

Report of the Auditor-General



Report 8 of 2023

Annual report

for the year ended 30 June 2023

Part A: Executive summary



**Government of
South Australia**

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for the year ended 30 June 2023
Part A: Executive summary

Tabled in the House of Assembly and ordered to be published, 17 October 2023

First Session, Fifty-Fifth Parliament

By authority: M. Dowling, Government Printer, South Australia

2023

*The Auditor-General's Department acknowledges and respects
Aboriginal people as the State's first people and nations, and
recognises Aboriginal people as traditional owners and occupants of
South Australian land and waters.*



**Auditor-General's
Department**

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ISSN 0815-9157



29 September 2023

President
Legislative Council
Parliament House
ADELAIDE SA 5000

Speaker
House of Assembly
Parliament House
ADELAIDE SA 5000

Dear President and Speaker

**Report of the Auditor-General:
Report 8 of 2023 *Annual report for the year ended 30 June 2023***

As required by the *Public Finance and Audit Act 1987* (PFAA), I present to you my 2023 Annual Report.

Content of this report

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

Part A: Executive summary contains this letter of transmittal, which provides the opinions I am required to give under section 36 of the PFAA and identifies any examinations I have performed under section 32. It also summarises the key matters that should, in my opinion, be brought to the attention of the Parliament and the SA Government from our 2022-23 audits of public sector agencies. This includes significant financial outcomes, events and control matters communicated to agencies and small-scale specific reviews.

Part B: Controls opinion reports our approach to the controls opinion and the outcomes from our work.

Part C: Agency audit reports is a summary of the audit outcomes for each agency included in this Report. It has more detailed commentary on many of the matters in Parts A and B.

Audited financial statements of all public authorities

The PFAA requires me to publish on a website the audited financial statements of all public authorities. This is a significant accountability measure that ensures they will all be available centrally.

In addition, the PFAA allows me to publish other documents on that website. Other documents include the financial statements of agencies that are not public authorities.

Under section 36(1)(4) of the PFAA I will publish the financial statements of the agencies listed in the Annexure to Part C of this report on the Auditor-General's Department website (www.audit.sa.gov.au) as their audits are completed.

Agency financial reports not included in this report

Not every public sector agency I am required to audit is included in this Report. Five agencies were reported on in Report 5 of 2023 *Agency audit reports* for more timely reporting on their activities. Some audits are ongoing at the time of preparing this report, and some I have used my discretion to exclude. I give priority to areas I assess as important enough to be published in this report.

To maintain accountability for their activities, I prepare another report to Parliament annually that provides a summary of the audit outcomes for the agencies not included in this annual report, with a particular focus on agencies with:

- a modified Independent Auditor's Report
- significant matters raised through the audit
- other matters that, in my opinion, need to be brought to the attention of the Parliament and the SA Government.

We expect to complete this report early in 2024.

In addition, as noted above, all financial reports are published on the Auditor-General's Department website.

Auditor-General's opinions

Section 36(1)(a) of the PFAA sets out three opinions I must state in my Annual Report. I deal with each of them in this section.

In my opinion, the Treasurer's statements reflect the financial transactions of the Treasurer as shown in the accounts and records of the Treasurer for the preceding financial year.

The Treasurer's statements for the year ended 30 June 2023 will be published on the Auditor-General's Department website after this Report is tabled in Parliament.

In my opinion, the financial statements of each public authority reflect the financial position of the authority at the end of the preceding financial year and the results of its operations and cash flows for that financial year.

I give this opinion for each of the public sector agencies included in this report.

In addition, without modifying my opinion on the financial reports of the Lifetime Support Authority of South Australia and the Return to Work Corporation of South Australia, I drew attention to the inherent uncertainty in certain liabilities reported for those entities at 30 June 2023.

In all cases where a modified opinion is given, or I draw attention to something like an inherent uncertainty, the Independent Auditor's Report explains my reason(s). This is also explained in the commentary on each of those agencies in Part C of this Report.

In my opinion, except for the matters referred to below, the controls exercised by the Treasurer and public authorities in relation to the receipt, expenditure and investment of money, the acquisition and disposal of property and the incurring of liabilities is sufficient to provide reasonable assurance that the financial transactions of the Treasurer and public authorities have been conducted properly and in accordance with law.

This year I have qualified the annual controls opinion in two respects.

I qualified my opinion for aspects of the processes to select the recipients and determine the value of specific sporting and local infrastructure grant payments made in 2022-23 as a result of election commitments. These processes were conducted outside of the usual public sector framework for government grants. Consequently, the controls that would be expected to operate over determining these grants were not applied.

There is also a limitation of scope on my opinion as I was unable to access all of the documentation in the form of Cabinet submissions that I sought to be able to conclude on whether transactions were undertaken properly and in compliance with law for specific projects in 2022-23. This included information on the approval of some significant capital projects. Part B explains my reasons for expressing a limitation of scope to my opinion and the documentation I was not able to access.

Without further qualification to my controls opinion, we also identified and reported on a range of other control issues from the work we performed this year. Some are recurring from year to year. All of them are, in my opinion, areas in need of significant improvement for the public sector agencies we reviewed to meet the standards of financial probity, propriety and process expected of them and, at all times, to discharge their responsibilities within the letter and spirit of the law as instrumentalities of government discharging public functions.

Part B reports our approach to the controls opinion and the outcomes from this work. Part C explains any control opinion findings made at individual agencies.

Section 32 examinations

Section 36(1)(ab) of the PFAA requires me to report on any section 32 examinations that were completed during the year and briefly describe the outcome. In 2022-23 we completed and reported in Report 4 of 2023 (published on 30 May 2023) on the management of community wastewater management systems (CWMS). I concluded that:

- both the Berri Barmera Council and the Yorke Peninsula Council had successfully removed and treated wastewater collected from properties connected to their CWMS networks over the period we reviewed
- fundamental areas of the Berri Barmera Council's management of its CWMS network were not operating effectively and some key areas of the Yorke Peninsula Council's management of its CWMS network were not operating effectively.

Acknowledgments

This is my final annual report in my term as Auditor-General. I greatly respect public servants and their endeavour to provide South Australians with many complex and demanded services that support the wellbeing and functioning of our community.

The role of Auditor-General is a crucial independent constitutional safeguard to preserve the financial integrity of the State's system of government. We set ourselves a purpose of contributing to government services being transparent, trusted and valued. Trust is a crucial relationship between people that is hard earned and easily lost. It deserves to be built on and carefully maintained by consistency, demonstrated endeavour, performance and open communication. Our purpose has guided the work we chose to do and how we have presented it to agencies and the Parliament.

I am grateful for the professional services provided by contractors who have assisted me with this year's audit program, and for the cooperation all public sector agencies gave to my staff.

I also extend my thanks to the Under Treasurer, Government Publishing SA and their staff for their part in producing this report.

I greatly appreciate the dedication, energy, effort and professionalism of my executive and staff. I have always understood that without them, little can possibly happen. I am very proud of their efforts. They have enabled us to deliver many and regular reports to the Parliament in my term. This has been a challenging year and I acknowledge their hard work to complete our responsibilities in 2022-23. The high standard of their work and commitment is evidenced in the timely production and quality content of this and our other reports this year.

I wish my team and all public servants the very best for their future endeavours for South Australians. It has been a great privilege to hold the position of Auditor-General. I have tried to do it well and I trust that I leave this office in a strong position for my successor.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Richardson', with a long horizontal flourish extending to the right.

Andrew Richardson
Auditor-General

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1 Overview

This annual report presents the results from the principal part of our 2022-23 audits. It meets the Auditor-General's annual reporting requirement in the *Public Finance and Audit Act 1987* (PFAA). Part A is the overview of our 2022-23 work. Part B reports our approach and the summary outcomes for our controls opinion work. Agency audit reports are in Part C.

2 Introduction

2.1 2022-23 audit outcomes and the coming years

In this introduction, we report on some issues and aspects of our work that stand out as essential considerations for public administration this year and in the years ahead.

2.1.1 Inherent risks remain high for government services

The SA Government provides a broad and often complex range of public services to South Australians. Health, child protection, education, police and emergency services are some of the stand-out complex public services. Governments also have the programs they commit to at elections, and the current SA Government has some specific and challenging goals. They include:

- delivering improved health and frontline service targets and funding
- no new taxes
- constructing a tunnel for the South Road project, a new Women's and Children's Hospital, and a hydrogen electrolyser facility, power station and storage facility
- transitioning outsourced train and tram services back into public hands.

Concurrently, the government of the day must responsibly manage the State finances.

All of these activities occur within the economic and social environment of the day. This year, the issues faced by the community and government have included economic challenges with rapidly rising interest rates, inflation and cost of living, risks of project interruptions and significant delays due to supply chain issues and labour shortages. The inherent risks associated with these flowed through to many aspects of service delivery for the year.

2.1.2 Key areas of audit comment for 2022-23 about good public administration

This 2022-23 annual report, like other reports we deliver, brings our audit observations to the attention of the Parliament and the SA Government, with a view to supporting the best outcomes from the available public finances in the future. Many of our observations are likely to relate to foreseeable issues in the years ahead.

We completed all of the audits we intended to include in this report. The standard of agency financial reporting was generally good. Our audits of their financial controls again identified

many areas where improvement in administrative practices is needed. Some of the more significant matters are introduced in this part of the report, as are some suggested ways to achieve better results in the future. Parts B and C contain the details for individual agencies.

Among the many areas we cover in this report, I draw attention to our commentary on:

Control practices

the payment of sporting club and local infrastructure grants because of election commitments, which led to the qualification of this year’s controls opinion

infrastructure project and asset management, which also need significant improvement to maintain the State’s billions of dollars’ worth of assets

the inaccessibility of Cabinet submissions, which led to a limitation of scope for this year’s controls opinion

workforce management practices, which showed improvement but more needs to happen

contract management, which remains an area where significant improvement is needed for multi-million dollar private sector contracts

Cyber and information

information assets in government, which need protection but offer opportunities as well as risk

large language model Artificial Intelligence as an emerging issue, with opportunities but also public sector risks that must be managed

cyber security and IT project issues, where disappointingly our IT general control reviews regularly highlight control deficiencies

Climate and environment

managing climate change risk requires urgent action. Preparing for climate-related disclosures requires collaboration and capability development to develop systems, and to collect, interpret and report the data required

the SA Government’s response to the River Murray flood again illustrated the need to be preparing for the effects of natural disasters

Financial

higher than expected Commonwealth and State revenues assisted to meet higher expenses, but the 2022-23 estimated net operating balance deteriorated by \$482 million

very large increases in the estimated costs of completing major capital works show that a high standard of project management is needed

escalating child protection services costs, where costs grew faster than the number of children and young people in care

the substantial rise in liabilities for insurance and injury scheme provisions, with RTWSA and LSA partly unfunded as at 30 June 2023

rising interest expenses, which are a potential constraint on future spending

a significant rise in health spending, with increasing length of stay and acuity

I also draw attention to the following reports I provided to the Parliament in 2022-23. All of them cover matters of public service and administration warranting the Parliament's attention:

- Report 3 of 2023 *Gambling harm minimisation*
- Report 4 of 2023 *Management of Community Wastewater Management Systems*
- Report 5 of 2023 *Agency audit reports*
- Report 6 of 2023 *Modernising SA public sector audit and strengthening audit independence*
- Report 7 of 2023 *Access to Cabinet documents*.

I intend to table another three reports as soon as practical following this annual report on:

- climate change risk management
- the State finances
- ICT audits.

2.2 Another demanding year

In May 2023, the World Health Organization declared that the global coronavirus (COVID-19) pandemic is no longer a global health emergency. Our community, like others, has transitioned to living with COVID-19. Precautions like multiple vaccinations, social distancing and mask wearing are now part of life. While cases were down from 2022, sadly SA Health information shows deaths attributed to COVID-19 in South Australia in 2023.

The community has resumed social activities and travel, and the level of activity increased markedly in 2022-23. This is evident in the statistics and financial activities of agencies like the Adelaide Festival Centre Trust, Adelaide Venue Management Corporation and South Australian Tourism Commission, which are included in Part C of this report.

Inflation re-emerged in Australia – it is the highest it has been since the early 1990s. In its September 2023 monetary policy decision, the Reserve Bank of Australia (RBA) said:

Inflation in Australia has passed its peak and the monthly CPI indicator for July showed a further decline. But inflation is still too high and will remain so for some time yet. While goods price inflation has eased, the prices of many services are rising briskly. Rent inflation is also elevated. The central forecast is for CPI inflation to continue to decline and to be back within the 2–3 per cent target range in late 2025.

Interest rates, as represented by the RBA’s cash rate target, started 2022-23 at 0.85%. The RBA lifted the cash rate in each of the five months to June 2023, increasing it to 4.1%, where it remained unchanged to September 2023.

Globally, unsettling tensions in geopolitical relationships remain among major nations. Russia’s invasion of Ukraine led to a continuing war on the European continent.

Concern about the effects of climate change grew over the year. Through world media we have witnessed event after event where climate changes were considered to have influenced their intensity. Expectations about emissions targets, decarbonisation, adaption, mitigation and other aspects continued to build over 2022-23.

In this State we experienced floods in late 2022 and early 2023.

In September 2023 the Bureau of Meteorology announced that an El Niño event is underway in Australia, increasing the likelihood of a hot, dry summer.

The emergence of a shortage of housing for many who wish to have a safe and affordable roof over their head prevailed through the year and is widely regarded as a housing crisis. In August 2023 the RBA noted that ‘The housing market has turned around earlier than anticipated because of the combined effects of stronger demand – buoyed partly by strong population growth – and limited supply.’ The RBA also noted rising housing prices across most capital cities and construction activity for new dwellings being limited by labour shortages, tightening financial conditions and possible delays for developers from cash flow constraints and an increase in insolvencies.

