

Report of the Auditor-General



Report 8 of 2023

Annual report

for the year ended 30 June 2023

Part B: Controls opinion



**Government of
South Australia**

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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

*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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1 Executive summary

Controls opinion

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

- 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.

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

Part A of this annual report outlines my reasons for qualifying my opinion and the documentation I was not able to access.

Agencies included

56 public authorities were included in the various areas of our controls opinion audit program. Specific focus was on those agencies processing material levels of financial transactions in 2022-23.

Key areas of review

Our control reviews focused on several areas of financial transaction processing, but we had a particular focus in 2022-23 on:

- procurement and contract management
- asset management (including the Across Government Facilities Management Arrangements (AGFMA))
- employment screening checks
- staff performance management
- delegations and approvals.

Key outcomes

My controls opinion is qualified in the area noted above. This means the controls in place for that matter do not, in my opinion, meet the standard required.

I also note the limitation on my ability to conclude on whether some transactions were undertaken properly and in accordance with law due to my inability to access some of the documentation I sought for the purpose of my work for this opinion. This included not being able to access some business cases prepared, on the grounds that they were Cabinet documents.

In other areas we reviewed, we also identified issues. Some are significant and some recurring, but we did not identify systemic weaknesses in controls across the SA Government.

The broad nature of my opinion under the *Public Finance and Audit Act 1987* (PFAA) is such that, in my opinion, issues would need to be very significant or fundamental to warrant modifying it.

In addition to the reason for qualifying the opinion this year and identifying a limitation on the scope of our work, we identified a number of common themes and issues. This includes some that are of fundamental importance to good public financial administration. While they were identified at individual agencies, all public sector agencies need to consider them as part of ensuring they have sound financial management control practices in place.

I again draw attention to the continuing significant contract management issues we identified at a number of agencies.

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

Entering into these contracts does not remove the risks related to providing the services involved from the public authority. At times, it can increase these risks or introduce new ones. If the risks are not effectively managed through sound contract management practices, it may result in increased costs to the State and loss of services.

Key issues

Key issues we identified were as follows:

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

2 Introduction

Each year I issue an opinion on whether the controls exercised by the Treasurer and public authorities in relation to a range of financial transactions are sufficient to provide reasonable assurance that those transactions have been conducted properly and in accordance with law. I consider this requirement a vital responsibility of the Auditor-General.

The PFAA empowers the Auditor-General to decide how to carry out the functions or exercise the powers under the PFAA and the priority given to a matter in carrying them out.

This year I have qualified my opinion, as I outline in the executive summary.

I also noted that I was unable to access all the documentation I sought for some specific matters in 2022-23, as it was either in a Cabinet submission or attached to one. I list the specific matters I sought documentation for in section 4.1.2, noting that it includes approval documentation for some very significant capital projects.

Due to this limitation on my ability to access the documentation I needed to form a conclusion, there is a limitation of scope to my opinion for transactions relating to these significant projects and whether they have been undertaken properly and in accordance with law. Given the significance of this outcome, I have documented my reasoning for it in Part A of this annual report.

I also continue to report significant gaps in the whole-of-government control environment, particularly for asset management, contract management, procurement and payroll. In my executive summary to Part B in 2021-22, I drew attention to the continuing significant contract management issues we identified across many agencies and the consequential risks that arise from them. We again identified significant gaps in 2022-23.

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

In this section I explain my controls opinion responsibilities under the PFAA and our approach for 2022-23. Section 3 explains our audit coverage and section 4 contains the significant control matters we identified this year in our controls opinion audit program.

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

2.1 Background

2.1.1 Controls are important

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

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

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

2.1.2 The Auditor-General must express an opinion on controls

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

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

In performing our audit work for this opinion we use relevant criteria to assess whether controls conform to established standards of financial management practice and behaviour. The primary sources of these criteria are laws, regulations, instructions (such as Treasurer’s Instructions) and agency policies. Where these sources are absent, we consider generally accepted standards of financial management practice and behaviour, especially where other Australian jurisdictions have issued authoritative guidance.

Assessing what is reasonable is a matter of judgement and circumstance having regard to facts, changing practices, expectations and behaviours. Fundamental principles that underpin our audits of controls include public accountability, integrity, financial probity and propriety, discharging responsibilities within the letter and spirit of the law, and value for money. They are inherent values and essentially do not change over time.

However there is still a significant amount of judgement involved, and auditors and management will sometimes disagree.

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

An important outcome of our audits is to communicate significant audit findings to those charged with governance. This may be a board chair or chief executive or the Parliament. This is a prudent and valuable outcome from the audit, an obligation under the PFAA and a professional responsibility under Australian Auditing Standards.

2.1.3 What the controls opinion means

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

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

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

The procedural fairness process results in auditors and management agreeing on most audit findings and recommendations. It is then up to agencies to determine whether to adopt these recommendations.

Agencies have regard to their view of risks, costs and benefits. Occasionally, they put forward reasons for not accepting our recommendations. The primary differences in our views arise where agencies decide that their existing practices sufficiently address any risk involved.

