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Government
of South Australia

Report

of the

Auditor-General

Annual Report

for the

year ended 30 June 2016

Tabled in the House of Assembly and ordered to be published, 18 October 2016

Second Session, Fifty-Third Parliament

Part A: Executive summary

By authority: P. McMahon, Government Printer, South Australia

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30 September 2016

The Hon R P Wortley MLC
President
Legislative Council
Parliament House
ADELAIDE SA 5000

The Hon M J Atkinson MP
Speaker
House of Assembly
Parliament House
ADELAIDE SA 5000

Dear President and Speaker

Report of the Auditor-General: Annual Report for the year ended 30 June 2016

As required by the *Public Finance and Audit Act 1987*, I present to each of you my 2016 Annual Report.

Content of the Report

This Report is in three parts – Part A, Part B and the Appendix to the Annual Report.

Part A: Executive summary contains this letter of transmittal which provides the opinions I am required to give under section 36 and identifies any examinations I have made under section 32 of the *Public Finance and Audit Act 1987*.

Part A also summarises the main matters that should, in my opinion, be brought to the attention of the Parliament and the SA Government resulting from our 2015-16 audits of public sector agencies. This includes areas of specific review, financial reporting matters that need attention and follow-up of issues raised in past audit reviews.

Part B: 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 Part A. It features a snapshot of key agency information covering financial statistics, significant events and transactions, and whether the financial statement and financial controls opinions are unmodified or modified (qualified). If modified, the key matters causing the modification are identified. The snapshot is followed by comments on financial administration matters for each agency that, in my opinion, are of importance to the Parliament and the SA Government. Finally, the individual agency reports contain selected financial ratios and information that is relevant for assessing their financial performance and significant financial transactions.

The Appendix to the Annual Report (Volumes 1 to 5) contains scanned copies of the the Treasurer's statements and the final audited financial reports of public sector agencies that are, in my opinion, important enough to publish. It also contains the Independent Auditor's Reports that I have issued to these agencies.

Supplementary and other reports will cover additional matters from our 2015-16 work program not included in this Report.

Agency financial reports not included in this Report

Not every public sector agency I am required to audit is included in this Annual Report. Some audits are still continuing at the time of preparation, 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. A list of the public sector agencies not included in this Report is provided in section 8 of Part A of this Report If any matters arise in these audits that impacts on the opinions I state in the following section, I will advise the Parliament in a Supplementary Report.

Auditor-General's opinions

Section 36(1)(a) of the *Public Finance and Audit Act 1987* sets out three opinions I must state in my Annual Report. I deal with each of these in turn 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 Honorable the Treasurer's statements for the year ended 30 June 2016 are provided in the Appendix to the Annual Report.

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 except:

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

I have issued modified opinions on the financial reports of these agencies.

In addition, without modifying my opinion on the financial reports of the Return to Work Corporation of South Australia and the Lifetime Support Authority, I drew attention to the inherent uncertainty in certain liabilities reported for those entities at 30 June 2016. I also drew attention to a land error correction in the administered financial statements for the Department of Environment, Water and Natural Resources.

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 the reason for the opinion. This is also explained in the commentary on each of those agencies in Part B of this Report.

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 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.

I give this opinion for each of the public sector agencies included in this Report, except where I have stated a modified opinion in the commentary for an agency in Part B of this Report.

There were instances in many agencies where the internal controls have not, in my opinion, achieved or maintained the standard required by the *Public Finance and Audit Act 1987*. In each of the agencies where I have issued a modified controls opinion I have included commentary on my reason(s).

The overall aim of our audits of controls is to establish whether controls were sufficient to provide reasonable assurance that the financial transactions were conducted properly and in accordance with law. This concept requires the agency to meet the standards of financial probity and propriety expected of a public authority and, at all times, discharge its responsibilities within the letter and spirit of the law, both in terms of its own charter and as an instrumentality of government discharging public functions.

Audit assessments involve reviewing the adequacy of procedures and testing a number of control components for a range of financial transactions taking into account risk and materiality.

We consider agency structures, risks and the interrelation of policies, procedures, people, management's philosophy and operating style, demonstrated competence, and overall organisational ethics and culture. These are all interrelated elements of control. We also assess whether the controls in operation were consistent with the Treasurer's Instructions, with particular focus on Treasurer's Instructions 2 'Financial Management' and 28 'Financial Management Compliance Program'.

It is not practical in any such assessment to review each and every control for each and every transaction. While every effort is made to test the sufficiency of controls across a representative range of transactions, no system of control should be considered fail-safe. The Parliament has recognised this in stating that the controls need only be sufficient to provide, at the time of audit, 'reasonable assurance' of the matters set out in the opinion.

Where I have assessed the controls exercised by agencies as not meeting a sufficient standard, I have made recommendations as to where, in my opinion, improvements are required. Audit findings, risk considerations, recommendations and agency responses are included in each agency's report in Part B of this Report under the heading 'Audit findings and comments'.

All matters are discussed with agencies. This gives them the opportunity to confirm the factual correctness of findings and discuss the effect and practicality of recommendations. It is up to the agency to determine whether or not to adopt our recommendations. In making this decision agencies consider the risks, costs and benefits. There are instances where we do not agree and agencies have not adopted our recommendations.

Section 32 examinations

Section 36(1)(ab) of the *Public Finance and Audit Act 1987* requires me to report on any section 32 examinations that were completed during the year and briefly describe the outcome.

During 2015-16, I completed an examination of the local government indemnity schemes. In my report to Parliament dated 7 September 2015 'Examination of the local government indemnity schemes', I reported on a number of shortcomings in managing the contractual arrangements with the scheme manager and opportunities for improving the management of the schemes.

Acknowledgments

I have great pleasure in recognising and thanking my professional and dedicated staff for their complete commitment and efforts in 2015-16. The high standard of their work throughout the year is evidenced in the timely production and the quality contents of this and other reports. The senior managers of the teams that have contributed to this work are listed in section 7 of Part A of this Report.

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

I also extend my thanks to the Under Treasurer, Government Publishing SA and their staff, and the report printing coordinator, Mr Darryl O'Keefe, for their significant part in producing this Report.

Finally, I would like to thank the staff and students of Blackfriars Priory School for their work on the cover for this year's Report. In particular Mr Peter Fear for coordinating the design work and Year 11 student, Felix Nguyen for the cover photograph.

Yours sincerely

Andrew Richardson
Auditor-General

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1 Overview

1.1 An overview of events shaping public sector activities, finances and financial controls and the annual audit program

2015-16 presented continuing challenges for public sector activities beyond delivering public services in health and ageing, education and child development, communities and social inclusion, transport and justice. The 2015-16 State Budget built on previous government initiatives and programs aiming to support the transition of the state economy, grow employment, constrain the level of growth in government expenditure and improve the structural position of the budget.

Public sector transformation processes continued including in health, urban renewal, housing and other agencies and aspects of public sector administration. Some significant asset sales are associated with these processes. In early 2016, the SA Government became involved in supporting the future of Whyalla steelworks. Major infrastructure and other capital spending and activity progressed, particularly with the new Royal Adelaide Hospital (RAH), the road network, public transport and renewal of IT systems.

Legislative changes for work injury came into full operation from 1 July 2015 and the announced reform of third party insurance commenced from 1 July 2016.

The 2015-16 Mid-Year Budget Review (MYBR) incorporated additional measures to further promote economic growth and deliver new jobs into the economy, including the $985 million Northern Connector Road Project, $208 million for the construction of new public housing, the bringing forward of tax cuts, industry engagement and development programs and further investment in economic infrastructure. The net operating balance in 2015-16 was expected to significantly improve from the 2015-16 State Budget, primarily due to a further $403.5 million dividend to the Highways Fund.

We are giving detailed attention to some of the key government projects and initiatives. Supplementary reports are used to cover most specific reviews. Section 5.9 provides information on proposed further reports.

The major part of the audit program continued to focus on reviewing controls and the audit of financial reports. Our obligation is to cover every agency, every year. It requires us to revisit organisational ethics and culture, management philosophy, control systems and structures, risk analysis and how agencies operate within the law. These are all foundational aspects of public administration.

This Annual Report covers most of our work for the year. Two small-scale reviews of aspects of Transforming Health and compliance with the Industry Participation Policy are included in this Report.

1.2 The process for access to Cabinet decisions for audit evidence has changed: a matter for future audits

In September 2016, I was advised that Cabinet had approved a policy that information on Cabinet decision-making, including Cabinet submissions and notes and comments and advice provided relevant to Cabinet documents, will not be provided to investigative agencies.

This includes my office.

I was, however, also advised that I may seek access to Cabinet documents. A request may be considered by Cabinet as to whether it considers an exception to the policy is warranted depending upon the circumstances of any particular investigation undertaken by the investigative agency.

Previously, copies of Cabinet submissions were available to the South Australian Auditor-General by request to the Cabinet Office through the Chief Executive of the Department of the Premier and Cabinet. This process was used where required because, in some circumstances, access to Cabinet submissions was necessary to gather the necessary evidence to support audit opinions.

1.2.1 Cabinet confidentiality is acknowledged

The convention of Cabinet confidentiality is acknowledged. Audit practice has been, and will continue to be, to maintain confidentiality to the extent that is consistent with fulfilling the Auditor-General's statutory functions.

1.2.2 Why audit access to Cabinet submissions is necessary

I believe access to Cabinet submissions is likely to continue to be a necessary element of audit evidence. This is certainly the case for the decision set evidencing that required Cabinet approvals have been given.

The Parliament has explicitly acknowledged the importance of the auditor obtaining relevant evidence through provisions in the *Public Finance and Audit Act 1987 (*PFAA) to the point that, where necessary, the Auditor-General may exercise coercive powers under the PFAA.

Professional auditing standards issued by the Australian Auditing and Assurance Standards Board also mandate explicit requirements about evidence. If the auditor is unable to obtain sufficient appropriate evidence, a scope limitation exists and the auditor must express a qualified conclusion, disclaim a conclusion, or withdraw from the engagement, where withdrawal is possible under applicable law or regulation, as appropriate.

We have found that, for some matters, the Cabinet submissions were the primary record because of the absence of alternative documentation and the departure of relevant personnel. Cabinet is also an approving authority under some requirements, particularly Treasurer's Instruction 8 'Financial Authorisations'.

Acknowledging Cabinet confidentiality, we will seek to satisfy audit evidence from agency records. Agencies will have to retain and make available the relevant supporting evidence. Some are likely to have to review their documentation practices in light of this change.

If sufficient evidence is not otherwise available, I will seek access under the new Cabinet policy. If I am unable to obtain appropriate evidence and am denied access to a relevant Cabinet document that I require to properly perform my statutory audit functions, I will advise the Parliament where necessary.

1.3 2015-16 audit conclusions

In the letter at the beginning of this Part of this Annual Report, I have given the three annual opinions required by the PFAA.

I have given three unmodified opinions.

While many matters arose and were reported to individual agencies, the opinions as stated reflect an overall and collective view of public sector financial administration for a year.

The opinions were subject to a number of important matters. I drew attention to two agencies where modified financial report opinions were expressed and three instances where an emphasis of matter was made without modification of the financial report opinions.

I also drew attention to my view that there were instances in many agencies where their systems of internal control have not, in my opinion, achieved or maintained the standard required by the PFAA.

Of the three opinions required, it is the financial control matters that are concerning, as there are some fundamental areas of governance and financial control and accountability. Notably, not many matters occur widely throughout agencies. There are some themes, like payroll monitoring and maintaining policies and procedures. Mostly, our findings are specific to agencies. Overall, I believe most of the matters we identified in our audits are quite readily resolvable. This is discussed in further detail later in section 3.

1.4 Public finances

1.4.1 Estimated result for 2015-16 was better than budgeted

The 2015-16 State Budget estimated result is a net operating balance surplus of $258 million (Budget surplus $43 million, MYBR 2015-16 surplus $355 million), a $215 million improvement compared to the budget.

The following table sets out major financial budgets and outcomes for the general government sector for the three years to 2016-17.

	2014-15 Result $'million	2015-16 Budget $'million	2015-16 Estimated result $'million	2016-17 Budget $'million
Net operating balance	(189)	43	258	254
Net lending	(111)	(29)	3	(2 436)
Net debt	3 929	4 238	4 071	6 246
Net worth	40 121	39 485	39 195	40 573

	2014-15 Result %	2015-16 Budget %	2015-16 Estimated result %	2016-17 Budget %
Revenue and expenses				
Revenue real growth	-	1.3	3.7	3.8
Expenses real growth	-	(0.7)	1.0	3.9
Net debt to revenue ratio	23.7	24.8	23.5	34.2

Multiple factors contribute to the differences between the budgeted and estimated results for 2015-16. Notably, taxation and other grants revenues are estimated to not meet budget. Importantly, total expenses are estimated to be within budget.

The main difference between the budgeted and estimated net operating balance result for 2015-16 is explained by total revenue exceeding budget.

The estimated result improvement is mainly due to an originally unbudgeted dividend

Total revenue improved mainly due to an originally unbudgeted dividend of $403.5 million in 2015-16 from the Motor Accident Commission (MAC), announced in the 2015-16 MYBR in December 2015. This was the second large transfer of retained earnings from MAC into the Highways Fund leading up to the transition to the new Compulsory Third Party (CTP) arrangements. In 2014-15, $852.9 million was returned to the general government sector.

The 2016-17 State Budget notes that the privatisation of MAC will result in almost $2.1 billion returning to government between 2014-15 and 2019-20 in the form of dividends and return of equity (refer Budget Paper 3 'Budget Statement', table 5.12). These amounts flow through to net lending or, where they are capital returns, directly to net debt.

MAC, while within the total public sector, is outside of the general government sector, the focus of the annual budget.

A lower improvement is expected for the net lending result

This improvement in the net operating balance flows through to the net lending surplus. The estimated surplus is limited to an improvement of $32 million, as sales of non-financial assets are estimated to be $248 million lower than budget. This reflects timing as the SA Government remains committed to the sale of the relevant assets.

The general government sector is estimated to have net debt of $4071 million at the end of 2015-16. This improvement from the budget amount also reflects the payment from MAC into the Highways Fund, improving general government sector financial asset balances. Net debt is expected to increase significantly in 2016-17 due to the recognition of the new RAH asset and finance lease liability ($2.82 billion).

Net worth of the general government sector at 30 June 2016 is estimated at $39.2 billion, a decline of $926 million from 30 June 2015. Movements between government sectors do not flow through to the overall net financial position of the total public sector, as represented in the whole-of-government financial statements (which consolidate the non-financial public sector and public financial corporations).

The reduction in net worth reflects an increase of $1.1 billion in the unfunded superannuation liability. This reflects a lower discount rate used to value the liability as at 30 June 2016. The SA Government remains on track to fully fund superannuation liabilities by 2034, a longstanding budget target.

1.4.2 Treasurer's statements for 2015-16

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 achieved a $1154 million deficit for 2015-16, exceeding the budgeted deficit of $1041 million.

Total payments from the Consolidated Account of $12.3 billion were within appropriation authority of $12.5 billion. (refer statement K of the Treasurer's statements).

The balance of funds on hand in special deposit accounts ($4552 million) and deposit accounts ($969 million) collectively increased by $790 million. The largest contribution to the increase was the MAC payment of $448.5 million in 2015-16 to the Highways Fund (a special deposit account).

The SA Government's indebtedness to the South Australian Government Financing Authority (SAFA) increased to $10.2 billion in 2015-16 from $9 billion. This was mainly due to the $1154 million consolidated account deficit for 2015-16.

The Treasurer's statements are included in the Appendix to this Annual Report.

1.4.3 Budget forecasts for 2016-17 to 2019-20 show operating surpluses

Consistent net operating surpluses expected

The 2016-17 State Budget projects net operating surpluses over all four years of the Budget, underpinned by significant GST revenue grants growth to 2017-18 and expenditure restraint. There is also significant growth in Commonwealth capital grants, particularly in 2016-17 and 2017-18. The projected surplus in 2016-17 is $254 million, growing to $466 million in 2019-20.

Over the four years of the Budget, employee expenses are expected to decline in real terms, with nominal growth in each year generally below 2%. Realising restrained wages growth will be a key challenge for the Budget.

Significant operating initiatives for the Health and Ageing portfolio

The Budget includes operating initiatives of $1.16 billion over the four years. This includes $526.8 million over four years (in addition to $144.4 million in 2015-16) applied to revising the timing and level of Health and Ageing previously budgeted savings targets. This portfolio continues to face challenges in setting and achieving realisable savings targets.

Taxation revenue revised down significantly

Taxation revenue has been written down over all four years since the 2015-16 State Budget. This mainly reflects lower than previously expected revenue for payroll tax, gambling tax and conveyance duties. The most significant write-down is for payroll tax. The Budget notes softer than expected employment and wages growth among payroll tax paying firms. Growth assumptions have been revised down reflecting the low wage environment and the outlook for employment among medium to large employers.

2 Significant financial outcomes and events in 2015-16

2.1 Key findings

The key findings in this section are:

Return to Work Corporation of South Australia (RTWSA) – outstanding claims liability reduced to $2.2 billion and inherent uncertainty associated with the new Scheme remains high.

MAC – made a payment of $448.5 million to the Highways Fund.

Lifetime Support Authority of South Australia (LSA) – Lifetime Support Scheme participants and liabilities nearly doubled and inherent uncertainty associated with the new Scheme remains high.

South Australian Water Corporation (SA Water) – profit increased due to higher water sales and its contribution to the State Budget exceeded expectations.

Urban Renewal Authority (URA) – incurred a loss before income tax equivalent of $153 million, up from the previous year loss. A dispute related to the Gillman site transaction was resolved.

South Australian Housing Trust (SAHT) – transferred responsibility for the property and tenancy management of 1087 public housing properties to two community housing providers.

TAFE SA – achieved a $4 million net surplus in 2015-16, improving from a net loss of $3.7 million in 2014-15.

New RAH Public Private Partnership (PPP) – SA Health Partnership Nominees Pty Ltd (SAHP) did not meet the revised technical completion date agreed in a Deed of Settlement and Release executed in September 2015; the State issued a major default notice to SAHP on 5 April 2016; the parties went before the Supreme Court of South Australia over contractual matters.

Commentary is also provided on a number of other matters.

2.2 Insurance agencies

2.2.1 Return to Work Corporation of South Australia liabilities reduced

The *Return to Work Act 2014* came into full operation from 1 July 2015. The legislative changes to entitlements, coupled with RTWSA's initiative to get claimants back to work more promptly, have had a significant impact on the Return to Work Scheme (the Scheme).

The outstanding claims liability reduced to $2.2 billion

The liability for outstanding claims as at 30 June 2016 was $2.2 billion, a decrease of $62 million from the previous year. The Scheme's actuary's projections are reviewed by an independent professional actuary engaged by the Auditor-General. Our audit did not identify any issues or variations from expected practice that required the estimate for 30 June 2016 to be adjusted in any material way.

Inherent uncertainty associated with the new Scheme remains high

There is still inherent uncertainty associated with the new Scheme arrangements, which may impact the liability for outstanding claims. In particular, the independent actuary noted the uncertain actual experience for short-term claims and serious injury claims and the robustness of the whole person impairment assessments which are the gateway to lifetime benefits for serious injury claims. An emphasis of matter was included in the financial report opinion drawing attention to the uncertainty associated with the outstanding claims liability reported as at 30 June 2016.

The actuarial estimation is primarily based on the anticipated impact of the new legislation. If the Scheme does not operate as intended, the cost implications may be significant. During 2015-16, the SA Government resolved related matters in police and emergency services through industrial negotiations without affecting operation of the legislation.

The Scheme continues to be fully funded

RTWSA had a net asset position as at 30 June 2016 of $325 million and a funding ratio of 112.9%, which means that the Scheme continues to be fully funded. The average premium rate in 2015-16 was 1.95%, down from 2.75% the previous year. The average premium rate for 2016-17 has been maintained at 1.95%.

The total comprehensive result for 2015-16 was a loss of $44 million

In 2015-16 the underwriting result was a loss after the net liability for outstanding claims decreased by $51 million (compared to a $1.3 billion decrease in 2014-15) and premium income decreased by $150 million. Net investment profit decreased by $101 million. Overall the total comprehensive result was a loss of $44 million.

2.2.2 Motor Accident Commission distributed $448.5 million

MAC paid $448.5 million to the Highways Fund in 2015-16

MAC paid $448.5 million to the Highways Fund as a return of capital in 2015-16. The payment was made from net assets in excess of the sufficient solvency level. The Treasurer directed the payment be made to the Highways Fund under section 26(2) of the *Motor Accident Commission Act 1992*.

Further returns of capital from MAC over the next four years are included in the 2016-17 State Budget, totalling $511 million, in addition to the $1.3 billion paid to date.

