in the workers compensation system
  - No policy or delegation to approve creating or amending vendor details in the workers compensation system
- Controls over expenditure:
  - Instances where Shared Services SA was not notified of identified errors in Basware payment processing system delegations
  - No control to ensure that only valid new vendor or vendor change requests are submitted to Shared Services SA for processing

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*.

The functions of SAPOL 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 audit

The 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 2016-17 included:

- payroll
- workers compensation
- cash
- expiation revenue
- revenue from fees and charges
- expenditure
- government purchase cards
- procurement and contract management
- police records management system – Shield Business Transformation program.

Audit findings and comments

Assessment of controls

In my opinion, the controls exercised by South Australia Police in relation to the receipt, expenditure and investment of money, the acquisition and disposal of property and the incurring of liabilities, except for all matters outlined under 'Communication of audit matters', are sufficient to provide reasonable assurance that the financial transactions of South Australia Police have been conducted properly and in accordance with law.

Communication of audit matters

Matters identified by the audit were detailed in management letters to the Commissioner of Police. The main matters raised and related responses are detailed below.

Payroll – leave recording

For 2016-17 employee benefits liabilities and related on-costs totalled $297 million.

SAPOL uses a range of controls to ensure that all leave taken by its staff is accurately recorded in the HRMS payroll system.

Leave taken by non-commissioned officers, who use the Workforce Central system to record time worked and attendance, is not recorded in HRMS until an approved leave form is received. Similarly, certain leave types taken by unsworn personnel (including long service leave), who submit timesheets through the Electronic Timesheet Management System (ETMS), are not recorded in HRMS until an approved leave form is received.

To ensure the completeness and accuracy of HRMS, it is important that SAPOL ensures timesheets and leave forms are submitted and approved for both non-commissioned officers and unsworn staff.

Commissioned officers do not submit timesheets due to the nature of their role. To ensure leave taken by commissioned officers is completely and accurately recorded in HRMS, SAPOL expects supervisors to certify the leave records of their assigned staff every four weeks.

Our review of SAPOL's controls to ensure the timely submission and processing of leave forms identified the following.

Controls to ensure leave forms are submitted and processed for non-commissioned officers and unsworn staff need improving

SAPOL does not ensure that all outstanding leave forms are submitted to Shared Services SA (SSSA) for processing. While SSSA provides SAPOL with an outstanding leave form report, SAPOL does not monitor to ensure these reports are reviewed and all identified discrepancies followed up and corrected.

Our review of a sample of 20 employees who had submitted timesheets in either Workforce Central or ETMS, identified 10 instances of leave taken and recorded on the time record but not deducted from the employee's leave entitlements in HRMS.

SAPOL responded noting the distribution of the outstanding leave form report to finance officers each fortnight, together with the conduct of a monthly compliance review to ensure leave forms are submitted and processed. SAPOL accepted, however, that the compliance process is only designed to test a sample of records and committed to increase it to 100% compliance.

Controls to ensure missing timesheets are submitted need improving

The completeness of the outstanding leave form report relies on the timely processing of timesheets in Workforce Central or ETMS.

We noted that SAPOL has not implemented a control to ensure that all outstanding timesheets for non-commissioned officers and unsworn personnel staff are submitted to SSSA for processing.

While SSSA provides SAPOL with a missing timesheet report after each pay, we found that SAPOL does not ensure the report is reviewed and all outstanding timesheets are followed up.

From a sample of 10 timesheets selected from the missing timesheet report, we found eight remained outstanding up to three months after the end of the pay period. Five of these had leave recorded on the timesheet.

SAPOL advised that each month the review of the missing timesheet report is audited through the compliance review, which requires Local Services Area managers to review a sample of time records each month. SAPOL accepted that the compliance process is only designed to test a sample of records and committed to increase it to 100% compliance.

Review of commissioned officers leave reconciliations needs to improve

To ensure leave taken by commissioned officers is completely and accurately recorded in HRMS, SAPOL expects supervisors to certify the leave records of their assigned staff every four weeks. Our review of a sample of leave records for commissioned officers noted that some leave reports were either not submitted or not reviewed in a timely manner by their supervisor.

In response, SAPOL advised that it will continue to reinforce the need to comply with internal procedures for reviewing leave reconciliations and leave taken reports.

Workers compensation

In 2016-17 payments for worker compensation claims were $15 million.

SAPOL self manages workers compensation claims using the Self-Insurance Management System (SIMS). SIMS records both medical claims (payments of medical invoices) and income maintenance (salary payments).

SIMS data is used by an actuary to calculate SAPOL’s liabilities for both workers compensation and its Injury and Income Protection Policy (IIPP). SAPOL’s workers compensation liability for 2016-17 totalled $81 million, while the IIPP liability for 2016-17 was $15 million.

No monitoring of claim payments created and approved by the same officer in SIMS

We noted that seven claim managers and two team leaders have the ability to create and approve payments in SIMS. While SIMS produces a report of who created and approved payments, this report is not checked by an independent officer.

SAPOL responded that it would conduct an independent review of the report each quarter.

No policy or delegation to approve creating or amending vendor details in SIMS

While SAPOL manages workers compensation claims using SIMS, the Department of the Premier and Cabinet (DPC) is responsible for maintaining and administering SIMS.

All changes to vendor details in SIMS are processed by DPC staff based on advice from SAPOL. We noted, however, that SAPOL had not formally advised DPC of those SAPOL officers authorised to approve new or amended vendor details in SIMS.

SAPOL responded that the standard operating procedure for the Injury Management Section has been updated and approved. DPC was formally advised of the authorised officers.

Expenditure

Basware users not updated promptly

SAPOL does not effectively monitor changes to delegation limits recorded in the Basware payment processing system. We noted instances where SSSA was not notified of identified errors in system delegations, and an instance where a change notified on a modify user form was not reflected in Basware for several months after the approved change.

SAPOL responded that it will resolve this issue.

Vendor changes not reviewed

SSSA processes payments on SAPOL’s behalf. The roles and responsibilities of SAPOL and SSSA are detailed in a service level agreement and accompanying documents.

SSSA is required to maintain SAPOL’s vendor masterfile detail and update vendor details on advice from SAPOL.

We noted that SAPOL does not review vendor change requests for validity and accuracy before they are sent to SSSA for processing.

SAPOL responded that it will investigate the issue and advise an appropriate solution.

Information and communications technology and control

Police records management system – Shield Business Transformation program (Shield program) status

In September 2009 Cabinet approved a submission for a police records management system, Niche RMS, now referred to as the Shield program. The submission included the implementation of Stage 1 (custody management and criminal associations) for an approved budget of $13 million. A further

Cabinet submission in November 2013 approved $45 million to implement Stages 2 to 4 of the Shield program.

At the time of our review Stage 1 was completed, with work continuing on Stages 2 to 4.

As at 30 June 2017 the program-to-date investment expenditure totalled $22 million, while total operating and recurrent expenditure amounted to $9 million.

The remaining budget for investment expenditure is $16 million, while the remaining budget for operating and recurrent expenditure is $7 million.

Shield program follow-up review

In 2016-17 we completed a follow-up review of the Shield program to track the progress of Stages 2 to 4. We noted that there have been continuing delays to the project schedule caused by vendor delays and SAPOL resourcing. This is magnified by a number of internal activities in SAPOL, including the organisational reform project, that require coordination with the roll-out of Shield.

Shared Services SA – financial systems and transaction processing environments

SSSA processes financial transactions on behalf of SAPOL under service level determinations. The main systems and control environments include accounts payable, payroll and general ledger financial functions.

Our review and evaluation of controls for these systems concluded that controls were effective for 2016-17.

SSSA is discussed further as part of the commentary under 'Department of the Premier and Cabinet' in this Report.

Interpretation and analysis of the financial report

Highlights of the financial report

	2017 $'million	2016 $'million
Expenses		
Employee benefits	721	663
Supplies and services	146	137
Other expenses	29	26
Total expenses	896	826
Income		
Fees and charges	27	26
Other revenues	11	11
Total income	38	37
Net cost of providing services	858	789
Revenues from (Payments to) SA Government	853	798
Net result	(5)	8
Other comprehensive income	-	13
Total comprehensive income	(5)	21

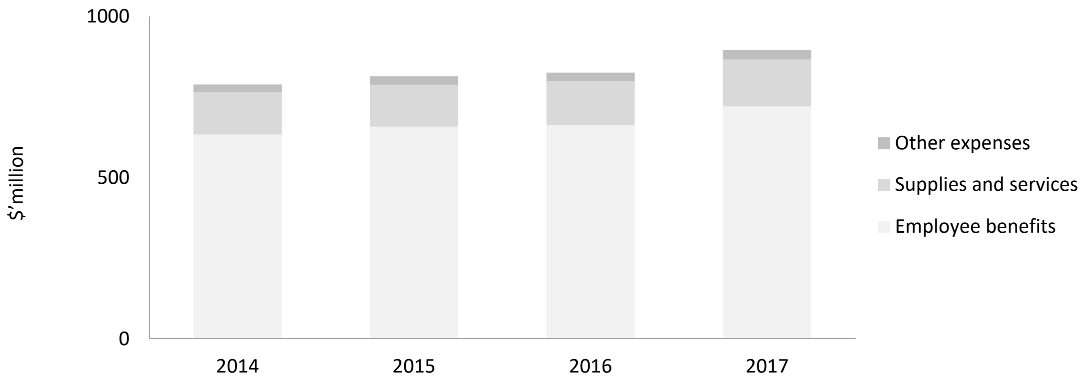
	2017 $’million	2016 $’million
Net cash provided by (used in) operating activities	78	11
Assets		
Current assets	194	156
Non-current assets	377	383
Total assets	571	540
Liabilities		
Current liabilities	130	117
Non-current liabilities	298	274
Total liabilities	428	390
Total equity	144	149

* Table may not add due to rounding

Statement of Comprehensive Income

Expenses

The following chart shows SAPOL’s main expense items for the four years to 2016-17.



Employee benefits account for 80% of total expenses and increased by $58 million in 2016-17. This movement was due mainly to increases in salaries and wages ($15 million), superannuation on-costs ($10 million) and workers compensation expenses ($11 million), together with the introduction of a new IIPP liability ($15 million).

Salaries and wages increased by $15 million to $494 million, due mainly to enterprise agreement salary increases, which included a 1% organisational reform allowance for police officers.

The employment on-costs superannuation expense increased by $10 million, due primarily to a change in the methodology used to estimate the on-cost liability from 2016.

The increase in workers compensation expense reflects the movements in the liability for workers compensation over recent years. The liability increased by $5 million in 2017 due mainly to an increase in the number of serious injury claims. This increase followed a decrease in the liability of $7 million in 2016. The accumulated impact of these movements explains the increase in the workers compensation expense for 2017.

Following the commencement of the *Return to Work Act 2014* on 1 July 2015, the Police Association of South Australia (PASA) campaigned for additional insurance arrangements for police officers. On 15 February 2017 the SA Government and PASA reached an agreement on a new IIPP.

Under the IIPP, eligible police officers who are injured in circumstances detailed in the policy, but who have not been assessed as having a 30% or more Whole Person Impairment and who have not made a return to work within the meaning of the *Return to Work Act 2014*, and are temporarily or permanently incapacitated for work and have exhausted their entitlements under the *Return to Work Act 2014*, will be provided with the financial support and/or medical expenses detailed in the policy.

SAPOL has recognised a $15 million liability for the new IIPP as at 30 June 2017, increasing employee benefits expenses by the same amount.

Supplies and services account for 16% of total expenses and include:

- $34 million for accommodation and property related expenses
- $29 million for communication and computing expenses
- $23 million for motor vehicle related expenses
- $20 million for administration expenses.

Supplies and services expenses increased by $9 million (7%) in 2016-17, driven mainly by:

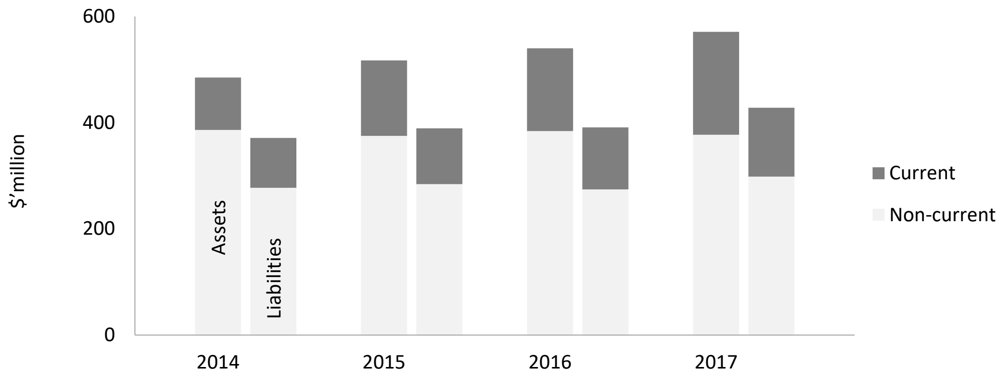
- an increase in accommodation and property related expenses of $2 million, resulting from the annual increase in rent payable on leased properties
- an increase in communication and computing of $3 million, due mainly to additional software maintenance and licences
- an increase in administration costs of $4 million, due mainly to an increase in body worn video costs and driver drug testing consumables.

Income

SAPOL receives government funding based on annual budgeted expenditure, less estimated revenues from fees and charges and other sources. Net revenues from the SA Government increased by $55 million to $853 million, reflecting the increase in funding for salary and wage increases and a $29 million decrease in payments to the Consolidated Account under the Cash Alignment Policy.

Statement of Financial Position

For the four years to 2016-17, a structural analysis of assets and liabilities is shown in the following chart.

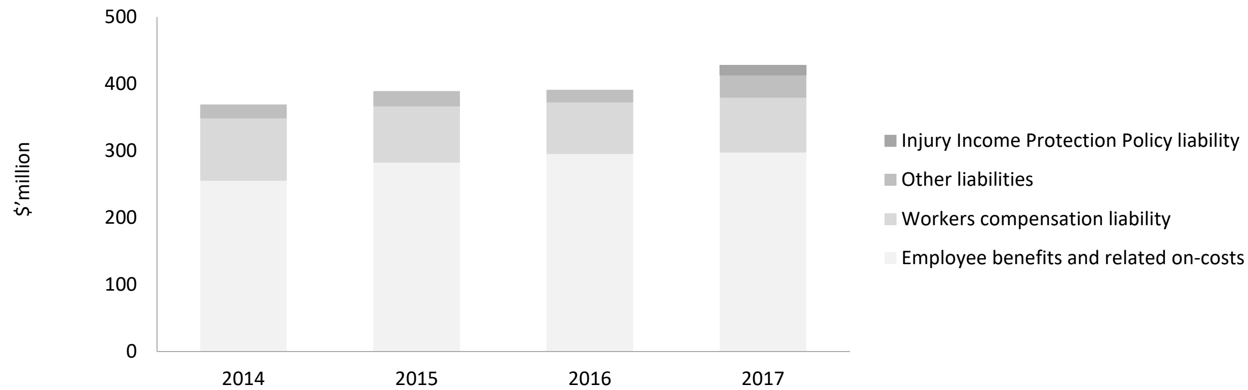


Assets and liabilities

Current assets increased by $38 million mainly as a result of the increase in cash of $59 million, partially offset by a decrease in receivables of $22 million.

The increase in cash reflected a $21 million decrease in the amount receivable from the Community Emergency Services Fund (CESF) at 30 June 2017, and a $15 million increase in creditors and accrued expenses. The decrease in the CESF receivable reflects a change in the timing of receipts from the CESF, while creditors increased due mainly to a $9 million payable for superannuation and payroll tax.

The significance of employee related liabilities compared to total liabilities is shown in the following chart.



Total liabilities have increased by $37 million (9%) due mainly to a $20 million increase in provisions and a $17 million increase in payables.

Provisions increased predominately as a result of the introduction of the $15 million IIPP and a $5 million increase in SAPOL's worker's compensation liability.

Total payables increased by $17 million to $65 million due mainly to:

- a $9 million payable for superannuation and payroll tax, the comparable costs in the prior year having been paid before 30 June
- a $2 million increase in employee benefit on-costs
- an additional $1.4 million in accrued expenses for employee housing subsidies, IT system operating costs and the purchase of additional multi-functional devices.

Administered items

Expiation fees

Expiation fees are collected by SAPOL on behalf of the SA Government. SAPOL treats the collection of expiation revenue under the *Expiation of Offences Act 1996* as an administered item and pays the revenue to the Consolidated Account. Expiation fees collected decreased by $3 million to $67 million in 2016-17.

Victims of Crime levy

SAPOL collects money associated with the *Victims of Crime Act 2001* from the expiation of offences included on expiation notices issued by police officers and other authorised officers. The *Victims of Crime Act 2001* provides for the payment of compensation to people who suffer injury as a result of criminal acts and recovering the money from offenders.

SAPOL collects money and remits it to a special interest bearing deposit account managed by the Attorney-General's Department.

During 2016-17, Victims of Crime levy receipts paid to the Attorney-General's Department totalled $11 million.

Further commentary on operations

Staffing

SAPOL employed the following active FTEs by category as at 30 June for the past two years.

	2017 FTEs	2016 FTEs
Police Act 1998 employees	4 816	4 616
Protective Security	132	123
Unsworn employees	921	932
Total	5 869	5 671

* FTE data was supplied by SAPOL and is unaudited.

South Australian Country Fire Service (SACFS)

Financial statistics	Net cost of providing services:	$70 million
	Total contributions from the Community Emergency Services Fund:	$76 million
	Employee benefits liability and related on-costs:	$6 million
	Workers compensation liability:	$6 million
	Number of FTEs:	150
	Number of volunteers:	13 550

Significant events and transactions

The SACFS is currently in negotiation with the Public Service Association to resolve a dispute with a small number of SACFS employees resulting from over-accruing leave entitlements. The value of leave accrued in excess of entitlement is $638 000.

Financial report opinion

Unmodified

Financial controls opinion

Modified

Key issues:

— Human resource and payroll policies and procedures have not been reviewed or updated for existing practice following the transition to the new Chris21 payroll system

— No policy or procedure for the review and certification of leave return reports

— No legal compliance program

Functional responsibility

The SACFS is a body corporate established by the *Fire and Emergency Services Act 2005*.

The functions of the SACFS include the prevention of fires and the provision of fire and emergency response services to regional and peri-urban areas of South Australia.

The South Australian Fire and Emergency Services Commission (SAFECOM) provides various corporate services to support the SACFS's primary functions. The operations of the SACFS are financed by the Community Emergency Services Fund (the Fund), established by the *Emergency Services Funding Act 1998*.

For more information about the SACFS's objectives refer note 1 of the financial report.

Scope of audit

The audit program covered major financial systems to obtain sufficient evidence to form an opinion on the financial report and internal controls.

The audit included access to systems and information maintained by SAFECOM and the SACFS to conduct relevant financial transaction and control compliance tests.

Specific areas of audit attention in 2016-17 included:

- expenditure
- payroll
- revenue
- non-current assets, including capital works in progress and vehicle management
- cash at bank
- financial accounting
- workers compensation
- governance.

Audit findings and comments

Assessment of controls

In my opinion, the controls exercised by the South Australian Country Fire Service in relation to the receipt, expenditure and investment of money, the acquisition and disposal of property and the incurring of liabilities, except for all matters outlined under 'Communication of audit matters', are sufficient to provide reasonable assurance that the financial transactions of the South Australian Country Fire Service have been conducted properly and in accordance with law.

Communication of audit matters

Matters identified by the audit were detailed in management letters to the Chief Executive, SAFECOM and the Chief Officer, SACFS who are responsible for the governance of the SACFS.

Matters raised with SAFECOM and the SACFS and the related responses are provided in detail under 'Communication of audit matters' in the commentary on SAFECOM in this Report.

Interpretation and analysis of the financial report

Highlights of the financial report*

	2017 $'million	2016 $'million
Expenses		
Employee benefits expenses	19	19
Supplies and services and other expenses	45	47
Depreciation and amortisation	11	11
Total expenses	75	77
Total income	5	5
Net cost of providing services	70	72
Revenues from (Payments to) SA Government	76	75
Net result and total comprehensive result	6	3
Net cash provided by (used in) operating activities	18	19
Net cash provided by (used in) investing activities	(13)	(15)
Assets		
Current assets	23	18
Non-current assets	169	166
Total assets	193	184
Liabilities		
Current liabilities	10	10
Non-current liabilities	8	6
Total liabilities	18	16
Total equity	174	168

* Table may not add due to rounding

Statement of Comprehensive Income

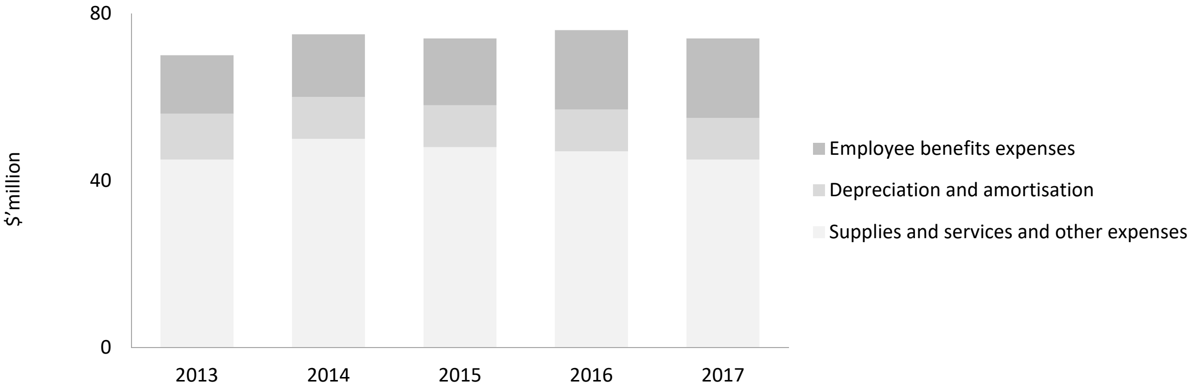
Revenues from SA Government

Revenues from the SA Government of $76 million remained consistent with the previous year. The main source of revenue for the SACFS is contributions from the Fund which account for 94% of total income.

Expenses

Employee benefits expenses of $19 million account for only 25% of the total expenses of the SACFS due to the extensive use of volunteer firefighters.

For the five years to 2017, the main expense items for the SACFS are shown in the following chart.

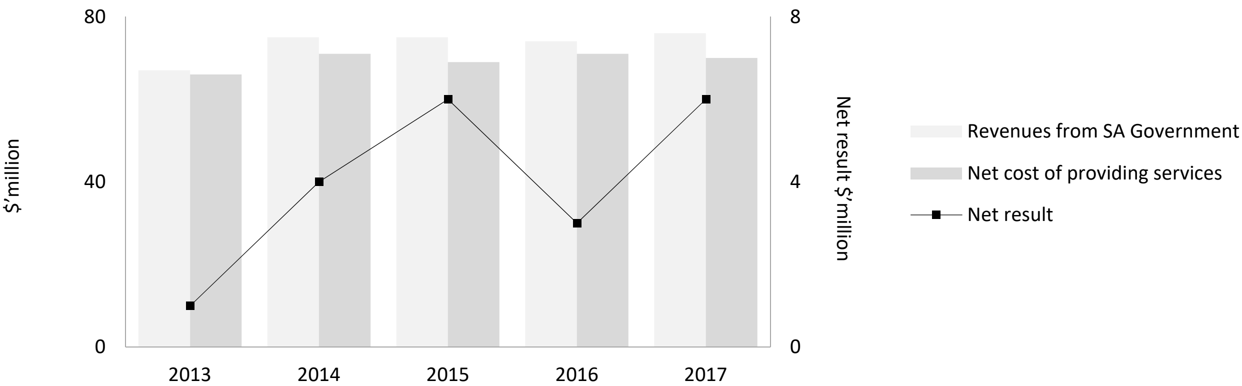


Over the five years, expenses have increased by $4 million. In 2016-17, supplies and services expenses decreased by $2 million, mainly due to a decrease in aerial firefighting and operating costs as a result of a relatively mild bushfire season.

Net result

The net result for 2016-17 increased by $3 million. A decrease in total expenditure of $2 million, coupled with an increase in total revenues from the SA Government of $1 million, contributed to this result.

The following chart shows the funding received by the SACFS from the SA Government (predominantly from the Fund), the net cost of providing services and the net result for the past five years. The net result is impacted by the severity of the bushfire season and the number of major incidents that occur each year.

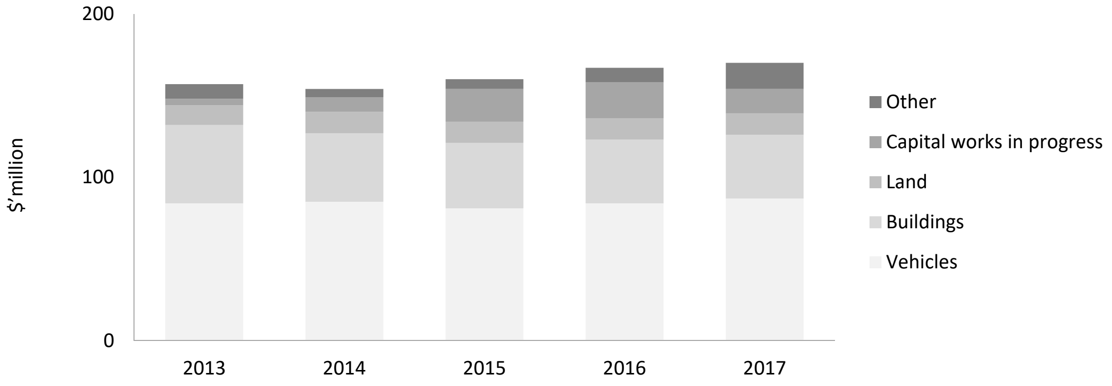


Statement of Financial Position

The Statement of Financial Position is largely comprised of property, plant and equipment which account for 88% of total assets. Property, plant and equipment increased by $3 million to $170 million this year. This increase was due to an investment in building works, fire appliances and communication equipment of $13 million, offset by depreciation of $10 million. The fair values of the main asset classes held by the SACFS were land ($13 million), buildings ($39 million) and vehicles ($87 million) (refer note 19 of the financial report for more information).

Current assets increased by $5 million as a result of the increase in cash of $5 million. The increase in cash reflected $2 million of capital underspends due to a worldwide recall on cab-chassis that the SACFS had budgeted to purchase for the construction of firefighting appliances, a $1 million increase in payables and an $800 000 increase in other income received.

For the five years to 2017, a structural analysis of property, plant and equipment is shown in the following chart. Vehicles is the most significant class of assets, and includes approximately 800 fire appliances. Buildings and land largely represent brigades throughout the State. Capital works in progress of $15 million represent uncompleted assets, which are made up of vehicles and other equipment.



Employment liabilities make up $12 million of the SACFS's total liabilities at 30 June 2017, comprising:

- employee benefits liabilities and related on-costs, $6 million ($6 million)
- provision for workers compensation, $6 million ($5 million). This provision increased following an actuarial review for long-term claims allowed under firefighter compensation arrangements.

South Australian Fire and Emergency Services Commission (SAFECOM)

Financial statistics	Consolidated net cost of providing services:	$237 million
	Total consolidated contributions from the Community Emergency Services Fund:	$245 million
	Employee benefits liability and related on-costs:	$55 million
	Workers compensation liability:	$19 million
	Number of FTEs (SAFECOM consolidated):	1238

Significant events and transactions

On 28 September 2016, South Australia experienced an extreme weather event that triggered a State-wide power outage. An independent review of the emergency management response to this event was undertaken and identified 62 recommendations.

SAFECOM is the lead agency for 12 of the recommendations. As at 30 June 2017, two recommendations were complete, six were underway, two remain under consideration and two were not accepted.

Financial report opinion

Unmodified

Financial controls opinion

Modified

Key issues:

— Human resource and payroll policies and procedures have not been reviewed or updated for existing practice following the transition to the new Chris21 payroll system

— No policy or procedure for reviewing and certifying leave return reports

— No legal compliance program

Functional responsibility

SAFECOM is established by the *Fire and Emergency Services Act 2005*.

The functions of SAFECOM include responsibility for corporate services across the emergency services sector. SAFECOM supports and allocates sector resources and has a leadership role in state-wide emergency management.

SAFECOM administers the Community Emergency Services Fund (the Fund), the main source of funding for all emergency services sector agencies.

Scope of audit

The audit program covered the major financial systems to obtain sufficient evidence to form an opinion on the financial report and internal controls.

The audit included access to systems and information maintained by SAFECOM and the emergency services organisations (ESOs) to conduct relevant financial transaction and control compliance tests. The ESOs are made up of the:

- South Australian Metropolitan Fire Service (SAMFS)
- South Australian Country Fire Service (SACFS)
- South Australian State Emergency Service (SASES).

Specific areas of audit attention in 2016-17 included:

- expenditure
- payroll
- revenue
- non-current assets, including capital works in progress and vehicle management
- cash at bank
- financial accounting
- workers compensation
- governance
- the Fund.

Audit findings and comments

Assessment of controls

In my opinion, the controls exercised by the South Australian Fire and Emergency Services Commission in relation to the receipt, expenditure and investment of money, the acquisition and disposal of property and the incurring of liabilities, except for all matters outlined under ‘Communication of audit matters’, are sufficient to provide reasonable assurance that the financial transactions of the South Australian Fire and Emergency Services Commission have been conducted properly and in accordance with law.

Communication of audit matters

Matters identified by the audit were detailed in management letters to the Chief Executive and chief officers responsible for the governance of SAFECOM and the ESOs. The main matters raised and related responses are detailed below.

Payroll

Policies and procedures not reviewed

For a number of years, we have reported that SAFECOM has not updated a significant number of key policies and procedures to reflect changes in existing practice. In particular, a large number of policies and procedures relating to payroll and human resources have not been updated since June 2009.

SAFECOM responded that it remains increasingly conscious of the requirement to have updated human resource policies and procedures that meet legislative requirements. This has been identified as a key priority in SAFECOM's 2017-18 business plan.

No policy or procedure for leave return reports

For 2016-17 employee benefits liabilities and related on-costs totalled $55 million.

Treasurer's Instruction 2 'Financial Management' requires the chief executive to develop, document and maintain policies and procedures for key financial activities.

We noted that SAFECOM has not developed a policy or procedure for the regular review of leave return reports. Regularly reviewing leave return reports provides SAFECOM and the ESOs with assurance that all leave taken is recorded in the payroll system and therefore deducted from the employee's leave balance.

Discussions with SAFECOM, SACFS and SASES staff highlighted that they were unaware of the need to print and review leave return reports.

SAFECOM responded that it will create a leave return policy and make it available to relevant staff.

Legal compliance

No legal compliance program

We noted that SAFECOM has not developed and implemented a legislative compliance program to monitor SAFECOM and ESO compliance with their legal and regulatory obligations.

Not having a coordinated legal compliance framework increases the risk of SAFECOM not identifying and managing legislative and regulatory requirements and risks, potentially causing reputational loss, litigation and/or financial loss to SAFECOM and/or the SA Government. In addition, SAFECOM may not effectively apply resources to meet its legislative responsibilities.

An effective legal compliance framework includes identifying relevant legislation and regulatory requirements, assigning responsibility for compliance, review processes to ensure legislative and regulatory requirements are complied with, and mechanisms for dealing with non-compliance. This should also include periodic reporting to senior management and the SAFECOM Audit and Risk Committee.

SAFECOM responded that while legislative compliance is considered in developing policies and procedures across the sector, there are limited resources to devote to compliance activities. SAFECOM has elected to focus its compliance resources on emerging cyber security risks.

Shared Services SA – financial systems and transaction processing environments

SSSA processes financial transactions on behalf of SAFECOM under service level determinations. The main systems and control environments include accounts payable, payroll and general ledger financial functions.

Our review and evaluation of controls for these systems concluded that controls were effective for 2016-17.

SSSA is discussed further as part of the commentary under 'Department of the Premier and Cabinet' in this Report.

Interpretation and analysis of the financial report

Highlights of the financial report – consolidated emergency services sector*

	2017 $'million	2016 $'million
Expenses		
Employee benefits expenses	155	164
Supplies and services	74	75
Depreciation and amortisation	21	20
Other expenses	3	3
Total expenses	252	262
Total income	15	14
Net cost of providing services	237	248
Revenues from SA Government	247	240
Net result and total comprehensive result	10	(8)
Net cash provided by (used in) operating activities	32	26
Net cash provided by (used in) investing activities	(26)	(29)
Assets		
Current assets	37	30
Non-current assets	354	348
Total assets	391	378
Liabilities		
Current liabilities	41	38
Non-current liabilities	43	43
Total liabilities	84	81
Total equity	307	297

* Table may not add due to rounding

Statement of Comprehensive Income

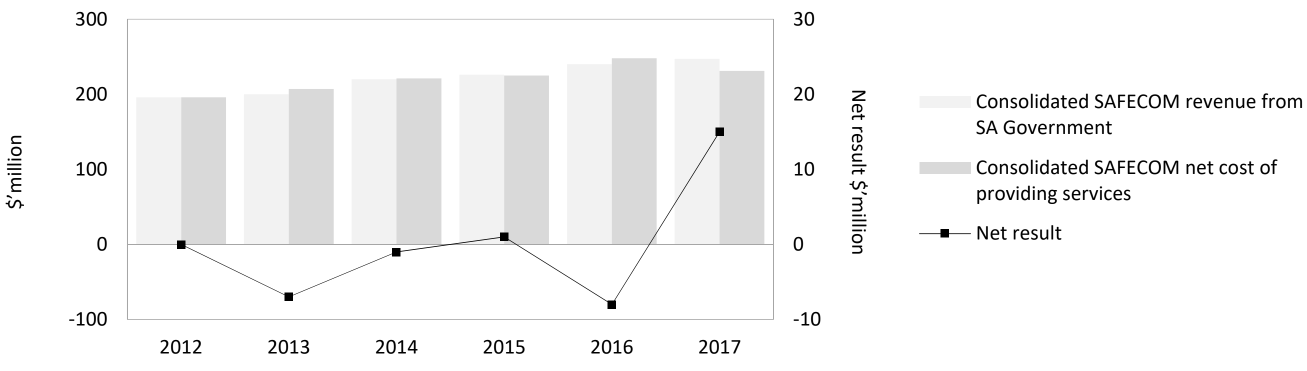
The main source of revenue for the consolidated sector is contributions from the Fund of $245 million ($238 million), which account for 94% of total income.

Expenses largely comprised employee benefits expenses of $155 million ($164 million), which represent 62% of total expenses. During 2016-17, employee benefits expenses decreased by $9 million due to:

- workers compensation expense decreasing by $16 million. Workers compensation expenses are impacted by movements in the workers compensation provision (liability), which in 2017 decreased by $4 million. In 2016 the provision increased by $9 million. These movements represent the main reason for the decrease in the expense for 2017, and indicate the uncertainty associated with this estimate. The decrease in the provision for 2017 was impacted by revisions downwards of the number of long-term claims under firefighter compensation arrangements, together with lower than expected income support payments and redemption and lump sum payments for 2017
- salaries and wages increased by $5 million due to increases under the enterprise bargaining agreement for staff and the employment of an additional 21 FTEs.

The number of employees whose normal remuneration is equal to or greater than the base executive remuneration level requiring disclosure this year was 98 (57). The aggregate remuneration paid or payable for those employees was $16.9 million ($10.4 million). The change largely reflects an additional 37 SAMFS officers now included in the disclosure (refer note 5 of the SAFECOM and SAMFS financial reports).

The following chart shows the funding received by the consolidated sector from the SA Government (including the Fund), the net cost of providing services and the net result for the past five years. It illustrates that revenue from the SA Government has largely been sufficient to meet the net cost of providing services, except in 2013 and 2016 when there were $7 million and $8 million shortfalls respectively. In 2016 these were partly met by cash reserves and due to movements in non-cash items such as workers compensation provision.



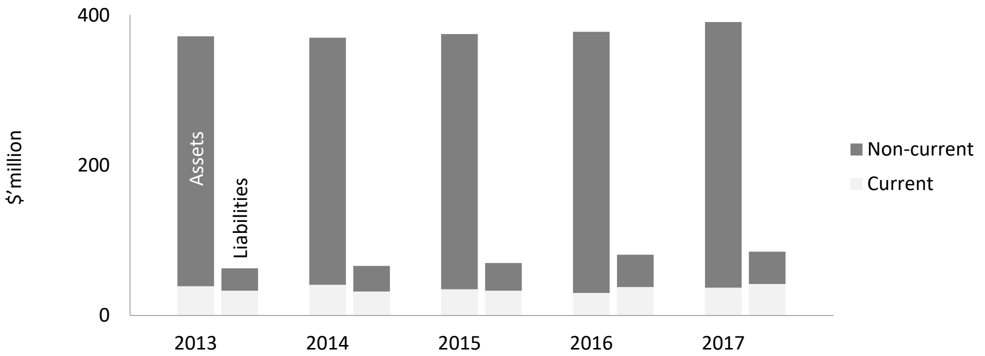
Statement of Financial Position

At 30 June 2017 current liabilities of $41 million exceed current assets of $37 million. The consolidated sector is funded principally from the Fund. The sector works with the Fund to determine cash flows associated with its government approved program of work to ensure funding meets the expected cash flows. The consolidated sector receives its funding monthly, which significantly reduces the risk.

Property, plant and equipment assets of $353 million represent 90% of total assets. The main asset classes held are land ($65 million), buildings ($115 million) and vehicles ($126 million).

Property, plant and equipment increased by $7 million during the year due mainly to acquisitions of $27 million for fire and rescue vehicles and upgrading fire and SASES stations, partially offset by depreciation expense for the year of $20 million.

For the five years to 2017, a structural analysis of assets and liabilities is shown in the following chart.



Employment liabilities of $74 million represent 88% of the consolidated sector's total liabilities at 30 June 2017, comprising:

- employee benefits liabilities and related on-costs, $55 million ($49 million)
- provision for workers compensation, $19 million ($23 million).

Employment benefits liabilities increased $6 million mainly due to a $2 million increase in accrued salaries and wages due to the pay period falling on an earlier date and a $3 million increase in the long service leave liability.

In 2017 the SAMFS identified an error in the long service leave liability estimate for 30 June 2016. The subsequent correction of this error in 2017 explains the increase in the liability.

The workers compensation provision decreased by $4 million. This decrease was impacted by revisions downwards of the number long-term claims under firefighter compensation arrangements, together with lower than expected income support payments and redemption and lump sum payments in 2017. The workers compensation provision is sensitive to changes in assumptions. As claims are received and assessed, assumptions will be based on more extensive experience.

Statement of Cash Flows

Net cash provided by operating activities increased by $6 million in 2016-17 due mainly to increased contributions from the Fund of $7 million. Investing cash outflow decreased by $3 million to $26 million following a reduction in cash payments for the acquisition of property, plant and equipment across the sector.

The following table summarises the consolidated sector's net cash flows for the five years to 2017.

	2017 $'million	2016* $'million	2015 $'million	2014 $'million	2013 $'million
Net cash flows					
Operating	32	26	24	22	14
Investing	(26)	(29)	(31)	(22)	(25)
Change in cash	6	(2)	(7)	-	(11)
Cash at 30 June	29	23	25	32	32

* Table may not add due to rounding

Highlights of the financial report – SAFECOM*

	2017 $'million	2016 $'million
Expenses		
Employee benefits expenses	7	8
Supplies and services	5	7
Other expenses	3	4
Total expenses	16	19
Total income	3	3
Net cost of providing services	13	16
Revenues from SA Government	15	13
Net result and total comprehensive result	2	(3)
Net cash provided by (used in) operating activities	1	(2)
Assets		
Current assets	7	5
Non-current assets	2	2
Total assets	9	7
Liabilities		
Current liabilities	2	2
Non-current liabilities	2	2
Total liabilities	4	4
Total equity	4	3

* Table may not add due to rounding

Statement of Comprehensive Income

Revenues from SA Government

The main source of funds for SAFECOM is the contributions from the Fund of $12 million, which account for 67% of revenues. Contributions increased by $1.5 million in 2016-17.

Expenses

Employee benefits expenses are the main expense category of SAFECOM and totalled $7 million ($8 million), which is 46% of total expenses.

Highlights of the financial report – administered items*

	2017 $'million	2016 $'million
Expenses		
Contributions to SA Government administrative units	272	264
Grants and subsidies	4	3
Other expenses	11	9
Total expenses	286	276

	2017 $'million	2016 $'million
Income		
Revenues from levy sources	296	278
Other revenues	2	2
Total income	298	280
Net result and total comprehensive result	12	3
Net cash provided by (used in) operating activities	(12)	28
Assets		
Current assets	24	36
Total assets	24	36
Liabilities		
Current liabilities	1	25
Total liabilities	1	25
Total equity	23	11

* Table may not add due to rounding

Community Emergency Services Fund

Contributions, by way of levies, are made by all 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*. The levies are set to cover the budgeted emergency services expenditure for the coming financial year.

The levy on fixed properties is collected by RevenueSA and applies to capital values adjusted for location and land use. The levy on mobile properties is collected by the Department of Planning, Transport and Infrastructure using the vehicle registration system. Once collected, these levies are paid into the Fund.

In addition, the SA Government has made direct contributions to the Fund in the form of remissions of levies (both fixed and mobile property) and concession subsidy payments through the Department for Communities and Social Inclusion for eligible people.

The costs of collecting levies and expenses relating to administration are also met from the Fund.

Statement of Administered Comprehensive Income

For the year ended 30 June 2017 the Fund's net result was a surplus of $12 million ($3 million).

This surplus reflects $11 million in levy collections for 2015-16 not received by the Fund until 2016-17.

Administered revenue

Levies and other revenues are collected in line with the *Emergency Services Funding Act 1998* to fund the budget of SA Government administrative units, grants and subsidies to various bodies and other payments approved by the Minister for providing emergency services. Emergency services levies increased by $18 million to $296 million.

The increase in levy revenue and changes in remissions are shown in the table below.

	2017 $'million	2016 $'million	2015 $'million	2014 $'million	2013 $'million
Fixed property collections	219	199	191	101	100
Fixed property remissions*	25	26	20	96	83
Mobile collections	43	43	41	33	32
Mobile remissions*	3	3	4	12	11
Government concessions	6	7	7	7	7
	296	278	263	249	233

* Remissions are provided by the SA Government

The table identifies a $20 million increase in fixed property collections to $219 million. This increase is due mainly to the $11 million in levy collections for 2015-16 not received for RevenueSA until 2016-17. These transfers were impacted by delays in Emergency Services levy billing, mainly as a result of implementing RevenueSA's new RIO taxation system. The increase in fixed property collections was also impacted by increases in property values. While the prescribed fixed property levy rate decreased by 1.3%, increases in property values exceeded expectations, largely explaining the remaining increases in fixed property collections.

In the 2014-15 State Budget, the SA Government removed general remissions for all property owners except eligible concession recipients. All non-concessional property owners were required to pay their full levy from 1 July 2014. This had the following impact:

- remissions paid by the SA Government decreased by $84 million
- fixed property collections paid by property owners increased by $90 million
- mobile collections paid by property owners increased by $8 million.

Administered expenses

The following table shows the contributions made to SA Government administrative units over the past five years.

	2017 $'million	2016 $'million	2015 $'million	2014 $'million	2013 $'million
SAMFS	137	136	124	121	107
SACFS	76	74	74	68	66
South Australia Police	21	21	21	20	20
SASES	20	16	15	15	15
SAFECOM	12	11	11	10	11
Other*	6	6	5	4	4
	272	264	250	238	223

* Refer note A3 of the financial report

Over the period contributions paid have increased by $49 million, with most of the increase being received by the SAMFS ($30 million) and SACFS ($10 million).

In 2016-17, contributions to SA Government administrative units increased by $8 million to $272 million, with the increase for the SASES impacted by the following:

- $2 million to cover extreme weather event additional expenses
- $1 million to cover enhanced flood response and incident management capabilities
- $500 000 to continue the Zone Emergency Risk Management arrangements.

Note A5 to the administered financial statements discloses other expenses. It details that $7 million was paid to RevenueSA for collection costs under the *Emergency Services Funding Act 1998* for administering the collection of fixed property levies. The Department of Planning, Transport and Infrastructure was paid $1 million in collection costs for collecting the mobile property levies.

Statement of Administered Financial Position

Net assets for the Fund at 30 June 2017 were $23 million ($11 million).

At 30 June 2017, current assets totalled $24 million ($36 million), predominately comprising cash and cash equivalents. The decrease in cash and cash equivalents of $13 million relates to the release of funds payable at 30 June 2016. Payables at 30 June 2016 included $21 million payable to South Australia Police and $3 million payable to the Department of Environment, Water and Natural Resources. There were no contributions payable to SA Government administrative units at 30 June 2017.

South Australian Forestry Corporation (ForestrySA)

Financial statistics	Sale of timber products:	$14 million
	Revenues from SA Government:	$10 million
	Value of land and standing timber:	$91 million
	Number of FTEs:	37
	Hectares of forests managed by ForestrySA:	
	Commercial plantations in the Mount Lofty Ranges	11 585
	Commercial plantations in the mid-north of the State	3 896
	Native forest reserves	19 861

Significant events and transactions

- ForestrySA recorded a profit of $5.5 million. This was mainly attributable to a net increase in the value of standing timber.
- A dividend of $3.6 million was paid to the SA Government to return proceeds from the sale of equipment following the transfer of management of the Green Triangle plantations to OneFortyOne Plantations Pty Ltd.
- The SA Government is negotiating the future of the fire ravaged plantations in the mid-north of the State.

Financial report opinion

Unmodified

Financial controls opinion

Modified

Key issues:

- No mechanism in place to undertake periodic assessments of the finance management compliance program as envisaged by the Treasurer's Instructions
- Lack of segregation of duties in processing and approving of changes to payroll details
- General journals can be processed without independent review

Functional responsibility

ForestrySA is a public corporation established under the *South Australian Forestry Corporation Act 2000* and is responsible to the Minister for Forests.

ForestrySA manages native forest reserves and commercial plantations located in the Mount Lofty Ranges, Green Triangle and the mid-north of the State. It also managed, up until 1 October 2015, commercial Green Triangle plantations owned by OneFortyOne Plantations Pty Ltd (OFO).

Forward sale of forest rotations

On 17 October 2012 the SA Government sold the forward harvest rotations of ForestrySA's Green Triangle plantations to a consortium led by The Campbell Group which manages OFO. The Green Triangle plantations, which are located in the south-east of the State, span into Victoria.

OFO engaged the Treasurer (and ForestrySA as the Treasurer's agent) to manage the Green Triangle plantations under a plantation management agreement in return for a management fee. OFO paid the management fee directly to ForestrySA.

Change to OneFortyOne arrangement

On 22 July 2015, the Minister for Forests announced that OFO would internalise the management of its plantations in 2015-16, effectively ending ForestrySA's obligation to manage OFO's plantations. OFO offered to employ ForestrySA's staff predominantly involved in its plantation management services to OFO. From 1 October 2015 OFO took over plantation management from ForestrySA. This arrangement significantly reduced ForestrySA's workforce and operations. For more information about these changes refer note 1 of the financial report.

Future of forests in mid-north of the State

Wildfires in the summers of 2013 and 2014 caused major damage to the commercial plantations in the mid-north of the State, impacting significantly on their commercial viability. Given the extent of the losses, the SA Government requested expressions of interest from the public seeking proposals to develop and use this area of commercial plantations and native forest reserves. Responses will inform future processes that could include tendering the sale, lease or management of various parts of the land. The future of the mid-north forests is currently being negotiated with a number of interested parties.

Scope of audit

The 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 2016-17 included:

- sale of timber products to domestic and overseas customers

- expenditure resulting from the harvest and transport of timber products to customers
- payroll and other forms of expenditure.

Internal audit activities were considered in designing and performing audit procedures.

Audit findings and comments

Assessment of controls

In my opinion, the controls exercised by the South Australian Forestry Corporation in relation to the receipt, expenditure and investment of money, the acquisition and disposal of property and the incurring of liabilities, except for all matters outlined under ‘Communication of audit matters’, are sufficient to provide reasonable assurance that the financial transactions of the South Australian Forestry Corporation have been conducted properly and in accordance with law.