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

2.2 Our approach

2.2.1 The 2022-23 controls opinion approach

Our 2022-23 approach to forming the controls opinion started from a whole-of-government perspective. The population we consider for the opinion is the agencies we are required to audit, including the general government sector, public financial and non-financial corporations and universities.

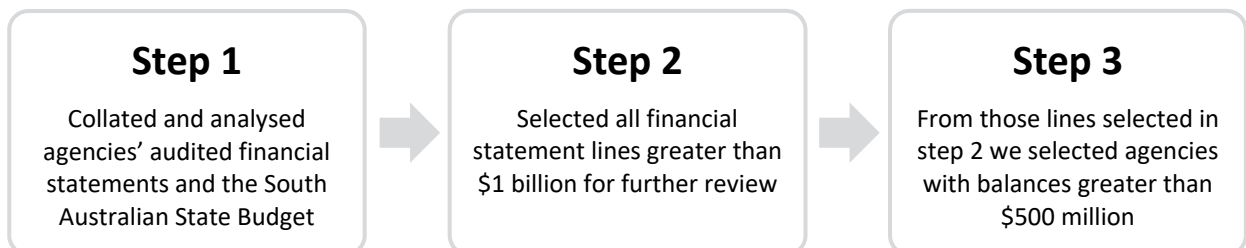
To produce our 2022-23 controls opinion audit program, we considered key quantitative and qualitative factors.

Figure 2.1: Developing our controls opinion audit program



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

Figure 2.2: Determining quantitative significance



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

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

The agencies and areas we identified formed the 2022-23 controls opinion audit program, which is outlined in section 3. The significant outcomes from our audit work are discussed in section 4.

2.2.2 What controls to audit

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

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

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

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

Section 3 explains what we decided to review in 2022-23.

3 Coverage

This section explains our areas of focus in 2022-23 for the controls opinion required by the PFAA. It outlines the agencies we audited, the types of transactions we focused on and the key areas we reviewed.

Not all agencies we audit are included in our controls opinion work. This does not mean that we have not reviewed their control environments. Australian Auditing Standards require us to gain an understanding of the control environment of each agency and, where appropriate, to test controls as part of our financial audits.

The more significant findings we identify through these financial audits are discussed in Part C for the agencies included in this annual report. We will release a separate report later on the outcomes of our financial audits of the agencies that are not in this report, including details of our more significant findings.

In any year we might choose to conduct extended reviews that could also inform the whole-of-government controls opinion.

We also conduct several performance audits each year, which at times involves reviewing specific controls. We provide individual reports to Parliament on the outcomes of these audits and the details of any matters we identified.

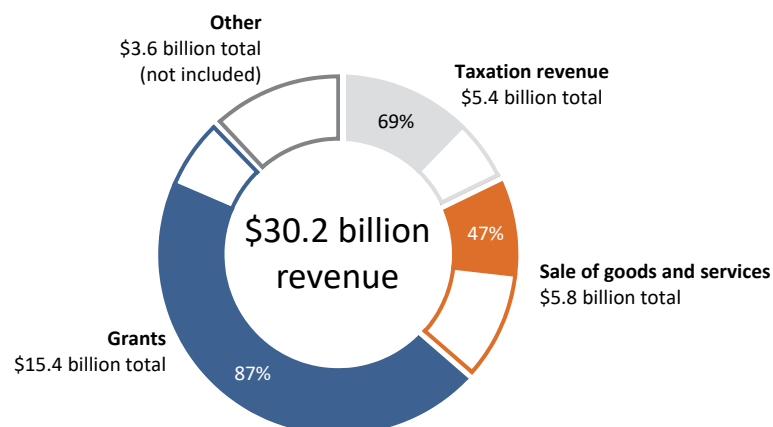
3.1 Revenue coverage

The agencies we audit receive around \$30.2 billion each year. Applying sound financial management practices and complying with legislation in the receipt of this money are fundamental to them being able to deliver their outcomes.

We reviewed revenue across these agencies and applied our quantitative and qualitative factors to identify where we would focus our 2022-23 controls opinion work.

Overall, we reviewed selected controls for \$19.8 billion of revenue transactions. Figure 3.1 shows our coverage across the different types of revenue.

Figure 3.1: Revenue covered by our controls opinion audit in 2022-23



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

3.1.1 Key areas of coverage

Taxation revenue: \$3.7 billion reviewed

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

Grant revenue: \$13.4 billion reviewed

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

Sale of goods and services revenue: \$2.7 billion reviewed

We reviewed selected controls over transactions for:

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

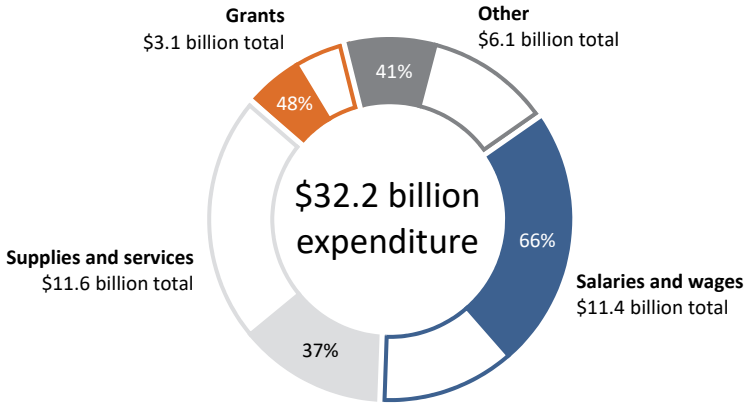
3.2 Expenditure coverage

In 2022-23 the agencies we audit spent around \$32.2 billion. Applying sound financial management practices to this expenditure and ensuring it is spent in line with the law are significant to them being able to deliver their outcomes.