MAC recorded a $313 million surplus

MAC recorded a $313 million surplus for 2015-16, $112 million lower than 2014-15, mainly from a $100 million reduction in the net investment result. This reflected a decline in investment markets and a reduced investment pool due to a return of capital during the year.

The underwriting result of $193 million was slightly lower than the $204 million result in 2015.

Statutory solvency level maintained

As at 30 June 2016, the assets of the CTP Fund were $406.1 million above the target solvency level, equating to 119.1% of the target.

The outstanding claims liability reduced to $1.7 billion

MAC's outstanding claims liability reduced by $166 million to $1.7 billion in 2015-16. The outstanding claims liability is calculated for MAC by one actuary and then reviewed by a second actuary in line with good practice for a liability of this type and size.

The reviewing actuary reported that they believed the methodology and analysis performed by the primary actuary was reasonable and noted the valuation provided a balance between optimistic and cautious assumptions, representing a reasonable central estimate.

The Scheme actuary's projections are also reviewed by an independent professional actuary as part of the audit by the Auditor-General. Our audit did not identify any issues or variations from expected practice that required the estimate for 30 June 2016 to be adjusted in any material way.

The outstanding claims liability is sensitive to changes in key assumptions

The outstanding claims liability estimation is sensitive to changes in the key assumptions made. For example, if the number of claims under the new CTP scheme arrangements (since 1 July 2013) that involve a settlement decreases by 25%, this could lead to a $166.7 million benefit to the liability. Alternatively, should the average size of large claims pre-1 July 2013 increase by 18%, the liability would increase by $67.7 million.

CTP reform status and update

Private sector insurance providers started from 1 July 2016

Four private insurers are responsible for providing CTP insurance in South Australia from 1 July 2016. The SA Government has approved AAMI, Allianz Australia Insurance Limited, QBE Insurance (Australia) Limited and SGIC as insurers. All existing CTP policies were allocated to these insurers from 1 July 2016 and all new policies will be provided by them.

MAC has a new role from 1 July 2016

MAC has ceased writing new CTP insurance policies from 1 July 2016 and will run off its claims against policies issued up to 30 June 2016. MAC will also continue its role as nominal defendant and in promoting road safety.

MAC will need to manage the risks associated with its new role when managing its existing claims, with no premium income to offset against emerging cost pressures. Most of MAC's outstanding claims liabilities are expected to be settled within the next 10 years.

A CTP insurance regulator was appointed on 16 June 2016

A CTP insurance regulator was appointed under the *Compulsory Third Party Insurance Regulation Act 2016* on 16 June 2016. The CTP insurance regulator is responsible for the oversight, monitoring and reporting of approved CTP insurer activities in South Australia, including oversight of the CTP insurance premium setting process.

2.2.3 Lifetime Support Scheme is growing and liabilities are sensitive to change

LSA administers the Lifetime Support Scheme (LSS) and Fund for people who suffer very serious injuries in motor vehicle accidents. The LSS commenced operation on 1 July 2014 and 2015-16 is its second full year of operation. The LSS is mainly funded by a levy on South Australian motor vehicle registrations.

LSS is growing

The LSS is growing, with the total number of participants increasing from 39 in 2014-15 to 76 in 2015-16. Related estimated future cost of caring for current participants more than doubled, increasing by $110 million to $203 million.

LSA made an operating surplus of $15 million

The operating surplus of $15 million for 2015-16 showed the levy raised during the year was sufficient to cover operating expenses. Income included levy receipts of $145 million. Expenses included $7.6 million in direct expenses for participant care and a $110 million increase in the provision for the estimated future costs of caring for current participants.

LSS is fully funded

LSA had net assets of $90 million, which means the LSS is fully funded as at 30 June 2016.

Significant uncertainty around provision for future treatment, care and support costs

The value of the provision for participant treatment, care and support is pivotal to the financial position and operating outcome of LSA. The Board of LSA determined the value of the provision after considering a report from an independent actuary. The role of the actuary is critical to estimating the provision liability and LSA also engaged a reviewing actuary to provide additional comfort about the sufficiency of the amount provided.

The LSS is not an insurance scheme. Consistent with similar interstate schemes, the LSA determined the provision in accordance with relevant accounting requirements and did not apply a risk margin to its central estimate of liabilities.

The liability estimate is measured as the present value of the expected future payments for claims incurred up to 30 June 2016, including claims incurred but not yet reported. Sensitivity analysis illustrates that relatively small changes to key assumptions in the estimate can result in changes in the order of millions of dollars.

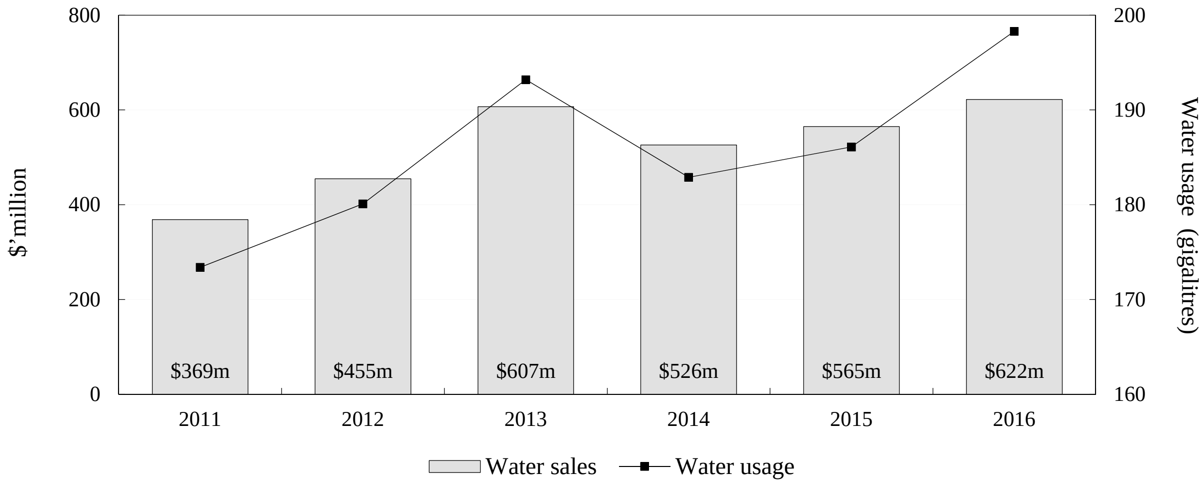
Given the limited participants' experience to date and the long-term nature of the claims, there is still significant uncertainty surrounding the estimate of the provision for participants' treatment, care and support services. An emphasis of matter was included in the financial report opinion drawing attention to this uncertainty.

2.3 Other statutory corporations

2.3.1 South Australian Water Corporation's profit increased due to higher water sales

SA Water recorded a $22 million (8%) increase in profit before tax. This increase was mainly driven by a 12 gigalitre (6.5%) increase in the volume of water sold, to a total of 198 gigalitres, contributing a $57 million increase in revenue.

The chart below shows water usage and revenue from water sales over the last six years.



SA Water's increased debt to asset ratio is similar to some interstate water utilities

The 2014-15 State Budget announced the transfer of $2.7 billion in debt from the general government sector to SA Water, bringing SA Water's debt to asset gearing ratio into line with its interstate statutory water corporation counterparts. The table below highlights the relative debt to asset gearing ratios of a sample of water corporations from around Australia, as at 30 June 2015.

	SA Water	Sydney Water	Water Corporation of Western Australia	Yarra Valley Water	Unitywater	TasWater
Total debt ($'billion)	6.361	6.330	5.621	2.009	1.560	0.366
Total assets ($'billion)	14.090	15.946	16.621	4.470	3.343	2.011
Gearing ratio (%)	45	40	34	45	47	18

The table above shows SA Water's revised gearing ratio is similar to those of Yarra Valley Water in Victoria and Unitywater in Queensland.

SA Water's contribution to the State Budget exceeded expectations

In 2015-16, SA Water paid dividends totalling $205 million and income tax equivalents totalling $107 million. The 2015-16 State Budget included provision for a $164 million dividend and $74 million in income tax equivalents. SA Water received $130 million in community service obligation funding, leading to a net contribution for 2015-16 of

$182 million. The table below shows SA Water's net cash contributions to the SA Government over the last five years.

	2015-16 $'million	2014-15 $'million	2013-14 $'million	2012-13 $'million	2011-12 $'million
Net cash contribution	182	165	210	225	165

2.3.2 Urban Renewal Authority made a loss and has revised strategies

Accumulated losses and the impact of land inventory valuations

The URA made a loss before income tax equivalent in 2015-16 of $153 million. Over the past two years the URA's losses before income tax equivalent have totalled $276 million.

These losses are primarily attributable to write-downs of $212 million on land inventory over the same period, reflecting the prevailing challenging market conditions and the business strategies specific to the URA.

The land inventory write-downs in 2016 ($137 million) relate mostly to changes in the URA's cash flow models used to measure the net realisable value of development projects. Importantly, these changes include reductions in revenue forecasts from reassessing the likely outcomes of its business strategies for these projects and forecast market.

The following table shows the land inventory write-downs that have occurred over the last two years.

	Write-downs		Carrying amount
	2015 $'million	2016 $'million	30.06.16 $'million
Development projects:			
Tonsley	18	54	27
Playford Alive	-	52	7
Bowden	-	17	27
Woodville West	-	5	21
Land held for sale	56	9	224
Total inventory write-down	74	137	306

Revising strategies for major development projects to manage debt

Total borrowings at 30 June 2016 amounted to $519 million, a marginal decrease from the prior year, and including refinancing of $75 million to non-current borrowings.

Over the past two years the URA has reviewed its capital structure and business model to ensure it is financially sustainable. The review included obtaining independent expert advice on the value and marketability of the URA's entire land portfolio to help formulate an achievable land sales strategy.

Revised development strategies aim to improve the financial outcomes of the Playford Alive and Woodville West projects. For Playford Alive the revised strategy includes the sale of some land as large englobo parcels, while for Woodville West the project will now include the sale of super-lots for private sector development.

In 2016 the URA, collaborating with the Department of State Development (DSD) and the Department of Treasury and Finance (DTF), reviewed the Tonsley project. It is now expected that:

- the sale of freehold land in the main assembly building will not be possible due to significant common services within the facility
- the strategy for the main assembly building now requires construction of base tenancies for lease with a view to selling the building as a whole once a business model has been proven.

The revised development strategies will be implemented in 2017.

Realisation of risks associated with the Gillman site transaction

In April 2016 the Crown, the URA, Adelaide Capital Partners (ACP) and Acquista Investments and Veolia Environmental Services (jointly IWS) executed a Deed of Settlement and Release to resolve legal proceedings arising from the Gillman site transaction.

The terms of the settlement arrangements require the SA Government and URA pay the legal costs of ACP and IWS up to an amount of $2.2 million.

The Deed of Settlement and Release releases the State and URA from any further legal action that may be brought by ACP or IWS arising from the decision to enter the Option Deed. Stage 1 settlement is now to occur by 1 November 2016 or the land will return to the URA's control.

The Board's decision to settle this matter realises risks from aspects of inadequacies in the process followed for the original Gillman transaction, as previously reported.

2.3.3 South Australian Housing Trust commences significant changes

Lower net cost of services after transfer of homelessness funding to DCSI

The SAHT recorded a net cost of providing services of $235.2 million, a $49 million decrease from the prior year. The decrease was due mainly to the transfer of responsibility for funding homelessness services to the Department for Communities and Social Inclusion (DCSI), with the cost of providing grants and subsidies for the services decreasing by $54 million.

Revenues from the SA Government decreased by $73.4 million, largely reflecting this transfer of responsibility.

Selected public housing is being transferred to the community housing sector

In October 2015 the SAHT transferred responsibility for the property and tenancy management of 1087 public housing properties to two community housing providers (CHPs). These CHPs were selected through a national two-stage tender process.

The SAHT applied a concurrent lease and deed model to the transfer. Under these arrangements the SAHT has granted a lease over its residual rights to the properties to the CHPs. This lease operates concurrently with the SAHT's lease with the existing tenant.

The SAHT has executed a separate housing transfer management deed with each CHP. Under the deeds, the CHPs are required to maintain and manage all of the relevant properties. The CHPs are entitled to receive the rental income from the selected properties.

The initial lease period is three years, during which the SAHT will review and evaluate CHP performance. Pending successful performance, the SAHT intends to offer CHPs a further 20-year lease.

The SAHT anticipates transferring property and tenancy management for an additional 4000 properties in 2016-17.

A Business System Transformation program has started

The SAHT has started the Business System Transformation program to replace its ageing legacy systems. It is expected that the existing ObjectStar environment, which resides on the SA Government's shared mainframe, will be required until 2020.

The ObjectStar environment was due for retirement in December 2015, however the SAHT has purchased extended vendor support. The SAHT has to manage a number of operational risks, including extending the vendor's existing support beyond its current expiration of 31 December 2017.

The SA Government's shared mainframe support arrangement is due to expire in April 2018. Noting that any legacy systems are unlikely to be in place by that date, the SAHT must develop a strategy that addresses its future mainframe contractual arrangements beyond April 2018.

2.3.4 TAFE SA made a surplus and continues to implement a changing service delivery model

TAFE SA achieves a $4 million surplus net result

TAFE SA's $4 million surplus net result in 2015-16 was an improvement on a net loss of $3.7 million in 2014-15.

The improved result was mainly due to reduced infrastructure charges paid to DSD, following a review of these charges since the consolidation of TAFE SA campuses at Tonsley and Regency Park and an increase in student fees. The increase in student fees was mainly a result of a $5 million increase in students enrolling in courses that were not subsidised by the SA Government.

Work continues to implement TAFE SA's changing service delivery model

TAFE SA is changing its service delivery model. It is moving to increased use of online delivery and more use of mobile lecturers travelling to community and industry locations based on local demand for courses.

The change in service delivery is driven by a combination of changes announced by the SA Government and feedback TAFE SA received through public consultation. The SA Government has announced its intention to reduce any funding differential between the amount paid to TAFE SA and that paid to a private training provider for delivering the same unit of competency by July 2019.

Changes to TAFE SA's funding arrangements with the Department of State Development

TAFE SA and DSD entered into a memorandum of administrative arrangement (MoAA) for non-commercial services in 2015-16. The MoAA provided for $212 million in funding to TAFE SA for a range of activities, including vocational education and training (VET) delivery and community service obligations.

DSD provided a total of $234 million in funding for 2015-16. In addition to the $212 million funded by the MoAA for non-commercial services, a separate MoAA provides $12 million in funding for excess staff costs and a further $10 million was provided through other funding arrangements.

Ownership of TAFE SA campuses to move to the Urban Renewal Authority

The 2016-17 State Budget, released on 7 July 2016, announced that the ownership of TAFE SA campuses would move from DSD to the URA during 2016-17. Following the transfer of ownership, the URA will receive a commercial return on ownership. TAFE SA's annual costs are not expected to increase, with the differential between TAFE SA's current payments and the commercial return to be funded as a community service obligation.

2.3.5 South Australian Forestry Corporation no longer manages Green Triangle plantations

From 1 October 2015 the South Australian Forestry Corporation (ForestrySA) ceased to manage the Green Triangle plantations it had previously managed on behalf of OneFortyOne Plantations Pty Ltd (OFO). OFO took over management of the plantations and a significant part of ForestrySA's workforce and operations were transferred to OFO.

As a result of this transfer ForestrySA's operations have significantly downsized.

2.3.6 Adelaide Venue Management Corporation now includes the Adelaide Convention Centre

AVMC is established on 1 August 2015

On 1 August 2015, the Adelaide Entertainments Corporation became the Adelaide Venue Management Corporation (AVMC). From this date the Adelaide Convention Centre Corporation was abolished and the AVMC took over the operations of the Adelaide Convention Centre. The AVMC incurred a loss of $2.3 million after profit from trading was exceeded by property management costs.

Redevelopment of the Adelaide Convention Centre continues

The redevelopment of the Adelaide Convention Centre continued in 2015-16. To date $314.6 million has been spent on the redevelopment out of a total budget of $396.8 million.

The redevelopment is expected to be completed in 2017.

2.3.7 Lotteries Commission of South Australia's distribution to government increased

SA Lotteries is responsible for monitoring the activities of its Master Agent

The amount provided for distribution to government increased by $4.2 million to $78 million. Tatts is the exclusive Master Agent to operate the Lotteries Commission of South Australia (SA Lotteries) brands and products for a term of 40 years. 2015-16 was the second full year of operating.

SA Lotteries has an ongoing responsibility to monitor the Master Agent's compliance with all applicable laws, regulations, codes of practice, contractual agreements and policies to ensure SA Lotteries' compliance with the *State Lotteries Act 1966* and the transaction documents. SA Lotteries must ensure the effectiveness of Tatts' internal controls over financial reporting of gaming activity and the Lotteries Fund.

SA Lotteries had identified that Tatts was not complying with certain requirements of the *State Lotteries Act 1966*, but had not escalated these matters in accordance with the framework in the transaction documents. SA Lotteries is taking advice to resolve these issues.

2.3.8 Environment Protection Authority waste levy income increased

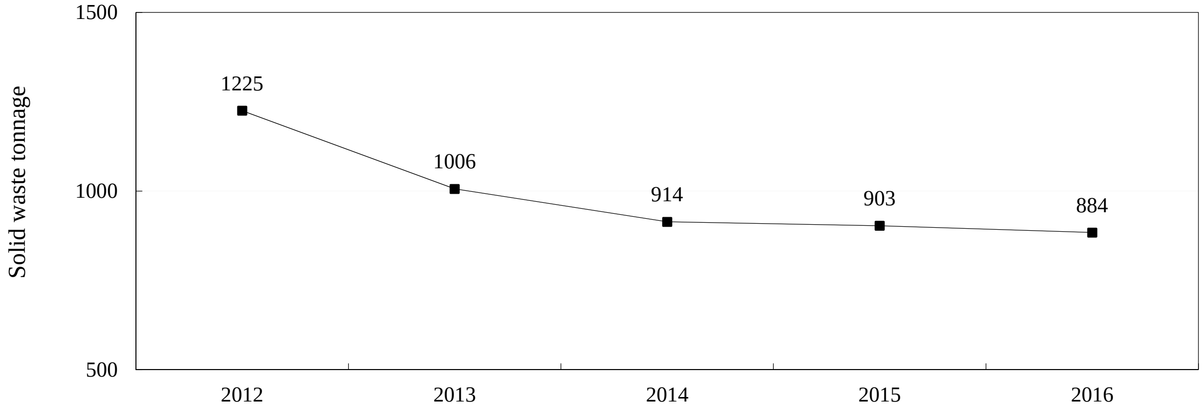
Solid waste levies increased

Income from fees and charges totalled $60.3 million for 2015-16, including $45.1 million in waste levies.

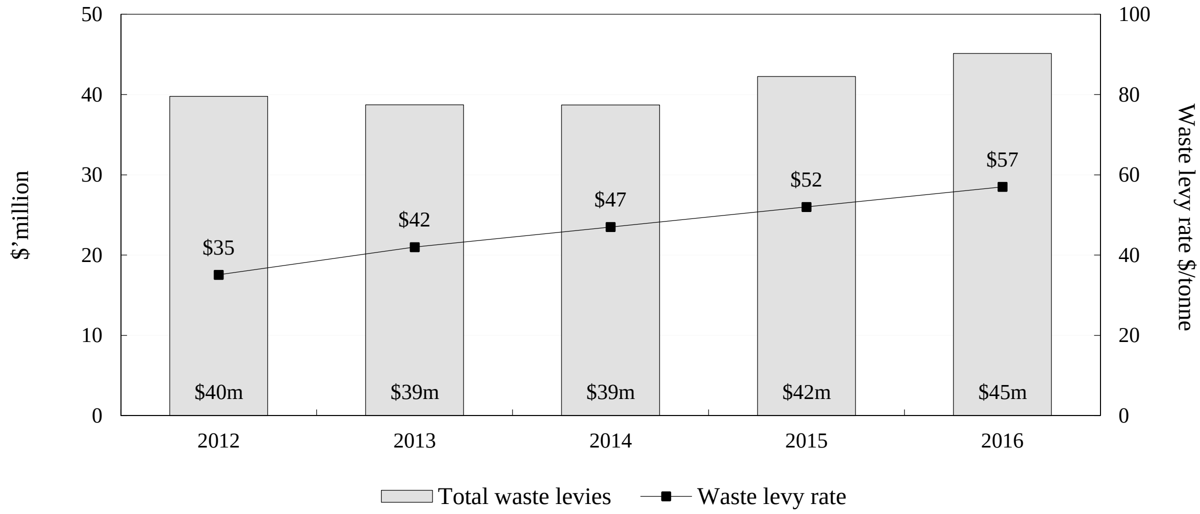
Waste levies include solid waste levies from waste depots. Solid waste levy rates increased by 10% from 1 July 2015. Further increases in the metropolitan solid waste levy rates were announced in the 2016-17 State Budget, with the Environment Protection Authority (EPA) expecting to collect an additional $63.6 million over the four years of the forward estimates.

