

Report 6 of 2019

Annual report

for the year ended 30 June 2019

Part B: Controls opinion



Report of the Auditor-General

Report 6 of 2019

Annual Report

for the year ended 30 June 2019

Part B: Controls opinion

Tabled in the House of Assembly and ordered to be published, 15 October 2019

First Session, Fifty-Fourth Parliament

By authority: S. Smith, Government Printer, South Australia



Auditor-General's Department

www.audit.sa.gov.au

Enquiries about this report should be directed to:

Auditor-General
Auditor-General's Department
Level 9, 200 Victoria Square
Adelaide SA 5000

ISSN 0815-9157

Contents

1	Executive summary	1
2	Introduction	3
2.1	Background	3
2.1.1	Controls are important	3
2.1.2	The Auditor-General must express an opinion on controls	4
2.1.3	What does the controls opinion mean	4
2.2	Our new approach	5
2.2.1	The 2018-19 controls opinion approach	5
2.2.2	What controls to audit	6
2.2.3	How our controls opinion approach has changed	7
3	Coverage	8
3.1	Revenue coverage	8
3.1.1	Key areas of coverage	9
3.2	Expenditure coverage	9
3.2.1	Key areas of coverage	10
3.3	Asset coverage	12
3.3.1	Key areas of coverage	12
3.4	Liabilities coverage	15
3.4.1	Key areas of coverage	15
3.5	Treasurer's Statements	16
4	Outcomes	17
4.1	Asset management – Infrastructure, buildings and improvements	17
4.1.1	Summary of findings	17
4.1.2	Background	18
4.1.3	Governance arrangements need to improve	19
4.1.4	Property condition assessments were not performed or were performed but not used for asset management planning purposes	20
4.1.5	The quality of asset data needs to improve	20
4.2	Across government facilities management arrangements	21
4.2.1	Summary of findings	21
4.2.2	Background	22
4.2.3	Governance arrangements	23
4.2.4	Asset condition monitoring and reporting is not adequately performed	24
4.2.5	Asset data collection is not meeting appropriate standards	25
4.2.6	Controls do not ensure only qualified subcontractors are used	26

4.3	Salaries and wages expenditure	26
4.3.1	Summary of findings	26
4.3.2	Background	27
4.3.3	Performance management reviews need to improve	27
4.3.4	Differing levels of workforce planning maturity	28
4.3.5	Some key payroll processing controls need to improve	28
4.4	Procurement	29
4.4.1	Summary of findings	29
4.4.2	Background	29
4.5	Contract management	30
4.5.1	Summary of findings	30
4.5.2	Background	32
4.6	Delegations and approvals	33
4.6.1	Summary of findings	33
4.6.2	Background	33
4.6.3	Reviews of online delegation limits and user access need to improve	34
4.6.4	Reviews of special delegation and manual payments need to improve	34
4.7	Other accounts payable matters	35
4.7.1	Summary of findings	35
4.7.2	Background	35
4.8	Asset acquisition – Project delivery and management of construction projects	36
4.8.1	Summary of findings	36
4.8.2	Background	36
4.9	Revenue	37
4.10	Special deposit and deposit accounts	37

Appendix 1 – Acronyms and abbreviations	38
--	-----------

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, 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.
Agencies included	59 public authorities were included in various areas of our controls opinion audit program. Specific focus was on those agencies processing material levels of financial transactions in 2018-19.
Key areas of review	<p>Our control reviews focused on several areas of financial transaction processing but there was a particular focus in 2018-19 on:</p> <ul style="list-style-type: none">— asset management (including across government facilities management arrangements (AGFMA))— procurement and contract management— workforce planning— staff performance management— delegations and approvals.
Key outcomes	<p>My controls opinion is not modified. We identified a number of issues from the work we performed but did not identify systemic weaknesses in controls across the SA Government. The broad nature of my opinion under the <i>Public Finance and Audit Act 1987</i> (PFAA) is such that issues would need to be very significant or fundamental to warrant modifying it.</p> <p>We did, however, identify some common themes and issues which, while being identified at individual agencies, should be considered by all public sector agencies as part of ensuring they have sound financial management control practices in place.</p>

Key outcomes we identified:

- Asset management processes for AGFMA participating agencies require improvement in the areas of policies and plans, asset data collection and asset condition monitoring.
- The AGFMA is not operating as intended, with specific findings in governance, asset condition monitoring, asset data collection and managing subcontractor qualifications.
- There are opportunities to improve asset management processes at non-AGFMA participating agencies.
- Performance management processes for staff need to be consolidated and improved.
- There are differing levels of workforce planning maturity across the agencies we reviewed.
- Some key payroll processing controls need to improve.
- There are several instances of non-compliance with State Procurement Board or agency policies and procedures for procurement and contract management.
- There are opportunities to strengthen controls over the use of delegations and approvals.

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.

In my 2017-18 Annual Report, I advised that we were changing our approach to the annual controls opinion so that we have the best opportunity to provide the most relevant and timely reports to Parliament.

For 2018-19, we planned the controls opinion audit program from a whole-of-government perspective rather than at an individual agency level. We focused on the areas we assessed as of most quantitative and qualitative significance for the whole of government. Through this audit program, our audits of financial statements 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.

This is the first year of this new approach. It will evolve in future years. While any change brings challenges, I believe this is moving us towards achieving the outcome I sought in focusing our resources on the matters of most significance that arise from year to year.

In this section I explain my controls opinion responsibilities under the PFAA, our approach for 2018-19 and what has changed from the past. Section 3 outlines our audit coverage and section 4 contains the significant control matters identified from 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

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 delivering cost effective public services.

2.1.2 The Auditor-General must express an opinion on controls

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

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

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

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

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

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

2.1.3 What 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.

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

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 accurate, logically sound and presented fairly. This also gives the opportunity to discuss the effect and practicality of our recommendations and 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 arise where agencies decide that existing practices sufficiently address any risk involved.

Responses we receive from agencies 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, we raise the matters again for further consideration.

2.2 Our new approach

2.2.1 The 2018-19 controls opinion approach

Our 2018-19 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.

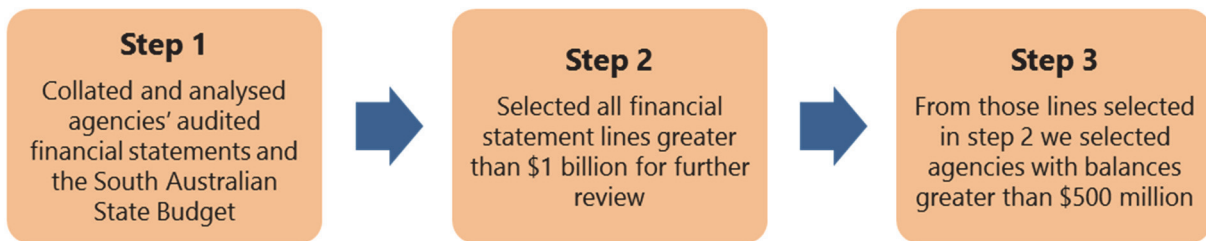
To produce our 2018-19 controls opinion audit program, we considered key quantitative and qualitative factors.