Communication of audit matters

Matters identified by the audit were included in a management letter to the Chief Executive. The main matters raised and related responses are detailed below.

No periodic assessment of the financial management compliance program (FMCP)

Treasurer’s Instruction 28 ‘Financial Management Compliance Program’ (TI 28) requires chief executives to develop, implement, document and maintain a robust and transparent FMCP. The FMCP assesses policies, procedures, systems, internal controls, risk management, statutory and other financial reporting, and the adequacy of management reporting. In 2015 ForestrySA engaged Ernst & Young to develop its FMCP. In 2016-17 the FMCP was reviewed and updated for the significant organisation changes that occurred as a result of OFO internalising plantation management.

At present there is no mechanism to periodically assess the FMCP as envisaged by TI 28. We recommended that an annual self-assessment be implemented to comply with TI 28.

ForestrySA responded that the responsible person for the FMCP, the Finance Manager, has now set an annually recurring reminder to complete an annual self-assessment. The FMCP is also now a ‘controlled document’ and will have an annual review date set to ensure compliance.

Review of changes to the payroll system needs improving

After each fortnightly payroll is processed, a report detailing all changes made to the payroll system is generated and reviewed. We identified that the report is produced in an editable Excel format by the payroll officer, who also makes the employee masterfile changes. This lack of segregation of duties increases the risk that inappropriate changes are made to the payroll system.

We recommended that to ensure adequate segregation of duties, the Manager Corporate should produce and review the payroll changes report, and sign it to evidence this check. ForestrySA responded that it is working on either a report in an uneditable format or the Manager Corporate running the report directly. In the interim, the Manager Corporate is overseeing the report production and evidencing both the report content and that no changes were made.

General ledger journal approval process needs to improve

We found that two officers had general ledger system access to process and approve journals without independent review, which may result in inaccurate and inappropriate transactions being processed.

We recommended amending the user profiles of these two officers to ensure they cannot both process and approve journals. Alternatively Forestry SA should consider producing and reviewing an audit trail from the ledger system of all journals processed. This report should be reviewed by an independent officer and evidenced accordingly. ForestrySA responded that it would produce an audit trail of journals that have been processed to be reviewed by an independent officer and evidenced accordingly.

Interpretation and analysis of the financial report

Highlights of the financial report

	2017 $'million	2016 $'million
Income		
Sales – timber products	14	19
Wood sales – back-to-back	-	30
Revenues from SA Government	10	7
Other revenue	2	5
Total income	26	61
Expenses		
Employee benefits	4	5
Contractors	11	13
Wood purchases – back-to-back	-	30
Other expenses	11	13
Total expenses	26	61
Trading profit before revaluation of standing timber	-	-
Net change in value of standing timber	6	(2)
Profit (Loss) after revaluation of standing timber and income tax equivalent expense	6	(2)
Impairment of property, plant and equipment prior to restructure	-	(1)
Total comprehensive result	6	(3)
Net cash flows from operating activities	(2)	(3)

	2017 $'million	2016 $'million
Assets		
Current assets	29	31
Non-current assets	100	97
Total assets	129	128
Liabilities		
Current liabilities	3	4
Non-current liabilities	2	2
Total liabilities	5	6
Total equity	124	122

Statement of Comprehensive Income

Income

Income in 2017 decreased by $35.6 million to $25.8 million. This was due mainly to lower revenue from back-to-back wood sales, timber product sales and management services.

Timber products sales

Timber products sales revenue decreased by $4.6 million to $14.2 million ($18.7 million). The reduction is mainly attributable to a reduced export program as the stock of burnt timber is run down.

Back-to-back wood sales

After the sale of forward harvest rotations, all but one customer in the Green Triangle novated their sales contracts from ForestrySA to OFO. Back-to-back wood sales relate to revenue received on behalf of OFO from this one customer. ForestrySA passed this revenue onto OFO and recognised the transfer as back-to-back wood purchases expense. The back-to-back sales and expenses had no net effect on ForestrySA's trading profit. In 2015-16, this customer novated their sales contract from ForestrySA to OFO, hence no further transactions are recognised.

Sales of management services

Sales of management services decreased by $3.2 million to $121 000 as a result of OFO taking over plantation management from 1 October 2015.

Revenues from SA Government

Revenues from the SA Government increased by $3.6 million to $10.1 million due mainly to the increase in funding required from the SA Government for accounting losses incurred before the revaluation of standing timber. Included in the total funding was $4 million ($4 million) for community service obligations and the Government Radio Network.

Expenses

Expenses include expenditure incurred by ForestrySA on behalf of OFO, prior to the transfer of operations from 1 October 2015, that was recoverable from OFO under the plantation management agreement. Expenses exclude supplies and services from suppliers that contracted directly with OFO. In these circumstances the expenses were paid directly by OFO and not recognised in ForestrySA's financial report.

Expenses decreased by $35.1 million to $26.3 million due mainly to:

- contractors decreasing by $1.5 million to $11.1 million mainly due to a decrease in harvest and contract expenditure relating to export shipments, as there were less shipments in 2017 than the prior year
- back-to-back wood purchases expense decreasing by $30.4 million to $0. For further details refer to commentary under 'Back-to-back wood sales' above
- equipment and vehicle expenses decreasing by $511 000 to $772 000 because of the sale of several vehicles and a decrease in operations as ForestrySA no longer provides services on OFO's behalf
- other expenditure decreasing by $1.6 million to $6.9 million mainly as a result of a decrease in export shipment expenditure, as there were less shipments in 2017 than the prior year.

Trading results

In 2017, ForestrySA incurred a trading loss of $436 000 (trading profit of $37 000). Its trading operations reflect two main activities:

- commercial forestry operations in the Mount Lofty Ranges and the mid-north of the State
- community service obligations such as native forest management, community use of forests and community protection of forests (including fire protection).

The prior year result included the management of OFO forestry operations in the Green Triangle until 1 October 2015 in return for a management fee under the plantation management agreement.

For more information about the trading profit for each of these activities refer note 20 of the financial report.

ForestrySA requires funding from the SA Government to continue its community service activities and perform its obligations under the plantation management agreement as negotiated by the Treasurer in the forward sale. For more information about this funding arrangement refer notes 1 and 4(i) of the financial report.

Standing timber

In 2017 and 2016 the plantation in the Mount Lofty Ranges was valued by an independent expert in forest valuations at $52 million ($46 million). The $6 million increase in the 2017 valuation resulted mainly from changes in harvesting strategy, changes in the unit costs for production and forest management and increases in log prices in the domestic and export markets. The plantations in the mid-north of the State were valued internally in 2017 and 2016 at $0.

ForestrySA uses the net present value approach to value its standing timber. This approach takes into account the likely timing of cash flows from harvesting and sales of timber over long periods, and the effects of inflation and discount rates. For more information about the valuation of standing timber refer note 2(i) of the financial report.

There is inherent uncertainty in the standing timber valuation that is endemic to all forest valuations. A sensitivity analysis is provided in note 13 of the financial report to assess the impact of changes in key assumptions used in the standing timber valuation. A pre-tax real discount rate of 8.5% (8.5%) was applied in determining the value of standing timber. The use of a ‘real’ discount rate effectively allows for all prices and costs to be expressed in current dollar terms.

Statement of Financial Position

Net assets increased by $2 million due mainly to the increase in the value of standing timber, offset by a decrease in cash and cash equivalents. Movements in the value of standing timber are explained above.

Cash and cash equivalents

Cash and cash equivalents decreased by $6.1 million to $13.7 million due mainly to:

- a $3.6 million special dividend paid to the Department of Treasury and Finance (DTF) as a result of cash inflows from the sale of assets as part of the internalisation of plantation management by OFO in 2015
- DTF funding of $6.1 million that was receivable as at 30 June 2017, compared to $2.3 million receivable in the prior year.

Other assets

Receivables increased by $3.7 million to $10.2 million due mainly to the DTF funding receivable described above.

South Australian Government Financing Authority (SAFA)

Financial statistics	Profit before income tax equivalents: $92 million Total loans on issue: $20.7 billion Total bonds, notes and debentures on issue: $17.9 billion Outstanding insurance claims: $383 million Fleet vehicles (including held for sale): $166 million Number of fleet vehicles (including held for sale): 7371
Significant events and transactions	— SAFA reviewed its liquidity and funding portfolios, including risk and limit structures, to ensure greater alignment with market best practice and regulator and rating agencies' guidelines. — A new $250 million low interest loan scheme to fund the upgrade of infrastructure and facilities at non-government schools commenced. — A hedging strategy was implemented for interest rate risk exposures on the new Royal Adelaide Hospital project finance lease arrangements.
Financial report opinion	**Unmodified**
Financial controls opinion	**Modified** Key issue: — SAFA did not promptly follow up overdue performance and control reports required from the vendor under the RiskConsole insurance system contract

Functional responsibility

SAFA, a body corporate, was established under the *Government Financing Authority Act 1982* (SAFA Act).

SAFA is the central borrowing authority for the State of South Australia, and is responsible for managing most of the State's debt and for implementing the SA Government's debt management policy as determined by the Treasurer.

Under section 15 of the SAFA Act, SAFA's liabilities are guaranteed by the Treasurer.

SAFA also administers the SA Government's:

- insurance and risk management arrangements through its insurance division, trading as SAICORP
- passenger and light commercial vehicle fleet operations through Fleet SA.

Scope of audit

The audit program covered the major financial systems to obtain sufficient evidence to form an opinion on the financial report and internal controls.

Specific areas of audit attention in 2016-17 included:

- cash
- financing
- treasury
- insurance claims, fleet and operating expenditure
- fleet vehicle assets
- general ledger.

Internal audit activities were reviewed to assess the risks of material misstatement in the financial report and to design and perform audit procedures. We considered the work performed by SAFA's compliance unit and internal audit function for elements of our program, in particular:

- quarterly reporting by SAFA's compliance unit
- internal audit's half-yearly assessment of work performed by SAFA's compliance unit
- internal audit's review of treasury operations, funding and liquidity management and network and cyber security.

Audit findings and comments

Assessment of controls

In my opinion, the controls exercised by the South Australian Government Financing Authority in relation to the receipt, expenditure and investment of money, the acquisition and disposal of property and the incurring of liabilities, except for all matters outlined under 'Communication of audit matters', are sufficient to provide reasonable assurance that the financial transactions of the South Australian Government Financing Authority have been conducted properly and in accordance with law.

Communication of audit matters

Matters identified by the audit were detailed in a management letter to the SAFA General Manager. Satisfactory responses were received.

Inadequate management of RiskConsole insurance system vendor contract obligations

RiskConsole is the cloud based system used by SAFA and its agency clients to manage end-to-end insurance business requirements. A vendor provides the RiskConsole insurance system to SAFA under a contract.

The contract requires the vendor to provide a series of periodic performance and control reports that support specific milestones over the year. These reports serve to confirm the adequacy of IT controls that manage and support RiskConsole data.

Our review indicated that reports and validations had not been provided by the vendor in line with the scheduled delivery dates in the contract and that SAFA had not initiated timely follow-up of the information.

The inadequate management of periodic testing and security reporting on RiskConsole increases the risk that operational errors may not be detected.

We recommended that SAFA ensure future vendor reporting occurs in line with established contractual obligations and defined time frames. This includes initiating regular formal follow-up when there are ongoing delays in reporting.

SAFA responded that it will ensure future vendor testing and security reporting is received in line with contractual time frames.

Policies, procedures and service agreements out of date

We identified instances where SAFA had not updated policies, procedures and service agreements to reflect current business practices.

SAFA responded that its policies, procedures and service agreements would be updated as appropriate.

Interpretation and analysis of the financial report

Highlights of the financial report

	2017 $'million	2016 $'million
Interest revenue	957	971
Interest expense	(969)	(970)
Net interest revenue	(12)	1
Net gain (loss) on financial instruments and derivatives	109	40
Leasing and hire revenue	58	61
Insurance premium revenue	52	48
Recoveries	20	23
Other income (including net gain on sale of property, plant and equipment)	9	5
Vehicle operating costs (including depreciation and impairment)	(66)	(68)
Insurance claims	(55)	(65)
Other expenses	(23)	(28)
Profit before income tax equivalents	92	17
Income tax equivalent expense	(28)	(5)
Profit after income tax equivalents and total comprehensive result	64	12
Assets		
Cash, short-term assets and investments	6 442	3 664
Loans	20 665	19 858
Derivatives receivable	125	255
Property, plant and equipment (including held for sale)	166	172
Other assets	53	61
Total assets	27 451	24 010
Liabilities		
Deposits and short-term borrowings	8 681	8 049
Bonds, notes and debentures	17 913	15 069
Outstanding claims	383	375
Derivatives payable	51	116
Payables and other liabilities	55	74
Total liabilities	27 083	23 683
Total equity	368	327

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. Both have moved marginally in percentage terms compared to the prior year.

Interest revenue and expense are both driven by market interest rates and have decreased proportionately in recent years as a result of the downward trend in these interest rates. Interest revenue and expense are also impacted by the timing of maturities and settlements for financial instruments, including derivatives. These factors have a flow-on impact to net interest revenue, which reflects gross interest revenue less gross interest expense.

Net gain on financial instruments and derivatives

The net gain on financial instruments and derivatives of $109 million for 2016-17 comprises realised and unrealised gains from SAFA's treasury and insurance activities.

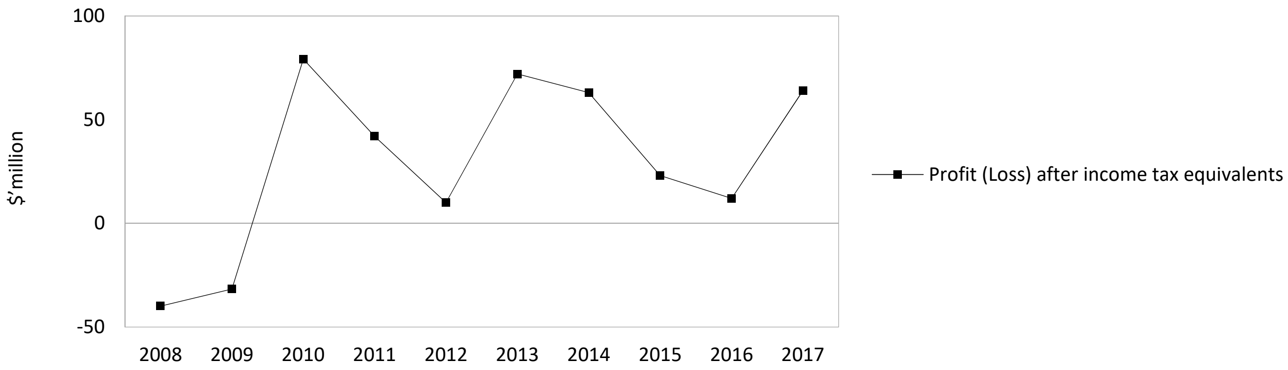
Leasing and hire revenue and recoveries

Leasing and hire revenue reflects the fees charged to other government agencies for leasing fleet vehicles, whereas recoveries include the recovery of fuel costs and unscheduled maintenance charges for the fleet vehicles.

Profit (Loss)

SAFA's profit before income tax equivalents was $92 million. Under Treasurer's Instruction 22 'Tax Equivalent Payments' SAFA is required to pay the Treasurer an income tax equivalent. The income tax liability is calculated by applying a tax rate of 30% to profit or loss before tax.

The 10-year trend in SAFA's profit or loss after income tax equivalent expense is illustrated in the following chart.



The chart highlights the volatility in SAFA's results. This volatility comes from the financial performance of SAFA's insurance activities.

The 2017 profit after income tax equivalents of $64 million is primarily attributable to profit on SAFA's insurance activities of $38 million and treasury activities of $18 million (refer note 3 of the financial report).

Insurance activity impact on profit (loss)

SAFA's insurance activities are designated into three funds (Fund 1, Fund 2 and Fund 3). SAFA's result after income tax equivalents is, in net terms, only affected by Fund 1 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:

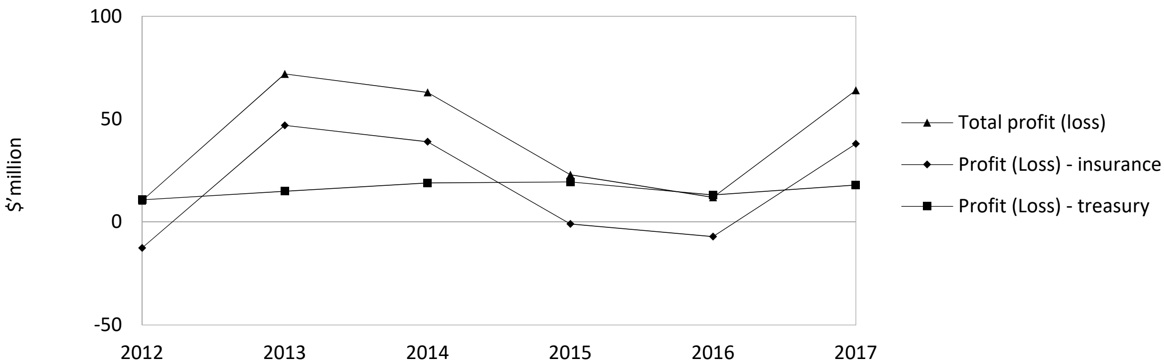
- occurred before 1 July 1994
- involve claims under the building warranty indemnity reinsurance arrangements up to 30 June 2013

- involve the former State Government Insurance Commission residual claims and workers compensation claims previously managed by the former South Australian Asset Management Corporation.

Fund 3 is used to fund liabilities arising from claims under the building indemnity insurance scheme effective from 1 July 2013.

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 highlighted in the following chart.



SAFA's insurance activities reported a 2016-17 profit after tax of $38 million (loss of $7 million), which was mainly due to:

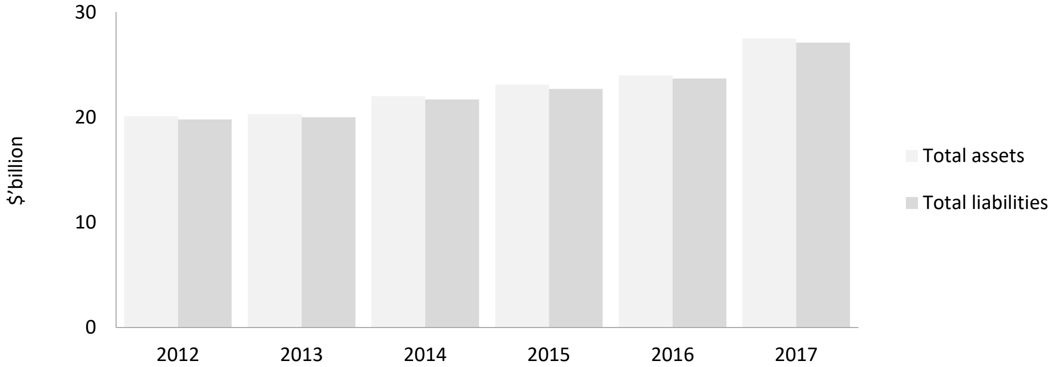
- strong returns on insurance investment assets during the year
- the favourable impact of changes in actuarial assumptions adopted in estimating the outstanding claims liability (eg discount rate increases).

These changes highlight the inherent volatility of insurance activities, and the impact on SAFA's financial performance.

Statement of Financial Position

Assets and liabilities

A structural analysis of assets and liabilities for the six years to 2017 is shown in the following chart.



The chart illustrates the gradual increase in SAFA's assets between 2012 and 2016. Over the same period SAFA's total liabilities increased by a corresponding amount, reflecting its activities in financial markets to fund the accumulated deficits and loans to public authorities.

The vast majority of SAFA's financial assets used for treasury operations relate to financial liabilities financed by market borrowings. The remaining balance of financial assets is funded from SAFA's equity ($368 million as at 30 June 2017).

In 2017, there was a significant spike in SAFA's total assets and liabilities. This is mainly due to increases in investment assets ($2.9 billion) and bonds, notes and debentures liabilities ($2.8 billion). These increases are primarily attributable to changes in SAFA's liquidity policy. SAFA sought to increase its liquidity to ensure greater alignment with market best practice and regulator and rating agencies' guidelines. To increase the amount of liquid funds available, new select line bonds were issued, with the proceeds placed in investments.

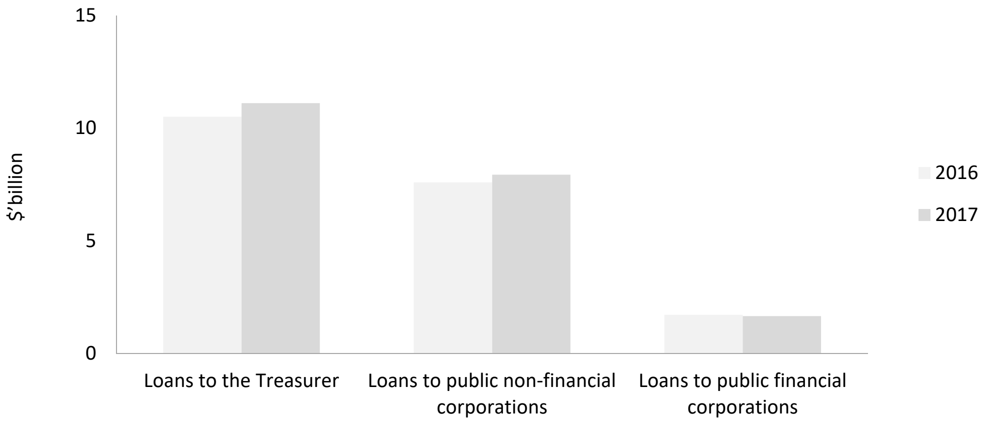
Further detail on the liquidity policy changes is provided under 'Liquidity policy review' below.

Loans to government agencies

Total assets include loans of $20.7 billion, comprising SAFA's loans to the Treasurer to fund accumulated Consolidated Account deficits and loans to other public authorities.

At 30 June 2017 SAFA's loans to the Treasurer totalled $11 billion, an increase of $518 million since 30 June 2016. The Treasurer also has funds on deposit with SAFA totalling $6.5 billion ($5.2 billion) as at 30 June 2017.

The chart below highlights SAFA's current and prior year government sector loan composition.



The chart highlights the current year increase in loans to the Treasurer, while there was relatively minimal movement in loans to public non-financial and financial corporations. The increase in loans to the Treasurer was to fund the deficit in the Consolidated Account for 2016-17 ($618 million).

Capital and distributions

At 30 June 2017 SAFA's capital reserves were represented solely by its retained earnings, which stood at $368 million ($327 million). A $23 million ($39 million) dividend distribution was made to the Treasurer in 2016-17.

This dividend payment was made under section 12(2) of 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 Treasurer approved SAFA's dividend payment in June 2017.

Statement of Cash Flows

SAFA's cash position fluctuates in line with the net effects of its various operating, investing and financing activities. Cash balances have been maintained in line with liquidity requirements.

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 Authority Advisory Board (the Advisory Board). The Advisory Board comprises up to seven members, one of whom is the Under Treasurer who is also Presiding Member.

The SAFA Act provides that the Under Treasurer may request advice from the Advisory Board and consider any advice given. The Advisory Board may provide advice, as it sees fit, to the Treasurer or SAFA. 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.

Business risk management

Operational risk management

SAFA has a number of mechanisms to manage operational risks, including:

- an annual risk assessment performed 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 centralised procedures manual that provides a high level summary of the actions that SAFA expects to be maintained within the treasury, insurance, fleet and operational support units. The procedures manual is also subject to annual review
- the compliance unit performing daily, weekly, monthly and quarterly reviews to ensure compliance with policy requirements. The compliance unit's work is reviewed and tested by SAFA's contracted internal auditor
- an Audit and Risk Management Committee comprising three members appointed by the Advisory Board.

SAFA's treasury portfolio structure

To help manage SAFA's treasury function and its associated risks, its balance sheet has been separated 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:

- SAFA's 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. 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 and assets and hedging instruments (including derivatives). It is run on a basis where mismatches between assets and liabilities are managed within risk parameters.

The foreign exchange hedging service portfolio covers all transactions associated with 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.

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 cost of funds portfolio is the primary portfolio for the Treasurer. It contains liabilities and assets managed against a benchmark range. The main management task for this portfolio is to minimise interest rate risk within the portfolio relative to the policy benchmark range set by the Treasurer. The net expenses of this portfolio 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 new Royal Adelaide Hospital (nRAH) transactions. The interest rate exposure on the nRAH transactions is managed by fixing the interest rate for a defined term.

Client asset/liability management portfolios

The client asset/liability management portfolios do not reside on SAFA's Statement of Financial Position and only impact on SAFA's profit and loss through fee income received. This includes the South Australian Water Corporation (SA Water) liability management portfolio.

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.

This portfolio also comprises the Treasurer's loans to government entities and other bodies, including loans by the Treasurer to government departments, statutory authorities and other bodies. 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 it performs its treasury, insurance and fleet functions in a low risk appetite fashion, protects the interests of its owners and clients and protects its reputation as a provider of services consistent with its strategic direction.

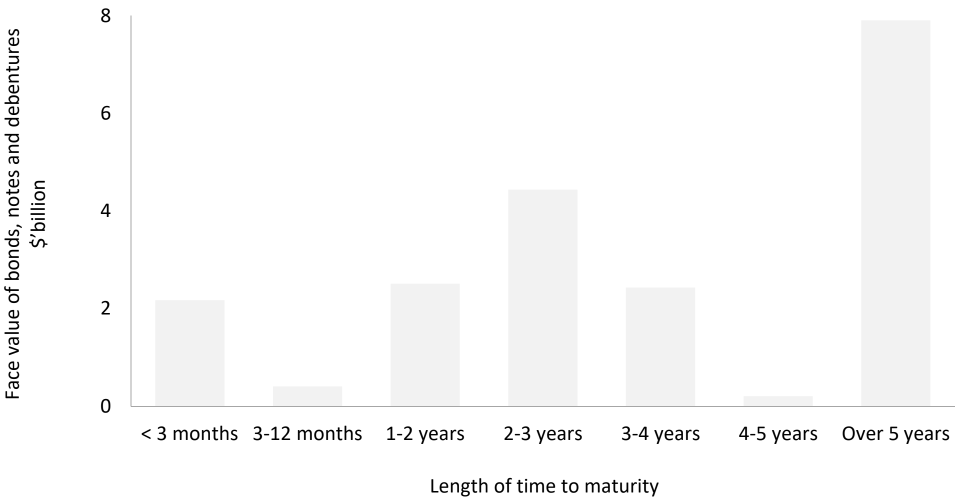
A low risk appetite approach means some exposure to identified risk is tolerated that is within well defined, approved parameters consistent with the organisation's strategic direction and business objectives.

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 high margin 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 2017 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 illustrates that SAFA will have an average of $3 billion in principal and interest repayments each year for the next four years. From 2021, SAFA will have $8.1 billion of principal and interest repayments.

The chart does not include expectations for the SA Government's early refinancing or future financing requirements.

Liquidity policy review

Between August and December 2016, SAFA completed a liquidity policy review that proposed various changes to its approach to funding, liquidity, credit and interest rate risk management. This was designed to align SAFA with market best practice and regulator and rating agencies' guidelines.

The review recommended:

- an increase in SAFA's base liquidity buffer from $350 million to $1.5 billion
- a commitment to fully fund SAFA's select lines for at least 12 months of future maturities in advance (and at least 80% for 15 months)
- adjustments to ensure SAFA's liquidity coverage remains at least at 100% of debt servicing on a 12-month rolling basis.

These recommendations were noted by the Advisory Board and approved for implementation by the Treasurer. The recommendations resulted in changes to the borrowing limits, credit limits and market risk limits used in managing treasury operations.

In 2016-17, we reviewed the update of these changes to SAFA's treasury system and risk reporting.

New Royal Adelaide Hospital interest rate risk hedging strategy

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

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

This approach aims to align the cash flow profile of the project to the proposed hedging strategy. While it does not hedge the project for the life of the contract, it fixes the rate for the earlier lease years when the State is most exposed to rate movements (ie at the 'front end' when most of the debt is paid down). The strategy also provides flexibility to extend the hedging beyond the initial period to cover the balance of the contract should this be desirable.

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 Minister for Finance after consideration by the Advisory Board.

The structure of SAFA's catastrophe reinsurance program for 2016-17 is shown in the following diagram.

SAFA's catastrophe reinsurance premium expense for 2016-17 was $7.7 million ($8.4 million).

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

As part of the 2016-17 State Budget, the SA Government established a new $250 million low interest loan scheme to help non-government schools to upgrade infrastructure and facilities.

Loans of between $500 000 and $10 million per school will be made available over five years, with loan terms up to 15 years. There are likely to be two funding rounds each year from 2017.

All non-government schools are eligible to apply and access will be granted based on highest need, taking into account a school's Socio Economic Status score. Priority will be given to projects that invest in science, technology, engineering and maths, as well as the early years facilities.

The first loan was drawn down under the scheme in February 2017. Loans issued to non-government schools totalled $7.2 million at 30 June 2017 (refer note 7 of the financial report).

We will be reviewing school loans scheme controls in 2017-18.

South Australian Housing Trust (SAHT)

Financial statistics

Net cost of providing services:	$254 million
Rental income:	$279 million
Rental property expenses:	$375 million
Total revenue from SA Government:	$88 million
Value of rental property:	$7980 million
Number of lettable rental properties:	39 074

Significant events and transactions

— Transfer of the responsibility for property and tenancy management for approximately 4000 public housing properties to the community housing sector is in progress and planned to occur before October 2017.

— The SAHT provided grants of $8 million to those affected by the extreme weather and loss of power event on 28 September 2016. The SA Government reimbursed the SAHT for the grants as well as the cost of administering them.

Financial report opinion

Unmodified

Financial controls opinion

Modified

Key issues:

— The SAHT does not have a strategic asset management plan for public housing and aims to complete one by December 2017

— Internal audits are not conducted to ensure procurement, project and contract management frameworks are properly applied to the SAHT’s housing renewal programs

— The SAHT has not yet implemented a reliable method of measuring multi-trade contractor performance against key performance indicators in housing maintenance contracts

Functional responsibility

The SAHT continued in existence under the *South Australian Housing Trust Act 1995* (SAHT Act).

The functions of the SAHT include:

- the construction, purchase, ownership and management of houses and units for tenant occupation
- managing SAHT tenancies and housing grant programs.

The SAHT does not employ staff but relies on the Urban Renewal Authority (URA) and the Department for Communities and Social Inclusion (DCSI), through its Housing SA (HSA) division, to deliver services on its behalf.

The SAHT has service level administrative arrangements with:

- the URA to provide asset and maintenance strategy services, develop and deliver projects to renew the SAHT's housing stock and manage not-for-profit community housing growth strategies and transfers, including relevant financial management
- DCSI to deliver social housing services (including property maintenance) through HSA.

In December 2014 Cabinet approved a strategy to progressively replace ageing SAHT owned housing with new social housing dwellings that better meet contemporary social housing needs. To align the strategic and operational governance of the SAHT with the Cabinet approved strategy, responsibility for the SAHT Act and other relevant Acts transferred from the Minister for Social Housing to the Minister for Housing and Urban Development.

This resulted in financial, asset management and not-for-profit community housing sector growth responsibilities transferring to the Minister for Housing and Urban Development, while providing social housing services (including property maintenance) and other housing programs remained with the Minister for Social Housing.

Scope of audit

The 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 2016-17 included:

- revenue including raising rent and recoveries
- accounts payable
- staffing costs
- maintenance
- council and water rates
- fixed assets including rental properties and capital works
- private rental assistance
- house sales
- general ledger

- governance
- transfer of tenancy and property management to the community housing sector.

Internal audit activities were considered to identify and assess the risks of material misstatement in the financial report and to design and perform audit procedures.

In addition, some services, including payroll and accounts payable processing, were undertaken by Shared Services SA (SSSA) and these were reviewed as part of our audit of SSSA.

Audit findings and comments

Assessment of controls

In my opinion, the controls exercised by the South Australian Housing Trust in relation to the receipt, expenditure and investment of money, the acquisition and disposal of property and the incurring of liabilities, except for all matters outlined under 'Communication of audit matters', are sufficient to provide reasonable assurance that the financial transactions of the South Australian Housing Trust have been conducted properly and in accordance with law.

Communication of audit matters

Matters identified by the audit were detailed in management letters to the Chief Executive, URA and the Executive Director, HSA. The main matters raised and related responses are detailed below.

No strategic asset management plan

The SAHT has a Housing and Accommodation Strategy that provides strategic guidelines and a decision-making framework.

The SAHT has identified the need for a strategic asset management plan to support its Housing and Accommodation Strategy for providing public housing currently worth $8 billion. A strategic asset management plan is an important tool to support the efficient management of public housing and should ideally address the following questions:

- What assets does the SAHT control and what is their condition?
- What are the community's current and anticipated future demands for these assets?
- What is the SAHT's position on meeting current demands?
- Where does the SAHT want to be in relation to meeting future demands?
- What are the SAHT's plans for getting there?

A strategic asset management plan should articulate and prioritise the delivery of community needs for public housing.

The SAHT has noted that a prerequisite for developing the asset management plan is having accurate data on the condition of its properties. It last conducted a comprehensive property condition inspection in 2003, covering around 80% of its properties. The SAHT has started a program of inspecting and recording the condition of its properties.

Once established, the asset management plan will cover the strategic acquisition, redevelopment and disposal of public housing. It will also provide critical information for planning maintenance upgrades and refurbishments to maintain asset value.

The SAHT expects an overarching asset management plan and supporting regional asset management plans will be completed by December 2017.

Internal audits are not conducted on the Renewing Our Streets and Suburbs (ROSAS) initiative

We reviewed aspects of the arrangements for delivering the ROSAS initiative including project management, contract management, procurement of builders, selection of community housing providers (CHPs) and processing contract payments. For more information on the ROSAS initiative refer to 'Other comments' below.

Our review noted that the SAHT had implemented our past recommendation that contract management plans be established for the first tranche of CHP transfers. These plans describe how the SAHT will monitor CHPs' compliance with their performance obligations under agreements with the SAHT.

We noted, however, that internal audits are not conducted to ensure the SAHT Board's approved procurement, project and contract management frameworks are properly applied to the ROSAS initiative. This increases the risk of the initiative not being implemented in line with the SAHT Board's expectations. We recommended that such internal audits be performed periodically. The SAHT responded that the URA will liaise with SAHT Internal Audit to include the audits in the SAHT internal audit plan.

Maintenance

In October 2013 the SAHT implemented a multi-trade contractors (MTCs) model under which MTCs now manage most job orders issued by the SAHT for responsive, vacancy, programmed and capital upgrade maintenance within defined geographical areas. The SAHT's contracts with five MTCs are estimated to cost $912 million over eight years (including renewals).

We noted that, after almost four years, the SAHT has not implemented a reliable method of measuring MTC performance against the key performance indicators (KPIs) in MTC contracts. While the SAHT has advised that it is generally happy with the quality performance of the MTCs, we noted that the SAHT:

- has not implemented a reliable method of measuring the quality of MTC performance
- manually selects jobs completed by MTCs to inspect, rather than applying a systematic sample selection process. The use of manual sample selection techniques may compromise negotiations with MTCs when discussing instances of poor performance identified in non-conformity reports
- has not developed procedures outlining the circumstances where abatements (financial penalties) are to be applied
- has not finished developing a proposed risk based methodology for assessing the severity of poor performance to inform the use of abatements.

The SAHT responded that:

- a new Performance Management Framework developed in consultation with the MTCs will be considered by the MTCs in September 2017 and a proposed trial commenced in October 2017. The new framework replaces the six-monthly abatement assessment with a monthly abatement based on non-conformity reports, and a weighting scale grading the degree of non-conformance. The new framework and abatement methodology may require a contract variation and agreement by the MTCs

- it is reviewing an inspection sampling methodology and evaluating software that applies a systematic random process for selecting jobs completed by MTCs to inspect. MTCs will be consulted once the preferred methodology is determined.

Adequacy of KPIs for measuring HSA's and URA's performance

In 2016, we noted that the SAHT Board had not reviewed the adequacy of the KPIs measuring the performance of HSA and the URA, since the new service level administrative arrangements started in December 2014. The SAHT advised that it would reconsider them as part of an upcoming review of the arrangements.

We noted that this review is not yet complete and the KPIs have not yet been reviewed by the SAHT Board. Until the review is complete, there is a risk that the KPIs do not adequately measure HSA's and the URA's performance in discharging the SAHT's functions and progress in achieving the SAHT's strategic objectives. We recommended again that the SAHT Board review the adequacy of the KPIs.

The SAHT responded that the KPIs will be reconsidered as part of the review of the service level arrangements, which is expected to be completed in the third quarter of 2017-18.

Other comments

Review of the Renewing Our Streets and Suburbs initiative

The SA Government has implemented the ROSAS initiative to rejuvenate older SAHT homes and improve the supply of affordable housing for rent or purchase while stimulating the construction sector. The following programs are key to the ROSAS initiative:

- construction of 1000 new homes in 1000 days commencing in December 2015
- renewal of 4500 older SAHT homes within 10 kms of the city by 2020
- transferring responsibility for property and tenancy management for over 5000 SAHT properties to CHPs by 2018.

The ROSAS initiative will be mostly self-funded through the sale of SAHT properties, together with a $65 million housing stimulus package from the SA Government.

The following summarises progress against each of the ROSAS programs as at 30 June 2017.

1000 homes in 1000 days

Tenders to build 765 homes were released to the market, 167 homes were under construction and 164 completed. Tenders to build the remaining homes are expected to be released to the market by the end of September 2017.

Renewing 4500 older SAHT homes by 2020

1760 homes were released to the market to renew through various programs and expressions of interest, 104 homes were under construction and 187 new or refurbished homes completed.

Transfer of property and tenancy management to CHPs

The responsibility for property and tenancy management for over 5000 SAHT properties is being transferred to CHPs in two tranches. The first tranche of 1086 SAHT properties (valued at about $184 million) was transferred to two CHPs in October 2015. The transfer of a second tranche of approximately 4000 SAHT properties (valued at about $1 billion) to five CHPs is in progress and planned to be finalised before October 2017. The five CHPs were selected through expressions of interest followed by a selected tender process.

The SAHT has applied a concurrent lease and deed model to the transfer. The leases for the first tranche have three-year terms with optional extensions of twenty years. Unlike the first tranche, the leases for the second tranche 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 through:

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

CHPs must also comply with the SAHT's tenancy conditions ensuring the tenancy conditions of transferred tenants remain the same. Due to the lease and deed arrangements the housing stock remains recorded on SAHT's Statement of Financial Performance. It is now classified as assets under arrangement.

Triennial review

We noted that the last completed triennial review of the SAHT's operations and administration, required under the SAHT Act, was for the period 2009-10 to 2012-13. Since then the SAHT's operations and administration have undergone significant change.

The triennial review provides the Minister with an opportunity to independently review and identify improvements in SAHT's operations and administration. Failure to complete the review every three years breaches the SAHT Act.

The SAHT advised that the current triennial review has commenced and will cover 2013-14 to 2016-17. An independent consultant will undertake the review and it is expected to be finalised by December 2017.

Shared Services SA – financial systems and transaction processing environments

SSSA processes financial transactions on behalf of the SAHT under service level determinations. The main systems and control environments include accounts payable, payroll and general ledger financial functions.

Our review and evaluation of controls for these systems concluded that controls were effective for 2016-17.

SSSA is discussed further as part of the commentary under 'Department of the Premier and Cabinet' in this Report.

Business System Transformation program status update

In 2016, we reported that the SAHT had commenced the planning phase of the Business System Transformation program to replace its ageing legacy systems. The program will commence in January 2018 and be completed by the end of 2020.

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

The contract includes program implementation and cloud and related services. Total implementation cost for the program is estimated to be $45 million and will be funded from existing SAHT resources.

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

We will continue to monitor the phased rollout of the Business System Transformation program in 2018.

Interpretation and analysis of the financial report

Highlights of the financial report

	2017 $'million	2016 $'million
Expenses		
Staffing costs	74	75
Maintenance	114	111
Council rates and water rates	79	83
Land tax equivalent	180	178
Depreciation and amortisation	88	89
Grants and subsidies	37	32
Other expenses	90	79
Total expenses	662	647
Income		
Rental income	279	280
Commonwealth revenues	74	74
Other	55	57
Total income	408	411
Net cost of providing services	254	235
Revenues from SA Government	88	81
Net result	(166)	(154)
Other comprehensive income	127	269
Total comprehensive result	(40)	115
Net cash provided by (used in) operating activities	(200)	106
Assets		
Current assets	390	529
Non-current assets	9 890	9 910
Total assets	10 280	10 439

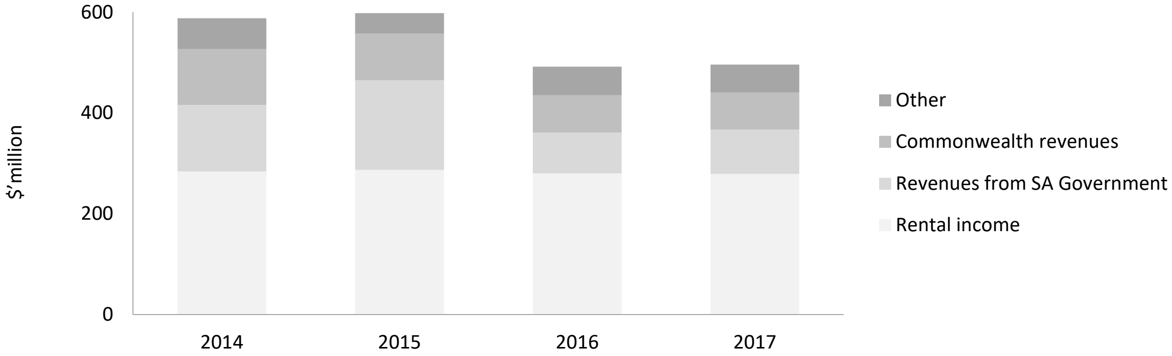
	2017 $'million	2016 $'million
Liabilities		
Current liabilities	71	199
Non-current liabilities	20	20
Total liabilities	91	219
Total equity	10 189	10 220

* Table may not add due to rounding

Statement of Comprehensive Income

Income

A structural analysis of the SAHT's income for the four years to 2017 is presented in the following chart.



Total income (including revenues from the SA Government) increased by $3 million to $496 million in 2017 reflecting:

- SA Government revenues increasing by $7 million to $88 million, due mainly to one-off funding for grants totalling $8 million provided to those affected by the extreme weather and loss of power event on 28 September 2016
- other income decreasing by $2 million to $55 million due to a $4 million reduction in the gain on disposal of non-current assets, partially offset by a $3 million increase in recoveries from tenants for water usage.

Proceeds from the disposal of non-current assets support the SAHT's financial viability strategy and its housing renewal and capital programs. Total proceeds from the disposal of non-current assets in 2017 totalled $101 million, comprising:

- property sales totalling $51 million to support the SAHT's financial viability strategy
- property sales totalling $50 million to support the SAHT's housing renewal and capital programs.

The cost of sales, including the carrying amount, for non-current assets disposed totalled $98 million, leaving a net gain on disposal of $3 million.

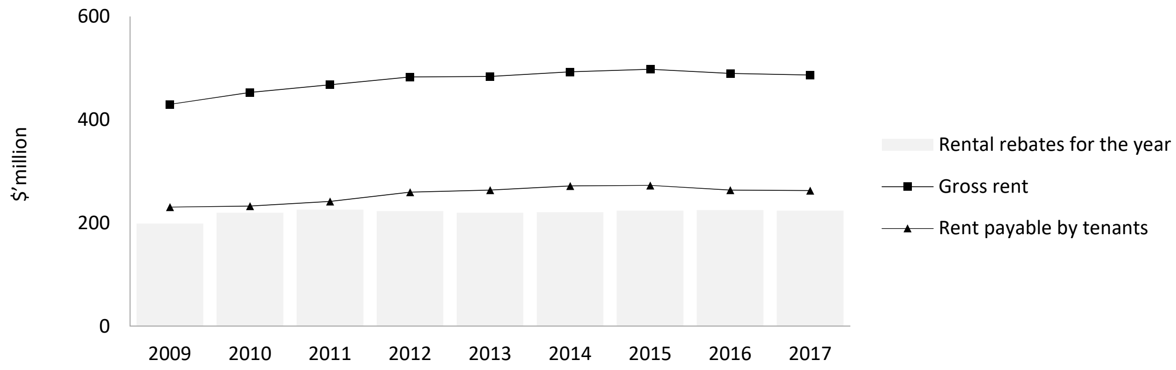
Rental operations

The following table shows the level of housing stock, excluding unlettable properties, as at 30 June for the past five years.

	2017 Number	2016 Number	2015 Number	2014 Number	2013 Number
Properties	39 074	39 855	41 726	42 847	43 548

Information provided by the SAHT records that 92% (88%) of tenants pay reduced (rebated) rent. The amount of rent rebates depends on each tenant's circumstances, with rent payable capped at 25% of household income or market rent, whichever is lower.

Data relating to housing stock levels and tenancies was provided by the SAHT and is unaudited. The trend of rents and rebates is illustrated in the following chart.

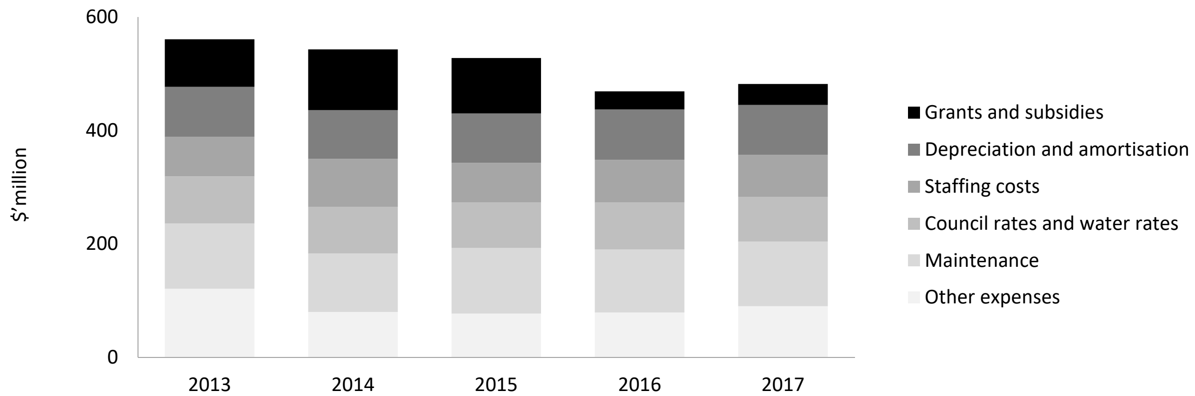


The chart highlights that gross rent steadily increased from 2009 to 2015 due to increases in market rents. While market rents continued to increase in 2016 and 2017, gross rent reduced following the transfer of responsibility for tenancy management for 1086 properties to the community housing sector in October 2015. The rent on these properties is retained by the community housing sector. Further reductions in gross rent are anticipated in 2018 as management of a further 4000 properties is transferred to the community housing sector.

In 2017 there were decreases of $2 million in gross rent and $1 million in rent rebates resulting in rent payable by tenants reducing by $1 million.

Expenses

For the five years to 2017, the major expense items for the SAHT, other than land tax equivalent expenses, are shown in the following chart.



The chart shows a downward trend in expenses from 2013 to 2016, until 2017.

Total expenses (excluding land tax equivalent expenses) increased by $13 million to $482 million in 2017 due mainly to:

- grants and subsidies increasing by $5 million to $37 million due mainly to:
  - grants totalling $8 million provided to those affected by the extreme weather and loss of power event on 28 September 2016. The SA Government reimbursed the SAHT for the grants as well as for the cost of administering them
  - a $2 million reduction in the Crisis Accommodation Millers Court grant which was a one-off payment in the previous year
- impairment expenses included in other expenses increasing by $7 million to $30 million, resulting from a $4 million increase in asset write-offs due to property demolitions relating to the SAHT's housing renewal programs and a $3 million increase in doubtful debts expense. The increase in doubtful debts reflects SAHT's revised approach of writing off debts resulting from incidents of domestic violence and customers with large debts experiencing financial hardship. This revised approach also resulted in debt write-offs increasing by $5 million to $15 million.