Increase in waste levy rates offsetting a decrease in the volume of solid waste collected

The following chart, based on data supplied by the EPA, shows the downward trend in solid waste tonnage over the past five years. The solid waste tonnage for 2012 was impacted by the new RAH site development.



The following chart shows the amounts collected from waste levies over the same period.



The charts demonstrate how increases in waste levy rates have offset decreases in the volume of solid waste collected over the period.

The balance of the Waste to Resources Fund continued to increase

The balance of the Waste to Resources Fund at 30 June 2016 was $86.8 million.

The EPA transfers 50% of solid waste levies collected from waste depot licence holders to the Waste to Resources Fund.

The Waste to Resources Fund is controlled by Zero Waste SA, a statutory authority established under the *Zero Waste Act 2004*. Zero Waste SA must apply the Fund in accordance with an annual business plan approved by the Minister for Sustainability, Environment and Conservation or in any other manner authorised by the Minister for the purposes of the *Zero Waste Act 2004*.

The increases in the solid waste levy announced in the 2016-17 State Budget will be applied by the EPA and the Office of Green Industries SA (an administrative unit that supports the activities of Zero Waste SA) towards a range of environmental and waste management expenditure initiatives. The additional levies will also be used to fund climate change initiatives announced in the 2016-17 State Budget.

The SA Government proposed seeking amendment to the purpose of the Waste to Resources Fund to allow its use for climate change and disaster waste management initiatives.

2.3.9 HomeStart Finance grew gross loans and advances and is being reviewed

Growth in graduate loans led to gross loans and advances growing in 2015-16

An $84 million increase in graduate loans, to a total of $303 million, drove a net increase of $32 million in HomeStart Finance's (HomeStart) gross loans and advances to a total of $1.81 billion. This increase was in part driven by changes to the graduate loan product during the year, increasing the maximum loan size and introducing revised criteria which allows applicants to meet the employment requirements sooner.

Overall coverage for loan impairment remains consistent

HomeStart's specific and collective provisions for impairment totalled $17.3 million at 30 June 2016. HomeStart also has a general reserve for credit losses, which increased by $500 000 this year. In total, coverage for loan impairment has only decreased marginally to $25.3 million (from $25.5 million in 2014-15)

Loan portfolio is concentrated in some geographic areas

Due to the nature of HomeStart's customer base, it has a greater concentration of loans in some geographic areas. 33% of loans by value are within the City of Playford and City of Salisbury, while a further 24% of loans by value are located outside of metropolitan Adelaide.

Scoping study announced

The 2016-17 State Budget announced that a scoping study would be performed on the possibility of either transferring the commercial elements of HomeStart's current loan book and/or making its database available to the private sector.

2.3.10 Local Government Finance Authority of South Australia continues to achieve profits and make annual bonus payments

LGFA's steady performance continued

The Local Government Finance Authority of South Australia (LGFA) made a $6.2 million profit before income tax equivalents in 2015-16, $600 000 more than the profit in 2015.

$2 million paid in annual bonus payments in 2015-16

LGFA has the discretion to make distributions from the surplus for the year to councils and local government bodies. These distributions are recorded as bonus payments in the financial report.

LGFA paid $2 million in bonus payments during the year from prior year surpluses and set aside another $2 million for bonus payments in 2016-17.

General reserve continues to increase

LGFA maintains a general reserve to safeguard against the risk of future adverse conditions. At 30 June 2016, the general reserve was $62 million, increasing by $2.2 million from LGFA's 2015-16 performance.

2.3.11 South Australian Government Financing Authority's balance sheet grew in 2015-16

Loan assets increased $1.4 billion

SAFA is the central borrowing authority for the State and is responsible for managing most of the State's debt and for implementing debt policy as determined by the Treasurer. As at 30 June 2016 SAFA had loan assets of $19.9 billion made up of:

- loans to the Treasurer – $10.5 billion
- loans to public non-financial corporations – $7.6 billion

- loans to public financial corporations – $1.7 billion.

Funds are raised in domestic and international financial markets

SAFA raises most of its funds from domestic and international financial markets to support the SA Government's budgetary funding requirements. Funds are in the form of bonds, notes and debentures and amount to $15.1 billion as at 30 June 2016.

SAFA also holds significant deposits and short-term borrowings of $8 billion. This includes $5.2 billion in deposits from the Treasurer.

Insurance and vehicle operations continue in SAFA

SAFA is also responsible for managing the SA Government's:

- insurance and risk management arrangements, trading as SAICORP. The outstanding insurance claims liability as at 30 June 2016 was $375 million

- passenger and light commercial vehicle operations. Fleet vehicles owned as at 30 June 2016 were valued at $172 million.

2.3.12 South Australian Tourism Commission is responsible for Clipsal 500 Adelaide

SATC takes over responsibility for running the Clipsal 500 Adelaide motor race

From 1 July 2015 the South Australian Tourism Commission (SATC) took over the operations of the South Australian Motor Sport Board which was dissolved. In March 2016 SATC successfully staged the Clipsal 500 Adelaide motor race which attracted over 260 000 patrons. Funding from the SA Government of $13.6 million was received towards the cost of running the event.

2.3.13 South Australian Superannuation Board has a role administering changes in state superannuation law

Changes in state superannuation law regarding parental leave

The South Australian Superannuation Board (SASB) is responsible to the Minister for Finance for administering a range of public sector superannuation schemes. The State Superannuation Office – Super SA, a business unit of DTF, provides administration services to the SASB.

In November 2012 the *Southern State Superannuation Act 2009* was amended to exclude from the definition of salary any amount paid for parental leave. In 2015-16 Shared Services SA (SSSA) and Super SA noted that employers were continuing to pay employer contributions on paid parental leave.

While SSSA has made the necessary changes to the CHRIS payroll system, certain agencies that do not use this system continue to pay employer contributions for employees on parental leave.

Employers are responsible for calculating and submitting the appropriate superannuation contribution in accordance with superannuation legalisation. Super SA has, however, acknowledged that it has a role in ensuring employers are aware of changes to superannuation law and advised that it will take a more active lead in discussing proposed changes to legislation and giving advice once legislation changes have been implemented.

In February 2016 the Southern State Superannuation (Parental Leave) Amendment Bill 2016 was laid before the House of Assembly.

2.4 Health

2.4.1 Department for Health and Ageing

Consolidated net deficit result exceeded the original budget

The consolidated net result was a deficit of $376 million. Actual expenses exceeded the original 2015-16 State Budget by $482 million while total actual revenue exceeded budget by $94 million, leading to an overall deterioration of $317 million against the original budget.

Provision for insurance increases to $122 million

The Department for Health and Ageing's (DHA) provision for insurance, which estimates the liability for professional indemnity including medical malpractice and general public liability, increased by $22 million to $122 million. This provision is impacted by a number of adverse events that occurred during the year.

Key executives change for DHA

In August and September 2016 DHA's Chief Executive and two deputy chief executives ceased employment.

Transforming Health program continues

During 2015-16 DHA continued with its Transforming Health program. Further commentary on various aspects of Transforming Health are provided in section 4.1.

2.4.2 Central Adelaide Local Health Network Incorporated

New RAH commercial acceptance further delayed

Construction of the PPP project, the new RAH, progressed. Under a Deed of Settlement and Release signed in September 2015, the dates of technical completion and commercial acceptance were extended to 4 April 2016 and 3 July 2016 respectively. The State issued a major default notice to SAHP on 5 April 2016 for failing to meet the revised technical completion date, and further major default notices have since been issued. The date the SA Government accepts the handover of the facility from the contractor (commercial acceptance) is uncertain. It is expected the new RAH will be completed in 2016-17.

The State and SAHP are currently before the Supreme Court of South Australia over contractual matters.

Further commentary on specific expenditure related to the new Royal Adelaide Hospital is included in the section of Part B of this Report titled 'Central Adelaide Local Health Network Incorporated'.

Surplus assets transferred to DHA

During 2015-16, surplus property assets valued at $31 million transferred from the Central Adelaide Local Health Network Incorporated (CALHN) to DHA, including part of the Glenside site.

Statewide Clinical Support Services allocated to CALHN

Statewide Clinical Support Services are part of CALHN. SA Pharmacy and SA Medical Imaging are part of Statewide Clinical Support Services.

During 2015-16, it was identified that transactions, assets and liabilities for SA Pharmacy and SA Medical Imaging were reflected at each local health network (LHN) where a service was being provided, rather than in CALHN. This treatment was corrected as a prior period error in the financial statements for CALHN and the other LHNs, reflecting these activities were state-wide services from 1 July 2012.

2.4.3 Southern Adelaide Local Health Network Incorporated

The sale of the Repatriation General Hospital to the RSL was approved

In May 2016 the $15 million RSL Repat Park proposal was approved for the future use of the Repatriation General Hospital site.

This approval resulted in a $47.3 million impairment to the value of the Repatriation General Hospital buildings and site improvements and an associated $10.6 million land revaluation decrement.

Construction of new facilities at the Flinders Medical Centre commenced

Construction of the new $170.5 million Flinders Medical Centre Transforming Health project facilities started in October 2015.

2.4.4 Northern Adelaide Local Health Network Incorporated

Work started on the Modbury Hospital Transforming Health Redevelopment

In 2015-16 work started on the Modbury Hospital Transforming Health Redevelopment to upgrade facilities. The project is budgeted to cost $32 million and is scheduled for completion in 2017-18.

2.4.5 Country Health SA Local Health Network Incorporated

Agreement reached to continue using Chiron patient administration system

In August 2016 DHA agreed to pay a $5 million fee over five years for a perpetual licence to use the Chiron patient administration system to 31 March 2020 and $600 000 each subsequent year for its ongoing use.

Chiron is an unsupported legacy system and DHA is planning for its eventual replacement.

2.5 Other agencies

2.5.1 Department of State Development managed significant grant funding

Grant funding

DSD paid over $528 million in grants and subsidies in 2015-16, across a range of programs.

Skills and employment grants

Grants to TAFE SA totalled $234 million, a slight increase on the $233 million paid in 2014-15. VET funding to private registered training organisations reduced from $80 million to $53 million in 2015-16. The reduction in VET funding to the private registered training organisations reflects the introduction of the more targeted WorkReady policy from 1 July 2015.

Total funded training hours for TAFE SA and private registered training organisations reduced to 16.9 million hours in 2015-16 (22 million hours in 2014-15).

Arts and cultural grants

DSD paid $129 million in arts and cultural grants in 2015-16, a slight increase on the $128 million paid in 2014-15. A substantial portion of this funding is paid to SA Government statutory bodies, including the Libraries Board of South Australia, the Adelaide Festival Centre Trust, the Art Gallery Board and the Museum Board.

Other grants

DSD also paid a significant amount under a range of other grant programs in 2015-16. Specific items included:

- $12.9 million in funding for the PACE Copper strategy, designed to improve data about potential copper deposits in the Gawler Craton and the State’s far west
- $4 million as the first instalment of a $10 million grant to Oz Minerals over three years.

Investment Attraction South Australia is created as an attached office

On 10 March 2016 the SA Government announced the creation of Investment Attraction South Australia (IASA). IASA will be the lead body for all major investment attraction activity.

On its creation on 1 April 2016, 31 staff transferred from DSD to IASA. The staff who transferred mainly came from the Invest in SA and International Engagement, Innovation and Industry areas of DSD.

Mining royalties were down

DSD administers the collection of mineral and petroleum royalties for the SA Government. Royalties collected of $208 million were less than in 2015, when $237 million was collected. The decrease in royalties collected was a result of lower commodity prices and lower production volumes.

Transfer of TAFE SA sites to the Urban Renewal Authority announced

The 2016-17 State Budget, released on 7 July 2016, announced that ownership of TAFE SA sites would move from DSD to the URA during 2016-17. DSD and the URA are working together to determine the transfer value of these properties.

2.5.2 Attorney-General's Department

Fines Enforcement and Recovery Unit

The Fines Enforcement and Recovery Unit collects outstanding court fines, expiation fees (including overdue local government amounts referred) and other outstanding amounts, including Victims of Crime (VOC) levies and third party suitor amounts.

During the year the Fines Enforcement and Recovery Unit collected $87 million in fines and related fees (excluding VOC amounts), an increase on the $79 million collected in 2014-15.

Total outstanding debts and related payments as at 30 June 2016 were $369 million ($342 million). Of this amount, $321 million ($295 million) is under active management, with $161 million ($148 million) subject to payment arrangements and $42 million ($101 million) having been referred to an external debt collection agency. $48 million ($47 million) is not under active management because of the assessed difficulty of recovery.

Victims of Crime fund

The Attorney-General's Department administers the VOC Fund. The maximum amount that can be awarded under the *Victims of Crime Act 2001* is $100 000. The balance of the VOC Fund at 30 June 2016 was $240 million ($204 million).

In 2015-16, total payments from the VOC Fund were $21 million ($19 million), including $13 million ($13 million) in compensation payments and $4 million ($4 million) in grants. Total VOC income for 2015-16 was $56.5 million ($58 million) and included VOC levies totalling $42 million ($43 million) and revenues from the SA Government of $8 million ($8 million).

Amounts recovered directly from offenders totalled $640 000 ($770 000), with a further $1.9 million ($1.5 million) recovered from offenders under the *Criminal Asset Confiscation Act 2005*.

2.5.3 Department for Correctional Services costs and capacity increase

Net cost of services increased

The net cost of providing services for the Department for Correctional Services has increased by $31 million (12%) to $285 million, primarily because of an increased number of beds.

Increase in prisoner and bed numbers

Prisoner numbers as at 30 June 2016 increased by 217 (8%) to 2954. During the year 230 new prisoner beds were added bringing the total approved beds to 2861.

Capital work in progress includes additional 200 beds

As at 30 June 2016 capital work in progress was $15 million and included:

- $2 million for 72 beds at Mobilong Prison
- $6 million for 128 beds at Port Augusta Prison.

Outsourced management of prisons and services

A number of activities have been contracted out to G4S:

- management of the Mount Gambier Prison which cost $22.6 million and housed an average of 455 prisoners during 2016

- electronic monitoring which cost $1.9 million and monitored 630 offenders as at 30 June 2016

- prisoner movement and in court management which cost $12.2 million.

2.5.4 Department for Education and Child Development expenses including emergency care costs increased

Total expenses for the Department for Education and Child Development (DECD) increased by $146 million (4.5%) to $3.4 billion.

Employee benefits expenses increased $85 million

The main reasons for this increase were a $46 million increase in salaries and wages (including annual leave) due mainly to enterprise bargaining increases during 2015-16 and FTE increases and a $24 million increase in long service leave expense due mainly to changes in the methodology and actuarial assumptions.

Families SA emergency care costs increased significantly

The Office for Child Protection (Families SA) pays a number of commercial care providers for providing care to children and young people in short-term commercial accommodation. These costs increased by $27.5 million in 2015-16, as shown in the table below.

	2015-16 $'million	2014-15 $'million	2013-14 $'million	2012-13 $'million
Emergency care expenditure	82.9	55.4	37.0	45.1

A new department for child protection to be established

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

2.5.5 Department of Treasury and Finance has a new taxation revenue system

New State taxation revenue system in use from July 2015

In July 2015 land tax and Emergency Services levy processing transitioned to the RISTEC release 2 system, now known as the Revenue Information Online system (RIO).

We identified some control deficiencies as part of our audit of Revenue SA that were impacted by RIO system defects. They included the collection bank account reconciliation not being completed promptly during the year and overdue debtor follow-up activities. DTF responded that defects would be resolved in 2016-17.

Further, we assessed system application controls for RIO during 2015-16. Our review identified significant control deficiencies. The detailed findings will be the subject of a Supplementary Report to Parliament in October 2016.

DTF manages some key strategic projects and activities

DTF is currently managing a number of key strategic projects and activities, including the CTP insurance market reform project, the sale of the State Administration Centre precinct and Arrium Whyalla Steelworks government support.

2.5.6 Department of Environment, Water and Natural Resources values Crown land

Unallotted Crown land was valued and recognised for the first time

The Department of Environment, Water and Natural Resources (DEWNR) has recognised unallotted Crown land in its Statement of Administered Financial Position for the first time.

Unallotted Crown land, with a value of $553.9 million as at 1 July 2015, was previously excluded from DEWNR's Statement of Administered Financial Position because:

- there were limitations on the base information used to value leased and licensed Crown land reported in DEWNR's Statement of Administered Financial Position
- DEWNR had not finalised an appropriate valuation methodology for all Crown land.

DEWNR started a Crown land identification and valuation project to establish an auditable fixed asset register for Crown land in 2014-15. The project was completed in 2015-16, and confirmed the completeness and accuracy of administered land information in the Tenancies and Billing System.

The State Valuation Office valued all Crown land assets as at 1 July 2015.

This is a significant accountability achievement and the Independent Auditor's Report for DEWNR is unmodified for the first time in many years. An emphasis of matter was included in the Independent Auditor's Report reflecting the importance of this correction to users' understanding of the financial report.

2.5.7 Department of Planning, Transport and Infrastructure improved result and reforms continue

Net cost of providing services improved through Commonwealth funding

The Department of Planning, Transport and Infrastructure (DPTI) recorded a net cost of providing services for the year of $265 million. A significant factor is the level of Commonwealth funding received, which increased by $110 million to $244 million. Commonwealth funding included $111 million for the South Road Upgrade (Torrens Road to River Torrens) project, $50 million for the North-South Corridor Darlington Upgrade, $28 million for road maintenance programs and $18 million for Anangu Pitjantjatjara Yankunytjatjara lands main access road upgrade.

Highways Fund receives $448.5 million from MAC

In 2015-16 MAC paid $448.5 million into the Highways Fund. The Treasurer directed MAC to make the payment under section 26(2) of the *Motor Accident Commission Act 1992* and it follows a similar transfer of $852.9 million in 2014-15.

Further contributions from MAC are subject to the direction of the Treasurer.

Reform of procurement, contract management and project delivery

Since August 2014 DPTI has undergone significant organisational restructure and started to reform its operations. These reforms aim to address issues identified for procurement, contract management and project delivery and governance.

In 2015-16 DPTI:

- established two senior procurement committees, one for goods and services and the other for construction contracting, each chaired by a senior executive
- implemented a new project reporting framework
- established a steering committee for high risk and high value projects and started a gap analysis on existing project management systems
- started a portfolio management approval process to provide transparency of decision making.

Further reforms are anticipated for 2016-17.

2.5.8 Department of Primary Industries and Regions delivering grant programs

South Australian River Murray Sustainability Program

The Department of Primary Industries and Regions (PIRSA) received $84 million from the Commonwealth in 2015-16 for the South Australian River Murray Sustainability (SARMS) program. SARMS is a $265 million program delivered over six years through a National Partnership Agreement.

PIRSA paid $68.1 million in SARMS grants, with the payments being made over time as approved projects are delivered.

Regional Development Fund payments increase to $17.6 million

PIRSA paid $17.6 million in Regional Development Fund grants during 2015-16. This was a significant increase from the previous year in which $2.2 million was paid. Similar to the SARMS program, the payments under the current Regional Development Fund program are approved and then paid over time as projects are delivered.

2.5.9 Department of the Premier and Cabinet improved result and implementing CHRIS 21

Net cost of providing services decrease by $18.7 million

The net cost of providing services for DPC decreased by $18.7 million to $473 million. Total expenses decreased by $27 million, with employee benefits (down $18 million) and accommodation charges (down $4 million) being the major contributing factors.

Internal restructuring and machinery of government changes over the last two financial years have driven this improved result.

Implementation of CHRIS 21 payroll system

During the year DPC, through SSSA, commenced the transition of payroll services from CHRIS 5 to CHRIS 21. This two-year project involves migrating 27 CHRIS 5 databases and three existing standalone CHRIS 21 databases into the new CHRIS 21 environment, resulting in the maintenance of only two databases spread between the SA Government's central agencies and DHA (SA Health).

As at 30 June 2016, 21 agencies on seven CHRIS 5 databases have transitioned onto the shared sector database and six agencies on five CHRIS 5 databases have transitioned onto the SA Health database.

The transitions will continue throughout 2016-17, with planned completion in May 2017.

2.6 Restructures of government agencies in 2015-16

Restructures occur in most years. Generally, changes affect the comparability of agency financial information from the previous year.

Typically, agency restructuring leads to transition periods while transferred staff and activities settle into their revised arrangements. Issues that can arise during transition include the timeliness of settling delegations, updating and rationalising systems and policies and procedures, and clarity of roles, responsibilities and accountabilities. Restructures occurring during 2015-16 (some effective after 30 June 2016) were as follows:

- IASA was established as an attached office of DSD on 1 April 2016, involving the transfer of 31 staff.
- State Records of South Australia transferred from DPC to the Attorney-General's Department from 1 July 2015, involving the transfer of 38.6 FTE positions.