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 2018-19 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 step 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 risk assessments change from year to year. Accordingly, an area we focus on 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, whereas in others we may review the process for conducting 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 2018-19.

2.2.3 How our controls opinion approach has changed

Since 1996 the Auditor-General has provided controls opinions for each of the individual agencies included in the Annual Report to Parliament. To inform these individual opinions, audit work was planned and performed based on a uniform program tailored to individual agency circumstances. The overall controls opinion was then based on the outcomes of the individual audits.

To form our controls opinion in 2018-19 we planned and conducted our program from a whole-of-government perspective, rather than for every individual agency. Our program is designed to review controls over areas of most quantitative and qualitative significance for the whole of government. This change means we no longer issue individual controls opinions as we are not auditing with that individual focus.

Through this, our other responsibilities to audit each set of agency financial statements, and some of our performance audits, we can comprehensively cover individual agency controls. This will be performed sufficiently regularly to inform Parliament when needed.

We changed our approach to allow for greater focus of our resources on the areas we consider more significant and where there are greater consequential risks for the expenditure of public funds.

3 Coverage

This section explains our areas of focus in 2018-19 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, as part of our financial audits, to gain an understanding of the control environment of each agency and, where appropriate, to test controls. Any matters we identified through those audits were communicated to the relevant agencies. The more significant findings for the agencies included in this Report are discussed in Part C. We will release a separate report on the outcomes of our financial audits for the agencies that are not included in this Report.

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

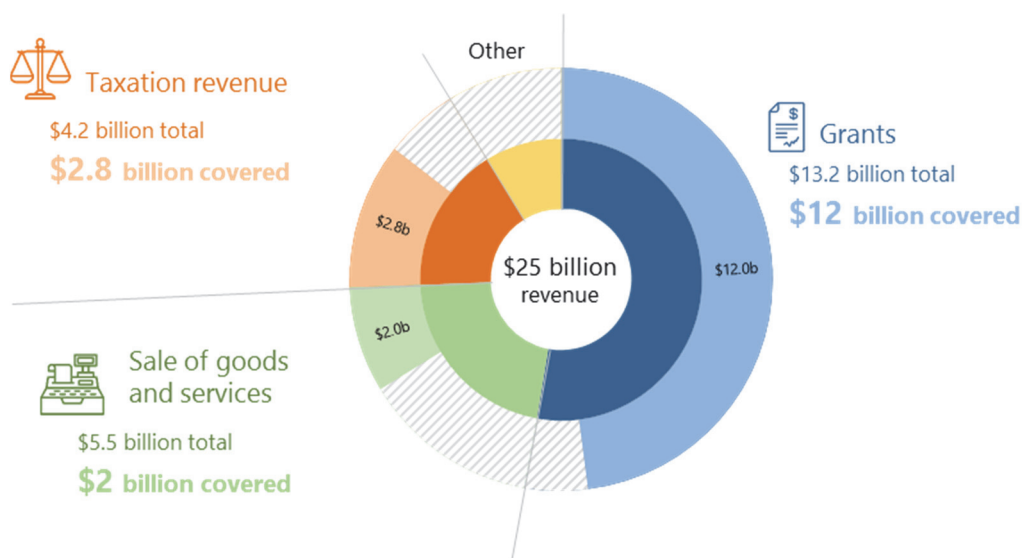
3.1 Revenue coverage

The agencies we audit receive over \$25 billion each year. Applying sound financial management practices and complying with legislation in the receipt of this money is fundamental to these agencies being able to deliver their outcomes.

We reviewed revenue across the agencies we audit and applied our quantitative and qualitative factors to identify where we would focus our 2018-19 controls opinion work.

Overall, we reviewed selected controls over \$17 billion of revenue transactions. Figure 3.1 shows our coverage across the different types of revenue.

Figure 3.1: Revenue coverage in 2018-19



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

3.1.1 Key areas of coverage

Taxation revenue: \$2.8 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 of Planning, Transport and Infrastructure (DPTI).

Grant revenue: \$12 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 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.

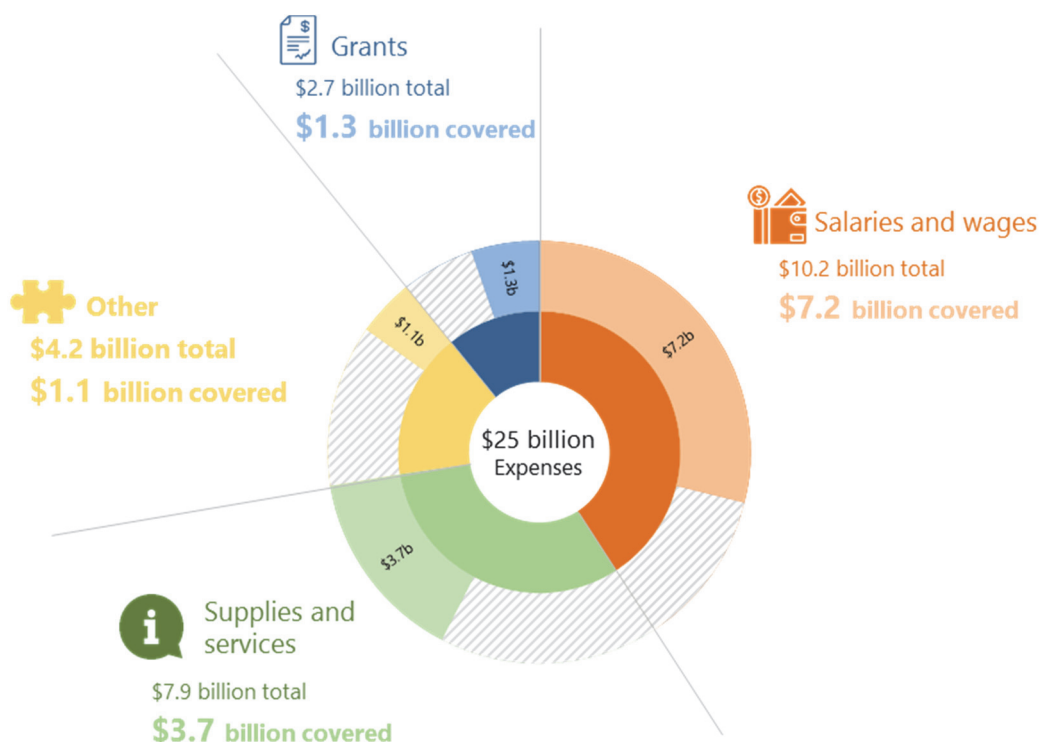
3.2 Expenditure coverage

In 2018-19 the agencies we audit spent over \$25 billion. Applying sound financial management practices to this expenditure and ensuring it is spent in accordance with the law is significant to these agencies being able to deliver their outcomes.