Land tax reimbursements

Effective 30 June 2013 the Commonwealth Government agreed to write off $320 million of South Australian public housing debt as part of a package to stimulate the housing construction sector. The Treasurer subsequently forgave $320 million of SAHT loans.

The SA Government has reduced reimbursements for land tax equivalents expense to recoup the loans forgiven and achieve budget savings.

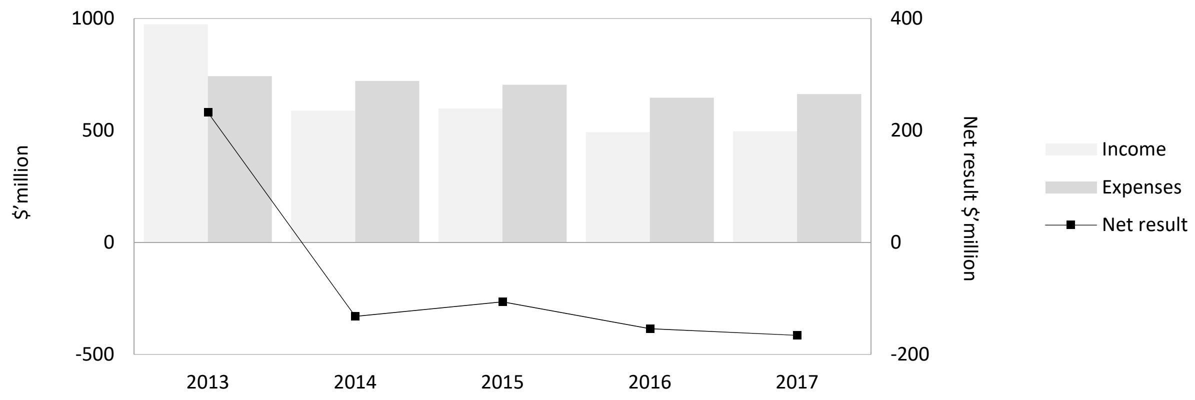
In 2017 the land tax equivalent expense was $180 million, with $73 million reimbursed by the SA Government resulting in $107 million returned to the State budget. Since introducing this arrangement four years ago, the SAHT has returned $381 million to the State budget with a further $61 million expected to be returned in 2018.

The following table shows the amount returned to the State budget by the SAHT for the past five years.

	2017 $'million	2016 $'million	2015 $'million	2014 $'million	2013 $'million
Land tax equivalent expense	180	178	176	178	181
Tax equivalent reimbursement	73	72	87	99	181
Amount returned to State budget	107	106	89	79	-

Net result

The following chart shows the income and expenses (including income tax equivalent but excluding administrative restructure) and net result for the five years to 2017.



The chart shows that the SAHT last achieved a surplus in 2013, when the Treasurer forgave $320 million of SAHT loans.

The net result for 2017 worsened by $12 million from the previous year. The reduced deficit in 2015 was due to $65 million received in June 2015 from the SA Government for public housing stimulus.

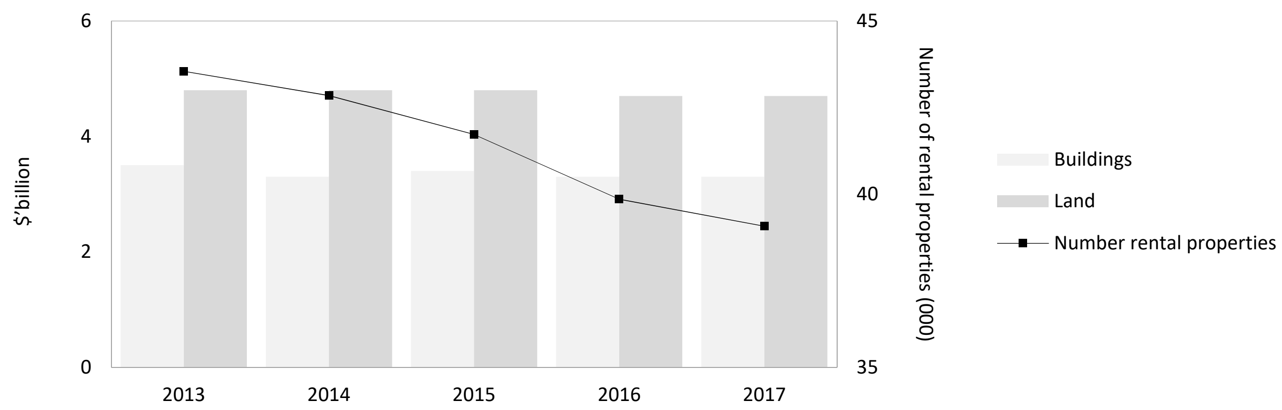
Statement of Financial Position

The SAHT's financial position is dominated by non-current property, plant and equipment assets. Current assets and liabilities are, while significant in their own right, not material relative to non-current assets. Notwithstanding, at 30 June 2017 current liabilities amounted to $71 million ($199 million), while current assets were $390 million ($529 million).

Rental properties

Rental properties worth $8 billion comprise 80% of the SAHT's property, plant and equipment of $10 billion.

The following chart shows the movements in the number and value of the SAHT's rental properties over the past five years.



The chart shows that while the value of rental properties has remained relatively constant over the last five years, maintained mainly through upward revaluations of individual properties and capital upgrades, the level of housing stock is reducing.

The reduction in housing stock levels reflects the impact of the Cabinet approved financial viability strategy for the SAHT, which is being achieved mainly through the sale of SAHT properties.

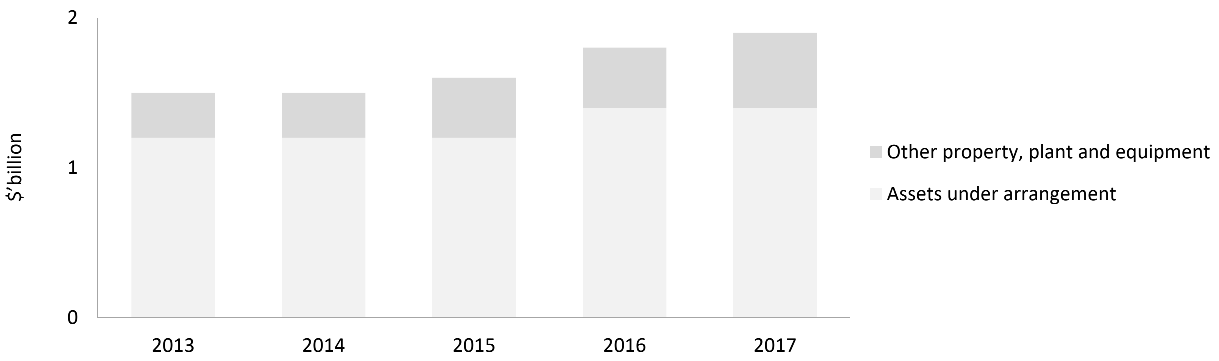
The large reduction in housing stock levels in 2016 was also due to the transfer of responsibility for tenancy management for 1086 properties to the community housing sector in October 2015. These properties are now classified as assets under arrangement and included in the commentary under 'Other property, plant and equipment' below.

In 2017 the value of rental properties decreased by $86 million to $8 billion. The decrease reflects transfers to other asset categories of $156 million (principally to capital work in progress), disposals of $63 million and depreciation expense of $67 million. These impacts were partially offset by an upward revaluation of land of $100 million, and additions of $101 million including completed capital works and maintenance upgrades.

It is important to note that 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 2017 were issued by the Valuer-General as at 1 July 2016. This policy has been consistently applied and reflects the practicality of valuing a very large housing stock. The Valuer-General has published a notice in The South Australian Government Gazette advising that the average percentage change in site values is 2.8% for 2016-17 and 6.2% for 2017-18.

Other property, plant and equipment (excluding rental properties)

The following chart shows the value of the SAHT's other property, plant and equipment assets over the past five years.



The SAHT's other property, plant and equipment rose sharply in 2016 and 2017 due mainly to:

- in 2017, capital works in progress increasing by $40 million to $192 million reflecting the increased activity in the SAHT's housing renewal and capital programs
- in 2016, assets under arrangement increasing by $213 million due mainly to the transfer of the responsibility for property and tenancy management of 1086 properties to the community housing sector in 2016. These properties are no longer classified as rental properties.

Current assets

Current assets have decreased by $139 million to $390 million due mainly to cash reducing by $192 million to $205 million, partially offset by inventories increasing by $57 million to $150 million.

The increase in inventories was due mainly to capital works in progress increasing by $42 million to $113 million and relates to properties being developed for sale. The sale proceeds will fund the SAHT's housing renewal and capital programs.

Current liabilities

Current liabilities decreased by $128 million to $71 million due mainly to a $134 million decrease in land tax payable. This decrease reflects the timing of invoices from RevenueSA, which were received earlier in 2017.

Statement of Cash Flows

In 2017 the SAHT recorded a decrease in cash of $192 million compared to an increase of $126 million in the previous year. This change of $318 million was due mainly to:

- a $269 million increase in payments for land tax equivalents. The land tax equivalents paid were for 2017 and three quarters of 2016
- a $46 million decrease in proceeds from sales of rental properties.

South Australian Metropolitan Fire Service (SAMFS)

Financial statistics	Net cost of providing services:	$136 million
	Total contributions from the Community Emergency Services Fund:	$137 million
	Employee benefits liability and related on-costs:	$43 million
	Workers compensation liability:	$12 million
	Number of FTEs:	965

Significant events and transactions

The workers compensation provision decreased by $5 million following an actuarial review for long-term claims allowed under firefighter compensation arrangements. Revised arrangements came into effect from 1 July 2013 and are sensitive to changes in assumptions. As claims are received and assessed, assumptions will be based on more extensive experience.

Financial report opinion

Unmodified

Financial controls opinion

Modified

Key issues:

- Human resource and payroll policies and procedures have not been reviewed or updated for existing practice following the transition to the new Chris21 payroll system
- No control to ensure validity of Shared Services SA payroll processing for the SAMFS
- No policy or procedure for reviewing and certifying leave return reports
- No legal compliance program

Functional responsibility

The SAMFS is established by the *Fire and Emergency Services Act 2005* as a body corporate.

The functions of the SAMFS include being the primary provider of structural firefighting services to South Australia.

The South Australian Fire and Emergency Services Commission (SAFECOM) provides various corporate services to support the SAMFS's primary functions. The operations of the SAMFS are financed by the Community Emergency Services Fund (the Fund), established by the *Emergency Services Funding Act 1998.*

For more information about the SAMFS's objectives refer note 1 of the financial report.

Scope of audit

The audit program covered major financial systems to obtain sufficient evidence to form an opinion on the financial report and internal controls.

The audit included access to systems and information maintained by SAFECOM and the SAMFS to conduct relevant financial transaction and control compliance tests.

Specific areas of audit attention in 2016-17 included:

- expenditure
- payroll
- revenue
- non-current assets, including capital works in progress and vehicle management
- cash at bank
- financial accounting
- workers compensation
- governance.

Audit findings and comments

Assessment of controls

In my opinion, the controls exercised by the South Australian Metropolitan Fire Service in relation to the receipt, expenditure and investment of money, the acquisition and disposal of property and the incurring of liabilities, except for all matters outlined under 'Communication of audit matters', are sufficient to provide reasonable assurance that the financial transactions of the South Australian Metropolitan Fire Service have been conducted properly and in accordance with law.

Communication of audit matters

Matters identified by the audit were detailed in management letters to the Chief Executive, SAFECOM and the Chief Officer, SAMFS who are responsible for the governance of the SAMFS.

Payroll

No control to ensure validity of Shared Services SA (SSSA) payroll processing for the SAMFS

We noted that the SAMFS has not implemented a control to monitor the validity of SSSA payroll processing. SSSA process payroll transactions on behalf of the SAMFS. While SSSA maintains controls to ensure the completeness and accuracy of payroll processing, it does not check the validity of the information provided to it.

The SAMFS responded that it will educate all Commanders and Station Officers about their role in checking the parade statements and develop an electronic workflow process using the GARTAN rostering system.

While we acknowledge that the SAMFS regularly reviews parade statements to verify employee attendance, reviewing these statements does not ensure the validity of SSSA payroll processing.

Other matters

All other matters raised with SAFECOM and the SAMFS and the related responses are provided in detail under ‘Communication of audit matters’ in the commentary on SAFECOM in this Report.

Interpretation and analysis of the financial report

Highlights of the financial report*

	2017 $’million	2016 $’million
Expenses		
Employee benefits expenses	121	131
Supplies and services	14	14
Other expenses	8	8
Total expenses	143	152
Total income	7	6
Net cost of providing services	136	146
Revenues from (Payments to) SA Government	137	136
Net result	1	(9)
Net cash provided by (used in) operating activities	9	6
Net cash provided by (used in) investing activities	(8)	(9)
Assets		
Current assets	5	4
Non-current assets	143	142
Total assets	148	146

	2017 $'million	2016 $'million
Liabilities		
Current liabilities	27	23
Non-current liabilities	31	34
Total liabilities	58	57
Total equity	90	89

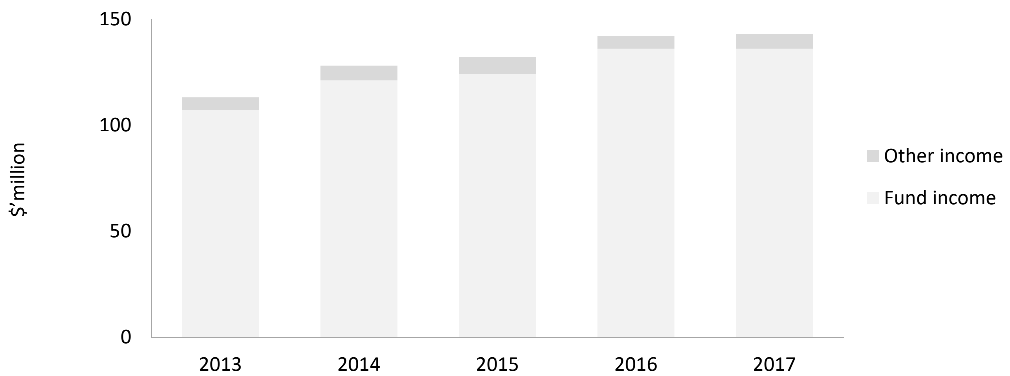
* Table may not add due to rounding

Statement of Comprehensive Income

Revenues from SA Government

The main source of revenue for the SAMFS is the contributions from the Fund, which account for 95% of total income.

A structural analysis of the SAMFS's income for the five years to 2017 is presented in the following chart.



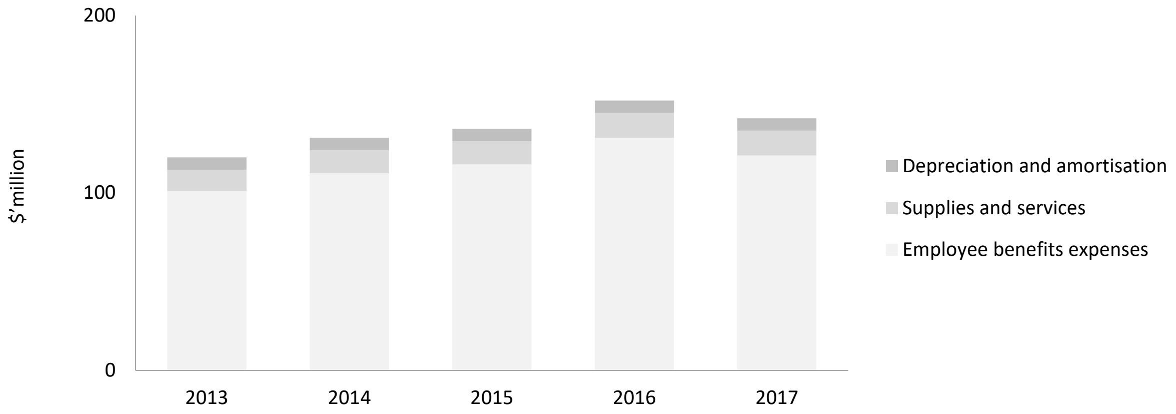
The chart shows that the SAMFS received an increase of $29 million in contributions from the Fund up to 2016. It was steady at $137 million in 2016-17.

Expenses

Employee benefits expenses account for 85% of the SAMFS's total expenses and decreased by $10 million in 2017 due mainly to:

- workers compensation expense decreasing by $16 million. Workers compensation expenses are impacted by movements in the workers compensation provision (liability), which in 2017 decreased by $5 million. In 2016 the provision increased by $8 million. These movements represent the main reason for the decrease in the expense for 2017, and indicate the uncertainty associated with this estimate. The decrease in the provision for 2017 was impacted by revisions downwards of the number of long-term claims under firefighter compensation arrangements, together with lower than expected income support payments and redemption and lump sum payments for 2017
- salaries and wages increasing by $4 million to $85 million, due mainly to enterprise agreement salary increases and an increase in FTEs.

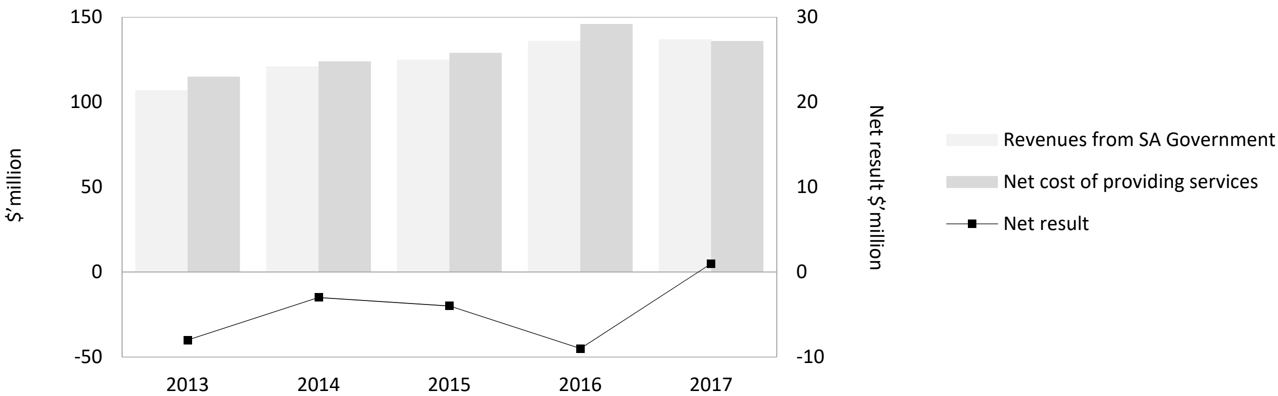
For the five years to 2017, an analysis of the main operating expense items is shown in the following chart.



Net result

The net result was a gain of $1 million compared to a deficit of $9 million in the previous year. Total income increased by $1 million, while expenses decreased by $10 million.

The following chart shows the funding received by the SAMFS from the SA Government (predominantly from the Fund), the net cost of services and the net result for the past five years.



Statement of Financial Position

The Statement of Financial Position is largely comprised of property, plant and equipment which account for 97% of total assets. Property, plant and equipment increased by $1 million to $143 million this year. This was due to an investment in land, building works and fire appliances of $9 million, offset by depreciation of $7 million. The fair values of the main asset classes held by the SAMFS were land ($48 million), buildings ($57 million) and vehicles ($29 million).

Current liabilities increased by $4 million to $27 million during the year and exceeded current assets by $22 million at 30 June 2017.

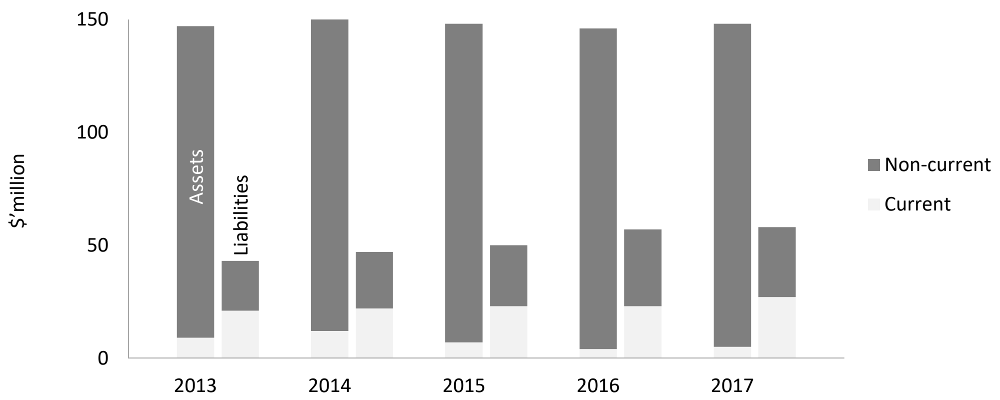
Employment liabilities make up $55 million of the SAMFS's total liabilities at 30 June 2017, comprising:

- employee benefits liabilities and related on-costs, $43 million ($37 million)
- provision for workers compensation, $12 million ($17 million).

Employment benefits liabilities increased by $6 million due mainly to a $2 million increase in accrued salaries and wages, reflecting the timing of payroll processing, and a $3 million increase in the long service leave liability. In 2017 the SAMFS identified an error in the long service leave liability estimate for 30 June 2016. The subsequent correction of this error in 2017 largely explains the increase in the liability.

The workers compensation provision decreased by $5 million. This decrease was impacted by revisions downwards of the number of long-term claims under firefighter compensation arrangements, together with lower than expected income support payments and redemption and lump sum payments in 2017. The workers compensation provision is sensitive to changes in assumptions. As claims are received and assessed, assumptions will be based on more extensive experience.

For the five years to 2017, a structural analysis of assets and liabilities is shown in the following chart.



South Australian State Emergency Service (SASES)

Financial statistics	Net cost of providing services:	$19 million
	Total contributions from the Community Emergency Services Fund:	$20 million
	Employee benefits liability and related on-costs:	$2.2 million
	Workers compensation liability:	$367 000
	Number of FTEs:	59
	Number of volunteers:	1501

Significant events and transactions

On 28 September 2016, South Australia experienced an extreme weather event which triggered a State-wide power outage. An independent review of the emergency management response to this event was undertaken and identified 62 recommendations.

The SASES is the lead agency for four of the recommendations. As at 30 June 2017, one recommendation was complete and three were in progress.

Financial report opinion

Unmodified

Financial controls opinion

Modified

Key issues:

— Human resource and payroll policies and procedures have not been reviewed or updated for existing practice following the transition to the new Chris21 payroll system

— No policy or procedure for reviewing and certifying leave return reports

— No legal compliance program

Functional responsibility

The SASES is established by the *Fire and Emergency Services Act 2005* as a body corporate.

The functions of the SASES include providing emergency services to South Australia and working towards a safe and prepared community.

The South Australian Fire and Emergency Services Commission (SAFECOM) provides various corporate services to support the SASES's primary functions. The operations of the SASES are financed by the Community Emergency Services Fund (the Fund), established by the *Emergency Services Funding Act 1998.*

For more information about the SASES's objectives refer note 1 of the financial report.

Scope of audit

The audit program covered major financial systems to obtain sufficient evidence to form an opinion on the financial report and internal controls.

The audit included access to systems and information maintained by SAFECOM and the SASES to conduct relevant financial transaction and control compliance tests.

Specific areas of audit attention in 2016-17 included:

- expenditure
- payroll
- revenue
- non-current assets, including capital works in progress and vehicle management
- cash at bank
- financial accounting
- workers compensation
- governance.

Audit findings and comments

Assessment of controls

In my opinion, the controls exercised by the South Australian State Emergency Service in relation to the receipt, expenditure and investment of money, the acquisition and disposal of property and the incurring of liabilities, except for all matters outlined under 'Communication of audit matters', are sufficient to provide reasonable assurance that the financial transactions of the South Australian State Emergency Service have been conducted properly and in accordance with law.

Communication of audit matters

Matters identified by the audit were detailed in management letters to the Chief Executive, SAFECOM and the Chief Officer, SASES who are responsible for the governance of the SASES.

Matters raised with SAFECOM and the SASES and the related responses are provided in detail under 'Communication of audit matters' in the commentary on SAFECOM in this Report.

Interpretation and analysis of the financial report

Highlights of the financial report*

	2017 $'million	2016 $'million
Expenses		
Employee benefits expenses	7	5
Supplies and services	10	8
Other expenses	2	2
Total expenses	19	15
Total income	-	-
Net cost of providing services	19	15
Revenues from (Payments to) SA Government	20	16
Net result and total comprehensive result	1	1
Net cash provided by (used in) operating activities	3	4
Net cash provided by (used in) investing activities	(4)	(4)
Assets		
Current assets	3	3
Non-current assets	40	38
Total assets	42	41
Liabilities		
Current liabilities	2	3
Non-current liabilities	1	1
Total liabilities	4	4
Total equity	38	37

* Table may not add due to rounding

Statement of Comprehensive Income

Revenues from SA Government

The main source of funds for the SASES is the contributions from the Fund, which account for 98% of total income.

Contributions from the Fund to the SASES increased by $3.7 million in 2016-17 due mainly to:

- $1.8 million to support costs incurred as a result of the extreme weather event that occurred on 28 September 2016
- $1 million to cover enhanced flood response and incident management capabilities
- $500 000 for the volunteer support budget initiative
- $500 000 for costs associated with the Zone Emergency Risk Management System.

Expenses

Employee benefits expenses of $6.9 million account for only 36% of the SASES's total expenses due to the extensive use of volunteers.

During 2016-17 total expenditure increased by $3.5 million due to increases in:

- supplies and services of $2 million due to increases in consultants, contractors and operating costs resulting from the extreme weather event on 28 September 2016
- employee benefits expenses of $1.5 million for salaries and wages and annual leave due to an increase in the number of FTEs.

Statement of Financial Position

The Statement of Financial Position is largely comprised of property, plant and equipment which account for 94% of total assets. Property, plant and equipment increased by $1.8 million to $39.6 million this year. This was due to an investment in building works and vehicles of $4 million, offset by depreciation of $2.1 million. The fair values of the main asset classes held by the SASES were land ($3.5 million), buildings ($18.8 million) and vehicles ($10.8 million).

At 30 June 2017, current assets of $2.5 million exceeded current liabilities of $2.2 million.

Employment liabilities make up $2.6 million (70%) of the SASES's total liabilities at 30 June 2017, comprising:

- employee benefits liabilities and related on-costs of $2.2 million ($1.8 million)
- provision for workers compensation totalling $367 000 ($329 000).

South Australian Tourism Commission (SATC)

Financial statistics	Net cost of providing services: Total appropriation: Number of FTEs:	$90 million $89 million 126.4
Significant events and transactions	— Held the 2017 Clipsal 500 Adelaide, which attracted a reported 244 350 patrons across the four-day event. — Held the 2017 Santos Tour Down Under, which attracted a reported 43 000 event specific visitors. — The naming rights sponsorship for the Clipsal 500 Adelaide concluded after the 2017 event. This is a significant portion of SATC's sponsorship revenue. SATC is consulting with potential new naming rights sponsors.	
Financial report opinion	**Unmodified**	
Financial controls opinion	**Unmodified**	

Functional responsibility

SATC is established by the *South Australian Tourism Commission Act 1993* and is a body corporate.

The functions of SATC include promoting South Australia as a tourist destination and further developing and improving the State's tourism industry.

For more information about SATC's objectives refer note 1 of the financial report.

Scope of audit

The 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 2016-17 included:

- income from sponsorships and event entrance fees

- employee benefits expenses
- expenditure on events, advertising and industry assistance
- general ledger processing.

Audit findings and comments

Communication of audit matters

No significant matters were identified by the audit.

Shared Services SA – financial systems and transaction processing environments

Shared Services SA processes financial transactions on behalf of SATC under service level determinations. The main systems and control environments include accounts payable, payroll and general ledger financial functions.

Our review and evaluation of controls for these systems concluded that controls were effective for 2016-17.

Shared Services SA is discussed further as part of the commentary under 'Department of the Premier and Cabinet' in this Report.

Interpretation and analysis of the financial report

Highlights of the financial report

	2017 $'million	2016 $'million
Expenses		
Employee benefits expenses	15	14
Advertising and promotion	34	37
Industry assistance	19	10
Event operations	39	38
Other	10	11
Total expenses	117	110
Income		
Revenues from SA Government	89	83
Other	27	27
Total income	116	110
Net result and total comprehensive result	(1)	-
Net cash provided by (used in) operating activities	1	2
Assets		
Current assets	13	13
Non-current assets	12	13
Total assets	26	26

	2017 $'million	2016 $'million
Liabilities		
Current liabilities	8	7
Non-current liabilities	2	2
Total liabilities	10	9
Total equity	16	17

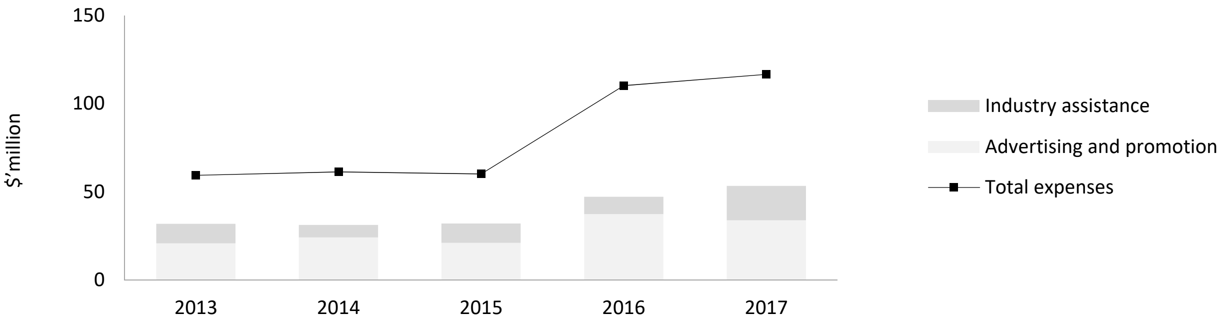
* Table may not add due to rounding

Statement of Comprehensive Income

SATC relies on SA Government funding as its major revenue source to fund its operations. The level and timing of SATC's financial activities vary from year to year depending on the planned mix of marketing, destination development and events supported, and the extent to which specific identified opportunities are funded. The main annual events managed by SATC are the Santos Tour Down Under, Adelaide 500, the Credit Union Christmas Pageant, Tasting Australia and the Adelaide Fashion Festival.

Expenses

The following chart shows a structural analysis of the main expense items for the five years to 2017.



Total expenses increased by $7 million in 2016-17 due mainly to:

- a $9 million increase in industry assistance due mainly to payments to promote tourist access to South Australia
- a $3 million decrease in advertising and promotions expenses.

Total expenses increased by $50 million in 2016 following the transfer of activities of the former South Australian Motor Sport Board (SAMSB) to SATC.

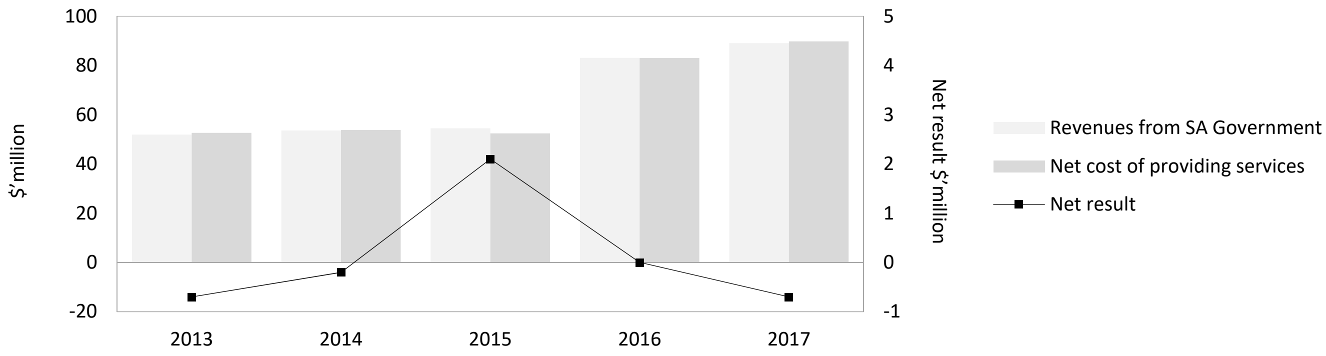
Income

Income for the year totalled $116 million ($110 million). It mainly comprises revenue from the SA Government, which amounted to $89 million ($83 million) and represented 77% (75%) of total income.

Other income remained at $27 million, with sponsorship revenue remaining at $10 million and event entry fees remaining at $12 million.

Net result

The following chart shows revenues from the SA Government, the net cost of providing services and the net result for the five years to 2017.



The chart shows that funding from the SA Government covered almost all of the net cost of services in 2016-17. The positive net result in 2014-15 was due to additional funding received from the Governor's Appropriation Fund of $2.8 million.

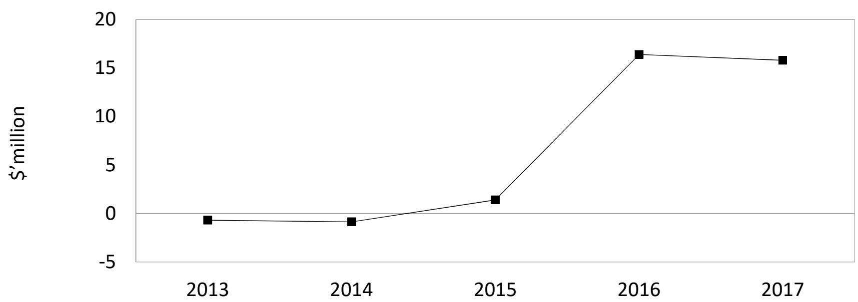
Statement of Financial Position

Current assets and liabilities

At 30 June 2017 current assets amounted to $13 million ($13 million), exceeding current liabilities of $8 million ($7 million). The increase in current liabilities is due primarily to an increase in creditors and unearned revenue from entrance fees for events to be held in 2017-18.

Equity (net assets)

The following chart shows total equity as at 30 June for the past five years.



The decrease in SATC's total equity (net assets) in 2016-17 was due to the negative net result. The $15 million increase in total equity in 2015-16 was due to the transfer of the SAMSB on 1 July 2015.

Further commentary on operations

Naming rights sponsor for Clipsal

The naming rights sponsorship for the Clipsal 500 Adelaide concluded after the 2017 event. This is a significant portion of SATC's sponsorship revenue. SATC is consulting with potential new naming rights sponsors.

Contract for Clipsal seating

The SAMSB entered into a contract on 20 May 2015 with Elite to provide seating for the next six Clipsal races. The contract was then transferred to SATC on 1 July 2015 as part of the dissolution of the SAMSB. The contract included a clause requiring Elite to acquire the SAMSB's old seating for $825 000, paid in equal instalments over the six-year life of the contract, with Elite taking physical possession of the seats in March 2016.

On 14 December 2015 a new contract with Elite was renegotiated due to Elite's inability to provide the number of seats specified in the original contract. This renegotiated contract also reduced the amount to be paid for the old SAMSB seating to $635 000. Elite made one payment of $106 000, but never took possession of the seating.

Elite was placed in receivership on 27 May 2016 and SATC classified the outstanding receivable of $529 000 as a doubtful debt. An expense for bad and doubtful debts was recognised in 2015-16. This receivable was written off in 2016-17 (refer notes 8 and 17 of the financial report)

South Australian Water Corporation (SA Water)

Financial statistics	
Water and sewer rates and charges:	$1.08 billion
Community service obligations:	$136.1 million
Borrowing costs:	$337 million
Profit before income tax:	$189 million
Infrastructure, plant and equipment:	$13.7 billion
Borrowings:	$6.4 billion
Net assets:	$5.4 billion
Number of FTEs:	1466.8

Significant events and transactions

- Profit before tax decreased by $113 million (37%). SA Water attributes the reduced profit largely to a 22.1 gigalitre decrease in the volume of water sold, reflecting wetter and cooler weather conditions, as well as a reduction in average prices.
- Total borrowings increased by $95 million to $6.38 billion. This increase reflects the SA Government's policy decision, announced in the 2017-18 State Budget, that SA Water would maintain a debt to asset ratio of 45%. To maintain this ratio in 2016-17, SA Water paid an additional $71 million dividend in June 2017, as directed by the Treasurer.
- Work continued on the $94.7 million upgrade of Kangaroo Creek Dam safety, with $14.7 million spent in 2016-17 bringing the total spent so far to $23.7 million.
- A $90 million increase in the value of infrastructure, plant and equipment assets was recorded following a revaluation. The increase is mainly a result of increases in the values of water and sewer infrastructure assets.

Financial report opinion

Unmodified

Financial controls opinion

Modified

Key issue:

- Delays in the review of bona fide reports up to February 2017

Functional responsibility

SA Water was established under the *South Australian Water Corporation Act 1994*. It is responsible to the Minister for Water and the River Murray.

The primary functions of SA Water are to provide services for the storage, treatment and supply of water and 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.

SA Water is a for-profit entity under Accounting Policy Framework II 'General Purpose Financial Statements Framework', APS 2.4.

Scope of audit

The 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 2016-17 included:

- revenue raising, collection, receipting and banking
- procurement and contract management
- operating and capital expenditure
- payroll
- financial accounting
- non-current asset recording, valuation and depreciation
- borrowing and finance leases
- governance arrangements
- general IT controls.

The work of SA Water's internal auditors was also considered in planning and conducting the audit.

Audit findings and comments

Assessment of controls

In my opinion, the controls exercised by the South Australian Water Corporation in relation to the receipt, expenditure and investment of money, the acquisition and disposal of property and the incurring of liabilities, except for the matter raised in relation to payroll under 'Communication of audit matters', are sufficient to provide reasonable assurance that the financial transactions of the South Australian Water Corporation have been conducted properly and in accordance with law.

Communication of audit matters

Matters identified by our audit were detailed in management letters to the Chief Executive. The main matters raised and related responses are detailed below.

Payroll

SA Water employs more than 1400 staff and total employee benefits expenses for 2016-17 were more than $127 million. Accordingly, our annual audit covers payroll control processes.

Delays in the review of bona fide reports

SA Water has a monthly bona fide review process, designed to ensure all employees in the payroll system are valid, they are correctly classified and their pays are correctly allocated. In 2016-17 our review of bona fide processes identified:

- there were delays in completing bona fide reviews in the first three months of 2016-17
- bona fide reviews for October 2016 were completed promptly and included revisions to the scope of the review performed to focus only on staff paid through the payroll system (rather than including contractors, consultants and others)
- bona fide reviews were suspended in December 2016 and January 2017, reflecting that SA Water was undergoing a significant organisation re-alignment
- bona fide reviews resumed from February 2017.

The delays we noted in the reviews in the first quarter of 2016-17 and the suspension of the review process for two months meant this control was not effective for the full 2016-17 year, although we noted the effectiveness of the revised process in October 2016 and from February 2017 onwards.

We consider the absence of bona fide reviews, or delays in undertaking them, may result in delays verifying if employees are valid, correctly classified or that their pays are correctly allocated.

SA Water replied that the revised bona fide process, used in October 2016, would be used for the remainder of the year.

Contract management arrangements

SA Water has a number of significant contract arrangements for service delivery, with total payments for operation and service contracts in 2016-17 of $185 million. Due to the significance of these arrangements, our audit covers aspects of them each year.

Engineering Panel arrangements

SA Water entered into new engineering services contracts in 2016-17, with the new arrangements in place until the end of June 2020.

SA Water undertook a two stage tender response process for this procurement, with an initial request for information process followed by a select request for standing offer process.

The request for information stage was aimed at prequalifying a shortlist for further participation in the select request stage where a more detailed assessment of respondents was made. Shortlisted respondents were assessed on their suitability to deliver multiple design programs under framework arrangements.

As part of our 2016-17 audit, we considered the procurement and selection processes for the standing offer and framework arrangements for engineering services.

Our review indicated SA Water had complied with policies, procedures and guidelines when undertaking the procurement, including the evaluation of tenders.

We did identify some minor opportunities for SA Water to improve its processes, which SA Water undertook to consider.

Interpretation and analysis of the financial report

Highlights of the financial report

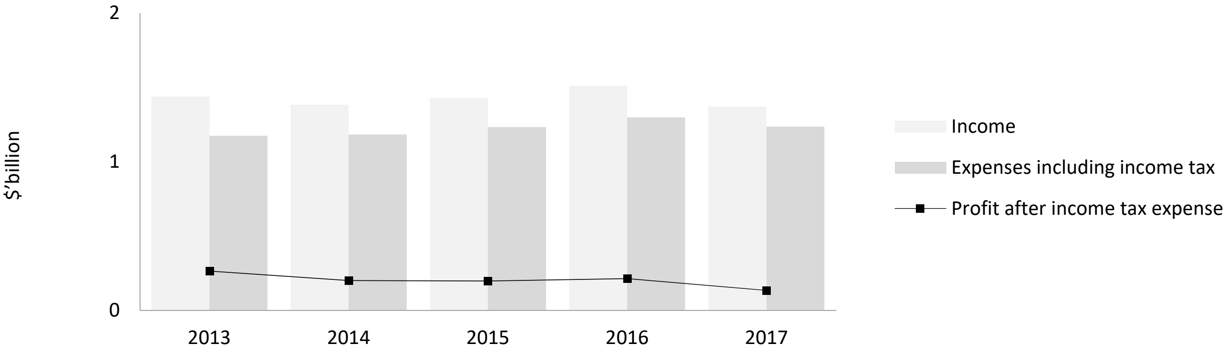
	2017 $’million	2016 $’million
Income		
Water and sewer rates and charges	1 076	1 229
Community service obligations	136	130
Other	157	151
Total income	1 369	1 510
Expenses		
Depreciation and amortisation expense	327	318
Borrowing costs	337	336
Operational and service contracts	185	183
Employee benefits expense	128	122
Other expenses	204	250
Total expenses	1 181	1 209
Net profit before income tax equivalents expense	188	301
Income tax expense	54	88
Net profit after income tax equivalents expense	134	213
Other comprehensive income (net of tax)	68	82
Total comprehensive result	202	295
Net cash inflows (outflows) from operating activities	395	504
Assets		
Current assets	249	236
Non-current assets	13 946	13 854
Total assets	14 195	14 090
Liabilities		
Current liabilities	293	272
Non-current liabilities	8 483	8 409
Total liabilities	8 776	8 681
Total equity	5 419	5 409

Statement of Comprehensive Income

Operating result

SA Water's profit after income tax equivalents expense (income tax) decreased by $79 million to $134 million ($213 million).

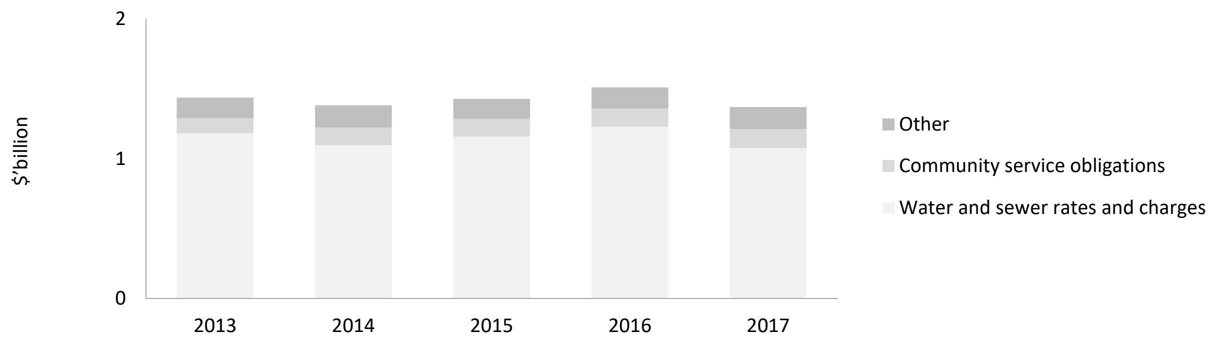
The following chart shows the income, expenses (including income tax) and profit after income tax for the five years to 2017.



The chart shows that both income and expenses, which had generally been increasing each year, reduced in 2017. The reduction in income in 2016-17 is mainly due to a 12% reduction in revenue from water and sewer rates and charges. The impact of this reduction in profit was partially offset by a 2% reduction in expenses as a result of cost reduction measures and a reduction in one-off costs compared to 2015-16. Further explanation of the movements in income and expenses is provided below.

Income

The following chart analyses the main sources of income for SA Water for the five years to 2017.



The chart shows total income decreased in 2014 due to lower water and sewer rates and charges, before increasing again in 2015 and 2016. Income from water and sewer rates and charges decreased to the lowest level of the last five years in 2017. Factors that impact this trend are discussed below.

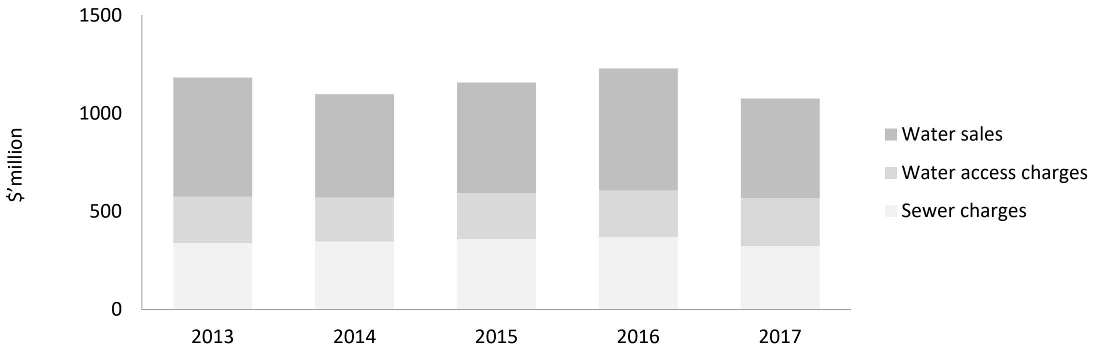
Water and sewer rates and charges

The major source of SA Water's income is water and sewer rates and charges. These mainly comprise:

- sewer charges, mainly set on property values

- water access charges, mainly set at a fixed amount
- water sales, charged by volume of water used.

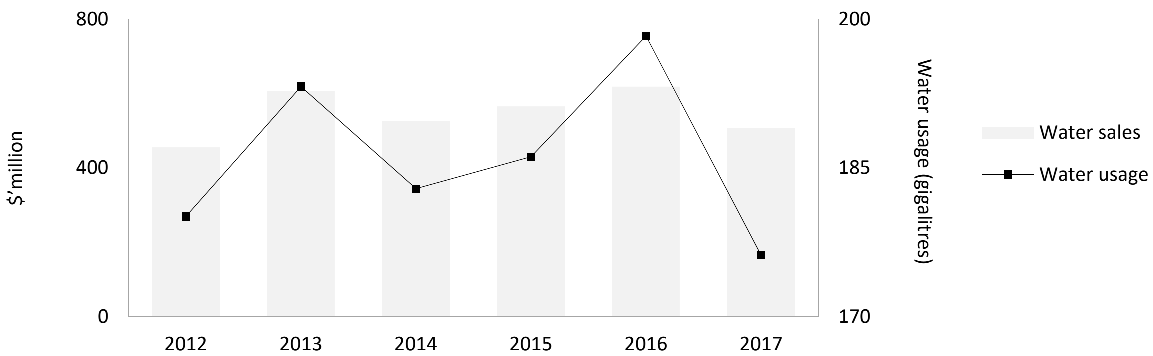
The following chart details these components for the past five years.



The main factors affecting water and sewer rates and charges are changes in price and water consumption. The primary reason for decreased water sales in 2016-17 was that customers used a lower volume of water. There was also a reduction in average prices of 3% due to the regulatory pricing decision, which is discussed further below.

Sewer charges decreased by $46 million to $323 million. The decrease in revenue is due to the 2016-17 regulatory pricing decision, which reduced prices and revenue by $49 million. This was offset by customer growth of $4 million. Water access charges have increased by $7 million to $245 million as a result of customer growth.

The following chart shows water sales income compared to the volume of water used.



The easing of previous water restrictions saw growth in water usage in 2012 and 2013. Water usage decreased in 2014 primarily due to higher rainfall in 2014 compared to the previous year. Water usage increased in 2015 and 2016, which SA Water attributes to hotter and drier weather conditions, especially for 2016. In 2017 water usage fell to 176.2 gigalitres, down from 198.3 gigalitres in the previous year. This was mainly due to above average rainfall and below average temperatures in South Australia in 2016-17. This reduction in water volume sold resulted in a $62 million decrease in revenue.