- The Office of the Industry Advocate transferred from DPC to DSD from 1 July 2015, involving the transfer of nine staff.
- On 21 June 2016 the SA Government announced its intention to create a new department for child protection which will result in the transfer of Families SA from DECD in 2016-17.
- The Office of the Valuer-General transferred from DPTI to DTF on 1 July 2016, involving 81 FTEs.
- The ICT services division transferred back from DPC to DTF during 2015-16 involving 53 staff.
- From 4 April 2016, two staff involved in space and aerospace were transferred from DSD to Defence SA.
- 243 employees were transferred from the workforce division of DHA to LHNs and the SA Ambulance Service Inc.

2.7 Summary of selected financial disclosures

A summary of selected financial statement items is included in section 6.

The summary comprises information disclosed in the financial reports included in the Appendix to this Annual Report.

3 Significant financial control matters communicated to agencies in 2015-16

This section sets out significant financial control matters communicated to agencies in 2015-16 arising from our audits that were important to forming control opinions. For a full understanding of these and other matters, together with agency responses, I refer readers to Part B of this Annual Report.

It is important to emphasise that audits rely on sampling transactions within agencies and across the public sector. Where we have reported issues arising in individual agencies, we consider it is important they be considered by other government agencies to ascertain whether they have relevance and to help improve public administration.

3.1 Key findings and recommendations

3.1.1 41 of the 62 agencies received modified controls opinions

41 of the 62 agencies reported in this Annual Report and subject to controls opinions,[1] received modified (qualified) control opinions due to financial and management control weaknesses and compliance matters. The causes of qualifications ranged from a single matter to multiple reasons. Some matters were, for a range of reasons, unresolved from the previous year.

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1 Adelaide Oval SMA Limited and the Legislature are not subject to controls opinions.

We also found weaknesses in some service provider areas including SSSA and SA Health that impacted on a number of client agencies.

3.1.2 The number and nature of matters raised with agencies has not reduced

Overall, through our 2015-16 agency audits we have identified and reported matters in similar numbers and of similar importance as were raised with agencies last year. Improvements in some areas are offset by new issues. The matters of most concern are those relating to fundamental areas of governance and financial control and accountability practices. Our follow-up of matters previously raised with agencies again revealed instances where the matters were not actioned satisfactorily.

Agencies have largely accepted our 2015-16 findings and recommendations and committed to resolving matters raised. In many instances we are advised that agencies have attended to the audit issues.

There are occasions where agencies have advised they do not accept our recommendations. These responses have generally indicated that the agencies are satisfied with their existing practices on a risk/cost benefit basis. Occasionally this reflected changed practices brought on by their response to cost saving pressures, restructuring or process change.

Agencies are responsible for ensuring they have cost effective and adequate control practices and we respect that they have that responsibility. In making their assessment, agencies must ensure they have regard to meeting their legislative and other compliance responsibilities and the sufficiency of controls to provide reasonable assurance that their transactions are conducted properly and in accordance with law. Our practice is to follow up agency responses in the next audit year. We will continue to have regard to risk, cost and taxpayers' expectations when assessing the sufficiency of controls.

We also note that there are opportunities for system improvements, some of which are well progressed, for example in payroll systems, where future control improvements may flow from being able to use online facilities within a revised and system based control environment. It is fair, however, to observe that system solutions can take longer to materialise than anticipated and have capital costs. It is also notable that systems introduce other control issues, particularly access regimes and continuity risks.

Significant or frequently occurring control weaknesses identified across agencies and included in this section related to:

- policies and procedures
- contract management
- delegations and approvals
- payroll systems including bona fide and leave reporting
- compliance with Treasurer's Instructions
- government purchase cards
- information systems access controls.

3.1.3 Recommendations

We recommend agencies:

- ensure appropriate mechanisms are in place so that corrective actions they have committed to take are clearly assigned to responsible officers, timelines are established, performance is monitored and issues are resolved in a timely manner
- ensure policies and procedures are documented and regularly reviewed
- ensure the State achieves value-for-money outcomes by ensuring that all contract providers meet their obligations in line with contract performance measures, time frames and expected deliverables
- improve systems and processes to ensure that delegations are properly exercised
- give further attention to the capacity for information system improvements to assist delivery of cost effective and appropriately controlled financial administration
- where systems warrant renewal or revision, ensure full, robust and disciplined business cases are established to ensure such projects have a high likelihood of successfully delivering expected improvements.
- assess their practices for monitoring and reporting Treasurer's Instructions breaches to ensure those responsible for governance are properly informed and to ensure newly required annual reporting to the Under Treasurer is complete and relevant
- maintain monitoring of purchase card compliance and continue to educate cardholders about policy requirements
- ensure logical access to systems, especially those with administrative privileges, is tightly controlled.

3.2 Background

3.2.1 Public sector managers are responsible for internal control

Public sector managers have the responsibility to cost effectively manage and control financial resources, operations and risk exposures within their agencies and to comply with relevant laws, regulations and instructions. The ability of public sector entities to operate properly and to report reliable, accurate and timely information is underpinned by an effective control framework.

3.2.2 Auditor-General must express an opinion on controls

The Auditor-General has the statutory responsibility to annually express an opinion on the sufficiency of controls and whether and how well those controls provide reasonable assurance that financial transactions of the Treasurer and public authorities have been 'conducted properly and in accordance with law'. In performing tasks to support this opinion, we use relevant criteria against which to assess whether controls conform to established standards of financial management practice and behaviour.

The primary sources of criteria are relevant laws, regulations and instructions (eg Treasurer's Instructions) and agencies' own policies. Where these sources are absent, we have regard to 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 that has 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.

For the most part, change is embedded in the relevant laws, guidelines and references as they are amended to align with contemporary standards and requirements. In this sense, change goes through a thorough process of debate and consultation that establishes the new agreed norm/standard. Nonetheless, there remains significant room for judgement. As a consequence, it is probable that auditors and management will disagree in some areas.

An important outcome of our audits is to communicate significant findings from the audit 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 assurance services, an obligation under the PFAA and a professional responsibility under Australian Auditing Standards.

3.2.3 A modified opinion means controls are not sufficient

Modified controls opinions in Part B of this Report reflect our view that aspects of agency controls are of an insufficient standard to provide reasonable assurance.

Where we have drawn that conclusion, we have made recommendations as to where, in our opinion, improvements are required.

All audits conclude with a natural justice process where draft audit issues are subject to agency scrutiny to ensure our issues are factually accurate, logically sound and present matters fairly. This also gives the opportunity to discuss the effect and practicality of recommendations and other relevant issues. Feedback from these discussions is considered and reflected, where appropriate, in final audit management letters and reports.

The natural justice process results in agreement on most audit issues, findings and their resolution. It is up to agencies to determine whether or not to adopt audit recommendations. Agencies have regard to their view of risks, costs and benefits. On a number of occasions agencies put forward reasons for not accepting our recommendations. The primary differences arise where agencies evaluate the risks and benefits and consider that existing practices sufficiently address the relevant risk.

Responses received to issues raised in the current year are evaluated in the next audit. Should we continue to disagree with an agency assessment and have an alternative view, our practice will be to raise the matters for further consideration. We are also professionally obliged to perform additional work to address any residual audit risk before forming an opinion on controls and financial reports.

3.2.4 Agencies with modified opinions are exposed to increased risks

It is clear that finding material error, such as overpayments or realised loss, would give persuasive evidence of the significance of audit findings and recommendations. In practice this does not necessarily occur.

Where controls are not at a sufficient standard to provide reasonable assurance, it is equally clear that this means an agency is exposed to increased risk regarding the financial probity and propriety expected of a public authority and its discharge of its responsibilities for cost effective public services.

3.2.5 Auditor-General's Reports are forwarded to the Office for Public Integrity

Auditor-General's Reports are routinely forwarded to the Office for Public Integrity to ensure I meet my responsibilities under the *Independent Commissioner Against Corruption Act 2012*. The Office for Public Integrity is responsible for assessing if any matter raises a potential issue of corruption, misconduct or maladministration in public administration.

3.3 Policies and procedures

Treasurer's Instruction 2 'Financial Management' (TI 2), clause 2.5 requires chief executives to ensure that policies, procedures and systems are properly documented. Unless otherwise required by a Treasurer's Instruction, legislation or other authority, documentation must be reviewed regularly, revised where necessary and be readily available to all relevant officers of the authority.

There are policies that are established at a whole-of-government level, including those issued by DTF, DPC and the State Procurement Board. There are also policies issued by individual agencies, covering specific areas of their own operations. Employees are to work within these policies when undertaking their roles, as required by their agency and, in some cases, by other requirements including the Code of Ethics for the South Australian Public Sector.

3.3.1 Our findings continue to indicate a need for agencies to ensure policies and procedures are documented and regularly reviewed

When we review policies and procedures, we assume there are adequate staffing and resources to allow for compliance with the requirements they establish.

If we find non-compliance, there are essentially only two responses from agencies: future compliance or changes in the requirements. Where agencies advise us that they will ensure compliance in future, they sometimes indicate the reason for the lapse in compliance. When an agency indicates it will change its policies or procedures as a result of our findings, this should reflect the outcome of a sound analysis which considers costs of compliance balanced against risks and benefits.

There are a number of reasons why non-compliance occurs. We have noted instances where policies and procedures did not reflect agency changes to either resourcing or practices. We also noted instances where changes in personnel resulted in non-compliance as new staff may not have been aware of requirements. Restructuring of arrangements or a lack of clarity in documented service level agreements about responsibility for tasks can also contribute to non-compliance.

Our findings continue to indicate a need for agencies to ensure policies and procedures are documented and regularly reviewed to ensure they reflect changes that have happened. It is also important that agencies have an active approach to training relevant staff about policies and procedures and informing them when changes occur.

3.4 Contract management

The public sector is an extensive user of private providers for services. These arrangements commit the SA Government to payments annually exceeding $1.2 billion for services including infrastructure provision and maintenance, project management, transport and contract staffing. In other instances, the SA Government has transferred management of services to an external provider in exchange for the right to future revenue streams. Section 6.5 lists examples of expenditure on outsourced contracts by agency.

Regardless of the reason for the outsourced arrangement, it is important that the SA Government achieves value-for-money outcomes by ensuring that all contract providers meet their obligations in line with contract performance measures, time frames and expected deliverables.

This expectation is set out in Treasurer's Instruction 28 'Financial Management Compliance Program', which requires chief executives to ensure:

- contractor/supplier performance against orders, contracts, service level agreements (including services outsourced and PPP contracts) or equivalent are regularly monitored and reviewed to ensure services are being received, and payments are made, in accordance with agreed arrangements
- abatements are promptly applied in accordance with the relevant contract documentation where abatable contract performance failures occur. Public authorities must not delay the application of abatement or enter into extra-contractual arrangements in lieu of abatement (eg a negotiated settlement involving abatement being 'traded off' for other 'benefits'), unless agreed to by DTF and the Crown Solicitor's Office. Public authorities must develop, document and implement contract management policies and procedures (including for PPP contracts).

3.4.1 Agency contract management processes continue to need improving

Our audits of contract management practices in 2015-16 again found examples where agency controls failed or needed improving. Issues identified included:

- the lack of an approved contract management framework or contract management plan
- improvements required in the nature or extent of documented policies and procedures governing contract management
- other governance matters, including instances where agencies need to clarify the nature and extent of reporting on contractor performance
- audits or other compliance activities not performed as required or not comprehensively performed
- weaknesses or delays in implementing appropriate methods for assessing contractor performance

- invoices received from contractors not verified, not completely verified, not consistently verified or not verified promptly.

In the Report on the Adelaide Oval redevelopment for the designated period 1 January 2016 to 30 June 2016 we noted that the contracted project manager for the redevelopment was to independently substantiate that all identified defects were appropriately rectified, as part of its project management responsibilities. We found there was a lack of documentation to evidence the processes undertaken by the project manager.

The observation that agencies with significant outsourced arrangements are managing these arrangements without an approved contract management framework or contract management plan is particularly concerning. Effective contract management is essential to realising the anticipated benefits of a contract and requires a methodical approach to managing risk, resources, relationships and supplier performance.

The State Procurement Board, in its Contract Management Policy, requires public authorities to establish a contract management framework. The State Procurement Board also requires public authorities to ensure that, except for contracts that are of a one-off nature and have minimal management tasks, an approved contract management plan is developed, implemented and monitored for all contracts valued at or above $4.4 million and also for significant contracts below $4.4 million.

A documented and approved contract management framework outlines the key processes and activities that a public authority must perform to achieve effective contract management outcomes. A contract management plan is an internal document outlining key strategies, activities and tasks required to manage a contract and provides a systematic and accountable method to ensure that both parties fulfil their contractual obligations.

Our audits did find agencies that maintained reasonable contract management practices, including DPTI's management of metropolitan bus contracts and SA Water's management of the Allwater Alliance contract. We also found that SA Water had complied with policies, procedures and contract arrangements when undertaking the extension to existing Automation Panel contracts (discussed further in the next section).

Agencies have responded to our findings with commitments to improving their contract management practices. In particular, agencies needing to develop or revise their contract management frameworks and/or contract management plans have committed to doing so within short time frames.

3.4.2 Significant outsourced / service contracts reviewed in 2015-16

Each year we review elements of the SA Government's arrangements with private service providers. Summaries of the audit findings, recommendations and agency responses are in Part B of this Annual Report for the relevant agencies. Significant service elements and arrangements we reviewed in 2015-16 included the following:

- DPTI:
  - On 1 July 2015 a new Across Government Facilities Management Arrangement was entered into with an external contractor for the responsive and programmed maintenance services for across-government facilities. The contract's estimated value for the initial three-year term is $363 million. DECD and South Australia Police are the largest service users.

- DPTI has contracts with three external providers for bus transport services. Contracts were entered into in July 2011 for a period of eight years, with the option for a further four years – total spend exceeds $150 million annually.

- SAHT:

  - Multi-trade contractors (MTCs) manage most job orders issued by the SAHT for responsive, vacancy, programmed and capital upgrade maintenance within defined geographical areas. The SAHT's MTC agreements with five MTCs are worth an estimated $912 million over eight years (including renewals).

  - In 2015-16 the SAHT transferred management of 1087 SAHT houses to CHPs. The SAHT recently released an expression of interest to transfer a further 4000 housing properties in 2016-17. The CHPs are entitled to receive the rental income from the selected properties in exchange for maintaining the properties and managing tenancies.

- SA Water:

  - The Metropolitan Adelaide Service Delivery Project Operations and Maintenance Alliance (Alliance) contract with Allwater commenced on 1 July 2011 for a term of 10 years. SA Water has the option to extend the contract for a further six years in annual increments. The current annual value of the contract is $106 million. The Alliance contract allows the sharing of responsibility for the management of operations and maintenance activities with the contractor.

  - An operations and maintenance contract is in place with Adelaide Aqua for the Adelaide Desalination Plant. Adelaide Aqua is responsible for operating and maintaining the desalination plant for 20 years from 2012. The annual cost of this contract in 2015-16 was $21 million.

  - SA Water uses various remote access and automation technology to manage its network. We considered the panel contract arrangement established for the Supervisory Control and Data Acquisition Control System Integration and Associated Electrical Services (the arrangement with the suppliers of this technology), referred to as the Automation Panel.

- DECD pays a range of commercial care providers to care for children and young people in short-term commercial accommodation. Payments to these providers in 2015-16 totalled $82.9 million. Additionally, DECD has care and protection service agreements with a number of non-government organisations.

- DCSI purchases (brokers) services from non-government organisations to meet individual disability and domiciliary care services client needs. The cost of brokerage expenditure, including domiciliary care, amounted to $168 million in 2015-16. Disability SA represents most brokerage expenditure, with $165 million spent for the year ended 30 June 2016 on approximately 3960 clients.

- In October 2015 the Minister for Health awarded panel contracts for the provision of temporary nursing/midwifery staff across SA Health to two service providers. The contracts are for an initial three-year term, with two options for 12 month extensions. The total estimated value of the contracts exceeds $150 million.

- The Department for Correctional Services has contracted the management of the Mount Gambier Prison to G4S for five years. The contract is due to expire on 1 December 2016, with a right to an extension for another five years within the contract. For 2015-16 the amount paid under the contract was over $20 million.

- In 2012-13 the SA Government appointed a Master Agent to operate the SA Lotteries brands and products for a term of 40 years. The Master Agent receives a fee reflecting gross sales less prizes, the gambling tax, GST and agent commissions. In 2015-16 the Master Agent fee was $57.1 million. SA Lotteries has an ongoing responsibility to monitor whether the Master Agent's operations comply with all applicable laws, regulations, codes of practice, contractual agreements and policies to ensure SA Lotteries complies with the *State Lotteries Act 1966*.

3.4.3 Risks that can emerge if contracts are not effectively managed

Implementing effective contract management requires agencies to commit to actively and systematically monitoring supplier performance and service delivery, timely and effective communication and feedback and a disciplined approach to managing risks.

We consider a documented contract management framework and plan are important to ensure commonly occurring contract risks are not realised. Common contract management risks include:

- failure of either party to fulfil the conditions of the contract
- inadequately administering the contract
- unauthorised changes to the contract
- failure to meet the strategic objectives of the procurement
- loss of intellectual property
- changing scope
- changing technology
- fraud
- lack of properly maintained records
- unethical behaviour or conflicts of interest
- changes or absences of key personnel.

Substantial public money is spent on contracted services. Agencies with this responsibility need to continuously apply reasonable controls that demonstrate contractors provide the services expected and that value is achieved.

3.5 Delegations of authority

Every year billions of dollars of public money is spent by public sector employees who have been given approval to do so through delegated authority to transact on behalf of a public authority.

It is the most fundamental of activities. Delegated authority is a practical necessity to allow public authorities to meet operational and business requirements effectively and efficiently.

3.5.1 Exceeding delegated authority increases risk of not obtaining value for public spending

Individual transactions commit public money to individually high amounts or accumulating commitments over many years, whether for ongoing employees, the largest part of government spending, or contract for services. Many individual transactions are of high value and the amounts exposed to misspending are accordingly high. Because of the responsibility and trust associated with using public money, the standards of expected behaviour and compliance are high.

There are accordingly many rules, instructions and guidelines that govern this activity. These include the PFAA, *Public Sector Act 2009*, *State Procurement Act 2004* and Treasurer's Instructions.

Most broadly, the Code of Ethics for the South Australian Public Sector is the code of conduct for the purposes of the *Public Sector Act 2009*, and all public sector employees are bound by it. The Code of Ethics provides that public sector employees are accountable for exercising their delegated authority and for performing their role within the values and standards of conduct outlined in the Code.

If public sector employees do not adhere to delegated authorities, they risk committing the SA Government to, or incurring, expenditure that does not achieve value from spending public money. The consequences of deliberate misapplication are also potentially severe for individuals.

3.5.2 Payment systems can improve control but must be maintained

Online payment systems are becoming routinely the main systems used for transactions. These systems allow access and use limitations to be set that restrict users to transactions within their approved delegations.

However, processes for changing delegations are generally a separate activity. After changes are approved, systems need to be updated to align with those changes. We often find this does not occur promptly, creating a risk that delegations are not properly exercised.

3.5.3 We found various matters concerning the risk of misapplication of delegations

Our audits found examples where delegations were exceeded.

We mainly found examples where controls failed or otherwise needed improving to ensure that delegations were properly exercised.

While some of these matters did not occur frequently, the types of issues we found and reported to agencies included:

- position titles and payment approval limits in payment systems not aligning with delegated authority
- the Basware system not updated promptly for changes in financial authorisation limits
- reviews of Basware user access and financial authorisation limits not completed promptly

- instances where SSSA was not notified of identified errors in Basware system delegations

- reviews of special delegations and manual payments reports not performed promptly and delegations not updated promptly

- some grant variations not being approved in line with delegations

- purchase orders not used in some instances where they were required

- no system restriction to enforce appropriate segregation of duties for invoices and credit notes

- purchase card holders not having contract authorisation delegation.

3.5.4 Agency information indicates that identified instances of non-compliance are investigated

All matters concerning delegations that we found in our work were reported to the relevant agencies. We are also aware that instances are identified internally by agencies.

We have noted that agencies' investigations have identified causes including accident or oversight, dealing with an urgent matter and evidently deliberate. Consequences have been aligned to the causes, ranging from reminders to disciplinary action and referral to appropriate authorities.

3.5.5 An area of concern is where urgency is the prime reason for non-compliance

Occasionally we have found that the reason given for non-compliance is that a matter needed to be dealt with urgently.

In our view, the prospect that any matter may require urgent attention is generally a foreseeable risk. Where there are circumstances when urgency is more likely to arise, agencies should have processes in place to ensure appropriately authorised officers are advised to confirm any urgent action.

Agencies should also respond appropriately if urgency arises from failure in earlier processes, whether in planning, risk management or execution of other activities.

