Western Australian Auditor General's Report

# Audit Results Report

## Annual 2013-14 Financial Audits

Report 18: November 2014

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ISSN: 2200-1913

WESTERN AUSTRALIAN AUDITOR GENERAL'S REPORT

# Audit Results Report

## Annual 2013-14 Financial Audits

Report 18
November 2014

**THE PRESIDENT**
**LEGISLATIVE COUNCIL**

**THE SPEAKER**
**LEGISLATIVE ASSEMBLY**

## AUDIT RESULTS REPORT – ANNUAL 2013-14 FINANCIAL AUDITS

This report under section 24 of the *Auditor General Act 2006* (AG Act) covers 2013-14 financial audit activity to 3 November 2014 and includes:

- opinions and results of audits on the controls, financial statements and key performance indicators (KPIs) of departments, statutory authorities and subsidiary bodies with reporting dates primarily on 30 June 2014
- opinions and results of audits of corporatised bodies reporting under their enabling legislation and other entities audited as requested by the Treasurer
- audit certifications of financial and statistical information produced by agencies to discharge conditions of Commonwealth funding, grants, royalties for regions funding agreements and other legislation
- issues identified during the 2013-14 audits which are significant enough to bring to the attention of Parliament relating to the Annual Report on State Finances and operations of individual agencies.

COLIN MURPHY
AUDITOR GENERAL
12 November 2014

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# Auditor General's Overview

This report summarises the results of the annual audits of agencies for the year-ending 30 June 2014.

Eight agencies received qualified audit opinions on their financial statements, controls or key performance indicators, a similar number to the previous year. However, there was a moderate increase in the number of financial control weaknesses reported to management for corrective action, including an increase in the number that we rated as significant.

This year I have reported for the first time on the value of financial statement errors that we identified in the balance sheets and income statements of agencies during the audit process. Some errors will always occur but the number and their value was disappointing. We expect agencies to improve their processes to minimise errors, as late identification of errors reduces the accuracy of government's ongoing predictions of estimated outturns.

This report also includes items on agency progress in managing the State's leave liability, on serious financial system inaccuracies that three agencies experienced after they exited from the Government's shared services centre, and on the need for agencies to comply with regulations for voluntary redundancy payments.

I have previously expressed the view that small agencies could reduce unnecessary detail in their financial statements without compromising their provision of high quality reports. Sixty-three agencies together account for only one per cent of total operating expenditure of government agencies. If these agencies can be freed from complying with the same detailed disclosure requirements as Australia's largest not-for-profit government agencies and companies, significant cost savings can be achieved. In addition, finance staff would be freed-up to focus on more value-adding responsibilities.

The report also includes brief detail on selected significant agency transactions that we noted during our audits. Although some of this information may already have been reported in individual annual reports, we have included it here in a single report for the convenience of Parliament. We have also supplemented the information contained within the Annual Report on State Finances with other high level information that some readers might find useful.

# Executive Summary

This report contains the results of annual financial audits of agencies mainly with a 30 June 2014 reporting date.

## Key Findings

### Audit Opinions (Page 8)

- *158 audit opinions were issued by 3 November 2014 relating to the 2013-14 financial year. Two hundred and two certifications were also issued.*
- *Readers were alerted, through qualified audit opinions, to inaccuracies or deficiencies in the audited financial statements or KPIs presented in the annual reports of agencies tabled in Parliament, or to control weaknesses at the following agencies (details commence on page 9):*
  - *Department of Agriculture and Food*
  - *Department of Corrective Services*
  - *Department of Fisheries*
  - *Department of Local Government and Communities*
  - *Legal Contribution Trust*
  - *Metropolitan Public Hospitals*
  - *Office of the Environmental Protection Authority*
  - *Western Australian Greyhound Racing Association.*
- *Matter of Significance paragraphs were issued with the audit opinions of the three agencies listed below. Although qualified opinions were not warranted, these paragraphs drew users' attention to significant matters in relation to the financial statements or KPIs.* (Page 11)
  - *Department of Agriculture and Food*
  - *Metropolitan Public Hospitals*
  - *WA Country Health Service.*
- *Qualified certification reports were issued to the Electricity Generation and Retail Corporation and the Coal Industry Superannuation Board.* (Page 13)