We reviewed expenditure across the agencies we audit and applied our quantitative and qualitative factors to identify where we would focus our 2018-19 controls opinion work.

Overall, we reviewed selected controls over \$13 billion of expenditure transactions. Figure 3.2 shows our coverage across the different types of expenditure.

Figure 3.2: Expenditure coverage in 2018-19



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

3.2.1 Key areas of coverage

Supplies and services: \$3.7 billion reviewed

We reviewed selected controls over supplies and services expenditure transactions at:

- SA Health – DHW, CALHN, SALHN, NALHN and CHSALHN
- Department for Education
- DPTI.

In addition to this specific work, we reviewed selected controls at Shared Services SA (SSSA) over processing invoices on behalf of a large number of agencies.

Our review focused on

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

Procurement and contract management – sound procurement practices are fundamental to financial management, increasing the confidence that procurements will achieve value for money, will be conducted ethically and will have an appropriate level of probity, accountability and transparency. Sound contract management is critical to agencies achieving their objectives. It ensures agencies are paying for supplies and services that are meeting expectations and achieving value for money.

Salaries and wages: \$7.2 billion reviewed

\$10 billion of salaries and wages are paid annually across the agencies we audit, to over 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, NALHN and CHSALHN

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

Our review focused on

- Workforce planning – adequate planning supports agencies in achieving their objectives while helping to plan for future business needs. It helps mitigate increased costs associated with temporary staffing solutions.
- Performance management processes – effective performance management systems ensure employees are aware of their expected performance standards and whether they are achieving them. Active management of performance supports agencies in achieving their objectives.
- Hiring processes including employment screening checks – adequate checks during the hiring process and subsequent monitoring ensure agencies comply with relevant legislation, lessening risk to staff and the public.
- Review of payroll reports – effective reviews of key payroll reports reduce the risk that payments are made at incorrect rates, for work not performed and that leave is incorrectly or incompletely recorded resulting in potential financial loss to the agency.

Interest expenses: \$1.1 billion reviewed

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

Grant expenses: \$1.3 billion reviewed

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

Maintenance expenditure: \$289 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 included:

- Department for Education
- DPTI
- SA Health – CALHN, SALHN and NALHN.

As part of this review we considered how DPTI manages its contract with Spotless for the provision of maintenance services across northern and central regions.

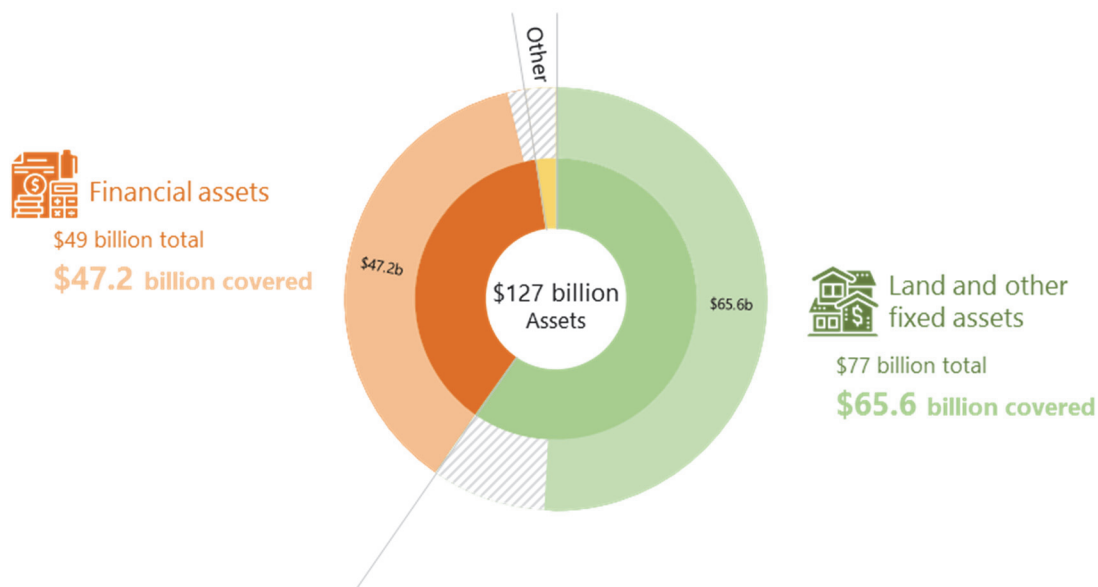
3.3 Asset coverage

The agencies we audit have assets worth more than \$127 billion. Applying sound financial management practices in the investment of money and acquisition and disposal of assets and ensuring it is performed in line with the law is fundamental to these agencies delivering their outcomes.

We reviewed asset balances held and applied our quantitative and qualitative factors to identify the agencies and balances we would audit for the 2018-19 controls opinion.

Overall, we reviewed selected controls over \$113 billion of assets. Figure 3.3 shows our coverage across the different types of assets held.

Figure 3.3: Asset coverage in 2018-19



3.3.1 Key areas of coverage

Land: \$9.4 billion reviewed

We reviewed selected controls over land assets at:

- South Australian Housing Trust
- Department for Environment and Water
- DPTI
- Department for Education.

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:
\$774 million reviewed**

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

**Investment properties:
\$707 million reviewed**

We reviewed selected controls over the Urban Renewal Authority's processes to ensure sound planning for the acquisition, use and sale of investment properties and processes to ensure it properly discharged its contractual obligations.

**Inventories:
\$247 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, development and disposal of land inventories, procurement and contract management processes for the development of land and the associated compliance with legislative requirements.

**Loans and advances:
\$2.2 billion reviewed**

We reviewed selected controls at HomeStart Finance over issuing and approving loans and advances in line with policies, procedures and legislative requirements.

**Investments:
\$45 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.

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 organisations.

We have not listed the Public Trustee's investments 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 SAFA, Funds SA and RTWSA.

Asset management

Infrastructure assets: \$37 billion reviewed

Buildings and improvements: \$17 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, or the State's development, and the needs of the public.

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

- DPTI
- Department for Education
- SA Health – DHW, CALHN and SALHN
- Department for Correctional Services
- SA Water
- South Australian Housing Trust
- Adelaide Venue Management Corporation
- University of Adelaide
- Flinders University
- University of South Australia.

We evaluated agency asset management practices using the DPTI developed *Strategic Asset Management Framework* (SAMF) as guidance. It aligns with a recognised best practice approach – the International Standard on asset management (ISO 55000). We also used guidance on the application of the Standard provided by the Institute of Public Works Australasia in its *International Infrastructure Management Manual*.

For 2018-19 the focus of our controls work over asset management was that:

- governance arrangements were in place
- levels of service from assets were managed
- asset condition monitoring was occurring.



The link between this work and the expenditure controls opinion program

We reviewed selected controls over maintenance expenditure managed under the AGFMA for several agencies listed in section 3.2.1.