Prices for water also fell in 2017, reflecting the impact of the regulatory pricing decision from the first year of the new regulatory period and resulting in a further reduction in revenue of $38 million. In addition to the impact this year, the introduction of economic regulation for water pricing saw a decrease in prices in 2014 and increases in 2015 and 2016.

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 for these non-commercial activities. CSO revenue increased by $6 million to $136 million in 2017, mainly due increases in exemptions provided by the Department for Communities and Social Inclusion concessions. The main CSOs are to compensate SA Water for:

- the under-recovery of costs associated with country water and sewer services (due to the requirement for state-wide pricing). SA Water received $108 million ($108 million) for this CSO in 2017
- the provision of water and sewer exemptions and concessions to certain properties such as charities and public schools. SA Water received $18 million ($13 million) for this CSO in 2017
- other payments such as the administration of the Pensioner Concession Scheme, Government Radio Network Services and emergency management services and maintaining water and sewerage services in remote communities.

CSOs are provided under the financial ownership framework agreed with the Department of Treasury and Finance.

Other income

Other income increased by $6 million to $157 million.

Other income includes contributed assets and recoverable works, which can vary from year to year depending on economic conditions and government initiatives. The other income increase was nearly all due to an increase in contributed assets of $7.8 million to $47.7 million ($39.9 million). Contributed assets from the Department of Planning, Transport and Infrastructure's Darlington upgrade and Torrens to Torrens projects amounted to $15.4 million. They were offset by a decrease in contributions received from customers and developers of $7.6 million.

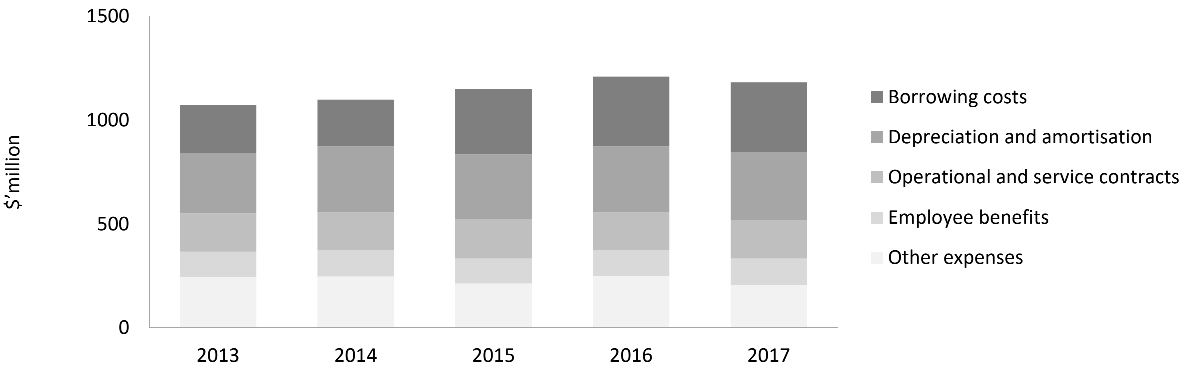
Expenses

Total expenses decreased by $28 million to $1.18 billion. The major contributing components were:

- a decrease in services and supplies of 19% or $39 million. This decrease mainly reflects:
  - that there were no revaluation decrements in 2016-17 ($14 million in 2015-16)
  - that there was no write-down of temporary water allocations in 2016-17 ($16 million in 2015-16)
  - a $6 million reduction in the provision for doubtful debts
- minor increases in contract labour for capital project roles ($1.6 million) and higher chemical usage in water treatment plants and reservoirs ($2.2 million), due to poor water quality resulting from a blackwater event in the River Murray

- a decrease of $4 million due to a lower spend on materials, mainly in workshops
- an increase in depreciation and amortisation of 3% or $9 million, due mainly to the net increment in asset values from the current year revaluation of assets as at 1 July 2016
- an increase in employee benefits expense of 5% or $6 million. This reflects a number of factors including enterprise bargaining and salary review wage increases, a marginal increase in staff numbers (16.5 FTEs) and a lower level of staff time on capital projects (costs which can be capitalised rather than expensed)
- a $1.3 million increase in interest costs mainly due to increased borrowings, although offset by lower interest rates.

The following chart analyses SA Water's main expense items, excluding income tax expense, for the five years to 2017.



Since 2013 expenses have increased by $105 million (10%). Major factors affecting expenses have been:

- increased borrowing costs of $103 million since 2013. This is mainly due to the increase in borrowings as a result of a change in SA Water's capital structure, which now has a debt to asset ratio of 45%
- depreciation and amortisation costs, which are highly responsive to asset revaluations and additions. These have resulted in increased costs over the past five years, except for 2015 where there was a revaluation decrement. Over the past five years this expense has increased by $37 million
- employee benefits expense increasing by $5 million for the five years to 2017
- for other expenses:
  - electricity costs increased in 2013 and 2014 due to the Adelaide Desalination Plant (ADP) commencing operations but have since decreased with a reduction in the use of the ADP. There has been a further reduction from reduced pumping throughout the network in 2017 due to wetter and cooler than average weather conditions
  - the level of recoverable works varies from year to year depending on economic conditions and government initiatives. There was additional spending on deferred River Murray works in 2013 and 2014, with a reduction in 2016 due to the finalisation of specific programs for the Murray-Darling Basin Authority. In 2017 other expenses declined as discussed above under services and supplies.

Adelaide Desalination Plant operation and maintenance contract

The ADP was a major construction undertaking that commenced in 2008-09. The objective of the project was to construct and operate infrastructure that obtains and treats seawater to produce drinking quality water.

SA Water has major ADP contracts for the:

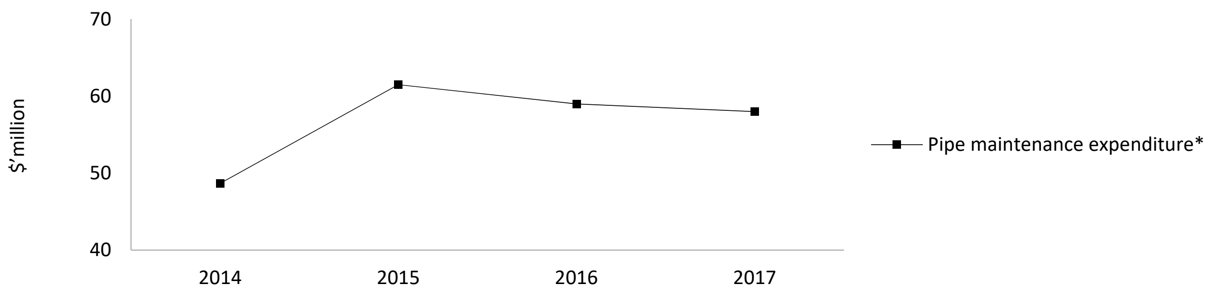
- operation and maintenance of the desalination plant (O&M contract). The O&M contract is for 20 years from 2012. In 2016-17 expenditure for operating the plant was $21 million ($21 million). There was a reduction of water produced by the plant by approximately 3.7 gigalitres to 4.3 gigalitres (8 gigalitres) in 2016-17. The reduced ADP water production reflects an earlier shutdown scheduled for 2017 as well as a change to minimum production mode during 2016-17
- power to operate the desalination plant. As part of the approval for the ADP, a commitment was made that renewable energy would be used to produce the desalinated water and transfer it to the distribution network. In September 2009 SA Water entered into a 20-year contract for the supply of operational power for the ADP. In 2016-17 expenditure for operational power (including relevant used renewable energy certificates) was $13.5 million ($17 million). ADP electricity usage is made up of black energy ($3.3 million), network charges ($2.5 million) and renewable energy certificates ($7.7 million). A year-end adjustment for surplus banked renewable energy certificates of $2.8 million was transferred to current assets, leaving a $10.7 million impact on the Statement of Comprehensive Income.

In addition, a current asset of $3 million ($5 million) was recorded for renewable energy certificates acquired but not yet used.

The total depreciation expense (including intangible assets) for the ADP was $55 million ($54 million) in 2016-17. This expense reflects the current estimated useful life for the ADP of approximately 40 years.

SA Water maintenance expenditure

The following chart shows SA Water routine maintenance and repairs expenditure since 2014 on water and sewerage assets.



* Data on specific pipe maintenance expenditure by year provided by SA Water and unaudited.

SA Water's routine maintenance and repairs expenditure, including pipe maintenance, has increased from $49 million in 2014 to $58 million in 2017. There was a pronounced increase in 2014-15, followed by a slight fall in 2015-16. There are a number of factors that affect the level of maintenance, including the nature of the pipe being maintained (metropolitan versus country infrastructure), location, age and reason for maintenance. SA Water also has capital expenditure to renew its network, which is described further below.

Pipe bursts data

Maintenance includes the costs of responding to pipe failures, or bursts. The number of bursts over the last four years, with data provided by SA Water and unaudited, is shown in the table below.

	2013-14 Number	2014-15 Number	2015-16 Number	2016-17 Number
Reported pipe bursts:				
Metropolitan	1 433	1 805	2 056	1 689
Country	1 648	2 021	1 920	1 968
Total	3 081	3 826	3 976	3 657

For the time frame shown, the number of water and sewer pipe bursts increased by 19% from 2014 to 2017, when there were 3657 burst mains. Bursts in 2014 were significantly lower than other years before a return to higher levels from 2015 to 2017.

The Australian Government Bureau of Meteorology's 'National performance report 2015-16: urban water utilities' reports that SA Water's water main burst rates ranked fifth lowest amongst 14 large urban water utilities.

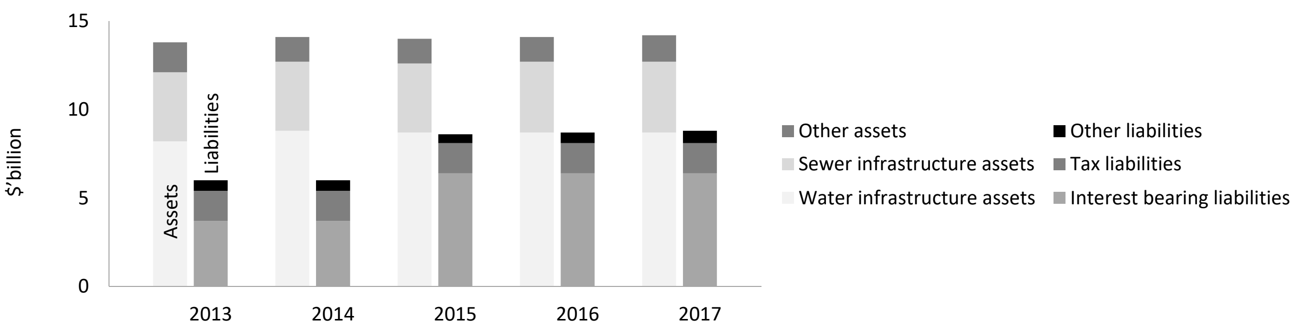
When the data on the number of bursts is considered with the pipe maintenance costs, there has not been a significant increase in maintenance costs due to pipe bursts, which is consistent with SA Water's analysis that the number of bursts is in line with longer-term trends. We also note an increase in SA Water's expenditure to renew the pipe networks, discussed under 'Renewal of the water and sewer pipe networks' below.

Other comprehensive income

Other comprehensive income recorded a net gain of $68 million ($82 million), principally due to an increase in the value of water and sewer infrastructure assets due to their revaluation, discussed further below.

Statement of Financial Position

A structural analysis of assets and liabilities for the five years to 2017 is shown in the following chart.



SA Water's financial position is dominated by non-current water and sewer infrastructure assets and related borrowings and tax liabilities. Since 2013 total assets have increased by $400 million reflecting increases in assets from revaluations and additions to water and sewer infrastructure, offset by depreciation.

In 2017 total assets were $14.2 billion ($14.1 billion), remaining at a similar level to the previous year. Significant matters affecting assets during the year were:

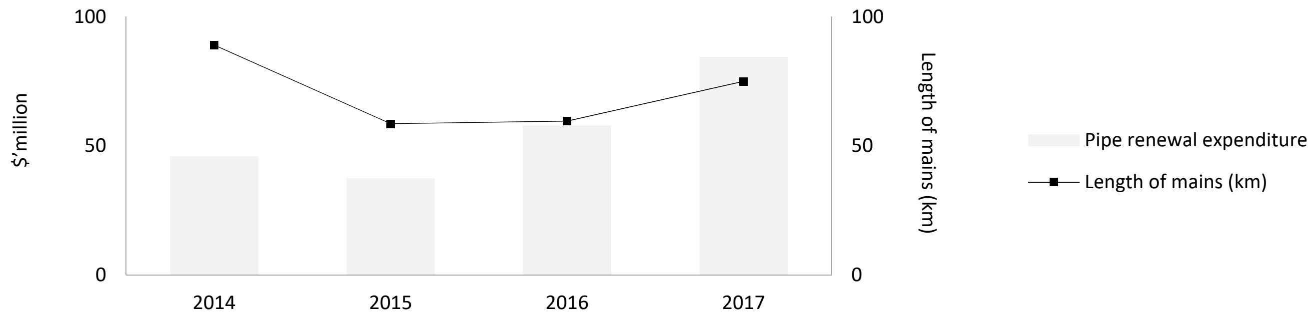
- the acquisition of infrastructure, plant and equipment of $317 million (including water and sewer pipe network renewal, discussed below). Major capital expenditure includes completed water infrastructure projects of $185 million and sewerage infrastructure projects of $152 million
- a net $90 million increase in the valuation of infrastructure, plant and equipment. This was mainly due to revaluation increments of $24 million for water infrastructure, $58 million for sewer infrastructure and $7 million for land and buildings.

  The increases in value for the water and sewer infrastructure are mainly the result of applying generally increased unit rates for water and sewer mains and connections to SA Water's network. The rates were determined by independent valuers and reflect modern equivalent replacement costs for the existing assets. Note 1(e) of the financial report details SA Water's revaluation policies
- depreciation and amortisation charges of $327 million
- a $6 million increase in intangible assets attributable to additions to computer software.

In 2017 liabilities increased by $95 million due to an increase in borrowings, largely reflecting the SA Government's policy decision that SA Water should have a debt to asset ratio of 45%. The additional debt in 2016-17 is largely the result of the payment of an interim dividend of $71 million. See further discussion under 'Debt levels' below.

Renewal of the water and sewer pipe networks

The following chart shows SA Water's pipe network renewal (based on data provided by SA Water) for both water and sewer pipes, which includes major projects for each year and the length, in kilometres of mains replaced, of water reticulation pipes only.



The chart shows that expenditure for renewal has increased since 2015, after reducing from 2014 levels. The total length of water pipes renewed has also increased since 2015. The increase in renewed water pipes in 2014 was due to network renewals in the country and other metropolitan areas which, due to economies of scale, reduced the cost per kilometre when compared to other years.

Current assets and liabilities

At 30 June 2017 current liabilities amounted to $293 million ($272 million), exceeding current assets of $249 million ($236 million) by $44 million ($36 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 the South Australian Government Financing Authority (SAFA), which would enable all of its current liabilities to be met. A large component of current liabilities is payables, comprising 70% (70%) of the balance, which includes obligations for capital purchases.

Debt level

SA Water's debt level increased by $95 million in 2016-17 to $6.4 billion ($6.3 billion). This increase is represented by borrowings of $24 million for working capital requirements and $71 million to fund a dividend as directed by the Treasurer. This is in line with a determination by the SA Government, as part of the 2017-18 State Budget, that SA Water maintains a debt to asset ratio of 45% at the end of each financial year.

The $71 million dividend payment was a direction from the Treasurer under section 30(5) of the *Public Corporations Act 1993*. This direction, and subsequent payment, gave effect to the policy announced in the 2017-18 State Budget.

The additional dividend in 2016-17 builds on the previous $2.7 billion dividend paid in 2014-15, which initially increased SA Water's debt to asset ratio from 26% to 45%.

In 2014-15 the Treasurer recommended to the SA Water Board that an interim dividend of $2.7 billion be paid to the Consolidated Account, funded by the transfer of debt. This increased SA Water's total borrowings to $6.3 billion in 2014-15, bringing its debt to asset gearing ratio in line with interstate statutory water corporations.

We note that SA Water's debts are guaranteed by the Treasurer, as were the loans transferred when it was previously part of general government sector debt. Accordingly, the transfer did not change the risk profile of the Treasurer or the State.

At the time of the $2.7 billion dividend payment, the Treasurer approved an increase in SA Water's core debt facility limit with SAFA to $6.43 billion, reflecting the change required from the debt transfer. The Treasurer also approved amendments to SA Water's interest rate risk management policy and liquidity risk management policy and an increase in SA Water's working capital facility limit with SAFA to $150 million, up from $100 million, to be reviewed every two years.

Borrowing costs for 2016-17 were $337 million ($336 million). The marginal increase in borrowing costs for 2016-17 reflects that the $71 million dividend was paid in June 2017, so minimal interest was accrued on this amount.

The change in gearing ratio also resulted in an increase in the guarantee fee charged by SAFA to 1.6% (up from 1%) as a result of the higher debt level.

Comparison with other water utilities

As discussed above, when announcing the initial $2.7 billion dividend and the 2017-18 State Budget measure, the SA Government noted that the revised arrangements would bring, or maintain, SA Water's debt arrangements into line with other interstate water utilities. SA Water's asset to debt ratio at 30 June 2017, in line with the policy, is 45%.

The table below details the gearing ratio for four major water utilities from around Australia as at 30 June 2016.

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

SA Water's revised gearing ratio is similar to those of Yarra Valley Water in Victoria and Unitywater in Queensland.

Statement of Cash Flows

Factors affecting cash flows include:

- investment in the construction and purchase of infrastructure, plant and equipment and intangible assets. In 2017 investing payments for assets amounted to $300 million ($301 million)
- payment of a cash dividend to the SA Government of $193 million ($205 million) in 2017
- increased net borrowings. In 2017 net cash inflows from borrowings were $95 million ($6 million).

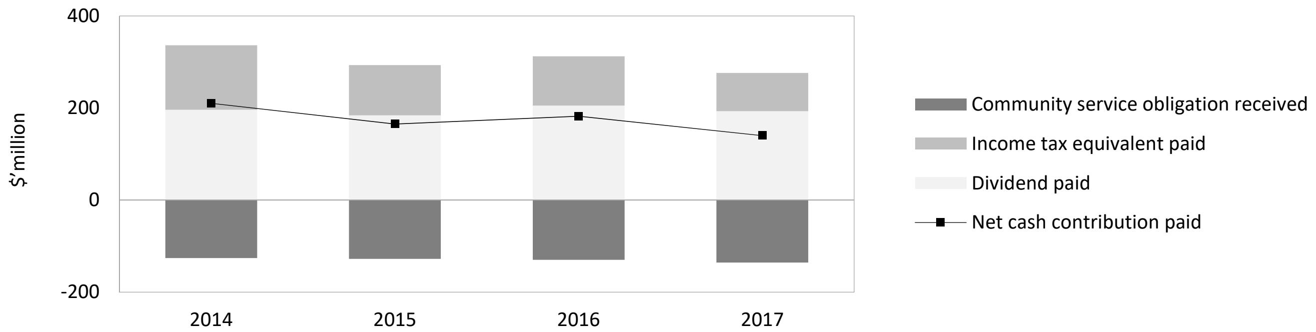
Further commentary on operations

Contributions to the SA Government

SA Water returned a dividend of $193 million ($205 million) comprised of $121.8 million based on profit in line with the financial ownership framework, and $71.2 million funded by additional debt as directed by the Treasurer.

Income tax equivalent amounts of $83 million ($107 million) were also paid in 2016-17.

A structural analysis of SA Water's cash contributions (dividends, income tax equivalent) to the SA Government and CSO funding provided by the SA Government for the four years to 2017 is shown in the following chart. As the $2.7 billion debt transfer in 2015 was not a cash transaction, it is not included in the chart.



The chart shows that the amount of money returned to the SA Government through income tax equivalent and dividend payments varied during this period, with net contributions paid reducing by $70 million between 2013 and 2017. The 2015 reduction does not reflect the additional $2.7 billion non-cash dividend achieved through the debt transfer. The chart does, however, include the additional $71 million dividend in 2016-17 funded through increased debt (as that was a cash payment).

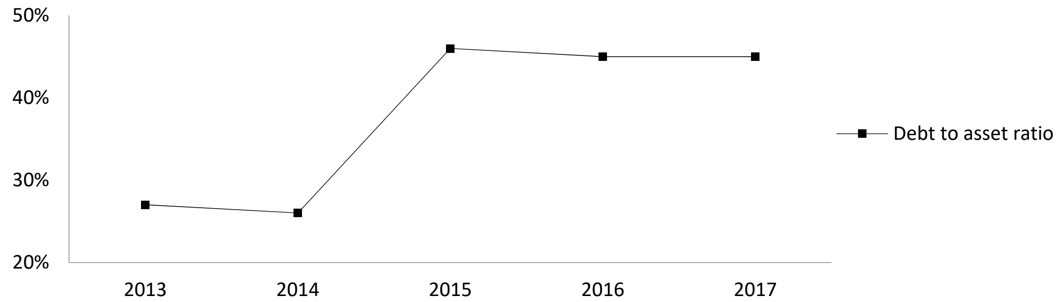
SA Water operates under a financial ownership framework developed by the Department of Treasury and Finance for public non-financial corporations. The main features of the framework are a dividend payout ratio of 95% based on after tax profit and arrangements for the SA Government to purchase non-commercial services for which CSO payments are made.

The following table summarises movements in the major items influencing borrowings.

	2017 $'million	2016 $'million	2015 $'million	2014 $'million	2013 $'million
Net cash inflows from operating activities	395	504	454	469	538
Net cash outflows from investing activities	(290)	(295)	(246)	(286)	(473)
Surplus (Shortfall in) cash from operations after investing activities	105	209	208	183	65
Dividend payments to owners	(193)	(205)	(184)	(196)	(236)
Surplus (Shortfall in) funds to pay for dividends and investing activities	(88)	4	24	(13)	(171)
Net increase in borrowings	95	6	(17)	19	176

For the period to 2013 SA Water increased its borrowing to finance its capital works programs, most notably for the ADP and the North South Interconnection System project. There were only small increases in net borrowings in subsequent years due to the reduction in SA Water's capital program. However, this net increase does not show the impact of the $2.7 billion increase to borrowings as it relates to a non-cash transfer, but does include the additional $71 million dividend in 2016-17 funded through increased debt.

The following graph presents movements in the debt to asset ratio for the five years to 2017.



The financial ownership framework gearing ratio range is currently 35-45%. The annual performance statement for 2017, agreed before the 2017-18 State Budget, established a target debt/asset ratio target of 45% as a direct result of the debt transfer in 2015.

As discussed above, the 2017-18 State Budget included a decision to maintain SA Water's debt to asset ratio at 45%.

Water industry legislation

The *Water Industry Act 2012 (the WI Act)* commenced on 1 July 2012. It replaced the *Waterworks Act 1932, Water Conservation Act 1936* and *Sewerage Act 1929.*

The WI Act appoints the Essential Services Commission of South Australia (ESCOSA) as the independent economic regulator for the South Australian water industry. ESCOSA commenced its role as regulator on 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.

ESCOSA made its first determination starting from 1 July 2013 for three years and its second determination starting from 1 July 2016 for four years. ESCOSA's determinations establish the revenue SA Water may earn each year of those regulatory periods. SA Water sets prices annually to achieve those revenue limits. ESCOSA regulates SA Water's revenue compliance and service standard performance.

For the most recent revenue determination, SA Water submitted its Regulatory Business Proposal which sets out its proposed levels of service and expenditure.

In June 2016, ESCOSA made a final determination on the maximum revenue to be recovered from water and sewerage customers. This was closely aligned with SA Water's proposal and resulted in an $87, or 6.7%, reduction to the average metropolitan residential customer's combined water and sewerage bill in 2016-17.

Water and sewer rates and charges

Essential Services Commission of South Australia

The WI Act establishes ESCOSA as the body responsible to make price 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.

Pricing orders

The Treasurer has issued a number of pricing orders since September 2012. They have specified that ESCOSA is to determine the revenue (not price) that may be derived from the provision of drinking and sewerage retail services (separately).

Both the first regulatory period (1 July 2013 to 30 June 2016) and the second regulatory period (1 July 2016 to 30 June 2020) included the requirements that ESCOSA adopt specified values for SA Water's retail water and sewerage regulatory asset bases (RAB), at $7.77 billion and $3.58 billion respectively as at 1 July 2013 (in December 2012 dollars).

The first regulatory period had a 190 gigalitre demand forecast for each year. For the second regulatory period, ESCOSA has established individual forecast levels of demand, commencing with 190.1 gigalitres for 2016-17. As discussed earlier, actual water demand in 2016-17 was 176.2 gigalitres.

SA Water sets annual water and sewerage charges to achieve the revenue limits determined by ESCOSA, with ESCOSA then monitoring SA Water's performance.

Ministerial direction

Under the *Public Corporations Act 1993* and the *South Australian Water Corporation Act 1994*, SA Water is subject to the control and direction of the Minister for Water and the River Murray (the Minister). On 9 May 2013 the Minister issued a direction to SA Water under these Acts.

The direction recognised the WI Act and that ESCOSA must make a determination that complies with any pricing order issued by the Treasurer. The pricing order provides for the ESCOSA determination to consider the Minister's directions.

The Minister directed SA Water to, amongst other things, purchase renewable energy or renewable energy certificates to operate the ADP, maintain state-wide pricing for drinking water and sewerage retail services (compensated by CSOs) and reimburse the Minister for fees paid to the Valuer-General for a copy of the valuation roll (SA Water contributions were determined at $4.6 million for 2014-15, $4.8 million for 2015-16 and $5 million for 2016-17).

The costs of these directions may be recovered by SA Water where they are not covered by a CSO or where the CSO is not sufficient.

ESCOSA determinations

In June 2016 ESCOSA issued a final determination of the amount of revenue that can be recovered by SA Water from drinking water retail services and sewerage retail services for the four years commencing 1 July 2016.

The determination set SA Water's maximum allowable revenues for drinking water retail services at $2.84 billion over the four years (averaging $710 million per year) and $1.12 billion for sewerage retail services (averaging $279.5 million per year). These amounts are based on December 2012 dollars.

SA Water pricing

SA Water is responsible for setting the prices charged to consumers during the four-year regulatory period based on maximum allowable revenues. Those prices must comply with ESCOSA's revenue determination.

ESCOSA's 2016-2020 price determination set four-year total revenue caps for water and sewerage services. Both caps are subject to a demand adjustment mechanism if actual water sales or sewerage connections are materially different to forecasts. Compliance with these caps, including any demand adjustments required, will be assessed at the end of the regulatory period that ends on 30 June 2020.

SA Water prices vary according to customer type and property location. A large component of SA Water prices are for residential customers. The charges for water for residential customers for the four years to 2016-17 are detailed below.

Residential water charges	2016-17 $	2015-16 $	2014-15 $	2013-14 $
First tier: first 0.3288 kL per day	2.27/kL	2.35/kL	2.32/kL	2.26/kL
Second tier: from 0.3288 kL to 1.4247 kL per day	3.24/kL	3.36/kL	3.32/kL	3.23/kL
Third tier: over 1.4247 kL per day	3.51/kL	3.63/kL	3.59/kL	3.49/kL
Annual residential water supply charge per year	286.40	286.40	282.80	274.80

SA Water pricing 2016-17

As discussed above, 2016-17 is the first year of the second regulatory period. ESCOSA has set maximum levels of revenue for drinking water and sewerage services across the regulatory period (1 July 2016 to 30 June 2020) of $2.84 billion and $1.12 billion respectively.

SA Water's rates for residential customers for 2017-18, and a comparison with the 2016-17 rates, are shown below.

Residential water charges	2016-17 $	2017-18 $	Variation $	Variation %
First tier: first 0.3288 kL per day	2.27/kL	2.32/kL	0.05/kL	2.1
Second tier: from 0.3288 kL to 1.4247 kL per day	3.24/kL	3.31/kL	0.07/kL	2.1
Third tier: over 1.4247 kL per day	3.51/kL	3.58/kL	0.07/kL	2.1
Annual residential water supply charge per year	286.40	292.40	6.00	2.1

Asset value accounting matters – RAB differs from financial report

In determining the prices for water and sewerage services, ESCOSA considers the appropriate RAB. As detailed above, the RAB was determined by the Treasurer in the second pricing order.

The RAB differs from the value of assets reported in SA Water's financial report. The total RAB assets as at 1 July 2013 as specified in the pricing order were $11.35 billion (comprising $7.77 billion for water services and $3.58 billion for sewerage services). This compares to SA Water's total assets at 30 June 2013 of $13.83 billion.

Under the current regulatory parameters the RAB, as initially determined by the Treasurer, is the value of assets on which regulatory revenues are determined.

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 section 8 of 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 in line with Guideline 2. Under Guideline 2 SA Water is required to submit special purpose financial statements.

Performance statement

As a public corporation, SA Water is bound by a charter and required to meet a range of performance targets set out in an annual performance statement, agreed between SA Water, the Minister and the Treasurer. The performance statement defines the contribution to the SA Government in terms of dividends, repayment of capital, income tax equivalents and other taxes and rates.

The key financial performance measures agreed to in the performance statement are set out in the following table.

Performance measure	Target 2016-17	Actual results 2016-17
Profit ($'million)	183.0	188.5
Tax expense ($'million)	54.9	54.2
Dividend ($'million)(2)	121.8	121.8
Total contribution ($'million)	176.7	176.0
Gearing ratio (%)(1)	43.9	45

(1) Total interest bearing debt (including borrowings and lease liabilities) divided by total assets.

(2) The dividend figure does not include the interim dividend paid of $71.2 million at the direction of the Treasurer as this was not part of the performance measures established for 2016-17.

SA Water's final profit before tax was $5.5 million above the performance statement target of $183 million. The additional dividend of $71.2 million was paid following the transfer of debt in 2016-17 and was not included in performance statement targets, as it reflects SA Government policy from the 2017-18 State Budget, rather than the agreed performance statement.

Commentary on SA Water's gearing ratio is included under the heading 'Contributions to the SA Government' above.

Department of State Development (DSD)

Financial statistics	Net cost of providing services:	$740 million
	Revenues from SA Government:	$588 million
	Employee benefits:	$103 million
	Grants and subsidies:	$524 million
	Net loss from disposal of non-current assets	$116 million
	Administered royalties:	$148 million
	Number of FTEs:	665

Significant events and transactions

- On 1 March 2017 DSD transferred ownership of non-current assets, leased to TAFE SA, to the Urban Renewal Authority. These assets had a book value of $708 million at the time of the transfer.
- On 1 April 2017 DSD transferred 329 FTEs and net assets of $33 million to the Department of the Premier and Cabinet as a result of transferring a number of business units, including mineral resources and energy.
- DSD provided total funding to TAFE SA of $231 million, which covered the provision of vocational education and training (VET) and other grant funding.

Financial report opinion

Unmodified

Financial controls opinion

Modified

Key issues:

- Funding arrangements with some statutory bodies were not correctly approved
- WorkReady compliance processes could be improved
- Key payroll reports were not always reviewed promptly
- Contract management processes for an Arts South Australia contract need to be strengthened

Structure of DSD

The Chief Executive of DSD is responsible to the Premier and the:

- Hon Jack Snelling
  - Minister for the Arts
  - Minister for Health Industries
- Hon Tom Koutsantonis
  - Minister for State Development
  - Minister for Mineral Resources and Energy (until 1 April 2017)
- Hon Martin Hamilton-Smith
  - Minister for Investment and Trade
  - Minister for Small Business
- Hon Kyam Maher
  - Minister for Employment
  - Minister for Aboriginal Affairs and Reconciliation
  - Minister for Manufacturing and Innovation
  - Minister for Automotive Transformation
  - Minister for Science and Information Economy
- Hon Susan Close
  - Minister for Higher Education and Skills
- Hon Ian Hunter
  - Minister for Water and the River Murray (until 1 April 2017).

Functional responsibility

DSD is an administrative unit established under the *Public Sector Act 2009*.

The main function of DSD is to drive economic growth and create jobs while supporting South Australia's economic transformation.

Details of DSD's objectives are contained in note 1 of the financial report.

Scope of audit

The 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 2016-17 included:

- expenditure, including funding to TAFE SA and private service providers, grants and accounts payable
- employee benefits and payroll processing
- revenue including minerals and petroleum application fees, rentals and licences
- administered royalties income

- property, plant and equipment
- cash management, including bank reconciliations
- general ledger.

The audit took into account the controls and procedures performed by service providers including Shared Services SA (SSSA).

The work of DSD's internal auditors was also considered in planning and conducting the audit.

Audit findings and comments

Assessment of controls

In my opinion, the controls exercised by the Department of State Development in relation to the receipt, expenditure and investment of money, the acquisition and disposal of property and the incurring of liabilities, except for all matters outlined under 'Communication of audit matters', are sufficient to provide reasonable assurance that the financial transactions of the Department of State Development have been conducted properly and in accordance with law.

Communication of audit matters

Grant payments – Arts South Australia

Arts South Australia oversaw grant payments of $132 million in 2016-17. These grants are provided to a range of artistic and cultural institutions, including government statutory bodies.

Funding arrangements with some statutory bodies were not correctly approved

Arts South Australia enters into annual funding agreements with a number of statutory bodies. The Treasurer's Instructions capture arrangements like these and, until May 2017, required Cabinet approval for arrangements over $11 million (Cabinet approval is now required for arrangements over $15 million).

The Executive Director of Arts South Australia approved the funding arrangements for the Adelaide Festival Centre Trust, Public Library Services and the State Library of South Australia, all of which were for amounts over $11 million.

We acknowledge these arrangements are reflected in the State Budget and are longstanding, however the approval was not consistent with Treasurer's Instruction requirements.

We also noted the approval of these funding arrangements exceeded the $1.1 million delegation from the Chief Executive of DSD held by the Executive Director of Arts South Australia.

DSD responded that Arts South Australia would consult with the Department of Treasury and Finance and seek a variation to the Treasurer's Instruction requirement for 2017-18 and beyond. DSD also indicated it would work with the Minister to change the existing delegation for the Executive Director of Arts South Australia.

Payments to WorkReady service providers

Total payments to private service providers under WorkReady VET programs for 2016-17 were $34 million. In addition to those payments, we reviewed payments under the $6 million Jobs First Employment Programs (JFEP) scheme, a non-VET program also funded through WorkReady.

Compliance audits could be improved to ensure the existence of accredited training participants

The Commonwealth Government is responsible for overall regulation of the VET sector, while DSD has its own regulation functions for its funded programs, including WorkReady. One Commonwealth Government requirement is that each training participant is assigned a unique student identifier (USI). Recognised forms of Australian identification must accompany any application for a USI.

DSD's regulation unit requires service providers to confirm that the Commonwealth requirements have been met for training participants as part of its compliance program, but does not obtain the supporting data for USIs to verify their validity.

We consider confirming the USI data would help to reduce the risk of paying private service providers for fictitious participants.

DSD responded that the ability to verify participant information commenced in 2017. DSD also noted that some training participants would not require a USI as they can undertake individual training units without it.

Further, DSD advised some controls were implemented to use USIs in internal data matching exercises and further opportunities would be prioritised with the revision of DSD's WorkReady systems.

Compliance audits could be expanded

DSD's Skills and Employment division has a compliance framework that is designed to ensure consistency in quality and compliance activities for WorkReady programs.

We noted that the compliance framework was not applied to non-accredited training activities such as JFEP during 2016-17, while it was applied to accredited (VET) services.

As a result, there is a greater risk of non-accredited service providers not complying with their contractual obligations, as there was less focused compliance activity from DSD for those areas.

DSD confirmed that there had not been any compliance audits for JFEP in 2016-17, but advised compliance audits would be undertaken in future.

JFEP training declarations may not be current

JFEP service providers need to submit a qualification certification and training declaration (declaration) to DSD before delivering JFEP services. A declaration is required where individual case management or structured mentoring is included as part of the JFEP services to be provided.

The purpose of the declaration is to ensure that the service provider has verified that their staff and contractors have a current national police check and appropriate qualifications or work experience in counselling, community services or mentoring.

Where it is relevant to their participants, service providers also have to certify they have undertaken the following training:

- Child Safe Environment
- Cultural Awareness/Cultural Competency
- Mental Health First Aid Training/Mental Health Awareness
- Disability Awareness.

Declarations are only required to be submitted when projects commence. Therefore, where circumstances change during the service term, DSD cannot determine whether all of the above requirements are met.

In particular, if a participant under the age of 18 is accepted during the JFEP service period, DSD has no control to ensure service providers have declared that their staff and contractors have fulfilled Child Safe Environment training and complied with the *Children's Protection Act 1993*.

We consider there is a risk that DSD could have a contractual relationship with a non-compliant service provider, which may impact the appropriateness of the training or support environment for program participants.

DSD responded that the risk is low given the extent of case management currently being provided through JFEP and current controls in place.

DSD advised that agreements would be reviewed to clarify that it is the responsibility of the JFEP provider to maintain and update certifications if new staff become involved in delivering JFEP programs, if they enrol participants under 18 or where disabilities, mental health or cultural sensitivities are identified.

Payroll

Key payroll reports not always reviewed promptly

DSD had total employee benefits expenses of more than $103 million in 2016-17 and employee benefits at 30 June 2017 were $24 million.

We found DSD did not have a monitoring control to ensure bona fide certificates were reviewed promptly. In addition, from our sample testing, it was evident that bona fide certificates and leave return reports were not always reviewed in the time frames established by DSD policy, with more than half of our sample outside of these time frames.

Delayed review of these key payroll reports increases the risk of financial loss to DSD from inaccurate processing of payroll and leave payments through the payroll system.

DSD responded that it would establish monitoring of the management of bona fide certificates.

Contract management processes for an Arts South Australia contract need to be strengthened

We reviewed DSD's contract management processes in 2016-17. In doing so, we sampled a contract from Arts South Australia worth $6.5 million over two years. While DSD had a contract management plan for this contract it did not address all of the areas required by the State Procurement Board. We consider this creates a risk that all aspects of the contract may not be effectively managed.

DSD responded that it would develop a revised contract management plan for the identified contract.

Shared Services SA – financial systems and transaction processing environments

SSSA processes financial transactions on behalf of DSD under service level determinations. The main systems and control environments include accounts payable, payroll and general ledger financial functions.

Our review and evaluation of controls for these systems concluded that controls were effective for 2016-17.

SSSA is discussed further as part of the commentary under 'Department of the Premier and Cabinet' in this Report.

Interpretation and analysis of the financial report

Highlights of the financial report

	2017 $'million	2016 $'million
Expenses		
Grants and subsidies	524	528
Employee benefits expense	103	118
Net loss from disposal of non-current assets	116	9
Supplies, services and other expenses	121	113
Total expenses	864	768
Income		
Revenues from fees and charges	71	63
Commonwealth revenues	39	29
Other revenues	14	16
Total income	124	108
Net cost of providing services	740	660
Revenues from (Payments to) SA Government		
Revenues from SA Government	588	641
Payments to SA Government	(612)	(8)
Net result	(764)	(27)
Net cash provided by (used in) operating activities	(681)	(41)
Assets		
Current assets	138	134
Non-current assets	187	968
Total assets	325	1 102
Liabilities		
Current liabilities	47	46
Non-current liabilities	19	33
Total liabilities	66	79
Total equity	259	1 023

Transfer of some DSD functions to the Department of the Premier and Cabinet

A number of DSD business units transferred to the Department of the Premier and Cabinet (DPC) effective from 1 April 2017. DSD's financial statements include the transactions for these activities for the nine months from 1 July 2016 to 31 March 2017. The last three months of the year and the full-year financial results for these activities are shown in the DPC financial report and there is further commentary on the outcomes from these areas under 'Department of the Premier and Cabinet' in this Report.

By notice in The South Australian Government Gazette on 28 March 2017 all employees of the business units known as the Mineral Resources Division, the Energy Resources Division, the Energy Markets and Programs Division, the Resources Infrastructure and Investment Task Force (with the exception of the Case Management Function), the Strategy and Governance Unit and the Office of the Economic Development Board were transferred to DPC, effective 1 April 2017.

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

Sale of property leased to TAFE SA to the Urban Renewal Authority

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

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

DSD recognised a loss on sale of $113 million, representing the difference between its carrying amount and the amount paid by the URA. The proceeds were then transferred to the Consolidated Account and are reflected as payments to SA Government in DSD's Statement of Comprehensive Income.

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

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

DSD's funding to TAFE SA was increased in April 2017 by $15 million, $11 million of which offset the impact of higher rental charges that TAFE SA will now pay back to DSD which in turn, resulted in an $11 million increase in DSD's fees and charges revenue in 2016-17.

Statement of Comprehensive Income

The net result of a loss of $764 million is mainly due to the sale of assets to the URA, with a loss on sale of $113 million, as discussed above, and the payment of the sale proceeds of $595 million to the Consolidated Account.

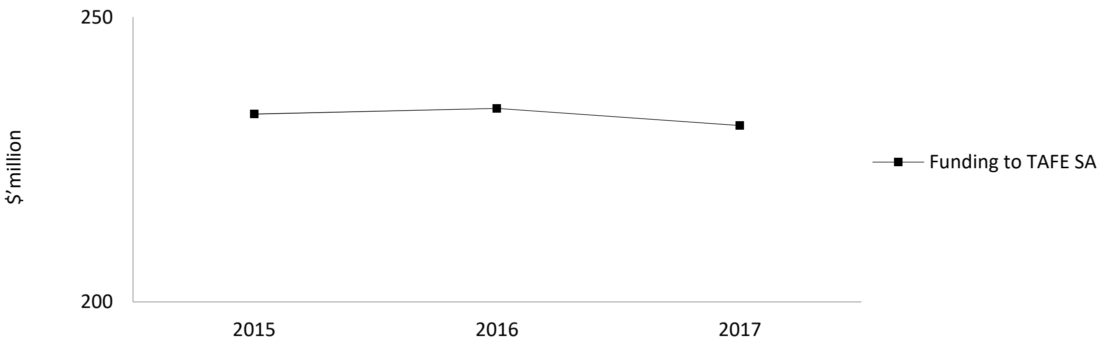
Expenses

Total expenses for 2016-17 increased by $96 million to $864 million. The main expenses were grants and subsidies of $524 million ($528 million), employee benefits of $103 million ($118 million) and a loss from disposal of non-current assets of $116 million ($9 million), which collectively account for 86% (85%) of total expenses.

Grants and subsidies

Funding to TAFE SA

Grants and subsidies to TAFE SA totalled $231 million ($234 million) for 2016-17. The following chart shows that total funding provided to TAFE SA for the last three years has remained steady.



The amounts shown in the chart include a number of elements, primarily VET subsidies, structural support, capital grant funding and targeted voluntary separation package support.

A memorandum of administrative arrangement (MoAA) for non-commercial services between DSD and TAFE SA provided for TAFE SA to receive $210 million for various activities, including delivering VET courses, payments for community services that TAFE SA performs and other grant amounts.

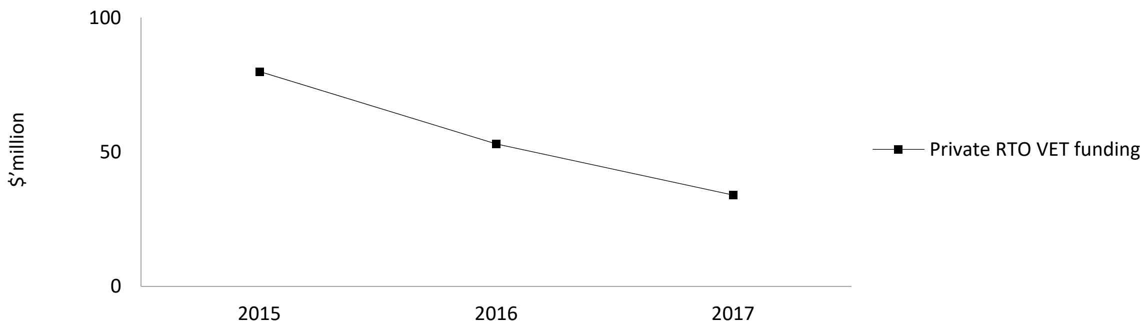
The MoAA clearly identifies that the funding arrangements are transitional while TAFE SA implements significant organisational reforms.

In addition, TAFE SA received funding of $12 million, subject to a separate agreement, for excess staff costs. These amounts are paid to TAFE SA to meet excess employee costs while TAFE SA transitions its business to a more competitive structure.

Most of the remaining $9 million in funding to TAFE SA was for capital grants and targeted voluntary separation package reimbursements, which are subject to separate arrangements.

Other VET funding

DSD also provides VET funding to private registered training organisations (RTOs). The chart below shows the total private RTO VET funding for the last three years.



The reduction in funding to private RTOs reflects the smaller number of subsidised courses under the WorkReady subsidised training list and the focus on supporting TAFE SA to transition its business.

Arts and cultural grants

Arts and cultural grants increased marginally to $132 million ($129 million) in 2016-17. A substantial portion of these grants are paid to SA Government statutory authorities. Payments to the Libraries Board of South Australia, Adelaide Festival Centre Trust, Art Gallery Board and Museum Board account for 57% of the total expenditure.

The major movements in arts and cultural grants in 2016-17 included a decrease in funding to the South Australian Country Arts Trust of $4.2 million as this was paid to the Trust in 2015-16 for essential infrastructure works on four regional theatres in that year, offset by small increases to a number of other recipients.

Other grants

Other major categories of grants include skills and employment grants of $47 million ($44 million) and industry, innovation, science and small business grants of $42 million ($29 million). These grants generally include specific milestones or deliverables that are monitored by DSD.

Further, DSD provided funding to Investment Attraction SA (IASA) of $22 million ($3 million).

Resources and energy grants decreased from $29 million in 2015-16 to $6 million, mainly as a result of the transfer of functions from DSD to DPC from 1 April 2017 and due to a reduction in funding under the PACE Copper Strategy up to March 2017.

Skills and employment grants and subsidies include funding of the Tertiary Students Transport Concession Scheme, JFEP, regional National Disability Insurance Scheme and funding for Adult Community Education.

Industry, innovation, science and small business grants include payments for the Our Jobs Plan program totalling $13 million, of which $5 million was a payment for the Next Generation Manufacturing Works project. This is the SA Government's contribution to the Commonwealth Government's $60 million Next Generation Manufacturing Investment Program, which aims to help accelerate manufacturing investment in South Australia and Victoria.

$2 million was spent on programs under the Automotive Transformation Taskforce initiative in 2016-17. This initiative, which commenced in 2013-14, has two components.

The Automotive Supplier Diversification Program administered by DSD assists automotive supply chain manufacturers impacted by Holden's announcement to cease manufacturing activities in Australia by the end of 2017. The program started in 2013-14 and $3 million in grants had been provided to 30 June 2017, to help automotive supplier firms to successfully diversify and secure alternate revenue streams.

The Automotive Workers in Transition Program provides funding for workers from automotive component supply chain companies affected by the Holden closure to access professional career advice and training for a new job. This program started in 2014-15 and $1 million in grants had been provided to 30 June 2017.

A further $3 million was paid to Defence SA as a contribution to the Defence Innovation Partnership, an initiative aimed to generate defence related research activity for the State.

Other payments for industry and innovation include grants of $8 million to TechInSA and $5 million to the Premier's Research and Industry Fund. The Premier's Research and Industry Fund encourages investment in key science and research areas through grant funding for significant research collaborations, small to medium enterprise research projects and cooperative research centres.

Income

DSD is predominantly funded by appropriation. Revenues from the SA Government were $588 million ($641 million), 83% (86%) of its total income. The reduction in SA Government funding mainly reflects lower funding requirements following the transfer of employees and activities to DPC from 1 April 2017.

DSD's other significant income streams were revenues from fees and charges of $71 million ($63 million) and Commonwealth revenues of $39 million ($29 million).