### Financial Reporting and Audit Issues (Page 23)

- *We identified errors totalling many hundreds of millions of dollars during our audit of agencies' financial statements. The breadth and magnitude of errors leaves us concerned about the reliability of financial management information in some agencies and that management may be misinformed about their agency's true financial position. Because these errors were not identified by agencies themselves during the year, the net impact of these adjustments ($69 million) on the overall State surplus was only recognised and made after year-end.*
- *The State's total leave liabilities increased at a slower rate than recent years, but agencies need to continue their efforts and/or do more to reduce their leave liabilities.*

- *The decommissioning of the Office of Shared Services was completed with most agencies successfully implementing replacement systems and processes. However a few agencies experienced significant problems, with three receiving a qualified opinion on their financial controls, and one of these being unable to complete its financial statements and table its annual report within the statutory timeframe.*
- *Inconsistent methods were used for calculating redundancy payments. The overall cost to the State could have been lower if written notice to employees had been correctly made in a timely manner.*
- *Tabling of annual Statements of Corporate Intent (SCI) after the commencement of the financial year to which they relate continues. Four 2014-15 SCIs were tabled by 30 June 2014 and a further six were tabled by 30 September 2014. Currently eight are yet to be tabled and so are not available for scrutiny by Parliament.*
- *There is a need to consider reducing the financial reporting and auditing requirements of small agencies. Sixty-three agencies in total account for less than one per cent of the State's expenditure and yet they are required to prepare the same voluminous financial statements as Australia's largest government agencies and not-for-profit organisations.*

## Annual Report on State Finances (Page 33)

- *The Annual Report on State Finances (ARSF) was tabled on 23 September 2014. In this report we have supplemented the information contained within the ARSF with other information that some readers might find useful.*

## Selected Significant Financial Transactions and Financial Ratios (Page 37)

- *Selected significant financial transactions of agencies noted during our audits and key financial ratios and information that are commonly used for assessing financial performance are summarised in this report for the convenience of Parliament.*

## Management Issues (Page 15)

- *474 financial and management control weaknesses were reported in 2013-14 with 21 per cent unresolved from the previous year. There was an increase in the number of significant issues reported to management.*
- *301 information system control weaknesses were identified. The majority are simple to fix but if not resolved they will leave agencies vulnerable to security incidents and disruptions to systems.*
- *Several qualified KPI opinions were removed in 2013-14 and less KPI shortcomings were reported to agencies than in prior years.*

## Quality and Timeliness of Reporting (Page 44)

- *63 per cent of agencies demonstrated efficiency in their year-end financial reporting processes by being audit ready within 20 days of year-end – a substantial improvement on the prior year and a continuation of a strong positive trend.*
- *The top 40 'Best Practice' agencies across two categories are acknowledged for timeliness in their financial reporting, good financial controls and reporting practices.*

## Recommendations

1. Agencies should continuously maintain the integrity of their financial control environment. This should include:
   - periodic review and updating of all financial, asset, human resource and other policies by management and communicating these policies to staff
   - ensuring that there is ongoing review and improvement of internal control systems
   - ongoing monitoring of staff compliance with relevant legislation and instructions
   - promptly addressing control weaknesses brought to their attention by our audits.

   (Page 19)

2. All agencies should review their KPIs on a periodic basis to ensure that they remain relevant, appropriate and fairly present performance against realistic targets. (Page 22)

3. Agencies should continue to manage their annual and long service leave liabilities. (Page 25)

4. Agencies should comply with all legislative requirements in relation to employee severance payouts. (Page 27)

5. Guidelines on the extinguishing of inter-agency debts should be enhanced to provide greater transparency and accountability. (Page 27)

6. Statements of Corporate Intent should be tabled within timeframes required by the relevant legislation. In addition, the Department of Treasury should finalise its review of the SCI process in time for new procedures to be implemented for the 2015-16 SCIs. (Page 30)

7. Strong consideration should be given to reducing the financial reporting requirements of small agencies. (Page 32)

# Audit Opinions

- **158 audit opinions were issued by 3 November 2014 relating to the 2013-14 financial year. Two hundred and two certifications were also issued.**
- **Eight agencies received qualified audit opinions and three agencies had matter of significance paragraphs included in their audit opinions.**
- **Two agencies received qualified certification reports.**

## Introduction

The *Financial Management Act 2006* (FM Act) governs financial accountability of most agencies while the *Auditor General Act 2006* (AG Act) governs the activities and role of the Auditor General.