We reviewed expenditure across these agencies and applied our quantitative and qualitative factors to identify where we would focus our 2022-23 controls opinion work.

Overall, we reviewed selected controls for \$15.9 billion of expenditure transactions. Figure 3.2 shows our coverage across the different types of expenditure.

Figure 3.2: Expenditure covered by our controls opinion audit in 2022-23



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

3.2.1 Key areas of coverage

Supplies and services: \$4.3 billion reviewed

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

- SA Health – DHW, CALHN, SALHN and NALHN
- Department for Education
- DIT
- whole-of-government procurements.

We also reviewed selected controls at Shared Services SA (SSSA) over the processing of approximately 3.2 million invoices a year on behalf of many agencies.

Our review focused on:

Delegations and approvals

Ensuring expenditure is appropriately authorised reduces the risk of incurring expenditure that does not achieve value from spending public money.

Procurement and contract management

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

Salaries and wages: \$7.5 billion reviewed

Over \$11 billion of salaries and wages are paid annually across the agencies we audit, to over 115,000 staff. We reviewed selected controls over salaries and wages transactions at:

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

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

Our review focused on:

Workforce planning

Adequate planning supports agencies in achieving their objectives while helping to plan for future business needs. It helps mitigate increased costs associated with temporary staffing solutions.

Performance management processes

Effective performance management systems ensure employees are aware of their expected performance standards and whether they are achieving them. Active management of performance supports agencies in achieving their objectives.

Hiring processes including employment screening checks

Adequate checks during the hiring process and subsequent monitoring ensure agencies comply with relevant legislation, lessening risk to staff and the public.

Review of payroll reports

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

Interest expenses: \$1.5 billion reviewed

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

Maintenance expenditure: \$358 million reviewed

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

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

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

Grant expenses: \$1.5 billion reviewed

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

We also reviewed the management of payments made under Treasurer’s Instructions 15 *Grant Funding*, through DIT and the Office for Recreation, Sport and Racing, for election commitments made by the SA Government (in addition to the \$1.5 billion identified above).

Other expenses: \$708 million reviewed

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

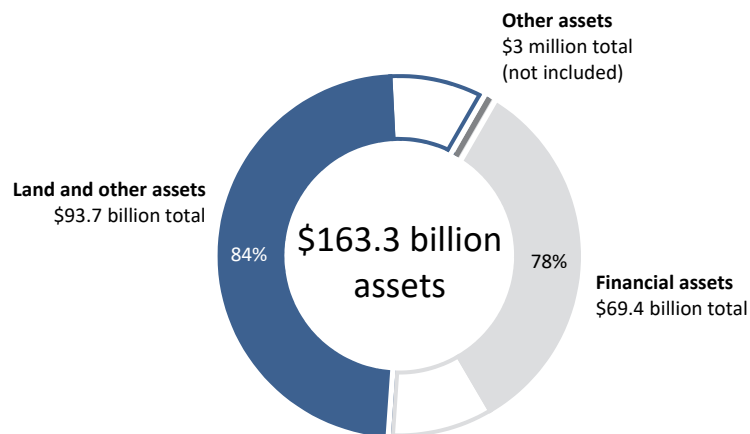
3.3 Asset coverage

The agencies we audit have assets worth around \$163.3 billion. Applying sound financial management practices in the investment of money and the acquisition and disposal of assets, and ensuring it is performed in line with the law, are fundamental to these agencies delivering their outcomes.

We reviewed the asset balances held and applied our quantitative and qualitative factors to identify the agencies and balances we would audit for the 2022-23 controls opinion.

Overall, we reviewed selected controls for \$133 billion of assets. Figure 3.3 shows our coverage across the different types of assets held.

Figure 3.3: Asset covered by our controls opinion audit in 2022-23



3.3.1 Key areas of coverage

Land: \$12.2 billion reviewed

We reviewed selected controls over land assets at:

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

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

Heritage assets: \$820 million reviewed

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

Investments: \$51 billion reviewed

We reviewed selected controls over investments at:

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

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

We also reviewed selected controls over \$1 billion of investments held in the Public Trustee's common funds. These are investments managed by the Public Trustee on behalf of members of the public and organisations.

We have not listed the Public Trustee's investments in figure 3.3 as they are not considered to be assets of the Public Trustee. They are held in trust. We reviewed whether these investments are managed properly and in line with the law because of their quantitative significance, the purpose of this investment portfolio and the SA Government's responsibility as manager of assets in trust. Our areas of focus were similar to those for SAFA, Funds SA and RTWSA.

Loans and advances: \$3 billion reviewed

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

Inventories: \$435 million of land inventory reviewed

We reviewed selected controls at the Urban Renewal Authority for transactions relating to the acquisition, holding, development and sale of land.

