

**Report 8 of 2022**

**Annual report**

for the year ended 30 June 2022

Part B: Controls opinion





# Report of the Auditor-General

## Report 8 of 2022

Annual report  
for the year ended 30 June 2022  
Part B: Controls opinion

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Tabled in the House of Assembly and ordered to be published, 18 October 2022

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By authority: C. McArdle, Government Printer, South Australia

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Cover art by:

**Elizabeth Close** | Aboriginal Visual Artist | Pitjantjatjara, Yankunytjatjara  
elizabethclosearts.com

*“This work evokes thoughts of warm earth, rock country and red sand dunes and speaks to Country as a broader concept. The purples here speak to dusk and smoke that gives way to an inky blue that is informed by the night sky. The reference to smoke is a direct reference to story telling and our shared histories. The imagery of the river and the pebbles speak to the concept of journey, and the section containing the detailed dot-work speaks to community, building community capability and those that are coming along on this journey to create change, empowerment and self-determination; they are being carried down the river to a place of understanding. I have also added some of my more distinct and iconic iconography including the drips - a motif I use to refer to the relative recency of non-Aboriginal occupation of this continent.”*

*“Wherever you are on this continent, you stand on Aboriginal Land.”*

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



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# 1 Executive summary

## Controls opinion

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

- contract management for the contract in place with the private payroll software and service provider, Frontier
- processes to select the recipients and determine the value of specific sporting and local infrastructure grants as a result of election commitments.

Without modifying my opinion, I also note that I was unable to access all of the documentation I sought for some projects, including a large capital project.

Part A of this Report expands on my reasons for qualifying my opinion and the documentation I was not able to access.

## Agencies included

56 public authorities were included in the various areas of our controls opinion audit program. Specific focus was on those agencies processing material levels of financial transactions in 2021-22.

## Key areas of review

Our control reviews focused on several areas of financial transaction processing, but we had a particular focus in 2021-22 on:

- procurement and contract management (including the implementation of the new framework in a larger number of clients through an extended review, reported on here and in Part D of this Report)
- asset management (including the transition to the new Across Government Facilities Management Arrangements (AGFMA))
- employment screening checks
- staff performance management
- delegations and approvals.

## Key outcomes

My controls opinion is qualified in the two areas noted above. This means the controls in place do not, in my opinion, meet the standard required.

I also draw attention to my inability to access some of the documentation I sought for the purpose of my work for this opinion. This included not being able to access a business case prepared by one Department on the grounds that it was a Cabinet document.

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

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

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

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

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

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

## Key issues

Other key issues we identified were as follows:

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

## 2 Introduction

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

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

I have, for the first time since I revised the approach to the controls opinion several years ago, qualified my opinion in two areas, as outlined in the executive summary. Given the significance of this outcome, I have documented my reasoning for it in Part A of this Report.

Over the last few years I have reported significant gaps in the whole-of-government control environment, particularly for asset management, contract management, procurement and payroll. In my executive summary to Part B in 2020-21, I drew attention to the continuing significant contract management issues identified across many agencies and the consequential risks that arise from these issues. We identified significant gaps again in 2021-22.

Through our controls opinion audit program, our audits of financial statements, our extended reviews and some of our performance audits, we have comprehensively reviewed individual agency controls. Part A of this Report explains our overall coverage in more detail.

In this section I explain my controls opinion responsibilities under the PFAA and our approach for 2021-22. Section 3 explains our audit coverage and section 4 contains the significant control matters we identified this year in our controls opinion audit program.

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

### 2.1 Background

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#### 2.1.1 Controls are important

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

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

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

## 2.1.2 The Auditor-General must express an opinion on controls

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

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

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

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

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

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

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

### 2.1.3 What does the controls opinion mean

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

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

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

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

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

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

## 2.2 Our approach

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### 2.2.1 The 2021-22 controls opinion approach

Our 2021-22 approach to forming the controls opinion started from a whole-of-government perspective. The population we consider for the opinion is the agencies we are required to audit, including the general government sector, public financial and non-financial corporations and universities.

To produce our 2021-22 controls opinion audit program, we considered key quantitative and qualitative factors.

**Figure 2.1: Developing our controls opinion audit program**



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

**Figure 2.2: Determining quantitative significance**



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

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

The agencies and areas we identified formed the 2021-22 controls opinion audit program, which is outlined in section 3. The significant outcomes from our audit work are discussed in section 4.

## 2.2.2 What controls to audit

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

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

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

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

Section 3 explains what we decided to review in 2021-22.

## 3 Coverage

This section explains our areas of focus in 2021-22 for the controls opinion required by the PFAA. It outlines the agencies we audited, the types of transactions we focused on and the key areas we reviewed.

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

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

Each year we may also choose to conduct extended reviews. In 2021-22 we performed a number of across-government reviews and the outcomes are discussed in Part D. We considered these outcomes as part of the whole-of-government controls opinion.