The Auditor General is required to issue an opinion to the responsible Minister for each agency audited. The opinion will relate to the financial statements and, depending on each agency's enabling legislation, may also relate to controls and key performance indicators (KPIs):

- financial statements – assurance that the financial statements and supporting notes are materially complete, accurate, reliable and comply with relevant legislation and applicable accounting standards
- controls – assurance that the internal control systems and procedures, manual and computerised, are adequate and ensure that financial transactions comply with legislative requirements
- KPIs – assurance that the KPIs are relevant, appropriate, based on reliable data and fairly present the performance of the agency in achieving its desired outcomes.

It should be noted that the audit opinions relate to historical information reported in the financial statements and KPIs and are not predictive of future expectations.

## Summary of Audit Opinions

At 3 November 2014, 158 audit opinions had been issued, primarily for agencies with financial periods ending on 30 June 2014. Appendix 1, commencing on page 47, provides a listing of all audit opinions issued since 1 May 2014.

| Audit Opinion Issued On | Type of Agency | Number |
|---|---|---|
| Financial statements, controls and key performance indicators | Departments | 45 |
| | Statutory authorities | 84 |
| Financial statements only | Annual Report on State Finances | 1 |
| | Corporatised entities | 17 |
| | Subsidiary entities | 5 |
| | Cemetery boards | 1 |
| | Request audits | 5 |
| **TOTAL NUMBER OF AUDIT OPINIONS ISSUED** | | **158** |

**Table 1: Number and type of audit opinions issued between 1 May 2014 and 3 November 2014**

## Other Audit Services

In addition to opinions, 202 certifications were also issued. Two certifications received qualified opinions as detailed on page 13. Appendix 2 details the 29 audit certifications of financial and statistical information produced by agencies to discharge reporting obligations for Commonwealth funding, grants or other legislation and 173 Royalties for Regions program certifications issued up to 3 November 2014. (Appendix 2 commences on page 53.)

An agreed upon procedures engagement for the regulatory financial statements of the Electricity Networks Corporation (Western Power) for the year-ended 30 June 2014 was also completed. This report was prepared for submission to the Economic Regulation Authority.

## Qualified Opinions – Agencies

A qualified opinion alerts readers to inaccuracies or limitations in an agency's audited financial statements or KPIs presented in their annual report. Furthermore, a qualified opinion on controls is given when the auditor considers the financial control deficiency may impact on legislative compliance.

The following eight agencies received qualified opinions on their 2013-14 year-end reporting or controls.

- Department of Agriculture and Food
- Department of Corrective Services
- Department of Fisheries
- Department of Local Government and Communities
- Legal Contribution Trust
- Metropolitan Public Hospitals (The Minister for Health in his capacity as the Deemed Board of the Metropolitan Public Hospitals)
- Office of the Environmental Protection Authority
- Western Australian Greyhound Racing Association.

The full opinion appears in the annual report of each agency but details of each qualification are given below.

### Department of Agriculture and Food – Qualified opinion on controls

The controls associated with the Department's new financial management information system were inadequate to ensure the integrity of financial data. The new system was implemented on 1 August 2013 following roll-out from the shared services centre. Our tests of the system identified system reporting deficiencies, lack of reconciliations and that users had inappropriate system access capabilities. After year-end these control deficiencies were resolved and reconciliations completed. The Department undertook extensive testing of its transactions and user access logs to gain assurance that there was no adverse impact during the period that the financial controls were inadequate.

Further, during the 2013-14 financial year, the Department used restricted cash funds to meet operational needs.

## Department of Corrective Services – Qualified opinion on controls

Controls over payments processed at the Department's correctional facilities through a manual payment system were inadequate. The manual system was implemented as a temporary measure following the Department's roll-out from the shared services centre. We found that payee and payment details could be modified without detection and there was no segregation of duties between officers processing and approving payments. In addition, the Department had not appointed incurring and certifying officers for approving payments, as required by the FM Act and Treasurer's Instructions.

## Department of Fisheries – Qualified opinion on financial statements, controls and KPIs

Controls associated with the Department's new human resource information system were inadequate to provide reliable employee accrued annual and long service leave balances. The new system was implemented following roll-out from the shared services centre. As a result, we were unable to determine whether employee benefits provisions and the related employee benefits expense were fairly presented in the financial statements. We were also unable to determine whether the three efficiency KPIs were fairly presented.