Finally, skills shortages in a tight labour market, expansive infrastructure programs across Australian public sectors and global supply chain interruptions all remained for the year.

All these events influenced government activities throughout 2022-23 in various ways.

2.3 The audit role

Our primary role is to independently and objectively audit and report annually on the receipt and expenditure of the public finances and whether reasonable controls were exercised over the use of public money by the Executive Government through its public sector agencies.

Our work is a mix of the audits of financial statements and financial controls, and deeper, focused audits of specific transactions and activities through extended and performance audits. We also conduct audit work and report on aspects of local government. Our departmental annual report describes our various audit responsibilities and the considerations and criteria we use to decide what work to do in our annual audit program.

Some of the many events mentioned in section 2.2 directly affected our 2022-23 audit program and our own operations. The tight labour market led to increased staff turnover in my Department and the continuous search for staff or contractors to conduct our audits.

We expect many of these events, like climate change, will continue to influence our 2023-24 program, as will the SA Government's program in the 2023-24 State Budget released on 15 June 2023.

3 The 2022-23 controls opinion is qualified and there is a limitation of scope

This year I have qualified the annual controls opinion and expressed a limitation of scope.

I qualified my opinion for aspects of the processes to select the recipients and determine the value of specific sporting and local infrastructure grant payments made in 2022-23 as a result of election commitments. These processes were conducted outside of the usual public sector framework for government grants. Consequently, the controls that would be expected to operate over determining these grants were not applied.

There is also a limitation of scope on my opinion as I was unable to access all of the documentation in the form of Cabinet submissions that I sought to be able to conclude on whether transactions were undertaken properly and in accordance with law for specific projects in 2022-23. This included information on the approval of some significant capital projects.

Without access to the Cabinet submissions that evidence key parts of the process for significant government transactions, I am not able to report to the Parliament on them in a way that is consistent with the requirements of the PFAA.

A situation where the Auditor-General is not able to provide the Parliament and the public with assurance that government services were delivered properly and in accordance with law, as intended by the PFAA, is unsatisfactory.

Accordingly, in my Report 7 of 2023 *Access to Cabinet documents* I recommended that the Auditor-General's access to Cabinet submissions be resolved legislatively, to ensure the Auditor-General has the information access powers needed to fulfil the legislated responsibilities for public audit and reporting to the Parliament.

Part B explains my reasons for expressing a limitation of scope to my opinion and the documentation I was not able to access. They are also discussed below.

3.1 Payment of sporting club and local infrastructure grants because of election commitments

For my 2022-23 controls opinion, I needed to consider grant payments made by the Office for Recreation, Sport and Racing (ORSR) and the Department for Infrastructure and Transport (DIT) to fund sporting clubs and local infrastructure projects as a result of election commitments.

Some of the grants provided as election commitments under these two programs were paid in 2022-23, to complete commitments made but not paid in 2021-22. The payments to recipients in 2022-23 totalled \$56 million for sporting club-related amounts and \$11 million for local infrastructure projects.

I explained the details of my reasoning for qualifying the controls opinion for these transactions in my 2021-22 annual report.

The key issue is that I was advised by the Department of the Premier and Cabinet (DPC) that there are no government records of the assessment processes and decisions about which individual sporting clubs and local infrastructure projects would receive grants or the value of them. This is because this process was undertaken by the South Australian Labor Party while in opposition.

In summary, there are no government records of the Treasurer or public authorities that document the processes by which the potential for funding was advised to the community, the criteria that would be used to determine if projects should be funded, and the assessment approach and approval processes that were applied to determine the projects that would receive funding.

Consequently, I qualified the controls opinion because the controls designed to operate within the public sector to assess and recommend recipients and values for such grants paid in 2022-23 were not implemented in all material respects. Instead, these elements were conducted outside the public sector framework.

3.1.1 No comment on the merits of the individual grants made

I want to again be clear that my commentary here should not be read as any criticism of the grant recipients. I respect the efforts of fundraisers to further the opportunities for their local communities. I fully understand the value of clubs and projects to their communities. I greatly respect the tireless effort of volunteers who make clubs and projects possible at all.

I also understand that a club or project sponsor will naturally seek any opportunity to further their cause when a political party or government offers help.

3.2 Limitation of scope: Inability to form an opinion on whether transactions were conducted properly and in accordance with law

As I have indicated in previous reports, Cabinet approval, obtained through Cabinet submissions, is a key element in administrative processes in South Australia. In particular, Cabinet approvals are required for transactions above thresholds established in Treasurer's Instructions 8 *Financial Authorisations* and 17 *Public Sector Initiatives* and in relation to transactions involving real property under Premier and Cabinet Circular PC 114 *Government Real Property Management*.

I summarised our experiences with accessing Cabinet documents in recent years in my latest report, Report 7 of 2023 *Access to Cabinet documents*, which I delivered to Parliament in September 2023.

In 2022-23, I sought access to evidence of approvals by Cabinet to be able to conclude on whether selected transactions had been undertaken 'properly and in accordance with law' as required by the PFAA. I was not provided with that evidence and so I am unable to form an

opinion on the extent to which transactions associated with them were undertaken properly and in accordance with law. The following is a list of the items for which I requested evidence of Cabinet approval in line with established practice:

- approval for the relocation of the new Women's and Children's Hospital and the associated cost increase
- approval for the modified design and cost for the North-South Corridor Torrens to Darlington project
- approval for the amended expenditure total for the Darlington upgrade project
- approval for the implementation and associated costs of expanding the electronic medical records system (EMR) to country local health networks
- approval for the procurement process for the replacement of Masterpiece as the main accounting system used by most of the SA Government
- approval of the contracts for South Australian Housing Trust maintenance services
- approval of the Department for Education's waste management service contract
- approval for the return of rail service operation to the SA Government and associated contractual arrangements
- approval of the business case and associated expenditure for the Adelaide Botanic High School expansion
- approval for the transfer of land associated with the Festival Plaza from the Department of the Premier and Cabinet to the Urban Renewal Authority
- approval for the approach to the Hahndorf Township improvements and access upgrade
- approvals for specific settlements associated with the compulsory acquisition of properties for the North-South corridor
- approval for the disposal of surplus land
- approval for the Adelaide Aquatic Centre replacement approach
- approvals associated with specific government office accommodation leases
- approval of the procurement approach for the Hydrogen Jobs Plan
- approval for the extension of services provided by Spotless under the Royal Adelaide Hospital Public Private Partnership
- approval for the disposal of land through transfer at Thebarton.

At the time of this report, I have not received any of the Cabinet approval documentation I requested.

3.3 Other controls findings

We have reported on the significant themes and issues we found in our 2022-23 controls audit work. These are areas of fundamental importance that require improvement for good public financial administration. We have made recommendations we consider necessary or desirable to address these matters.

It is the responsibility of government and public sector management to decide where to devote resources and what processes are most important to comply with legislation, achieve their objectives and services and manage their risks.

I have not further qualified the controls opinion for these other controls findings. Overall, our work showed that agencies reasonably maintained their priority financial responsibilities in 2022-23.

However, we again identified a wide range of matters where better outcomes are necessary for good public administration. The next section summarises some key controls opinion matters. Parts B and C explain them in more detail.

4 Controls opinion findings

4.1 Contract management

Outsourcing to the private sector is used to provide a wide range of public services. It started being widely used in the 1990s – a long time ago. It is now used at such significant levels that contract management needs to be demonstrated at a high level of competency consistently throughout each year for the life of these contracts. This is to ensure value is received for the expenditure made and to manage the inherent responsibility of government for public services.

4.1.1 Audit observations on outsourcing in this report

In the last few years, the outsourcing of major SA Government services has occurred in infrastructure and transport, correctional services, public housing and health.

This year our audits have again highlighted a range of issues concerning contract management. All agencies need to improve their contract management practices and be able to demonstrate that the appropriate proficiency for managing this public expenditure is achieved and consistently applied.

Regardless of the nature of the contract, it is important that agencies actively improve their contract management practices by:

- having comprehensive policies and procedures
- identifying responsible contract managers
- having access to up-to-date contract pricing schedules
- implementing contract management plans
- actively managing contracts
- having contract registers.

Part B provides a summary of the contract management matters we raised. Part C reports our findings for individual agencies. The progress of the State outsourcing arrangements for facilities management is discussed below.

4.1.2 Across Government Facilities Management Arrangements (AGFMA)

On 6 July 2021, the SA Government entered a contract with Ventia Australia Pty Ltd (Ventia) for the provision of the AGFMA services. The contract commenced on 1 December 2021. With all options and including GST, it has an estimated total value of \$4.2 billion over 11 years and seven months, with an initial term of five years and seven months and three optional two-year extensions.

From July to November 2021 the existing AGFMA was in place, with the new provider facilitating the transition to the new arrangements. Ventia commenced operations on 1 December 2021 as the facilities management service provider of the AGFMA.

We reported on AGFMA transition matters in the Auditor-General's 2021-22 annual report.

In 2022-23, DIT worked with Ventia to improve the issues we identified in 2021-22. However, we noted that there were still many issues being experienced by those involved with the AGFMA. Our overall assessment for 2022-23 is that the AGFMA arrangements were not operating in line with the contract and that contract objectives were not being achieved, increasing the risks around quality, value for money and ensuring asset risks are appropriately managed. Issues we identified include, but are not limited to:

- IT system performance issues, including lack of functionality
- breakdown priorities not being met
- overcharging and the poor quality of documentation submitted for claims
- preventative maintenance not being completed within time frames, some of them statutory maintenance
- poor response times
- lack of contractor availability
- not having data validation and data integrity processes to improve data quality
- warranties and registrations not being recorded
- projects making slow progress, delays in invoicing and poor management
- stakeholder expectations not being met
- poor communication and poor quality of service.

DIT issued contract breach notices to Ventia for a number of issues and mechanisms have been requested to make improvements, including developing improvement plans and a core services stabilisation plan. Workgroups were also established, such as the KPI business as usual work group.

While we noted improvements, many critical issues remain. Considerable work is required to provide an optimised AGFMA for all users. We understand that DIT is continuing to work closely with Ventia to assist where it can, while also managing the contractual arrangements.

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

Agencies participating in the AGFMA should continue to:

- revisit/improve their asset management controls
- clearly communicate roles and responsibilities
- actively work with DIT and Ventia.

Details of our audit work on the AGFMA are provided in section 4.5 of Part B and on page 276 of the section of Part C titled 'Department for Infrastructure and Transport'.

4.2 Infrastructure project and asset management

The public sector uses and is responsible for an enormous stock of assets that are critical to the ongoing and safe delivery of public services. Billions of dollars are spent each year investing in new assets and maintaining existing ones. We included land and other fixed assets valued at around \$91 billion in our 2022-23 audit.

We put concerted effort into reviewing aspects of public sector asset management each year because sound asset management is a critical aspect of long-term financial sustainability. Full knowledge of the type, performance, cost and age of assets is needed to make proper and fully informed decisions about asset renewal, maintenance and replacement. This increases the likelihood that government assets will effectively support the delivery of key public services, the State's development and the needs of the public.

Parts B and C summarise the work we have done in this critical area of our responsibility to Parliament. Our observations in some specific areas are discussed in the following sections.

4.2.1 Road asset management: maintenance backlog increased to an estimated \$2.1 billion

The highest valued asset is the State road network.

DIT manages 23,000 kilometres of roads valued at \$26 billion as at 30 June 2023. DIT has four road maintenance contracts with private providers for a total value of up to \$5.1 billion (GST inclusive) over a potential contract period of 13 years. Routine services under these contracts commenced in November 2020. This year we noted that DIT made progress to improve its controls, but there were still some significant areas in which controls were not operating to ensure the contracts were effectively managed.

We again asked DIT about the road network assets that are overdue for maintenance and rehabilitation work – its maintenance backlog.

The 2022-23 total road maintenance budget, including routine maintenance and road renewals, was approximately \$160 million. In contrast, the replacement value of DIT's road assets as at 30 June 2023 was \$42 billion, with a written down value of \$30 billion and annual depreciation of \$405 million. Ideally, asset renewal depreciation is matched yearly with maintenance expenditure – an asset sustainability ratio of 1 – to ensure that optimal asset life and service levels are achieved.

DIT provided us with unaudited information summarising the estimated backlog of work required. That information estimated that:

- the average asset sustainability ratio over the last five years was 0.15, lower than the ideal ratio of 1
- maintenance defects totalling an estimated \$440 million were open at the end of February 2023, an increase of \$267 million compared to November 2021

- the current rate of deterioration of the sealed road network is outpacing the rate of renewal. The road renewal backlog, calculated as the value of pavement renewal works on the sealed road network that are required to address road sections with a condition rating of very poor, was estimated to be 2,090 km as at December 2022. The rough order of magnitude (ROM) cost estimated for this backlog was \$1.9 billion
- for unsealed roads, approximately 1,230 km of 9,400 km of roads was in backlog. This backlog is increasing faster than sealed roads due to increased use, wet weather and minor flood events. The ROM cost in 2023 was estimated by DIT as \$190 million. In comparison, last year DIT advised us that the unsealed road backlog was estimated at 500 km with an estimated ROM cost of \$50 million.

Details of road maintenance are provided in the section of Part C titled ‘Department for Infrastructure and Transport’.

4.2.2 Housing maintenance contractors are underperforming

Excluding properties managed by community housing providers, the South Australian Housing Trust (SAHT) directly controls around 33,000 rental properties valued at \$8.6 billion. The SAHT replaced its five multi-trade contractors with three head contractors for maintenance services (HCMSs) on 1 January 2023. The HCMS contracts are for six years with a two-year extension option. The SAHT has estimated a total cost of about \$1 billion over eight years. The HCMSs, like the multi-trade contractors, are responsible for all aspects of delivering the works and manage their own direct labour and subcontractors.