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

### 3.1 Revenue coverage

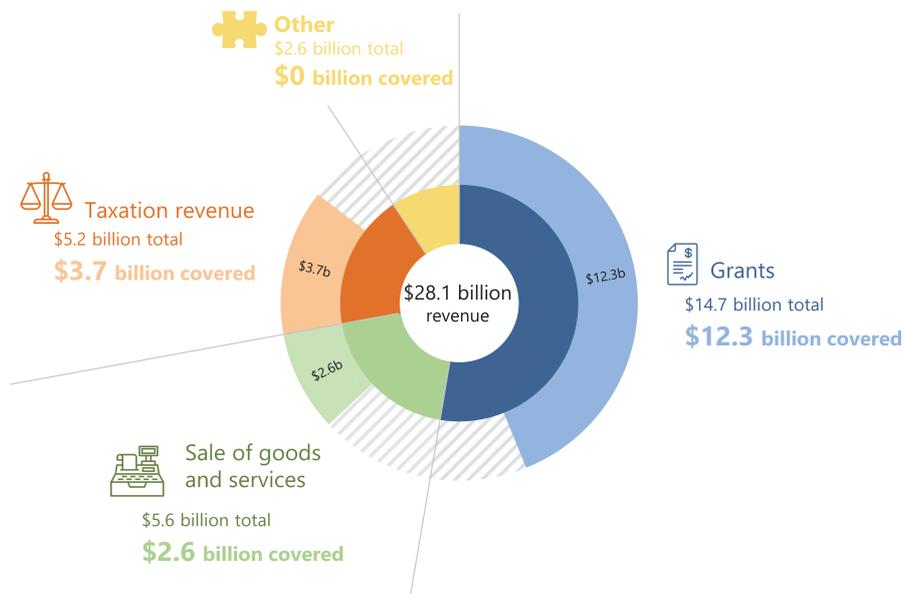
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The agencies we audit receive around \$28.1 billion each year. Applying sound financial management practices and complying with legislation in the receipt of this money are fundamental to them being able to deliver their outcomes.

We reviewed revenue across these agencies and applied our quantitative and qualitative factors to identify where we would focus our 2021-22 controls opinion work.

Overall, we reviewed selected controls for \$18.7 billion of revenue transactions. Figure 3.1 shows our coverage across the different types of revenue.

**Figure 3.1: Revenue coverage in 2021-22**



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

### 3.1.1 Key areas of coverage

#### Taxation revenue: \$3.7 billion reviewed



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

#### Grant revenue: \$12.3 billion reviewed



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

#### Sale of goods and services revenue: \$2.6 billion reviewed



We reviewed selected controls over transactions for:

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

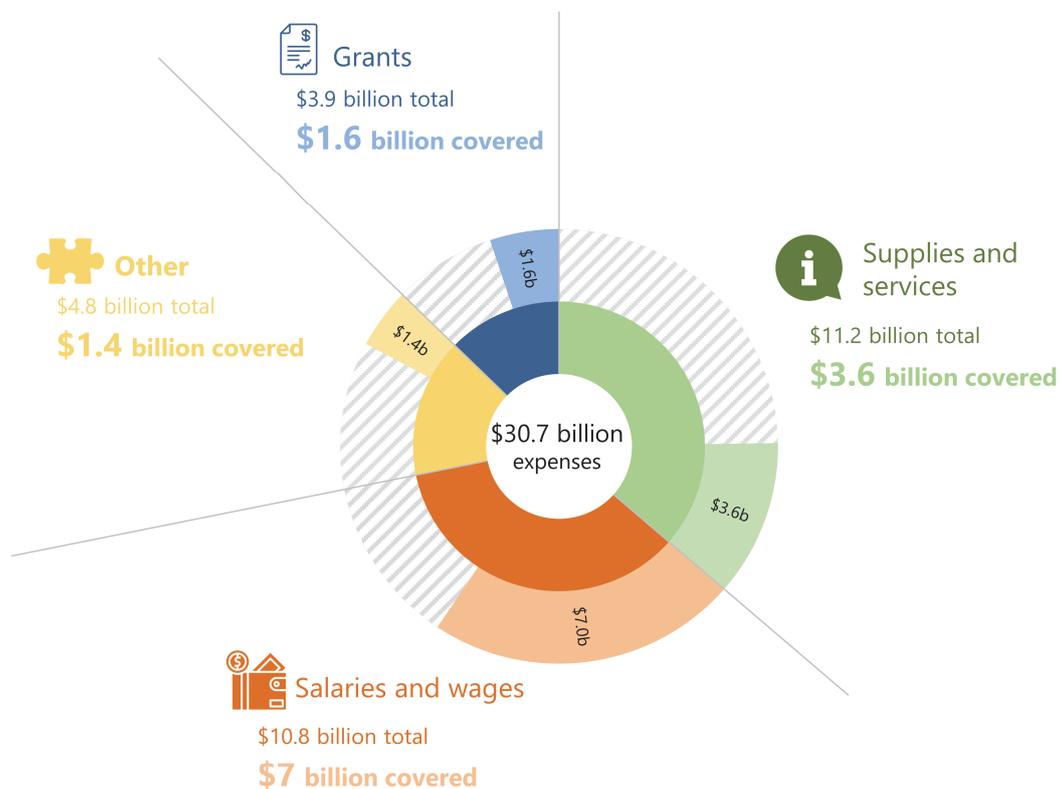
## 3.2 Expenditure coverage

In 2021-22 the agencies we audit spent around \$30.7 billion. Applying sound financial management practices to this expenditure and ensuring it is spent in accordance with the law are significant to them being able to deliver their outcomes.

We reviewed expenditure across these agencies and applied our quantitative and qualitative factors to identify where we would focus our 2021-22 controls opinion work.

Overall, we reviewed selected controls for \$13.6 billion of expenditure transactions. Figure 3.2 shows our coverage across the different types of expenditure.

Figure 3.2: Expenditure coverage in 2021-22



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

### 3.2.1 Key areas of coverage

#### Supplies and services: \$3.6 billion reviewed

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

- SA Health – DHW, CALHN, SALHN and NALHN

- Department for Education
- DIT
- whole-of-government procurements.