Areas of review included planning and approval for acquisitions, holding, developing and disposing of land inventories, procurement and contract management processes for the development of land and the associated compliance with legislative requirements.

Asset management

**Infrastructure assets:
\$45.2 billion reviewed**

**Buildings and improvements:
\$20.4 billion reviewed**

The link between this work and the expenditure controls opinion program

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

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

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

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

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

For 2022-23 the focus of our controls work over asset management was that:

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

Capital projects (work in progress)

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

- DIT (in its own right and managing projects on behalf of other agencies)
- SA Water
- SAHT

- Department for Education
- SA Health – DHW
- Office for Recreation, Sport and Racing.

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

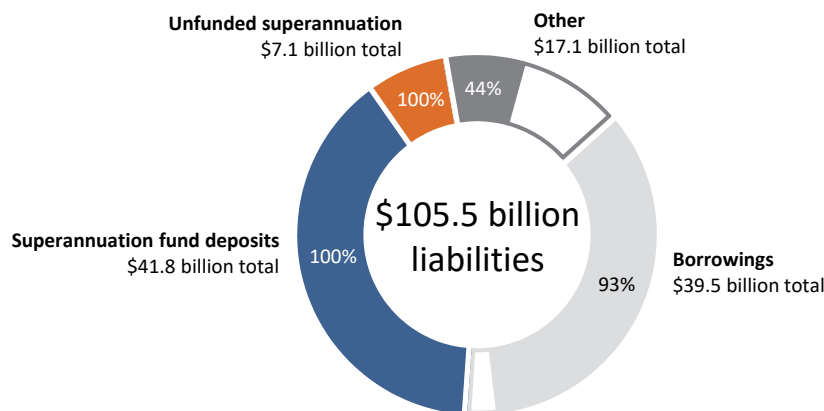
3.4 Liabilities coverage

The agencies we audit have around \$105.5 billion of liabilities. Applying sound practices in incurring and managing liabilities is critical to ensuring sound financial management. The incurring of liabilities must also comply with the law.

We applied our quantitative and qualitative criteria to identify the agencies and balances we would audit for the 2022-23 controls opinion.

Overall, we reviewed selected controls for \$93.1 billion of liabilities. Figure 3.4 shows our coverage across the different types of liabilities held.

Figure 3.4: Liabilities covered by our controls opinion audit in 2022-23



3.4.1 Key areas of coverage

Borrowings: \$36.7 billion reviewed

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

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

Superannuation fund deposits: \$41.8 billion reviewed

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

Unfunded superannuation liability: \$7.1 billion reviewed

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

Employee benefit liabilities: \$696 million reviewed

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

Outstanding claims: \$6.8 billion reviewed

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

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

3.5 Treasurer's statements

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

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

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

4 Outcomes

This section details the significant outcomes informing the controls opinion the Auditor-General gives under the PFAA.

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

4.1 Qualification of controls opinion

This year I have qualified my annual controls opinion. I have also drawn attention to my inability to form an opinion for some significant aspects of specific projects outlined below, where I requested Cabinet submissions but they were not provided.

Part A of this annual report expands on the reasons for the qualification and inability to form an opinion more fully, but they are summarised below.

4.1.1 Processes to select the recipients and determine the value of sporting and local infrastructure grants paid in 2022-23 as a result of election commitments

I have qualified my opinion in relation to the processes to select the recipients and determine the value of sporting and local infrastructure grants paid in 2022-23 as a result of election commitments. These processes occurred outside of the usual public sector framework for government grants. Consequently, I was not able to verify that the controls that would be expected to operate over determining these grants existed or were applied.

Subsequent processes for managing these grants, such as entering into grant agreements and making grant payments, did occur within the usual public sector framework, and therefore the controls operating over these elements were sufficient.

For the reasons I explained in Part A of my annual report in 2021-22, I consider it to be in the public interest that all elements of any process to award significant government funds to individual projects should be undertaken strictly within the public sector frameworks that exist to support them.

4.1.2 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 of administrative processes in South Australia. In particular, Cabinet approval is 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*.

In 2022-23, I sought access to evidence of Cabinet approvals to be able to conclude on whether transactions had been undertaken 'properly and in accordance with law' as required by the PFAA.

I was not provided with evidence of those approvals and so **I am unable to form an opinion** on the extent to which transactions associated with those approvals have been undertaken properly and in accordance with law. I sought evidence of approval as required by established frameworks in 2022-23 for:

- 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 to country local health networks
- approval for the procurement process for the replacement of Masterpiece as the main accounting system used by most of SA Government agencies
- approval for the contracts for SAHT maintenance services
- approval of the Department for Education's waste management service contract
- approval of 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 documentation sought.