Revenues from fees and charges mainly relate to:

- infrastructure recharges from TAFE SA of $32 million ($21 million), paid to reflect TAFE SA's use of assets previously owned by DSD and transferred to the URA on 1 March 2017 to deliver training. The increase in these fees in 2017 reflects the new arrangements following the sale to, and leaseback of assets from, the URA. DSD pays the URA commercial rates for the use of these assets and in turn leases the assets to TAFE SA

- mining and petroleum application fees, rentals and licences of $16 million ($22 million). The decrease is due to the transfer of these functions to DPC as at 1 April 2017.

Commonwealth revenues principally relate to the National Partnership Agreement on Skills Reform funding of $38 million ($27 million). This National Partnership Agreement relates to the reform of the VET sector and ended in 2016-17. The increase is due to the receipt of milestone payments in 2016-17.

Statement of Financial Position

The most significant items in the Statement of Financial Position are detailed in the following table.

	2017 $'million	2016 $'million
Assets		
Cash and cash equivalents	115	107
Property, plant and equipment	167	944
Liabilities		
Payables	40	29
Employee benefits	24	37

Property, plant and equipment represents 51% (85%) of total assets, with cash and cash equivalents representing a further 35%.

The decrease in property, plant and equipment is due to the transfer of the ownership of TAFE SA sites to the URA. The remaining buildings as at 30 June 2017 are mainly controlled by Arts South Australia and included the Adelaide Festival Centre and Her Majesty's Theatre.

The increase in payables is mainly due to capital accruals for the Adelaide Festival Centre Precinct redevelopment project.

Statement of Cash Flows

Cash and cash equivalents at 30 June 2017 total $115 million ($107 million). Of this amount, $108 million is held in DSD's operating account and $7 million is held in the Accrual Appropriations Excess Funds Account, which is not available for general expenditure.

Administered items

Until 1 April 2017, DSD administered the collection of $148 million ($208 million) in royalties levied on mineral and petroleum production on behalf of the SA Government. This function was then transferred to DPC.

Total royalties collected for the financial year by DSD and DPC totalled $214 million.

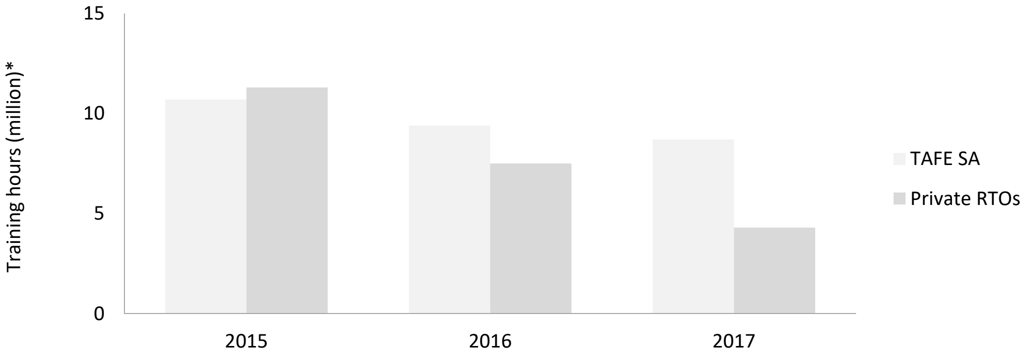
Further commentary on operations

WorkReady and Skills for All

The SA Government announced the commencement of the WorkReady program, for training, employment and skills activity and investment, to replace the previous Skills for All program from 1 July 2015.

The aim of WorkReady is to align funding for subsidised training places to specific strategic industry sectors and growth areas, with a focus on links between training and jobs. WorkReady has resulted in a more targeted subsidised training list and a significant reduction in the number of subsidised courses.

The following chart illustrates the number of training hours funded by DSD through Skills for All and WorkReady over the past three years, split between TAFE SA and private RTOs.



* Data on the number of funded training hours has been provided by DSD and is unaudited.

The chart shows that total funded training hours have decreased over the last three years, reflecting decreased WorkReady funding. The chart also illustrates that the level of funded training hours for private RTOs has reduced at a greater rate than funded training hours for TAFE SA. This reduction reflects the smaller number of subsidised courses under the WorkReady subsidised training list, and the focus on supporting TAFE SA to transition its business to a more competitive structure.

Investment Attraction South Australia

The Public Sector (Investment Attraction South Australia) Proclamation 2016 (dated 10 March 2016) declared the establishment of IASA as an attached office of DSD effective from 1 April 2016.

IASA is the lead SA Government body for all major investment attraction activity from both overseas and interstate companies. Its main focus is to attract foreign direct investment to increase economic development and create jobs in South Australia.

In 2016-17 IASA paid $6 million in grants. This included a $2 million grant to Babcock Mission Critical Services to relocate its head office to Adelaide.

Anangu Pitjantjatjara Yankunytjatjara (APY) Lands

APY receives funding from the SA Government to administer the *Anangu Pitjantjatjara Yankunytjatjara Land Rights Act 1981*. In 2016-17, total grant funding provided by DSD for this purpose was $1.5 million.

Other funding is provided by DSD, and is reflected in the administered financial statements, to other government agencies and non-government organisations to undertake works or programs on the APY Lands, but these amounts are not paid to APY.

In previous Reports I have noted issues relating to the financial management and governance practices of APY, the incorporated body with responsibility for managing the APY Lands.

I further noted that DSD, cooperating with the Commonwealth Government, had engaged Ernst & Young to undertake a further review of APY's finances.

As a result of these reviews additional conditions were included in the 2016-17 agreement for APY to receive funding. The conditions included:

- APY is not permitted to make payments in advance of remuneration, allowances and expenses to which members of the APY executive are entitled

- terms and conditions of employees funded by the grant are strictly adhered to
- a separate bank account to be opened for SA Government funding
- finalisation and implementation of actions outlined in the Ernst & Young report to improve financial governance, including revised delegations and improved recordkeeping.

Superannuation sector activities

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)	Defined benefit	***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 3 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
SA Metropolitan Fire Service Superannuation Scheme (SAMFSSS)	Hybrid (defined benefit and defined contribution)	Employees of the South Australian Metropolitan Fire Service
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)	Hybrid (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 earning income of up to $37 000 p.a.
Judges' Pensions Scheme (JPS)	Defined benefit	South Australian judges
Governors' Pensions Scheme (GPS)	Defined benefit	Former Governors of the State

With the exception of Select, JPS and GPS, all schemes offer insurance services to their members, which may include income protection, death, and total and permanent disability.

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. Exempt public sector superannuation 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), upon termination of South Australian public sector employment. It 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
- due to their exempt status, the schemes are not regulated by APRA. However, for statutory purposes, the schemes report to APRA under an agreement between the Commonwealth and State Governments.

A number of South Australian public sector superannuation schemes are also constitutionally protected (ie Triple S, SASS, Parliamentary Super, JPS, GPS, Police Super). As a result, 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 and cannot be deducted from the scheme.

Administration and funds management

The following table outlines 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 Minister for Finance
SAMFSSS	SA Metropolitan Fire Service Superannuation Pty Ltd
Select	Southern Select Super Corporation
Police Super	Police Superannuation Board

Except for Police Super and the SAMFSSS, 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. Mercer Outsourcing (Australia) Pty Ltd provides administration services to the SAMFSSS.

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

As at 30 June 2017, the superannuation schemes had $27 billion ($24 billion) in investments. In 2016-17 these assets increased in fair value by $2.794 billion ($1 billion).

Total investment assets have steadily increased reflecting growth in membership as well as additional contributions. In 2016-17 the large increase in net investment revenues has contributed to this growth.

The increase in net investment revenue in 2016-17 reflects the large increase in the rates of return for property, equities (Australian and international), diversified strategies growth and diversified strategies income asset classes, which all strongly outperformed their benchmarks. In particular Australian and international equities recorded returns of approximately 15% to 20% respectively.

The following table summarises the rates of return advised by Funds SA for the Balanced and Growth options for tax exempt (ie constitutionally protected) schemes.

	2017	2016	2015
	%	%	%
Balanced	11.0	3.9	9.4
Growth	12.4	3.8	10.0

Further details are included in the commentary under 'Superannuation Funds Management Corporation of South Australia' in this Report.

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 pension or defined lump sum benefits on retirement. Except for JPS and GPS, these schemes are now closed to new members. SAMFSSS, while still open to new members, is not controlled and funded by the SA Government.

As at 30 June 2017, the total deficit of net assets to member benefits liabilities amounted to $5.3 billion ($5.9 billion). This is represented by the following.

	Net assets available for member benefits		Member benefits liabilities		Total equity over (under) funded	
	2017	2016	2017	2016	2017	2016
	$'million	$'million	$'million	$'million	$'million	$'million
SASS	4 984	4 774	9 861	10 064	(4 877)	(5 290)
Police Super	1 676	1 483	2 153	2 090	(477)	(607)
Parliamentary Super(1)	233	215	200	198	33	17
Ambulance Super(1)	191	175	178	172	13	3
JPS	251	229	224	216	27	13
GPS	-	-	2	2	(2)	(2)
Total(2)	7 335	6 876	12 618	12 742	(5 283)	(5 866)

(1) Amounts included relate only to the defined benefit portion of the schemes.

(2) Table excludes SAMFSSS as defined benefits are funded by its members.

The total unfunded member benefits liabilities (deficit of net assets to member benefit 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 has recognised an $11.2 billion liability at 30 June 2017 for unfunded superannuation benefits in the 2017-18 State Budget (refer 2017-18 Budget Paper 3 'Budget Statement', page 65). This figure is significantly larger than the accumulated deficit of net assets to accrued benefits of $5.3 billion identified above.

This variance is due mainly to the different discount rates used to calculate accrued member benefits 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 schemes apply discount rates ranging from 7% to 9.7% p.a.

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 2017-18 State Budget was 3.3% p.a. (refer 2016-17 Budget Paper 3 'Budget Statement', page 66). The lower discount rate results in a higher present value liability calculation.

Catch-up funding cash payments continue

A program began in 1994-95 to fully fund all employer superannuation liabilities. The SA Government's 2017-18 State Budget states that the government is on target to meet its commitment to have the defined benefit schemes fully funded by 2034 (refer 2017-18 Budget Paper 3 'Budget Statement', page 9).

The past service liability contributions for 2016-17 were $462 million ($417 million). The purpose of this contribution is to catch up the shortage of funding for employment in years prior to the full funding policy. The past service contributions are 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.

A new superannuation accounting standard applied from 1 July 2016

AASB 1056 replaced AAS 25 'Financial Reporting by Superannuation Plans' from 1 July 2016.

The implementation of AASB 1056 required superannuation entities financial reports to include:

- a Statement of Financial Position
- an Income Statement
- a Statement of Changes in Equity/Reserves
- a Statement of Cash Flows
- a Statement of Changes in Member Benefits.

The significant changes in the superannuation schemes' financial reports for the year ended 30 June 2017 were:

- the broad application of applicable Australian Accounting Standards presentation principles and requirements as opposed to the requirements of AAS 25 that overrode certain requirements

- the inclusion of self-insurance arrangements as if they were life insurance contracts for three of the schemes. The only significant change was to Triple S, with insurance liabilities of $22 million recognised at 30 June 2017 (schemes that offer insurance services were previously not obliged to report self-insurance contracts separately)

- the calculation of defined benefit liabilities based only on accrued benefits with vested benefits not required

- the requirement for an annual actuarial assessment of liabilities rather than on a triennial basis (change affecting Ambulance Super and Police Super)

- net assets of the schemes now reflect the schemes' member liabilities and reserves

- the surplus or deficit of funds is shown in the Statement of Financial Position

- liabilities are recorded on the face of the Statement of Financial Position for member benefits.

South Australian Superannuation Board (SASB)

Financial statistics	Administration expense:	$27.258 million
	Net cost of services:	$8.624 million
	General reserve:	$1.779 million
Significant events and transactions	SASB has spent $11.5 million to 30 June 2017 on implementing the Bluedoor superannuation administration system, including costs for software and internal project management.	
Financial report opinion	**Unmodified**	
Financial controls opinion	**Unmodified**	

Functional responsibility

SASB was established by the *Superannuation Act 1988* (the Super Act).

SASB is responsible to the Minister for Finance 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 – State Superannuation Office (Super SA) provides services to administer the schemes.

The Superannuation Funds Management Corporation of South Australia 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 audit

The 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 2016-17 included:

- administration expenses
- fees and charges revenue (recovery of administration fees from superannuation schemes)
- general ledger
- progress of ICT projects.

Internal audit activities were reviewed to assess the risks of material misstatement in the financial report and to design and perform audit procedures.

Audit findings and comments

Communication of audit matters

A small number of minor matters identified by the audit were detailed in a management letter to the General Manager of Super SA and those charged with governance. Super SA's response for all matters was satisfactory.

Bluedoor system implementation

In 2015-16 the State contracted with DST Bluedoor to provide a new superannuation management system on behalf of all the superannuation schemes administered by Super SA.

Bluedoor, when fully implemented, is expected to provide Super SA with an integrated administration system with a range of complementary capabilities including workflow management, document management and enhanced reporting systems. Bluedoor will replace all existing superannuation administration systems used by Super SA.

The implementation project has continued through 2016-17 and implementation is still expected to occur in two phases. During the year a number of internal audits of the project were undertaken, with some key findings requiring remediation before the system go-live date. The internal audits conducted were:

- an initial project Health Check in October 2016
- a data migration review in May 2017
- a security design review in July 2017.

Further internal audit work is also being conducted on data migration and security design.

The planned go-live dates have been revised due to delays in the implementation project. The main reasons for these delays were:

- additional legislative changes introduced by the Federal Government effective 1 July 2017 and for which design, coding, testing and data migration changes to scope were necessary
- the need to work through the configuration of the system with a number of external parties
- the complexity of data migration from existing systems
- internal resourcing constraints in SASB to support the implementation program.

Outlined below are the revised go-live dates for the two phases of implementation:

	Entities affected	**Original go-live date**	**Revised go-live date**
Phase 1	Triple S, Super SA Select and SSARIF	April 2017	Second half of 2017-18
Phase 2	SASS, Ambulance Super, Parliamentary Superannuation Scheme, Judges' Pensions Scheme, Governors' Pensions Scheme	November 2017	To be determined

It is anticipated that Super SA will go-live with the phase one schemes in the second half of 2017-18, with an exact date yet to be determined.

Total spend on the project as at 30 June 2017 was $11.5 million. Additional funding of $812 500 was approved by the SASB in February 2017 to support the implementation, bringing the project budget to $14.7 million. The software is included in the Department of Treasury and Finance's (DTF's) financial statements as intangible assets – work in progress with a current value of $9.8 million.

Superannuation on paid parental leave

In my last Annual Report I advised that the Southern State Superannuation (Parental Leave) Amendment Bill 2016 was before the Parliament to amend the *Southern State Superannuation Act 2009.* The Bill seeks to remove the exclusion of paid parental leave from the definition of salary with effect from 19 November 2012. If passed, it will require employers to make additional superannuation payments for staff on parental leave since April 2015.

The Bill remains before the Legislative Council at the time of this Report.

Interpretation and analysis of the financial report

SASB's financial report reflects its administration role in that:

- expenses relate predominantly to fees paid to DTF to administer the superannuation schemes
- revenues are mainly to reimburse DTF fees from the superannuation schemes.

Highlights of the financial report

	2017 $'million	2016 $'million
Expenses and income		
Total expenses	27.3	20.4
Total income	18.7	17.4
Total comprehensive result	(8.6)	(3.0)
Net cash provided by (used in) operating activities	(14.1)	-
Assets		
Cash and cash equivalents	0.7	14.8
Receivables	1.6	1.1
Total assets	2.3	15.9
Total liabilities	-	5.0
Total equity	2.3	10.9

Statement of Comprehensive Income

The net cost of services for the year was $8.6 million ($3 million). This result mainly reflects:

- revenue from recoveries of administration fees of $18.5 million ($17.2 million). This amount represents the administration fees charged to the superannuation schemes administered by SASB
- administration expenses of $27.3 million ($20.4 million). This amount is paid to DTF for administrative services, which also includes the reimbursement of $9.5 million in ICT project costs incurred this year for the Bluedoor system.

Statement of Financial Position

The decrease in liabilities of $5 million mainly reflects the decrease in payables in 2016-17 relating to the reduction in ICT projects of $2.2 million and a decrease in the administration fee payable to DTF at the end of the year.

General reserve

SASB has established a general reserve to:

- account for under and over spend in office expenditure
- provide for future project expenditure
- provide funding for the triennial SASB election.

During 2016-17, $8.6 million was released from general reserves to retained earnings to fund ICT project costs totalling $9.5 million.

South Australian Superannuation Scheme (SASS)

Financial statistics	Member benefit liabilities:	$9.9 billion
	Net assets available for member benefits:	$5 billion
	Defined benefits underfunded:	$4.9 billion
	Past service liability funding:	$392 million
	Benefits paid and payable:	
	Pension Scheme	$636 million
	Lump Sum Scheme	$204 million
	Number of members:	
	Pension Scheme	15 902
	Lump Sum Scheme	3 951
	Total	19 853

Significant events and transactions

- SASS adopted AASB 1056 'Superannuation Entities' for the first time in 2016-17.
- Change in fair value of investments of $604 million.

Financial report opinion — **Unmodified**

Financial controls opinion — **Unmodified**

Functional responsibility

SASS was established by the *Superannuation Act 1988*.

SASS provides for 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 to the Pension Scheme 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 before 3 May 1994. Contributors to the Lump Sum Scheme are entitled to a lump sum based benefit.

Scope of audit

The 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 2016-17 included:

- receipting and banking of contributions
- benefit payments
- maintenance of members accounts
- member benefits liabilities.

The investment and management of SASS's assets is reviewed as part of the Superannuation Funds Management Corporation of South Australia (Funds SA) audit.

Internal audit activities were reviewed to assess the risks of material misstatement in the financial report and to design and perform audit procedures.

Audit findings and comments

Communication of audit matters

We communicated a small number of minor matters identified by the audit in a management letter to the General Manager of Super SA and those charged with governance. Super SA's response for all matters was satisfactory.

Interpretation and analysis of the financial report

Highlights of the financial report

	2017 $'million	2016 $'million
Assets		
Investments	4 991	4 783
Other assets	10	11
Total assets	5 001	4 794
Liabilities		
Benefits payable and other current liabilities	17	20
Total liabilities	17	20
Net asset available to pay benefits	4 984	4 774

	2017 $'million	2016 $'million
Member benefits		
Defined benefit member liabilities	9 205	9 423
Defined contribution member liabilities	656	641
Total member liabilities	9 861	10 064
Equity		
Defined benefits that are over (under) funded	(4 877)	(5 290)
Total equity	(4 877)	(5 290)
Revenue		
Changes in investments measured at fair value	604	214
Total revenue	604	214
Expenses		
Investment expenses	39	34
Higher education expense	9	9
Administration expenses	3	2
Total expenses	51	45
Result from superannuation activities	553	169
Net change in defined member benefits liabilities	61	23
Allocation to defined contribution member accounts	(202)	(150)
Operating result	412	42
Changes in member benefits		
Net contributions	497	468
Benefits to members (paid and payable)	(840)	(830)
Net cash flows from operating activities	(12)	(11)
Net cash flows from investing activities	356	378
Net cash flows from financing activities	(343)	(368)

Statement of Financial Position

Investments

Total investments increased by $208 million to $5 billion mainly due to increased investment returns, which were offset by the ongoing benefit payments to members exceeding net contributions.

Member benefits liabilities

SASS is a defined benefit superannuation scheme. The scheme 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.

Summarised below are the net assets available for member benefits, member benefits liabilities and the resulting excess of liabilities over net assets.

	2017 $'million	2016 $'million
Net assets available for member benefits	4 984	4 774
Member benefits liabilities	9 861	10 064
Over (under) funded member benefits liabilities	(4 877)	(5 290)

The $9.9 billion member benefits liabilities comprises $9.2 billion (93%) for the old scheme (defined benefit pension scheme) liability and $657 million (7%) for the new scheme (defined benefit lump sum) liability.

The total of unfunded member benefits liabilities decreased by $413 million to $4.9 billion. This decrease is largely due to:

- the $390 million increase, to $603 million, in the change in investments measured at fair value resulting from the strong growth in the market during 2016-17
- the overall decline in member numbers, which is consistent with the ageing membership demographic and SASS's closure to new members since May 1986 (old scheme) and May 1994 (new scheme)
- the actuarial calculation of the liability and the effect of the past service liability funding of $392 million.

As mentioned in the 'Superannuation sector activities' section of this Report, the SA Government has committed to fully fund the defined benefit superannuation schemes by 30 June 2034.

The demographic assumptions of the 2016 triennial actuarial review were applied to the calculation of the member benefits liabilities. The following assumptions, which are consistent with the 2016 valuation, were used in calculating the 2017 member benefits liabilities:

- discount rate 7%
- long-term salary inflation 4%
- long-term CPI factor 2.5%.

Vested benefits

Vested benefits are the benefits members are entitled to had their membership been terminated at reporting date. The vested benefits as at 30 June 2017 were $10 billion ($10.2 billion) as disclosed in note 4 of the financial report.

Income Statement

Investment revenue

Total revenue increased by $390 million (182%) to $604 million due to the changes in investments measured at fair value as a result of increased returns on property, equities (Australian and international), diversified strategies growth and diversified strategies income asset classes which strongly outperformed their benchmarks. In particular Australian and international equities recorded returns of approximately 15% to 20% respectively.

Further details on investment returns are included in the commentary under 'Superannuation Funds Management Corporation of South Australia' in this Report.

Expenses

Investment expenses increased by $5 million to $39 million. The increased investment expenses were for higher performance fees to Funds SA due to increased funds under management and stronger investment returns.

Statement of Changes in Member Benefits

Contribution revenue

Details of contribution revenue and membership statistics are presented below.

	2017 $'million	2016 $'million
Contributions for past service liability	392	353
Contributions by employers	49	57
Public authority employer contributions	37	38
Contributions by members	18	19
Transfers from other super entities	1	1
Total	497	468

	2017 Number	2016 Number	2015 Number
Pension Scheme	15 902	16 327	16 749
Lump Sum	3 951	4 375	4 839
Total	19 853	20 702	21 588

Net contributions increased by $29 million (6%) to $497 million, mainly because:

- contributions for past service liabilities increased by $39 million (11%)
- contributions by employers decreased by $8 million (14%).

Past service liability contributions represent funding from both the 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. During the year the SA Government transferred a total of $388 million ($350 million) into the South Australian Superannuation Scheme Contribution Account for past service liability funding. Public sector employers contributed $4 million ($3 million).

The reduction in employer contributions is indicative of a closed scheme where the number of members is decreasing due to retirement

Benefits to members

Benefits to members expense comprises the benefits paid and the change in the liability for accrued benefits. Benefits expense can fluctuate significantly due to changing assumptions in the calculation of the estimated liability for accrued benefits. In 2016-17 the assumptions used remained consistent which is supported by the minimal increase in benefits to members of $10 million (1%) to $840 million this year. This increase is represented across both defined benefit and defined contribution members and reflects a decrease in member numbers, consistent with last year, partially offset by the indexation of pensions based on CPI.

From 2016-17 an annual actuarial assessment of the defined benefit members liabilities is required as a result of implementing AASB 1056 'Superannuation Entities'. Further 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 SA Government Employer Account.

The South Australian Superannuation Fund (the 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 the 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 are provided in the following table.

Pension Scheme	2017 Number	2016 Number	2015 Number
Contributory	532	691	939
Preserved	339	392	484
Superannuants	15 031	15 244	15 326
Total	15 902	16 327	16 749

Lump Sum Scheme	2017 Number	2016 Number	2015 Number
Contributory	2 762	3 080	3 428
Preserved	1 189	1 295	1 411
Total	3 951	4 375	4 839

Total number of members	2017 Number	2016 Number	2015 Number
Contributory	3 294	3 771	4 367
Preserved	1 528	1 687	1 895
Superannuants	15 031	15 244	15 326
Total	19 853	20 702	21 588

Southern State Superannuation Scheme (Triple S)

Financial statistics	Contribution revenue:	$1.563 billion
	Member benefits liabilities:	$15.187 billion
	Net assets available for member benefits:	$15.368 billion
	Benefits paid and payable:	$1.194 billion
	Number of members:	177 607
Significant events and transactions	— Triple S adopted AASB 1056 'Superannuation Entities' for the first time in 2016-17. — Changes in investments measured at fair value for 2016-17 were $1.595 billion.	
Financial report opinion	**Unmodified**	
Financial controls opinion	**Unmodified**	

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*.

Triple S 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. For details of Triple S's functions refer note 1 of the financial report.

Scope of audit

The 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 2016-17 included:

- receipting and banking of contributions
- benefit payments
- maintenance of members accounts
- member benefits liabilities.

The investment and management of Triple S's assets is reviewed as part of the Superannuation Funds Management Corporation of South Australia (Funds SA) audit.

Internal audit activities were reviewed to assess the risks of material misstatement in the financial report and to design and perform audit procedures.

Audit findings and comments

Communication of audit matters

We communicated a small number of minor matters identified by the audit in a management letter to the General Manager of Super SA and those charged with governance. Super SA's response for all matters was satisfactory.

Interpretation and analysis of the financial report

Highlights of the financial report

	2017 $'million	2016 $'million
Assets		
Investments	15 406	13 524
Other assets	41	43
Total assets	15 447	13 567
Liabilities		
Benefits payable	56	26
Insurance liabilities	22	19
Other liabilities	1	-
Total liabilities	79	45
Net assets available for member benefits	15 368	13 522
Member benefits		
Member benefit liabilities	15 187	13 349
Total net assets	181	173
Total equity	181	173
Revenue		
Changes in investments measured at fair value	1 595	589
Total revenue	1 595	589

	2017 $'million	2016 $'million
Expenses		
Investment expenses	101	80
Other expenses	11	10
Total expenses	112	90
Result from superannuation activities	1 483	499
Insurance expenses	6	21
Net benefits allocated to members accounts	1 469	481
Operating result	8	(3)
Changes in member benefits		
Net contributions	1 563	1 418
Benefits to members (paid and payable)	(1 194)	(1 232)
Net cash flows from operating activities	(14)	(13)
Net cash flows from investing activities	(389)	(146)
Net cash flows from financing activities	393	169

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 to pay member benefits liabilities increased by $1.846 billion (13.7%) to $15.368 billion. This increase is indicative of the accumulative nature of Triple S, where the increases reflect the total of contributions received and net investment income less benefits paid and other expenses. During 2016-17 returns on investments were much higher than in the previous year.

Income Statement

Revenue

Total revenue increased by $1 billion (170%) due to the changes in investments measured at fair value as a result of increased returns on property, equities (Australian and international), diversified strategies growth and diversified strategies income asset classes which strongly outperformed their benchmarks. In particular Australian and international equities recorded returns of approximately 15% to 20% respectively.

Further details on investment returns are included in the commentary under 'Superannuation Funds Management Corporation of South Australia' in this Report.

Expenses

The increase in total expenses of $22 million was due to increased investment expenses as a result of higher performance fees to Funds SA. This fee increase was due to increased funds under management and stronger investment returns.

Statement of Changes in Member Benefits

Contribution revenue

Total contributions increased by $145 million (10%) to $1.563 billion. This increase reflects the increase across all contribution types, which is supported by the growth in member numbers.

Details of contribution revenue and membership statistics are presented below.

	2017 $'million	2016 $'million
Contributions by employers	1 099	1 029
Contributions by members	141	119
Transfers from other super entities	322	269
Government co-contributions	1	1
Total	1 563	1 418

	2017 Number	2016 Number	2015 Number
Contributory members	29 474	29 595	30 073
Non-contributory members	87 645	85 184	86 416
Preserved members	59 887	60 954	58 983
Spouses	601	578	566
Total	177 607	176 311	176 038

Active members of Triple S (contributory and spouse members) can elect to make contributions.

Employers are required to make contributions for contributory members of Triple S.

Benefits paid and payable

Benefits paid and payable have remained stable at $1.2 billion over recent years as shown in the table below.

	2017 $'billion	2016 $'billion	2015 $'billion	2014 $'billion
Benefits paid and payable	1.2	1.2	1.2	0.9

Statement of Cash Flows

The analysis of cash flows shows that Triple S maintains a relatively small balance of funds on hand. Amounts not used to pay benefits and other expenses are transferred to the Superannuation Funds Management Corporation of South Australia for investment, which is reflected in the cash flows from investing and financing activities.

Super SA Retirement Investment Fund (SSARIF)

Financial statistics	Contribution revenue:	$836 million
	Member benefits liabilities:	$3.74 billion
	Net assets available for member benefits:	$3.75 billion
	Benefits paid and payable:	$563 million
	Number of members:	13 631
Significant events and transactions	— SSARIF adopted the requirements of AASB 1056 'Superannuation Entities' for the first time in 2016-17. — Changes in investments measured at fair value for 2016-17 were $311 million.	
Financial report opinion	**Unmodified**	
Financial controls opinion	**Unmodified**	

Functional responsibility

SSARIF continues in existence under the *Southern State Superannuation Act 2009*.

SSARIF 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. For details of SSARIF's functions refer note 1 of the financial report.

Scope of audit

The 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 2016-17 included:

- receipting and banking of contributions
- benefit payments

- maintenance of members accounts
- member benefits liabilities.

The investment and management of SSARIF's assets is reviewed as part of the Superannuation Funds Management Corporation of South Australia (Funds SA) audit.

Internal audit activities were reviewed to assess the risks of material misstatement in the financial report and to design and perform audit procedures.

Audit findings and comments

Communication of audit matters

We communicated a small number of minor matters identified by the audit in a management letter to the General Manager of Super SA and those charged with governance. Super SA's response for all matters was satisfactory.

Interpretation and analysis of the financial report

SSARIF comprises transactions for the Super SA Income Stream Product (Income Stream) and the Flexible Rollover Product.

Highlights of the financial report

	2017 $'million	2016 $'million
Assets		
Investments	3 758	3 187
Other assets	19	26
Total assets	3 777	3 213
Liabilities		
Benefits payable	11	8
Other liabilities	15	23
Total liabilities	26	31
Net assets available for member benefits	3 751	3 182
Member benefits		
Income Stream member liabilities	2 755	2 394
Flexible rollover product member liabilities	985	773
Total member liabilities	3 740	3 167
Total equity	11	15
Revenue		
Changes in investments measured at fair value	311	110
Other revenue	5	5
Total revenue	316	115

	2017 $'million	2016 $'million
Expenses		
Investment expenses	20	14
Other expenses	2	2
Total expenses	22	16
Result from superannuation activities	294	99
Net benefits allocated to members accounts	299	94
Income tax expenses	1	8
Operating result	(6)	(3)
Changes in member benefits		
Net contributions	836	877
Benefits to members (paid and payable)	(563)	(453)
Net cash flows from operating activities	(21)	(8)
Net cash flows from investing activities	(274)	(429)
Net cash flows from financing activities	289	440

Statement of Financial Position

Net assets available to pay member benefits have increased by $569 million (18%) to $3.75 billion. This increase is the result of investment revenue earned, together with additional funds invested. This is 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. The accumulative nature of SSARIF also means that it is fully funded.

Income Statement

Revenue

Total revenue increased by $201 million (175%) due to the changes in investments measured at fair value as a result of increased returns on property, equities (Australian and international), diversified strategy growth and diversified strategies income asset classes which strongly outperformed their benchmarks. In particular Australian and international equities recorded returns of approximately 15% to 20% respectively.

Further details on investment returns are included in the commentary under 'Superannuation Funds Management Corporation of South Australia' in this Report.

Expenses

The increase in total expenses to $22 million ($16 million) was due to increased investment expenses as a result of higher performance fees to Funds SA. This fee increase was due to increased funds under management and stronger investment returns.

Statement of Changes in Member Benefits

Total contributions decreased by $41 million (5%) to $836 million due to a decline in rollovers from other schemes, which was offset by an increase in contributions by investors.

Benefits paid or payable to members increased by $110 million (22%) to $563 million as a result of the continuing membership growth of the fund.

Statement of Cash Flows

The decrease in cash provided by operating activities of $13 million was due mainly to the increase in income tax paid as a result of the income tax payable at 30 June 2016. The net flows from investing activities and the net cash from financing activities decreased mainly due to higher member benefits payments and lower transfers from other superannuation entities in 2016-17, resulting in less funds available to invest.

Further commentary on operations

Membership statistics for the last four years are provided in the following table.

	2017 Number	2016 Number	2015 Number	2014 Number
Flexible rollover product	4 733	4 351	4 043	3 668
Income stream	8 898	7 965	6 678	5 230
Total	13 631	12 316	10 721	8 898

Superannuation Funds Management Corporation of South Australia (Funds SA)

Financial statistics	Net surplus:	$1.2 million
	Number of FTEs:	30.4
	Funds under management:	$29 billion
	Net income of assets under management:	$2.9 billion

Significant events and transactions

- The Motor Accident Commission redeemed $1 billion of investment funds.
- A Chief Investment Officer was appointed in December 2016.

Financial report opinion — **Unmodified**

Financial controls opinion — **Unmodified**

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, the nominated funds of approved authorities and other funds (funds under management) under strategies formulated by Funds SA. For details of Funds SA's objectives and functions refer note 1 of the financial report.

Restrictions on operations

Under section 21(1) of 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, dealing with property or the exercise of a voting right.

Funds SA has broad powers over the investment of funds under management. It cannot, however, borrow money or obtain any other form of financial accommodation unless authorised to do so by the Regulations or by the Minister. In addition, the Regulations under the SFMCSA Act impose restrictions so that Funds SA must not invest in real property outside the State or enter into derivative transactions (eg futures contracts, forward contracts and swaps) without the Minister's authority.

Structure

Funds SA operates with a small staff comprising investment officers and accounting and administrative support staff. This structure is complemented by extensive use of external fund management firms. Fund managers are used for all investment types, and there is a single custodian entity (which is responsible for holding, valuing and accounting for the assets) for the assets managed by most of those fund managers. Each fund manager and the custodian is appointed under an agreement that dictates the scope for investment, fees and reporting requirements.

Scope of audit

The 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 2016-17 included:

- investment policy and strategy approval and compliance
- investment allocation and redemption
- investment expenditure, income and valuation
- custodial and fund management activities
- administration expenses.

Audit findings and comments

Communication of audit matters

Our review of auditable areas (including financial report verification) found that the financial controls of Funds SA were satisfactory. Nothing arose during the audit that required management letter communication to the Chief Executive Officer.

Interpretation and analysis of the financial report

Highlights of the financial report

Funds SA	2017 $'million	2016 $'million
Total income	8.1	7.5
Total expenses	6.9	6.3
Net surplus (deficit) and total comprehensive result	1.2	1.2
Net cash provided by (used in) operating activities	1.5	1.6

	2017 $'million	2016 $'million
Total assets	7.6	6.3
Total liabilities	2.0	1.9
Total equity	5.6	4.4

Funds under management	2017 $'billion	2016 $'billion
Net income	2.9	1.0
Net assets	29.2	27.0

Statement of Comprehensive Income

Funds SA's operating result for the year was a net surplus of $1.2 million ($1.2 million).

Revenues from fees and charges increased by $635 000 as a result of a higher level of fees charged for services provided to Funds SA clients due to an increased level of funds under management. Funds SA aims to only recover its costs and from time to time will adjust the amounts charged for its services if excessive amounts are recovered. No adjustment was made during 2016-17.

Expenses increased by $581 000 mainly as a result of an increase in employee benefits costs, up $413 000, and supplies and services, up $185 000. The increase in employee benefits costs was due mainly to increased salaries and wages, up $452 000, as a result of increased average staff levels and hiring an additional executive level employee. The increase in supplies and services was mainly due to increased human resource expenses $92 000, legal and advisory expenses $56 000, and travel and accommodation $39 000.

Further commentary on operations

Funds under management

Funds SA responsibilities

As mentioned, Funds SA exists to invest and manage the public sector superannuation funds, the funds of eligible superannuation schemes and the nominated funds of approved authorities.

To do this, Funds SA has established a range of different investment options and tailored multi-sector strategies it offers to its investors. These investment options and strategies comprise a mix of differing strategic asset allocations to meet its clients investment objectives, differing time horizons and levels of acceptable risks.

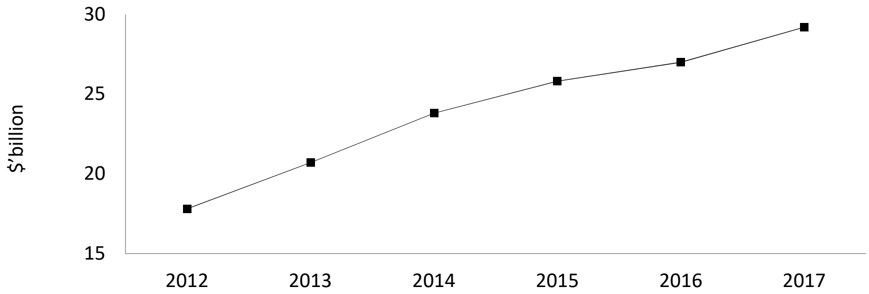
Funds SA is responsible for managing the investment portfolios it has established in line with asset allocations and investment performance reporting agreed with its clients.

Investor responsibilities

The public sector superannuation funds, eligible superannuation schemes and approved authorities decide which of Funds SA's options meet their investment needs. They deposit 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 sectors that make up the investment option. They receive investment performance reporting as they require to meet their responsibilities for their invested funds.

Funds under management continue to grow

The following chart illustrates the net funds under management as at 30 June over the past six years.



Entities investing with Funds SA at 30 June 2017

The following table sets out the entities investing with Funds SA, the investment products used and funds under management at 30 June 2017.

Investor/Fund	Investment option	Funds under management $'million
Superannuation funds		
South Australian Superannuation Board:		
South Australian Superannuation Scheme:		
South Australian Superannuation Scheme – Employer Contribution Accounts	Defined benefit strategy	2 848
South Australian Superannuation Fund – Old Scheme Division	Defined benefit strategy	1 494
South Australian Superannuation Fund – New Scheme Division	Various	649
Southern State Superannuation Scheme:		
Southern State Superannuation Fund	Various	15 406
Super SA Retirement Investment Fund	Various	3 758
South Australian Ambulance Service Superannuation Scheme	Balanced B	253
Police Superannuation Board:		
Police Superannuation Scheme	Various	1 677
South Australian Parliamentary Superannuation Board:		
Parliamentary Superannuation Scheme	Various	257
Trustee of the SA Metropolitan Fire Service Superannuation Scheme:		
SA Metropolitan Fire Service Superannuation Scheme	Various	368
Other superannuation schemes	Various	255
Approved authorities for the purpose of investing funds with Funds SA		
South Australian Government Financing Authority	Various	579
Motor Accident Commission	Motor Accident Commission A	998
Lifetime Support Authority of South Australia	Lifetime Support Authority Strategy	441
Other authorities	Various	263

Asset allocation

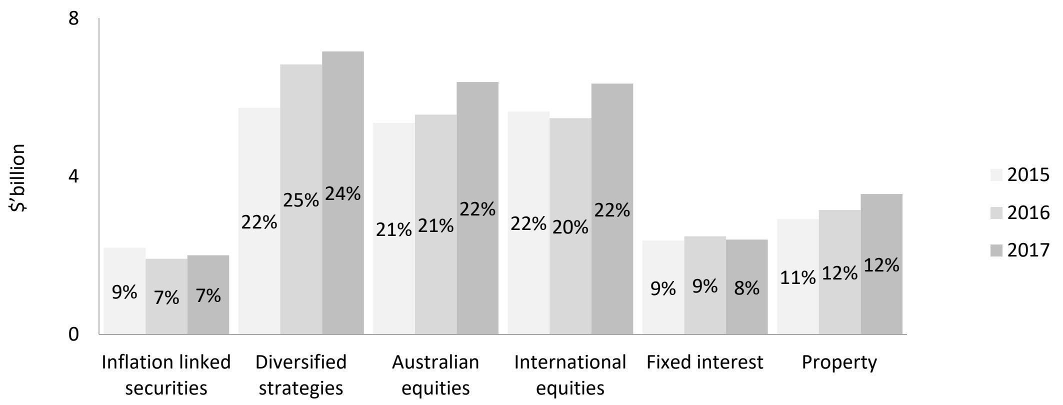
An investment policy drives decisions about how funds will be invested. Section 7 of the SFMCSA Act provides that the objective of Funds SA in performing its functions is to achieve the highest return possible on investment of the funds while having proper regard for:

- the need to maintain the risks relating to investment at an acceptable level
- the need for liquidity in the funds
- such other matters as 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 19 asset classes.

Funds SA continually monitors investment performance during the year and makes adjustments to investment subclass holdings as required.

The value of each asset class (excluding the cash, Motor Accident Commission absolute return, Motor Accident Commission infrastructure and socially responsible investment classes, which in total only represent 5% (6%) of the total funds under management) and the holding of each asset class as a percentage of total funds under management at 30 June for the last three financial years is illustrated in the following chart. The asset classes include both taxed and untaxed funds where applicable.



The chart shows that the value of funds under management across most asset classes increased over the year due to investment returns.

Australian and international equities were the strongest performing asset classes for the year, recording approximately 15% and 20% returns respectively. Australian and international equities increased both in value and as a percentage of holdings as a result.

Diversified strategies (including both growth and income) asset classes increased in value from the prior year, with a small decrease in its percentage of holdings. Property assets increased in both value and percentage holdings as a result of strong returns from this market. Fixed interest decreased in both value and in percentage holdings as a result of low returns from the performance of long-term fixed interest. Inflation linked securities experienced modest returns resulting in a slight increase in its value with a slight decrease in its percentage holdings.

The primarily long-term nature of investment strategies means funds under management are exposed to periodic falls in financial markets as well as gains.

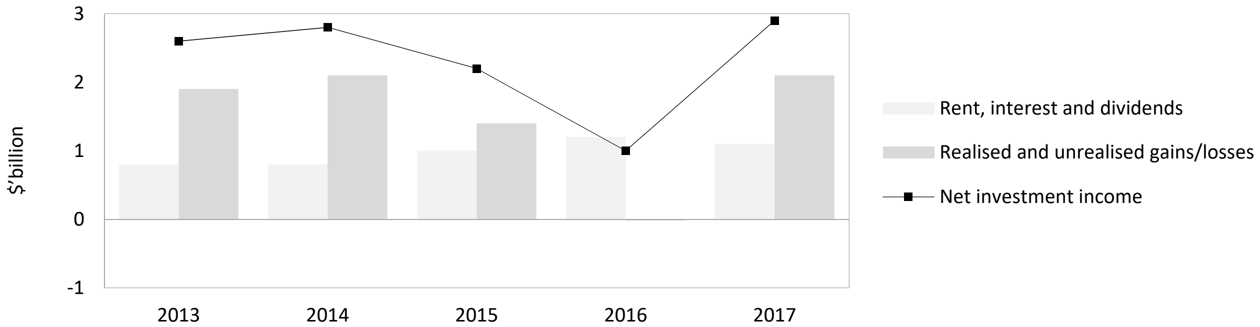
Income from investments

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 was a surplus of $2.9 billion ($1 billion), an increase of $1.9 billion. Income comprised rent, interest and dividends of $1.1 billion ($1.2 billion), realised gains of $400 million (realised losses $170 million) and unrealised gains of $1.6 billion ($114 million).

Schedule 1 of the financial report provides full details of income earned from investment activities for each asset class.

An analysis of the investment result for funds under management for the five years to 2017 is shown in the following chart.



As can be seen from this chart, positive realised and unrealised gains in 2013, 2014, 2015 and 2017 contributed significantly to the net investment income result. In 2016 there were negative realised and unrealised gains but these were offset by rent, interest and dividend income to still provide a positive net investment income result.

The following table shows a structural analysis of net income earned for the five years to 2017, highlighting the varying performance of the major investment asset classes. It should be noted that the magnitude of net income earned from investment activities in each year is a function of not only the performance of financial markets, especially equities, but also the size of total assets invested in the markets.

	2017 $'million	2016 $'million	2015 $'million	2014 $'million	2013 $'million
Inflation linked funds	57	28	103	162	61
Property	313	425	289	209	264
Australian equities	835	27	315	753	839
International equities	1 073	(125)	1 007	1 039	1 118
Fixed interest	4	162	109	95	61
Diversified strategies	566	403	320	519	227
Cash/Socially responsible/Other	50	50	52	62	63
Total net income	2 898	970	2 195	2 839	2 633
Total value of assets invested as at 30 June	29 246	26 986	25 797	23 835	20 684

The earlier chart showing asset class holdings indicated that Funds SA's investment strategy is weighted towards Australian and international equity holdings. The table above shows an increase in income from these asset classes in 2017 due to the strong market performance during the year. The volatile nature of these investments will cause their returns to fluctuate from year to year consistent with prevailing economic conditions. Income from diversified strategies increased due to the strong performance of both growth and income assets. Income from property decreased in 2017 which reflects the negative return in the Australian listed property market. Income from fixed interest decreased due to negative returns in the long-term fixed interest portfolio. Income from inflation linked funds increased as a result of the improved performance of the internally managed investments.

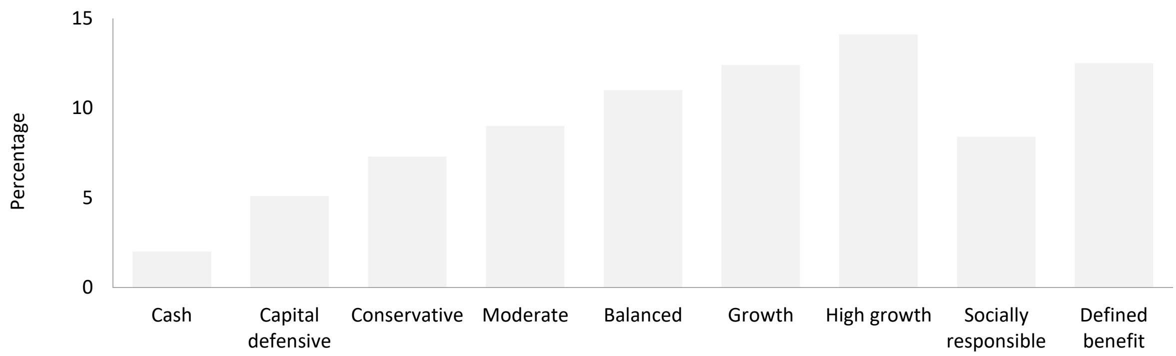
Investment expenses

In 2017 investment expenses amounted to $209 million, an increase of $46 million from the previous year. The increase is primarily a result of a higher value of funds under management during the year, and an increase in performance fees. This is especially evident in the diversified strategies asset classes. Investment expenses are 0.7% (0.6%) of average funds under management.

Year	Investment expenses $'million	Average funds under management $'billion
2013	100.4	19.8
2014	131.8	22.7
2015	153.4	25.1
2016	162.5	26.4
2017	208.7	28.5

Investment option performance

The table below shows the returns for Funds SA multi-sector (tax-exempt) funds for the year ending 30 June 2017.



The strong performance of equities (Australian and international) and unlisted assets during the 12 months to 30 June 2017 and more modest performance of defensive assets resulted in the returns of Funds SA multi-sector funds ranging from 2% for cash through to over 14% for high growth.

The table below shows Funds SA's percentage return for each of the past 10 years for both the balanced and growth (tax exempt) funds, which together account for 49% of total funds under management.

These figures were provided by Funds SA and are unaudited.

	10 years	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
	% p.a.	%	%	%	%	%	%	%	%	%	%
Balanced	5.0	11.0	3.9	9.4	13.8	14.7	3.1	10.9	12.6	(15.3)	(9.3)
Growth	4.8	12.4	3.8	10.0	14.9	16.4	2.0	11.4	12.3	(17.5)	(11.2)

The performance of the balanced and growth funds for 2017 was ahead of the growth median return of 10.7% as surveyed by Chant West.