We also reviewed selected controls at Shared Services SA (SSSA) over the processing of approximately 2.5 million invoices a year on behalf of many agencies.

### Our review focused on

Delegations and approvals – ensuring expenditure is appropriately authorised reduces the risk of incurring expenditure that does not achieve value from spending public money.

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

We performed an across-government review of the introduction of the new procurement and contract management framework issued by DTF. This is reported in Part D this Report, but a summary of findings is also included here.

### **Salaries and wages: \$7 billion reviewed**

Over \$10 billion of salaries and wages are paid annually across the agencies we audit, to around 109,000 staff.

We reviewed selected controls over salaries and wages transactions at:

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

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

Our review focused on:

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

### **Interest expenses: \$705 million reviewed**

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

### **Maintenance expenditure: \$349 million reviewed**

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

Public authorities we reviewed were:

- Department for Education
- DIT

- Performance management processes – effective performance management systems ensure employees are aware of their expected performance standards and whether they are achieving them. Actively managing performance helps agencies to achieve their objectives.
- Employment screening checks – adequate checks during the hiring process and subsequent monitoring ensure agencies comply with relevant legislation, lessening the risk to staff and the public.
- Review of payroll reports – effective reviews of key payroll reports reduce the risk that payments are made at incorrect rates or for work not performed and that leave is incorrectly or incompletely recorded, resulting in potential financial loss to the agency.

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

We reviewed DIT’s management of the AGFMA, including the change in arrangements that saw a transition in the provider of maintenance services from Spotless in some regions to Ventia across all regions.

**Grant expenses:  
\$1.6 billion reviewed**

We reviewed selected controls over grant expenditure by the Department for Education.

We also reviewed the approvals and payments made under Treasurer’s Instructions 15 *Grant Funding*, through DIT and the Office for Recreation, Sport and Racing, for election commitments made by the new SA Government.

**Other expenses:  
\$683 million reviewed**

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

### 3.3 Asset coverage

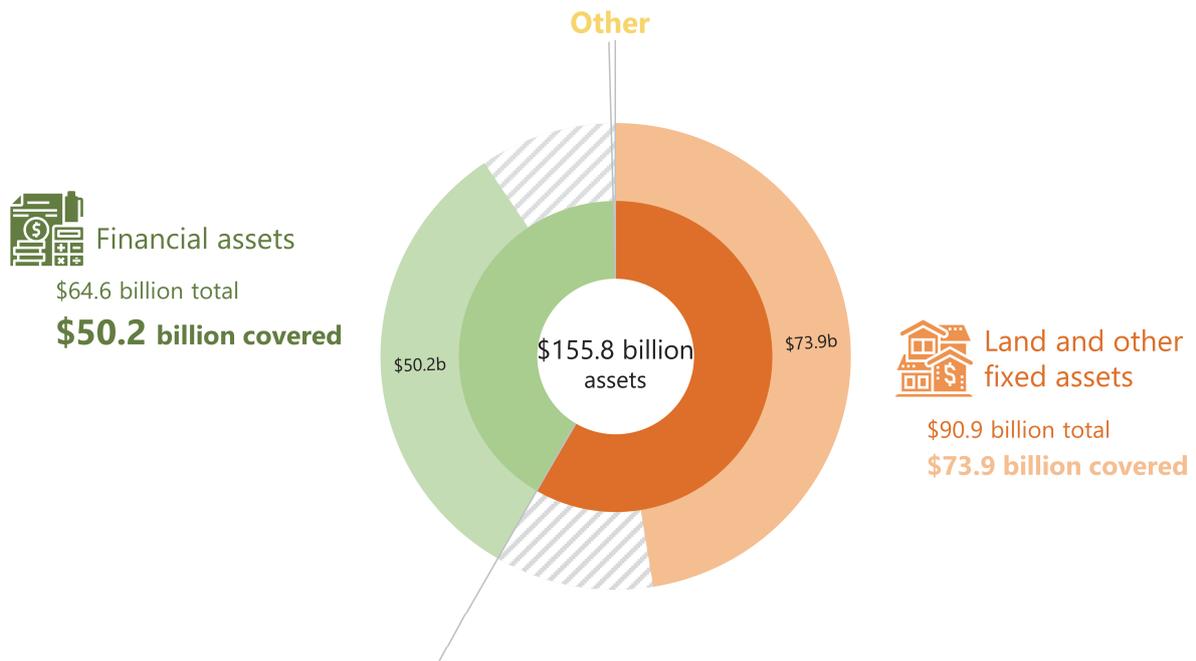
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The agencies we audit have assets worth around \$155.8 billion. Applying sound financial management practices in the investment of money and the acquisition and disposal of assets, and ensuring it is performed in line with the law, are fundamental to these agencies delivering their outcomes.

We reviewed the asset balances held and applied our quantitative and qualitative factors to identify the agencies and balances we would audit for the 2021-22 controls opinion.

Overall, we reviewed selected controls for \$124.1 billion of assets. Figure 3.3 shows our coverage across the different types of assets held.

Figure 3.3: Asset coverage in 2021-22



### 3.3.1 Key areas of coverage

#### Land: \$10.7 billion reviewed

We reviewed selected controls over land assets at:

- SAHT
- Department for Environment and Water
- DIT.