We also reviewed the management of a sample of significant capital projects undertaken in 2018-19. Our focus was on project delivery, procurement and contract management practices and ensuring appropriate approvals were obtained at key stages of the project.



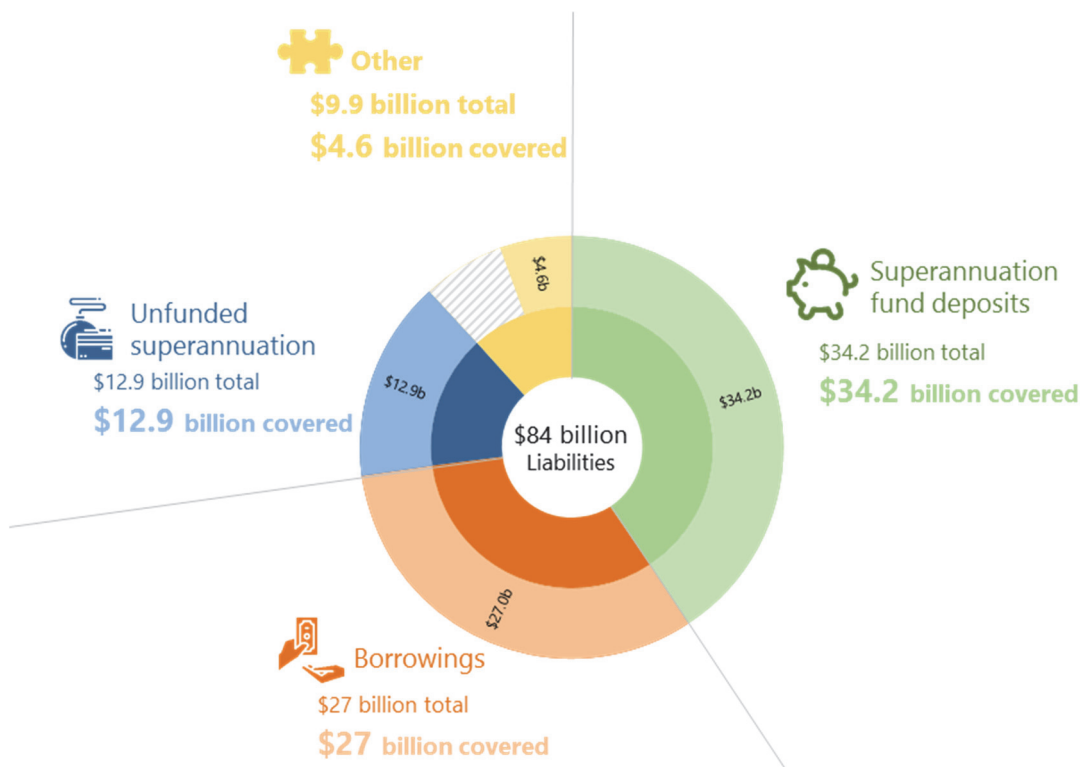
3.4 Liabilities coverage

The agencies we audit have over \$84 billion of liabilities. Applying sound financial management practices in the incurring and management of 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 2018-19 controls opinion.

Overall, we reviewed selected controls over \$79 billion of liabilities. Figure 3.4 shows our coverage across the different types of liabilities held.

Figure 3.4: Liabilities coverage in 2018-19



3.4.1 Key areas of coverage

Borrowings: \$27 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 its borrowings, including ensuring that proper approvals are given for new borrowings and that monitoring and risk management processes are in place to ensure borrowings remained within approved limits.

We also considered those same controls over borrowings at HomeStart Finance, the Urban Renewal Authority and SA Water.

We reviewed selected controls over financial lease payments and changes to repayment schedules at CALHN for the finance lease with Celsus for the new RAH.

**Superannuation fund deposits:
\$34.2 billion reviewed**

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

**Unfunded superannuation liability:
\$12.9 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:
\$702 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:
\$3.9 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 Motor Accident Commission over the acceptance and payment of claims.

3.5 Treasurer's Statements

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

Our audit program included reviewing 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 (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 accounts operated only in line with approved purposes and that the agencies 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 and other (non-controls opinion) matters we identified through our audits are provided in our commentary on individual agencies in Part C of this Report.

4.1 Asset management – Infrastructure, buildings and improvements

4.1.1 Summary of findings

What we found

Our audit of asset management over infrastructure, buildings and improvements at AGFMA participating agencies found:

- the absence of asset management policies and plans
- instances where asset condition assessments were not always performed, not always adequately performed or performed but not always used for asset management planning purposes
- instances where asset data did not meet the minimum data requirements of Department of the Premier and Cabinet Circular PC114 *Government Real Property Management* (PC114).

Our audit of asset management over infrastructure, buildings and improvements at non-AGFMA participating agencies found:

- opportunities to improve asset management policies and plans
- examples where establishing and measuring levels of service could be improved
- examples of inaccurate asset details in registers
- an instance where an agency was still in the process of assessing the condition of its housing stock
- opportunities to improve the oversight of assets under contractual arrangements
- an instance where the review of long-term maintenance plans for one significant asset needed to improve.

What public authorities should do

AGFMA participating agencies should:

- revisit/establish 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 relating to asset management and provide them with adequate training
- review all assets to ensure adequate condition assessments have been performed and that this information is documented and available for consideration when the agency is preparing its asset management plans (this may require consultation with a facilities services provider)
- consider the minimum asset data requirements of PC114 and revisit their records to ensure they comply (this may require consultation with a facilities services provider). They should ensure this data is used to inform agency asset management plans
- liaise with DPTI to establish asset records in SAMIS (asset hierarchies) that support asset condition reporting.

Non-AGFMA participating agencies should:

- revisit their asset management policies and plans to ensure they are current and that asset management objectives are defined and assigned time frames to be achieved where needed, and that they can be measured and tracked
- clearly communicate to staff their roles and responsibilities relating to asset management and provide them with adequate training
- ensure controls are in place over the accuracy of asset registers
- ensure condition assessments are performed
- ensure adequate monitoring controls are in place for assets managed under contractual arrangements.

4.1.2 Background

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

Asset management was a key focus for our controls opinion audit in 2018-19. 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. Asset management

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 DPTI's SAMF (developed to support the AGFMA) as guidance. It is aligned to the recognised best practice approach – the International Standard on asset management (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 took into account each agency's size, operations and complexity when reviewing their practices against these guidelines.

The AGFMA participating agencies we audited included the Department for Education, SA Health and the Department for Correctional Services. The non-AGFMA participating agencies we audited included SA Water, DPTI, the South Australian Housing Trust and the Urban Renewal Authority.

Our findings are discussed in the following sections. We also noted some matters relating to assets managed under contractual arrangements. These are discussed in section 4.5.

4.1.3 Governance arrangements need to improve

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 documents are described in DPTI's guidance in the SAMF on what is an expected level of asset management planning.