4.2 Contract management

4.2.1 Summary of findings and recommendations

What we found

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

- opportunities to improve agency policies and procedures, particularly in the application of Treasurer's Instructions 18 *Procurement* (TI 18) and Procurement Services SA policies and procedures
- instances where contract management plans were not in place, were outdated or did not address all key areas of contract management
- that contract management practices did not always ensure key contractual and legislative requirements were met
- that contract management processes did not always demonstrate a clear understanding of risks to the agency, how they were managed and whether the responses were effective
- that contract management practices did not always ensure all aspects of the arrangements were assessed through appropriate measurement and reporting of KPIs and annual reviews
- opportunities for agencies to strengthen their responses to risks over the accuracy and completeness of contract performance information provided by suppliers
- opportunities to strengthen assessment and approval processes for contract variations
- that contract registers were incomplete or not updated
- instances where contract meetings with suppliers were not held or were held with no documented outcomes
- an instance where an agency was not effectively monitoring or appropriately approving expenditure incurred under the contract.

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

These findings do not include the significant findings from our review of the AGFMA (see section 4.5.1).

What public authorities should do

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

Having comprehensive policies and procedures

that are communicated to staff and that reflect contract management processes specific to the agency, which should reflect the new procurement and contract management framework and other relevant guidelines

Identifying responsible contract managers

clearly identifying staff who are responsible for contract management and the expectations attached to their roles, and providing support and training to them

Having access to up-to-date contract price schedules

ensuring staff responsible for approving charges under contract arrangements can verify that the agency is paying the correct amount

Implementing contract management plans

that accurately reflect the contract requirements, as well as meeting the new framework requirements and other relevant rules and guidelines

Actively managing contracts

to ensure deliverables occur as contracted and performance indicators or targets are effectively monitored

Having contract registers

to understand the contracts they are party to, by listing them in a contract register

Contract variations

need to be assessed and approved prior to implementation

Having evidence to support their contract management activities

eg minutes of meetings, copies of correspondence

4.2.2 Background

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

For 2022-23 contract management practices should reflect public sector rules such as those established by the PFAA, *Public Sector Act 2009*, Premier and Cabinet Circular PC 028 *Construction Procurement Policy: Project Implementation Process (PC 028)* and Treasurer’s Instructions.

From 2021-22 a new Treasurer’s Instruction, TI 18, applied to procurement and contract management practices. It is supported by a policy framework that includes a governance policy, procurement planning policy, sourcing policy, contract management policy and subordinate schedules. It is the responsibility of public authorities to have in place systems, processes and procedures to comply with this new framework.

Under the old *State Procurement Act 2004* arrangements, several public authorities were listed as prescribed public authorities and established their own procurement and contract management frameworks. From 1 July 2022, however, these public authorities were captured by the new framework for general procurement.

From February 2023 the new framework also extended to construction-related procurements up to a specified value.

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

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

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

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

Our findings are discussed in the following sections.

4.2.3 Contract management plans were not documented or used in managing many significant contracts we reviewed

We reviewed what plans agencies had in place to effectively manage their contract arrangements for several significant contracts.

A contract management plan is an important tool in managing a significant contract. All contracts rated as either complex or strategic require a contract management plan. It should contain key information about how the contract will be managed over its term to ensure value for money is achieved. It can be supported by a range of other plans such as those for risk management, transition and probity.

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

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

4.2.4 Improvement required when monitoring compliance and performance measures in a contract

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

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

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

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

Our review of a sample of contracts continued to find instances where monitoring contract performance needed to improve, including:

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

4.3 Procurement

4.3.1 Summary of findings and recommendations

What we found

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

We found instances where:

- agency policy and procedures had not been updated for TI 18 requirements or did not clearly identify procurement responsibilities
- agencies did not comply with key reporting and review requirements of Treasurer's Instructions, Procurement Services SA and Tenders SA
- procurement authorisation listings were not always updated or reviewed
- key records were missing or incomplete, including complexity assessments and an acquisition plan
- key information was inconsistent between different procurement documents, including between the purchase recommendation and contracts
- procurement capability was not assessed
- deviations to acquisition plans were not approved appropriately
- conflict of interest documents and confidentiality agreements could not be located or were not completed
- post-sourcing reviews were not performed.

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

What public authorities should do

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



4.3.2 Background

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

In 2022-23 procurement practices should reflect public sector rules such as those established by the PFAA, *Public Sector Act 2009*, PC 028 and Treasurer's Instructions.

In section 4.1.1 we noted that a new TI 18 was issued, applicable from 2021-22. Under the old *State Procurement Act 2004* arrangements, several public authorities were listed as prescribed public authorities and established their own procurement and contract management frameworks. From 1 July 2022 these public authorities were captured by the new framework for general procurement. Then, from February 2023, the new framework also extended to construction-related procurements up to a specific value.

The new procurement framework centres on five key principles:

- achieving value for money by finding the optimum balance between whole-of-life cost and quality
- supporting and strengthening collaborative relationships by agencies placing the needs of their clients and communities at the centre of their procurement and contracting practices
- maximising the opportunity for South Australian business participation
- promoting innovation through outcomes-based procurement

- maintaining probity, accountability and transparency in all procurement activities.