Also, during the first six months of the financial year the Department inappropriately used restricted funds for operational needs. Controls over restricted funds were not adequate for ensuring that they were spent only for their approved purposes. The Department was unable to determine the amount used however it was evident that a significant portion of the 1 July 2013 balance of $6.5 million was temporarily used for operational needs.

## Department of Local Government and Communities – Qualified opinion on financial statements, controls and KPIs

The Department's controls over payments to seniors for the Cost of Living Rebate and the Safety and Security Rebate were inadequate. The Department did not have adequate controls in place to confirm the ongoing eligibility of seniors on its database to the Seniors Card. In particular, Seniors Card application forms that were processed prior to June 2004 were destroyed meaning that we were unable to obtain sufficient audit evidence about the eligibility of many rebate recipients. We were therefore unable to determine whether Grants and Subsidies expenditure in the financial statements and the number of Seniors Card holders in the KPI 'Average Cost to Administer a Seniors Card' were fairly presented. The same qualified opinion has been issued since 2010-11.

The Department has implemented a new system to manage the Seniors Card and rebates and has taken steps to verify the eligibility of past applicants, but had not finalised these steps during 2013-14.

## Legal Contribution Trust – Qualified opinion on financial statements, controls and KPIs

The Legal Contribution Trust again received a qualified audit opinion on its financial statements, controls and KPIs. Sufficient audit evidence could not be obtained as to the total amount of interest receivable on solicitors' trust accounts and interest earned on solicitors' trust accounts for the six months ending 30 June 2014. Consequently the Trust's efficiency KPI could also not be verified.

The Trust is entitled to receive 51 per cent of all interest earned on solicitors' trust bank accounts held with financial institutions in the State of Western Australia. In certain instances the financial institutions did not remit the correct amount of interest on some solicitors' trust accounts to the Legal Contribution Trust. Additional control procedures are being considered by management but have not yet been implemented.

### Metropolitan Public Hospitals (MPH) – Qualified opinion on controls

Controls over medical practitioners' treatment charges remained deficient as there were inadequate procedures in place during 2013-14 at some hospitals to ensure that all revenue from medical practitioners' treatment of private and overseas patients was brought to account. Each hospital department is responsible for generating its own medical practitioner private patient billing information and for providing that information to the Health Corporate Network so that private patients can be invoiced. However, owing to inadequate controls, many invoices were not raised for medical practitioners' treatment charges.

We found that although processes and controls have improved at some hospitals, they remain inadequate overall. Therefore this qualification on controls, which was first issued in 2009-10, continues. However, because of the control improvements made to date, we estimated the impact on the financial statements is now immaterial and the qualification on financial statements has been removed. In May 2014, MPH issued new standard guidelines and procedures for billing patients. We will test compliance with these new procedures in 2014-15.

### Office of the Environmental Protection Authority – Qualified opinion on controls

During the 2013-14 financial year, on a number of occasions, the Office used restricted cash funds to meet operational needs. Controls over these restricted funds, which included specific purpose grants money, were inadequate to ensure that they were spent only for their approved purpose.

### Western Australian Greyhound Racing Association – Qualified opinion on financial statements

The Association received a $498 532 grant from Racing and Wagering Western Australia during 2013-14 for the ongoing building of a new race track. Instead of reporting this as Grant Income, it was reported as a Non-Current Liability – Payables. Therefore, at year-end, the Association's Grant Income and Operating Result were both understated by $498 532 while Payables were overstated and Retained Earnings were understated by the same amount.

## Matters of Significance Reported with Audit Opinions

Where a matter in relation to the financial statements or KPIs is of concern but does not warrant a qualified audit opinion, a Matter of Significance paragraph may be included with the audit opinion. In most instances the purpose is to highlight a significant matter that is not disclosed or is not apparent in the financial statements or KPIs.