4.1.3.1 AGFMA participating agencies

We found that several of the AGFMA participating agencies we reviewed did not have documented policies and plans that addressed:

- the principles they intended to apply to asset management to achieve their organisational objectives (asset management policy)
- their asset management objectives, practices and action plans for asset management improvement (asset management strategy)
- their approach to implementing their asset management strategies (asset management plan).

4.1.3.2 Non-AGFMA participating agencies

We identified opportunities for agencies that had documented asset management policies and plans to improve them. These included:

- updating planning documents promptly when asset portfolios change
- ensuring that targeted levels of asset management maturity are achieved
- reporting asset management performance to select governing groups
- defining time frames for achieving asset management objectives or key performance indicators to measure progress
- considering key internal and external factors impacting on asset management.

4.1.4 Property condition assessments were not performed or were performed but not used for asset management planning purposes

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.

4.1.4.1 AGFMA participating agencies

We found that several of the AGFMA participating agencies we reviewed were not satisfied with the condition reporting they were receiving, if any, from their facilities services provider. We found some agencies were bringing in consultants to perform assessments, at an additional cost to the agency. These assessments were then only for the agency's use and were not used for maintenance planning under the AGFMA.

Other agencies received condition assessment reports from their facility services provider that they did not find useful, and were not using them for asset management planning.

One agency could not produce any evidence that condition assessments had occurred.

4.1.4.2 Non-AGFMA participating agencies

We found that one non-AGFMA participating agency was still in the process of assessing the condition of its housing stock and this was not due to be completed until 2021.

4.1.5 The quality of asset data needs to improve

Asset data collection is critical to asset management. Without accurate and up-to-date information the integrity of asset management decision-making is compromised.

PC114 requires that agencies establish and maintain a regularly updated minimum property dataset for all their physical property assets. It also states that DPTI's Strategic Asset

Management Information System (SAMIS) is the preferred repository for this data for those agencies with significant non-residential built asset portfolios. For AGFMA participating agencies, the facilities services providers are required to update SAMIS for information about the checks they perform on agency assets.

4.1.5.1 AGFMA participating agencies

We found instances where the asset data maintained in internal records by some AGFMA participating agencies did not meet the minimum property dataset requirements of PC114. In these instances the agencies advised that the records in SAMIS, maintained by their facilities services providers, were not used.

4.1.5.2 Non-AGFMA participating agencies

We identified examples of inaccurate details being recorded in an infrastructure asset register maintained by one non-AGFMA participating agency we audited.

4.2 Across government facilities management arrangements

4.2.1 Summary of findings

What we found

Our audit of the AGFMA found that it is not operating as intended. We found that:

- governance arrangements to support the AGFMA need to improve
- while guidance has been developed to help agencies fully understand the AGFMA, agencies have found this guidance unhelpful, meaning that roles and responsibilities are not clearly allocated, understood and met
- asset condition monitoring and reporting is not adequately performed
- asset data collection is insufficient, impacting its usefulness in asset management decisions
- controls are not adequate to provide assurance that only qualified subcontractors are used
- significant payments were automatically approved for maintenance expenditure incurred at one agency.

It is clear that controls to ensure the AGFMA arrangements achieve the desired outcomes are not operating as intended. When combined with our findings in section 4.1 relating to asset management at several AGFMA participating agencies, the depth of the problem is apparent and there are clear opportunities to improve the effective management of the State's assets.

What public authorities should do

The AGFMA is complex.

Services are performed in at least 30 participating agencies at locations across the State. They are delivered by two facilities management (FM) service providers (including an external provider) and most work is performed by subcontractors engaged by these providers.

The AGFMA's success depends on all stakeholders understanding their responsibilities, implementing processes to meet these responsibilities, actively managing the services provided by the FM service providers and their subcontractors, and ensuring that asset information is properly maintained across multiple IT systems.

DPTI is the lead agency for the AGFMA. It has a key role in managing these arrangements in conjunction with the participating agencies. It is important that DPTI and all participating agencies consider these findings and take steps to address them to enable the AGFMA to achieve its objectives.

In response to the issues we raised directly with DPTI, it advised that it has an AGFMA program that is currently considering improvements, including changes to:

- governance controls including monitoring and reporting
- asset data management and systems
- controls over asset condition monitoring.

While this program is underway, AGFMA participating agencies should:

- actively work with DPTI 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.

4.2.2 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, manage risk and maintain public records of work performed. Over 30 agencies participate in the AGFMA.

In 2018-19 the value of services provided under the AGFMA was \$289 million and they were provided by two FM service providers:

- Spotless, as an outsourced contractor for the Central and Northern Adelaide service regions (\$152 million), under a detailed contract

- DPTI's Facilities Services, mainly for the Southern Adelaide region and Country South Australian service regions (\$137 million), which is self-governing and operates under a services framework.

Both the Spotless contract and the DPTI services framework aim to provide a similar service to AGFMA participating agencies.

DPTI administers the AGFMA. Its role as administrator includes:

- providing IT support systems
- auditing FM service provider performance
- managing the outsourced contractor (Spotless)
- assisting agencies in the annual planning process
- providing information to assist with legislative compliance
- managing systems and payments
- ongoing development and refinement of the AGFMA
- coordinating and resolving disputes
- managing relevant work health and safety responsibilities.

AGFMA participating agencies are responsible for:

- managing their designated locations, which includes portfolio and asset planning, specifying service needs and detailed statements of requirements
- confirming the annual works program and budget
- issuing work requests
- verifying completion of work and FM service provider payment claims, and managing the funds allocated to works
- managing agency specific work health and safety responsibilities.

We included the AGFMA in our 2018-19 controls opinion audit program due to its significance in terms of the large maintenance expenditure incurred by agencies, the value of assets maintained and the number of participating agencies.

Our 2018-19 audit of the AGFMA focused on DPTI's controls for governance, contract management, asset data collection, asset condition monitoring, subcontractor accreditation and IT user access controls. We also considered controls at selected participating agencies relating to their responsibilities for governance, asset data collection and asset condition monitoring.

Further detail on the AGFMA arrangements and the roles of stakeholders is provided in Part C of this Report in the section titled 'Department of Planning, Transport and Infrastructure'.

4.2.3 Governance arrangements

We reviewed governance arrangements supporting the AGFMA. These include reporting to the Facilities Management Governance Group, roles and responsibilities of stakeholders, and documents governing the arrangements with FM services providers and the key controls in place to manage and monitor them.

We found that:

- DPTI provides agencies with Service Level Guidelines. However, it does not enter into signed service level agreements (or similar) with AGFMA participating agencies, detailing their respective roles and responsibilities. Our review of asset management practices across SA Government in 2018-19 found that agencies are unclear about their roles and responsibilities under the AGFMA. In my opinion, expecting all participants to sign service level agreements will strengthen their engagement and understanding and increase the likelihood of the AGFMA's success
- information available to AGFMA participating agencies does not clarify their responsibilities for asset data and monitoring the work performed by the two FM service providers
- DPTI's contract management plan for the outsourced contractor's obligations and service delivery does not address the contractor's obligations for asset inspections and condition assessments, and there were no other controls implemented to ensure that asset inspections and condition assessments were performed
- DPTI is not actively monitoring the performance of the Facilities Services unit to ensure that it is meeting its responsibilities under the services framework
- independent audits to ensure charges for work performed by the FM providers are accurate and valid did not include all types of work performed and did not assess the procurement process
- the Facilities Management Governance Group was not provided with some information on the performance of the two FM service providers in 2018-19.