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

**Heritage assets:  
\$817 million reviewed**

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

**Loans and advances:  
\$2.8 billion reviewed**

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

**Inventories:  
\$291 million of land inventory reviewed**

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

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

**Investments:  
\$47 billion reviewed**

We reviewed selected controls over investments at:

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

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

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

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

## Asset management

**Infrastructure assets:  
\$40.6 billion reviewed**

**Buildings and improvements:  
\$18.4 billion reviewed**

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

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

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

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

In 2021-22 we followed up on several issues raised in prior years about governance, risk management, condition monitoring and the maintenance of asset data. For some public authorities we tested elements of controls in these areas.

## The link between this work and the expenditure controls opinion program

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

### Capital projects (work in progress)

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

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

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

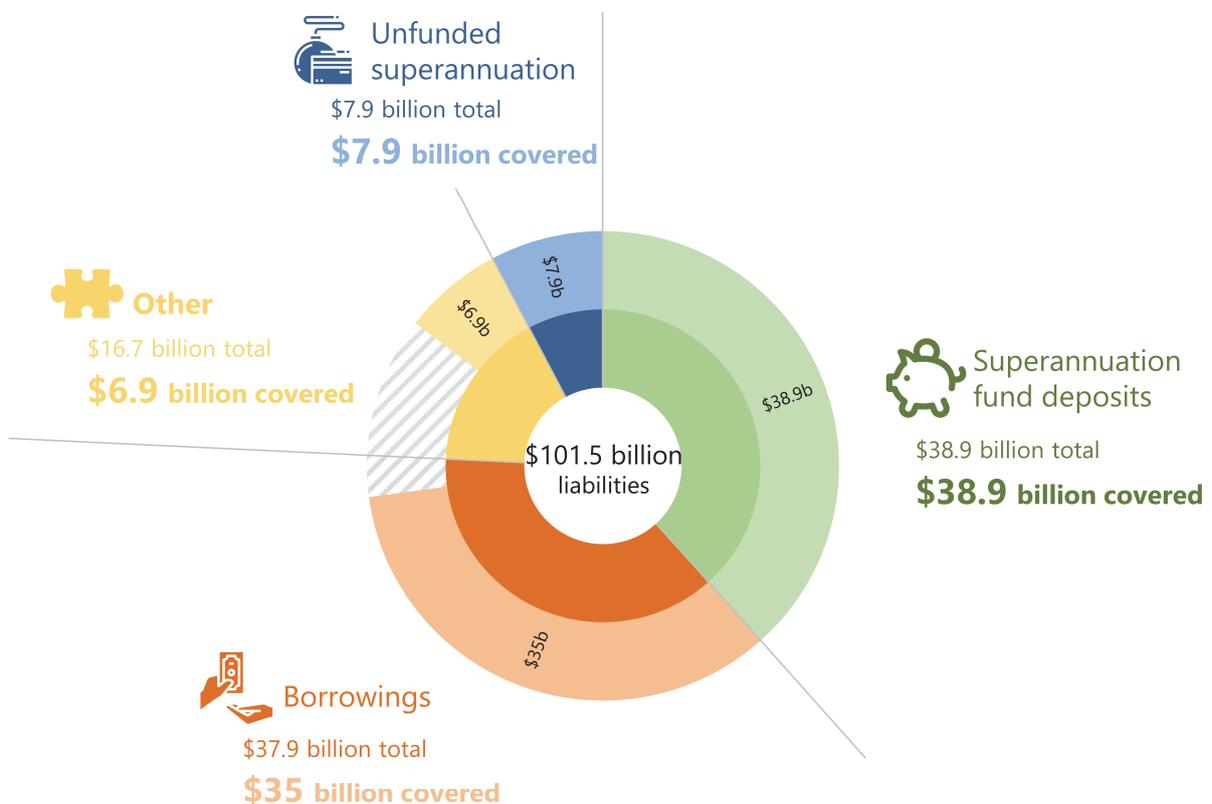
## 3.4 Liabilities coverage

The agencies we audit have around \$101.5 billion of liabilities. Applying sound practices in incurring and managing liabilities is critical to ensuring sound financial management. The incurring of liabilities must also comply with the law.

We applied our quantitative and qualitative criteria to identify the agencies and balances we would audit for the 2021-22 controls opinion.

Overall, we reviewed selected controls for \$88.8 billion of liabilities. Figure 3.4 shows our coverage across the different types of liabilities held.

Figure 3.4: Liabilities coverage in 2021-22



### 3.4.1 Key areas of coverage

#### Borrowings: \$35 billion reviewed

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

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

**Superannuation fund deposits:  
\$38.9 billion reviewed**

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

**Unfunded superannuation liability:  
\$7.9 billion reviewed**

Unfunded superannuation is reported in the Consolidated Financial Report.

We reviewed selected controls to ensure the completeness and accuracy of data used in individual scheme valuations and that the actuaries' calculated valuations are reasonable.

**Employee benefit liabilities:  
\$689 million reviewed**

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

**Outstanding claims:  
\$6.2 billion reviewed**

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

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

### 3.5 Treasurer's statements

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

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

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

## 4 Outcomes

This section details the significant outcomes informing the controls opinion given under the PFAA.

Further details of the individual controls opinion audit findings we identified through our audits are provided in our commentary on individual agencies in Part C of this Report. Detailed individual findings from the across government extended reviews are reported in Parts C and D.

### 4.1 Qualification of controls opinion

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This year I have qualified the annual controls opinion in two respects. This is the first time I have done this since changing the approach to the controls opinion several years ago.

Part A of this Report expands on the reasons for the qualifications more fully, but they are summarised below.