| Agency | Details of Matter of Significance |
|---|---|
| **Department of Agriculture and Food** | The *Biosecurity and Agriculture Management Act 2007* requires the Western Australia Agriculture Authority's (WAAA) activities to be regarded as services under the control of the Department. Consequently the Department has included WAAA's income, expenses, assets and liabilities in its financial statements.<br><br>This has been highlighted in the audit opinion so that readers are aware of this arrangement and that the Department's financial statements do not separately identify WAAA's transactions. |
| **Metropolitan Public Hospitals and WA Country Health Service** | **Elective Surgery Waiting Times**<br>For 2012-13 and 2013-14 the Metropolitan Public Hospitals and the WA Country Health Service received approval from the Under Treasurer to remove the 'Elective Surgery Waiting Times' KPI from their audited KPIs. The approval was conditional on the inclusion of unaudited performance information measuring elective surgery waiting times in their annual reports. The elective surgery waiting times are to be reinstated as an audited KPI following the successful definition of national elective surgery waiting time indicators. The definition of national indicators being developed by the Commonwealth had not been finalised at 30 June 2014.<br><br>**Emergency Department Waiting Times**<br>The Metropolitan Public Hospitals and WA Country Health Service were also granted Under Treasurer's approval to not report emergency department waiting times in their KPIs for 2013-14.<br><br>The exemption related mainly to weaknesses in the systems and processes for recording waiting times, which are designed to assist with prompt and effective treatment of patients but not necessarily for accurate recording of waiting time data. The Under Treasurer's approval was subject to reinstatement of the KPIs as and when a new emergency department data collection system was implemented. A new system had not been developed at 30 June 2014 and WA Health has advised that there is no provision in the current financial year or forward estimates for the replacement of the existing emergency department information system.<br><br>Because of the significance of removing these indicators from the audited KPIs, this situation was highlighted with the audit opinion. The Health sector agencies are currently included in a review by Treasury of the KPIs of several agencies which is expected to include review of these KPIs. |

**Table 2: Matter of Significance comments included with audit opinions**

## Prior Year Qualified Opinions Removed in 2013-14

The following qualifications were removed:

- **Commissioner of Main Roads – opinion on KPIs**

The Under Treasurer has given approval to not report effectiveness indicators relating to availability of traffic signals, road lighting and emergency telephones. The remaining KPIs that were reported are considered comprehensive enough to provide sufficient indication of the agency's performance. Expiry of the Traffic Control Infrastructure Contract and transition to a new delivery arrangement during 2012-13 impacted on the reliability of performance data and the KPIs were qualified in that year. Because of the Under Treasurer's approval received during 2013-14 the previous qualification has been removed.

- **Keep Australia Beautiful Council (W.A.) – opinion on KPIs**

The Council developed a new suite of KPIs and obtained the Under Treasurer's approval for reporting them for the 2013-14 year. The previous qualification of the Council's KPIs has therefore been removed.

- **Local Health Authorities Analytical Committee – opinion on KPIs**

During 2013-14 the Committee received the Under Treasurer's approval, as required by Treasurer's Instruction 904, for one of its key efficiency indicators. The previous qualification has therefore been removed.

- **Metropolitan Public Hospitals – opinion on financial statements**

As described on page 11, controls to ensure that all revenue from medical practitioners' treatment of private and overseas patients was brought to account, have further improved during 2013-14. We estimated the impact of remaining control weaknesses on the financial statements to now be immaterial. Consequently the qualification on financial statements has been removed.

- **Metropolitan Public Hospitals and WA Country Health Service – opinions on KPIs**

As reported on page 12, the Metropolitan Public Hospitals and WA Country Health Service were granted Under Treasurer's approval to not report emergency department waiting times in their KPIs for 2013-14. The qualified opinions for these KPIs have therefore been removed. As reported on page 12, matter of significance paragraphs were included with the audit opinions to highlight these circumstances.

- **Racing and Wagering Western Australia – opinion on financial statements**

Racing and Wagering Western Australia's reporting of Royalties for Regions funding is appropriately reported in accordance with the requirements of Australian Accounting Standards for 2013-14.

## Qualified Opinions – Audit Certifications

A qualified opinion on an audit certification alerts readers to non-compliance issues, inaccuracies or limitations in an agency's statement submitted for certification. The following two qualified opinions were issued.

- **Electricity Generation and Retail Corporation (Synergy) – Compliance with the Electricity Corporations (Electricity Generation and Retail Corporation) Regulations 2013**

The Corporation's report to the Minister for the quarter ended 31 March 2014 under section 106 of the *Electricity Corporations Act 2005* did not include separate statements of financial performance for each of the Corporation's business units, as required by Regulation 6(1). The Corporation also did not meet the requirement to provide the report to the Minister within one month after the end of that quarter. Subsequent to our audit, in September 2014, the Corporation provided the required information to the Minister for the March quarter.