Our audits of selected AGFMA participating agencies found several had not established asset management policies and plans (refer section 4.1.3). The SAMF recommends that agencies establish appropriate governance frameworks to support the management of assets in their direct control, taking into account the AGFMA governance framework and other management frameworks. This is important as decisions about agency assets should be driven by the policies and plans of the agency who controls them. These policies and plans would be linked to agency objectives and would be critical to achieving them. Without that direction at an agency level it would be difficult for the AGFMA to achieve its objectives.

There is no mandatory framework in South Australia for managing public sector assets. The SAMF is not mandatory and only covers buildings. Some other jurisdictions have asset management frameworks that establish minimum standards for sound public sector asset management.

4.2.4 Asset condition monitoring and reporting is not adequately performed

Asset condition monitoring is fundamental to any condition-based asset management strategy and plan. The SAMF explains what a condition assessment should cover including a physical inspection, assessing condition, identifying any maintenance needed, ranking maintenance works and determining actions required to mitigate any immediate risks.

We considered whether the FM service providers were complying with AGFMA requirements for condition assessments on agency assets.

We found that:

- DPTI has not implemented effective controls to monitor the outsourced contractor's compliance with its contractual obligations to conduct condition assessments of nominated assets annually and prepare asset condition reports six-monthly
- the Facilities Services unit is not meeting its responsibility to provide agencies with asset condition reports every six months. We were advised that the unit is currently updating relevant systems with accurate and current asset data including condition ratings.

We reviewed selected AGFMA participating agencies to assess their understanding of the condition of their assets. We found several instances where agencies did not receive condition assessment reports, or received reports but did not find them useful and did not use them for asset management planning. We also identified instances where AGFMA participating agencies were using external consultants to perform condition assessments, incurring additional costs outside of the AGFMA (refer section 4.1.4).

4.2.5 Asset data collection is not meeting appropriate standards

Asset data collection is critical to asset management. Without accurate and up-to-date information the integrity of asset management decision-making is compromised.

PC114 requires that agencies establish and maintain a regularly updated minimum property dataset for all their physical property assets. It also states that DPTI's SAMIS is the preferred repository for this data for those agencies with significant non-residential built asset portfolios. The FM service providers are required to update SAMIS with asset data as work is performed.

We reviewed the asset data collection controls for the AGFMA. This included controls to ensure FM service providers were performing inspections and testing assets, and this was being updated to SAMIS. It also involved checking a sample of maintenance jobs to ensure data was updated in SAMIS.

We found that:

- in May 2018 DPTI noted that about 40% of participating agencies had established asset hierarchies in SAMIS. Asset hierarchies detail the specific location of agency assets – including site, building, level and room. Without this degree of specificity in asset information, FM service providers cannot provide a condition assessment (expected replacement date and cost). This information is important for effective asset management.

In addition to managing the AGFMA, DPTI provides an advisory service to government agencies on asset planning systems and frameworks. While we appreciate that it has made some effort to communicate the importance of this issue to agencies, given the importance of accurate SAMIS information for proper asset management planning a more substantial approach is needed

- neither FM service provider prepared an annual inspection, testing and audit plan for 2018-19. These plans are important for identifying the locations, buildings and assets that the FM service provider intends to physically inspect and assess each year
- DPTI has not established a control to ensure that the FM service providers are performing site inspections at designated locations at least once every three years
- audits of a small sample of maintenance jobs found that a significant amount of data had not been updated to SAMIS by the FM service providers.

Our audits of a selection of AGFMA participating agencies found instances where asset data collection did not meet the minimum data requirements of PC114. We found one agency that did not use the information updated in SAMIS by its FM service provider because the asset identifiers did not align to the agency's internal records, making it difficult to locate assets referred to by the FM service provider. We also found an agency that did not use the information in SAMIS but instead maintained its own spreadsheets (refer section 4.1.5).

4.2.6 Controls do not ensure only qualified subcontractors are used

To provide the services under the AGFMA there needs to be a high level of rigour in managing subcontractors. Agencies rely to varying degrees on subcontractors for AGFMA services. Subcontractors need access to government buildings and worksites, and work around public servants and the public. Performing maintenance activities has its own risks. If there are no effective controls in place to monitor that subcontractors are appropriately qualified, licensed and have the right clearances, the public is exposed to safety risk and the government is exposed to financial risk.

We found that DPTI has not implemented effective controls to ensure that subcontractors hold and maintain appropriate qualifications, licences and clearances. This included DPTI's controls over Spotless' use of subcontractors and the Facilities Services unit's controls to ensure subcontractor qualifications, licences and clearances remain valid.

4.3 Salaries and wages expenditure

4.3.1 Summary of findings

What we found

Our audit of controls over salaries and wages expenditure found:

- that performance management processes need to be consolidated and improved
- differing levels of workforce planning maturity
- that some key payroll processing controls need to improve.

What public authorities should do

They should:

- implement or improve their performance management systems to ensure staff are trained and understand their roles and responsibilities and whether they are meeting them, as well as managing staff that need to improve their performance
- implement or monitor workforce plans appropriate to the complexity, scope and nature of agency operations and ensure they align with the agency's objectives
- identify key risks in the payroll processing environment around validity, accuracy and completeness of payments and ensure they have implemented effectively designed controls to mitigate those risks.

4.3.2 Background

The largest type of expenditure incurred by the agencies we audit is salaries and wages. Collectively these agencies employ over 109 000 staff. They 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.

4.3.3 Performance management reviews need to improve

This year we chose to focus our attention on performance management systems implemented by agencies. Performance management is fundamental to ensuring that 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 by various requirements reinforcing 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 found that several agencies did not have current performance reviews for about half their staff. We also found that some agencies were not adequately monitoring staff identified as underperforming.

4.3.4 Differing levels of workforce planning maturity

We conducted a high-level review of agencies' workforce planning. 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 objectives or 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 workforce input in achieving objectives.

We found differing levels of maturity across the agencies we reviewed. All had elements of workforce planning in place, however some had not brought these elements together into consolidated workforce plans. We noted that, of those without a consolidated workforce plan, a number were actively working to implement one.

4.3.5 Some key payroll processing controls need to improve

Typical payroll processing environments include input (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 prior years we have reported, across several agencies, instances where these checks were not occurring as designed or where implementation of them did not meet management's expectations. In 2018-19 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 were not reviewed promptly
- medical rostering practices were inconsistent
- verification of certain allowances was not performed
- key steps in the payroll process did not happen in the right sequence, reducing the effectiveness of checks performed.