#### 4.1.1 Contract management controls for the contract in place for the private payroll software and service provider, Frontier

I have qualified contract management controls for the State contract with the private payroll software and service provider, Frontier. There was no contract management activity or risk assessment to conclude on, or test, Frontier's compliance with the data security and storage requirements included in the contract. No control operated to ensure that all hosting, support, maintenance and bureau services were conducted in the SA Government's Client Managed Environment, or assessed whether data was routinely taken outside of that environment. As publicly disclosed by the SA Government, a data breach occurred on Frontier's corporate network in November 2021 that affected more than 90,000 current and former SA Government employees.

Given the extent of the impact of this breach, I consider that the weakness in the contract management approach warrants qualification of my controls opinion.

#### 4.1.2 Processes to select the recipients and determine the value of sporting and local infrastructure grants as a result of election commitments

I have also qualified my opinion for aspects of the processes used to determine the recipients and amounts of the sporting and local infrastructure grants made in June 2022 as a result of election commitments. These processes occurred outside of the usual public sector

framework for government grants. Consequently, the controls that would be expected to operate over determining these grants were not applied.

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

For the reasons I explain in Part A of this Report, I consider it to be in the public interest that all elements of any process to award significant government funds to individual projects should be undertaken strictly within the public sector frameworks that exist to support them.

## 4.2 Contract management

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### 4.2.1 Summary of findings and recommendations

#### **What we found**

In addition to the contract management issue with the State’s arrangement with Frontier that qualified the controls opinion this year, outlined in Part A of this Report and above, we reviewed a sample of other contract arrangements. We continued to find that agencies collectively need to improve their contract management practices. We found:

- instances where contract management plans were not in place or did not address all key areas of contract management
- contract management practices did not always ensure key contractual and legislative requirements were met
- contract management practices did not always ensure all aspects of the arrangements were assessed through appropriate measurement and reporting of KPIs and annual reviews
- opportunities for agencies to strengthen their responses to risks over the accuracy and completeness of performance information provided by suppliers
- contract management processes did not always demonstrate a clear understanding of risks to the agency, how they were managed and whether the responses were effective
- instances where contractually required meetings with suppliers were not held or were held with no documented outcomes
- an instance where an agency is still resolving appropriate staffing levels to support the contract management and procurement activities for a significant contract arrangement.

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

We reviewed compliance with the new SA Government procurement and contract management framework at 17 agencies. Our findings included:

- opportunities for several agencies to strengthen their processes to ensure contract managers undertake the training required under the new framework (noting there were similar requirements previously)
- instances where agencies did not document a rationale for their conclusion on the complexity of a contract. This could impact the extent of resourcing applied to managing the contract
- several instances where opportunities existed to improve the preparation, inclusion of key documentation and approval of contract management plans
- some instances where performance management meetings were not occurring or were delayed, impacting the ability to effectively monitor the obligations and outcomes of the contracts
- information management systems did not always have all the records required by the new framework.

Further information on our findings on the implementation of the new framework can be found in Part D of this Report.

### **What public authorities should do**

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

- having comprehensive policies and procedures that are communicated to staff and that reflect contract management processes specific to the agency, which should reflect the new procurement and contract management framework and other relevant guidelines
- understanding the contracts they are party to, by listing them in a contract register
- clearly identifying staff who are responsible for contract management and the expectations attached to their roles, and providing support and training to them
- implementing contract management plans that accurately reflect the contract requirements, as well as meeting the new framework requirements and other relevant rules and guidelines
- identifying and actively managing the risks associated with their contracts
- actively managing contracts, ensuring deliverables occur as contracted and performance indicators or targets are effectively monitored
- ensuring staff responsible for approving charges under contract arrangements have access to up-to-date contract price schedules to verify that the agency is paying the correct amount
- having evidence to support their contract management activities (minutes of meetings, copies of correspondence, etc).

## 4.2.2 Background

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

For 2021-22 contract management practices should reflect public sector rules such as those established by the PFAA, *Public Sector Act 2009*, Premier and Cabinet Circular PC028 *Construction Procurement Policy: Project Implementation Process (PC028)* and Treasurer's Instructions.

From 2021-22 a new Treasurer's Instruction 18 *Procurement (TI 18)* applies to procurement and contract management practices. It is supported by a policy framework that includes a governance policy, procurement planning policy, sourcing policy, contract management policy and subordinate schedules. It is the responsibility of public authorities to have in place systems, processes and procedures to comply with this framework. I explain some of the key requirements in this new framework in Part D of this Report.

For the purposes of our 2021-22 audit, transitional provisions under TI 18 apply. This means that some contracts we reviewed fell under the old *State Procurement Act 2004* requirements, while the new framework applied to others. We have reviewed contracts against the framework that applied.

Under the old arrangements, several public authorities were listed as prescribed public authorities and established their own procurement and contract management frameworks. This was still the case for 2021-22. From 1 July 2022, however, these public authorities are captured by the new framework for general procurement.

The new framework will further extend to apply to all construction-related procurements once specific guidance for this area is finalised. This is expected to occur in 2022-23.

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

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

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

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

Our findings are discussed in the following sections. Additional findings from our extended review work on contract management are included in Part D of this Report.

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

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

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

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

Our review of a sample of significant contract arrangements across the public authorities we audit continued to find many instances where contract management plans did not exist or did not address key areas of contract management.

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

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

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

Contracts often provide for self-reporting on the performance of services under the contract. Relying on this reporting alone is not sufficient. A level of review is required by the public authority to ensure the reporting is accurate, complete and valid. The new framework acknowledges that any information used to assess the supplier's performance should be

accurate, fair and verifiable. This is particularly the case if it is used to justify actions under the contract (such as withholding payment). For strategic and complex contracts, independent assessments, evaluation or periodic audits may help to determine whether performance measures have been met.