3.6 Payroll reports and leave recording

There are more than 100 000 employees in the public sector. Section 6.1 indicates that the salaries and wages expense reported by agencies in this Annual Report amounted to $6.7 billion in 2015-16. Payroll and human resource system controls continue to receive substantial annual audit attention. The fundamental aim for a payroll system is to ensure that salaries and wages are being paid correctly to bona fide (valid) public sector employees when they are due.

Many payroll systems are used across the public sector. SSSA processes payroll transactions in the CHRIS payroll system for a large number of SA Government agencies.

During 2015-16, SSSA began transitioning agencies from CHRIS 5 to CHRIS 21. This two-year project involves migrating from 30 databases to two databases in the new CHRIS 21 environment. The databases will cover general agencies and SA Health. Further details on the project are included in the section of Part B of this Report ‘Department of the Premier and Cabinet’.

In 2015-16, we have reported payroll control weaknesses and recommendations for many agencies.

The following discussion summarises the main issues arising and audit results.

3.6.1 Review of payroll reports and documents was often ineffective or untimely

We again routinely found ineffective and untimely review and control of payroll reports and documents across agencies. We consider this increases the risk of financial loss due to inaccurate payroll processing within payroll systems. The nature of exposure of this risk is generally to small, individual transactions, however at a very high volume.

Our findings predominantly concerned bona fide reports, leave records and system reconciliations. Our recommendations were tailored to the individual agency systems. The responses we received from agencies varied from agreement with the principals of improving the performance of this control, to disagreement as to the cost effectiveness of the activity. The responses typically vary with the type of payroll systems operated, but also with the risk view that individual agencies took having regard to their systems.

3.6.2 Review and use of payroll bona fide reports remained frequently inadequate

Bona fide reports or certificates are a feature of most payroll systems. The purpose of the report is for supervisors to confirm the validity of payroll payments made for a particular period. Review of this report is commonly regarded as an important detective control. Generally, bona fide reports or certificates are produced for every pay run. System reporting methods vary from traditional manual distribution for signing and return by an approving manager, to online reporting with automated escalation reminders.

Agency use of bona fide reports as a payroll control is a matter that we have reported on in the past. This year we asked a number of agencies to advise their views on the ongoing relevance of this payroll control. We also asked if agencies considered there were alternative cost effective internal controls that allow them to meet their responsibility for ensuring payroll transactions are valid, accurate and complete.

3.6.3 Online processes may improve payroll controls, but interim approaches are needed

Many agencies that use SSSA responded that when the CHRIS 21 migration was completed, they expected to be able to use online reporting and functionality to manage payroll including the areas of audit concern, particularly for bona fide reporting. This would occur after agencies were satisfied CHRIS 21 had demonstrated its capacity to provide the necessary information to the responsible officers, reliably and promptly. Until that occurred, in reply to our inquiry regarding bona fide reporting, agencies uniformly acknowledged that bona fide reporting remained an effective control and no suitable alternatives were suggested.

It is important that this area continues to be given focused attention by agencies to resolve an accepted, cost effective approach to confirming the validity of payroll expenses and liabilities.

3.7 Compliance with Treasurer's Instructions

3.7.1 We again found non-compliance with Treasurer's Instructions

We again found instances of non-compliance with Treasurer's Instructions during our annual audits. Examples we find that are of most concern include:

- officers not obtaining necessary approvals or exceeding approved delegations
- documented policies, procedures and systems that provide the foundation for an effective control environment not being regularly reviewed and revised as necessary or did not exist
- financial reconciliations not being performed regularly and promptly
- non-compliance with purchase card instructions.

Part B of this Annual Report details those control matters we considered important enough to inform the Parliament about together with our recommendations and agency responses. Many of them have a related Treasurer's Instruction and are accordingly breaches of those instructions.

This Part of the Annual Report has further commentary on delegations and approvals, policies and procedures and purchase cards.

Treasurer's Instructions define practices that set standards of behaviour and accountability expected and required of public sector employees. Consequently, non-compliance reflects as an insufficient standard of behaviour or practice.

Treasurer's Instructions cover a wide range of financial and administrative matters dealing with all public sector financial activity. Some degree of non-compliance is therefore likely.

Audits are not performed with a goal of monitoring compliance or non-compliance. Our findings arise in the course of reviewing control systems and audit sampling and testing of internal controls and transactions. Audits involve sampling only a small portion of public sector activity. We refer most findings to agency chief executives and audit committees for their attention unless we consider them inconsequential (eg isolated and minor errors and incidents).

Management is responsible for assessing the relevance of issues we raise and taking action as is deemed to be appropriate. Agencies generally acknowledge our findings and advise their responses and actions.

Compliance with Treasurer's Instructions is required under section 41 of the PFAA

Treasurer's Instructions are issued by the Treasurer under section 41 of the PFAA. What is issued is at the Treasurer's discretion, subject to the provisions of the PFAA. The PFAA provides that a person who contravenes or fails to comply with a Treasurer's Instruction is guilty of an offence bearing a maximum penalty of $1000.

Treasurer's Instructions apply to all public authorities, except as specified. They are to be interpreted as being consistent with the governing legislation that confers functions or power on a public authority, if it is possible for the authority to comply with both that legislation and the Treasurer's Instruction. The Treasurer may vary the effect of an instruction to an agency. All employees of authorities, being employees of the Crown or a statutory authority or a person who is appointed to any office under an Act, must comply with these instructions.

Instructions on issue in 2015-16 included topics of:

- financial management
- appropriation
- debt recovery and write-offs
- financial authorisations
- government purchase cards
- expenditure incurred by ministers and ministerial staff
- ex gratia payments
- grant funding
- evaluation of and approvals to proceed with public sector initiatives
- financial reporting
- financial management compliance programs.

The Treasurer's Instructions are generally reviewed and updated annually. They are readily accessible through DTF's website.

3.7.2 Chief executives are responsible for compliance with Treasurer's Instructions

Chief executives are responsible for ensuring that appropriate mechanisms are in place to monitor and maintain reasonable controls systems and achieve compliance with Treasurer's Instructions. Monitoring systems should identify individually significant, repetitive or systemic concerns to facilitate relevant corrective action.

Treasurer's Instructions require chief executives to develop, implement, document and maintain a robust and transparent financial management compliance program. This is intended to be a combination of activities that achieve compliance with financial management obligations and requirements.

Most agencies maintain such programs. They also have audit committees and internal audit arrangements that typically establish annual risk based audit programs.

Last year we reported that some audit committees did not have a mechanism to inform the committee about compliance with TI 2 clause 2.16 which then required chief executives to advise the Under Treasurer of a breach of any Treasurer's Instruction within 30 days of becoming aware of the respective breach.

While we have not specifically focused on that this year, during our audits we have noted that reporting and monitoring practices vary between agencies. For example, while some audit committees have considered this matter, this was not evident in others.

Notably, the requirement for advising the Under Treasurer changed late in 2015-16.

3.7.3 Chief executives now annually advise the Under Treasurer of Treasurer’s Instruction breaches and actions

TI 2 now requires chief executives of each public authority to advise the Under Treasurer of a breach of any Treasurer’s Instruction by 31 August of each year for the financial year just ended. This annual reporting requirement operated for the first time in 2015-16 following revision of TI 2.

For 2015-16, agencies were encouraged to submit information on breaches using the BMS online system.

We observed, from a compilation of returns, that all but a few agencies had submitted returns for the 2015-16 reporting period. The main areas reported involved split invoices, contract authorisation and execution, exceeding approved delegations, and various matters with using purchases cards. Some of the matters reported were from audit findings. We have not compared our findings to the returns.

Agencies advised action taken or being taken. Actions reported appeared consistent with the explanations given for reported breaches. Agencies advised of practice changes, changes in policies and procedures, purchase card matters, and further training and reminders for staff. Where agencies considered breaches were more concerning, actions included formal warnings to staff and internal or external investigations.

DTF has advised that it will take action on reported breaches where necessary.

3.8 Government purchase cards

Consistent with previous years, we have sample reviewed compliance with SA Government and individual agency requirements for managing and using purchase cards.

The SA Government has several thousand purchase cards that are issued to individual employees, and they provide a cost effective means of procuring a wide range of goods and services.

This year, we found instances of:

- non-compliance with agency policies about what could be purchased using purchase cards
- transactions above the card’s transaction limit being split to allow processing
- purchase card transaction limits which were higher than the cardholder’s normal delegation, inconsistent with Treasurer’s Instruction 12 ‘Government Purchase Cards and Stored Value Cards’ requirements
- purchase card holder forms required by Treasurer’s Instruction 12 not being available
- delays in purchase card holders acquitting their purchases
- supporting documentation for transactions not being available.

These findings indicate there remains a need for ongoing monitoring of compliance and for agencies continue to educate cardholders about policy requirements.

3.9 Information systems access

Information systems play an important role in providing government services and information to the public. They also store and process sensitive information that requires effective security controls.

One key security control is to ensure logical access to systems, especially those with administrative privileges, is tightly controlled.

3.9.1 Information system access control weaknesses increase agency systems' vulnerability to security incidents and disruptions to systems

As reported last year, we found information systems access control weaknesses in many of our audits. We found inconsistencies between agency approved delegations and system access permissions, lack of advisory arrangements to initiate system access change, untimely or insufficient review of access provisions to identify and correct the inconsistencies, delegations becoming inappropriate due to a position classification change and examples of inappropriate system access. These weaknesses increase agency systems' vulnerability to security incidents and disruptions to systems.

System controls can only be effective if the financial delegations are accurate when entered and are regularly reviewed to ensure their continued accuracy. These issues are readily fixed and the risk mitigated through disciplined exercise of processes and controls.

Information systems security will be discussed in a future Supplementary Report 'Information and Communications Technology: November 2016'.

4 Other reviews – 2015-16

Two areas we gave particular attention this year were:

- Transforming Health – aspects of governance and financial management arrangements
- the Industry Participation Policy (IPP) – compliance in a sample of agencies.

4.1 Transforming Health

4.1.1 Introduction

Transforming Health was announced as the biggest transformation of South Australia's health care system ever planned for the State. There has been extensive public debate on the initiative since its announcement. Substantial information is available to the public on the program and its progress through government and other sources.

Transforming Health is planned to transform the State's health system so that it can provide consistent, quality care in the future. Announcements on the initiative noted that the need for change arose because, while there are many areas of excellence, the health system did not consistently deliver the quality of care expected from a modern health system. The changes are expected to enable better responses to our changing health needs, advances in technology, the specialised skills needed in our system and consistent, quality care for South Australians.

The financial sustainability of our health care system was also identified as a risk. The SA Government's Delivering Transforming Health – Our Next Steps information document notes the SA Government spends 31.5% of the state budget on health. It projects that at the current rate, South Australia's spending on health will be nearly half of the state budget over the next 15 years. The operating costs of the program are also intended to be largely funded by savings generated from improvements in health service delivery. Operating and investing funding was included in the 2015-16 State Budget for the four years to 2018-19. The 2016-17 State Budget states that transforming the health system to provide improved health outcomes and more efficient services remains an ongoing task, and this budget provides additional resources to support transformation reforms. Hospital expenditure growth remains a highlighted risk in the 2016-17 State Budget.

Updates on the progress of the program and health outcomes are provided by SA Health at the website http://transforminghealth.sa.gov.au/latest-news/.

Our focus on this program in 2015-16 was limited to aspects of governance and financial management arrangements, including an overview of the procurement processes for two key specialist services since its announcement. This focus reflects the expectation that those arrangements are commensurate with the goals and risks of a program of such significance.

4.1.2 Summary of audit findings

Governance structures in place to oversee the Transforming Health program operated in the year but some structures may need review to reflect practical arrangements as the program progresses

We found that not all governance committees were meeting as regularly as was set out in their terms of reference (ToR). The Strategic Governance Board (SGB) had scheduled 12 monthly meetings. Five were cancelled.

The Transforming Health Operations Management Committee (THOMC) is to meet fortnightly. Many meetings were cancelled. For example, no meetings were held for over three months between 10 December 2015 and 17 March 2016.

Governance structures in place to oversee the Transforming Health program were receiving risk reporting but inadequacies were identified in risk and issues reporting

Risks are managed and reported at a number of levels of the Transforming Health program under the Transforming Health Risk and Issues Management Framework approved in January 2016. The Independent Program Management Office (IPMO) provides independent advice on the progress of the program against key performance indicators, including savings realisation, costs, key issues, risks and dependencies realisation. It also conducts gateway reviews.

The IPMO reported that for part of 2015-16 there was no comprehensive view of all risks and issues for the Transforming Health program. Although this improved towards the end of the year, the IPMO identified that there continued to be a lack of quality risk reporting and treatment actions at the LHNs, with lapses in controls and overdue treatments. The IPMO identified that training of relevant employees was required and this was being actioned by SA Health.

Governance structures were monitoring progress against the approved business case and related risks but some matters needing improvement were not completely resolved and required further action

The IPMO identified significant issues with the development and implementation of bottom-up plans (BUPs) considered necessary to achieve program milestones and benefits. Although improvement was made by the end of 2015-16, significant focus on maturing the BUPs and ensuring all information is entered into the SA Health's project management system QuickBase will be required in 2016-17 to ensure milestones and savings are achieved.

The IPMO reported throughout the year that qualitative and quantitative benefits were not being delivered by the Transforming Health program. The IPMO identified that although LHNs were not achieving financial savings, no new projects were identified by LHNs to achieve the savings shortfalls.

An IPMO follow-up review of the Central Adelaide Local Health Network to the Northern Adelaide Local Health Network (NALHN) project in June 2016 identified that although progress was made, a number of the critical and urgent issues were unresolved.

While structural changes are progressing, changes have not yet realised financial savings.

As at 30 June 2016 no financial savings had been achieved by the Transforming Health program, although some potential savings were projected.

We note that that this was not unexpected in the short term. This is because of the scale and pace of reform and the extensive interdependencies of inherently risky changes that extend across structures, workforce, industrial arrangements and models of care.

However, in light of these challenges, to achieve the program goals of service changes and improving financial sustainability, a range of matters will need to be addressed in areas including planning, implementing plans, setting targets and accountabilities and resolving industrial processes.

The procurement for an Implementation Partner (IP) proved difficult and an interim arrangement was in place for the first three months before entering into a full 12-month contract that required Cabinet approval

The initial procurement process was abandoned as a successful appointment could not be achieved. When a successful candidate was identified from a subsequent process, a three month arrangement approved by the Minister for Health commenced to mitigate identified program risks arising from the appointment delay while a 12 month contract was arranged. Cabinet approval was needed for the value of the 12 month contract in accordance with Treasurer's Instruction 8 'Financial Authorisations' (TI 8). SA Health was liable to pay significant disengagement costs reflecting the international resourcing provided by the IP, if Cabinet had not approved the 12-month contract. This separate approval method for the IP exposed the State to financial risk to pay significant disengagement costs had Cabinet not approved the extension. Acquisition planning by SA Health identified a 12-month contract would be entered into with the IP. We consider the separate approval method not compliant with TI 8 as the total contract exceeded $11 million. We note SA Health advice that this approval method was adopted after assessing the material policy and commercial risks of an early engagement versus potential delays to the implementation of the Transforming Health program.

The IP contract included an option for a further 12-month appointment to be exercised by October 2016.

SA Health has identified the need to ensure that skills are transferred to its employees to build internal capabilities for managing health reform programs into the future

We note from SA Health's engagement of the IP and the IPMO, and from earlier work performed for Transforming Health by McKinsey and Company, that success of the Transforming Health program is heavily reliant on expertise that exists outside of SA Health. SA Health will need to take the necessary steps to ensure appropriate skills transfers are occurring.

4.1.3 Audit recommendations

We recommended SA Health:

- review key governance arrangements and related ToR to ensure they reflect expected practice and maintain the governance needed for the program
- implement necessary training or other improvements with appropriate priority to ensure risk management and reporting operate at the level expected for the program
- completely resolve inadequacies and improvements identified from risk and other reporting according to established remediation timelines
- identify and establish the mechanisms needed to achieve the program goal of improving financial sustainability. Areas of consideration should include:
  - setting measurable and attainable reform financial savings targets
  - establishing clear accountability for achieving savings targets
  - LHNs developing and implementing reasonable plans that detail projects and actions that will contribute savings, what the savings will be, and how these savings will be achieved
- ensure that relevant skills are transferred to SA Health employees to build internal capabilities for managing health reform programs into the future
- give early and rigorous attention to whether to exercise the option to reappoint the IP noting the difficulty and delays from the original procurement.

4.1.4 SA Health response

SA Health advised the following in response to our recommendations.

A review of the Transforming Health Governance Framework

A review of the Transforming Health Governance Framework is currently underway with a view to ensure there is appropriate oversight over the program and there is clarity in roles for the oversight committees. SA Health will update the Transforming Health Governance Framework and associated oversight committees' ToR on completion of the review.

Improving the quality of Transforming Health risk management and reporting

The Transforming Health Delivery Support Office will work with the respective LHN risk leads to improve the quality of Transforming Health risk management and reporting. SA Health will establish the revised role of the THOMC in monitoring LHN risks with the aim to improve oversight of Transforming Health risks and escalation to the Transforming Health Implementation Committee where required.

Recommendation owners to be reminded of their responsibility to meet remediation timelines

SA Health will work with the IPMO to ensure recommendation owners are reminded of their responsibility to meet remediation timelines. All IPMO review recommendations will be monitored by the IPMO and reported to the relevant person or oversight committee. The IPMO through the IPMO Status Update will report any timelines at risk to the Deputy Chief Executive, Transforming Health.

Financial benefits realisation plans are being completed

LHNs are completing financial benefits realisation plans to achieve the 2016-17 quality and productivity improvements to be realised through implementation of the Transforming Health program. The plans are to accompany the related bottom up implementation plans in QuickBase and progress will be monitored by the relevant oversight committees. A financial benefits performance reporting process was approved by the Transforming Health Implementation Committee in June 2016 and will be used as the basis by which financial benefits will be measured. The IPMO will provide assurance and validate the financial benefits being reported by the respective LHNs.

Work will continue to transfer skills and build capability in the health system

SA Health will continue to work with the IP and IPMO to transfer skills to SA Health resources and build capability in the health system. SA Health's primary focus will be to continue building project management capability and culture in the health system through training and mentoring support from the IP.

SA Health will supplement project management capability through the upskilling of key project management personnel in project management methodology, principles and processes providing a pool of expertise across SA Health. In addition, SA Health has initiated a leadership course for 250 participants across SA Health commencing in September 2016 in recognition of the challenges and opportunities from Transforming Health and the significant shift in leadership required across the health system.

Program delivery requirements being reviewed

SA Health is reviewing the requirements for the delivery of the Transforming Health program to determine whether to exercise the option to extend the contract with the IP. SA Health will seek Cabinet approval for any extension of the agreement prior to the expiry of the agreement.

4.1.5 Background to transformation of the South Australian health care system

In mid-2014 the SA Government announced its intention to transform the South Australian health care system through the Transforming Health program. Transforming Health is described as the biggest transformation of South Australia's health care system ever planned for the State.

The Transforming Health reforms were initiated based on emerging evidence that the configuration and performance of the State's health care system did not optimise the safety and quality of patient care, and was not financially sustainable into the future. Transforming Health aims to provide:

- improved safety and quality of care to patients, demonstrated by a reduction in harm, death, average length of stay and unnecessary care
- access for patients to definitive emergency care, reducing unnecessary hospital transfers and improving access targets
- a systems-based approach to where services are delivered, which leverages the expertise and capacity of particular sites
- a more sustainable health care system, with released value through significant productivity improvements, savings and efficiencies
- more equitable access to consistent quality of care, which is delivered at hospitals/sites which are optimally placed to provide it
- increased accountability for the performance of the health care system
- the ability to attract and retain highly skilled clinicians, who will be empowered to lead.

Transforming Health's key changes are planned to occur between 2014-15 and 2018-19. Beyond this, Transforming Health will involve continuous improvement across the South Australian health care system.

4.1.6 Some governance structures in place to oversee the Transforming Health program may need review

The Transforming Health Governance Framework was approved in October 2015. It outlines the specific roles and responsibilities for the governance bodies, groups and positions within the governance structure, focusing on what decisions each body has the authority to make and how decisions are made in the context of the Transforming Health program.

The Chief Executive, DHA, as senior responsible owner (SRO), is ultimately accountable for the success of the program. The Deputy Chief Executive, Transforming Health is the SRO's delegate and manages the SRO's interests on a day-to-day basis for the life of the program. The Deputy Chief Executive, Transforming Health was appointed in March 2016 following a number of interim appointments. The Deputy Chief Executive, Transforming Health focuses on meeting the business needs and realising the benefits of the program. LHN chief executive officers are accountable for achieving Transforming Health change and savings targets allocated to their respective LHN.

A number of key oversight committees have also been created and form part of the Transforming Health governance structure. Audit observations follow.