The SAHT has identified that the HCMSs are underperforming. Of note is the high number of overdue orders for maintenance work and delays in completing urgent high priority work.

The SAHT can apply abatements to the HCMSs if they continue to underperform after the abatement grace period, which ended on 30 June 2023.

Details of housing maintenance are provided in the section of Part C titled ‘South Australian Housing Trust’.

4.2.3 Long-term plans to upgrade dams

The South Australian Water Corporation (SA Water) operates 20 dams, 11 weirs and 11 aqueducts, including two dams that are owned by the SA Government and operated by SA Water. SA Water follows guidelines developed by the Australian National Committee on Large Dams (ANCOLD) when managing these assets. We previously noted that SA Water’s asset management plan for dams and weirs did not provide guidance for setting maximum time frames for ensuring that the societal risk to life safety is reduced to within a tolerable limit.

We followed up last year’s findings and SA Water’s response.

In August 2023, SA Water advised us that it had reviewed its asset management plan for dams and weirs. The 2023 plan and supporting documents detail the planned time frames and approach to reducing the remaining four dams that are outside ANCOLD guidelines to within targeted limits for the societal risk to life safety.

SA Water further advised us that there are no known structural integrity defects with any of its dams, and the fact that four remaining dams are operating outside the limit of tolerability primarily relates to the need to upgrade dam designs to align with the latest ANCOLD guidelines.

We note that the 2023 asset management plan contains SA Water's dam safety upgrade program objective, which outlines expectations of when dam upgrade works will be undertaken. As the scheduled works are planned to be carried out over the next three regulatory periods, there may be changes to planned time frames pending funding outcomes.

Details are in the section of Part C titled 'South Australian Water Corporation'.

4.3 Workforce management – some priority matters

The public sector spends around \$11 billion annually on payments to employees. Office of the Commissioner for Public Sector Employment (OCPSE) data indicates that this is for a headcount of around 115,000 people (less on an FTE basis) spread across a multitude of individual government agencies.

From 2018-19, our approach to reviewing controls over public sector workforce expenditure started to focus more on workforce planning, performance management, hiring processes and screening checks. We also cover payment processing for individual agencies.

Doing this means we cover the major parts of the employment cycle. In my opinion and in my experience, it is vital to consider full systems as far as practical to identify the key points that support good administration.

This year we again identified opportunities for improvement that are significant for a range of reasons. We recommend that agencies should:

- clearly monitor employment screening checks
- improve their performance management systems
- identify key risks in payroll processing environments
- implement controls to record leave taken and approved
- implement or monitor workforce plans
- improve their workforce management documentation.

Part B provides a summary of the workforce management matters we raised. Part C reports our findings for individual agencies.

5 Improving internal controls performance

5.1 Management representation on controls

Our controls audit work identifies matters every year. It is reasonable to expect this will happen given the breadth and nature of annual public sector activity – things happen. We make recommendations, and management must decide what to do in response. For most matters, we receive responses from management agreeing that they should be resolved or improved, together with advice of the actions they will take.

Many matters, however, recur year after year. Indeed, some seem to be perennial for a variety of reasons. Parts B and C provide details of them for 2022-23. We continue to raise them because we view them as important to the standard of public administration. The question arises: *Should something change to interrupt this cycle and, if so, is it worth it?*

The Auditor-General's requirement to give an annual opinion on the reasonable state of controls exercised in the SA Government and by agencies is, in professional auditing terms, a direct audit engagement. This is where the evaluation is conducted by the auditor and presented in the audit report, and no statement or representation about it is prepared by the responsible party/management.¹ The auditor's objective is to obtain reasonable or limited assurance about whether controls are suitably designed to achieve identified control objectives and that they operated effectively for the period audited.

A key challenge of doing this work is defining the criteria. My predecessors and I have taken this responsibility to mean that the Auditor-General must conclude on whether established frameworks, which provide for proper processes, have been followed and approvals for transactions have occurred in line with legal requirements. This includes the requirements in the Treasurer's Instructions.

We define 'properly' as conforming to established standards of financial management practice. We define 'in accordance with law' as complying with relevant Acts, regulations and Treasurer's Instructions. Part B explains this in section 2.1.2.

Public sector managers must decide how they will meet their many procedural requirements, whether from law, standards, guidance or other sources.

Judgement is involved. That is unavoidable. Indeed, both management and the auditor have a responsibility to assess the circumstances of individual situations and decide what to do based on their judgement of legal compliance and the risks, cost and benefit of a practice/activity.

Public sector managers are responsible for representing that satisfactory internal controls operate for financial reporting, but they are not required to provide a representation on controls in the same manner as the Auditor-General.

¹ By comparison the auditor provides opinions on financial statements that are first certified by the responsible party/management.

Public sector managers certify the financial statements they submit for audit. Section 23(2c) of the PFAA requires:

a statement as to the effectiveness of the internal controls employed by the authority for the financial year over its financial reporting and its preparation of the financial statements.

This certificate is attached to the financial statements.

This is far narrower than the Auditor-General's responsibility to give an opinion on whether:

the controls exercised by the Treasurer and public authorities in relation to the receipt, expenditure and investment of money, the acquisition and disposal of property and the incurring of liabilities is sufficient to provide reasonable assurance that the financial transactions of the Treasurer and public authorities have been conducted properly and in accordance with law.

As things stand, the Auditor-General's findings on controls may be regarded as just the auditor's view, notwithstanding the basis of how we assess 'properly' and 'in accordance with law' explained above.

If management was required to first provide a representation or certification on controls in the same manner as the Auditor-General, that ownership and accountability in a public statement may help to achieve the goal of the reporting to the Parliament – reasonable assurance that the financial transactions of the Treasurer and public authorities are conducted properly and in accordance with law.

This is a practical matter to evaluate.

The establishment and operating cost of systems to support such management representations would need to be well understood. However, the benefits to public administration would also need to be keenly and objectively analysed, so that a well-informed cost/benefit analysis is the basis for any further action.

Critically, any change must not reduce Parliament's expectation of receiving annual assurance from the Auditor-General about the reasonableness of controls. This is a crucial element of accountability in public sector financial administration.

5.2 Internal control improvement opportunities – automating solutions on controls

As explained above, many of the control findings we make are about failures of control practices that recur annually.

There may be an opportunity or a need for computer systems to be better utilised to perform or draw attention to functions that are fundamental practices for good public administration.

Government investment in replacing computer information systems has generally been at the end of the life of an existing system.

This essentially leads to fundamental and major changes in systems and practices, to the extent that some operators and practitioners feel they must unlearn what they have learned to use a new system. That level of disruption typically means that implementing new systems is challenging and complex. Invariably budget and time overruns occur, and the functionality of new systems either does not meet expectations or is criticised by users for some reason.

Nonetheless system investments occur out of necessity, to replace legacy, failing and unsupported systems or, more importantly, for the many benefits new technology can offer.

To demonstrate the significance of the SA Government's investment in improving information systems, the following projects are currently in progress:

- SA Health's EMR system is a state-wide electronic health record system for patient medical records and patient revenue. The project was initially approved in December 2011. It is currently being rolled out to country health networks. SA Health advises us that EMR (including amounts spent since the project's inception) had received a funding allocation of more than \$645 million as at 30 June 2023.
- The Department for Education is implementing a new Education Management System (EMS). EMS is intended to improve efficiency across schools by standardising school business processes by implementing several integrated modules supporting curriculum, finance, communication and administration services. The Department for Education advises us that EMS had an approved budget of \$169.5 million as at 30 June 2023.
- The Shield Business Transformation Program involves the acquisition of a records management system for the State's police force. South Australia Police advises us that the total Shield Program budget is now \$89.57 million. This investment is intended to help it use the police force more efficiently and effectively.
- The Department of Treasury and Finance (DTF) has identified the need to replace the Masterpiece legacy system. This will be explored in a Finance Reform Program.

I have commented in this report that Artificial Intelligence can automate a wide variety of tasks to help productivity and free up staff to focus on higher value work.

Given the recurring control audit findings and agency commitments to improve existing practices, it may be best to disrupt past practice and seek to automate more of the key controls that financial and public administration systems should maintain. Doing so would need to have a clear objective of improving compliance rates.

What may be automated could include reporting exceptions and missing information that systems should show as complete, sending reminders to participants, initiating and requiring threshold or gateway input before transactions progress, and matching between systems such as procurement, asset registers and ledgers to identify anomalies that need to be fixed.

Examples from our audit experience include

- contract management – evidence of plans, registers and contract compliance

- procurement – non-compliance with rule sets, delegation compliance, conflict of interest registration, missing documentation supporting key decisions and processes, and deviations to acquisition plans
- asset management – completeness of asset registers, timeliness of condition assessments and the approval of maintenance works performed
- employment – hiring delegation compliance, employment screening and immunisation policy requirements, recording and management of leave and payroll processing such as bona fides certificates.

The purpose of pursuing this approach is again to achieve the goal of reasonable assurance that the financial transactions of the Treasurer and public authorities are conducted properly and in accordance with law.

Future system specifications should examine maximising cost-effective opportunities to use technology to ensure high standards of legal and procedural compliance in public administration.

6 Information assets in government

This section focuses on two aspects of government information and data assets that have emerged during our audits.

Government agencies collect and hold a wide array of information about the citizens they serve, government employees, administration processes, and financial and public administration systems, processes and records. The acquisition and use of information and data is pivotal to government administration. Accordingly, the information that government holds has significant value to both government and citizens.

All information held by SA Government agencies is subject to confidentiality, privacy, security and administrative processes of varying degrees.

The critical processes for information and data assets are:

- collection and capture
- storage and retention
- maintenance and protection
- effective use.

Information is retained in computer-based information systems, either locally or cloud based, or manually. Examples of the types of information held include:

- policy, process and methodology information about government activities
- personal information about citizens and employees to support services and entitlements
- decisions that affect people about taxes, charges, entitlements and government initiatives
- contracts with private service providers establishing terms, commitments and responsibilities of parties.

We perform IT and cyber security audit work annually that is relevant to the storage and protection of information assets. We have reported our work and findings to Parliament on multiple occasions. Section 8 summarises some of our 2022-23 IT program work.

We have also reported on multiple occasions about the need to improve the capture and retention of key documentation, such as evidence of decisions and the rationale for them, and conflict of interest declarations. Part B explains the issues that arose this year, including our finding that key procurement records such as complexity assessments and acquisition plans were missing or incomplete.

Two matters are discussed in more detail in this section. They concern:

- data governance developments
- using data.

6.1 Data governance developments – legitimate need for information

There is substantial guidance available on contemporary data governance.

One matter of interest is drawn from the consequences of increased cyber-attacks on government and private sector organisations.

The basis of the attacks is the value of information and data. Once accessed, it may be used for identity theft, access to assets and many other purposes. Information also has intrinsic value where the confidentiality of the information is valued by its original owners – who could be citizens, private businesses and government employees.

In the face of these sorts of attacks, it has become clear that both public and private organisations are often found to be holding information for which it is difficult to demonstrate a legitimate need. Typically, this is because the records should not have been collected for storage at all or because they were retained beyond the term of their required purpose.

These events have shown there is a need, perhaps an urgent one in some cases, for information assets to be assessed and culled and for collection practices to be revised. This is so that what is held by government is only the information and data that is legitimately needed for government purposes.

6.2 Vendor payments database audit project – prospect of future benefits

Information and data use is integral to efficient and effective government administration. Key to this is being able to access information and data that is reliable, accurate and relevant.

I have reported previously about our strategies to make better use of data for our audits.

This year we undertook a project to use data to better inform Parliament about public financial administration. I mention it here because our work identified a valuable strategic project that could advance the State's use of its financial data to manage the major resources spent on goods and services.

Our work showed there is a desire for a reliable whole-of-government database of expenditure payments that can be used by the State to manage and oversee its payments and assist its strategic procurement objectives. We spoke to several large agencies who saw the likely benefit to their operations of being able to routinely interrogate such a database.

To explain, in 2022-23 we carried out a whole-of-government vendor analysis review. A key objective of the review was to improve accountability and transparency by providing Parliament with information about significant vendor payment activity of the SA Government.

To perform the review and be able to produce information such as data dashboards, we needed to have a complete and consistent database of vendor transactions for defined periods of time. This does not currently exist, because instead multiple individual systems are used.

If such a database could be created, a range of other issues would need to be dealt with, including commercial sensitivities, confidentiality and the appropriate level of aggregation, before the information could be publicly presented.

We believe that some of the benefits of improving SA Government vendor information would be in the areas of:

- vendor selection and management
- procurement costs and inventory management
- contract management
- vendor performance
- strategic procurement.

Without a consistent and reliable database, there were too many impediments for us to be able to efficiently deliver our proposed report information to the Parliament. Creating one is a challenging aim. Commercial confidentiality in vendor arrangements also means there is a high overhead of procedural fairness across multiple agencies.

We concluded by writing to the Under Treasurer about the project and the prospects that were evident from our work.

I recommend that the SA Government work with its agencies to establish a reliable whole-of-government database that is regularly maintained and updated and accessible to agencies for vendor and procurement management.

7 Large language model Artificial Intelligence

In 2022-23 the use of large language model Artificial Intelligence (AI) chatbots (also known as generative AI) emerged as a hot topic globally. It seems clear that once the public sector heads down this path, it will dominate many aspects of its future practices. It is rapidly evolving, and it is difficult to predict where it will head.

Large language model AI creates new content and human-like responses. It can automate a wide variety of tasks. If done correctly, this can help productivity and free up staff to focus on higher value work.