4.4 Procurement

4.4.1 Summary of findings

What we found

Our audit of a sample of supplies, services and asset procurements found:

- instances where agency procurement policies were not up to date or did not address key processes specific to the agency
- approvals required at key points of the procurement were, in some cases, not provided or were provided after the fact
- instances where there was a lack of comprehensive documentation supporting key steps in the procurement process, including some significant procurements with a high level of risk
- some missing key procurement records, including conflict of interest declarations and minutes of key meetings
- services commencing and/or payments made before a contract was signed
- inappropriate approval of direct negotiation procurements
- examples where significant use of a non-panel supplier occurred, with the exemption not approved as required by agency policy.

Several of these findings resulted in non-compliance with State Procurement Board policies and procedures or the agency's policies and procedures.

What public authorities should do

They should:

- ensure policies and procedures for procuring supplies, services and assets are clearly documented and communicated, and that staff adhere to them. Adequate training should be provided
- ensure appropriate approvals are obtained throughout the procurement process at the right stage by all relevant people in line with State Procurement Board or agency policies and procedures
- ensure adequate recordkeeping so that evidence of key decisions, approvals, etc is retained.

4.4.2 Background

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

Procurement practices should reflect public sector rules such as those established by the PFAA, *Public Sector Act 2009*, *State Procurement Act 2004* (SP Act), Department of the

Premier and Cabinet Circular PC028 *Construction Procurement policy: Project Implementation process* (PC028) and Treasurer's Instructions.

The SP Act provides the framework for procurement by public authorities (where the procurement is for a supply and service that is not a construction contract or grant, and where the agency is not a listed prescribed public authority). The objectives of the SP Act are to advance government priorities and objectives directed towards:

- obtaining value in the expenditure of public money
- providing for ethical and fair treatment of participants
- ensuring probity, accountability and transparency in procurement operations.

The State Procurement Board establishes policies and procedures to achieve the objectives of the SP Act.

Listed prescribed public authorities establish their own procurement frameworks (which generally apply the same principles as the SP Act) and for prescribed construction projects, PC028 applies (again adopting the same principles as the SP Act).

If procurements do not adhere to the objectives above, it can result in procurement that is too expensive, 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.

4.5 Contract management

4.5.1 Summary of findings

What we found

Our audit of a sample of contract and grant arrangements found:

- instances where agencies did not have a contract management policy or procedure
- instances where contract management plans were not developed, did not meet State Procurement Board requirements, did not address all key areas of contract management or were not used
- contract management did not always ensure all aspects of the arrangements were assessed through appropriate reporting or compliance activities such as key performance indicators and annual reviews
- contract management processes did not always demonstrate a clear understanding of risks to the agency and how they were mitigated
- some contract management systems/registers needed to be improved, did not include all contracts or did not always accurately reflect contract details
- records of key discussions, outcomes and events were not always kept or were not always comprehensive

- instances where the management of prequalified suppliers and contractors could be improved
- contracts were sometimes extended without appropriate checks of the supplier's performance
- some suppliers continued to provide services after their contracts expired, requiring retrospective approval under Treasurer's Instruction 8 *Financial Authorisations* (TI 8)
- some contract variations were not approved in line with TI 8
- one instance where services were extended beyond the scope of the contract with no formal variation
- prices charged under contract arrangements were not always checked to the contract before payments were made
- examples where grant expenditure paid to organisations was not monitored.

Some of these findings represent non-compliance with State Procurement Board policies and the agency's own policies and procedures.

These findings do not include the findings from our review of the AGFMA (refer section 4.2).

What public authorities should do

Regardless of the nature of the contract, it is important that agencies:

- have comprehensive policies and procedures that are communicated to staff and reflect contract management processes specific to the agency. These policies and procedures should reflect State Procurement Board requirements and other relevant guidelines
- understand the contracts they are party to, typically by having some form of contract register
- clearly communicate to staff, responsible for contract management, the expectations attached to their roles and support them with relevant training
- have contract management plans that accurately reflect the contract requirements, as well as meeting State Procurement Board requirements and other relevant guidelines
- identify and treat the risks associated with their contractual arrangements
- actively manage contract arrangements, ensuring deliverables occur as contracted and performance indicators or targets are actively monitored

- ensure 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
- have evidence to support their contract management activities (minutes of meetings, copies of correspondence, etc)
- ensure adequate monitoring controls are in place over grant expenditure provided to organisations.

I also reiterate the comments I made in my 2017-18 Annual Report about learnings from the UK's Carillion experience with outsourcing and contracting.² The Carillion failure was described as one of the biggest commercial challenges the UK Cabinet Office has ever faced and it reflected long-term failures in government understanding of the design, letting and management of contracts and outsourcing.

Given our 2018-19 findings I feel I need to reiterate that those responsible for contracting should very clearly understand the UK experience so that actions in this State will not expose anyone involved, particularly taxpayers and users of public services who do not have a choice, to unnecessary or unmanaged risk.

4.5.2 Background

Contracting by the SA Government takes a number of 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).

Contract management practices should reflect public sector rules such as those established by the PFAA, *Public Sector Act 2009*, SP Act, PC028 and Treasurer's Instructions.

Contract management is critical to achieving value-for-money outcomes while managing risks to the public authority. Managing supplies and services contracts should have regard to, and be consistent with, the objectives of the SP Act (where the supply and service is not a construction contract or grant, and where the agency is not a listed prescribed public authority). Listed prescribed public authorities establish their own contract management frameworks and PC028 applies to prescribed construction projects.

While the State Procurement Board establishes key requirements for contract management, Treasurer's Instruction 28 *Financial Management Compliance Program* also outlines expectations that chief executive's will ensure:

- contractor/supplier performance against orders, contracts, service level agreements (including services outsourced and Public Private Partnership contracts) or equivalent are regularly monitored and reviewed to ensure services are being received, and payments are made, in line with agreed arrangements

² Report 5 of 2018 *Annual report for the year ended 30 June 2018, Part A: Executive Summary*, section 1.4.

- reductions in payments (abatements) are promptly applied in line with contract documentation where abatable contract performance failures occur.

Our reviews identified the issues summarised in section 4.5.1. We noted some similar issues with the management of assets under contractual arrangements. Establishing oversight mechanisms for these arrangements such as committees, policies and plans to ensure contractual obligations are met helps to manage and monitor any risks to the agency's assets.

Grant agreements are also contracts and agencies should have appropriate monitoring processes in place to ensure grant funds are being spent in line with the terms of the agreement and that the funding is achieving its objective.

4.6 Delegations and approvals

4.6.1 Summary of findings

What we found

Our audit of controls over delegations and approvals found:

- reviews of some online delegation limits and user access to expenditure systems need to improve
- reviews of special delegations and manual payment reports were not always performed or not always performed promptly
- significant payments were automatically approved for some maintenance expenditure incurred at one agency.