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

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

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

## 4.3 Procurement

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### 4.3.1 Summary of findings and recommendations

#### **What we found**

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

- an agency entered a new significant procurement with an existing provider without testing the market through a procurement process
- an agency varied an existing contract because there was insufficient time for a new procurement process to be undertaken
- purchases were made before signed contracts were in place
- direct dealings with the market occurred before an acquisition plan was approved
- key procurement records were missing, including an acquisition plan, evaluation plan, risk management plan, negotiation plan and meeting minutes
- key information was inconsistent between different procurement documents
- conflict of interest documents were not completed as required by policy
- a post-sourcing review was not performed.

We reviewed 17 agencies to assess their compliance with the new SA Government framework for procurement and contract management. Our findings included:

- opportunities for some agencies to strengthen their policies and procedures to ensure compliance with the new framework
- instances where agencies did not comply with key requirements under the new framework for acquisition planning, approaching the market and contract negotiation
- information management systems did not always have all the records required by the new framework.

Further information on our findings on the implementation of the new framework can be found in Part D of this Report.

### **What public authorities should do**

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

- ensure their policies and procedures for procuring supplies, services and assets are clearly documented and communicated, and that staff adhere to them
- increase the capability of their procurement staff through adequate training on the new framework requirements and risk management principles
- ensure approvals are obtained throughout the procurement process at the right stage by the relevant people, in line with the new framework requirements or agency policies and procedures
- ensure documentation supporting the procurement process, including key plans and reports, is adequate to support key procurement decisions
- ensure procurement risks are identified and appropriately responded to
- ensure adequate recordkeeping so that evidence of conflicts of interest, key decisions, approvals, etc is retained.

## 4.3.2 Background

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

In 2021-22 procurement practices should reflect public sector rules such as those established by the PFAA, *Public Sector Act 2009*, PC028 and Treasurer's Instructions.

In section 4.1.1 we noted that a new TI 18 was issued. For our 2021-22 audit, transitional provisions under TI 18 applied in some cases, meaning that the procurements we reviewed fell under either the old *State Procurement Act 2004* requirements or the new framework. We reviewed procurements against the framework that applied.

Under the old arrangements, several public authorities were listed as prescribed public authorities and established their own procurement and contract management frameworks.

While transition provisions applied for 2021-22, these public authorities are captured by the new framework from 1 July 2022 for general procurement.

The new framework will further extend to apply to all construction-related procurements once specific guidance for this area is finalised. This is expected to occur in 2022-23. For 2021-22, PC028 applied to construction-related procurements.

The new procurement framework centres on five key principles:

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

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

## 4.4 Asset management – infrastructure, buildings and improvements

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### 4.4.1 Summary of findings and recommendations

#### **What we found**

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

- continued opportunities to improve asset management policies and plans
- instances where risks identified for significant asset classes were not effectively recorded and managed
- opportunities to improve the measuring, monitoring and reporting of levels of service and performance measures for assets, particularly when they were managed under a contract
- instances where asset condition assessments were overdue or not recorded in the asset system
- opportunities to strengthen the evidence supporting the adequacy of maintenance works performed under contract arrangements
- opportunities to improve the oversight of significant assets under contract arrangements (see contract management issues raised in section 4.2.1).

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

- asset management policies and frameworks necessary for sound financial management of infrastructure, buildings and improvements were being developed but not implemented
- the memorandums of administrative arrangements with DIT outlining the roles and responsibilities under the new AGFMA were not finalised.

### **What public authorities should do**

Large infrastructure agencies should:

- continue to review and update their asset management policies and plans to ensure they are adequate for the size, complexity and nature of the assets they own. Plans should be based on reliable data
- clearly communicate to staff their roles and responsibilities for asset management and provide them with adequate training to build their asset management capability
- ensure the levels of service and performance measures for assets are identified, measured and reported to ensure they deliver on service expectations
- ensure condition assessments are performed in line with policies and plans, are based on how critical the assets are, are reported on and are used to inform asset management decisions
- ensure risks are identified, appropriately managed and reported on regularly
- ensure adequate monitoring controls are in place for assets managed under contract arrangements.

Agencies who participate in the AGFMA should:

- continue to develop their asset management policies and plans and ensure they are adequate for the size, complexity and nature of the assets they own. Plans should be based on reliable data
- clearly communicate to staff their roles and responsibilities for asset management and provide them with adequate training to build their asset management capability
- continue to liaise with Ventia and DIT to finalise roles and responsibilities of all parties of the new AGFMA.

## **4.4.2 Background**

The agencies we audit are responsible for around \$70 billion in infrastructure, buildings and improvements.

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

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

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

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

We also reviewed asset management at agencies that participate in the AGFMA, including the Department for Education, SA Health, TAFE SA and the Department for Correctional Services. The asset management practices of these agencies are impacted by the transition to the new provider, Ventia. We mainly focused our 2021-22 review on these new arrangements with Ventia. Our findings are in section 4.5.1. We also followed up individual agencies' progress on documenting asset management policies and procedures. We will review their asset management practices in more depth in future years, as the new AGFMA arrangements settle.

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

#### 4.4.3 Governance arrangements continue to need improvement

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

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

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

#### 4.4.3.1 Large infrastructure agencies

In prior years we have raised several opportunities for agencies to improve their documented asset management policies and plans. In 2021-22 we found that agencies generally responded positively to our recommendations for improvement and made further progress on addressing the issues we raised.