Asset class performance

The performance against target benchmarks for certain asset classes for the 2016-17 year and also the three years ended 2016-17 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	2.0	1.8	2.3	2.2
Short-term fixed interest	1.5	1.5	2.9	3.0
Long-term fixed interest	-0.8	-1.7	5.1	5.7
Inflation linked securities A	3.1	1.9	3.2	3.5
Diversified strategies income	6.4	5.3	4.8	5.4
Property A	10.2	9.4	12.1	11.8
Australian equities A	14.8	13.8	6.9	6.6
International equities A	19.7	18.6	11.5	11.1
Diversified strategies growth A	13.2	5.9	12.4	6.3
Inflation linked securities B	2.8	2.4	2.9	3.4
Property B	9.5	9.4	11.6	11.8
Australian equities B	15.2	13.8	7.1	6.6
International equities B	19.0	18.3	11.5	11.0
Diversified strategies growth B	12.4	5.9	11.8	6.3

The performance of asset classes against benchmark for 2016-17 was generally positive, with the diversified strategies growth asset class significantly outperforming the benchmark. Equities (Australian and international), property, inflation linked securities and diversified strategies income asset classes outperformed their benchmarks, while the remaining asset classes were moderately positive.

TAFE SA

Financial statistics	Total expenses:	$322 million
	Net revenue from providing services:	$6 million
	Total income from the Department of State Development (DSD):	$231 million
	Number of FTEs (excluding casuals):*	1946
	Number of training hours funded by DSD:*	8.8 million
	Total training hours:*	16.6 million

* Data provided by TAFE SA and unaudited.

Significant events and transactions

- TAFE SA continued its program to extend online, mobile lectures and off-campus delivery programs.
- Total funding from DSD was $231 million, with $138 million received by TAFE SA to provide 8.8 million training hours.
- TAFE SA and DSD have new lease arrangements for TAFE SA sites, reflecting that ownership of TAFE SA sites transferred from DSD to the Urban Renewal Authority on 1 March 2017.
- 51 TAFE SA staff took targeted voluntary separation packages in 2016-17 bringing the total over five years to 583.

Financial report opinion

Unmodified

Financial controls opinion

Modified

Key issues

- Review or approval of key payroll documents was not prompt
- No system restriction to enforce segregation of duties and delegations to authorise smart form invoices and credit notes
- No independent check of bad debts written off
- No system restriction in the student information system to stop students who have withdrawn from studies receiving a grade that DSD will fund
- Errors in some contract management system data

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.

The TAFE SA Board is responsible to the Minister for Higher Education and Skills.

TAFE SA's main function is to provide technical and further education. Details of its objectives are contained in note 1 of the financial report.

Scope of audit

The 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 2016-17 included:

- expenditure and accounts payable
- payroll processing
- revenue including funding from DSD, student revenue and accounts receivable
- cash management including bank reconciliations
- general ledger.

The audit took into account the controls and procedures performed by service providers including Shared Services SA (SSSA).

We also considered the work of TAFE SA's internal auditors in planning and conducting the audit.

Audit findings and comments

Assessment of controls

In my opinion, the controls exercised by TAFE SA in relation to the receipt, expenditure and investment of money, the acquisition and disposal of property and the incurring of liabilities, except for all matters outlined under 'Communication of audit matters', are sufficient to provide reasonable assurance that the financial transactions of TAFE SA have been conducted properly and in accordance with law.

Communication of audit matters

Matters identified by the audit, including a number that were raised in prior years, were detailed in management letters to the Chair of the TAFE SA Board. The main matters raised and related responses are detailed below.

Review or approval of key payroll documents was not prompt

Total salaries and wages paid to TAFE SA employees were $181 million, of which $11 million was paid to hourly paid instructors (HPIs).

Hourly paid instructors commencing work without a signed contract

We have reported for a number of years that contracts for HPIs were being signed after the HPI started working with TAFE SA. In 2016-17 we identified that 24% of HPIs commenced before signing an employment agreement.

The absence of a signed employment contract increases the risk of HPIs not understanding their responsibilities as a TAFE SA employee. TAFE SA's policies require a contract to be in place before an HPI commences, in part to ensure there is a clear agreement on contract arrangements.

TAFE SA responded that it was working to implement changes to HPI engagement processes to minimise the industrial risk associated with commencing employment without a contract. Changes include providing HPIs with a 12-month contract of engagement and a simple contract to follow specifying the days and hours the HPI will be working.

Return of bona fide certificates (BFCs)

In November 2016, TAFE SA implemented a new reporting tool to help maintain a central register to monitor the return of BFCs. While BFCs are now better monitored through this tool, it remains the manager's responsibility to ensure BFCs are being reviewed and returned.

We found that BFCs were not effectively reviewed, even after the implementation of the new reporting tool. A number of BFCs from the pay periods we sampled were still either returned after the TAFE SA deadline of five days or not returned at all.

The ineffective review of BFCs increases the risk of financial loss to TAFE SA due to inaccurate payroll processing or leave recording within the payroll system. This could also lead to inaccuracies in payroll related balances in the financial statements.

TAFE SA responded it would continue to explore ways to address this matter in conjunction with SSSA. TAFE SA advised it would remind managers each quarter of the need to action BFCs promptly and implement a bi-monthly schedule to audit BFC returns.

Student fees and other revenue

No system restriction to enforce segregation of duties and delegations to authorise smart forms

Total fee for service revenue generated by TAFE SA was $47 million in 2016-17.

Accounts receivable smart forms on TAFE SA's intranet are used for:

- student fee reversals through the Student Information System (SIS)
- third party payment of student fees through SIS

- creating invoice requests through the ARPOS accounts receivable system
- requesting credit notes through ARPOS
- creating and maintaining existing debtors through SIS and ARPOS.

As we identified in previous years, the forms did not enforce segregation of duties between the person completing the form and the person who approves it.

The forms also do not validate that the officer authorising the form has appropriate payment delegation, meaning any person with access to smart forms can authorise them.

We reviewed a sample of four ARPOS credit note request smart forms and found that one was approved by an officer with insufficient delegation.

We also noted staff did not independently review smart forms to ensure they were being completed and authorised appropriately.

The lack of payment delegation checks and absence of enforced separation between the requesting and approving users create a risk of financial loss to TAFE SA from inappropriately authorised smart forms. This risk is compounded by the absence of any detective review process to identify where smart forms are used inappropriately.

TAFE SA responded that it was in the process of updating the smart forms to address the risk. The update would ensure segregation of duties and improvements in the approach used to recognise the authoriser's financial delegation.

No independent check of bad debts written off

TAFE SA's debt recovery unit manages debtor follow-up and write-offs. When TAFE SA assesses that it cannot recover a debt and recovery options have been exhausted, the debt can be written off. A write-off request is completed for approval by an authorised delegate. Once a write-off has been approved, the debt recovery unit processes it in ARPOS.

TAFE SA's policies do not require an independent review of the debt write-offs processed through ARPOS. We consider this results in a risk that debts could be inappropriately written off and have previously communicated this view to TAFE SA.

Our testing of a sample of debts written off found that they had all been appropriately authorised.

TAFE SA does not consider the potential risk exposure as critical to the organisation. TAFE SA indicated that it considers existing checking processes address this risk.

No system restriction in SIS to stop students who withdraw from studies receiving a payable grade

TAFE SA generated $40 million of revenue from student enrolment fees and charges in 2016-17, most of which are raised through SIS.

As we identified in previous years, SIS allows a lecturer to record a pass grade for a student who has withdrawn in a unit of competency. For semester 2, 2016 we identified 45 student records with a registration status of 'withdrawn' that were awarded a pass grade. These records related to 35 different students and 23 different certificates/awards.

TAFE SA indicated that in some instances the student had withdrawn but was awarded a pass in error, so a grade change was being processed in SIS.

At the time of our audit, TAFE SA did not have any formal processes to independently review grades assigned, or to review those that had been altered, meaning there were no detective processes to mitigate the risk associated with allowing the inappropriate entry of grades.

We acknowledge that TAFE SA is updating SIS for lecturers to improve accessibility and clarity when they are grading students. However, we understand the update will not include any system restrictions to prevent lecturers from inappropriately grading withdrawn students as this will be addressed with a manual control.

TAFE SA advised that it had implemented additional reporting to address this issue since our audit.

We also found that there were no system controls to prevent withdrawn students who had been issued refunds from being awarded a pass grade.

Our testing did not reveal any student who had received a refund on withdrawal and was awarded a pass grade.

There is a risk that inappropriate grades are recorded in SIS. In addition, TAFE SA may not recover revenue from students who have withdrawn, been refunded and awarded a pass grade.

TAFE SA responded that it had made a number of system improvements to address this risk. It considers restricting the ability to issue an appropriate grade may significantly disadvantage students. Instead, Business Operations Managers now review a monthly report detailing all student grade changes in this category to ensure they are appropriate.

Errors in the contract management system data

TAFE SA implemented a new contract management system in 2016-17. It is used to manage TAFE SA’s fee for service revenue contracts.

In two of the three contracts that we reviewed, the contract value recorded in the system differed to the actual contract value.

There is a risk that incomplete or inaccurate information in the system could impact the effective management of contracts.

TAFE SA responded that some issues were encountered with the transfer of data from the previous system and business units had been asked to validate the accuracy of their contract data.

Shared Services SA – financial systems and transaction processing environments

SSSA processes financial transactions on behalf of TAFE SA under service level determinations. The main systems and control environments include accounts payable, payroll and general ledger financial functions.

Our review and evaluation of controls for these systems concluded that controls were effective for 2016-17.

SSSA is discussed further as part of the commentary under ‘Department of the Premier and Cabinet’ in this Report.

Interpretation and analysis of the financial report

Highlights of the financial report

	2017 $'million	2016 $'million
Expenses		
Employee benefits	214	224
Supplies and services	102	102
Other expenses	6	5
Total expenses	322	331
Income		
Grants and subsidies from DSD	231	234
Student and other fees and charges	92	94
Other income	5	7
Total income	328	335
Total comprehensive result	6	4
Assets		
Current assets	91	88
Non-current assets	26	29
Total assets	117	117
Liabilities		
Current liabilities	37	34
Non-current liabilities	50	59
Total liabilities	87	93
Total equity	30	24

Statement of Comprehensive Income

Expenses

Employee benefits

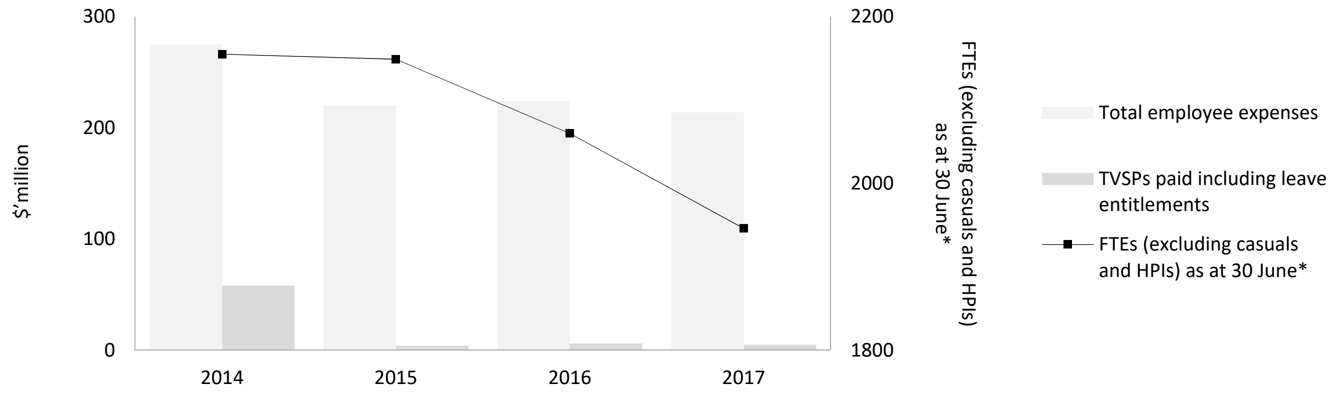
Employee benefits are TAFE SA's main expense, accounting for 66% of total expenses.

Employee benefits expenses decreased by $10 million to $214 million in 2016-17. This was mainly due to a decrease in long service leave expenses of $6 million, with $3 million of the decrease a result of an increase in the discount rate used to calculate the long service leave liability. In addition the number of FTE employees decreased from 2060 to 1946 during the year.

Workers compensation expenses decreased by $4 million in 2016-17 due to a decrease in actual claim payments during the year and a decrease in the workers compensation provision as a result of the annual actuarial assessment.

Employee benefits expenses included payments of targeted voluntary separation packages (TVSPs) and related leave of $5 million ($6 million) to 51 staff and payments totalling $10 million ($10 million) to staff identified as excess, for which TAFE SA receives specific funding from DSD.

The following chart shows total employment expenses, total TVSP payments and total FTE staff (excluding casuals and HPIs) for the last four years.

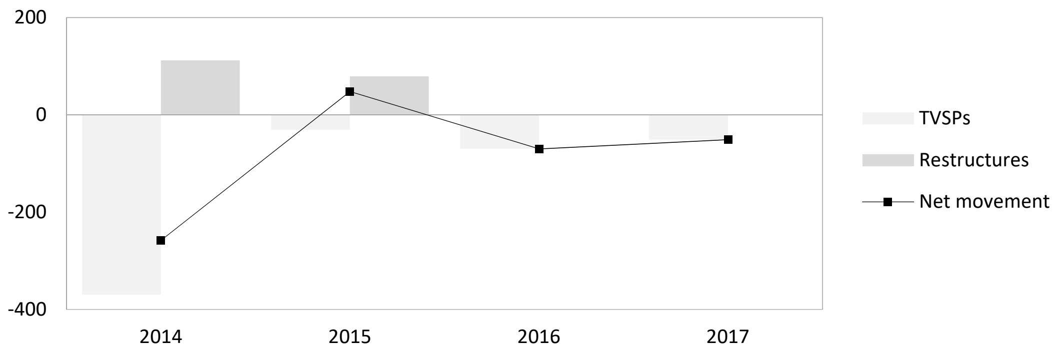


* FTE data sourced from TAFE SA and unaudited.

When the impact of TVSPs is excluded, the amounts paid in the last four years were consistent until this year, with a slight decline to $208 million (including decreases in long service leave expenses and workers compensation expenses noted earlier).

This analysis highlights that decreases in overall staff numbers have largely been absorbed by increases in payments to remaining staff through enterprise bargaining agreement wage rises.

The chart below further analyses TVSPs and other movements in TAFE SA staff numbers as a result of restructures for the last four years.



583 TVSPs have been paid to TAFE SA staff over the last five years. In that time 191 new staff joined as a result of restructures in the relationship between TAFE SA and the former Department of Further Education, Employment, Science and Technology or DSD. These restructures involved the transfer of staff from these departments, specifically:

- 112 staff from 1 July 2013 to establish autonomous corporate services within TAFE SA
- 79 staff from 8 September 2014 to establish autonomous IT services within TAFE SA.

TAFE SA now directly manages these staff. Previously the cost was included in recharges paid to DSD.

TAFE SA's Board has established a Human Resources Committee, which has a broad role in overseeing human resources matters within TAFE SA. It is also responsible for overseeing staff performance assessments instituted for key TAFE SA executives. The outcome of the performance assessments for these staff determines whether they receive their full salary package or a reduced amount. Payments of $143 000 ($103 000) were made in 2016-17 as a result of performance assessments.

Supplies and services

Overall supplies and services expenses of $102 million were consistent with 2015-16.

The main change in supplies and services was an increase in infrastructure recharges paid to DSD of $11 million. This increase reflects the application of market rental rates from March 2017 when the ownership of campus land and buildings, leased by TAFE SA, was transferred from DSD to the Urban Renewal Authority (URA). DSD leases the land and buildings from the URA and then leases them to TAFE SA. TAFE SA's funding from DSD increased to compensate for the increased rental charges.

This increase was offset by decreases in a number of other categories of supplies and services as a result of strategic saving measures applied by TAFE SA.

Income

Funding from DSD

TAFE SA's main income source is DSD. Total funding from DSD was $231 million ($234 million).

This funding constitutes 70% of TAFE SA's total income and is made up of the following components.

	2017 $'million	2016 $'million
Vocational education training (VET) subsidies (for specific units of competency delivered)	138	144
Other grant funding	57	50
Community services	12	18
Excess staff funding	12	12
Capital funding	5	6
TVSP reimbursement	4	3
Other specific funding	3	1
Total income	231	234

Total funding of $210 million was agreed in a memorandum of administrative arrangement (MoAA) for non-commercial services between TAFE SA and DSD for 2016-17. This total was separated between funding classified as VET subsidies, based on the number of hours of training delivered, community services amounts and other grants. This included an amendment to the original MoAA for 2016-17 to provide an additional $15 million, in part to offset increased lease charges for campus land and buildings (following the transfer of those assets to the URA).

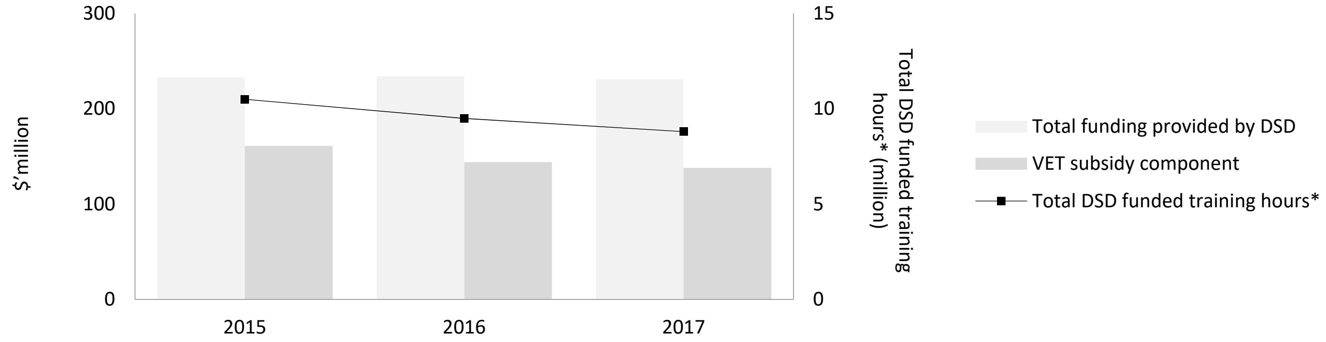
TAFE SA also received funding of $12 million for excess staff under a separate MoAA for TAFE SA structural adjustment. This was paid by DSD to meet the costs of excess employees incurred as a result of transitioning its business to a more competitive structure.

The balance of the $231 million is subject to separate arrangements.

The MoAA acknowledges the transitional nature of the arrangements to allow TAFE SA to implement significant organisational reforms and changes in business practices.

The VET subsidies component of the funding decreased by $6 million reflecting a decrease in training hours delivered, mainly due to reduced enrolments.

The following chart analyses the proportion of VET subsidies as part of overall DSD funding for the past three years, along with the total number of funded training hours delivered.



* Training hours provided by TAFE SA and unaudited.

TAFE SA's overall training hours decreased in 2016-17. The following chart shows the total training hours delivered by TAFE SA over the last three years, and the proportion funded by DSD.

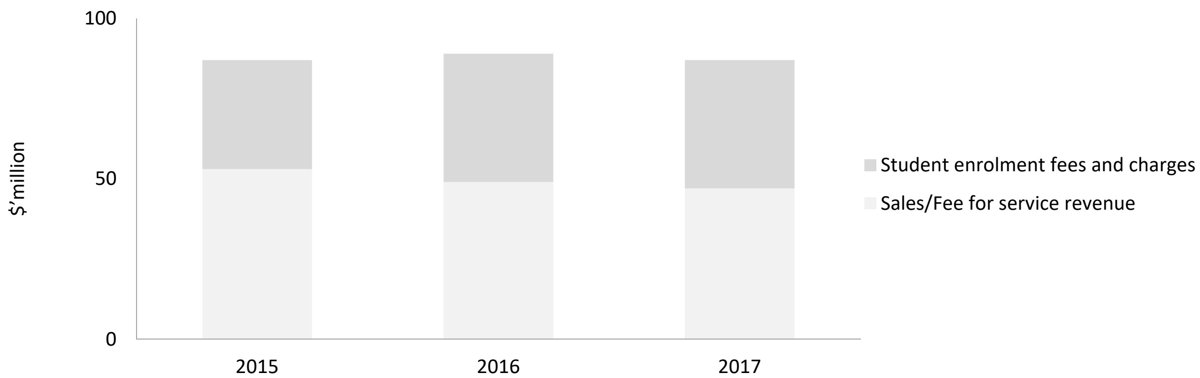
* Training hours provided by TAFE SA and unaudited.

The chart highlights the small overall reduction in the number of training hours delivered over the last three years, reflecting the reduction in training hours for courses funded by DSD. Other training hours, funded through fee for service arrangements, remained steady in 2016-17.

Student and other fees and charges

Student and other fees and charges totalled $92 million ($94 million) and make up 28% (28%) of TAFE SA's total income.

The main components of student and other fees and charges for the past three years are shown in the following chart.



The chart illustrates that sales/fee for service income has decreased over this period while student enrolment fees and charges increased in 2015-16 and decreased marginally in 2016-17.

The main reason for the $6 million increase in student enrolment fees and charges in 2015-16 was an increase of $5 million in receipts from students enrolling in courses where no subsidy was received from DSD, requiring students to pay full fees. This reflected the changes to DSD's funding arrangements for the VET sector, with WorkReady, which replaced Skills for All from 1 July 2015, providing subsidies for a smaller range of courses.

Statement of Financial Position

The most significant items in TAFE SA's Statement of Financial Position are shown in the following table.

	2017 $'million	2016 $'million
Assets		
Cash and cash equivalents	70	72
Receivables	19	14
Property and equipment and intangibles	26	29
Liabilities		
Payables	21	20
Employee benefits	59	63

Receivables as at 30 June 2017 include amounts owed by the Commonwealth Government of $4 million under the VET FEE-HELP and VET Student Loans schemes. VET Student Loans commenced on 1 January 2017, replacing the VET FEE-HELP scheme.

Employee benefits decreased by $4 million as previously discussed due to an increase in the discount rate used to calculate the long service leave liability and a decrease in the number of FTE employees.

TAFE SA does not own its campus infrastructure, which is leased from DSD. Consequently, land and buildings are not a feature of TAFE SA's assets. TAFE SA recognises items of plant and equipment, leasehold improvements and intangible assets (software). Land and buildings used by TAFE SA are recognised as part of URA's (previously DSD's) non-current assets.

Further commentary on operations

TAFE SA continues to work with DSD to identify the commercial and non-commercial aspects of its operations, in particular which courses or training delivery should be undertaken on a commercial basis and which should not. DSD funding in 2016-17 was provided for non-commercial services, as discussed above.

This work responds to the need for TAFE SA to change its service delivery approach and continue its transition to operate competitively in commercial market segments for providing VET training.

The SA Government has announced its intention to reduce any funding differential between amounts paid to TAFE SA and those paid to a private training provider for providing the same unit of competency in certain contestable markets by July 2019, which will require further changes within TAFE SA.

Department of Treasury and Finance (DTF)

Financial statistics	Net cost of providing services:	$61 million
	Total revenues from SA Government:	$72 million
	Employee benefits expenses:	$67 million
	Revenues from fees and charges:	$57 million
	Administered taxation revenue:	$4083 million
	Administered Commonwealth revenues:	$8312 million
	Number of FTEs (including the South Australian Government Financing Authority, South Australian Superannuation Board and CTP Insurance Regulator):	666

Significant events and transactions

- A new branch was established in DTF on 1 July 2016 to provide staff and administrative support for the new CTP Insurance Regulator.
- An adjustment of $57 million was made to the Treasurer's central general ledger to clear historical differences between clearing accounts in the central general ledger and agency general ledgers.

Financial report opinion

Unmodified

Financial controls opinion

Modified

Key issues:

- Bank and subsidiary taxation system general ledger reconciliations were not timely
- The upload of property valuation data to the RIO taxation system for tax calculation purposes was not effectively checked for accuracy and completeness regularly
- RIO taxation system errors and defects impacted the timeliness and effectiveness of taxation debt monitoring and follow-up activities
- A number of deficiencies in IT security controls over the RIO taxation system identified last year were yet to be rectified
- Policies and procedures in multiple areas were not reviewed and updated for several years and did not reflect current business practice
- A single source procurement was undertaken without any formal analysis of potential alternative service providers

Functional responsibility

DTF is an administrative unit established under the *Public Sector Act 2009*, and is responsible to the Treasurer.

DTF has a number of functions, including:

- setting economic and fiscal policy at the whole-of-government level
- managing whole-of-government financial management processes
- providing a range of direct whole-of-government services including funding and debt management, collection of state taxes and administration of insurance and superannuation
- administering the receipt of Commonwealth Government revenues and on-passing to relevant SA Government agencies.

Scope of audit

The audit program covered major financial systems to obtain sufficient evidence to form an opinion on the financial report and internal controls. The audit program also considered the review work of DTF's internal audit section.

Specific areas of audit attention in 2016-17 included:

Corporate systems

- cash
- payroll
- expenditure
- accounts receivable
- receipting and banking
- general ledger maintenance and reconciliations
- legal compliance
- contract management.

We also examined policy and procedure frameworks in place for industry assistance at the whole-of-government level.

RevenueSA

- system user access
- calculating notices of assessment
- receipting and banking
- upload and reconciliation of Land Services Group property data
- reconciliations between subsidiary taxation systems and the general ledger
- debtor follow-up.

Financing and insurance services

Commentary on these activities is included under South Australian Government Financing Authority' in this Report.

Superannuation services

Commentary on these activities is included under 'South Australian Superannuation Board' in this Report.

Public finances

We review various aspects of the public finances. The results will be reported in a Supplementary Report for the year ended 30 June 2017 on the State finances. The Treasurer's Statements are included in the Appendix to this Report.

Audit findings and comments

Assessment of controls

In my opinion, the controls exercised by the Department of Treasury and Finance in relation to the receipt, expenditure and investment of money, the acquisition and disposal of property and the incurring of liabilities, except for all matters outlined under 'Communication of audit matters', are sufficient to provide reasonable assurance that the financial transactions of the Department of Treasury and Finance have been conducted properly and in accordance with law.

Communication of audit matters

Matters identified by the audit were detailed in management letters to the Chief Executive. The main matters raised and related responses are detailed below.

RevenueSA

RevenueSA, through the Commissioner of State Taxation, is responsible for State taxation revenue management, collection and compliance functions. State taxation revenue includes stamp duties, payroll tax, land tax and the fixed property component of the Emergency Services levy (ESL). Total taxation collected in 2016-17 was $4.1 billion and mainly comprised payroll tax ($1.4 billion), stamp duties on property sale conveyances ($860 million) and land tax ($769 million).

Key general ledger reconciliations not timely

The timely preparation and independent review of bank reconciliations and subsidiary system general ledger reconciliations is crucial to ensuring all receipts and payments are completely and accurately recorded.

We noted significant delays in preparing the monthly collection account bank reconciliations and the monthly Masterpiece general ledger and subsidiary taxation system reconciliations. Significant delays in completing collection account bank reconciliations were also noted in the last year's audit.

The delay in completing these reconciliations increases the risk that all transactions processed through the collection account and subsidiary taxation systems had not been accurately and completely reflected in the DTF general ledger in 2016-17. This included payroll tax, land tax and ESL transactions.

RevenueSA responded that:

- all outstanding reconciliations for 2016-17 had been completed and were up to date. This was confirmed through work we performed in verifying DTF's 2016-17 financial report
- future reconciliations will be performed within 14 days of the end of the month and independently reviewed
- training of additional staff members has started and a procedural guide is planned for completion by October 2017
- the development of automated functionality for the reconciliations is planned for completion by 30 June 2018.

Upload of property valuation data to RIO not effectively checked regularly

Calculating and billing land tax and ESL relies heavily on property and ownership information in the South Australian Integrated Land Information System (SAILIS) database provided by the Land Services Group (LSG) of the Department of Planning, Transport and Infrastructure (DPTI).

Our review last year found reconciliations to ensure the accurate and complete update of SAILIS data to the RIO taxation system were not performed regularly.

Our follow-up in 2016-17 indicated a contractor was engaged to establish an automated reconciliation process to ensure the property data provided by LSG was accurately and completely updated to RIO. However, we found these automated reconciliations had only been performed on an informal and ad-hoc basis during the year, with no documentation of the reconciliations retained. The automated reconciliations also relied on manual interventions from RevenueSA and ICT staff to be run.

The lack of formal regular reconciliations raises the risk that property and ownership data transferred to RIO may be inaccurate or incomplete, resulting in the incorrect billing of land tax and ESL.

We recommended RevenueSA fully automate SAILIS to RIO reconciliations as soon as possible. Once operational, these automated reconciliations should be performed regularly, formally documented and checked.

RevenueSA responded that:

- a data reconciliation application has been developed that compares data between SAILIS and RIO
- the application automatically loads data from each source, reconciles the data and produces exception reports
- the reconciliation application will be run and checked weekly
- supporting procedural documentation is also in progress and will be completed by August 2017.

RIO system errors and defects impacting taxation debt monitoring and follow-up

The dunning process involves raising final notices and demand letters for overdue property tax debts and referring cases to Debt Management Services (DMS) for follow-up activities.

Our review in 2016-17 indicated that defects that impeded the dunning process last year were yet to be rectified. As a result, a highly modified dunning process was adopted during the year. This involved taxpayers who may have had errors with their billing arising from errors and defects in RIO being excluded from the dunning process. Excluding certain taxpayers creates the possibility that taxpayers with genuine outstanding debts are not appropriately followed up.

RevenueSA responded in July 2017 that the dunning defects have now been closed and required fixes implemented in RIO. Dunning has been successfully running each week since this change was implemented.

Policies and procedures not up to date

Our review in 2016-17 indicated that work on updating and finalising policies and procedures for a number of areas, including tax debt management and revenue recognition, was yet to be completed.

The lack of up-to-date policies and procedures has been raised for a number of years and there have been significant delays in establishing a centralised and robust policy and procedure framework within RevenueSA.

RevenueSA responded that:

- a revenue recognition policy has been developed and was formally endorsed on 30 June 2017
- policies for various debt collection activities have been developed and were endorsed on 30 June 2017
- collection procedures have been drafted and were due to be endorsed before the end of July 2017
- revenue procedures will be updated by the end of October 2017
- a formal, centralised framework for debt collection policies and procedures will be developed and implemented by December 2017

RevenueSA also advised that it would establish a formal register of all policies and procedures used across the organisation by December 2017. This register will facilitate the review of policies and procedures on a rolling basis to ensure they are up to date and reflect current business practices.

Lack of clarity in delegation frameworks for debt write-offs

We found that two sets of delegations were in use by RevenueSA branches for tax debt write-offs. There were inconsistences between these delegations for powers under sections 104 and 115 of the *Taxation Administration Act 1996*. RevenueSA staff may therefore have been unclear about which delegation framework applied, increasing the likelihood of inappropriately authorised tax debt write-offs.

RevenueSA responded that a single consolidated set of delegations would be established and endorsed by the end of July 2017.

Other findings

We identified that:

- reconciliations were not performed between motor vehicle registration stamp duties remitted by DPTI and the DTF general ledger
- reconciliations between monthly general insurance stamp duty returns submitted by insurers and revenue receipted in the DTF general ledger were not timely
- debt management instalment receipts in the collection account bank reconciliation were not cleared promptly
- there was a lack of procedural guidance on the review of potential errors and warnings flagged by RIO as part of property tax processing.

RevenueSA responded that:

- reconciliations between motor vehicle registration stamp duties remitted by DPTI and the DTF general ledger are now formally documented and completed within 14 days of month end
- reconciliations between monthly general insurance stamp duty returns and revenue receipted will be run, checked, actioned and independently reviewed within 14 days of month end
- system access and functionality changes will be made to facilitate the more timely clearing of debt management instalment receipts
- procedural guidance on the review of potential errors and warnings flagged by RIO has been established.

DTF corporate functions

DTF's corporate functions include:

- governance
- general ledger processing and maintenance
- bank reconciliations
- accounts payable
- accounts receivable
- payroll.

Many of these functions are performed by Shared Services SA (SSSA) on behalf of DTF under a service level determination.

DTF exercises controls to ensure that information provided to SSSA for processing is complete, accurate and properly approved. SSSA is responsible for the complete and accurate processing of this information into DTF's financial reporting systems.

Governance

Our review identified the following areas where internal controls could be improved:

- policies, procedures and other departmental information on the DTF intranet was significantly out of date in a number of areas, including finance policies and procedures
- there were no formal focused reviews performed in 2016-17 to confirm compliance with individual legislative requirements applying to DTF
- a simple, single source procurement for a contract estimated to cost $187 000 was undertaken for a consultant to conduct a cost management review. The consultant was later contracted for a second stage of work, bringing the total contract price to $954 000. We found no formal analysis of potential alternative service providers was performed either at inception of the contract or on its expansion for a second stage.

DTF responded that it has been implementing improvements to the DTF intranet and is currently evaluating e-library options. All finance policies and procedures have also been reviewed and are planned to be approved and finalised in September 2017.

DTF also responded that it believed mechanisms were in place in 2016-17 to obtain assurance at a high level that compliance with legislation had been maintained, including declarations completed by branch heads. Based on these processes, DTF has assessed the risk of non-compliance with legislative requirements as low.

DTF advised that the approach and rationale adopted in selecting the cost management review consultant was formally documented and approved by the joint DTF/Department of the Premier and Cabinet Accredited Purchasing Unit. This included considering established relationships and the time critical nature of the project (ie no other consultants were capable of doing this work in the time frame required without re-establishing key relationships). DTF indicated that in future, all single supplier sourcing strategies for procurements greater than $550 000 will contain formal analysis to confirm the appropriate reasons for limiting the number of suppliers.

Payroll

Payroll is a significant expenditure item in the DTF controlled financial report ($67 million). Our review identified the following areas in which internal controls over payroll could be improved:

- some branches were not submitting their bona fide reports for processing on a timely basis
- there was a lack of formal procedures for the recovery of overpayments
- some changes to part-time arrangements were not supported by appropriate documentation.

DTF responded that:

- it will reinforce bona fide review procedural requirements and examine best practice approaches adopted by branches that return their bona fide reports promptly for potential roll-out across DTF
- it has liaised with SSSA to obtain the information required to assess all outstanding overpayment debts for collectability and follow-up, and a formal procedure documenting required processes will be established by the end of November 2017
- branch managers will be formally reminded of the requirement to submit approved documentation for all changes to employment arrangements.

Establishing a formal whole-of-government industry assistance framework

We examined controls over industry assistance within a number of agencies and at the whole-of-government level. This included understanding the approach to initiating and assessing industry assistance programs. We identified an opportunity to improve how industry assistance programs are initiated and managed across government. Further commentary on the outcomes of this review is included in part A of this Report.

Public Finance Branch

The Public Finance Branch (PFB) records the activities of the Consolidated Account through the central general ledger (CGL) and the Treasurer's Statements. This includes appropriation payments and the balances of the Treasurer's deposit accounts ($6.4 billion) and loans ($10.9 billion). The Treasurer's Statements are included in the Appendix to this Report.

Reconciling CGL clearing accounts

We have previously reported that the PFB was unable to reconcile the balances recorded in clearing accounts in the CGL with information or advice received from agencies. Clearing accounts are held in the CGL to recognise unreconciled and outstanding items yet to be processed through the deposit account balances as reported by agencies. The balance recorded in a clearing account should match the total of unpresented cheques and other reconciling items that appear on the agency's bank reconciliations.

The PFB has dedicated significant resources to addressing this reconciliation issue over the past two years, with work performed to understand, explain and clear historical clearing account reconciling items and to develop a new process to prevent the accumulation of unexplained reconciling items in CGL clearing accounts in the future.

The review conducted by PFB has highlighted that, over time, agencies have inappropriately included or excluded account balances in their monthly advices, which are the basis for updating CGL information. For example:

- external cash balances held in bank accounts that were not linked to a Treasurer's deposit account (eg imprest accounts, bank accounts held with other financial institutions) have been inappropriately included in advices
- requests for Special Acts payments that included accruals have been inappropriately reflected in advices (eg agencies claiming long service liabilities in the reimbursement amount reported when the actual expense has not yet occurred)
- machinery of government changes have resulted in outstanding reconciling items not being recognised.

These factors have had a direct impact on the clearing account balances reported in the CGL, as the clearing account entries updated are based directly on the monthly advice from agencies.

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

The outcome of the review and full reconciliation of the clearing accounts reported in the CGL has identified a misclassification in the Treasurer's Statements. The deposit account balances (Statements C, F and G) have been overstated by $57 million and the cheques drawn but not presented/deposits not credited (Statement C) has been understated by $57 million.

The PFB has corrected the clearing account balances, effectively clearing historical differences between clearing accounts in the CGL and agency general ledgers. The adjustment was reflected against equity to correct all the prior period errors and was approved by the Treasurer. The $57 million correcting adjustment is reflected in Statement C under 'Prior year adjustment cheques drawn but not presented/Deposits not credited'. This item will not appear in future periods.

Our audit of the 2016-17 Treasurer's Statements confirmed that clearing accounts in the CGL as at 30 June 2017, as reflected in the 'Cheques Drawn but not presented/Deposits not credited' line item, now reconcile to corresponding balances in agency general ledgers supported by agency bank reconciliations.

Information and communications technology and control

RIO taxation system general IT controls review

In 2016-17 we followed up matters identified in my Supplementary Report for the year ended 30 June 2016 'RevenueSA Information Online system: October 2016'. An external audit firm helped us to re-perform 2015-16 controls testing, which confirmed remediation action taken by DTF since last year.

Our assessment identified a number of good practices, including effective tracking and prioritisation of system issues and logging and review of changes made, however there were a significant number of unresolved outstanding issues. DTF had advised that many of the outstanding issues would be addressed by December 2016 but this had not occurred. These outstanding matters were raised with DTF for ongoing attention.

The higher risk issues identified included:

- segregation of duties conflicts
- excessive access to sensitive functions
- lack of periodic review of privileged user access and segregation of duties
- the need to further restrict SAP access security.

Other control weaknesses were identified in:

- general ledger interface reconciliations
- user access management
- system maintenance
- system monitoring
- system security design
- application controls.

DTF accepted our recommendations and planned to have most matters identified remediated by the end of October 2017, with all remaining matters addressed by 30 June 2018.

We intend to follow up these outstanding issues in 2017-18.

RIO data analytics review

RIO processes taxation transactions for payroll tax, land tax and ESL. In processing these taxes, DTF receives data from other government agencies and employers. This includes land parcel valuation data from SAILIS, which is managed by the LSG.

In 2016-17, we reviewed taxes processed by the RIO using data analytics techniques. This included assessing whether taxes processed were complete and accurate. We assessed if all billable taxpayers had been invoiced and that the invoiced amounts were accurate based on legislative requirements.

Our data analytics testing provided us with reasonable assurance that land tax and the ESL were correctly calculated for 2016-17. We also validated that payroll tax assessment calculations were correct based on monthly and annual returns data submitted. Overall, this was a positive result.

Despite this, we identified that ESL concessions and remissions were applied to 3862 clients without sufficient evidence of ongoing eligibility. DTF relies on the Department for Communities and Social Inclusion for this evidence. We estimated that the total value of these concessions and remissions was approximately $660 000.

We also identified that:

- property share portion data from SAILIS was not promptly loaded to RIO
- there were data quality issues in RIO.

To address our findings, we made a number of recommendations. They included continuing with planned improvements to strengthen controls for applying ESL concessions and remissions in consultation with the Department for Communities and Social Inclusion. We also recommended that DTF promptly update share portion data provided from SAILIS into RIO as part of future annual processing. Finally, we recommended that DTF review and remediate the RIO data quality issues identified.

DTF responded positively to our findings and recommendations with details of planned remediation of the issues we identified by December 2017.

Shared Services SA – financial systems and transaction processing environments

SSSA processes financial transactions on behalf of DTF under service level determinations. The main systems and control environments include accounts payable, payroll and general ledger financial functions.

Our review and evaluation of controls for these systems concluded that controls were effective for 2016-17.

SSSA is discussed further as part of the commentary under 'Department of the Premier and Cabinet' in this Report.

Interpretation and analysis of the financial report

Highlights of the financial report – controlled items

	2017 $'million	2016 $'million
Expenses		
Employee benefits expenses	67	64
Supplies and services	50	44
Other expenses	5	3
Total expenses	122	111
Income		
Fees and charges	57	42
Other income	4	8
Total income	61	50
Net cost of providing services	61	61
Net revenues from SA Government	73	76
Net result and total comprehensive result	12	15
Assets		
Current assets	24	19
Non-current assets	51	41
Total assets	75	60
Liabilities		
Current liabilities	15	13
Non-current liabilities	18	18
Total liabilities	33	31
Total equity	42	29

Statement of Comprehensive Income

Expenses

Expenses totalled $122 million in 2016-17 compared to $111 million in 2015-16, an increase of $11 million. This is mainly due to an increase in employee benefits expenses ($3 million) and supplies and services expenses ($6 million).

The increase in employee benefits expenses is primarily attributable to additional FTEs for a new DTF branch established to support the CTP Insurance Regulator, higher targeted voluntary separation package expenses and enterprise bargaining agreement increases.

Employee expenses also include salaries and wages for staff provided by DTF to support South Australian Government Financing Authority (SAFA) and South Australian Superannuation Board (SASB) operations. Employee costs are recovered from SAFA, SASB and the CTP Insurance Regulator through a service level arrangement and are reported in note 10 of the financial report.

The increase in supplies and services expenses is mainly due to:

- increases in general administration and consumables ($3 million) primarily associated with the SA Government's advertising campaign for the new Job Accelerator Grant Scheme, which cost $2.2 million

- increases in legal costs ($2 million) mainly due to legal advice obtained on the outsourcing of LSG operations
- increases in contractors and temporary staff ($2 million) primarily as a result of work performed on RIO taxation system development
- increases in accommodation expenses ($717 000) mainly due to additional accommodation space required for the new CTP Insurance Regulator branch.

These increases are offset partly by a decrease in IT charges ($2 million) mainly owing to the expiry of the warranty period on RIO in 2016-17 and the corresponding decrease in fees.

Income

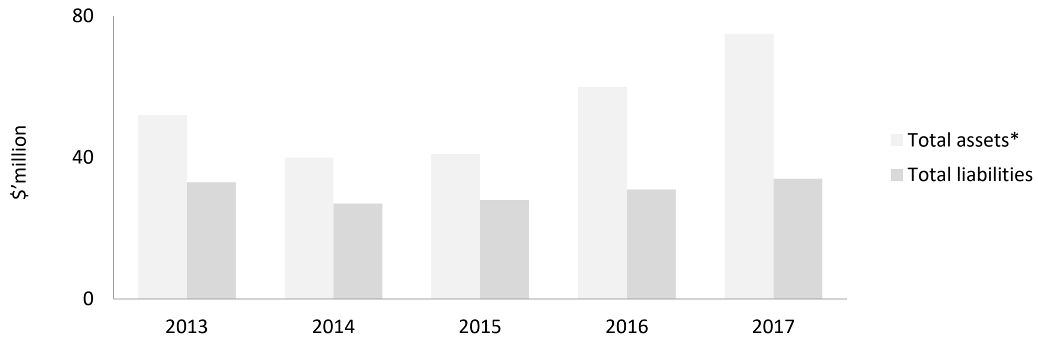
Income totalled $61 million in 2016-17 compared to $50 million in 2015-16, an increase of $11 million.

This is mainly due to a $15 million increase in fees and charges, offset partly by a $4 million decrease in other income. The increase in fees and charges is mainly attributable to the service level agreement with the newly established CTP Insurance Regulator and recoveries from SASB for the new Bluedoor superannuation administration system. The decrease in other income is primarily attributable to once-off contributions received in 2015-16 from the Commonwealth ($5 million) and the Adelaide City Council ($1 million) for the ANZAC Centenary Memorial Garden Walk project.

Statement of Financial Position

Total assets increased by $15 million to $75 million, due mainly to a $10 million increase in cash and cash equivalents and $8 million increase in intangible assets, offset partly by a $4 million decrease in current receivables. The increase in cash is mainly due to differences in the timing and amount of fees and charges under service level arrangements and GST receipts and payments between the years. The increase in intangible assets is attributable to costs in works in progress for the new SASB Bluedoor System. The decrease in receivables is primarily due to a decrease in accrued revenue for the SASB service level arrangement.

The following chart shows the movements in DTF's assets and liabilities since 2013.



* Total assets for 2016 and 2017 include $10 million for the construction of the ANZAC Centenary Memorial Garden Walk.

Total assets and liabilities remained relatively stable between 2013 and 2015. The significant increase in total assets in 2016 and 2017 is attributable to construction of the ANZAC Centenary Memorial Garden Walk and intangible asset additions associated with the new RIO taxation and SASB Bluedoor IT systems.

Statement of Cash Flows

Net operating cash flows improved by $7 million due mainly to an increase in cash receipts from fees and charges, offset partly by decreases in other receipts and receipts from the SA Government and increases in employee benefit payments and supplies and services payments.

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 2016-17 is reported in the Treasurer's Statements (included in the Appendix to this Report).

	2017 $'million	2016 $'million
Expenses		
Payments to SA Government	11 006	10 393
Grants, subsidies and transfers	2 873	2 642
Other expenses	1 216	858
Total expenses	15 095	13 893
Income		
Taxation	4 083	3 692
Commonwealth revenues	8 312	7 651
Revenues from SA Government	1 490	1 649
Other revenues	1 213	945
Total income	15 098	13 937
Net result	3	44
Assets		
Current assets	1 043	1 366
Non-current assets	12	3
Total assets	1 055	1 369
Liabilities		
Current liabilities	742	1 053
Non-current liabilities	34	40
Total liabilities	776	1 093
Total equity	279	276

Payments to the SA Government increased by $613 million compared to 2015-16. This primarily reflects increases in taxation revenue collected by DTF and paid to the Consolidated Account.

Other expenses were $358 million higher in 2016-17 compared to last year. This primarily reflects the on-payment of fees received from the four private insurers for initial market shares under the compulsory third party insurance market reforms ($259 million).

Taxation revenue is $391 million higher in 2016-17 than last year, primarily due to an increase in land tax ($418 million). This increase is mainly attributable to a catch-up for delays in issuing invoices for SA Government agencies, including the South Australian Housing Trust, for the 2015-16 financial year. This has a resulted in two years' worth of land tax for these agencies being receipted in 2016-17. Land tax revenue is recognised by DTF on a cash basis.

Further commentary on operations

Commonwealth funding arrangements

The Intergovernmental Agreement on Federal Financial Relations (IGA) is the framework for the Commonwealth's financial relations with the states and territories.

The IGA 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 (SPPs) to be spent in the key service delivery sectors agreed to between the Commonwealth and the states. Each national SPP 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 IGA all Commonwealth funding, with the exception of funding under the National Health Reform Agreement and the National Education 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 SPP purposes listed in Schedule F of the IGA and the national partnership payments purposes listed in Schedule G.

The balance of the IGA account at 30 June 2017 was $11 million ($21 million). This represents funds that DTF is yet to transfer to other agencies.

University sector activities

Overview

The Auditor-General audits the following South Australian universities:

- The Flinders University of South Australia
- University of Adelaide
- University of South Australia.

These are the State's three major universities. They advance learning and knowledge within South Australia by providing university education and conducting research activities.

Sector summary

Financial statistics

The following table shows key financial statistics for the three universities.

	2016 $'million
Australian Government financial assistance	1 235
Fees and charges revenue	454
Employee related expenses	1 169
Assets	4 542
Liabilities	1 101

	2016 Number
FTEs	8 334
Students (EFTSLs)	60 872

Financial report opinions

We issued audit opinions for each university's financial report. The Flinders University of South Australia and University of Adelaide received unmodified opinions.

We modified the financial report opinion for the University of South Australia. In our opinion, its accounting for grant revenue does not comply with Australian Accounting Standards. This is further discussed in the University of South Australia's commentary under 'Auditor's report on the financial report'.

Financial controls opinions

All three universities received modified control opinions. The individual matters resulting in these modifications are disclosed in each university's commentary under 'Communication of audit matters'.