Strategic Governance Board – did not meet monthly

The SGB provides whole-of-government context and oversight of the overall direction and program of work for the Transforming Health program and provides regular updates regarding other SA Health programs of work from a cross dependency perspective. The SGB includes representatives from the Department of Treasury and Finance, the Department of the Premier and Cabinet, and the Office of the Public Sector.

The ToR of the SGB state that this group will meet monthly. From review of meeting minutes throughout the year, we identified that of the 12 monthly meetings scheduled, five of these meetings were cancelled. If regular meetings are not held, the SGB may not achieve its whole-of-government oversight purpose. If alternative arrangements address this risk, the ToR should be amended accordingly to make responsibilities clear. We recommend meetings are held monthly as required or that the ToR be updated.

Transforming Health Implementation Committee

The Transforming Health Implementation Committee (THIC) is the central decision-making body for the Transforming Health program. The THIC provides strategic leadership of, and direction to, the Transforming Health program, leading system-level direction, performance, issue resolution and risk management of the program. Although the THIC met fortnightly throughout the year, under the THIC's updated ToR it will meet every four weeks from 28 June 2016.

Transforming Health Operations Management Committee

The THOMC is responsible for providing advice and leadership into activity planning and implementation from a whole-of-system perspective, to enable decision-making. The THOMC's ToR state that from November 2015 this committee is to meet fortnightly. From review of meeting minutes throughout the year, we noted that a large number of THOMC meetings were cancelled. For example, no meetings were held for over three months between 10 December 2015 and 17 March 2016. If regular meetings are not held, the THOMC may not achieve its purpose of providing advice and leadership from a whole-of-system perspective. If alternative arrangements address this risk, the ToR should be amended accordingly to make responsibilities clear. We recommend meetings are held fortnightly as required or that the ToR be updated.

4.1.7 Risk reporting is in place but inadequacies were identified

The Transforming Health Risk and Issues Management Framework was approved in January 2016 and defines the risk management principles and methodology that apply to the Transforming Health program.

Risks are managed and reported on across a number of levels of the Transforming Health project including:

- at THIC meetings – the Project Status Report provided at each THIC meeting includes a section on program risks and issues. The IP prepares this report based on information in QuickBase and verified by the IPMO

- at THOMC meetings – the THOMC is responsible for reviewing and providing input on the adequacy of controls and treatments for all Transforming Health risks and issues, including monitoring the achievement of treatment due dates

- by the IP – the IP is responsible for maintaining the risk registers in QuickBase. The IP is also responsible for providing project managers at the LHNs with training on risk and issue management processes and the use of QuickBase for risk reporting

- by the IPMO – the IPMO is responsible for quality assurance review of risks and issues by validating the risk registers and information in the Project Status Report prepared by the IP

- by LHN project managers – LHN project managers are required to input risk and issue details into QuickBase weekly and monitor ongoing effectiveness of controls and the status of treatments for risks and issues

- at SA Health Risk Management and Audit Committee (RMAC) meetings – a quarterly report of strategic risks associated with the Transforming Health program is provided to the SA Health RMAC as part of SA Health's overall strategic risk reporting. The Deputy Chief Executive, Transforming Health approves and submits this report.

Refer to section 4.1.8 for inadequacies in risk and issue reporting identified by the IPMO in 2015-16.

4.1.8 Independent Program Management Office reviews identified inadequacies in risk and issue reporting in 2015-16

Ernst & Young commenced as IPMO for the Transforming Health program in November 2015. One of the key IPMO roles is to provide independent advice on the progress of the program against key performance indicators, including savings realisation, costs, key issues, risks and dependencies realisation. The Program Status Report is used to track key performance indicators. The IP compiles this report (fortnightly between January 2016 and 28 June 2016 and monthly from 28 June 2016) and the IPMO reviews it for completeness and accuracy prior to its submission to the THIC for review and discussion.

We noted the IPMO identified the following recurring issues.

Inadequate bottom-up planning

The financial benefits to be achieved under the Transforming Health program are highly dependent on delivering bed reductions and the associated FTE reductions by the LHNs. The achievement of these reductions is driven by the development and implementation of detailed BUPs which identify how these bed and FTE savings will be achieved in the LHNs. These plans are required to be developed for each project contributing to Transforming Health savings. In aggregate, the BUPs should show how the milestones and savings at a whole-of-Transforming Health (level 0 plan) and LHN level (level 1 plans) will be achieved through implementation of the BUPs. All plans should be entered into QuickBase so that the information is visible and available to all relevant employees to access and for reporting purposes.

The IPMO identified significant issues with the development and implementation of BUPs throughout the year. Plans were not in place for most of the year and therefore the IPMO could not gain assurance that level 0 and level 1 milestones and savings could be achieved by the projects in place at LHNs. Although improvement was made by the end of 2015-16, significant focus on maturing the BUPs and ensuring all information is entered into QuickBase will be required in 2016-17 to ensure milestones and savings are achieved.

Strategies needed to achieve savings targets

The IPMO reported throughout the year that expected qualitative and quantitative benefits were not being delivered by the Transforming Health program. LHNs were instructed that where there was a shortfall identified from their planning in meeting Transforming Health savings targets, mitigating savings strategies were required to be implemented to meet budget. The IPMO identified that although LHNs were not achieving financial savings, no new projects were identified by LHNs to achieve the savings shortfalls.

Inadequacies in risk and issues reporting

The IPMO reported that for part of 2015-16 there was no comprehensive view of all risks and issues for the Transforming Health program. Although this improved towards the end of the year, the IPMO identified that there continued to be a lack of quality risk reporting and treatment actions at the LHNs, with lapses in controls and overdue treatments. The IPMO identified that this was in part due to limited project management skills of those employees involved in Transforming Health projects, and insufficient training in the use of QuickBase. The IPMO identified that training of relevant employees was required and this was being actioned by SA Health.

4.1.9 Gateway reviews are identifying issues

A number of other key IPMO reviews were also performed throughout the year, including a number of gateway reviews for key projects and programs. The purpose of a gateway review is to provide independent assurance at key decision points throughout the delivery of a major project or program. It allows all relevant parties involved to assess whether a project or program is ready to progress into the next phase or stage. Gateway reviews completed by the IPMO throughout the year include the following:

Intra-NALHN gateway review complete

Intra-NALHN transfers of services between Modbury Hospital and the Lyell McEwin Hospital is a priority project of the Transforming Health program. A gateway review of this project was performed by the IPMO in February 2016 and identified that a number of recommendations were required to be carried out prior to the project moving forward. For example, 10 high rated risks were identified that did not have controls or treatments in place and had not been recorded on the risk register. The IPMO recommended that the intra-NALHN project team update the risk register with the required information before progressing the project further.

As at 30 June 2016 the intra-NALHN project moves are complete. NALHN was, however, resolving matters with the South Australian Salaried Medical Officers Association. A dispute was before the Industrial Relations Commission for consideration.

Outstanding matters remain from a CALHN to NALHN gateway review

A key milestone of the Transforming Health program is identifying activity undertaken by CALHN relating to residents in the north and moving this activity to NALHN. A gateway review of this project was completed by the IPMO in April 2016. The IPMO identified that actions were required to achieve success in the project including:

- human resource principles were yet to be agreed and signed off by all union stakeholders. This was recognised as a crucial activity to enable the successful delivery of the project
- multiple opportunities for improvement in the level of granularity within the joint service move plans were identified
- benefits of the project were not quantified and did not link back to the Transforming Health business case.

A follow-up IPMO review of the CALHN to NALHN project was requested by the Deputy Chief Executive, Transforming Health in June 2016 to identify progress against the recommendations made in April 2016. This follow-up identified that although progress had been made, a number of the critical and urgent issues originally identified remained outstanding. For example, the three critical items identified above had not been resolved and therefore the successful achievement of the project remained in question. Human resource principles were still required to be agreed with the unions and the IPMO could not to be provided with evidence demonstrating how benefits from the CALHN to NALHN project were linked to the business case and would be realised.

4.1.10 Financial sustainability and the Transforming Health program

The SA Government's Delivering Transforming Health – Our Next Steps information document, released in March 2015, identified financial sustainability of the health care system as a risk. It notes the SA Government spent 31.5% of the state budget on health. It projects that at the current rate, South Australia's spending on health will be nearly half of the state budget over the next 15 years.

The 2016-17 State Budget highlights hospital expenditure is a significant component of the budget and growth can therefore have a substantial impact on the budget. It states the SA Government is implementing a number of strategies to manage the expenditure growth in hospitals, including ensuring services and infrastructure are provided in the most efficient manner to deliver quality health outcomes and productivity improvements.

SA Health's planning for the program identified that the scale, timeline and interdependencies for the program created significant risk to achieving the program's aims including realising productivity outcomes and improving financial sustainability. Well designed and maintained risk mitigation strategies and actions are imperative for the program.

There are significant risks to achieving savings from the program. They come from aspects including:

- the construction time frame for the capital projects
- settling service care models and workforce plans
- activity data
- modelling reflecting updated service arrangements and patient data.

The operating costs of the program are intended to be largely funded by savings generated from improvements in health service delivery. Net operating (after offsetting estimated savings) and investing funding for the program was included in the 2015-16 State Budget (Budget Paper 5 'Budget Measures Statement') for the four years to 2018-19.

	2014-15 $'000	2015-16 $'000	2016-17 $'000	2017-18 $'000	2018-19 $'000
Operating initiatives	2 246	1 754	8 000	8 000	35 207
Investing initiatives[(a)]	1 550	61 922	99 713	(82 303)	(116 089)

(a) The net change includes an offset from the Health Capital Reconfiguration Fund created by changing forward planning for health capital works in 2014-15.

The 2016-17 State Budget provides additional funding of $526.8 million over four years (in addition to $144.4 million in 2015-16) for the global health budget. The Budget indicates the additional funding is provided to further address expected funding shortfalls for health activities and to support the Transforming Health reforms but details of the funding components are not provided. The 2016-17 Budget Measures Statement states that transforming the health system to provide improved health outcomes and more efficient services, remains an ongoing task, and this budget provides additional resources to enable that transformation to continue in a measured way.

The business case outlining the proposed Transforming Health program, approved by Cabinet on 16 March 2015, identified the Transforming Health program should result in net financial savings over the forward estimates 2014-15 to 2018-19 and ongoing.

Auditor-General's Reports to Parliament have noted in the past that SA Health has not been able to achieve savings targets or has experienced other service demands that have necessitated additional funding.

We were advised that as at 30 June 2016 no financial savings had been achieved by the Transforming Health program and the 2015-16 savings target was not met. We were advised that the barriers to achieving savings included:

- overly ambitious financial savings targets

- delays in the procurement process for the IP

- a lack of accountability for achieving savings targets as savings targets were not initially allocated to each LHN

- delays due to industrial processes
- inadequate BUPs developed and implemented by LHNs detailing which projects will contribute savings, what these savings will be, and how these savings will be achieved.

We were advised that although productivity improvements were achieved in 2015-16, LHNs did not translate this into financial savings.

We understand Cabinet required six monthly reporting by SA Health on the achievement of required savings targets. We were advised by SA Health that as at 30 June 2016 this reporting to Cabinet had not occurred. We were advised there are, however, numerous reporting and monitoring arrangements in place for the global health budget including progress of the program, for example monthly reporting to DTF and reporting to Cabinet subcommittees. It is evident from the 2016-17 State Budget that Cabinet has responded to health funding submissions.

We recommend SA Health ensure it has identified and established the mechanisms needed to achieve the program goal of improving financial sustainability. Areas of consideration should include:

- setting measurable and attainable reform financial savings targets
- establishing clear accountability for achieving savings targets
- LHNs developing and implementing reasonable plans that detail projects and actions that will contribute savings, what the savings will be, and how these savings will be achieved.

We also recommend that required reporting to Cabinet occurs as approved to ensure Cabinet's requirements are met and Cabinet is aware of the current status of the Transforming Health financial impacts. We note that other reporting mechanisms may achieve this purpose.

4.1.11 Procurement of Implementation Partner and Independent Program Management Office

Procurement for an IP proved difficult

The initial business case approved by Cabinet in March 2015 noted the need for an external Transforming Health IP, as SA Health did not have the capability or capacity to manage the Transforming Health program without substantial external support. The role of the IP was to include being a key driving force in identifying, validating, planning and implementing the range of programs and projects needed to deliver the outcomes sought from Transforming Health.

SA Health initially went to market for an IP through an expression of interest process in November 2014. Although the expression of interest contemplated a secondary procurement via a selective market approach, this was changed to an open request for proposal based on a recommendation from the State Procurement Board. The tender for this open request for proposal closed in July 2015, however the process was terminated in August 2015 as the evaluation team was unable to shortlist based on the responses. On 24 August 2015 a deviation to the acquisition plan was approved by the Procurement Approvals Committee and SA Health commenced direct negotiations with two parties. Deloitte Touche Tohmatsu (Deloitte) was ultimately awarded the contract for the role of IP.

Deloitte commenced as IP from 6 October 2015. A contract for professional services was entered into between the Minister for Health and Deloitte for an initial three months on 24 November 2015, with the option for a further nine-month extension subject to Cabinet approval. We note that Deloitte commenced as IP without an executed contract in place. We consider that SA Health should have had a valid contract in place before the IP commenced given the significance of the work to be undertaken and the contract value. The total contract value over 12 months required Cabinet approval in accordance with TI 8 , which requires that contracts greater than $11 million are approved by Cabinet. If the extension was not approved by Cabinet, SA Health was liable to pay significant disengagement costs to Deloitte.

The initial three month contract was approved by the Minister for Health on 6 October 2015, with the extension and an option for a further nine month appointment, approved by Cabinet on 14 December 2015. This separate approval method for the IP exposed the State to financial risk had Cabinet not approved the extension and SA Health was liable to pay significant disengagement costs to Deloitte. We consider it also breached TI 8 as the total contract exceeded $11 million. Initial acquisition planning documentation developed by SA Health identified that a 12-month contract would be entered into with the IP. Cabinet approval should have been sought for the full 12-month contract amount, as required by TI 8.

SA Heath advised that this approval method was adopted following an assessment of the material policy and commercial risks of an early engagement versus potential delays to the implementation of the Transforming Health program from the delayed procurement. SA Health deemed that a delay in the appointment of an IP to support SA Health in delivering the Transforming Health program would jeopardise the achievement of key program milestones, including the realisation of financial and non-financial benefits; capital work projects to facilitate the changes required to reform the health care system; the transition to the new Royal Adelaide Hospital; and the decommissioning of hospital sites including the Repatriation General Hospital. SA Health also considered that given the extensive procurement process for the IP, there was a low commercial risk that Deloitte would not perform in the role and that Cabinet would not approve the extension to the contract.

We note that while the IP procurement process was occurring and at the time of Deloitte commencing as IP, a Deloitte employee was acting in the role of Interim Chief Transformation Officer for SA Health. We note that the probity concerns of this relationship were considered by SA Health throughout the procurement process. An external probity advisor, BDO Australia, was also involved in the procurement process for the IP and noted that the process was fair, impartial and unbiased, and conducted in the public interest without any known conflict of interest.

The IP contract extension option is exercisable in October 2016. We expect that SA Health will perform a rigorous review of the IP's performance before deciding whether to extend the contract. If extended, approval should be sought from Cabinet as outlined in the original engagement approval of the IP.

Independent Program Management Office

SA Health engaged an IPMO to provide independent assurance that the implementation of the Transforming Health program by the IP, with the support of relevant SA Health employees, is on track and delivering against the objectives of the program.

An open request for proposal commenced in June 2015 for the appointment of an IPMO and on 12 November 2015 a contract was entered into between the Minister for Health and Ernst & Young, commencing from 16 November 2015 for 12 months, with an optional 12-month extension. The total contract value is $3.6 million if the 12-month extension option is exercised, and this was approved by the Minister for Health on 3 November 2015.

We note from SA Health's engagement of the IP and IPMO, and from earlier work performed for Transforming Health by McKinsey and Company, that success of the Transforming Health program is heavily reliant on expertise that exists outside of SA Health. SA Health will need to ensure that these skills are transferred to SA Health employees in the future to build internal capabilities for managing the Transforming Health program into the future. We recommend SA Health take the necessary steps to ensure appropriate skills transfers are occurring.

4.2 Industry Participation Policy

We undertook a review of compliance with Industry Participation Policy (IPP) requirements in 17 agencies this year.

Our review considered whether the procurement policies for the agencies tested reflected the IPP requirements and tested a sample of procurements for compliance with specific IPP elements.

Overall, our review identified a good level of compliance with IPP requirements and good awareness of the IPP and its related aims across government.

Our review did identify four agencies where further changes were required to procurement policies to fully reflect IPP requirements. In some of these cases, change was required as a result of the November 2015 update of the IPP, discussed further below, not being reflected.

We also identified two contracts from those tested that did not comply with the IPP requirements. In one of these cases, related to an ongoing contract, the agency is working with the Industry Participation Advocate (IPA) and the vendor to amend ongoing reporting to be fully compliant.

4.2.1 Background on the Industry Participation Policy

The SA Government introduced an IPP in July 2012 to ensure local businesses share in the economic benefits from major projects and to capitalise on the potential of the State's mining, energy, defence and manufacturing sectors.

The aim of the IPP is to deliver greater economic benefit from procurement, including through improved industry capability and the retention of more economic activity in the State.

The IPA was established in February 2013 to help local business leverage maximum opportunities from the SA Government's procurement spending for goods, services and infrastructure projects. The IPA is responsible for the IPP.

The IPP was updated in November 2015 to increase the mandatory weighting applied to local content to 15%, and 20% for major contracts over $50 million.

The IPP applies to all government expenditure for more than $22 000, including federally funded infrastructure and construction projects managed by the State and private sector projects receiving more than $2.5 million in support from the SA Government.

All agencies which are public authorities or prescribed public authorities for the purposes of the *State Procurement Act 2004* and accompanying regulations must comply with the IPP.

5 Financial reporting obligations of agencies and matters requiring attention

5.1 Introduction

The PFAA requires public authorities to submit their financial statements to the Auditor-General within 42 days of the end of the financial year. This is a practical prerequisite for the Auditor-General to deliver an Annual Report, including agencies' audited financial reports, to the President of the Legislative Council and the Speaker of the House of Assembly by 30 September annually.

The financial report preparation responsibility is always a demanding and challenging task and financial reports will only be included in the Annual Report once a comprehensive audit has been completed. In doing so, agencies are required to provide us with all necessary information, records and explanations supporting their financial report.

5.2 Objective and requirement for quality financial reporting

In the accounting framework, an objective of general purpose financial reporting is to provide information to a user that is useful for making and evaluating decisions about the allocation of scarce resources. These reports are also a means by which managements and governing bodies discharge their accountability to the users of the reports.

High quality financial reporting means reporting that meets the requirements of Treasurer's Instructions issued under the PFAA and generally accepted accounting principles, as set out in the Australian Accounting Standards, with transparency and full disclosure as relevant to the circumstances of individual agencies and for public sector accountability. This may include going beyond the minimum requirements of the general reporting framework.

5.3 Agencies provided good quality draft financial reports for 2015-16

This 2015-16 Annual Report contains the financial reports of all the agencies assessed as important enough to include in this Report.

Most agencies provided good quality draft financial reports. SSSA has responsibility to produce financial reports for many agencies. We found the quality SSSA produced was good and at least to the same standard or an improvement over last year.

The nature of the annual financial report process is such that we are likely to have some matters arise during the year end audit that take time and effort to resolve. This occurred for 2015-16 but all matters were resolved. Areas where we will have further discussions with agencies include the:

- timeliness of independent valuation reports. We found instances where these were completed well after 30 June

- quality of leave information supporting employee entitlement liability figures. There remain particular issues around part-time and casual employees.

It is important that the financial reporting implications of key issues agencies face during a year are considered at the earliest reasonable time to mitigate the risk of matters being debated late in the reporting timetable.

We observed that many audit committees were presented with variance explanations and major transactions which was beneficial to discussion. We also noted there remains inconsistency in the financial report review practices adopted by audit committees and the degree of scrutiny given to draft financial reports.

The only two modifications to Independent Auditor's Reports for 2015-16 were for longstanding matters.

5.4 Adopting reduced disclosure requirements is now permitted

In last year's Annual Report, I expressed my view that the extent and cost of financial reporting, particularly for small agencies, should be reconsidered. An initiative by DTF to allow application of the reduced disclosure requirements is a welcome step in government financial reporting.

This year, the Treasurer amended the Accounting Policy Framework to provide certain public authorities with the option of applying the reduced disclosure requirements contained in Australian Accounting Standards.

AASB 1053 'Application of Tiers of Australian Accounting Standards' provides for two tiers of reporting requirements. Tier 1 requires full financial reporting disclosures which, up until this year, all government entities applied. Tier 2 has reduced financial reporting disclosures, which allow entities to simplify their reporting in certain areas.