- **Coal Industry Superannuation Board – Audit Review Report on APRA Return and Compliance: Compliance with APRA Prudential Standard SPS 310 – Audit and Related Matters**

The Coal Industry Superannuation Fund was wound-up at 30 June 2014 and all assets and liabilities of the Fund were transferred to AUSCOAL Superannuation Fund. However, due to the Fund being wound-up, management did not comply with some of the reporting requirements specified in Australian Prudential Regulation Authority (APRA) Prudential Standard SPS 310 – Audit and Related Matters. Our review report was qualified as the trustee's policies were not updated for the Prudential Requirements and because of our inability to obtain sufficient appropriate audit evidence to confirm compliance with the Risk Management Framework requirements of the Fund for the 2013-14 year. APRA was notified of these matters during the year-ended 30 June 2014.

## Restructure of Agencies

From 1 July 2013 five new departments came into operation following splits or amalgamations. Conversion of data and balances to the new agencies was assessed for completeness and accuracy and the control environment reviewed for changes made to accommodate their revised structure. Audit opinions for 2013-14, their first year of operation, have now been issued to:

- Department of Environment Regulation
- Department of Lands
- Department of Local Government and Communities
- Department of Parks and Wildlife
- Department of Regional Development.

During 2013-14 there were two agency restructures, with final audits conducted as required:

- Electricity Generation Corporation (Verve Energy) and Electricity Retail Corporation (Synergy) merged to become Electricity Generation and Retail Corporation (trading as Synergy) from 1 January 2014.
- Minerals and Energy Research Institute of Western Australia was abolished on 31 January 2014 and the Minerals Research Institute of Western Australia commenced on 1 February 2014.

## 2013-14 Audits Not Undertaken

Four agencies have not been audited for the 2013-14 financial year.

These audits were dispensed with under section 14 of the AG Act because their operations have ceased or there was insufficient activity to justify an audit being undertaken. The decision to dispense with the audits was finalised after consultation with the Treasurer.

| Agency | Reason Why Audits Were Not Undertaken |
|---|---|
| 1. Department of Housing | The Department did not operate during the year. |
| 2. Landcare Trust | The Trust has ceased to operate and does not hold any funds. Legislation to repeal Part VA of the *Soil and Land Conservation Act 1945*, which created the Trust, is required. |
| 3. State Supply Commission | The Commission's functions were transferred in June 2009 and its records are now kept by the Department of Finance. The *State Supply Commission Act 1991* has not yet been repealed. |
| 4. Western Australian Building Management Authority | The Authority has ceased to operate and is awaiting repeal of its legislation, Part IA of the *Public Works Act 1902*. Its records are held by the Department of Finance. |

**Table 3: Audits dispensed with under section 14 of the *Auditor General Act***

A final audit of these agencies will be performed as and when they are abolished. However, if they are not abolished by the end of 2014-15, then an audit will be required by the AG Act in that year despite the dormant state of the agencies.

# Management Issues

- **474 financial and management control weaknesses were identified in 2013-14 with 21 per cent unresolved from the previous year. There was an increase in the number of significant issues reported to management.**
- **301 information system control weaknesses were identified. The majority are simple to fix but if not resolved they will leave agencies vulnerable to security incidents and disruptions to systems.**
- **Several qualified KPI opinions were removed in 2013-14 and less KPI shortcomings were reported to agencies than in prior years.**

## Control Environment

Responsibility for developing and maintaining adequate systems of internal control rests with agency management. These control systems reduce the risk of error and fraud and provide assurance to management and auditors that management reports and financial statements are materially correct. Maintaining adequate internal control ensures:

- financial information and other records, including data for key performance indicators, are accurately maintained
- assets are appropriately safeguarded
- errors and other irregularities are prevented or detected
- compliance with legislation and policy guidelines
- internal and external reporting is reliable and timely.

The AG Act requires the Auditor General to audit agency accounts and, for agencies under the FM Act, to form an opinion on controls. This involves an assessment of the design of the controls and whether they have been properly implemented.