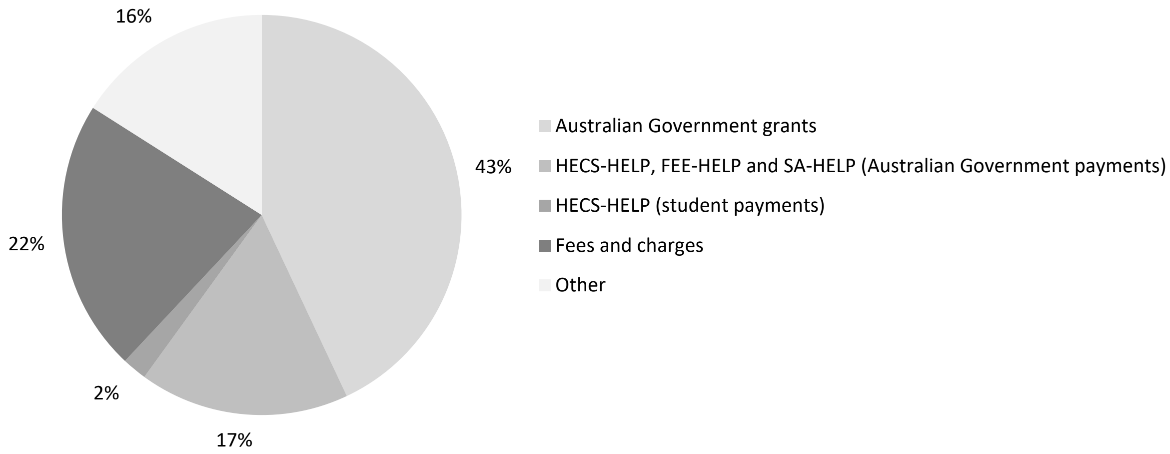
We noted some commonality in the areas we identified across the universities. In particular there were opportunities to improve:

- controls over the management of payments to staff and staff leave entitlements
- the way that contract registers were used, maintained and managed.

Key financial statistics

Income

Total income for the three universities was $2 billion in 2016. The sources of income are presented in the following chart.



Australian Government grants and payments

The universities are highly dependent on Australian Government financial assistance. This constitutes 60% of their total income in 2016. It comprises the Commonwealth Grants Scheme, Higher Education Loan Program (HELP) income, research grants and other funding.

Further information is included in each university's commentary under 'Statement of Comprehensive Income'.

Fees and charges

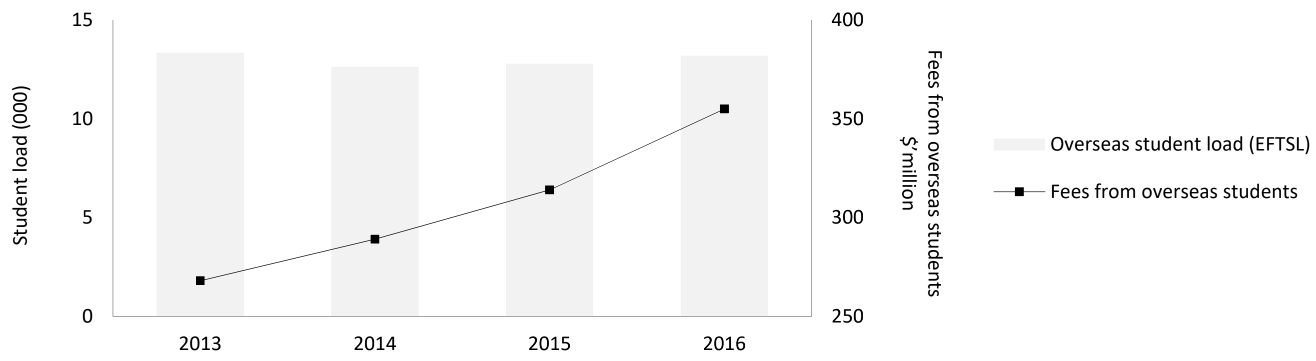
For the last four years fees and charges across the universities have increased by 29.7%, from $350 million in 2013 to $454 million in 2016. The main reason for this increase is increased revenue, primarily from overseas students.

The following table shows that total student loads have marginally increased over the last four years with the sources of students remaining relatively stable at 78% domestic and 22% overseas.

	2016 Number	2015 Number	2014 Number	2013 Number
Domestic students	47 675	47 466	47 433	46 272
Overseas students	13 197	12 792	12 635	13 354
Total students (EFTSL)	60 872	60 258	60 068	59 626

Source: Student numbers, which are based on equivalent full-time student load (EFTSL), were obtained from data published by the three universities and are unaudited.

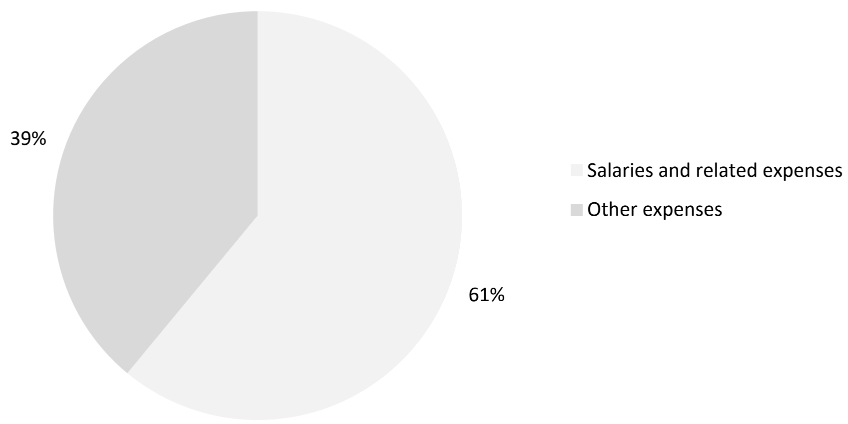
Revenue from fees and charges from overseas students has increased by 32.5% across the last four years to $355 million in 2016. The number of overseas students has remained steady over this time.



Source: Student numbers, which are based on EFTSL, were obtained from data published by the three universities and are unaudited.

Expenditure

Total expenditure for the three universities was $1.9 billion in 2016. The sources of expenditure are presented in the following chart.



Employee related expenses

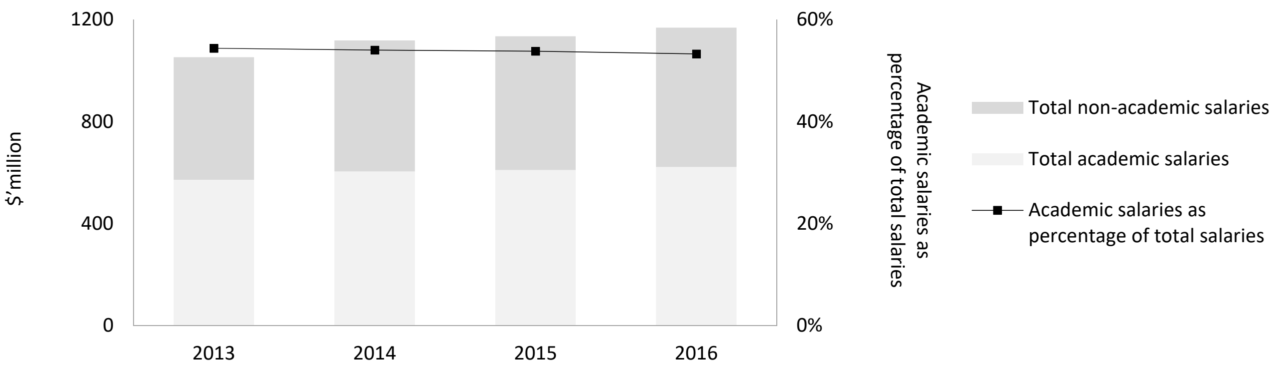
For the last four years employee related expenses across the universities have increased by 11% from $1.05 billion in 2013 to $1.17 billion in 2016.

The following table shows total staff numbers for all three universities, based on FTEs.

	2016 FTEs	2015 FTEs	2014 FTEs	2013 FTEs
Academic	3 634	3 781	3 785	3 714
Non-academic	4 700	4 761	4 804	4 677
Total FTEs	8 334	8 542	8 589	8 391
Percentage of academic staff	44%	44%	44%	44%

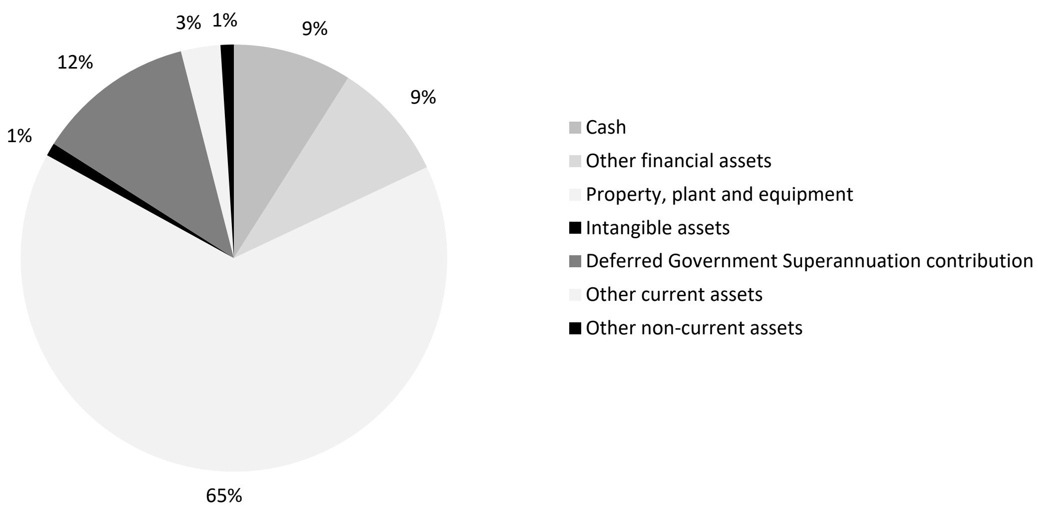
Source: Staff numbers, which are based on FTEs, were obtained from data published by the three universities and are unaudited.

The following chart shows academic salaries as a percentage of total salaries. The percentage has remained constant at 54% over the three years to 2015 with a slight decrease to 53% in 2016.



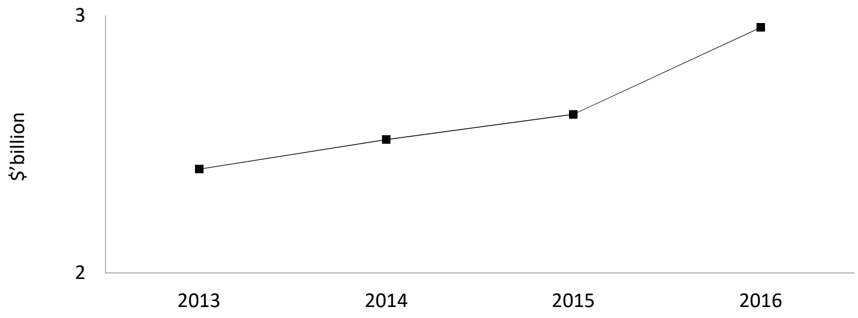
Assets

Total assets for the three universities were $4.5 billion in 2016. The categories of assets are presented in the following chart.



Property, plant and equipment

Property, plant and equipment totals $2.95 billion, which is 65% of the total value of assets held by the three universities. It primarily consists of $1.96 billion of building and infrastructure (66%) and land of $412 million (14%). The following chart shows the value of property, plant and equipment over the last four years.



In 2016 all three universities revalued their land, buildings and infrastructure. This resulted in a collective net revaluation gain across the universities of $110 million.

Capital work in progress totalled $362 million as at 31 December 2016 for the three universities, with a number of large capital projects being undertaken. Further commentary on individual large capital works are disclosed in the commentary for each university under 'Statement of Financial Position'.

Deferred Government Superannuation contribution

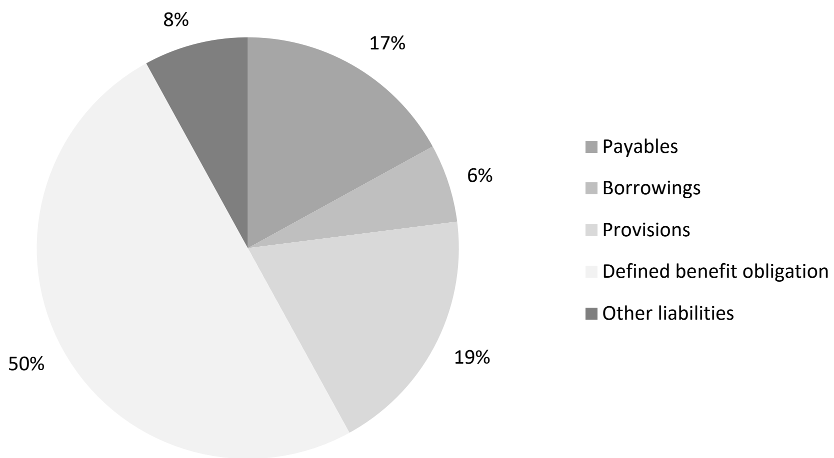
A number of present and former employees of all three universities, and their predecessor institutions, are members of state managed superannuation schemes. Under current arrangements the Commonwealth Government funds the universities on an emerging cost basis.

The defined benefit obligations of all three universities totalled $548 million, with a corresponding receivable of the same value being recognised from the Commonwealth Government. The receivables represent 12% of total assets held by the three universities.

For information on the individual schemes refer to the 2016 financial report for each university.

Liabilities

Total liabilities for the three universities were $1.1 billion in 2016. The categories of liabilities are presented in the following chart.



Defined benefit obligation

Defined benefit obligations total $548 million, 50% of liabilities held by the three universities, and are offset by deferred government contributions as explained under 'Deferred Government Superannuation contribution' above.

Provisions

Provisions total $213 million, which is 19% of liabilities held by the three universities.

Provisions primarily reflect $130 million in long service leave liabilities and $67 million in annual leave liabilities.

Emerging risks

Proposed Federal legislative changes

The higher education sector is largely dependent on the financial assistance provided by the Australian Government. In May 2017 the Australian Government announced funding reforms for the higher education sector. Proposed changes included an efficiency dividend, a performance based element for part of the Commonwealth Grant Scheme funding and an increase in student fees. Changes of this nature would impact on the universities' financial business models in the future.

The introduction of these changes is dependent on the successful passage of legislation through the Commonwealth parliament, which has not yet occurred.

Flinders University of South Australia (FUSA)

Financial statistics	Net result:	$28 million
	Australian Government financial assistance:	$333 million
	Number of FTEs:	1 958
	Number of students (EFTSLs):	17 143
	Research revenue:	$65 million

Significant events and transactions

- FUSA commenced planning and consultation for a significant organisation restructure.
- A Voluntary Early Retirement Scheme was offered during 2016, which resulted in 109 staff separating from FUSA.
- A revaluation of land, buildings and infrastructure resulted in a $9.9 million increase in their values.

Financial report opinion

Unmodified

Financial controls opinion

Modified

Key issues:

- Supervisor review of payroll payments not performed with sufficient frequency
- Leave management could be improved
- The contract register was incomplete
- Purchase orders not always used when required
- Finance systems segregation of duties could be strengthened

Functional responsibility

FUSA is established by the *Flinders University of South Australia Act 1966*.

The functions of FUSA include establishing and providing educational facilities and courses of study at a university standard, and generally disseminating knowledge and promoting scholarship.

Scope of audit

The audit program covered major financial systems to obtain sufficient evidence to form an opinion on the financial report and internal controls.

During 2016 specific areas of audit attention included:

- payroll
- property, plant and equipment
- student revenue
- research grant revenue
- cash and investments
- Commonwealth financial assistance
- general ledger and reporting
- expenditure.

Internal audit activities were reviewed to assess the risks of material misstatement in the financial report and to design and perform audit procedures.

The audits of the controlled entities for the year ended 31 December 2016 were carried out by private accounting firms.

Audit findings and comments

Assessment of controls

In my opinion, the controls exercised by the Flinders University of South Australia in relation to the receipt, expenditure and investment of money, the acquisition and disposal of property and the incurring of liabilities, except for all matters outlined under 'Communication of audit matters', are sufficient to provide reasonable assurance that the financial transactions of the Flinders University of South Australia have been conducted properly and in accordance with law.

Communication of audit matters

Matters identified by the audit were detailed in a management letter to the Vice-Chancellor. The main matters raised are detailed below. Some of these matters are similar to issues reported to FUSA in previous years.

Payroll

Supervisor review of payroll payments not performed with sufficient frequency

Our audit of payroll considered the effectiveness of supervisors' review of payroll reports to provide assurance that only bona fide employees are paid for work performed and at the correct rates. We consider that FUSA's requirement for twice yearly positive confirmation was not sufficiently frequent to identify invalid, inaccurate or incomplete processing of payments through the payroll system.

FUSA indicated that the matter had been carefully considered making reference to results of testing, internal audit findings and other controls. FUSA concluded that the current approach was sufficient to manage the risk.

Leave management could be improved

We identified that the management of employees with annual leave balances greater than 40 days could be improved. We also noted the management of, and reporting on, academic employees who cancelled their default block booked leave and did not always reschedule an alternative date as required by FUSA policy could be improved.

FUSA indicated it would consider improvements to these processes.

The contract register was incomplete

We identified that the contract register used by FUSA was incomplete and processes to ensure its completeness needed to be reinforced to FUSA staff to ensure effective contract management.

FUSA responded that the policy requirements would be reinforced to staff with the implementation of the new delegations framework.

Purchase orders not always used when required

We identified instances where purchase orders were not used for some travel purchases above $20 000 where they were required.

FUSA responded that policy requirements would be reinforced to staff involved with travel expenditure, noting that the requirement to use purchase orders was consistently applied in all other areas.

Finance systems segregation of duties could be strengthened

We noted there remained identified instances where, for operational reasons, some finance systems users had access to functions that would be segregated if possible. We recommended FUSA perform a review of duties to minimise associated risks by maximising the amount of segregation between staff members. We also recommended FUSA perform an annual review to ensure there has been no unintended weakening of the control environment.

In response FUSA noted mitigating controls had been implemented, including independent checks.

Interpretation and analysis of the financial report

Highlights of the financial report

	2016 $'million	2015 $'million
Income		
Australian Government grants	234	230
HECS-HELP, FEE-HELP and SA-HELP (Australian Government payments)	98	93
HECS-HELP (student payments)	8	8
Fees and charges	94	83
Other	56	52
Total income	490	466
Expenses		
Employee related expenses	314	298
Other expenses	148	154
Total expenses	462	452
Operating result	28	14
Net cash provided by (used in) operating activities	63	57
Net cash provided by (used in) investing activities	(53)	(37)
Assets		
Current assets	104	88
Non-current assets	743	723
Total assets	847	811
Liabilities		
Current liabilities	72	71
Non-current liabilities	77	82
Total liabilities	149	153
Total equity	698	658

Income Statement

Income

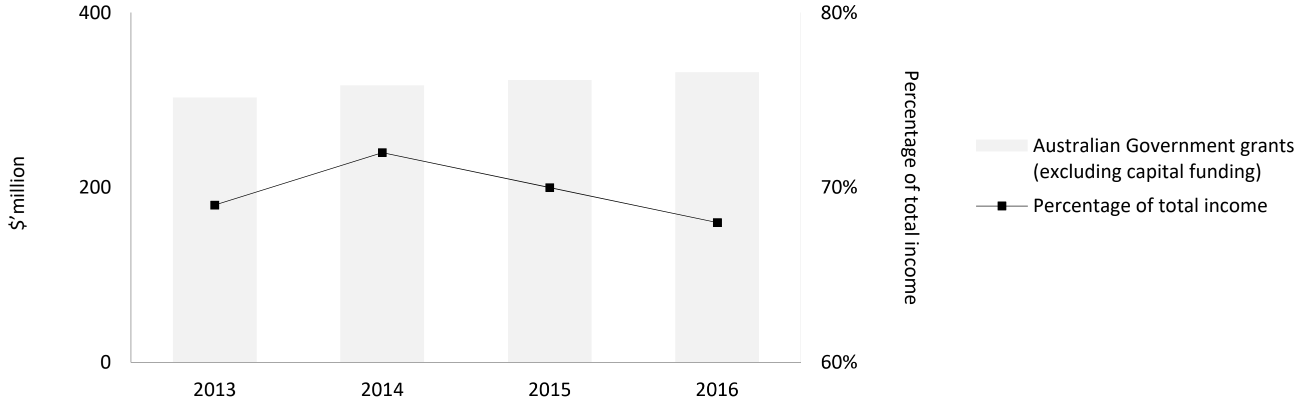
FUSA's income increased by 5% in 2016, with increases in Australian Government grants, Australian Government payments and fees and charges as explained below.

Australian Government grants and payments

The total Australian Government financial assistance received by FUSA during 2016 increased by $9 million to $333 million.

The following chart shows Australian Government grants and payments, excluding capital funding as this is not necessarily comparable from year to year. It shows that the proportion of non-capital Australian Government grants and payments to total income peaked in 2014 and has trended lower since.

The small decrease in 2016 reflects the proportionate growth in fees and charges for the year.



Australian Government grants and payments include the following major items:

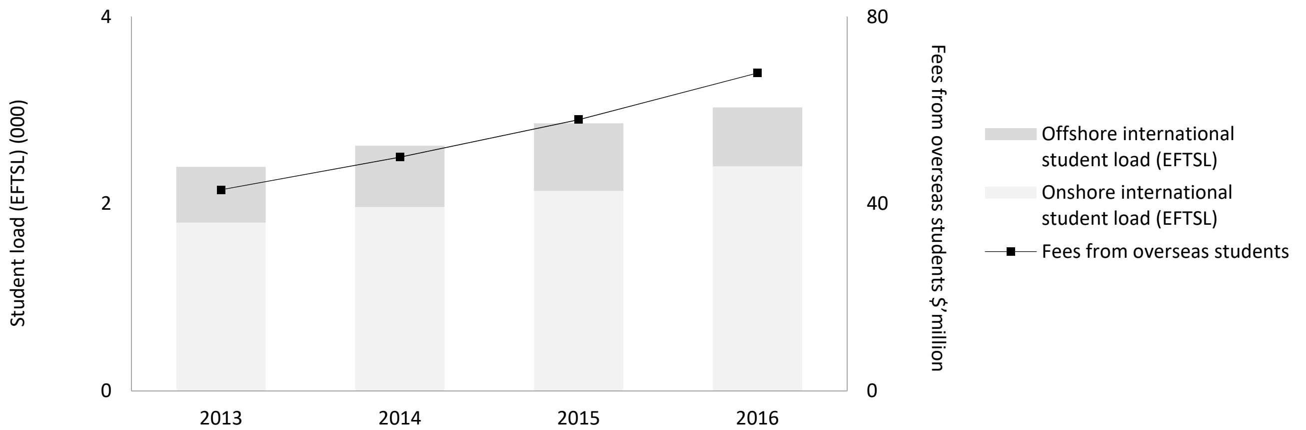
- $98 million Higher Education Loan Program (HELP) funding including HECS-HELP. In 2016 HECS-HELP funding increased $3 million (4%) to $87 million, which is primarily due to growth in Commonwealth supported places (2%), price indexation and growth in the proportion of students opting to defer their contribution through the HELP program

- $58 million Australian Government funding for research activities including competitive research grant programs and research infrastructure grants, which was a $1 million decrease in funding for 2016

- $145 million Commonwealth Grants Scheme funding for Commonwealth supported student places. Commonwealth Grants Scheme funding increased $3 million (2%) primarily due to a 2% increase in the number of Commonwealth supported students.

Fees and charges

The following chart shows fees from overseas students together with international student numbers.



Source: Student numbers, which are based on equivalent full-time student load (EFTSL), were obtained from FUSA and are unaudited figures.

Fees from overseas students increased $10 million (17%) to $68 million primarily due to a 4% growth in international student numbers together with price increases.

The following table shows that total student loads have increased by 10% over the last four years with a 6% increase in domestic students and a 28% increase in overseas students.

	2016 Number	2015 Number	2014 Number	2013 Number
Domestic students	14 073	13 802	13 849	13 250
Overseas students	3 070	2 954	2 620	2 394
Total students (EFTSL)	17 143	16 756	16 469	15 644

Investment revenue and income

Investment revenue and income (net of losses) increased by $3 million to $9 million. The main factors driving this increase were gains in the value of investments and an increase in the value of investment properties.

Expenses

Total expenses increased by $10 million (2%). This was primarily due to a $16 million (5%) increase in employee expenses related to the Voluntary Early Retirement Scheme (VERS) and a $4 million increase in depreciation expense reflecting the full year impact of capitalising the student hub precinct. These increases were offset by a $7 million (100%) decrease in losses on investments and disposal of assets recorded in 2015 predominately relating to the Lincoln Marine Science Centre, which was transferred to the SA Government for $0 consideration.

Employee related expenses

Employee related expenses totalled $314 million in 2016. Over the last four years these expenses have increased by 16.7%, reflecting increases from enterprise agreements. A significant factor in the 2016 increase in employee related expenses was the VERS program that was offered. VERS resulted in 109 staff separating from FUSA for a total cost of $11 million.

	2016 $'million	2015 $'million	2014 $'million	2013 $'million
Employee related expenses	314	298	290	269

The following table shows total staff numbers for FUSA based on FTE's. The numbers have remained relatively constant over the last four years with a drop in 2016 due to VERS. The table also shows the percentage of academic staff over the last four years.

	2016 FTEs	2015 FTEs	2014 FTEs	2013 FTEs
Academic	844	874	873	856
Non-academic	1 114	1 207	1 198	1 153
Total FTEs	1 958	2 081	2 071	2 009
Percentage of academic staff	43%	42%	42%	43%

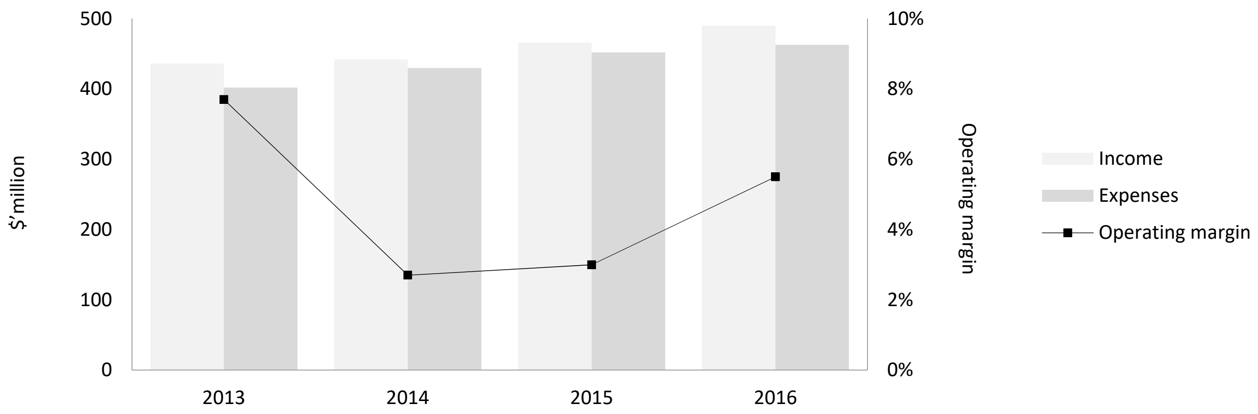
Source: Staff numbers, which are based on FTEs, were obtained from FUSA's published statistics and are unaudited figures.

Operating result

The operating surplus increased $14 million to $28 million. Contributing to the increased surplus was:

- an $11 million increase in fees and charges as a result of an increase in fees from overseas students
- a $9 million increase in Australian Government financial assistance as a result of higher grants and higher HELP payments
- a $7 million decrease in investment losses and losses on disposal of assets
- a $4 million increase in depreciation and amortisation mainly due to the capitalisation of the plaza redevelopment and student hub early in 2016
- a $16 million increase in employee related expenses, mainly due to the VERS program.

The following chart shows the operating income, operating expenses and the operating margin for the four years to 2016.



FUSA's operating margin (the operating result for the year divided by total income) has increased in 2016, reflecting the improved operating result.

Statement of Financial Position

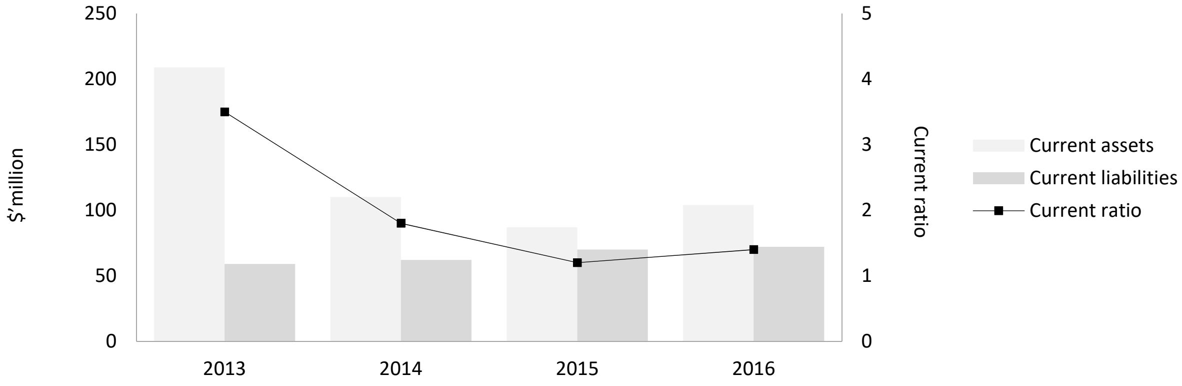
FUSA's consolidated net assets as at 31 December 2016 totalled $698 million ($659 million), an increase of $39 million.

Assets

Current assets

FUSA's cash and current financial assets (term deposits) increased by $20 million to $76 million, primarily due to the reduced spending on infrastructure following the completion of major projects and increased overseas student numbers.

The following chart shows FUSA's current assets and liabilities. The chart shows a decline in FUSA's current ratio reflecting significant self-funded investments in infrastructure projects through to 2015, with a slight improvement in 2016. The current ratio remains positive, with FUSA's current assets exceeding current liabilities by $32 million, and has improved on the 2015 year.



Property, plant and equipment

The main item of FUSA's Statement of Financial Position is property, plant and equipment, representing 71% of total assets. The carrying value of property, plant and equipment increased by $14 million to $602 million mainly due to:

- $20 million expenditure on capital infrastructure for construction work mainly associated with infrastructure projects
- net revaluation increment of $10 million for land, buildings and infrastructure
- other asset additions of $16 million.

These increases were offset by $30 million in depreciation charges.

Major capital works – plaza redevelopment and student hub

The new plaza redevelopment and student hub had a total budgeted cost of $63 million. Construction commenced in November 2014 and was completed in March 2016. The completed project was transferred out of construction in progress in 2016.

The project included over 11 000 m^2 of new facilities, including an enclosed mall and a four-storey administration building, as well as a new terraced plaza space featuring an amphitheatre.

Liabilities

FUSA's liabilities decreased by $4 million to $149 million. The major items contributing to this were a $2 million decrease in defined benefit superannuation obligations and a $1 million decrease in the long service leave provision.

Statement of Cash Flows

Cash flows from operating activities increased by $6 million to $63 million. Cash outflows for property, plant and equipment decreased by $35 million due to the completion of the plaza redevelopment and student hub. Total cash and cash equivalents increased by $8 million to $56 million.

University of Adelaide (Uni Adelaide)

Financial statistics	Net operating result:	$61 million
	Australian Government financial assistance:	$506 million
	Number of FTEs:	3 884
	Number of students (EFTSLs):	21 461

Significant events and transactions

- Construction of the Adelaide Health and Medical Services (AHMS) building continued in 2016. It consists of new facilities for Uni Adelaide's Medical and Nursing School and a new dental clinic. As at 31 December 2016 Uni Adelaide had incurred capital expenditure of $221 million for the building, which opened in early 2017.
- Uni Adelaide revalued its land and buildings as at 31 December 2016 recognising a revaluation gain of $49 million.

Financial statement opinion

Unmodified

Financial controls opinion

Modified

Key issues:

- Ineffective controls to monitor leave recorded in the payroll system increasing the risk of error in leave records
- Incorrect expenditure delegation limits in PeopleSoft increasing the risk of inappropriate expenditure being incurred

Functional responsibility

Uni Adelaide is established by the *University of Adelaide Act 1971*.

Uni Adelaide has the objective of advancing learning and knowledge which it achieves by providing university education and conducting research activities.

Scope of audit

The audit program covered major financial systems to obtain sufficient evidence to form an opinion on the financial report and internal controls.

During 2016 specific areas of audit review included:

- corporate governance
- information and communications technology
- Commonwealth financial assistance
- research grants, student fees and other revenue
- cash, investments and borrowings
- property, plant and equipment
- payroll
- accounts payable
- general ledger.

Internal audit activities and reports were reviewed to assess the risks of material misstatement in the financial report and to design and perform audit procedures.

The audits of the controlled entities for the year ending 31 December 2016 were carried out by private accounting firms.

Audit findings and comments

Assessment of controls

In my opinion, the controls exercised by the University of Adelaide in relation to the receipt, expenditure and investment of money, the acquisition and disposal of property and the incurring of liabilities, except for all matters outlined under 'Communication of audit matters', are sufficient to provide reasonable assurance that the financial transactions of the University of Adelaide have been conducted properly and in accordance with law.

Communication of audit matters

Matters identified by the audit were detailed in management letters to the Interim Vice-Chancellor and President. Uni Adelaide's response to the letters indicated that appropriate action would be taken to address the matters raised. The main matters raised and the related responses are detailed below.

Payroll

Ineffective controls to monitor leave recorded

Uni Adelaide relies on the review of bona fide reports by faculties and divisions to ensure all leave taken by its staff is recorded in the payroll system. If this control is not effective Uni Adelaide risks overstating its leave liabilities for financial reporting purposes. Accurate leave records are also important to ensure staff only take leave they are entitled to.

Our audit identified that:

- bona fide reports were not designed to effectively assist the review of leave taken
- faculties and divisions are not required to maintain local attendance records to support their review of the reasonableness of leave taken
- bona fide reports were not always checked or certified by managers in line with Uni Adelaide's requirements and not always returned to Human Resources promptly.

Uni Adelaide responded that it will implement an effective control to ensure all leave taken by employees is recorded in the payroll system.

Expenditure

Incorrect expenditure limits in PeopleSoft

Uni Adelaide obtains assurance that all expenditure is approved by employees with appropriate financial delegations by establishing system expenditure limits in the PeopleSoft financial system. These limits are reviewed annually against the approved financial delegations listing.

Our audit identified:

- that Uni Adelaide had not documented a policy or procedure detailing the requirement to perform the annual review and the responsibilities of those involved, increasing the risk that appropriate checks are not performed
- 15 officers with multiple expenditure limits in PeopleSoft that were not in line with Uni Adelaide's approved financial delegations, increasing the risk of inappropriate expenditure.

Uni Adelaide responded that it had corrected the identified errors and had improved its control over the update of delegations in PeopleSoft.

Interpretation and analysis of the financial report

Highlights of the financial report	2016 $'million	2015 $'million
Revenue		
Australian Government grants	387	385
HECS-HELP, FEE-HELP and SA-HELP (Australian Government payments)	119	115
HECS-HELP (student payments)	13	13
Fees and charges	227	209
Other	201	215
Total revenue	947	937

	2016 $'million	2015 $'million
Expenses		
Salaries and related expenses	498	487
Other expenses	388	398
Total expenses	886	885
Operating result from continuing operations	61	52
Other comprehensive income	52	1
Total comprehensive income	113	53
Net cash provided by (used in) operating activities	84	93
Net cash provided by (used in) investing activities	(107)	(61)
Net cash provided by (used in) financing activities	11	(30)
Assets		
Current assets	106	197
Non-current assets	1 819	1 598
Total assets	1 925	1 795
Liabilities		
Current liabilities	141	135
Non-current liabilities	215	204
Total liabilities	356	339
Total equity	1 569	1 456

Statement of Comprehensive Income

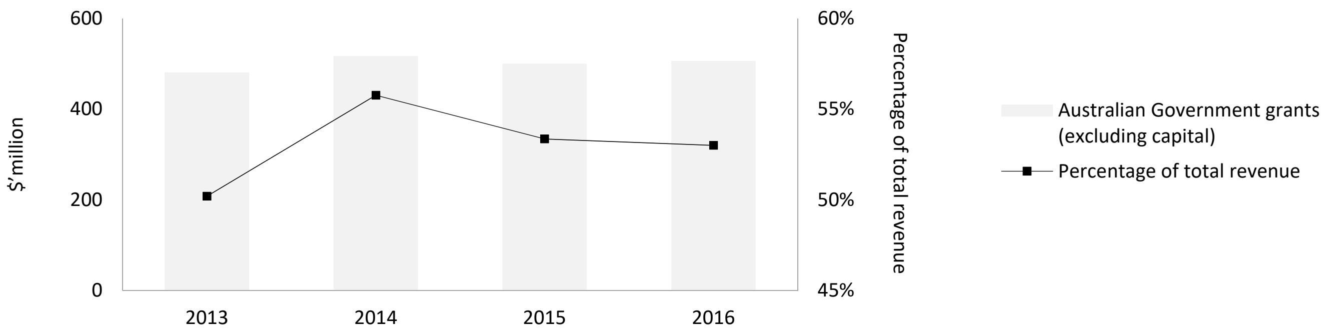
Revenue

Revenue in 2016 totalled $947 million, an increase of $10 million compared to 2015. The increase is primarily related to increases in Australian Government grants and payments and fees and charges, with a decrease in other income.

Australian Government grants and payments

Total Australian Government financial assistance received by Uni Adelaide during 2016 increased by $6 million to $506 million.

The following chart shows Australian Government grants and payments, excluding capital funding as this is not necessarily comparable from year to year. It shows that in the last two years the proportion of non-capital Australian Government grants and payments to total income has remained steady at 53%. In 2013 and 2014 the changes in percentages primarily relate to movements in investment income in those years.



In 2016 Australian Government grants and payments include the following major items:

- $176 million Commonwealth Grants Scheme funding for Commonwealth supported student places. Commonwealth Grants Scheme funding increased by $10 million (6%) following price increases and a $2.2 million increase in the prior year's efficiency dividend returned. This was partially offset by a slight decrease in Commonwealth supported places

- $119 million Higher Education Loan Program (HELP) funding including for HECS-HELP. In 2016 HECS-HELP funding increased $2 million (2%) to $104 million, which is due primarily to price increases offset by a slight decrease in Commonwealth supported places

- $192 million Australian Government funding for research activities and other grants including competitive research grant programs and research infrastructure grants, which was a $5 million decrease in funding from 2015.

Fees and charges

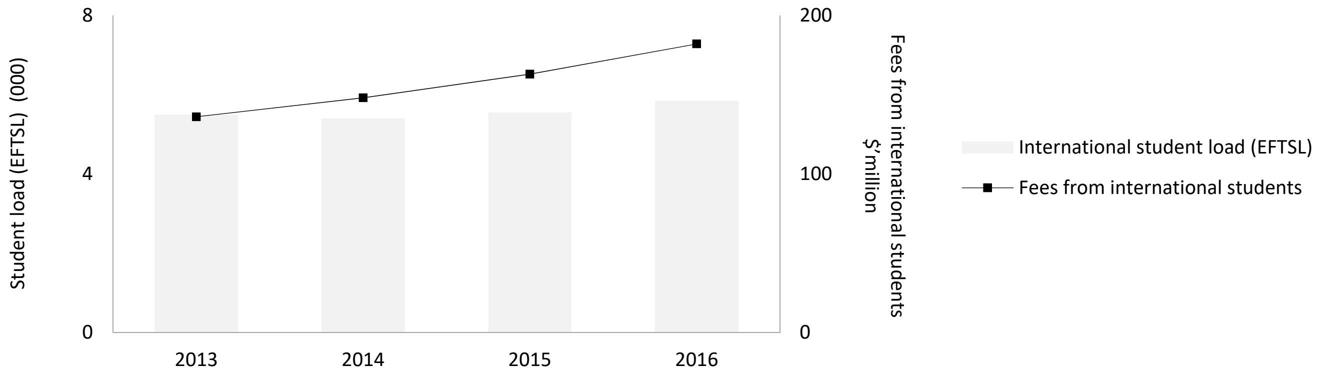
Fees and charges increased by $18 million (8.6%) to $227 million in 2016. This increase is attributable to increased revenue from international fee paying students.

The following table shows that total student loads have steadily increased over the last four years.

	2016 Number	2015 Number	2014 Number	2013 Number
Domestic students	15 618	15 688	15 707	15 284
International students	5 843	5 550	5 397	5 493
Total students (EFTSL)	21 461	21 238	21 104	20 777

Source: Student numbers, which are based on equivalent full-time student load (EFTSL), were obtained from Uni Adelaide's annual report and are unaudited.

The following chart highlights the upward trend in revenue received from international fee paying students.



Source: Student numbers, which are based on EFTSL, were obtained from Uni Adelaide's' annual report and are unaudited.

Fees from international students increased by $18 million (11%) to $182 million in 2016 due primarily to a 5% increase in total international fee paying student numbers ($10 million) and an average 6% price increase in fees ($8 million).

Other revenue

Other revenue decreased by $14 million (7%) to $201 million. The major items causing this change were:

- a decrease of $10 million in the consultancy and contract revenue earned by the Adelaide Research and Innovation Investment Trust
- a net gain of $1 million on disposal of assets in 2016 compared to a net gain of $7 million in 2015.

Expenses

Expenses in 2016 totalled $886 million, an increase of $1 million compared to 2015. The increase reflects an $11 million (2.2%) increase in employee related expenses offset by a $10 million (2.5%) decrease in other expenses.

Employee related expenses

The increase in employee related expenses of $11 million is mainly attributable to an increase in redundancy expenses and enterprise agreement increases.

Uni Adelaide has undergone a Professional Services Reform which has resulted in targeted voluntary separation packages being offered. Redundancy expenses increased in 2016 to $10 million compared to $5 million in 2015.

The following table shows total staff numbers, based on FTEs. The numbers have remained relatively steady over the last four years.

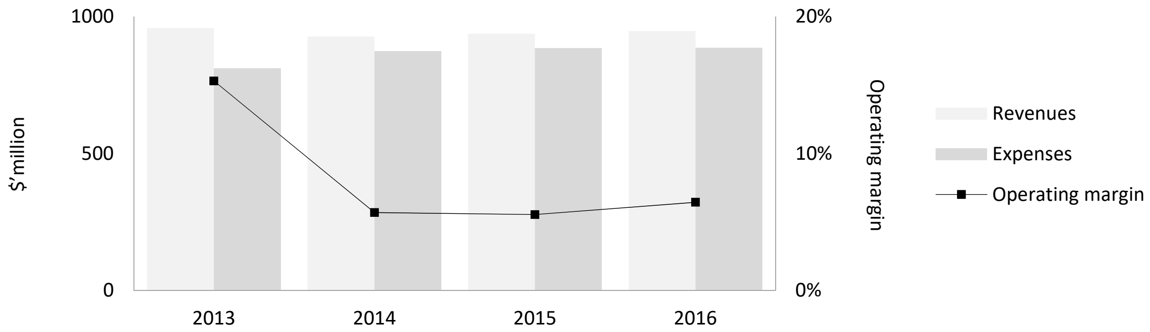
	2016 FTEs	2015 FTEs	2014 FTEs	2013 FTEs
Academic	1 729	1 781	1 785	1 748
Non-academic	2 155	2 084	2 091	2 015
Total FTEs	3 884	3 865	3 876	3 763
Percentage of academic staff	45%	46%	46%	46%

Source: Staff numbers, which are based on FTEs, were obtained from Uni Adelaide’s annual report and are unaudited.

Operating result

The consolidated operating result for 2016 was a surplus of $61 million compared to $52 million in 2015.

The following chart shows the operating revenues, operating expenses and operating margin (the operating result for the year divided by total income) for the four years to 2016.



Uni Adelaide's operating margin has been relatively stable over the past three years. The large operating result and operating margin in 2013 was primarily attributable to significant one-off transactions, including the $60 million capital grant received from the Commonwealth for the Adelaide Health and Medical Services (AHMS) building and the $9 million gain on acquisition of the Women's and Children's Health Research Institute controlled entity.

Statement of Financial Position

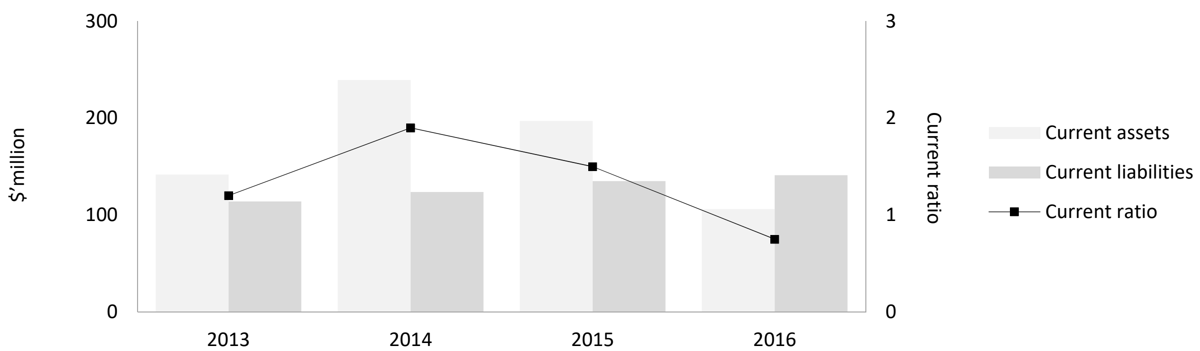
Uni Adelaide's consolidated net assets at 31 December 2016 were $1569 million ($1456 million), an increase of $113 million.

Assets

The value of Uni Adelaide's assets increased by $130 million (7%) in 2016. The major items causing this change were:

- an increase of $200 million in property, plant and equipment resulting from additions of $190 million principally for the AHMS building and revaluation upwards of $49 million, both offset by depreciation of $44 million
- an increase of $22 million in the endowment fund resulting from investment gains and new investments
- reductions in bank term investments ($50 million), cash and cash equivalents ($12 million) and the disposal of non-current assets held for sale ($23 million), to help fund the construction of the AHMS building. Properties sold in 2016 were situated at Thebarton.

As at 31 December 2016, current assets of $106 million did not exceed current liabilities of $141 million. The following chart shows Uni Adelaide's current assets, current liabilities and current ratio for the four years to 2016.



The chart highlights that Uni Adelaide's current ratio has reduced in 2016. This is primarily attributable to decreases in cash and cash equivalents, bank term investments and the disposal of non-current assets held for sale to partially fund the construction of the AHMS building.

Major capital works projects

In May 2014, Uni Adelaide's Council approved the construction of a new AHMS building in the South Australian Health and Biomedical Precinct located in Adelaide's West End. The AHMS building project had an original total budgeted cost of $206 million.

The Council subsequently approved a Dental Partnership Agreement in July 2015, which incorporates an integrated dental clinic within the AHMS building.

The AHMS building has 14 floors and a total budgeted cost of $246 million. Construction commenced in August 2014 with completion achieved in 2017.

The total capital expenditure on the building up to 31 December 2016 was $221 million.

The building project has been funded in part by the $60 million capital grant received from the Australian Government in June 2013. The balance has been funded by Uni Adelaide by a reduction in assets, including the disposal of non-current assets held for sale, and an increase in borrowings.

Liabilities

The value of Uni Adelaide's liabilities increased by $17 million (5%). The major items causing this change were:

- an increase in borrowings of $16 million to fund capital projects
- an increase in payables of $5 million due mainly to amounts payable for the construction of the AHMS building.

Statement of Cash Flows

Total cash and cash equivalents at 31 December 2016 were $42 million ($54 million). The $12 million decrease was impacted by significant movements in Uni Adelaide's investing and financing activities, both driven by the construction and acquisition of new property, plant and equipment.

Cash flows from operating activities decreased by $9 million, due mainly to a $17 million increase in cash receipts from fee paying students, a $10 million decrease in consultancy and contract research receipts and a $17 million increase in salary and wage related payments.

University of South Australia (UniSA)

Financial statistics	Operating result before income tax:	$40.397 million
	Australian Government financial assistance:	$396 million
	Number of FTEs:	2 492
	Number of students (EFTSLs):	22 268

Significant events and transactions

- Construction of the Health Innovation Building continued with $98 million spent in total at 31 December 2016.
- Construction of Pridham Hall also continued, with $18 million spent as at 31 December 2016.
- A revaluation of land, buildings and infrastructure resulted in a $50.994 million increase in their value.