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

4.4 Asset management – infrastructure, buildings and improvements

4.4.1 Summary of findings and recommendations

What we found

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

- continued opportunities to improve asset management policies and plans
- instances where risks identified for significant asset classes were not effectively recorded and managed
- opportunities to improve the measuring, monitoring and reporting of levels of service and performance measures for assets, particularly when they were managed under a contract
- an instance where an agency had not ensured that an asset class was maintained in a safe, fit-for-purpose condition
- criticality ratings not being consistently applied to assets, and the methodology behind this not being documented
- instances where asset condition assessments were overdue, incomplete or not recorded in the asset system
- an instance where the maintenance agreement for a significant asset was no longer fit-for-purpose
- opportunities to strengthen the evidence supporting the adequacy of maintenance works performed under contract arrangements opportunities to improve the oversight of significant assets under contract arrangements (see contract management issues raised in section 4.2.1).

Our audit of asset management over infrastructure, buildings and improvements for agencies who participate in the AGFMA focused on the AGFMA arrangements (see further findings in section 4.5.1). For agencies who participate in the AGFMA, we found instances where:

- asset management policies and frameworks necessary for sound financial management of buildings and improvements were still being developed but not implemented
- memorandums of administrative arrangements with DIT outlining roles and responsibilities under the AGFMA were not finalised
- asset data verification and condition assessments were not complete
- annual service delivery plans for planned maintenance with Ventia had not been approved
- the review of user access to the maintenance system where maintenance jobs are initiated and approved needed to improve.

What public authorities should do

Large infrastructure agencies should:

<p>Review and update their asset management policies and plans</p> <p>ensure their policies and procedures for procuring supplies, services and assets are clearly documented and communicated, and that staff adhere to them</p>	<p>Clearly communicate roles and responsibilities</p> <p>clearly communicate to staff their roles and responsibilities for asset management and provide them with adequate training to build their asset management capability</p>
<p>Monitor controls</p> <p>ensure adequate monitoring controls are in place for assets managed under contract arrangements</p>	<p>Regularly report on risks</p> <p>ensure risks are identified, appropriately managed and reported on regularly</p>
<p>Identify, measure and report service levels and performance measures</p> <p>ensure the levels of service and performance measures for assets are identified, measured and reported to ensure they deliver on service expectations</p>	

Agencies who participate in the AGFMA should:

Develop asset management policies and procedures based on reliable data
continue to develop their asset management policies and plans and ensure they are adequate for the size, complexity and nature of the assets they own. Plans should be based on reliable data

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

Liaise with Ventia and DIT
continue to liaise with Ventia and DIT to finalise the roles and responsibilities of all parties in the new AGFMA

4.4.2 Background

The agencies we audit are responsible for over \$60 billion in infrastructure, buildings and improvements.

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

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

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

Our review included agencies that manage their own asset maintenance and have extensive infrastructure portfolios, such as SA Water, DIT, SAHT and the Urban Renewal Authority. The three South Australian public universities were also included as they manage their own assets.

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

Our AGFMA findings are in section 4.5.1. We also followed up individual agencies' progress on documenting their asset management policies and procedures. We will review their asset management practices in more depth in future years, as the new AGFMA arrangements settle.

Our asset management findings are discussed in the following sections. We also noted significant matters relating to significant infrastructure assets maintained under contract arrangements, such as jetties, heavy and light rail and some buildings. Some of the issues that relate to contract management practices are discussed in section 4.2.1.

4.4.3 Governance arrangements continue to need improvement

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

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

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

4.4.3.1 Large infrastructure agencies

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

4.4.3.2 Agencies that participate in the AGFMA

In 2018-19 we found that several of the agencies that participate in the AGFMA did not have documented asset management policies and plans. Since then we have found that agencies continue to work towards developing asset management policies and plans but, at the time of our audit, some had still not finalised and implemented them.

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

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

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

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

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

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

4.4.4.1 Large infrastructure agencies

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

4.4.5 Condition assessments were not performed or were performed but not recorded in asset systems

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

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

4.4.5.1 Large infrastructure agencies

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

- ensuring the criticality and condition of assets under contract arrangements are assessed and documented
- ensuring condition assessments are up to date, noting that condition assessments for some assets at one agency were overdue

- ensuring results of visual inspections and condition assessments are recorded in asset data systems.

4.5 Across Government Facilities Management Arrangements

4.5.1 Summary of findings and recommendations

What we found

Our overall assessment for 2022-23 is that the AGFMA arrangements were not operating in line with the contract and that contract objectives are not being achieved, increasing the risks around quality, value for money and ensuring asset risks are appropriately managed.

We identified areas where DIT could improve its internal controls over AGFMA governance, risk management and contract management. We found that:

- at the time of our audit DIT had not performed a risk assessment of the draft findings from a cyber security report it commissioned in relation to the AGFMA ICT systems. These findings had not been escalated to the AGFMA governance committee, the Facilities Management Governance Group (FMGG)
- DIT had not identified, monitored and managed cyber security risks
- Ventia software does not contain the minimum data sets required by Premier and Cabinet Circular PC 114 *Government Real Property Management*
- no reviews of user access to the Ventia systems had been performed
- Ventia's and DIT's risk registers were not complete
- KPIs reported in 2022-23 had not been verified by DIT.

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

- evidence that Ventia was charging for work at rates higher than the maximum trade rates set through the arrangements
- no evidence of Ventia's completion and finalisation of the data validation process, a process designed to ensure accurate data was recorded for assets being managed
- KPI credits being incorrectly calculated and applied to agency invoices
- preventative maintenance and legislative maintenance not being completed within agreed time frames breakdown maintenance response and resolution times set out in the contract not being met
- difficulties in viewing and accessing evidence of subcontractor compliance with specific requirements
- KPI targets not being met and KPI data presented to the FMGG not being complete.