Details of our control findings are included in management letters to the Accountable Authority. Control weaknesses are rated depending on their potential impact. The ratings are based on the audit team's assessment of risks and concerns about the probability and/or consequence of adverse outcomes if action is not taken. Consideration of these potential adverse outcomes is given in the context of both quantitative impact (for example, financial loss) and qualitative impact (for example, inefficiency, non-compliance, poor service to the public or loss of public confidence).

| Risk Category | Impact |
|---|---|
| Significant | Control weaknesses that potentially present a significant financial or business risk to the agency if not addressed promptly.<br><br>Significant control weaknesses may lead to a qualified opinion, especially if carried forward from the prior reporting period or not addressed as a matter of priority or urgency. |
| Moderate | Control weaknesses of sufficient concern to warrant action being taken as soon as practicable. If not addressed promptly, they may escalate to significant or high risk.<br><br>Normally matters requiring system or procedural improvements or low risk matters from previous audits that have not been satisfactorily resolved. |
| Minor | Isolated occurrences, non-systemic or procedural control weaknesses that are administrative shortcomings.<br><br>Minor weaknesses are not of primary concern but still warrant action being taken. |

**Table 4: Risk categories for control weaknesses reported to management**

Agency management is given the opportunity to review the audit findings and provide comments prior to completion of the audit. Often policies, procedures or practices are improved by management after we raise them and before the audit is completed. However, where weaknesses remain outstanding, agency responses or any action being undertaken is noted. Where weaknesses recur in following years, these are separately reported to agency management and, if significant, are considered as a basis for a qualified opinion. At the completion of each audit a copy of our management letter is sent to the responsible Minister along with the audit opinion.

While management letters relate specifically to an individual agency, the weaknesses are often common to other government agencies. The following is a summary of control weaknesses identified during 2013-14 under three headings:

- financial and management controls
- information system controls
- key performance indicators.

Agencies are encouraged to consider and identify control improvements discussed in this part of the report that may be relevant to their operations.

## Financial and Management Controls

During 2013-14, 84 agencies were advised of control weaknesses that need to be addressed. These deficiencies were also brought to the attention of the responsible Ministers at the conclusion of our audits.

In total, 474 control weaknesses were identified. This was higher than last year and there was an increased number of significant issues that potentially present a significant financial or business risk to the agency if not addressed promptly. (Refer to Figure 1 below.)

It is disappointing to note that 101 control weaknesses (21 per cent) at 26 agencies were unresolved from the prior year. The challenge for agencies is to rectify their control weaknesses as soon as possible.