To gain the benefit of AI, users must input information to initiate responses. Responses can then be refined by inputting more information as is needed for them to be more precise to the circumstances.

As an example of its use, at our biannual briefing to Performance and Risk Committee Chairs in May 2023 we used AI to demonstrate emerging matters.

We asked one AI service:

What are three key messages for public sector risk managers today?

We thought the AI response was reasonable and shared it at the briefing. It was:

- Be proactive in risk management.
- Foster a culture of risk awareness and accountability.
- Embrace technology and data-driven insights for better risk management.

For this report we asked two AI service providers:

What are key messages for public sector risk managers about AI governance today in less than 50 words?

The first AI response was:

- *Prioritise transparency: Ensure AI systems are explainable and accountable to maintain public trust.*
- *Data ethics: Uphold strict data privacy and security standards to protect sensitive information.*
- *Regular audits: Conduct ongoing assessments of AI systems to identify and mitigate risks.*
- *Collaboration: Collaborate with experts and stakeholders to shape effective AI governance policies.*
- *Adaptability: Stay informed and flexible to adapt to evolving AI technologies and regulations.*

The second response was that AI governance:

- *is essential to ensure ethical, legal, and responsible use of AI in the public sector.*
- *requires clear definitions, inventory, policy/standards, and a governance framework, including controls.*
- *should address the potential privacy issues, and/or discriminatory or unfair outcomes, that may arise from certain AI use cases.*
- *should be aligned with the public sector values, principles, and objectives.*

These responses demonstrate that AI can readily provide what appears to be sound advice and that, depending on the source, the advice may vary. These models respond in language that is believable, and users may not be sufficiently sceptical about what is or is not provided in the response.

7.1 SA Government guidance on large language model AI

On 31 May 2023, the Office of the Chief Information Officer issued advice on the safe and appropriate use of large language model AI and chatbots within the SA Government. The advice included practical ‘dos and don’ts’ for staff considering using large language model AI tools for work purposes.

In August 2023, a whole-of-SA Government guideline was issued – the *Guideline for the use of Large Language Model Artificial Intelligence Tools and Utilities*. It covers the limitations and risks associated with the use of large language model AI in the SA Government and mitigating controls.

This guideline applies to:

- all SA Government agencies and personnel operating on behalf of the agencies
- non-government suppliers and personnel that access SA Government information and resources.

7.2 Key advice on using large language model AI

The guideline acknowledged the benefits and uses that large language model AI offers. It also highlighted risk management responsibilities, saying:

While the potential of AI applications is extensive and growing, like every technology or tool, SA Government employees must remain responsible for their work and continue to meet all their obligations including those relating to privacy, confidentiality, and integrity, ensuring the security of public sector data and responsible handling of personal information.

Prior to authorising the use of these tools, SA Government agencies should conduct their own risk assessments, balancing potential benefits and risk.

The guideline sets out several major limitations and risks inherent with the use of large language model AI, which agencies must consider and mitigate for acceptable SA Government use, including:

- having a strategy for, governance over and awareness of its ethical use
- information confidentiality – disallowing the use of enterprise and customer content
- data integrity and accuracy – being aware of biased, incorrect and insufficient responses
- legal and privacy – complying with government requirements
- ethics and fairness – responsible and safe use.

7.3 Summary on using large language model AI

AI is readily and easily available and accessible for use on multiple platforms.

Users should not input any personal information or official SA Government information that is not suitable for public consumption. They should also research the reliability and potential bias of responses and the references used by AI, and not just assume the output is accurate.

All agencies need to take the Office of the Chief Information Officer's advice and understand the risks and benefits, then decide how they will manage, inform staff and safely and responsibly take advantage of this rapidly emerging technology.

8 Information technology general controls

8.1 Summary

8.1.1 Introduction

Information technology general controls (ITGCs) focus on the adequacy of policies, procedures and system settings that support the effective functioning of operating systems, databases and applications. They also help agencies maintain the confidentiality, integrity, and availability of their data.

Each year we conduct ITGC testing over key agency financial systems based on our audit methodology. Our testing takes into consideration the SA Government's Cyber Security Framework and associated agency IT security guidelines.

This section summarises the ITGC testing we conducted in 2022-23 over seven agencies and 15 key agency financial systems. We also assessed the remediation of ITGC issues we raised last year.

Although this summary does not include all of the ITGC testing that we conducted in 2022-23, it does provide an indication of the general themes where control weaknesses exist. It also provides agencies with information they can use to make informed decisions to improve the way they manage their control environments.

8.1.2 Conclusion

Most of the control deficiencies we identified in the 2022-23 ITGC reviews included in this report related to the management of user access, patching, passwords and audit logging. These specific issues accounted for 68% of the total findings.

While we rated most findings as low² or medium risk,³ there were four findings on patch management and two findings on disaster recovery that we rated as high risk.⁴ Sections 8.1.3 and 8.1.6 provide further details of our findings.

It is disappointing that our ITGC reviews regularly highlight these types of control deficiencies. I would again encourage all agencies to be more diligent in addressing them as part of their regular management of security measures and practices.

8.1.3 What we found

Based on our testing in 2022-23, figure 8.1 shows the key control areas that could be strengthened.

² Low rated is a minor control weakness with a minimal but reportable impact on the ability to achieve process objectives.

³ Medium rated is a control weakness that could have or is having a moderately adverse effect on the ability to achieve process objectives.

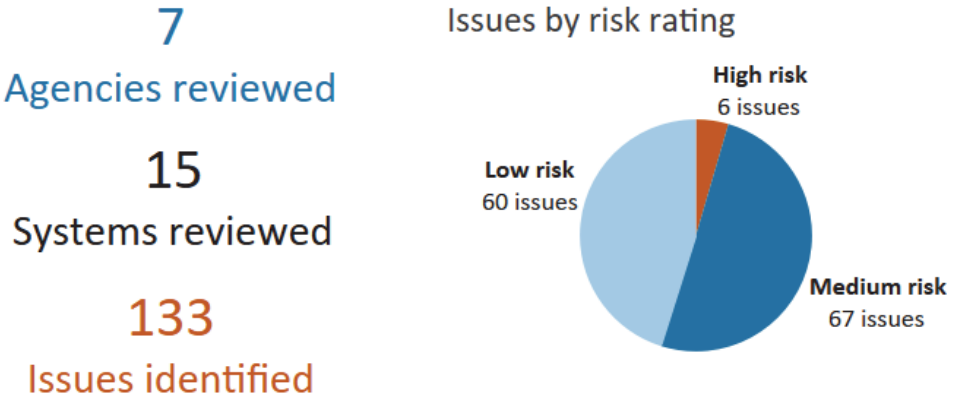
⁴ High rated is a control weakness that could have or is having a major adverse effect on the ability to achieve process objectives.

The rating we give an audit issue reflects our assessment of both the likelihood and consequence of each issue in terms of its impacts on:

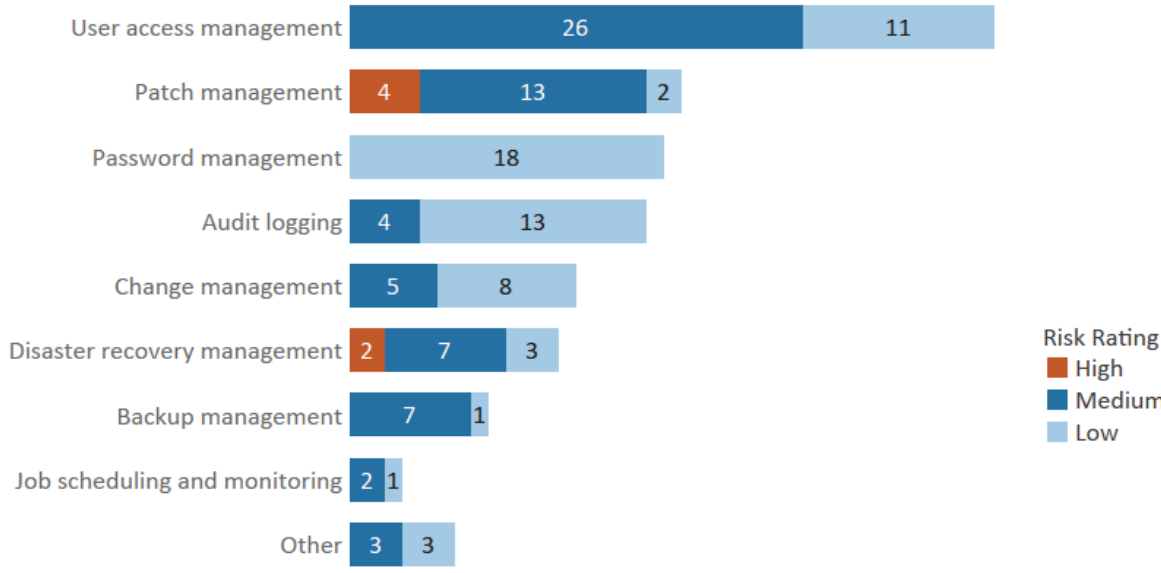
- the effectiveness and efficiency of operations, including probity and compliance with applicable laws
- the reliability, accuracy and timeliness of financial reporting.

The rating also helps agencies to prioritise any remedial action.

Figure 8.1: Summary of our findings



Issues by category



8.1.4 What we recommended

Our recommendations to agencies included strengthening the following controls:

- **user access management** – prompt removal of inappropriate user access, performing regular user access reviews and maintaining evidence of user access changes

- **change management** – improving policies and procedures, maintaining documented evidence supporting change activities and post-implementation testing and applying appropriate segregation of duties throughout the change management process
- **password management** – strengthening password configuration settings, improving policies and procedures and conducting regular reviews of password setting policies
- **audit logging** – implementing and reviewing audit logging and improving policies and procedures
- **disaster recovery** – developing and regularly reviewing formal disaster recovery plans and associated procedures and conducting disaster recovery tests
- **patch management** – developing and improving policies and procedures to ensure patches are appropriately applied
- **data backup and restoration** – implementing and regularly updating backup and restoration policies and procedures and regularly testing backup and restoration practices
- **job management** – developing and maintaining detailed job scheduling and monitoring procedures to support current operational processes
- **other matters** – ensuring that regular assurance is obtained across the IT security controls managed by third-party service providers (vendors), regularly reviewing, updating and retaining application source code arrangements and appropriately tracking prior IT security observations.

8.2 Review objective, scope and approach

8.2.1 Audit mandate

The PFAA requires the Auditor-General to form an opinion on whether an agency’s financial report is free from material misstatement. To do this the auditor must consider the entity’s internal controls environment. Internal controls are systems, policies and procedures that help an agency reliably and cost effectively meet its objectives. For the agencies we audit, we consider ITGCs to varying degrees, depending on the nature of the agency’s operations and the way it uses them.

Auditing Standard ASA 315 *Identifying and Assessing the Risks of Material Misstatement* identifies the nature of ITGCs as being controls at the application, database, operating system and network level. They may relate to the processes to manage:

- access
- program and other changes to the ICT environment
- ICT operations.

Therefore, we seek to understand how agencies respond to risks arising from their ICT environment and assess any controls applied. Ultimately, this will inform my opinion as to whether the information in the financial report is free from material misstatement.

This work also has the significant benefit of informing how well agencies maintain the confidentiality, integrity and availability of data.

8.2.2 Agencies tested

In 2022-23 we tested ITGCs for seven agencies and their IT systems.









Figure 8.2: Summary agencies and systems tested

Agency	System	Description
Department for Child Protection	HumanForce Payroll Rostering System	Manage and monitor employee rosters, availability and associated leave.
Department for Education	Valeo Payroll System	Payroll processing and other human resource functions.
Department for Health and Wellbeing	Oracle Corporate System	Process agency general ledger entries.
	Oracle Business Intelligence Enterprise Edition (Sharp) Electronic Medical Record system (EMR)	Gather, store and analyse data for reports, dashboards and ad hoc analysis. Accessed by health care workers to create, gather and manage patient information across South Australian public hospitals and health services.
Department for Trade and Investment	Development Application Processing (DAP)	Allows the searching and review of property zoning, development rules, and tracking of major projects and development activities across the State.
	Plan SA Portal	Web-based portal that provides a single access point into the DAP system.
	Operational Data Store	Database designed to integrate data record functions from multiple Plan SA applications.
DTF – Shared Services SA	Basware, Masterpiece, CommBiz and Chris21	Shared Services SA’s central systems to process transactions on behalf of agencies: <ul style="list-style-type: none"> Basware is used to process accounts payable transactions Masterpiece is used to process agency general ledger entries CommBiz banking is used for disbursing payroll and third-party payments Chris21 is used to process agency payroll processes.
Independent Gaming Corporation Limited	Scientific Games (SG) Video system	Monitor and manage existing gaming machine systems.
South Australia Police	Chris 21	Payroll processes.

In testing these systems, we examined the ITGCs shown in figure 8.3 at the application, database and operating system level.