What public authorities should do

They should:

- reinforce the importance of controls to monitor user access and online delegation limits set in financial systems
- revisit controls over the effective review of transactions processed outside the standard approval process, such as manual payments, and the use of special delegations
- monitor all automatic approval processes to ensure that there are adequate controls to confirm the validity and accuracy of the expenditure being incurred.

4.6.2 Background

Every year billions of dollars of public money is spent by public sector employees who have been given approval through a delegated authority to transact on behalf of a public authority. Delegated authority is a practical necessity to allow public authorities to meet operational and business requirements effectively and efficiently.

Individual transactions can commit public money to individually high amounts or accumulating commitments over many years, whether for ongoing employees – the largest part of government spending – or contracts for goods or 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. 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 and is not in the public interest.

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*, SP Act and Treasurer's Instructions. The consequences of deliberately misapplying delegated authorities are potentially severe for individuals.

4.6.3 Reviews of online delegation limits and user access need to improve

Online payment systems are the main systems used for transactions in the South Australian public sector. They provide access and use financial limits that restrict users to transactions within their approved delegations.

The limits set for users in payment systems should be the same as, or lower than, the financial delegations that individuals hold. However, the processes to manage financial delegations and update payment systems are often quite separate.

Consequently, agencies review approved delegations against online systems to ensure they are correct. If these reviews are not performed properly, it increases the risk that transactions may not be approved in line with legal delegations of authority. Consistent with prior years we found these reviews required improvement. We found instances where the reviews were not always performed or not always performed promptly. We also found an example where the report used to perform the review had weaknesses in its design.

4.6.4 Reviews of special delegation and manual payments need to improve

There are times when, for practical necessity, an employee needs to have a higher delegation in the payment system than their approved delegation. This is generally where higher level management authorises transactions manually and another officer approves them in the system. The use of these delegations increases the risk that payments are approved outside of delegated limits.

At other times manual payments are processed outside of the standard processing environment, therefore bypassing system controls. This may be a practical necessity at times. We find, however, there are payments of a significant value across government processed by this method. This increases the risk of duplicate payments if they are processed using the standard process and through the manual method, as well as the risk of inappropriate approval due to bypassing the online delegation limits and other controls.

To ensure these types of transactions are properly authorised and valid, agencies review reports. Consistent with prior years we found these reviews required improvement. We found instances where the reviews were not always performed or not always performed promptly.

4.7 Other accounts payable matters

4.7.1 Summary of findings

What we found

Our audit of other accounts payable controls found:

- opportunities to strengthen controls over changes to vendor master details
- instances where purchase orders were not used when required by agency policies and procedures
- instances where significant expenditure was incurred but no contract was established.

What public authorities should do

They should:

- ensure controls are in place to check the accuracy and validity of all key changes to vendor master details
- reinforce where purchase orders are required under agency policies and procedures
- review significant expenditure with specific vendors and investigate opportunities to establish formal contractual arrangements
- ensure staff are aware of their roles and responsibilities and are provided with relevant training.

4.7.2 Background

Each year thousands of invoices are processed 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.

One area of focus in mitigating fraud is verifying key changes to vendor master details in the system. It is good practice to confirm any changes to vendor bank details by calling a number listed on a supplier’s official website to ensure the change is genuine. If this verification process does not occur there is a risk that payments may be made into the incorrect bank account. The cost of recovering the money, if this is even possible, can be high.

Another key step in the accounts payable process is agreeing invoices back to purchase orders raised. If purchase orders are not raised when required it may be difficult for an agency to manage its commitments.

All agencies will deal with some suppliers regularly for day-to-day goods and services. Establishing contracts for significant 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 accordingly to ensure the goods and services are available. Establishing contracts provides a basis for measuring performance, enabling agencies to have certainty over what they receive.

4.8 Asset acquisition – Project delivery and management of construction projects

4.8.1 Summary of findings

What we found

Our audits of agencies undertaking construction works found:

- opportunities to improve project management practices, including updating policies to incorporate key reviews and approvals
- an instance where a project was not referred to the Public Works Committee prior to works commencing.

What public authorities should do

They should:

- revisit their policies to ensure key reviews and approvals throughout project management processes are documented, and that staff understand their roles and responsibilities through relevant training
- ensure they comply with legislative requirements.

4.8.2 Background

Each year the agencies we audit undertake significant construction projects. Most of these projects are undertaken by agencies with relevant expertise. The SA Government's infrastructure agency, DPTI, is responsible for managing construction projects in the civil and building (commercial) construction sectors. South Australian Housing Trust and the Urban Renewal Authority are prescribed public authorities under the SP Act and regulations. They are also infrastructure agencies, having the expertise to undertake construction projects in the residential and land development sectors.

Construction projects should comply with public sector rules such as those established by the PFAA, DPC Circulars and Treasurer's Instructions.

In 2018-19 we reviewed selected controls over aspects of infrastructure planning and investment, project delivery and management.

As well as our findings in section 4.8.1, we noted specific matters in individual procurements and contract management arrangements for the construction projects we sampled. For findings relating to procurements see section 4.4 and contract management see section 4.5.

4.9 Revenue

The agencies we audit receive over \$25 billion of revenue annually. The types of revenue received include taxation, grants and 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. Our work reinforced that agencies should have processes to ensure they understand what they should be billing and that they are billing it correctly. The consequence of not implementing controls to ensure the completeness of revenue is that the agency may not receive all the money it should.

4.10 Special deposit and deposit accounts

Special deposit and deposit accounts are established under the PFAA. The establishment and purpose of the 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. We identified some isolated instances where agencies could improve their management of deposit accounts, including that:

- bank reconciliations should be performed monthly in line with Treasurer's Instructions
- unmatched reconciling items should be rectified promptly
- special deposit and deposit accounts should only be used for approved purposes.

Appendix 1 – Acronyms and abbreviations

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
CHSALHN	Country Health SA Local Health Network Incorporated
DHW	Department for Health and Wellbeing
DPC	Department of the Premier and Cabinet
DPTI	Department of Planning, Transport and Infrastructure
DTF	Department of Treasury and Finance
FM	Facilities management
Funds SA	Superannuation Funds Management Corporation of South Australia
NALHN	Northern Adelaide Local Health Network Incorporated
PC028	Department of the Premier and Cabinet Circular PC028 <i>Construction Procurement policy: Project Implementation process</i>
PC114	Department of the Premier and Cabinet Circular PC114 <i>Government Real Property Management</i>
PFAA	<i>Public Finance and Audit Act 1987</i>
RAH	Royal Adelaide Hospital
RTWSA	Return to Work Corporation of South Australia
SA Health	Department for Health and Wellbeing as associated local health networks
SA Water	South Australian Water Corporation
SAFA	South Australian Government Financing Authority
SALHN	Southern Adelaide Local Health Network Incorporated
SAMF	Strategic Asset Management Framework
SAMIS	Strategic Asset Management Information System
SP Act	<i>State Procurement Act 2004</i>
SSSA	Shared Services SA
TI 8	Treasurer's Instruction 8 <i>Financial Authorisations</i>