Our 2022-23 asset management review of selected agencies that participated in the AGFMA found that:

- asset management policies and frameworks necessary for sound financial management of infrastructure, buildings and improvements were still being developed but not implemented
- memorandums of administrative arrangements with DIT outlining roles and responsibilities under the AGFMA were not finalised
- asset data verification and condition assessments were not complete
- annual service delivery plans for planned maintenance with Ventia had not been approved
- the review of user access to the maintenance system where maintenance jobs are initiated and approved requires improvement.

What public authorities should do

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

DIT is the lead agency for the AGFMA. It has a key role in managing these arrangements in conjunction with the participating agencies. In response to our findings, DIT has outlined actions it will take. These are detailed in Part C of this report in the section titled ‘Department for Infrastructure and Transport’.

Agencies participating in the AGFMA should continue to:

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

4.5.2 Background

The AGFMA is an integral part of the SA Government’s approach to maintaining, managing and improving building assets (including building fabric, plant and equipment). It is designed to enable the SA Government to identify the building work that needs to be done, negotiate a fair price for it, manage any risks and maintain public records of work performed. More than 30 agencies participate in the AGFMA.

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

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

Our 2022-23 audit of the AGFMA focused on aspects of governance and contract management of the new contract.

We also considered controls at selected participating agencies relating to their responsibilities for governance. We summarised these findings in section 4.4.1.

Further detail on our review of AGFMA is provided in Part C of this report in the section titled 'Department for Infrastructure and Transport'.

4.6 Salaries and wages expenditure

4.6.1 Summary of findings and recommendations

What we found

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

- employment screening practices, with instances identified in agencies where employees did not hold valid clearance checks, such as working with children clearances, but were working with vulnerable groups
- the hiring process, with instances where new hires commenced work with no employment contract in place
- compliance with immunisation policy requirements, where some employees in two agencies continued to work without evidence of immunisation
- performance management processes, with a large numbers of outstanding reviews identified across multiple agencies
- workforce planning, where differing maturity levels continue to exist at some agencies
- the recording and management of leave
- key payroll processing controls.

What public authorities should do

They should:

<p>Clearly monitor employment screening checks and controls</p> <p>clearly document which positions require employment screening checks (eg working with children clearances) and implement effective monitoring controls to ensure employees in those positions hold valid and up-to-date checks</p>	<p>Improve their performance management systems</p> <p>continue to improve their performance management systems to ensure staff are trained and understand their roles and responsibilities and whether they are meeting them, and to manage staff who need to improve their performance</p>
<p>Identify key risks in their payroll processing environment</p> <p>identify key risks in their payroll processing environment over the validity, accuracy and completeness of payments and ensure they implement effectively designed controls to mitigate them</p>	<p>Implement controls to record leave taken and approved</p> <p>implement controls to ensure all leave taken is recorded and approved in the system they use and make sure any excessive or negative leave is effectively managed</p>
<p>Improve documentation</p> <p>to monitor compliance with required immunisation policy requirements</p>	<p>Improve hiring process</p> <p>to ensure contracts are in place prior to commencement of employment</p>
<p>Implement or monitor workforce plans</p> <p>implement or monitor workforce plans appropriate to the complexity, scope and nature of their operations and ensure they align with the agency's objectives</p>	

4.6.2 Background

The largest type of expenditure incurred by the agencies we audit is salaries and wages. Collectively they employ around 115,000 staff and pay over \$11 billion in salaries and wages every year.

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

Our findings are discussed in the following sections.

4.6.3 Employment screening practices require significant improvement

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

Our reviews of agency control environments continue to find that many agencies need to improve their practices. We found:

- instances where employees who did not hold children and aged care clearances were working with children or the elderly
- outdated, incomplete or non-compliant registers and checklists for employees requiring clearance checks.

4.6.4 Performance management reviews continue to need improvement

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

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

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

We began auditing performance management reviews in 2018-19.

We continue to find overdue performance reviews across most of the agencies we reviewed. In 2022-23 we saw an improvement in the number of overdue performance reviews for some agencies, while others were still working towards increased compliance with required frameworks.

4.6.5 Some key payroll processing controls need to improve

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

In previous years we have reported instances across several agencies where these checks were not occurring as designed or where their implementation did not meet management's expectations. In 2022-23 we reviewed key controls in the payroll processing environments of selected agencies and again identified instances where:

- timesheets were not properly approved
- key payroll reports (bona fides and leave returns) were not reviewed, or the review was not adequate or not performed promptly
- medical rostering practices were inconsistent.