8.2.3 Information technology general controls tested

Figure 8.3: Summary of ITGCs tested

	<p>User access management</p>	<p>User access management relates to the process of managing access to applications and data, including how access is approved, revoked and periodically reviewed. This helps to ensure that access is aligned with staff roles and responsibilities and prevents unauthorised access to information systems. It includes appropriately restricting and monitoring privileged access permissions, which have a heightened level of access to alter user access profiles and make system changes.</p>
	<p>Patch management</p>	<p>Patch management is the process of updating (acquiring, testing and installing) a set of changes or upgrades to support software, application and technology enhancements and to fix defects and vulnerabilities to an information system.</p>
	<p>Password management</p>	<p>Passwords are a common means of verifying a user's identity before access is given to an information system or service according to the user's authorisation.</p>
	<p>Audit log management</p>	<p>Audit logging and monitoring of the ICT environment involves the recording and analysing of system and user activities to detect and respond to unusual events within the ICT system.</p>
	<p>Change management</p>	<p>Change management is a systematic and standardised approach to ensuring all changes to the ICT environment are appropriate, authorised and preserve the integrity of the underlying programs and data.</p>
	<p>Disaster recovery</p>	<p>Disaster recovery is a documented process, or set of procedures, to assist in the recovery of an organisation's ICT infrastructure in the event of a disaster.</p>
	<p>Backup management</p>	<p>Backup management refers to the process of managing the copying of computer data to an archive file. This copy can then be used to restore the original data in the event of data corruption or data loss event.</p>
	<p>Job management</p>	<p>Job management is the process of scheduling and monitoring a group of ICT operational tasks that is used to run various financial processes automatically.</p>

8.3 Details of findings

Our testing involved performing system walkthroughs with agency representatives and reviewing policies and procedures. The walkthrough helps us to get a better understanding of the agency's ICT environment and to evaluate the design of controls and whether they can be tested for effectiveness – that is, that the control exists and evidence can be obtained to test its effectiveness.

8.3.1 User access management

Why we reviewed it

Weaknesses in user access management controls can result in inappropriate and unauthorised access to business systems. This can impact the completeness and accuracy of financial information through the destruction of data, improper changes to data or inaccurate recording of transactions.

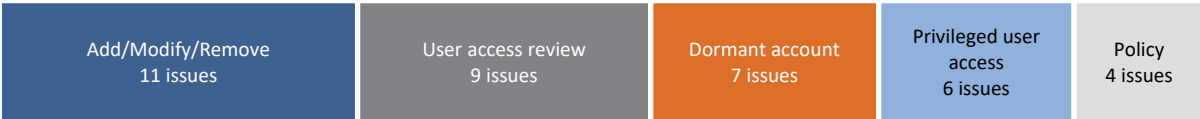
What we reviewed

We reviewed the user access management policies and procedures that apply to key financial systems. This included assessing processes applied for user access changes, user roles and responsibilities and profile configurations. For example, we assessed whether a new user requires an approved user access form before their account is created.

Our testing involved selecting a sample of user accounts and obtaining evidence of them being added, modified or removed. We also confirmed the appropriateness of privileged user accounts and obtained evidence of recent internal user access reviews and their outcomes.

What we found

Figure 8.4: Summary of user access management findings



Most findings within these categories related to:

- insufficient evidence of user access changes (add and modify) and failure to promptly remove user access
- internal user access reviews either not being performed or not being appropriately actioned
- user accounts that were enabled and but not logged into for at least 45 days
- inappropriate assignment of privileged user access
- instances where policies and procedures relating to user management were not reviewed in a timely manner.

8.3.2 Patch management

Why we reviewed it

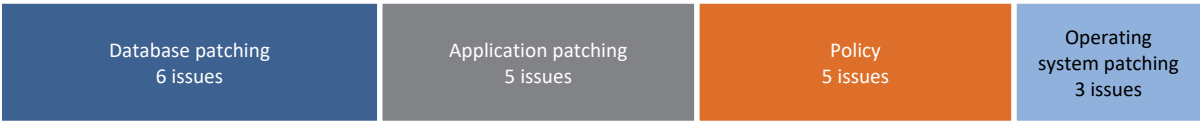
Not patching IT systems at the operating system, database and application level increases the opportunity for attackers to exploit known vulnerabilities. Patching is also used to provide system functionality updates and fix defects.

What we reviewed

We reviewed the policies and procedures for patch management. Where appropriate, we selected a sample of patches applied to the application, database and operating system. Our testing involved obtaining evidence of a recent patching assessment and reviewing whether patches were subject to a formal risk assessment before being implemented.

What we found

Figure 8.5: Summary of patch management findings



Most findings within these categories related to:

- inadequate patch management processes for specific application, database and operating systems
- instances where no formal patch management policy and procedures were developed.

8.3.3 Password management

Why we reviewed it

Weaknesses in password configuration settings may make it easier for a user account to be maliciously compromised, therefore allowing unauthorised access to business systems and data.

Examples of weak password configuration settings include:

- not forcing users to regularly change their password
- not forcing users to change their password to something not previously used
- minimum password lengths being too short
- not forcing users to add a number, uppercase letter or special character to their passwords
- not setting a limit on how many times a user can enter an incorrect account password before access is denied.

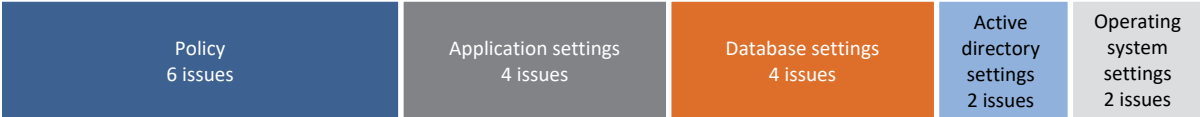
What we reviewed

Our testing involved reviewing the agency’s password management policies and procedures. We did this to determine whether agencies had specified minimum password standards that their system owners must apply when configuring the password settings for their IT systems.

We compared the password settings applied at the application, operating system and database level against the configuration settings suggested in the Commonwealth Governments Information Security Manual⁵ and the agency’s password standards (if specified).

What we found

Figure 8.6: Summary of password management findings



Most findings within these categories related to:

- lack of general password policy or insufficient detail within the password policy
- inadequate regular review of the agency’s password policy
- weaknesses or inconsistencies in password configuration settings identified across various agency active directory networks, applications, databases and operating systems.

8.3.4 Audit log management

Why we reviewed it

Weaknesses in system audit logging and monitoring increase the risk of inappropriate and unauthorised activities within the system going undetected. Not having an effective audit trail reduces the likelihood that inappropriate activity can be traced back to an individual.

What we reviewed

We reviewed the agency’s policies and procedures for audit logging to confirm the approach and extent of audit logging being performed. We then obtained evidence that audit logs, primarily for privileged user account activities, were maintained, restricted and periodically reviewed.

What we found

Figure 8.7: Summary of audit log findings



⁵ www.cyber.gov.au, viewed 8 September 2023. Although we acknowledge that agencies are not required to comply with this manual, we consider that the settings recommended in it represent better practice.

Most findings within these categories related to:

- no or limited audit logging monitoring being conducted across the application, database, operating system and infrastructure
- instances where no formal audit logging policy and procedures were maintained.

8.3.5 Change management

Why we reviewed it

Weaknesses in change management controls can result in poorly tested, inappropriate or unauthorised changes to business systems. This can impact the completeness and accuracy of financial data and the correct functioning of the system.

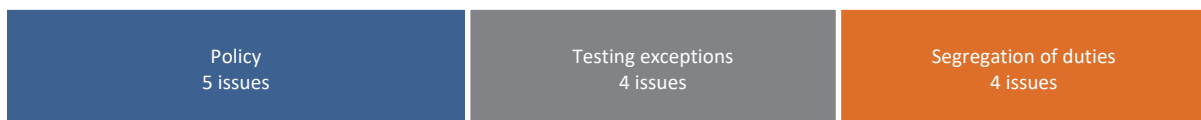
What we reviewed

We reviewed the policies and procedures that apply to making system changes to the financial system environments. We did this to understand the process applied to making system changes, including where change requests originate from, oversight and approval mechanisms, whether changes can be made within the business or require the assistance of an external vendor, and the roles and responsibilities of each party in the process.

Our testing also involved selecting a sample of changes and obtaining evidence to determine whether they were appropriately tested, approved and migrated into the production environment.

What we found

Figure 8.8: Summary of change management findings



Most findings within these categories related to:

- inadequate change management policy and/or procedure documents
- inadequate evidencing of documentation supporting change activities and post-implementation testing
- lack of segregation of duties throughout the change management process.

8.3.6 Disaster recovery

Why we reviewed it

IT disaster recovery weaknesses may result in agencies not being able to recover key business systems within the maximum allowable outage⁶ time, in the event of a disaster or

⁶ The maximum allowable outage time is the maximum time that an agency can tolerate the disruption of an important business function before there is a significant impact on its operations.

system failure. In addition, the completeness and accuracy of financial data is at risk when a financial system experiences an interruption.

What we reviewed

Our testing involved identifying whether a disaster recovery plan and associated recovery procedures were in place and adequately tested.

What we found

Figure 8.9: Summary of disaster recovery findings



Most findings within these categories related to:

- insufficient disaster recovery testing being conducted across the application and database
- having no formal disaster recovery plan, policy or associated procedures
- not regularly reviewing the disaster recovery plan.

8.3.7 Backup management

Why we reviewed it

Failure to perform effective backup management may result in data loss and/or the inability to recover key business systems and associated data within maximum allowable outage times during a disaster, data loss incident or system failure.

What we reviewed

We reviewed the agency’s policies and procedures for data backup and restoration to confirm the approach and extent of such practices. We then obtained evidence that data backup and restoration was being regularly undertaken and managed to safeguard against unexpected outages or system failure.

What we found

Figure 8.10: Summary of backup management findings



Most findings within these categories related to:

- instances where no backup restoration testing had been performed since the system was implemented
- backup restoration testing not being regularly performed
- instances where no backup restoration procedures were developed.

8.3.8 Job management

Why we reviewed it

Effective job management is important where batch processes and automated tasks are essential for daily operations, such as data processing, report generation and system maintenance. It helps agencies to automate routine tasks, reduce the risk of human error, improve efficiency and ensure that critical processes are executed reliably.

What we reviewed

Our testing involved identifying whether a job management plan and procedures were in place and assessing the adequacy of the scheduling and monitoring of key jobs that were occurring.

What we found

Figure 8.11: Summary of job management findings



Most findings within these categories related to:

- insufficient monitoring and notification of jobs performed
- instances where policies and procedures for job scheduling and monitoring were not developed.

8.3.9 Other ICT-related testing performed

Why we reviewed it

We identified other matters at specific agencies that we thought were important to investigate during our ITGC testing:

- Agencies are required to obtain appropriate assurance about how a third-party application provider manages the IT security controls that apply to their systems and environments. This is to reduce the risk to systems and to data security and availability.

- Agencies are required, in certain situations, to maintain copies of their application source code⁷ where the application is being provided through an ongoing external service arrangement. This is so that if the arrangement between the government and service provider ends, the agency could still potentially maintain and update the application if required.
- Agencies should perform security reviews across their key business systems following a major incident or as part of their regular penetration testing.⁸ These types of tests provide a level of assurance over the adequacy of security controls. They help to minimise an agency's exposure to the threats experienced by the State each year.

What we reviewed

In addition to our standard ITGC testing, we performed the following testing at selected agencies:

- assessing the adequacy of IT security controls managed by vendors
- assessing the adequacy of application source code arrangements, including its retention
- assessing the remediation status of issues identified as part of prior incident and internal penetration testing performed across agency infrastructure.

What we found

For the selected agencies we tested we noted:

- performance management meetings did not include discussing the adequacy of IT security controls managed by vendors
- insufficient access to the latest application source code
- delays in remediating findings from an internal security and penetration testing review.

8.4 Agency responses

Agencies generally responded positively to our findings with details of their remediation time frames.

⁷ Source code is the foundation of a computer program and contains instructions, functions and other statements that provide guidance as to how the application software performs.

⁸ Penetration testing seeks to identify weaknesses and vulnerabilities that may have the potential to allow inappropriate and unauthorised access to the application functionality and data.

9 Frontier data security breach

9.1 Background

Last year I qualified the contract management controls for the SA Government's contract with the private payroll software and service provider, Frontier.

This was a result of a data breach that occurred on Frontier's corporate network in November 2021 and affected more than 90,000 current and former SA Government employees.

In my 2021-22 annual report I advised that DTF had engaged its internal auditors to conduct a detailed assessment of the nature and extent of this breach. This review was finalised in June 2022, with several high and medium-rated matters identified for remediation.

9.2 2022-23 status update

This year Shared Services SA provided us with remediation status updates in January and September 2023.

We performed a high-level assessment of the implemented actions for all outstanding high and medium-rated matters. Shared Services SA responded to all of our queries and provided further supporting evidence in some instances.

While aspects of the redesign of the architectural structure and privileged user access have now been addressed, there are still a number of outstanding matters. Some of them relate to authentication methods, ongoing security and confidentiality requirements and contractual arrangement considerations going forward.

Importantly we have been advised that Frontier now performs all SA Government payroll hosting, support and maintenance, as well as bureau services, in an environment that is logically separated from Frontier's corporate network, meaning that SA Government payroll data is kept separate from Frontier's corporate network.

10 Managing climate change risk

Climate change is a known and urgent risk that could lead to catastrophic economic and social consequences and could impact the SA Government's ability to meet its objectives.

We reported on climate-related matters in Part D of my 2020-21 annual report, *Managing climate change in South Australia*, and again in Part A of my 2021-22 annual report.

A further report on climate risk management is nearing completion.

This section discusses the rapidly developing accountability expectations on public and private entities commensurate with the affects and influences that climate change is projected to have on citizens.

In this section we highlight:

- the recognition that climate and sustainability reporting issues are generational changes
- the quickly spreading acceptance of key features of climate-related reporting
- the acknowledgment that financial auditors should lead climate disclosure assurance engagements, supported by technical climate and sustainability experts, when required
- the need to lift the capability of all who are involved in delivering climate-related strategies, risk management and reporting.

10.1 Sustainability and climate-related reporting

Companies and governments may report on sustainability matters in different ways to suit the needs of various parties. Some reporting may be designed to provide information to those with an interest in the impact of a company's operations on the natural environment or other sustainability topics. In 2022-23 there have been substantial developments in the frameworks for sustainability and climate-related reporting, designed primarily to satisfy the needs of capital markets. The Treasurer has also committed to issuing a climate-related risk disclosure report by the SA Government by the end of 2024 (see section 10.1.2).