APF II now allows application of tier 2 reporting by public authorities provided they meet certain requirements as outlined in the Framework.

Reductions in disclosure available under tier 2 reporting primarily relate to financial instruments and detailed information about valuation of assets. I consider it entirely appropriate for entities who are permitted to adopt tier 2 reporting do so. The information no longer reported under tier 2 does not decrease accountability of those public authorities or usefulness of their financial reports.

In my view, this initiative should be expanded to more agencies given the extent and cost of financial reporting.

5.5 Forthcoming changes in accounting standards

5.5.1 The disclosure initiative – applying judgement in determining what to present in financial reports

Over the past 10 years, disclosure requirements in Australian Accounting Standards have significantly increased. Standard-setters are undertaking a ‘disclosure initiative’ project to explore how disclosures can be improved.

The first outcome from this project is revision to AASB 101 ‘Presentation of financial statements’ which applies from 1 January 2016.

The changes to AASB 101 are designed to further encourage entities to apply professional judgement in determining what information to disclose in their financial reports. The areas amended relate to materiality, order of the notes, subtotals, accounting policies and disaggregation of information.

Financial reports are a communication tool for entities. Clarity of message is important for financial reports to meet the needs of users. Reducing clutter in financial reports is important, but equally so is ensuring there is sufficient information about the main areas of risk and significant judgements made by the preparers of the report. Implementation of the revised AASB 101 requirements provides agencies with a useful opportunity to reflect on the clarity and usefulness of information they provide in financial reports. The responsibility to ensure that useful information is disclosed cannot solely reside with service providers who prepare financial reports such as SSSA. Responsibility sits with agency personnel to ensure their financial reports communicate information required by accounting standards and Treasurer’s Instructions.

5.5.2 Implementation of AASB 124 ‘Related Party Disclosures’ by not-for-profit entities

The scope of AASB 124 will change from 1 July 2016 to include not-for-profit entities. This represents most public sector agencies and activities (for example, all government departments).

AASB 124 requires disclosure of transactions between entities and their related parties. The definition of related parties captures both people and other entities. Disclosure of key management personnel compensation is also required.

Information is required about people who are related parties

The key management personnel of an entity are related parties of that entity, as are their close family members, and certain business interests any of these people may have in a private capacity.

Further, key management personnel of a parent entity, their close family members, and certain business interests of those people, are related parties of all entities within the group. Ministers are key management personnel of the SA Government. This means that Ministers, their close family members, and certain business interests they have are related parties of all entities within government.

Transactions with related parties are required to be disclosed in the financial report where they are material. Materiality is considered in the context of the information provided by the financial report. The objective of AASB 124 is for financial reports to include disclosures that draw attention to the potential impact of any related party transactions on the entity's financial outcomes. The standard is not a general measure to improve or increase accountability.

It is certain that related parties of government will have transactions with the government in a private capacity, such as paying for a driver's licence or stamp duty.

DTF has developed guidance to assist in the application of AASB 124. It states that transactions that are normal dealings as a member of the general public do not need to be reported. I agree that information of this nature would be immaterial to financial reports.

A key source of audit evidence for these disclosures is a declaration by each member of key management identifying any related party transactions. The declarations will include information about their close family members and related business interests. Agencies must establish procedures to ensure key management personnel submit these declarations soon after the end of the financial year, and that they have processes to capture this information when there is a change in key management personnel during the year.

Information is required about entities that are related parties

Entities within government are all related parties of each other, as they are within the same 'group'. Judgement will be required to determine which transactions between government entities are material enough to be disclosed.

In addition, associates or joint ventures of government entities are related parties of all government entities. Associates are entities over which there is 'significant influence' as defined in accounting standards.

Some subsidiaries and associates of government may not be reported in the whole-of-government financial report on the grounds of materiality. However, assessing whether disclosures are required for any related party transactions is different to deciding whether consolidation of figures in the financial report is necessary. For example, the SA Health and Medical Research Institute (SAHMRI), which is not reported in the whole-of-government financial report, has been identified by DTF as a related party of the SA government. Transactions between any government entity and SAHMRI would be related party transactions and an assessment as to their materiality will be required. Capturing data about any such transactions with SAHMRI or other such interests will require processes to be established by agencies.

5.6 AASB 1056 ‘Superannuation Entities’ will substantially change financial reporting of superannuation funds

AASB 1056 replaces AAS 25 ‘Financial Reporting by Superannuation Plans’ from 1 July 2016. AASB 1056 will require significantly different presentation of financial statements as well as different recognition and measurement principles. These changes are outlined in the section titled ‘Superannuation sector activities’ in Part B of this Annual Report.

5.7 Preparing for AASB 16 ‘Leases’

AASB 16 was issued this year. It will see a fundamental change in lease accounting, effective for reporting periods beginning on or after 1 January 2019.

Under the existing lease accounting requirements, there are two categories of leases: finance leases and operating leases.

Assets leased through a finance lease are recognised on the balance sheet of the lessor, as are liabilities to represent future lease payments. For operating leases, however, the leased asset is not reflected on the lessor’s balance sheet, nor are liabilities for future lease payments.

Under AASB 16, all leases will be reflected on the balance sheet of lessors. This has the potential to impact balance sheets of many government entities due to the prevalence of property leases, which under existing requirements are operating leases.

The definition of a lease has also changed. Contracts that previously may have met the definition of a lease may no longer meet the AASB 16 definition, and vice versa. Judgement will be required to determine whether arrangements constitute a lease. It is essential that agencies identify all contracts that may contain leases early, as significant time may be needed to identify, retrieve and assess this information.

Agencies should also develop their implementation strategy with sufficient lead time to allow adequate analysis and discussion with stakeholders.

5.8 Local government: examination update

Section 32 of the PFAA gives the Auditor-General the discretion to examine the:

- accounts of a publicly funded body, including one that has ceased to exist, and the efficiency and economy of its activities
- accounts relating to a publicly funded project, including one that has ceased to exist, and the efficiency and cost-effectiveness of the project
- accounts relating to a local government indemnity scheme (scheme) and the efficiency and cost effectiveness of the scheme.

Section 32 of the PFAA also enables the Treasurer or Independent Commissioner Against Corruption to request the Auditor-General to conduct an examination of a publicly funded body or project or scheme.

A publicly funded body includes a council constituted under the *Local Government Act 1999*, including a subsidiary and a regional subsidiary of a council. In effect the statutory remit of the Auditor-General extends to the local government sector.

Section 32 provides a broad scope and discretionary power of examination by the Auditor-General. The examination of the accounts, efficiency and economy, and/or cost effectiveness of a council's activities/projects and the schemes may relate to a review of a diverse range of matters.

Under the PFAA, the Auditor-General is not required to provide an audit opinion on the financial reports of the councils and the schemes, or on the controls exercised by each council. These audit opinions are provided by the auditors appointed by each council and for each scheme.

The PFAA requires a report to be prepared after making an examination under section 32 and copies of the report delivered to the Parliament. All completed examinations for the local government sector will accordingly be separately reported.

During 2015-16 work is progressing to finalise two examinations.

5.9 Supplementary reporting 2015-16

I intend to table a number of Supplementary Reports relating to matters that must be dealt with in an Annual Report. This will enable me to give appropriate attention and time to those matters, consistent with Parliament's expectations of the Auditor-General.

Specific and general matters for supplementary reporting include:

- the State finances and related matters
- the new RAH
- various public sector information and communications technology systems
- certain public sector infrastructure and other projects.

6 Summary of selected financial disclosures

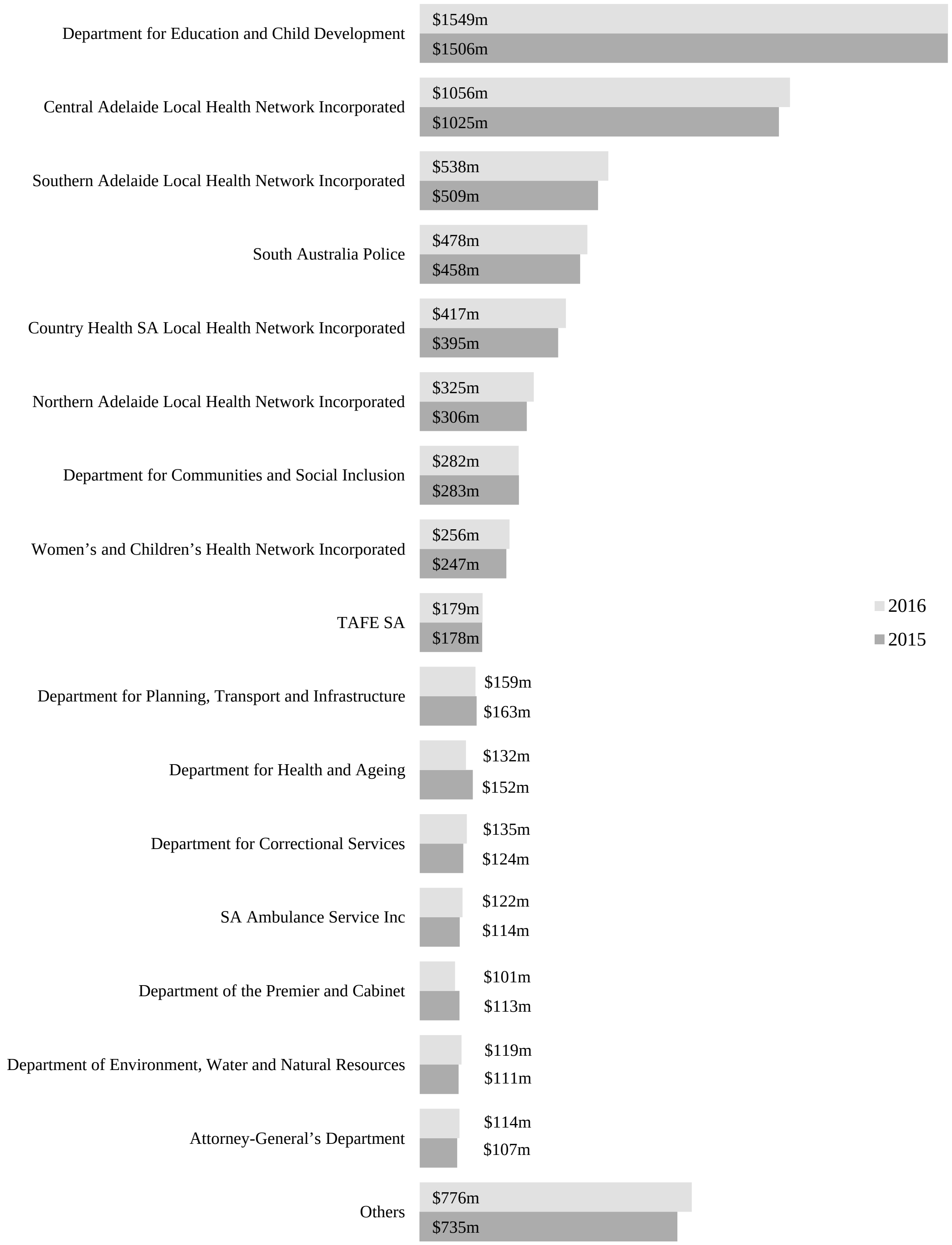
The following selected financial disclosures are taken from the published financial reports in the Appendix to the Annual Report. Readers are referred to the Appendix for the details for individual agencies. The data does not encompass all public sector agencies.

The information is provided to give an overview of the level of financial activity for each area. It represents the more material balances in financial reports or items that are typically of public interest.

While audited, audits of financial reports provide assurance that there is not material error. An audit does not ensure complete consistency in the transactions that agencies include in these items.

6.1 Salaries and wages expense

Salaries and wages expense in 2015-16 was $6.7 billion ($6.6 billion) and is a major proportional expense of public sector operations.



6.2 Remuneration of employees disclosures

Accounting Policy Framework II ‘General Purpose Financial Statements Framework’ (APF II), APS 4.8 requires an explanatory note disclosure for employees whose normal remuneration is equal to or greater than the base executive remuneration level for the year.

Disclosure includes the number of employees whose total remuneration paid or payable exceeds the benchmark, within $10 000 bands, and the aggregate of the remuneration paid or payable for those employees.

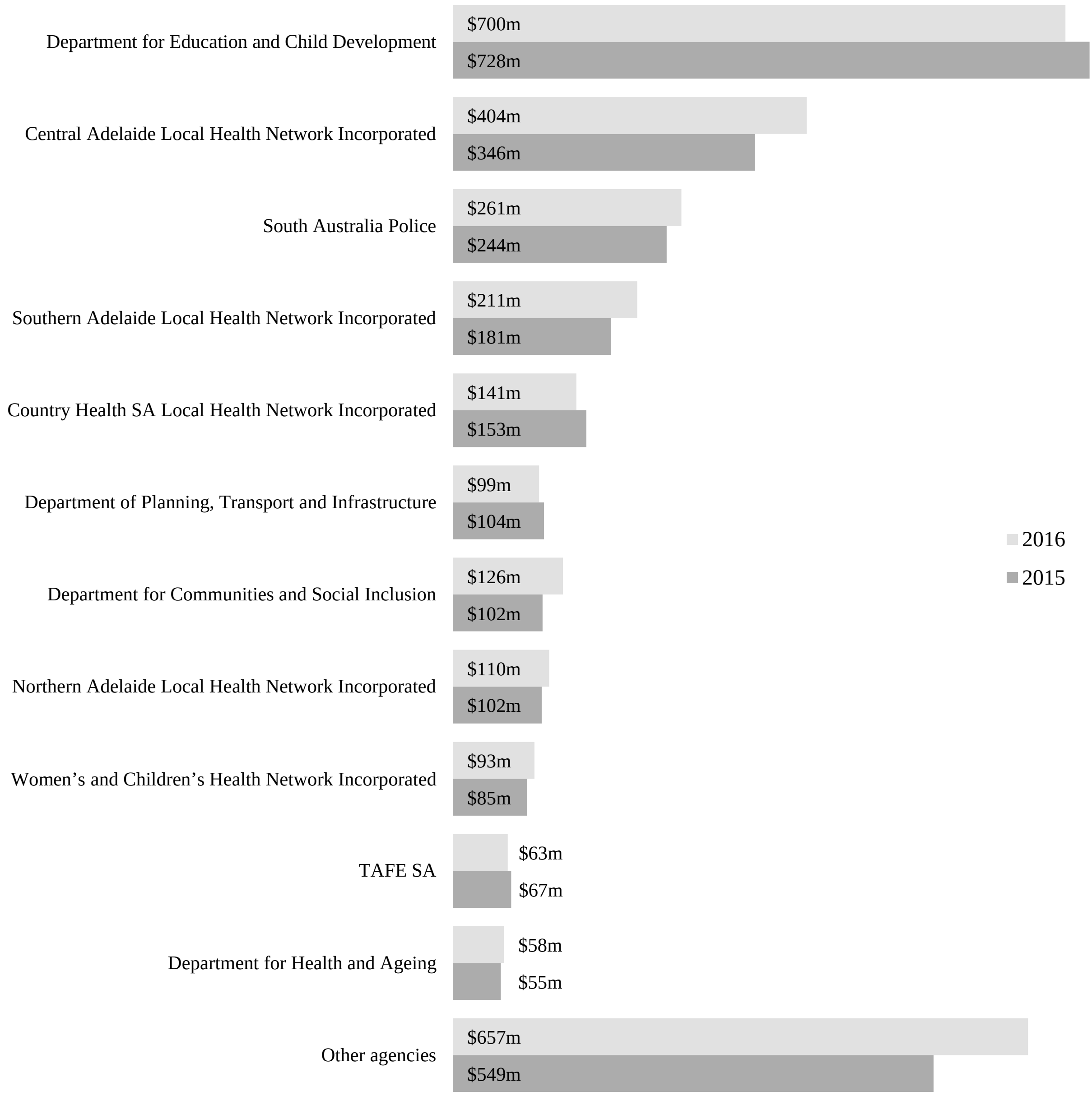
Agency	Employee remuneration 2015-16 $’000	Employee remuneration 2015-16 Number	Employee remuneration 2014-15 $’000	Employee remuneration 2014-15 Number
Central Adelaide Local Health Network Incorporated	312 602	1 111	300 346	1 099
Southern Adelaide Local Health Network Incorporated	144 453	533	137 918	523
Northern Adelaide Local Health Network Incorporated	89 750	312	89 796	326
South Australia Police	76 300	463	76 700	471
Women’s and Children’s Health Network Incorporated	62 621	221	62 099	231
Department for Education and Child Development	83 000	473	61 500	353
SA Ambulance Service Inc	50 992	297	51 420	304
Department of Planning, Transport and Infrastructure	17 727	80	42 978	172
Attorney-General’s Department	34 300	157	34 000	160
Country Health SA Local Health Network Incorporated	28 867	107	25 611	99
South Australian Water Corporation	24 200	131	24 700	136
Department of the Premier and Cabinet	13 400	55	21 500	80
Department for Health and Ageing	18 313	81	18 887	88
Department of State Development	19 993	87	18 757	90
Other	148 859	626	140 218	603
Total	1 125 377	4 734	1 106 430	4 735

6.3 Employee benefits liabilities

Employee benefits liabilities comprise annual and long service leave entitlements accrued by employees.

The annual leave (AL) liability is mainly a short-term employee benefit measured at nominal value. Long service leave (LSL) is a long-term employee benefit estimate measured as the present value of expected future payments for services provided by employees up to the end of the reporting period. The present value will change from year to year if market yields or other significant assumptions change. This year a decrease in the discount rate uniformly affected the value of the liabilities.

Total employee benefits liabilities in 2015-16 were $2.923 billion ($2.715 billion).



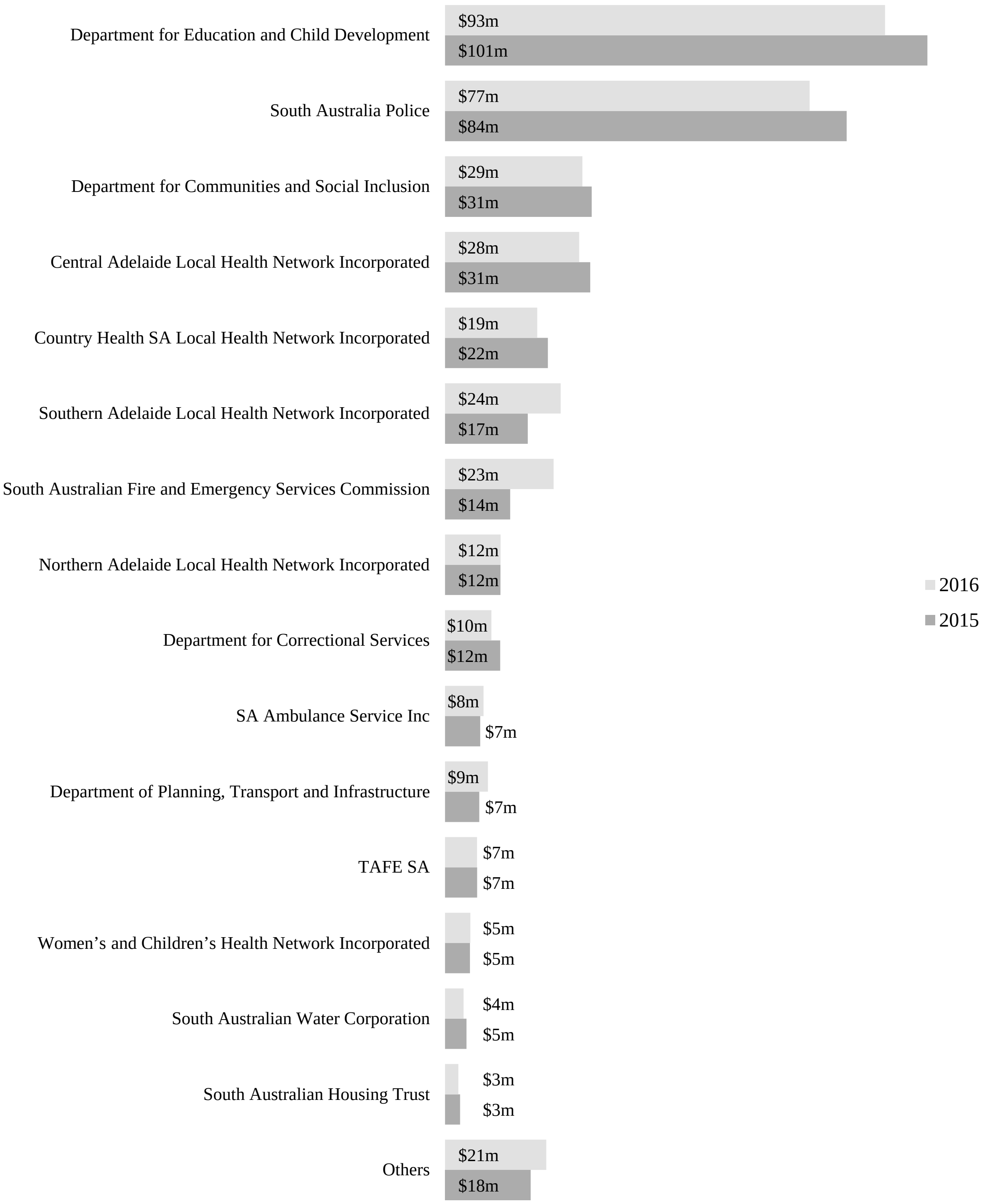
The following table provides a breakdown of the significant components of that liability.