4.7 Accounts payable and approvals

4.7.1 Summary of findings and recommendations

What we found

Our audit of controls over accounts payable and approvals found:

- some agencies did not comply with requirements under Treasurer's Instructions 8 *Financial Authorisations* to annually review their financial authorisations register, with some not having reviewed it for more than 18 months
- multiple agencies did not perform checks to ensure the agency-approved financial authorisations agreed to their financial system authorisation limits
- transactions approved through super/special delegation capacity and manual payments were not independently reviewed at multiple agencies
- for some AGFMA participating agencies, the authorisation limits in the maintenance system did not align to agency-approved financial authorisations
- opportunities to strengthen invoice processing checks to reduce the risk of duplicate payments
- instances of purchase orders not being used when required by agency policies and procedures
- instances at one agency of delays in approving invoices relating to maintenance services provided
- instances where contracts were not established for regular services
- an instance where an agency was not appropriately approving expenditure incurred under a significant contract.

What public authorities should do

They should:

<p>Provide training for roles and responsibilities</p> <p>ensure staff are aware of their roles and responsibilities and are provided with relevant training</p>	<p>Perform checks in processing invoices</p> <p>ensure comprehensive checks are performed on the processing of invoice data and the addition of new vendors</p>
<p>Reinforce the importance of financial authorisation controls</p> <p>continue to reinforce the importance of controls to ensure agency-approved financial authorisations agree to online financial authorisation limits set in financial systems</p>	<p>Perform comprehensive checks on transactions</p> <p>ensure comprehensive checks on transactions and manual payments processed outside normal financial authorisation limits, such as super/special delegate capacity and manual payments, are completed</p>
<p>Comply with policies and procedures</p> <p>ensure agency policies and procedures are complied with</p>	

4.7.2 Background

Each year millions of invoices are processed by and for public authorities. SSSA alone processed 3.2 million payments in 2022-23. Having a high number of suppliers inherently increases the risk of fraud. To minimise this risk, public authorities need to assess their processing environments, including those at SSSA where applicable, and ensure they have appropriate controls in place. This is required by the Treasurer’s Instructions.

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

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

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

The findings summarised in section 4.7.1 are isolated instances where agencies could improve their accounts payable processes. Findings relating to financial limits established in systems where expenditure is incurred highlight the importance of ensuring those limits reflect chief executive approved authorisation limits, to ensure that only appropriate expenditure is incurred by the agency.

4.8 Capital projects – project delivery and management of construction projects

Each year the agencies we audit undertake significant construction projects. Most are undertaken by agencies for which this is a core activity. The SA Government's infrastructure agency, DIT, is responsible for managing construction projects in the civil and building (commercial) construction sectors. SA Water, SAHT and the Urban Renewal Authority are infrastructure agencies, having the expertise to undertake construction projects.

For 2022-23 construction projects should comply with public sector rules such as those established by the PFAA, Premier and Cabinet Circulars and Treasurer's Instructions. In 2020, Infrastructure SA released its independent assurance framework, which aims to improve the planning, prioritisation, operation and implementation of major SA Government infrastructure projects.

In 2022-23 we reviewed selected controls over aspects of infrastructure planning and investment, project delivery and management. We identified instances where agencies could improve their controls, including:

- ensuring key documents outlining who is responsible, accountable and the level of consultation required at key steps to the project lifecycle are approved
- ensuring the project management plan aligns with the substance of the project in line with the agency's policy
- improvements in one agency's register of prequalified providers for construction works.

We also noted matters relating to procurement and contract management for some aspects of the projects we reviewed. Issues that relate to procurement management are discussed in section 4.3.1 and those related to contract management practices are discussed in section 4.2.1.

4.9 Revenue

The agencies we audit receive around \$30 billion of revenue annually, around half of which is from Commonwealth grants. The types of revenue received include taxation, grants and revenue from sales of goods and services.

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

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

- performing checks against eligibility criteria, and documenting evidence of this check, to ensure adjustments to revenue raised are appropriate
- segregation of duties, where those making changes to master data should be separate from those processing the changes
- performing checks to ensure game rules are correctly applied and unauthorised tickets detected.

4.10 Special deposit and deposit accounts

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

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

- unmatched reconciling items should be rectified promptly
- specific legislative requirements should be adhered to when using funds from a special deposit account
- funds should not become overdrawn.

Appendix – Abbreviations used in this report

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

AGFMA	Across Government Facilities Management Arrangements
CALHN	Central Adelaide Local Health Network Incorporated
DHW	Department for Health and Wellbeing
DIT	Department for Infrastructure and Transport
DTF	Department of Treasury and Finance
FMGG	Facilities Management Governance Group
Funds SA	Superannuation Funds Management Corporation of South Australia
KPI	Key performance indicator
NALHN	Northern Adelaide Local Health Network Incorporated
NDIS	National Disability Insurance Scheme
PC 028	Premier and Cabinet Circular PC 028 <i>Construction Procurement Policy: Project Implementation Process</i>
PFAA	<i>Public Finance and Audit Act 1987</i>
RTWSA	Return to Work Corporation of South Australia
SA Health	Department for Health and Wellbeing and associated local health networks
SAFA	South Australian Government Financing Authority
SAHT	South Australian Housing Trust
SALHN	Southern Adelaide Local Health Network Incorporated
SAMF	Strategic Asset Management Framework
SA Water	South Australian Water Corporation
SSSA	Shared Services SA
TI 18	Treasurer’s Instructions 18 <i>Procurement</i>
Ventia	Ventia Australia Pty Ltd