10.1.1 Developments in sustainability reporting, regulatory and assurance frameworks

10.1.1.1 International Sustainability Standards Board issued standards

In June 2023, the International Sustainability Standards Board (ISSB) issued its first standards: IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information* and IFRS S2 *Climate-related Disclosures*. These standards use concepts from International Financial Reporting Standards and build on the recommendations of the Task Force on Climate-related Financial Disclosures guidelines.

IFRS S1 sets out the general requirements for disclosing information about sustainability-related risks and opportunities. IFRS S2 is the first topic-specific standard, which sets out the requirements for disclosing information related to climate. The aim of these standards is to meet the needs of users of financial reports. For example, the stated objective of IFRS S2 is:

... to require an entity to disclose information about its climate-related risks and opportunities that is useful to primary users of general purpose financial reports in making decisions relating to providing resources to the entity.

The ISSB does not have the right to mandate the application of these standards. Like International Financial Reporting Standards, it is up to jurisdictional regulators to determine whether they are required to be applied.

Having issued these standards, the ISSB is contemplating which sustainability topics and other matters should now be included in its priorities. Research and standard-setting projects on sustainability-related risk and opportunities that the ISSB sought views on in 2023 were:

- biodiversity, ecosystems and ecosystem services
- human capital
- human rights.

The ISSB also sought views on the priority and methods for a project to consider integration in reporting, which would explore how to integrate information in financial reporting beyond the requirements related to connected information in IFRS S1 and IFRS S2.

Consultation on the ISSB agenda priorities closed on 1 September 2023.

10.1.1.2 International Public Sector Accounting Standards Board (IPSASB) will develop a public sector standard

In June 2023, the IPSASB announced that it will develop a public sector-specific climate-related disclosures standard.

The IPSASB has indicated that the standard will build off of IFRS S2 and layer on the Global Reporting Initiative's climate-related topic and sector standards as appropriate. Given its public sector mandate, the IPSASB identified that it will need to consider if adaption from this baseline is required for:

- broadening disclosures of risk management processes to require information about the entity's actions, policies and commitments to address and manage the impacts, risks and opportunities identified
- disclosures where the public sector entity's role includes policy making and/or regulation, and how related strategies address climate-related impacts, risks and opportunities, including climate adaption, mitigation and just transition plans
- what approach is suitable for sector-specific metrics for public sector functions, with reference to the Organisation for Economic Co-operation and Development Classifications of the Functions of Government.

The IPSASB plans to issue an exposure draft of its standard in June 2024, with a view to issuing a finalised standard in 2025.

In May 2023 the IPSASB issued additional non-authoritative guidance in Recommended Practice Guideline (RPG) 1 *Reporting on the Long-Term Sustainability of an Entity's Finances* and RPG 3 *Reporting Service Performance Information*, which can be applied to reports on sustainability program information.

10.1.1.3 Treasury Laws Amendment (2023 Measures No. 1) Bill 2023 (Cth) (the Treasury laws bill)

The Treasury laws bill was introduced into the House of Representatives in February 2023. It includes proposed amendments to the *Australian Securities and Investments Commission Act 2001* (Cth).

In the second reading speech, the Assistant Treasurer stated that:

Schedule 2 amends the law to provide the Australian Accounting Standards Board with functions to develop sustainability standards, and clarifies that the Auditing and Assurance Standards Board can develop and maintain relevant assurance standards for sustainability purposes. It also empowers the Financial Reporting Council to provide strategic oversight and governance functions in relation to these sustainability standards functions...

Any future sustainability standards issued by the Australian Accounting Standards Board (AASB) will not be enforceable without further legislative changes.

At the time of this report the Treasury laws bill was before the Senate.

10.1.1.4 Australian Accounting Standards Board commenced a new project

At its February 2023 meeting, the AASB added a separate project to its work program to develop requirements for climate-related financial disclosures. At that time, it resolved to continue to apply preliminary decisions it made in 2022, which included decisions to:

- develop a separate suite of sustainability reporting standards alongside the existing Australian Accounting Standards, and address climate as the first sustainability reporting topic
- use the work of the ISSB as a foundation, with modifications for Australian matters and requirements
- restrict the initial scope of the project to for-profit sectors, with not-for profit sectors being considered at a later stage.

At its June 2023 meeting, the AASB resolved to expand the scope of the climate-related financial disclosures project to explore the development of sector-neutral Australian climate-related financial disclosure requirements. Such requirements could be applied by entities in the private and public sectors, whether they are for-profit or not-for-profit.

The intention is that the Australian standards will be aligned as far as practicable with the final standards developed by the ISSB.

The AASB expects to complete this project, and a project to consider the standard-setting framework for sustainability reporting, in the second quarter of 2024.

10.1.1.5 Consultation by the Commonwealth Treasury highlights proposed implementation time frames

In June 2023 the Commonwealth Treasury issued a consultation paper, *Climate-related financial disclosure*, which sought views on proposed positions for internationally-aligned requirements for the disclosure of climate-related risks and opportunities in Australia, and in particular the coverage, content, framework and enforcement of the requirements.

The paper proposes that entities that meet prescribed size thresholds and that are required to lodge financial reports under Chapter 2M of the *Corporations Act 2001* (Cth) would be required to make climate-related financial disclosures. These disclosures would be provided in annual reports, applying the standards to be issued by the AASB.

The paper proposes that amendments be made to the *Corporations Act 2001* for implementation by 1 July 2024, with a staged implementation as shown in figure 10.1.

Figure 10.1: Staged implementation of proposed amendments to the *Corporations Act 2001*

Timing	Reporting entities
2024-25 onwards	<p>Entities required to report under Chapter 2M of the <i>Corporations Act 2001</i> and that fulfill two of the three thresholds:</p> <ul style="list-style-type: none"> • has over 500 employees • the value of consolidated gross assets at the end of the financial year of the company and any entities it controls is \$1 billion or more • the consolidated revenue for the financial year of the company and any entities it controls is \$500 million or more. <p>AND</p> <p>Entities required to report under Chapter 2M of the <i>Corporations Act</i> that are a ‘controlling corporation’ under the <i>National Greenhouse and Energy Reporting Act 2007</i> (NGER Act) and meet the NGER publication threshold.</p>
2026-27 onwards	<p>Entities required to report under Chapter 2M of the <i>Corporations Act 2001</i> and that fulfill two of the three thresholds:</p> <ul style="list-style-type: none"> • has over 250 employees • the value of consolidated gross assets at the end of the financial year of the company and any entities it controls is \$500 million or more • the consolidated revenue for the financial year of the company and any entities it controls is \$200 million or more. <p>AND</p> <p>Entities required to report under Chapter 2M of the <i>Corporations Act 2001</i> that are a ‘controlling corporation’ under the NGER Act and meet the NGER publication threshold.</p>

Timing	Reporting entities
2027-28 onwards	<p>Entities required to report under Chapter 2M of the <i>Corporations Act 2001</i> and that fulfill two of the three thresholds:</p> <ul style="list-style-type: none"> • has over 100 employees • the value of consolidated gross assets at the end of the financial year of the company and any entities it controls is \$25 million or more • the consolidated revenue for the financial year of the company and any entities it controls is \$50 million or more. <p>AND</p> <p>Entities required to report under Chapter 2M of the <i>Corporations Act 2001</i> that are a ‘controlling corporation’ under the NGER Act.</p>

Source: Climate-related financial disclosure – consultation paper June 2023 (treasury.gov.au).

Commonwealth Treasury also proposes that financial auditors would lead climate disclosure assurance engagements, supported by technical climate and sustainability experts, when required. Assurance would be provided in line with Australian Auditing and Assurance Standards Board (AUASB) standards, with a staged approach from limited assurance to reasonable assurance. This staged approach recognises that the extent and quality of information included in such reports is expected to evolve and improve as data and capabilities develop.

Entities established under the *Corporations Act 2001* are uncommon in SA Government, and should the proposals be brought into law as written it is unlikely that any of the SA Government’s companies would be captured. However, as auditor of the Adelaide Oval SMA Ltd, which is established under the *Corporations Act 2001*, the Auditor-General may in due course require legislative powers under the *Adelaide Oval Redevelopment Act 2011* or the PFAA to provide powers to conduct such an assurance engagement for climate-related financial disclosures.

While the consultation paper proposes no mandatory requirements specifically for the public sector, the Commonwealth Minister for Finance is leading work to implement appropriate arrangements for comparable Commonwealth public sector entities and companies to also disclose their exposure to climate-related risk.

10.1.1.6 Assurance standards exposure draft issued

In August 2023, the International Auditing and Assurance Standards Board issued an exposure draft of a proposed International Standard on Sustainability Assurance (ISSA) 5000 *General Requirements for Sustainability Assurance Engagements*. This proposed standard is expected to form the basis for requirements that will ultimately be issued by the AUASB and will have application to assurance engagements such as those proposed to be required by the *Corporations Act 2001* and, in time, reports prepared by governments. The International Auditing and Assurance Standards Board plans to issue this standard in September 2024.

10.1.2 SA Government to report climate-related risk disclosure by the end of 2024

The Treasurer has committed to the SA Government developing a climate-related risk disclosure report by the end of 2024. This is intended to be a single whole-of-government report issued at a point in time, with the form and regularity of future reporting to be considered in due course.

DTF is in the early stages of determining the scope of this report. Some other Australian governments have already published climate-related reports and it is pleasing that the SA Government has committed to prepare such disclosures.

While the reporting is likely to evolve over time, this is an important step in meeting the growing expectations of governments to provide information.

10.1.3 Financial statements and sustainability reports must be consistent

IFRS S1 requires that:

Data and assumptions used in preparing the sustainability-related financial disclosures shall be consistent—to the extent possible considering the requirements of IFRS Accounting Standards or other applicable GAAP—with the corresponding data and assumptions used in preparing the related financial statements...

In developing a whole-of-government climate-related risk report, DTF should ensure that the data and assumptions factored into it, and those used by agencies and DTF in preparing financial statements required by the PFAA and the consolidated financial report for the whole of government, are consistent. As this type of climate-related risk disclosure has not been prepared before, new mechanisms will be needed to ensure accountants, management and governance groups/responsible people are all appropriately informed of whole-of-government strategies, assumptions and data to be used in preparing both types of reports.

10.1.4 Capability uplift is necessary

In June 2023, the Chair of the Australian Securities and Investments Commission noted that:

... [I]t's clear that environmental, social and governance (ESG) issues are driving the biggest changes to financial reporting and disclosure in generation.

This is a transformational issue for global markets, and we need to be ready to meet that change at every step of its development.

In sourcing its funding, the SA Government is a participant in such global markets.

Preparing climate-related risk disclosures for the SA Government will require collaboration and capability development to collect, interpret and report the data required to make climate disclosures, and to develop the systems to adequately capture the information.

IFRS S2 requires an entity to disclose information about:

... the governance body(s) (which can include a board, committee or equivalent body charged with governance) or individual(s) responsible for oversight of climate-related risks and opportunities... [and] how the body(s) or individual(s) determines whether appropriate skills and competencies are available or will be developed to oversee strategies designed to respond to climate-related risks and opportunities ...

The capability needs extend to all involved in delivering climate-related strategies, risk management and reporting. This includes those responsible for governance, who have a key role given the inextricable link to the entity's objectives and strategy, and are ultimately responsible for the entity's risk management. Audit and risk committees will also have a critical role in overseeing management's development of or input into climate-related disclosures, and their expertise in financial reporting should enable them to understand and assess the methodologies and policies being used to develop metrics and other disclosures.

While accountants are well placed to advise and support the SA Government in understanding the connection between climate-related risk and the financial statements, and how to measure, report and respond to these risks, this is a new and developing area which will require collaboration and cross-skilling amongst a wide range of people, including senior management, risk managers and program managers.

11 Other specific matters

11.1 Very large increases in the estimated costs for major capital works

Costs to deliver major projects were revised significantly upwards in 2022-23. The North-South Corridor Torrens to Darlington project rose by 56% to \$15.4 billion and the cost of the new Women's and Children's Hospital was revised up by 59% to \$3.25 billion in the 2022-23 mid-year budget review. Projects for which there were election commitments were also subject to substantial cost revisions since the 2022-23 State Budget, with the Mount Barker Hospital up by 55% to \$320 million and the new Aquatic Centre development up by 69% to \$135 million.

Last year I reported on key elements of major projects that were not effectively managed and deficiencies in important processes and functions that we have reported in the past.⁹

It is evident that a very high standard of project management will be needed for projects of such magnitude in the current economic environment.

Further commentary on the infrastructure capital program will be included in our upcoming 2023 report on the State finances and related matters.

11.2 A significant rise in health spending

SA Health's total expenses exceeded the original 2022-23 State Budget estimate by \$874 million, an 11% overspend.

SA Health's 2022-23 budget outcome was an unfavourable net result of \$301 million.

The two categories that contributed most to the unfavourable budget outcome were salaries and wages and supplies and services.

Unaudited information provided to us by SA Health and DTF shows in the activity indicators:

- that on average, patients admitted to hospital are staying longer than they did five years ago
- higher acuity (complexity) of health services, as inpatient activity (unweighted) decreased but the average length of overnight stays increased.

⁹ Auditor-General's Report 8 of 2022 *Annual report for the year ended 30 June 2022, Part A: Executive summary*, section 6.3.2 'Infrastructure program: risks with high value and complexity'.

We have included additional information on health sector activity in Part C of this report, acknowledging the importance of communicating information that explains the reasons and trends behind health outlays, the highest spending area in the public sector.

Details commence in the section of Part C titled 'Health sector – Overview'.