Agency	Employee benefit type	Employee benefits 2015-16 $'000	Employee benefits 2014-15 $'000
Department for Education and Child Development	LSL	551 564	514 293
Central Adelaide Local Health Network Incorporated	LSL	250 486	206 486
South Australia Police	LSL	197 451	189 161
Southern Adelaide Local Health Network Incorporated	LSL	122 100	100 663
Department for Education and Child development	AL	116 106	130 630
Central Adelaide Local Health Network Incorporated	AL	107 304	98 691
Country Health SA Local Health Network Incorporated	LSL	95 026	81 194
Department of Planning, Transport and Infrastructure	LSL	74 003	73 013
Northern Adelaide Local Health Network Incorporated	LSL	66 985	57 478
Southern Adelaide Local Health Network	AL	61 519	60 019
Women's and Children's Health Network Incorporated	LSL	61 963	52 296
Department for Communities and Social Inclusion	LSL	77 593	61 585
SA Ambulance Service	Defined Benefit Super	61 099	28 445
TAFE SA	LSL	49 809	48 022
Country Health SA Local Health Network Incorporated	AL	41 130	39 855
Department for Health and Ageing	LSL	38 614	36 004
Others		950 615	937 235
Total		2 923 367	2 715 070

6.4 Workers compensation

The workers compensation provision is an actuarial estimate of the outstanding liability as at 30 June 2016 provided by a consulting actuary engaged through the Office for the Public Sector. The provision is the estimated cost of ongoing payments to employees as required under current legislation. In 2015-16 liabilities for serious injury claims were specifically allocated to the employing agency for the first time.

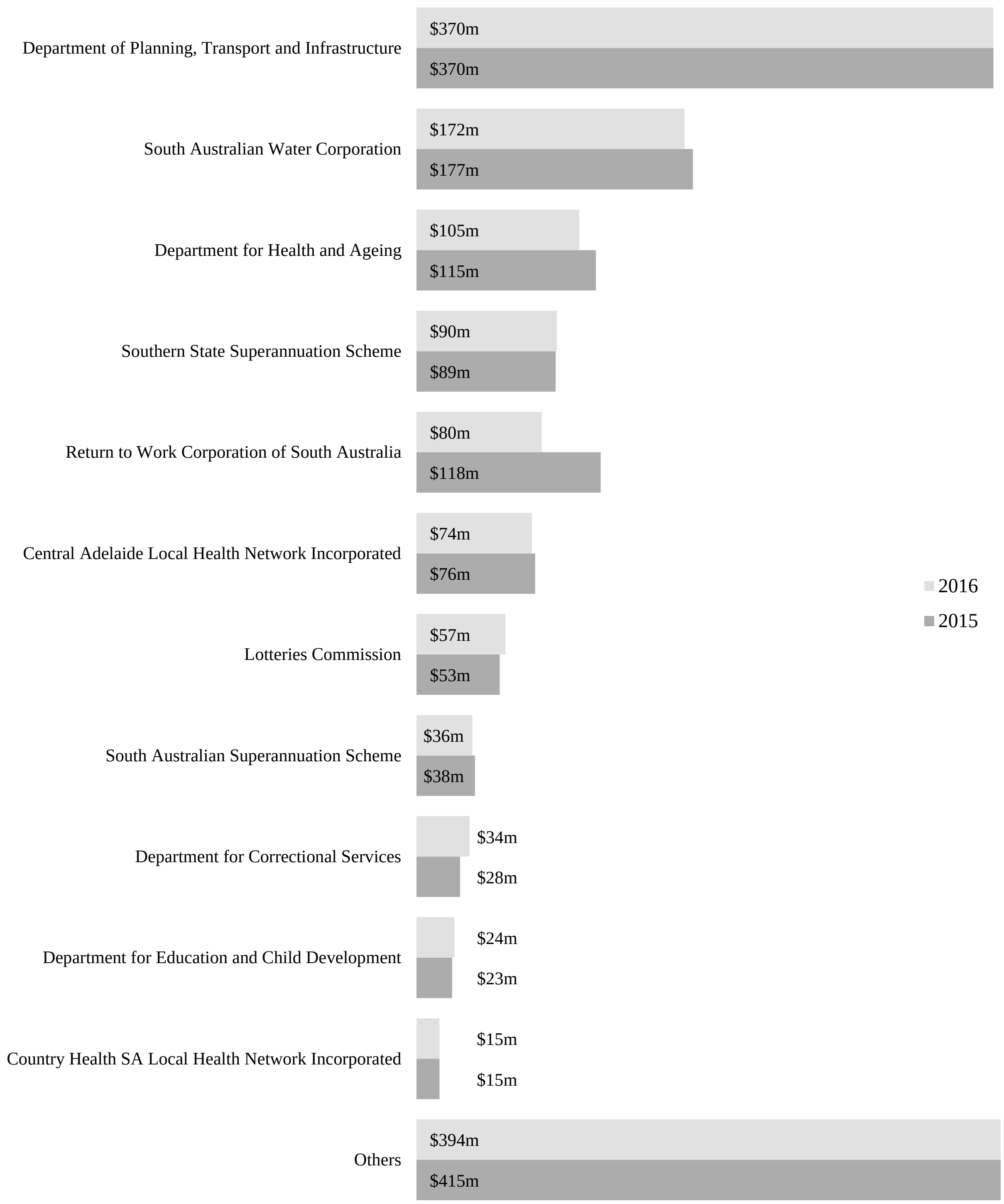
Total workers compensation provisions in 2015-16 were $371 million ($375 million).



6.5 Outsourced / Service contracts

Examples of outsourced contracts include: bus service contracts; major infrastructure service contracts; claims management (claim agents); investment and insurance fees; plant operations and maintenance; and internal payments to SSSA.

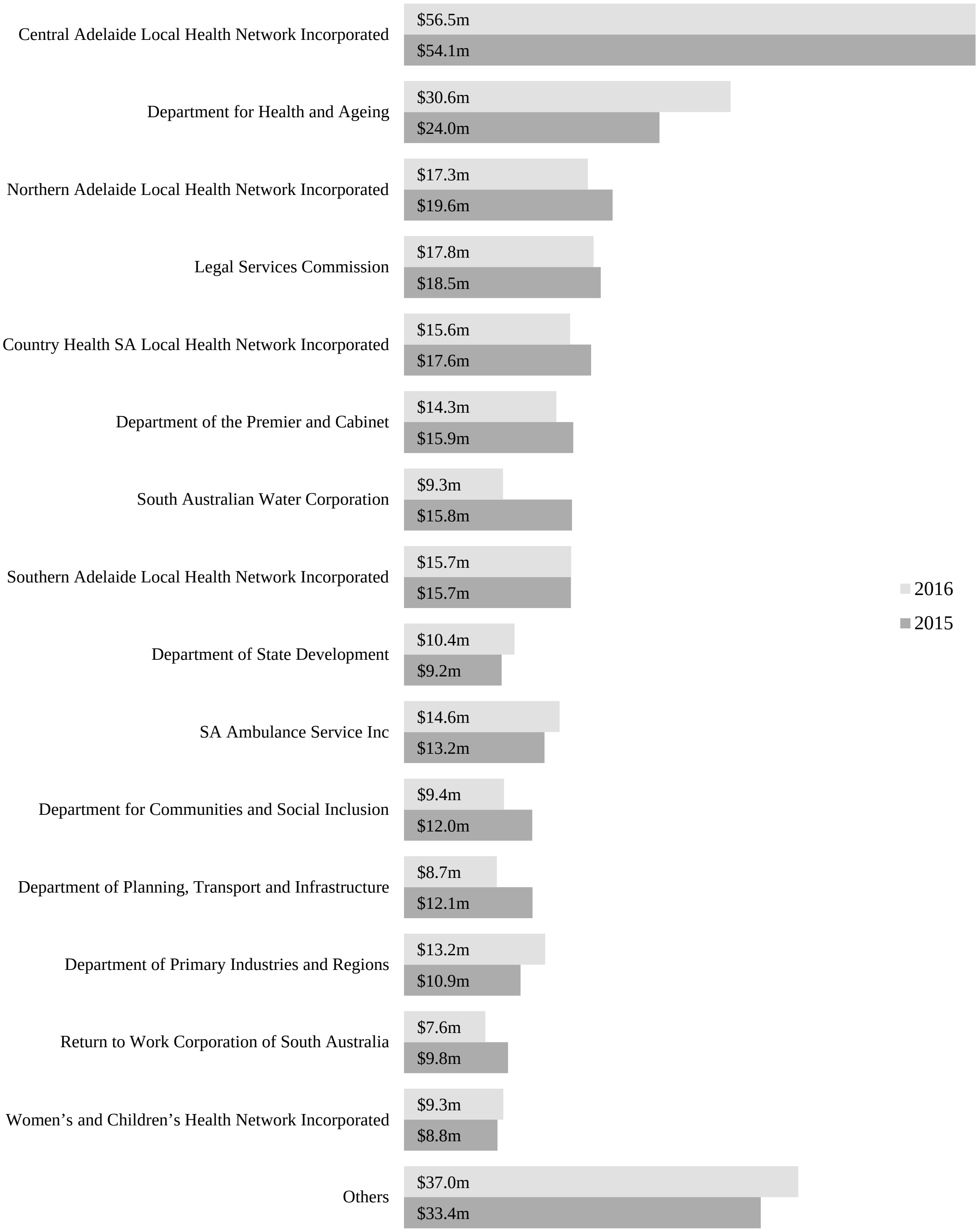
Outsourced contracts expenses in 2015-16 were $1.4 billion ($1.5 billion).



6.6 Contractors and temporary staff

Contractors and temporary staff expenses include agency nursing, IT and private legal practitioners.

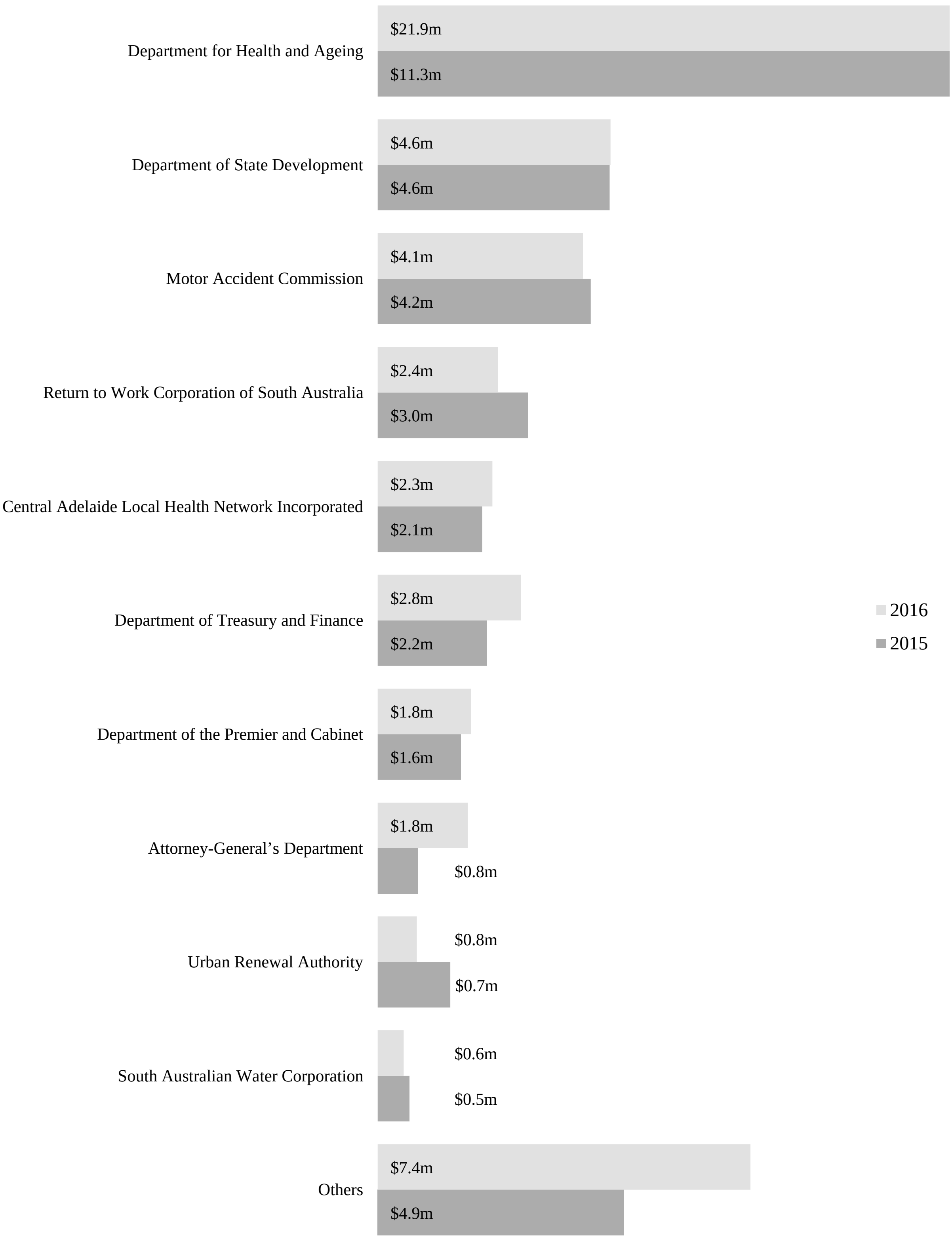
Contractors and temporary staff expenses in 2015-16 were $287.2 million ($290.2 million).



6.7 Consultants

APF II, APS 4.5 requires expenses incurred as a result of engaging consultants (as reported in the Statement of Comprehensive Income) to be disclosed in the explanatory notes.

Consultants expenses in 2015-16 were $50.3 million ($36.7 million).



7 Management and team structure of the Auditor-General's Department

Auditor-General
Andrew Richardson

Assistant Auditor-General
(Public Interest Reviews)
Salv Bianco

Philip Rossi, Rodi Bergamaschi, Jodie Fitzgerald, and Vasso Gouros – Principal Audit Managers
(Public Interest Reviews)

Kenneth Anderson
Department of Treasury and Finance
South Australian Government Financing Authority

Assistant Auditor-General
(Policy, Planning and Standards)
Ian McGlen

Julie Blanche – Manager Corporate Strategy

Silvana Gentilcore – Manager Human Resources

Michelle Harrison – Director Quality and Standards

Megan Stint – Finance Manager

Matthew Wozniak – Manager Information and Communications Technology

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Assistant Auditor-General
(Local Government and Information Technology Reviews)
Andrew Corrigan

Iolanda Telford – Principal Audit Manager
(Local Government Reviews)

James Baker, Brenton Borgman, Tyson Hancock and Jamie Thompson – Principal Audit Managers
(Information Technology Audit)

Assistant Auditor-General
(Field Operations)
Rob Huddy

Martin Diegmann
Department of Planning, Transport and Infrastructure

Stephen Gladigau
South Australian Housing Trust
Northern Adelaide Local Health Network Incorporated

Robert Matthews
University of Adelaide
Urban Renewal Authority
Lotteries Commission of South Australia

Re Ouano
South Australia Police
South Australian Superannuation Board

Bill Sierros
Department of Environment, Water and Natural Resources

Assistant Auditor-General
(Field Operations)
Daniel O'Donohue

Damen Abbott
The Flinders University of South Australia
Central Adelaide Local Health Network Incorporated

Simon Altus
Department for Education and Child Development
Motor Accident Commission

Robbie Gallomarino
Department of State Development
TAFE SA

Kerri Reed
University of South Australia
Southern Adelaide Local Health Network Incorporated

Iryna Reszitnyk
Attorney-General's Department
Department of Primary Industries and Regions

Gavin Scaife
South Australian Water Corporation
Defence SA

Assistant Auditor-General
(Field Operations)
Wendy Haydon

Stephen Jared
Department for Health and Ageing
Women's and Children's Health Network Incorporated
Country Health SA Local Health Network Incorporated

Hayley Carter, Justin Leckie and Shen Lee
Department for Communities and Social Inclusion

Tanya Sexton
South Australian Forestry Corporation
Return to Work Corporation of South Australia

Stavros Vasilikiotis
Department of the Premier and Cabinet
Courts Administration Authority
Superannuation Funds Management Corporation of South Australia

Lucy Gledhill
South Australian Tourism Commission
Department for Correctional Services
South Australian Fire and Emergency Services Commission

8 Agencies audited and not included in this Annual Report

Aboriginal Lands Trust
Adelaide and Mount Lofty Ranges Natural Resources Management Board
Adelaide Cemeteries Authority
Adelaide Dolphin Sanctuary Fund
Adelaide Film Festival
Agents Indemnity Fund
Alinytjara Wilurara Natural Resources Management Board
ANZAC Day Commemoration Fund
Australian Children's Performing Arts Company
Australian Energy Market Commission
Bio Innovation SA
Board of the Botanic Gardens and State Herbarium
Caring for our Country Program (South Australia)
Carrick Hill Trust
COAG Health Council
Coast Protection Board
Construction Industry Training Board
Dairy Authority of South Australia
Distribution Lessor Corporation
Dog and Cat Management Board
Dog Fence Board
Economic Development Board (Project Coordination Board)
Education Adelaide
Electoral Commission of South Australia
Electoral Districts Boundaries Commission
Electricity Industry Superannuation Scheme
Essential Services Commission of South Australia
Eyre Peninsula Natural Resources Management Board
General Reserves Trust
Generation Lessor Corporation
Governors' Pensions Scheme
History Trust of South Australia
Independent Gambling Authority
Independent Gaming Corporation Ltd
Investment Attraction South Australia
Judges' Pensions Scheme
Kangaroo Island Natural Resources Management Board
Maralinga Lands Unnamed Conservation Park Board
Medvet Science Pty Ltd
Minister for Agriculture, Food and Fisheries - Adelaide Hills Wine Industry Fund
Minister for Agriculture, Food and Fisheries - Barossa Wine Industry Fund
Minister for Agriculture, Food and Fisheries - Citrus Growers Fund
Minister for Agriculture, Food and Fisheries - Clare Valley Wine Industry Fund
Minister for Agriculture, Food and Fisheries - Eyre Peninsula Grain Growers Rail Fund
Minister for Agriculture, Food and Fisheries - Grain Industry Fund
Minister for Agriculture, Food and Fisheries - Grain Industry Research and Development Fund
Minister for Agriculture, Food and Fisheries - Langhorne Creek Wine Industry Fund
Minister for Agriculture, Food and Fisheries - McLaren Vale Wine Industry Fund

Minister for Agriculture, Food and Fisheries - Riverland Wine Industry Fund
Minister for Agriculture, Food and Fisheries - South Australian Apiary Industry Fund
Minister for Agriculture, Food and Fisheries - South Australian Cattle Industry Fund
Minister for Agriculture, Food and Fisheries - South Australian Deer Industry Fund
Minister for Agriculture, Food and Fisheries - South Australian Grape Growers Industry Fund
Minister for Agriculture, Food and Fisheries - South Australian Pig Industry Fund
Minister for Agriculture, Food and Fisheries - South Australian Sheep Industry Fund
National Health Funding Pool – South Australian State Pool Account
Native Vegetation Fund
Northern and Yorke Natural Resources Management Board
Office of Green Industries SA
Outback Communities Authority
Planning and Development Fund
Professional Standards Council
Rail Commissioner
Residential Tenancies Fund
Retail Shop Leases Fund
Riverbank Authority
Rural Industry Adjustment and Development Fund
SA Metropolitan Fire Service Superannuation Scheme
SACE Board of South Australia
Second-hand Vehicles Compensation Fund
Small Business Commissioner
South Australian Ambulance Service Superannuation Scheme
South Australian Arid Lands Natural Resources Management Board
South Australian Country Arts Trust
South Australian Film Corporation
South Australian Local Government Grants Commission
South Australian Mental Health Commission
South Australian Murray-Darling Basin Natural Resources Management Board
South Australian Water Corporation - Regulatory statements
South East Natural Resources Management Board
South Eastern Water Conservation and Drainage Board
State Opera of South Australia
State Procurement Board
State Theatre Company of South Australia
Stormwater Management Authority
Super SA Select Fund
Teachers Registration Board of South Australia
Transmission Lessor Corporation
West Beach Trust