We note some continuing opportunities for improvement for individual agencies. These include finalising draft or out-of-date asset management policies and plans, and improving key information about risk management, condition monitoring, levels of service and performance for some asset types.

#### 4.4.3.2 Agencies that participate in the AGFMA

In 2018-19 we found that several of the agencies who participate in the AGFMA did not have documented asset management policies and plans. In 2020-21 and 2021-22 we found that agencies continued to work towards developing asset management policies and plans but, at the time of our audit, some had still not finalised and implemented them.

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

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

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

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

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

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

#### 4.4.4.1 Large infrastructure agencies

Our review of the management of levels of service and performance measures at agencies found, for some asset types, opportunities to improve.

We found that improvements were still needed for some asset classes to ensure that asset management plans define all desired levels of service, and that actual performance is monitored and reported on regularly.

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

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

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

Collectively in 2021-22 we have seen agencies continue to take positive steps to address the issues we identified last year. There are still some opportunities to improve.

#### 4.4.5.1 Large infrastructure agencies

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

- ensuring the criticality and condition of assets under contract arrangements are assessed
- ensuring condition assessments are up to date, noting that condition assessments for some assets at an agency were overdue
- ensuring results of visual inspections and condition assessments are recorded in asset data systems.

## 4.5 Across Government Facilities Management Arrangements

### 4.5.1 Summary of findings and recommendations

#### What we found

Our high-level review of aspects of the procurement of the new AGFMA contract with Ventia found that key procurement documents required by the former State Procurement Board were prepared and approved.

We found, however, that the arrangements under the new contract with Ventia are not yet operating as intended. Our findings included:

- roles and responsibilities for monitoring Ventia's compliance were not clearly defined and documented for some key obligations
- there was no key document to detail all key obligations under the contract and how they are being managed and monitored
- not all high-risk assets were confirmed by the data validation process within six months of commencement, as required in the contract
- there was no way to confirm that the 2021-22 service delivery plans of AGFMA participating agencies were accurate and completely delivered, including statutory maintenance
- Ventia systems did not provide DIT and agencies with visibility and accessibility to asset data for asset management, recording and maintaining the minimum data sets required by Premier and Cabinet Circular PC 114 *Government Real Property Management*
- no monitoring or compliance activities were performed by DIT over the security of data since the contract with Ventia commenced
- Ventia and DIT's risk registers for the AGFMA were not complete
- DTF had no controls were in place to monitor that Ventia is charging in line with the contract's maximum trade rates
- subcontractor compliance documentation was not visible in Ventia's system for a sample of subcontractors we tested
- KPI targets were not being met, KPI data could not be presented as required by DIT and the KPIs reported for 2021-22 were not verified.

Our 2021-22 asset management review of selected agencies that participated in the AGFMA found that:

- asset management policies and plans continue to be drafted, but are not finalised for some agencies
- some agencies had not signed a memorandum of administrative arrangements with DIT reflecting roles and responsibilities under the new AGFMA arrangements.

## **What public authorities should do**

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

DIT is the lead agency for the AGFMA. It has a key role in managing these arrangements in conjunction with the participating agencies. In response to our findings, DIT has engaged with Ventia and they continue to work towards improving the arrangements and DIT enhancing its contract management processes.

Agencies participating in the AGFMA should continue to:

- actively work with DIT and Ventia to ensure they are clear about their roles and responsibilities
- clearly communicate to their staff their roles and responsibilities and provide them with adequate training
- revisit/improve their asset management controls to ensure they receive effective facilities management services for their assets.

### **4.5.2 Background**

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

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

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

Our 2021-22 audit of the AGFMA focused on aspects of governance and contract management of the new contract, noting that not all aspects of contract management would yet be in place.

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

I explain the differences between the old and new arrangements and the responsibilities of stakeholders involved, and provide further detail on our review of the AGFMA, in Part C of this Report in the section titled 'Department for Infrastructure and Transport'.

## 4.6 Salaries and wages expenditure

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### 4.6.1 Summary of findings and recommendations

#### **What we found**

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

- employment screening practices, with instances identified in some agencies where employees do not hold valid clearance checks, such as working with children clearances, but are working with vulnerable cohorts
- compliance with immunisation policy requirements, where some employees in two agencies continued to work without evidence of immunisation
- performance management processes, with large numbers of outstanding reviews identified
- workforce planning, where differing maturity levels continue to exist at most agencies
- the recording and management of leave
- key payroll processing controls.

#### **What public authorities should do**

They should:

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

## 4.6.2 Background

The largest type of expenditure incurred by the agencies we audit is salaries and wages. Collectively they employ around 113,000 staff and pay over \$10 billion in salaries and wages every year.

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

Our findings are discussed in the following sections.

## 4.6.3 Employment screening practices require significant improvement

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

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

- some agencies still have not documented the prescribed positions that require screening checks and then implemented processes to actively monitor them to ensure all checks are current
- instances where employees who did not hold children and aged care clearances were working with children or the elderly
- outdated, incomplete or non-compliant registers and checklists for employees requiring clearance checks.

## 4.6.4 Performance management reviews continue to need improvement

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

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

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

We continue to see overdue performance reviews across most agencies where we have looked at this area. In 2021-22 we saw an improvement in the number of overdue performance reviews for some agencies we reviewed, while others were still working towards increased compliance with required frameworks.

#### 4.6.5 Differing levels of workforce planning maturity

Workforce plans help to ensure that there is an appropriate workforce to deliver an agency's outcomes and to properly plan the agency's salaries and wages expenditure. Without the right workforce, an agency might need to hire temporary resources, at a premium cost, to deliver against its objectives. It may compromise the effective delivery of outcomes if resources cannot be found in shorter time frames.