11.3 Escalating cost of child protection services

Appropriation to the Department for Child Protection from the SA Government was \$781 million in 2023, an increase of \$89 million (13%) from 2022. It included:

- \$5 million in additional funding provided in the 2022-23 mid-year budget review, including funding for specialist services for children and young people in residential care placements and for additional carers in the Department for Child Protection's residential facilities
- \$42 million in additional resources provided for 2022-23 in the 2023-24 State Budget, including funding for increased costs associated with providing care services for children and young people.

Child protection services expenses increased by \$91 million (23%) to \$476 million. This included out-of-home contracted care services, which increased by \$72 million (27%) to \$340 million. The more significant increases relate to the cost of non-family-based care, which increased by \$66 million.

Child protection services expenses have grown faster over the past five years than the increase in the numbers of children and young people in care.

Further details are provided in the section of Part C titled 'Department for Child Protection'.

11.4 Liabilities for insurance and injury scheme provisions rose substantially

The SA Government operates significant insurance and injury schemes for workers and accident victims, and self-insures some of these activities. The main agencies involved are the Return to Work Corporation of South Australia (RTWSA), Lifetime Support Authority of South Australia (LSA), South Australian Public Sector Workers Compensation Scheme through the Office of the Commissioner for Public Sector Employment and the South Australian Government Financing Authority's (SAFA's) insurance division.

Each year, the value of the liability provisions for these obligations is estimated, to provide the basis for deciding fee and investment strategies and to make other decisions. Uncertainty in this estimate continues to particularly affect RTWSA and the LSA because of the relative newness of their insurance arrangements. Despite this uncertainty, the estimation approach is designed to be sufficiently reliable to estimate the value of the liabilities.

The following three sections explain movements in three of the arrangements where substantial rises were experienced in the provision estimates as at 30 June 2023. Details are provided in the respective sections of Part C.

11.4.1 Return to Work Corporation of South Australia

The provision for outstanding claims increased by \$194.4 million. The net outstanding claims provision was \$4.1 billion, including a risk margin of \$596.5 million intended to achieve a 75% probability of sufficiency.

The Return to Work Scheme is not fully funded, with a consolidated funding ratio of 94.7%. The Compensation Fund had net liabilities of \$433.6 million as at 30 June 2023.

11.4.2 Lifetime Support Authority of South Australia

The provision for participant treatment, care and support was estimated to be \$1.7 billion at 30 June 2023, an increase of \$340.8 million. A significant increase in the provision in 2021 reflects the LSA's adoption of risk-free discount rates. The Lifetime Support Scheme is not an insurance scheme.

At 30 June 2023 the Lifetime Support Scheme was partly unfunded, with net liabilities of \$214.2 million. It has a funding ratio of 87.4%, exceeding its minimum target of 75%.

Fund assets adequacy was estimated at 66%, which is below the LSA's historically targeted 75%. This is the probability that the Lifetime Support Scheme will be able to meet its future payment obligations in a run-off situation.

11.4.3 National Redress Scheme for Institutional Child Sexual Abuse

SAFA administers the National Redress Scheme for Institutional Child Sexual Abuse through a separate fund, Fund 4. The Scheme's outstanding claims liability is calculated by an external actuary.

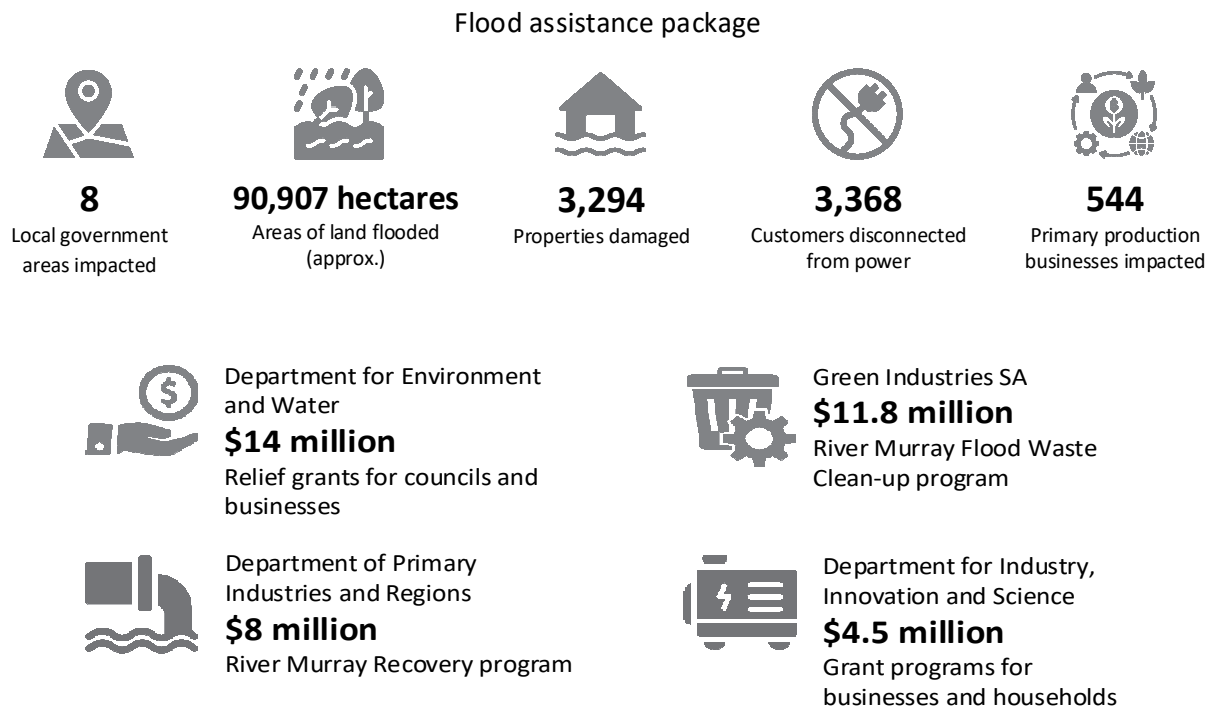
As at 30 June 2023, the outstanding claims liability for Fund 4 was \$174.1 million (\$115.7 million). While the current estimate of claims is above the level of remaining funding provided to date, the estimate is subject to change because the Scheme is open until 2027.

11.5 River Murray flood event

On 21 November 2022 the Police Commissioner declared the River Murray flooding a Major Emergency under the *Emergency Management Act 2004*. The following day a flood recovery coordinator was announced. The flows peaked at the South Australian and Victorian border on 22 December 2022, with flood levels then peaking at Renmark on 26 December 2022 and at Murray Bridge on 9 January 2023.

On 9 February 2023 the Emergency Management declaration (River Murray high flow and flood event) was revoked. Figure 11.1 shows the impact of this flood disaster:

Figure 11.1: Impact of the River Murray flood disaster



11.5.1 Financial assistance

In the 2022-23 mid-year budget review the SA Government announced a \$51.6 million financial assistance package for the River Murray communities, households and businesses impacted by the floods. A further \$142.8 million was announced in the 2023-24 State Budget.

Overall, \$194 million has been allocated to support a number of efforts, including:

- emergency accommodation assistance
- business grants

- primary producer recovery grants
- flood event extraordinary response costs (eg sandbagging, emergency services organisations to lead an extended duration incident management team)
- support for councils
- road repairs
- many other initiatives.

This event called for a coordinated response from many agencies, for both the initial emergency response to the flood and the subsequent recovery response. This recovery response continues into 2023-24. 2022-23 expenditure included the following:

- The Department for Environment and Water spent \$17.5 million in relief grants for councils and businesses.
- Green Industries SA spent approximately \$11.8 million to fund the River Murray Flood Waste Clean-up program.
- The Department of Primary Industries and Regions spent \$8 million on the new River Murray Recovery program, which included primary producer grants of up to \$75,000 to assist with the costs of clean up and recovery, and primary production irrigation grants of up to \$25,000 to assist with the costs of relocation.
- Department for Industry, Innovation and Science spent \$4.5 million on grant programs for businesses and households. This included grants to businesses that experienced forced closure and loss of revenue and support for reinstatement following the floods. It also included grants to business and households experiencing power cuts.

11.6 Asset valuations may change with revisions to AASB 13

In December 2022, the AASB issued amendments to AASB 13 *Fair Value Measurement* that apply to non-financial assets of not-for-profit public sector entities. These changes are the result of efforts by the AASB and stakeholders to address challenges faced in applying AASB 13 in a public sector context. Although the amendments to AASB 13 are not effective until reporting periods beginning on or after 1 January 2024, they are of such a nature that preparations for implementation are required now.

11.6.1 Nature of amendments to AASB 13

The AASB has revisited how valuing an asset with reference to its 'highest and best use' applies to the public sector. Other amendments include requirements for the development of unobservable inputs and application of the cost approach.

The cost approach to measuring fair value, also known as current replacement cost, is commonly used in the public sector for non-financial assets. Revisions to AASB 13 include new guidance on the nature of costs to include in the replacement cost of a reference asset and how any economic obsolescence should be identified and reflected. The AASB has also included illustrative examples to demonstrate how to apply various aspects of the new authoritative guidance.

Assets most likely to be affected are those that are valued using the cost approach, which include specialised buildings, roads and infrastructure. The following provides two examples of amendments to AASB 13 that will need to be considered:

- The revised AASB 13 clarifies that the current replacement cost of the asset should include any site preparation costs (such as earthworks and costs to remove any unwanted existing structures) necessarily incurred in the hypothetical acquisition or construction of the asset.

However, if the site preparation costs are already reflected in the fair value measurement of the land, these costs are not included.

Agencies, in consultation with their valuers, will need to determine whether:

- site preparation costs would necessarily be incurred in constructing a replacement road or building in the same location
 - such site preparation costs are already included in current valuations for those assets
 - such site preparation costs are already explicitly or implicitly reflected in the fair value of the land.
- When using own costs of construction to inform the valuation of assets, consideration must be given to whether any additional costs were incurred from using a piecemeal approach, compared to replacing the asset in its entirety. This is common with replacement of infrastructure such as roads. Where any specific additional costs are identifiable, they should be excluded in determining the overall replacement cost. However, where it is unclear whether costs would differ, the entity would only need to adjust their own construction costs if there is reasonably available information that indicate other market participants would use different inputs.

Despite the clarification, there remains significant judgement in applying the standard to individual assets, and application of the standard will continue to be complex.

11.6.2 Action required by agencies and government

Public authorities are generally required to hold non-financial assets at fair value and, as a result accounting standards, need to regularly consider whether the fair value of assets materially differs from their carrying amount. Under the Treasurer's Instructions, public authorities are also required to obtain a valuation from a qualified valuer at least every six years.

To avoid unnecessary costs, agencies should ensure that any valuations obtained from now on contemplate the effects of the revised AASB 13, despite the mandatory application date not being until 2024-25 for most agencies. Entities whose next valuation from a qualified valuer is not required until after 2024-25 will still need to determine whether the amendments are likely to result in material changes, and if so either obtain a valuation from a qualified valuer ahead of schedule or reassess fair value to ensure the reported values reflect the new requirements.

When liaising with valuers about the changes, agencies should also consider seeking expertise to inform fair value assessments in the years between formal revaluations. This may range from seeking advice about appropriate indices that can be used by management in those years without involvement from the valuer, to including annual desktop reviews as part of the valuation services procured.

This is becoming increasingly important in the context of rising costs and labour shortages, and changes in the market which mean formal revaluations, or other information about market movements, need to be obtained more frequently.

We expect 2023-24 financial reports to disclose the expected impacts of the changes, including any quantitative information available, in line with AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors* requirements for standards issued but not yet effective.

Given the important role DTF plays in policy setting and the significance of assets to the State's balance sheet, DTF should take a lead role in the implementation of the standard, by engaging with key agencies and valuers to understand how the existing approaches align to the guidance, and to ensure a robust and consistent approach is taken to achieve compliant valuations going forward, while appropriately considering the associated costs and benefits.

We will relate with agencies in the coming year about their implementation plans and progress. Agencies should provide position papers and supporting evidence endorsed by audit committees to support any conclusions they reach.

11.7 Observations on key government sector spending

11.7.1 General government capital expenditure in 2022-23

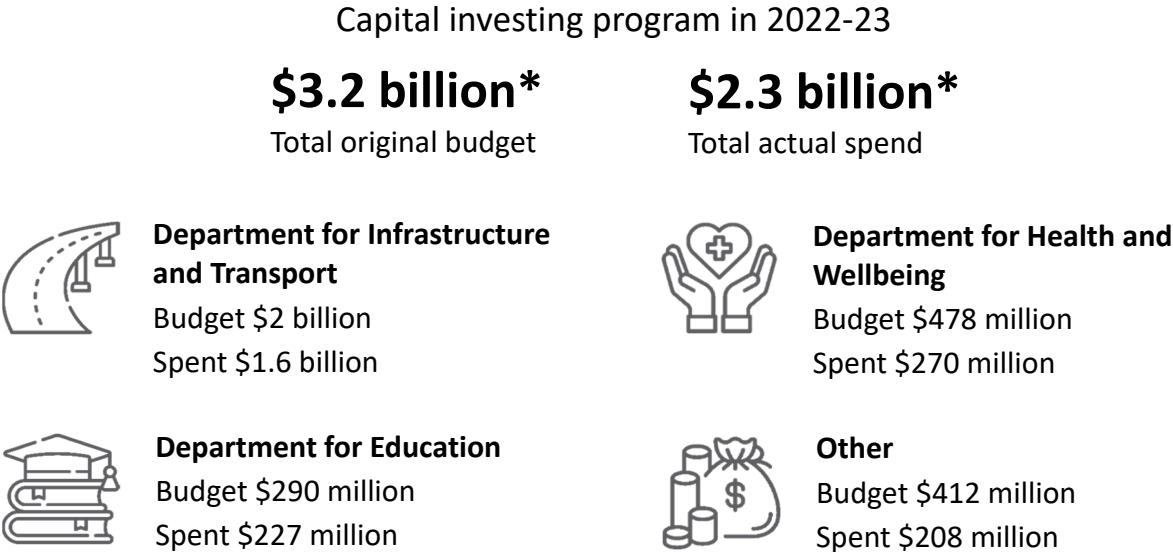
Each year the agencies we audit undertake significant construction projects. These projects are generally undertaken by agencies for which this is a core activity. The SA Government's infrastructure agency, the Department for Infrastructure and Transport (DIT), is responsible for managing construction projects in the civil and building (commercial) construction sectors.