Financial report opinion

Modified

UniSA recognised $25 million of unspent funding as a liability for the year ended 31 December 2016. These funds represent contributions and meet the recognition criteria of income under Australian Accounting Standard AASB 1004 ‘Contributions’ and Accounting Policy Framework V ‘Income Framework’. UniSA controls these funds upon receipt and it is highly unlikely that these funds will be repaid.

Financial controls opinion

Modified

Key issues:

- Improvements required to contract management processes and recording
- No requirement for all non-online payments to be checked against authorisations
- No independent review over changes to the Vice-Chancellor authorisations master list
- Inadequate review of student revenue system user access for users with critical roles
- Management of excessive annual leave balances could be improved
- Lack of review of casual employee payments for pre-filled timesheets

Functional responsibility

UniSA is established under the *University of South Australia Act 1990*.

The main functions of UniSA are to provide tertiary education programs, preserve, extend and disseminate knowledge through teaching, research, scholarship and consultancy and to provide educational programs for the benefit of the wider community or the enhancement of its cultural life.

Scope of audit

The audit program covered major financial systems to obtain sufficient evidence to form an opinion on the financial report and internal controls.

During 2016 areas reviewed included:

- governance arrangements
- cash and investments
- receipting and banking
- general ledger and financial accounting
- student revenue
- research and consultancy revenue
- Commonwealth financial assistance
- payroll
- expenditure
- property, plant and equipment
- major capital works.

Internal audit activities were reviewed to assess the risk of material misstatement in the financial report and to inform the design of audit procedures.

The audits of the controlled entities for the year ending 31 December 2016 were carried out by a private accounting firm.

Audit findings and comments

Auditor's report on the financial report

The following is an extract from the 2016 Independent Auditor's Report that outlines the qualification of UniSA's financial report.

> ***Qualified Opinion***
>
> *In my opinion, except for the effects of the matter described in the Basis for qualified opinion section of my report, the accompanying financial report gives a true and fair view of the financial position of the University of South Australia and its controlled entities as at 31 December 2016, their financial performance and their cash flows for the year then ended in accordance with the Treasurer's Instructions promulgated under the provisions of the* Public Finance and Audit Act 1987*, the* Higher Education Support Act 2003 *and Australian Accounting Standards.*

Basis for Qualified Opinion

The University and its controlled entities have recognised $25 million of unspent funding as a liability for the year ended 31 December 2016. These amounts have been accounted for as income received in advance and included in 'Other Liabilities - Commonwealth and State Government Grants', 'Other Liabilities - Income in advance on incomplete projects' and 'Other Liabilities - Other' in note 25 to the financial report. The University has disclosed its accounting treatment of these funds in note 1(d) to the financial report.

The funds represent contributions and meet the recognition criteria of income in accordance with Accounting Standard AASB 1004 Contributions and Accounting Policy Framework V Income Framework. The University controls these funds upon receipt and it is highly probable that any unspent funds will be spent in accordance with stipulated conditions. It is highly unlikely that unspent funds will need to be repaid to the granting bodies and as such funds should be recognised as income at the time of receipt.

As a result, the following has been misstated in the 2016 financial report:

- *the revenue recognised as Australian Government grants is overstated by $3.7 million ($6.8 million overstated in 2015)*
- *the revenue recognised as State and Local Government financial assistance is understated by $2.6 million ($72 000 overstated in 2015)*
- *the revenue recognised as Consultancy and contract research is understated by $202 000 ($2 million overstated in 2015)*
- *Operating results attributable to members of University of South Australia is overstated by $893 000 ($8.9 million overstated in 2015)*
- *Other liabilities is overstated by $25 million ($25.9 million overstated in 2015)*
- *Closing retained earnings is understated by $25 million ($25.9 million understated in 2015).*

Assessment of controls

In my opinion, the controls exercised by the University of South Australia in relation to the receipt, expenditure and investment of money, the acquisition and disposal of property and the incurring of liabilities, except for all matters outlined under 'Communication of audit matters', are sufficient to provide reasonable assurance that the financial transactions of the University of South Australia have been conducted properly and in accordance with law.

Communication of audit matters

Matters identified by the audit were detailed in management letters to the Vice-Chancellor and President and those charged with governance. The main matters raised and the related responses are detailed below.

Grant funding

Consistent with prior years UniSA has recognised a liability for unspent grant funding as at 31 December 2016. As mentioned in the 'Auditor's report on the financial report' under the 'Basis for qualified opinion', under AASB 1004 these grants should be recognised as revenue in the year of receipt.

Contract management

Improvements required to contract management processes and recording

We have previously identified inconsistent approaches to contract management and the lack of central procedures governing UniSA's contract management system.

In 2016 we reviewed the implementation of UniSA's established framework and guidelines for contract management and we found:

- there was no procedure for monitoring, reporting and updating contract registers
- there was no process to ensure all contracts meeting the framework thresholds were recorded
- key performance indicators detailed in the framework were not monitored or reported in the system
- duplicate registers were in use as the main system was unable to track milestones or monitor contracted spend
- there were differing vendor codes between the accounts payable system and the contract management system, making it difficult to cross-reference information.

UniSA's response outlined that:

- it would implement a process to ensure qualifying contracts were recorded in the system and to ensure the records were accurate and up to date
- the system was not capable of readily tracking milestones and contract spend
- potential system changes would be explored with the software vendor to redevelop the system to allow for comparison with the accounts payable system.

Expenditure

No requirement for all non-online payments to be checked against authorisations

Consistent with our findings in previous years, we found UniSA did not ensure all non-online payments under $10 000 were appropriately authorised prior to payment. These items continued to be reviewed for appropriate authorisation on a sample basis. We noted there were still a number of large payments processed outside of the online invoice approval workflow system.

In the absence of appropriate verification processes, payments may be made without approval from an appropriate delegate.

UniSA responded that a new workflowed payment request form was implemented since the audit. In addition, UniSA advised it would assess on a case-by-case basis the feasibility of migrating remaining low-volume low value payments to workflowed forms.

No independent review over changes to the Vice-Chancellor authorisations master list

We have previously identified a risk of incorrect changes being made to the Vice-Chancellor authorisations (VCAs) master list. This information is the basis of system delegations used to approve invoices. We noted there remained no independent review of changes in 2016. While an annual review process which is in place may identify these errors, there was still an opportunity for errors to exist in the system.

UniSA's response indicated work was progressing to introduce a workflow solution in 2017 that would eliminate any VCA data entry risks.

Student revenue

Inadequate review of student revenue system user access for users with critical roles

UniSA implemented an annual review of student administration system users. Our review of this process identified a number of users with the ability to create students and enrolments, which may lead to inappropriately raised revenue. While we understand the business reasons for the access levels given, we consider a review process over the use of this access should be established.

UniSA advised that Student and Academic Services would document and implement a spot checking process to validate the use of the roles.

Payroll

Management of excessive annual leave balances could be improved

For a number of years, we have noted a high number of staff with excessive annual leave balances. This was still the case in 2016. UniSA implemented processes to reduce leave balances but our analysis identified that the number of employees with excess balances increased from 204 in 2015 to 252 in November 2016.

Continuing increases in employees with excessive annual leave balances may indicate that not all leave taken is being recorded. We also noted a potential increased risk of workers compensation claims where individual staff members have not taken recreation leave and had a sufficient break from their workplace.

UniSA's response outlined its forward plans to help manage excessive leave. In particular, it is developing a dashboard for senior managers to track the performance of a range of people indicators, including excessive leave. UniSA believes that this will help to identify the drivers of excess leave balances.

Lack of review of casual employee payments for pre-filled timesheets

Where casual employees had a pre-filled timesheet, which includes information about work hours already recorded in the casual payroll system, timesheets were not reviewed prior to payment. Cost Centre Managers reviewed a report of payments made for all casual staff prior to December 2016 when the process was discontinued. As a result there was a risk of unauthorised rates and payments for casual staff.

UniSA responded that the controls for ensuring the accuracy of payments was part of the scope for the future implementation review of the system.

Interpretation and analysis of the financial report

Highlights of the financial report

	2016 $'million	2015 $'million
Income		
Australian Government grants	265	260
HECS-HELP, FEE-HELP and SA-HELP (Australian Government payments)	130	127
HECS-HELP (student payments)	11	12
Fees and charges	133	120
Other	70	89
Total income	609	608
Expenses		
Employee related expenses	357	350
Other expenses	212	202
Total expenses	569	552
Operating result before income tax	40	56
Net cash provided by (used in) operating activities	75	65
Net cash provided by (used in) investing activities	(100)	(39)
Assets		
Current assets	400	418
Non-current assets	1 370	1 255
Total assets	1 770	1 673
Liabilities		
Current liabilities	182	172
Non-current liabilities	414	430
Total liabilities	596	602
Total equity	1 174	1 071

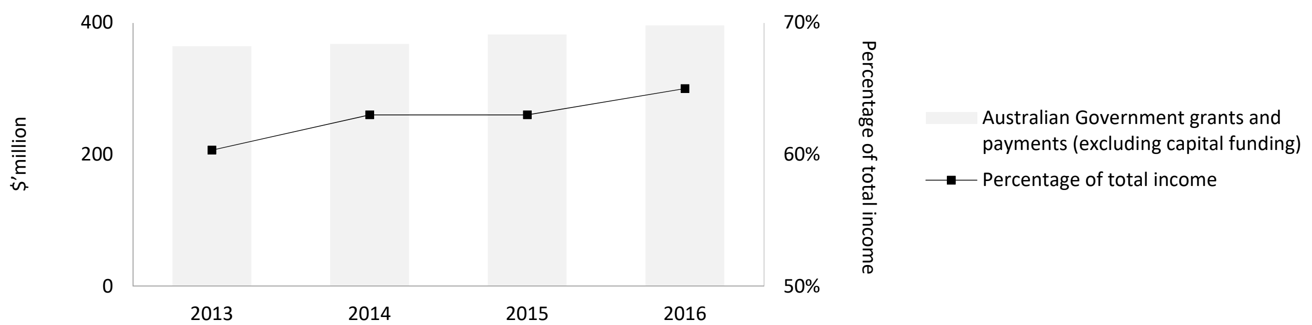
Statement of Comprehensive Income

Income

UniSA's total income remained stable in 2016.

Australian Government grants and payments

Total Australian Government financial assistance provided to UniSA (excluding capital funding) is shown in the chart below. This highlights that UniSA's reliance on Australian Government financial assistance, excluding capital funding, has remained relatively consistent over the four years. This year's increase is attributable to the efficiency dividend payments for 2015 and 2016, received in 2016.



Australian Government grants increased by $5 million in 2016 to $265 million, as a result of:

- an increase in Commonwealth Grants Scheme and other grants of $10.7 million from the increase in the prior year's efficiency dividend received of $2.3 million, the reinstatement of the current year's efficiency dividend, indexation of 1.7% and an increase in Commonwealth supported students
- a $4.8 million decrease in capital funding from the Education Investment Fund.

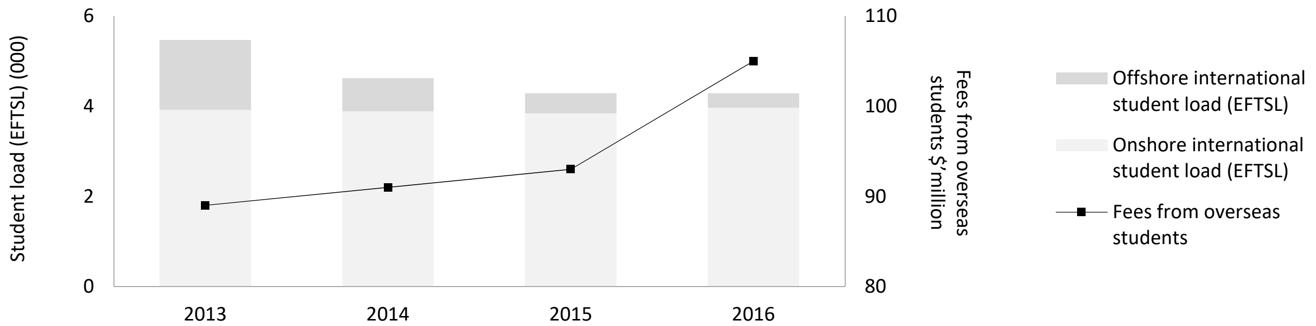
HECS-HELP, FEE-HELP and SA-HELP income increased by $3 million (2%) to $130 million in 2016. This was mainly as a result of indexation of 1.7% and a favourable cluster mix in 2016.

Fees and charges

Fees and charges increased by $13 million in 2016 to $133 million. This increase is attributable to a significant increase of $11.6 million for fee-paying overseas students in 2016 as a result of fee increases. The remaining increase was from an overall upwards trend in non-course fees and charges.

The main component of fees and charges is fee-paying overseas students (79%). Revenue from fee-paying overseas students represents 17% of total revenue.

The following chart shows that the fee-paying overseas student load remained stable in 2016. Fee revenue from international students increased by $11.6 million in 2016 following an 11% price increase to these fees and the introduction of indexation for overseas student fees.



Source: Student numbers, which are based on equivalent full-time student load (EFTSL), were obtained from UniSA's annual reports and are unaudited figures.

The table below illustrates the student load remained stable in 2016.

	2016 Number	2015 Number	2014 Number	2013 Number
Domestic students	17 984	17 976	17 877	17 738
Overseas students	4 284	4 288	4 618	5 467
Total students (EFTSL)	22 268	22 264	22 495	23 205

Source: Student numbers, which are based on EFTSL, were obtained from UniSA's annual reports and are unaudited figures.

Other revenue

Other revenue decreased by $19 million to $70 million in 2016 largely from:

- the once-off gain on disposal of property, plant and equipment of $10.8 million, which included the sale of the Reid Building in 2015

- a decrease in State and Local Government financial assistance of $5.9 million as a result of the 2015 $5.5 million grant from the SA Government for a contribution to the Health Innovation Building (HIB) project and an overall decrease of non-capital grants in 2016

- the decrease in investment revenue of $2.4 million due to a reduction in dividends, distributions and interest revenue.

Expenses

Total expenses increased by $17 million (3%) to $569 million in 2016.

The split between employee expenses (63%) and other expenses (37%) remained stable in 2016.

Employee expenses

UniSA's main expense is employee related expenses which increased by $7 million (2%) to $357 million in 2016. The increase was a result of enterprise agreement increases offset by a slight decrease in employees.

The following table shows a breakdown of staff FTE numbers between academic and non-academic staff, along with the percentage of total staff classified as academic since 2013. There was a decrease in overall staff numbers in 2016.

	2016 FTEs	2015 FTEs	2014 FTEs	2013 FTEs
Academic	1 061	1 126	1 127	1 110
Non-academic	1 431	1 470	1 515	1 509
Total FTEs	2 492	2 596	2 642	2 619
Percentage of academic staff	43%	43%	43%	42%

Source: Staff numbers, which are based on FTEs, were obtained from UniSA's annual report and are unaudited figures.

Other expenses

The total of other expenses increased by $10 million to $212 million. The main components of this change were:

- an increase of $1.1 million in repairs and maintenance expense

- an overall increase of $8 million in other expenses mainly from the new fee for service arrangement for UniSA's flight school, additional contributions made to Cooperative Research Centres and an increase in third party (non-consultant) services.

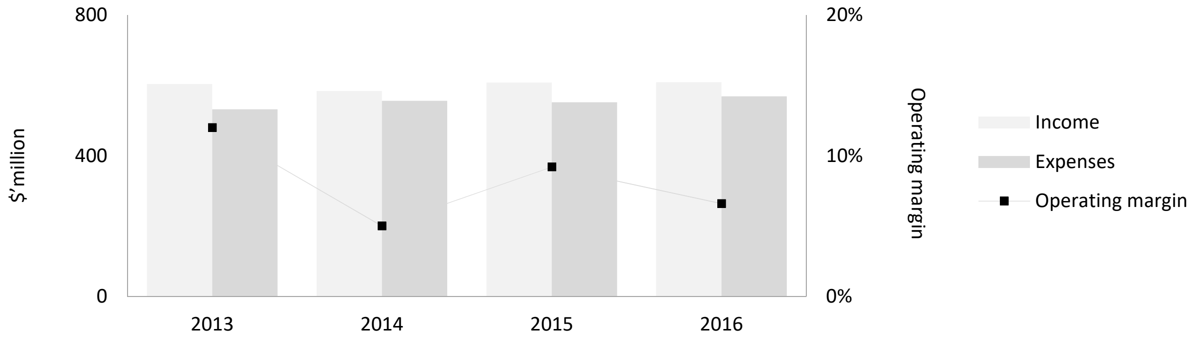
Operating result

The consolidated operating result before income tax for the year was a surplus of $40 million ($56 million). As mentioned in the analysis above, the decrease is mainly due to:

- the 2015 once-off $10.8 million gain on disposal of property, plant and equipment, including the sale of the Reid Building

- overall increases in income, in particular Australian Government grants, HECS-HELP Australian Government payments and fees and charges
- the increase in total expenditure of $17 million.

The following chart shows the movement in income, expenses and the operating margin for the last four years. The fluctuation of the operating margin is due to once-off receipts in both 2013 and 2015.

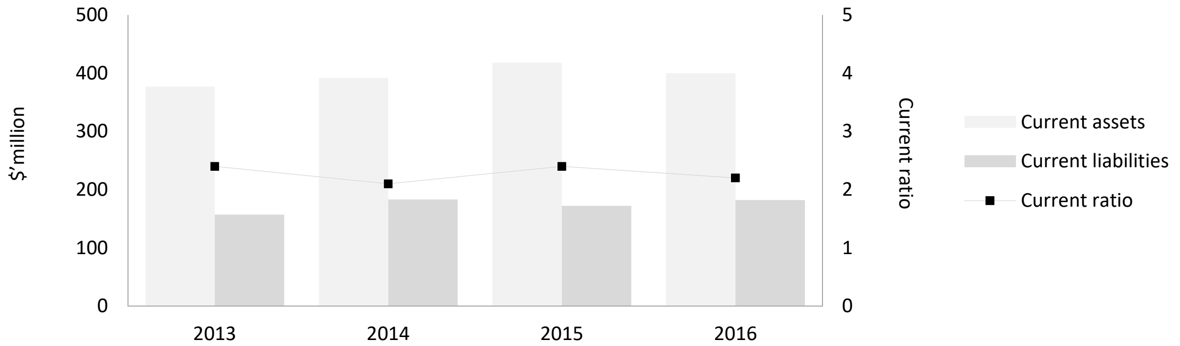


UniSA's operating margin (the operating result as a percentage of total income) decreased to 6.6% in 2016, resulting mainly from the once-off $10.8 million gain on disposal of property, plant and equipment in 2015 and an overall increase in student related revenue.

Statement of Financial Position

UniSA's net assets at 31 December 2016 were $1174 million ($1071 million).

The following chart shows UniSA's current ratio has remained stable for the four years to 2016. As at 31 December 2016 current assets exceeded current liabilities by $218 million.



Assets

Cash and cash equivalents

As at 31 December 2015 UniSA's cash and cash equivalents totalled $318 million compared to $343 million in 2015. This balance will continue to decrease over the coming year as a result of UniSA's significant capital program.

Property, plant and equipment

The main component of UniSA's Statement of Financial Position is property, plant and equipment, representing 53% of total assets. The carrying value of property, plant and equipment increased by $122 million to $930 million due mainly to:

- asset additions of $107 million, predominantly for construction in progress
- revaluation increases of $51 million mainly for land and buildings.

These increases were offset by depreciation charges of $32 million and other adjustments totalling $4.6 million.

Capital program

UniSA has a significant ongoing capital investment program. The major active capital projects in 2016 were:

- the construction of the HIB continued, with $98 million of the total budget of more than $230 million spent as at 31 December 2016

- construction of Pridham Hall continued, with $18 million of the $50 million budget spent as at 31 December 2016.

Liabilities

UniSA's liabilities decreased by $6 million to $596 million in 2016. The significant components of UniSA's liabilities contributing to this were:

- defined benefit superannuation obligations, which decreased by $18 million to $430 million as a result of increased investment returns and a decrease in the discount rate of 0.1%

- provisions for employee liabilities, which increased by $4.5 million to $72 million in 2016. The provisions are predominantly for annual and long service leave liabilities (98%) and these increased mainly from the higher accrued leave balances and enterprise agreement increases to salaries

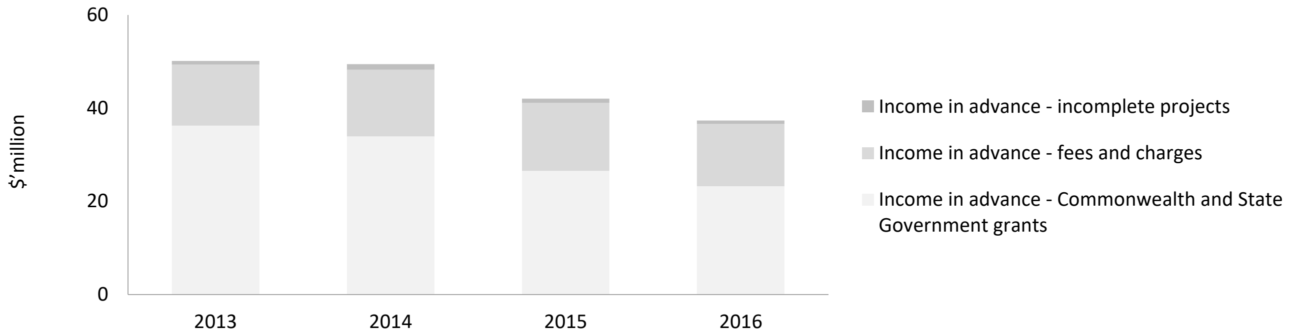
- trade and other payables of $50.6 million in 2016, which was a $12.9 million (34%) increase from last year. This is due to a $9 million increase to accrued payables mostly for the significant capital works completed but not invoiced and an increase in unpaid invoices at year's end

- other liabilities, predominantly for income received in advance which is explained below.

Income in advance

The following chart shows the breakdown of income received in advance recorded in other liabilities. These liabilities represent the deferral of the income into future reporting periods based on UniSA's income recognition policies (refer to the qualification of other liabilities for the revenue deferral as outlined in the 'Auditor's report on the financial report' and note 1(d) of the financial report).

Since 2013 there has been an overall decrease in income in advance amounts. The main decrease is to the Commonwealth and State Government income due to less research grants received and deferred by UniSA.



Statement of Cash Flows

The net cash flows provided by operating activities increased by $10 million due mainly to increases in Australian Government grants received and receipts from student fees and other customers.

Net cash used in investing activities increased by $61 million as a result of increased payments for major capital works projects for the HIB and Pridham Hall, partially offset by the once-off proceeds received from the sale of the Reid Building in 2015.

Urban Renewal Authority (URA)

Financial statistics	Sales:	$70 million
	Cost of sales:	$37 million
	Loss before income tax equivalent:	$19 million
	Inventories and investment properties:	$1034 million
	Borrowings:	$911 million
	Number of FTEs:	304.3
	Hectares of land inventory:	3887

Significant events and transactions

- The URA purchased a portfolio of TAFE SA properties from the Department of State Development on 1 March 2017 for $619 million. The purchase was funded through new borrowings of $400 million and equity contributions of $219 million provided by the SA Government.
- The Minister for Housing and Urban Development issued a direction to address a 2015 recommendation by the Independent Commissioner Against Corruption to clarify the reporting relationship, reporting requirements and decision-making responsibility between the Chief Executive, the Board and the Minister.

Financial report opinion

Unmodified

Financial controls opinion

Modified

- The URA does not have a final, approved ownership framework

Functional responsibility

The URA is established by the *Urban Renewal Act 1995*.

The URA is responsible for leading and coordinating urban renewal activity to ensure future housing needs are met through better planned, affordable and vibrant mixed use (residential and commercial) urban developments located near transport, employment, education and other services.

Note 1 of the financial report explains the functions and objectives of the URA.

The trading name of the URA is Renewal SA. The URA is a for-profit entity under Accounting Policy Framework II 'General Purpose Financial Statements Framework'.

Urban renewal program

The URA conducts its urban renewal program through a series of development projects. Its major development projects are currently Playford Alive, Tonsley Park, Woodville West and Bowden. A separate business plan is prepared for each major development project and progress against the plan monitored. Refer to 'Major development projects' below for further commentary on these projects.

Scope of audit

The 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 2016-17 included:

- corporate governance
- project, procurement and contract management
- land sales
- property income
- expenditure
- payroll
- inventory.

Internal audit activities were reviewed to assess the risks of material misstatement in the financial report and to design and perform audit procedures.

Audit findings and comments

Assessment of controls

In my opinion, the controls exercised by the Urban Renewal Authority in relation to the receipt, expenditure and investment of money, the acquisition and disposal of property and the incurring of liabilities, except for the matter raised in relation to finalising and approving the ownership framework as outlined under 'Communication of audit matters', are sufficient to provide reasonable assurance that the financial transactions of the Urban Renewal Authority have been conducted properly and in accordance with law.

Communication of audit matters

Matters identified by the audit were detailed in a management letter to the Chief Executive. The main matters raised and related responses are detailed below.

Finalising and approving the ownership framework

The URA has not had an ownership framework since it was established in 2012. The purpose of an ownership framework is to establish principles for the funding and financing of government business in terms of community service obligations, dividends and capital structure. Clarity over these principles will support the URA's strategic planning.

We have recommended in prior years that the URA finalise the framework as soon as possible and liaise with the Minister and Treasurer to have it formally approved.

The URA's Performance Statement details its expected community service obligations, dividends and capital structure for the next four years. Finalising the ownership framework is necessary to ensure there is clarity about how the URA is funded by the government and finances its activities.

The URA advised that the essential elements of an ownership framework have been agreed between the URA and the Department of Treasury and Finance (DTF) and have been operational for some time. The URA is working with DTF to finalise an ownership framework and it is expected to be presented to the Board, Minister and Treasurer for consideration before January 2018.

Progress against strategic plan and key performance indicators (KPIs) not reported regularly to the URA Board

We noted that progress against the Renewal SA Strategic Plan 2015-17 was not reported regularly to the URA Board in 2016-17. The only progress report was provided in March 2017. The strategic plan contains objectives and KPIs and also incorporates programs delivered on behalf of other agencies including the South Australian Housing Trust (SAHT) and the Riverbank Authority.

Regular reporting to the URA Board on progress against the strategic plan and KPIs is important to ensure the URA Board effectively discharges its responsibility for overseeing management's performance in achieving the URA's strategic objectives.

Although there was no regular reporting against the strategic plan and KPIs, we did see that there was reporting to the URA Board on the status of individual programs and projects, including those being delivered on behalf of other agencies such as the redevelopment of the Festival Plaza and old Royal Adelaide Hospital site.

We recommended that the URA Board receive regular progress reports against the strategic plan and KPIs. The URA advised that this will be implemented.

Other comments

Direction from Minister

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

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

Interpretation and analysis of the financial report

Highlights of the financial report

	2017 $'million	2016 $'million
Income		
Sales	71	58
Cost of sales	(37)	(29)
Revenues from government	7	9
Property income	43	26
Other revenues	23	23
Total income	107	87
Expenses		
Employee benefits expenses	31	32
Operating expenditure, depreciation and amortisation	46	49
Borrowing costs	28	16
Loss resulting from changes in value of non-current assets	21	143
Total expense	126	240
Profit (Loss) before income tax equivalent	(19)	(153)
Total comprehensive result	(19)	(153)
Net cash provided by (used in) operating activities	31	(17)
Net cash provided by (used in) investing activities	(642)	(9)
Net cash provided by (used in) financing activities	504	127
Assets		
Current assets	93	208
Non-current assets	976	390
Total assets	1 069	597
Liabilities		
Current liabilities	193	160
Non-current liabilities	761	415
Total liabilities	954	576
Total equity	115	22

* Table may not add due to rounding

Statement of Comprehensive Income

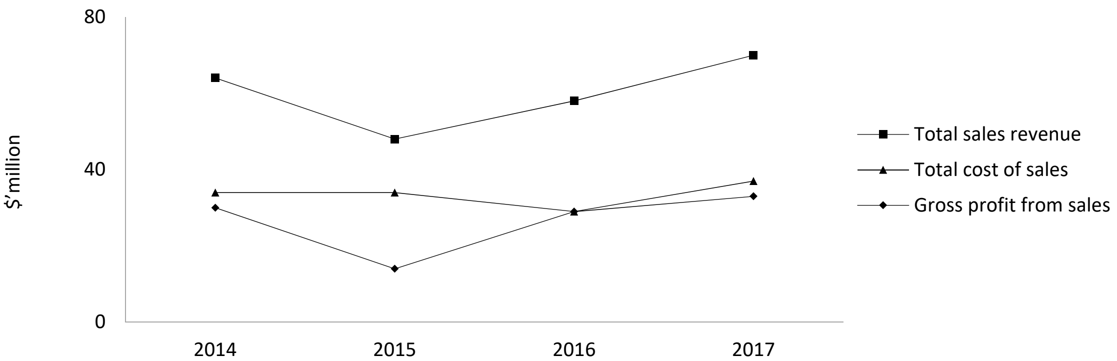
Income

Income increased by $20 million to $107 million due mainly to:

- gross profit from land sales increasing by $5 million to $34 million, reflecting $13 million more in sales and an $8 million increase in the cost of sales. This is due mostly to sales of land to SA Government entities increasing by $15 million to $21 million, including Dry Creek land sold to the Department of Planning, Transport and Infrastructure for $13 million and land sold to Defence SA for $4 million

- property income increasing by $17 million to $43 million due mainly to rental income from TAFE SA properties purchased from the Department of State Development (DSD) on 1 March 2017.

The following chart shows total land sales and cost of sales for the four years to 2017.



Sales had been trending downward before 2016, while cost of sales has remained relatively constant. This showed the impact of moving away from high profit margin englobo land sales to undertaking lower profit margin development projects. Sales trended upwards in 2016 and 2017. Profit margins increased in 2016 and remained consistent in 2017, due mostly to selling land with a low historical cost base.

Expenses

Expenses decreased by $114 million to $126 million due mostly to:

- losses from write-downs of non-current assets reducing by $122 million to $21 million. The write-down in 2017 comprised:

  - $2 million ($137 million) of write-downs of inventories to the lower of cost or net realisable value based on a mixture of independent and internal valuations as at 30 June 2017

  - an $18 million ($6 million) reduction in the fair value of investment properties based on independent valuations performed as at 30 June 2017

- borrowing costs increasing by $12 million to $28 million due mainly to new borrowings of $400 million to partly fund the purchase of TAFE SA properties and a $5 million reduction in borrowing costs capitalised due to lower inventory balances compared to 2016. Borrowing costs are only capitalised on inventory that is under development and not yet ready for sale.

Dividend

Under section 26 of the *Urban Renewal Act 1995*, the URA is required to recommend to the Minister for Housing and Urban Development whether a dividend will be paid each financial year. Due to the loss before income tax equivalents the URA did not pay an annual dividend in 2017.

While it did not pay a dividend, the URA is required to declare a dividend of 100% of the profit relating to the Adelaide Station and Environs Redevelopment (ASER) site under the requirements of the Cabinet decision to transfer the site from the Department of Planning, Transport and Infrastructure to the URA effective 30 June 2013.

The Minister approved an ASER dividend payment of $2 million for 2017. The dividend payment of $7 million in 2016 included two prior years of ASER dividends.

Statement of Financial Position

Assets

Total assets increased by $472 million to $1069 million, reflecting increases of $573 million in investment properties and $8 million in inventories, offset by a $106 million decrease in cash.

Investment properties

The URA holds significant investment properties. Their value increased by $573 million to $720 million in 2017. The increase was due mainly to:

- the purchase of TAFE SA properties from DSD on 1 March 2017 for $619 million including stamp duty of $24 million. The purchase price was based on an independent valuation. The purchase was funded through new borrowings and $219 million of equity contributions from the SA Government provided for this purpose

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

- a $28 million decrease resulting from the disposal of investment properties. Proceeds from these disposals were $33 million and mainly related to the sale of an office building in Mawson Lakes.

Inventories increased in value

The URA's primary activities involve holding and developing land inventory for sale. The value of this inventory increased by $8 million to $314 million due mainly to the following:

- Inventory additions:
  - $53 million ($52 million) in capitalised development costs including direct materials, salaries, land tax and borrowing costs where those costs are directly attributable to land currently under development. These costs are then recognised as part of cost of sales when inventories are sold
  - $1 million ($22 million) of land acquisition costs.
- Inventory reductions:
  - a $2 million ($137 million) write-down of inventory to net realisable value
  - $7 million ($21 million) of community service obligations. These obligations, which are funded by the SA Government, are non-commercial in nature and do not increase the likely sales value of inventory. Community service obligations reduced by $14 million due mainly to a one-off amount of $12 million provided by the SA Government in 2016 to construct extra capacity for company tenancies at Tonsley
  - $37 million ($29 million) of inventory was 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 the URA's intended use of the inventories. The URA has grouped its inventories into the following two classes:

- land held for sale requiring low capital investment. The URA intends to release this land for sale based on market conditions. As at 30 June 2017 the value of land in this class was $209 million ($224 million)
- 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 payments to partly fund the projects. As at 30 June 2017 the development projects were valued at $105 million ($82 million).

In 2016, the URA wrote its inventory down by $137 million. The significant write-down related mostly to changes in the URA's cash flow models used to determine the net realisable value of development projects. Importantly, these changes included reductions in revenue forecasts that occurred when the URA reassessed the likely outcomes of its business strategies for these projects. The revised revenue forecasts took into account the prevailing challenging market conditions and the extent to which the conditions were expected to continue into the future. In response, the URA modified its business strategies for some development projects to lower future costs. However, the URA considered its revised strategies would be insufficient to fully recover the past costs of some projects, and subsequently wrote them down.

In 2017, the URA wrote its inventory down by a further $2 million. This comprised an $18 million write-down due mainly to $11 million in higher remediation requirements for the Port Adelaide Waterfront, partially offset by past write-downs of $15 million that were reversed, including a $4 million reversal for Osborne North and a $3 million reversal for Bowden.

The following table shows the inventory and investment property write-downs and reversals that have occurred over the last three years.

Inventory	Write-downs (reversals) 2015 $'million	2016 $'million	2017 $'million	Carrying amount 30.06.17 $'million	Land area 30.06.17 Hectares
Development projects:					
Tonsley Park	18	54	(2)	53	53
Playford Alive	-	52	-	5	323
Bowden Urban Village	-	17	(3)	28	12
Woodville West	-	5	0.5	19	5
Land held for sale	56	9	7	209	3 264
Total inventory	74	137	2	314	3 657
Investment property	23	6	18	720	230
Total inventory and investment property	97	143	21	1 034	3 887

* Table may not add due to rounding

The table highlights the impact of the URA's sales forecasts and capitalisation policy on the carrying amount of long-term development projects and their net realisable value. Significant land tax and other holding costs are included in the determination of their net realisable value. Longer development periods result in higher holding costs and lower net realisable value. This is particularly evident for Playford Alive where the project is expected to end in 2025-26. After the $52 million write-down in 2016, the project, which had a land area of 331 hectares, had a carrying amount of $5 million, due to the level of investment required and the extended period over which revenue is expected to be realised.

Measuring net realisable value involves estimating

Measuring the net realisable value of land held for sale is determined by the URA using independent valuations of current market value less selling costs. Measuring the net realisable value of large development projects is more complex. For these projects the URA determines net realisable value by estimating the future net cash flows of the projects (before interest) and discounting the cash flows back to present values. The URA applied a discount rate that reflects its financing costs and was adjusted for risk. The estimated cash flows were based on the amount and timing of sales and development costs, which for some projects extend many years into the future. The URA estimated when the development of each land parcel under current strategies will be completed and its market price once developed, and also estimated the development costs taking into account inflation.

Inventory is valued at lower of cost and net realisable value

AASB 102 requires that inventory be measured at the lower of cost and net realisable value. Net realisable value refers to the net amount that an entity expects to realise from the sale of inventory in the ordinary course of business. For the URA the ordinary course of business reflects the SA Government's approved plans for major development projects. Fair value reflects the price an orderly transaction to sell the same inventory, in the principal (or most advantageous) market for that inventory, would realise between market participants. The former is an entity-specific value, the latter is not. Net realisable value may not equal fair value less costs to sell.

If net realisable value is lower than cost, the URA is obliged to write down the value to net realisable value.

The URA does not, and is not required to, disclose the fair value of its inventory. The URA's inventories have a carrying amount of $314 million, which may be less than their fair value.

Where the URA has determined that the net realisable value of inventory exceeds its carrying amount (cost) it has not disclosed the net realisable value of the inventory. This disclosure is not required by AASB 102. The URA's land held for sale has a carrying amount of $209 million.

Liabilities

Total liabilities increased by $378 million to $954 million. The increase in liabilities was due mainly to a $392 million increase in borrowings partially offset by a $21 million reduction in the provision for land acquisition costs.

Borrowings of $911 million ($519 million) comprise 95% (90%) of total liabilities. New borrowings of $400 million were undertaken to partly fund the purchase of TAFE SA properties. Other borrowings are primarily required to fund capital development costs for inventories and operating expenditure. Refer to 'Borrowings, liquidity and review of asset holdings' below for further commentary on debt management.

Statement of Cash Flows

Net cash provided by operating activities increased by $48 million due mostly to an increase of $55 million in GST recovered from the ATO (due mostly to GST on the purchase of TAFE SA properties) and a $30 million increase in receipts from tenants (due mostly to rent from TAFE SA properties). These increases were partially offset by a $28 million increase in payments for land purchases, including $21 million recognised as a provision for land acquisition cost in 2016.

Net cash used in investing activities increased by $632 million to $642 million, reflecting the purchase of TAFE SA properties for $619 million plus GST of $59 million, partially offset by $33 million in proceeds from the sale of investment properties.

Net cash provided by financing activities increased by $377 million to $504 million, again reflecting new borrowings of $400 million to partly fund the purchase of TAFE SA properties.

Further commentary on operations

Provision of services to SAHT

On 8 December 2014, Cabinet approved a strategy to progressively replace ageing SAHT owned housing with new social housing dwellings that better meet contemporary social housing needs. The SAHT and the URA have entered into a service level administrative arrangement to reflect the financial, asset management and not-for-profit community housing sector services provided by the URA.

To enable the URA to manage the services it provides to the SAHT under the service level administrative arrangement, 130 employees were transferred from the Department for Communities and Social Inclusion to the URA on 5 February 2015. The salary costs and leave entitlements of the transferred employees and corresponding recharges of these costs back to the SAHT are reflected in the URA's financial report. All costs associated with the SAHT capital program, including the construction of new social housing dwellings, continue to be reflected in the SAHT's financial report.

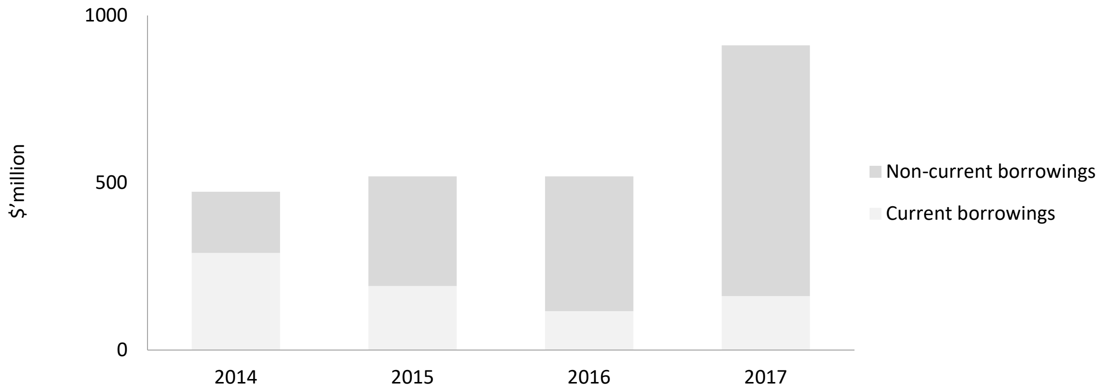
Provision of administrative support to the Riverbank Authority

The Riverbank Authority was established by the Housing and Urban Development (Administrative Arrangements) (Riverbank Authority) Regulations 2014 on 13 February 2014. It has a Board of Management but does not have any employees. All the administrative support functions for the Board are provided by employees of the URA under a service level administrative arrangement.

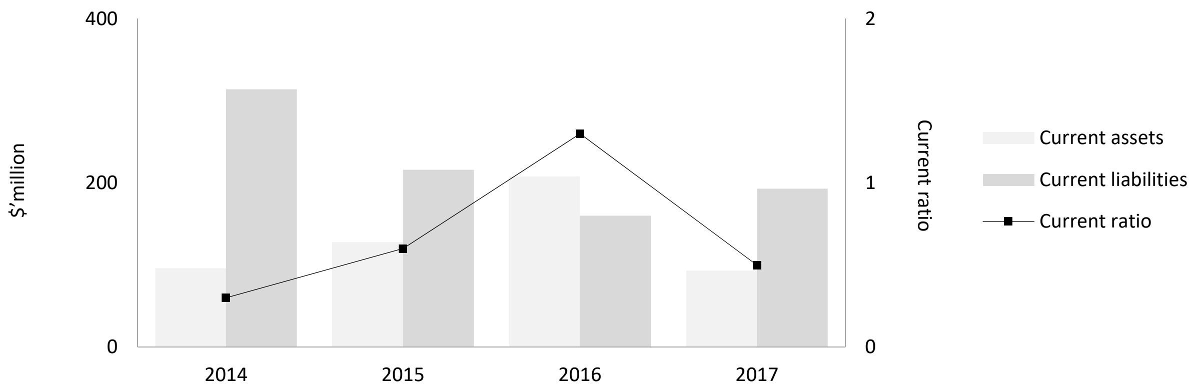
Borrowings and liquidity

The URA's borrowings from the South Australian Government Financing Authority (SAFA) at 30 June 2017 were $911 million and include $400 million of new borrowings undertaken in 2017 to partly fund the purchase of TAFE SA properties from DSD. The borrowings also include debt incurred by the former Land Management Corporation and borrowings incurred on the establishment of the URA to fund asset transfers from Defence SA and the SAHT. The URA has also borrowed from SAFA to fund land developments and operating expenditure. The URA's 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 loans.

The chart below shows the impact of the new borrowings in 2017.



The chart below shows the trend in the URA's liquidity measured by the ratio of current assets to current liabilities.



Current liabilities exceeded current assets in all years except 2016 when the SA Government provided the URA with a $135 million equity contribution. This increased the cash held by the URA at 30 June 2016 and its liquidity. The $135 million was used in 2017 to partly fund the purchase of TAFE SA properties. The improved liquidity was therefore temporary. In future years, the rental income from TAFE SA properties should gradually improve the URA's liquidity position.

Debt management, financial sustainability and purchase of TAFE SA properties

DTF requires the URA to adopt a core debt management facility approach, consistent with other public non-financial corporations. This requires approval by the Minister and Treasurer of an annual debt ceiling. In June 2016, the Minister and Treasurer approved that the core debt facility be increased by $390 million to $930 million for 2016-17 with the continuation of a $50 million working capital facility. The additional borrowings, together with equity contributions from the SA Government of $219 million, were used to buy TAFE SA properties. The Minister and Treasurer anticipate that the TAFE SA properties will provide a longer term commercial revenue stream for the URA and enable the debt to asset ratio to remain at prudent levels.

When the Minister approved the previous $540 million core debt facility in May 2015 he indicated that no further increases to the debt ceiling would be approved and that the URA must develop a plan to become financially sustainable.

In response the URA, in collaboration with the Minister and DTF, reviewed its capital structure and business model to ensure they were financially sustainable. The review included obtaining expert independent advice in July 2015 on the value and marketability of the URA's entire land portfolio to help formulate an achievable land sales strategy to improve the URA's financial position.

The review resulted in the URA writing down its inventory and investment properties by $97 million in 2015. The write-down was mostly due to the value of industrial land falling significantly since the values used on the transfer from Defence SA in 2012. The review also led to further analysis of the major development projects being performed in 2016, resulting in revised development strategies to improve the financial outcomes of the Playford Alive and Woodville West projects. In addition to this review, the URA, in collaboration with DSD and DTF, conducted a separate review of the Tonsley project, resulting in revised development strategies to improve its financial outcomes. The revised development strategies have been taken into account in determining the net realisable value of the major development projects as at 30 June 2016 and 30 June 2017.

Status of major development projects

Playford Alive

The Playford Alive inventory is valued at $5 million. In 2016 the inventory was written down by $52 million to $7 million. No further write-downs were required in 2017.

The Playford Alive project was approved by Cabinet in February 2006. The project involves the physical and community renewal of the existing suburbs of Davoren Park and Smithfield Plains linked to the development of adjacent undeveloped land at Munno Para, Munno Para Downs, Andrews Farm and Penfield.

The URA delivers the renewal areas of the project for the SAHT and develops the greenfield component of the project in its own right. The URA also undertakes a coordination role working with government agencies and the City of Playford to ensure the delivery of whole-of-government objectives.

There are approximately 323 hectares of land remaining in the greenfield component of the project. In 2016 the URA revised the development strategy for Playford Alive and now intends to sell more of the greenfield land than originally planned as englobo. This will bring revenue in earlier than would be achievable by developing the land and will reduce future capital expenditure.

This project is expected to be completed in 2025.

In 2017, the income from inventory sales was $6 million while capital expenditure was $5 million. The remaining budgeted sales for the project are $165 million, capital expenditure $117 million and other costs $40 million (undiscounted).

Tonsley Park

The Tonsley Park inventory is valued at $53 million after reversing $2 million of the $72 million in write-downs that occurred in 2016 and 2015.

In December 2009, Cabinet approved the purchase of the former Mitsubishi Motors Tonsley Park manufacturing site at Clovelly Park. The site is being established as an integrated mixed-use employment precinct that will support a shift from the manufacturing industry to knowledge-intensive industries and contribute to the economic growth of southern Adelaide in support of South Australia's Strategic Plan.

In 2016 the URA conducted a review of the Tonsley project in collaboration with DSD and DTF. This resulted in the realisation that the sale of freehold land in the main assembly building will not be possible due to the significant common services within the facility. The strategy for the main assembly building now requires securing base tenancies for lease with a view to selling the building as a whole once a business model has been proven.

There was also a high level review of the Tonsley project completed in April 2016 by the Economic Development Committee of Cabinet, which has approved alternative governance arrangements for the remaining life of the project.

This project is expected to be completed in 2028.

In 2017, the income from Tonsley was $5 million while capital expenditure was $23 million. The remaining budgeted income for the project is $150 million, capital expenditure $42 million and other costs $26 million (undiscounted).

Woodville West

The Woodville West inventory is valued at $19 million after a $530 000 write-down.

The Woodville West medium density residential development commenced in 2009 following Cabinet approval for the Department for Communities and Social Inclusion to undertake a renewal project to demolish outdated SAHT owned dwellings and create new dwellings. The project was transferred to the URA in April 2012.

In 2016 the URA revised the development strategy for Woodville West and intended to sell more land than originally planned as super-lots. This would bring revenue in earlier than would be achievable by developing the land and would reduce future capital expenditure. The URA revised the development strategy again in 2017 and now intends to develop some of the land previously earmarked for sale as super-lots.

The completion of this project was extended from 2018 to 2021.

In 2017, the income from inventory sales was $16 million while capital expenditure was $11 million. The remaining budgeted sales for the project are $42 million, capital expenditure $15 million and other costs $6 million (undiscounted).

Bowden Urban Village

The Bowden Urban Village inventory is valued at $28 million after reversing $3 million of the $17 million write-down that occurred in 2016.

The Bowden project is an urban renewal project that is expected to house approximately 3000 people in over 2400 dwellings, in addition to a substantial commercial and retail component. A master plan for the project was completed in early 2010. The URA is the master developer for the project and is responsible for managing land assembly, remediation, infrastructure works, community engagement and marketing, with the private sector purchasing vacant development parcels for building construction.

This project is expected to be completed in 2025.

In 2017, the income from Bowden was $16 million while capital expenditure was $6 million. The remaining budgeted income for the project is $154 million, capital expenditure $95 million and other costs $13 million (undiscounted).

Part B – General index

D

E

F

L

M

N

R

S

T

U

V

W