The effectiveness of an agency's future business planning also depends on having a clear understanding of its workforce needs and costs, given the significance of its workforce input in achieving its objectives.

In 2021-22 we continued to find differing levels of maturity across the agencies we reviewed. All had elements of workforce planning in place, however some agencies were still working to bring these elements together into consolidated workforce plans.

#### 4.6.6 Some key payroll processing controls need to improve

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

In previous years we have reported, across several agencies, instances where these checks were not occurring as designed or where their implementation did not meet management's expectations. In 2021-22 we reviewed key controls in the payroll processing environments of selected agencies and again identified instances where:

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

## 4.7 Accounts payable and approvals

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### 4.7.1 Summary of findings and recommendations

#### **What we found**

Our audit of controls over accounts payable and approvals found:

- opportunities to strengthen invoice and vendor processing checks to reduce the risk of duplicate payments
- instances of purchase orders not being used when required by agency policies and procedures
- ongoing instances where regular services were provided but no contract was established
- opportunities to improve the processes for reviewing, assessing eligibility and reconciling infrastructure payment claims associated with a significant contract
- improvements needed to the process of checking chief executive approved delegations to the financial system for one agency
- for several AGFMA participating agencies the delegations in the maintenance system did not align to agency-approved financial delegations.

#### **What public authorities should do**

They should:

- ensure agency policies and procedures are complied with
- ensure comprehensive checks are performed on the processing of invoice data and the addition of new vendors
- review regular expenditure with specific vendors and investigate opportunities to establish formal contract arrangements
- continue to reinforce the importance of controls to ensure agency-approved delegations agree to online delegation limits set in financial systems
- ensure staff are aware of their roles and responsibilities and are provided with relevant training.

### 4.7.2 Background

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

These invoices amount to billions of dollars of public money spent by public sector employees who have been given approval through a delegated authority to transact on behalf of a public authority. Delegations provide a structured framework for approving

payments. They should reflect public sector rules that govern this activity, such as those established by the PFAA, *Public Sector Act 2009* and Treasurer's Instructions. The consequences of deliberately misapplying delegated authorities are potentially severe for individuals.

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

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

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

## 4.8 Asset acquisition – project delivery and management of construction projects

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Each year the agencies we audit undertake significant construction projects. Most are undertaken by agencies for which this is a core activity. The SA Government's infrastructure agency, DIT, is responsible for managing construction projects in the civil and building (commercial) construction sectors. SAHT and the Urban Renewal Authority were prescribed public authorities under the old *State Procurement Act 2004* and Regulations. They are also infrastructure agencies, having the expertise to undertake construction projects in the residential and land development sectors.

For 2021-22 construction projects should comply with public sector rules such as those established by the PFAA, Premier and Cabinet Circulars and Treasurer's Instructions. In 2020, Infrastructure SA released its independent assurance framework, which aims to improve the planning, prioritisation, operation and implementation of major SA Government infrastructure projects.

In 2021-22 we reviewed selected controls over aspects of infrastructure planning and investment, project delivery and management. We identified isolated instances where agencies could improve their controls, including:

- improvements to an agency's reporting of the non-financial performance of its 2021-22 capital investment program, to ensure adequate oversight
- opportunities to improve reporting to a project steering committee and recording of risks for a large capital project
- documenting the reasons for selecting tenderers from a prequalified panel of providers.

We were unable to review a business case for one sampled capital project due to an agency not providing us access on the grounds that it was classified as a Cabinet document. This prevented me from concluding on this significant transaction for the purposes of the controls opinion. I have commented further on access to documents and the impact this has on the accountability and transparency of the public sector in Part A of this Report.

## 4.9 Revenue

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The agencies we audit receive around \$28 billion of revenue annually, around half of which is from Commonwealth grants. The types of revenue received include taxation, grants and revenue from sales of goods and services.

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

The revenue processes we reviewed were generally operating effectively. We identified an opportunity to strengthen one agency's processes for ensuring game rules are correctly applied and unauthorised tickets are detected. We also noted inconsistencies in property sale delegations for another agency, which have since been rectified.

## 4.10 Special deposit and deposit accounts

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

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

- special deposit accounts should only be used for purposes approved by the Treasurer
- unmatched reconciling items should be rectified promptly
- specific legislative requirements should be adhered to when using funds from a special deposit account.

## Appendix – Abbreviations used in this Report

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

AGFMA	Across Government Facilities Management Arrangements
CALHN	Central Adelaide Local Health Network Incorporated
DHW	Department for Health and Wellbeing
DIT	Department for Infrastructure and Transport
DTF	Department of Treasury and Finance
Funds SA	Superannuation Funds Management Corporation of South Australia
KPI	Key performance indicator
NALHN	Northern Adelaide Local Health Network Incorporated
NDIS	National Disability Insurance Scheme
PC028	Premier and Cabinet Circular PC028 <i>Construction Procurement Policy: Project Implementation Process</i>
PFAA	<i>Public Finance and Audit Act 1987</i>
RTWSA	Return to Work Corporation of South Australia
SA Health	Department for Health and Wellbeing and associated local health networks
SAFA	South Australian Government Financing Authority
SAHT	South Australian Housing Trust
SALHN	Southern Adelaide Local Health Network Incorporated
SAMF	Strategic Asset Management Framework
SA Water	South Australian Water Corporation
SSSA	Shared Services SA