This section outlines the capital expenditure incurred in 2022-23 across the general government sector, where the expenditure occurred and the progress of some of the more significant major projects.

In 2022-23 the general government sector incurred \$2.3 billion of capital expenditure for its major projects and annual programs. These figures were provided by DTF at a point in time. Further minor adjustments were still being processed at the time of this report.

The portfolios that make up most of this spend are identified in figure 11.2.

Figure 11.2: General government capital expenditure for 2022-23*



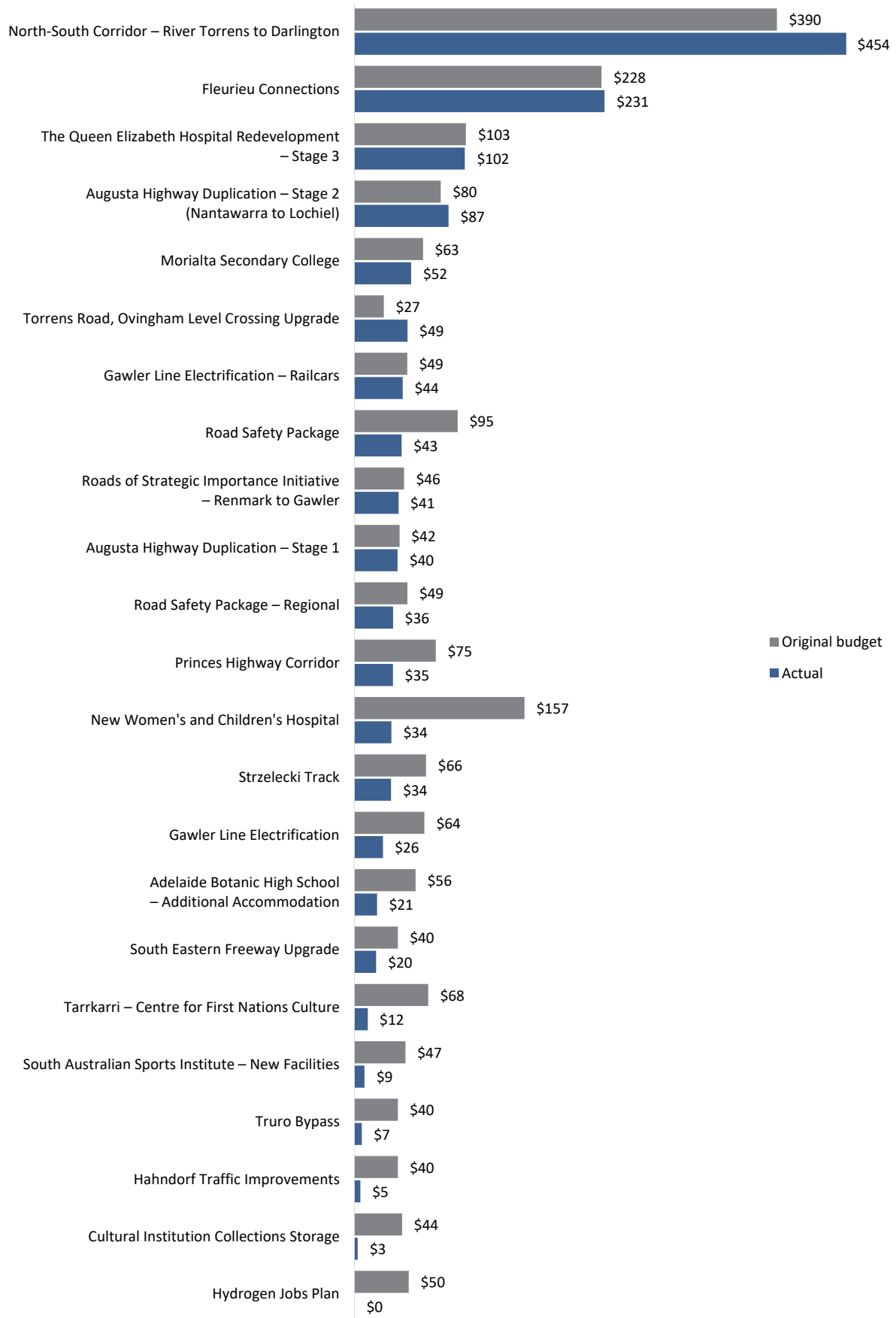
* Data provided by DTF and unaudited. The budgeted amount is the 2022-23 original budget.

11.7.1.1 Significant general government major projects

Figure 11.3 shows the individual general government major projects that have incurred expenditure above \$40 million, or that have original budgeted expenditure for 2022-23 above \$40 million.

The budgeted figures are the original 2022-23 budget figures and do not include any revised amounts since the release of the 2022-23 State Budget in June 2022.

Figure 11.3: General government major projects spend for 2022-23 (\$million)



Source: Data provided by DTF and unaudited.

There are many reasons why there are variations between a project's budget and actual spend. In instances where less is spent, the agencies, if appropriate, will seek carryovers of their budget to the following year. Where more than originally budgeted is spent, often it reflects changes to scope, costs or timing. An example of where more may be spent is where it is identified during the project that it is more efficient to undertake works concurrently, rather than in different stages.

Variations can be due to differences in the timing of expenditure and delays that are inherent in most capital works projects.

Some of the major projects shown in figure 11.3 and the reasons for the differences between their actual spend in 2022-23 and their budgeted spend are as follows:

- The Cultural Institution Collections Storage project incurred expenditure of \$2.9 million in 2022-23, \$41 million less than budgeted. The reduced spending compared to budget reflects that initial cost estimates were higher than anticipated and the project is being re-scoped. It is anticipated the project will be delivered approximately 15 months later than originally planned in March 2025.
- The North-South Corridor (River Torrens to Darlington) project spent \$454 million in 2022-23. This was \$64 million more than budgeted. DIT advised us that this increased expenditure reflected a number of property owners approaching it for early land acquisition.
- The Princes Highway Corridor works incurred costs of \$35 million in 2022-23, \$40 million lower than budgeted. The reduced spending reflects later than anticipated contract award and weather impacts, which delayed construction.
- \$50 million was originally budgeted to be spent on the Hydrogen Jobs Plan in 2022-23, but the timing has been revised to reflect that the associated procurement is expected to be finalised in October 2023, with no costs incurred in 2022-23.
- The Strzelecki Track project was delayed due to commercial negotiations, design delays and a significant rain event that closed the road. \$34 million was spent in 2022-23, \$32 million less than originally budgeted.
- The new South Australian Sport Institute facilities project did not commence until late 2022-23 because of changes in scope and costs meant additional reviews were required. \$9.1 million was spent in 2022-23, \$37.9 million less than originally budgeted.

11.8 Public finances

The 2022-23 estimated net operating balance has deteriorated by \$482 million since the 2022-23 State Budget to a \$249 million deficit. This is due to a range of factors including:

- additional expenditure initiatives to respond to COVID-19
- additional hospital activity funding
- costs for the River Murray flood event response
- higher than expected interest expenses.

Most of the deterioration occurred in the period between the 2022-23 mid-year budget review and the 2023-24 State Budget.

The estimated increase in total expenses is partly offset by higher than expected revenue (\$871 million), mainly due to upward revisions to GST grant revenue (\$324 million) and higher taxation revenue (\$326 million).

We intend to deliver a separate report on the State finances and related matters in November 2023.

11.8.1 Treasurer's statements for 2022-23

The Treasurer's statements reflect the financial transactions of the Treasurer as shown in the accounts and records of the Treasurer. The main public accounts are the Consolidated Account, special deposit accounts and deposit accounts established under the PFAA.

The Consolidated Account is credited with all revenue of the Crown that is not authorised by law to be credited to any other account. Money must not be issued or applied from the Consolidated Account except under the authority of Parliamentary appropriation. There is significant financial activity outside of the Consolidated Account in approved special deposit accounts and deposit accounts.

The Consolidated Account result for 2022-23 was a deficit of \$1.3 billion, \$1.7 billion lower than the budgeted deficit of \$3.1 billion. The lower deficit was mainly due to higher taxation revenue, higher Commonwealth general purpose receipts and higher recoveries. Overall receipts were \$1.8 billion higher than budget.

Total recoveries included \$436.9 million from the return of cash to the Consolidated Account under the SA Government's cash alignment policy. This is an annual unbudgeted receipt as shown in the Treasurer's statements that is decided on during a financial year. In 2021-22 \$799.8 million was returned. These returns lift total receipts and assist the Consolidated Account from year to year, while reducing special deposit account balances.

Total payments were \$102 million higher than budget. Total payments from the Consolidated Account of \$17.14 billion were within appropriation authority of \$17.574 billion (see Statement K of the Treasurer's statements).

The balance of funds on hand in special deposit accounts (\$8.56 billion) and deposit accounts (\$1.51 billion) collectively decreased marginally by \$12 million.

The SA Government's indebtedness to SAFA increased to \$24.63 billion in 2022-23 from \$23.328 billion. This was mainly due to the \$1.3 billion Consolidated Account deficit for 2022-23.

The Treasurer's statements are available on the Auditor-General's Department website (www.audit.sa.gov.au) and a summary of key items is provided below.

11.9 Summary of key items in the Treasurer's statements

The Consolidated Account outcome is summarised below.

11.9.1 Summary of the Consolidated Account for the year ended 30 June 2023

	Budget \$000	Actual \$000
Receipts		
Taxation	4,759,830	5,248,707
Commonwealth general purpose grants	7,378,211	7,899,150
Commonwealth specific purpose grants	225,745	232,292
Commonwealth National Partnership payments	84,029	53,586
Contributions from state undertakings	278,357	175,612
Fees and charges	608,835	651,568
Recoveries	111,234	727,630
Royalties	385,986	379,172
Other receipts	136,385	444,132
Total receipts	13,968,612	15,811,849
Payments		
Appropriation Act	16,873,194	16,998,303
Specific appropriation authorised in various Acts	165,658	142,266
Total payments	17,038,852	17,140,569
Consolidated Account deficit	3,070,240	1,328,720

12 Local government

Each year, we perform audit work on aspects of local government. We are not the financial auditor for any of the State's 68 councils or their related bodies. We select areas to report on from across the sector based on applying criteria aimed at identifying matters of most relevance at a point in time.

The scope of the sector is evident from the 2021-22 financial data for the sector which reports:

- total assets of \$29.3 billion
- total operating income of \$2.7 billion
- total operating expenses of \$2.5 billion.

The limited resources we have for this responsibility means we usually aim to select up to two topics at two councils to work on concurrently. Completing these reviews can cross over financial years.

Our most recent report was Report 4 of 2023 *Management of Community Wastewater Management Systems*. Our review assessed whether the Berri Barmera Council and the Yorke Peninsula Council effectively managed their Community Wastewater Management Systems (CWMS) networks in a way that demonstrated:

- a safe and reliable service was provided
- financial sustainability over the network's useful life.

We concluded that both Councils had successfully removed and treated wastewater collected from properties connected to their CWMS networks over the period we reviewed.

We concluded that fundamental areas of the Berri Barmera Council's management of its CWMS network were not operating effectively. Consequently, the Berri Barmera Council is not able to demonstrate that its CWMS network is being managed in a way that is financially sustainable over its useful life. This increases the risk of its CWMS network failing to provide a safe and reliable level of service in the medium to long term.

We concluded that some key areas of the Yorke Peninsula Council's management of its CWMS network were not operating effectively.

See our full report for more information.

Appendix – Abbreviations used in this report

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

AASB	Australian Accounting Standards Board
AASB 13	Australian Accounting Standard AASB 13 <i>Fair value measurement</i>
AGFMA	Across Government Facilities Management Arrangements
AI	Artificial Intelligence
ANCOLD	Australian National Committee on Large Dams
ASA	Auditing Standard
AUASB	Auditing and Assurance Standards Board
CWMS	Community Wastewater Management Systems
DIT	Department for Infrastructure and Transport
DPC	Department of the Premier and Cabinet
DTF	Department of Treasury and Finance
EMR	Electronic medical records system
EMS	Education Management System
FTE	Full-time equivalent
HCMS	Head contractors for maintenance services
IFRS	International Financial Reporting Standards
IPSASB	International Public Sector Accounting Standards Board
ISSA	International Standard on Sustainability Assurance
ISSB	International Sustainability Standards Board
ITGC	Information technology general controls
LSA	Lifetime Support Authority
NGER Act	<i>National Greenhouse and Energy Report Act 2007</i>
OCPSE	Office of the Commissioner for Public Sector Employment
ORSR	Office for Recreation, Sport and Racing
PFAA	<i>Public Finance and Audit Act 1987</i>
RBA	Reserve Bank of Australia
ROM	Rough order of magnitude
RPG	Recommended Practice Guideline
RTWSA	Return to Work Corporation of South Australia
SAFA	South Australian Government Financing Authority
SAHT	South Australian Housing Trust
SA Water	South Australian Water Corporation
Ventia	Ventia Australia Pty Ltd