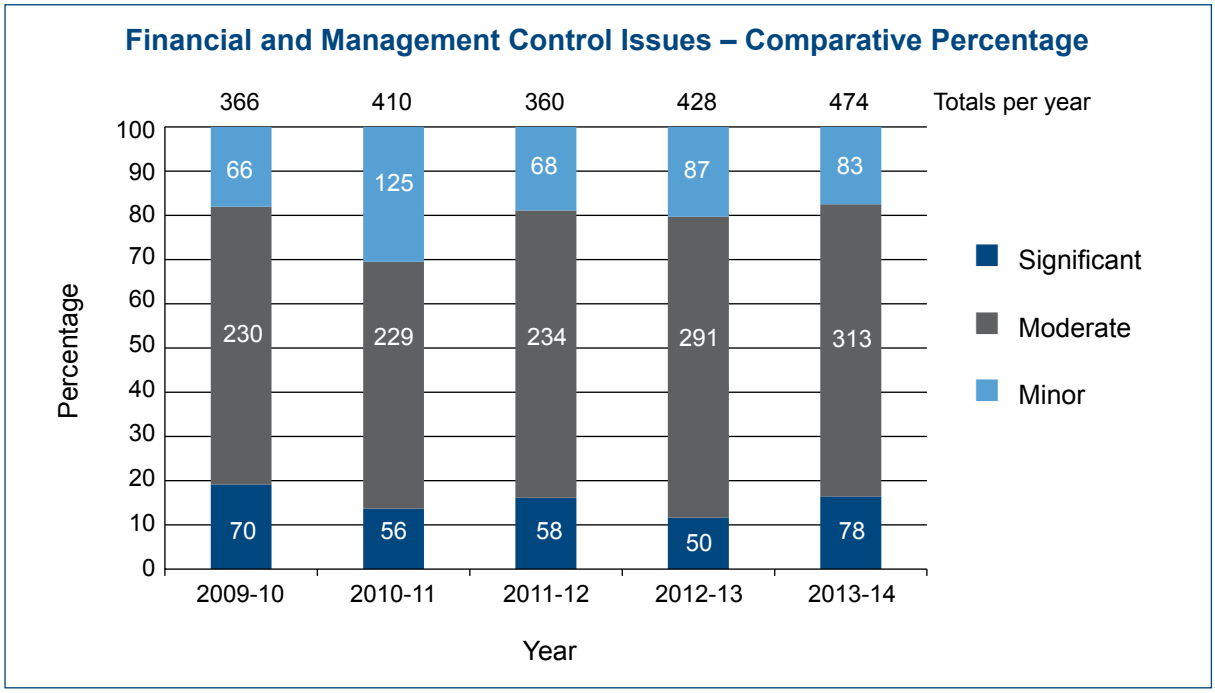



**Figure 1: Ratings of financial and management control weaknesses reported to agencies**

A breakdown of the categories of control weaknesses identified for the last four years is shown in Figure 2. Weaknesses in revenue and governance increased in 2013-14.

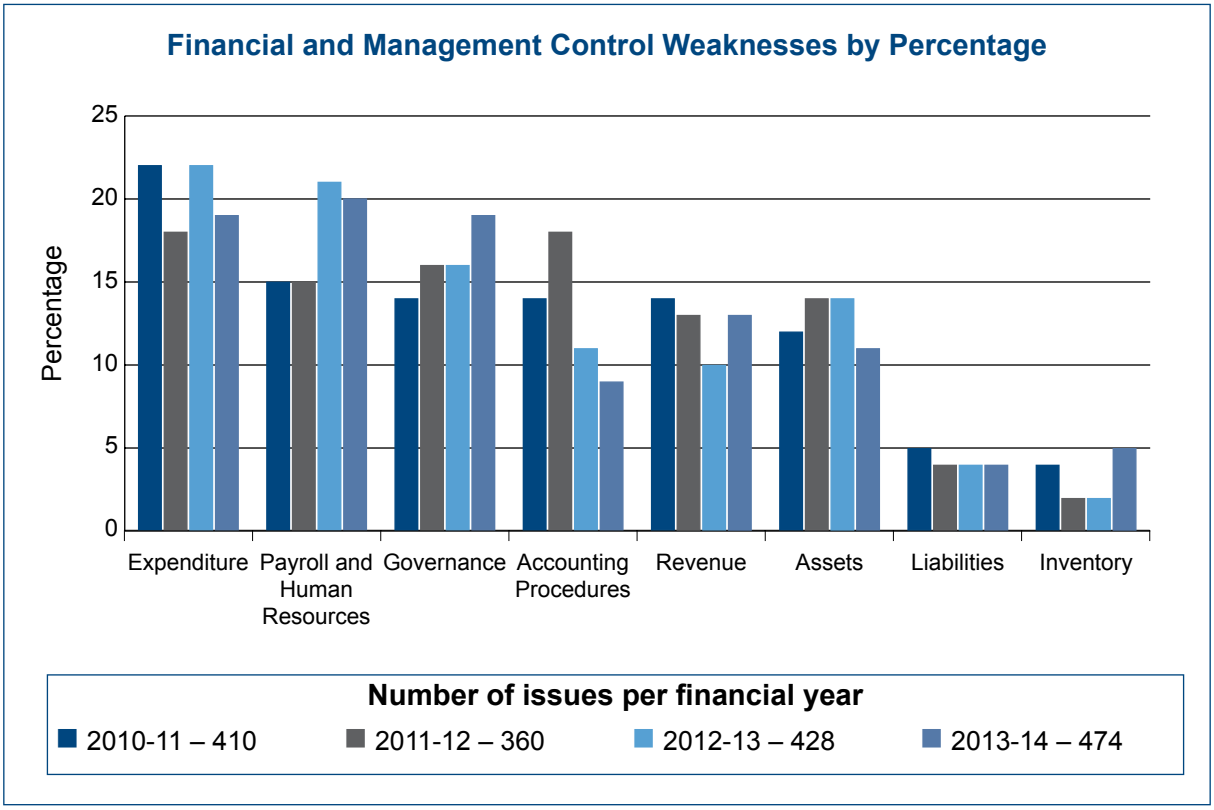



**Figure 2: Financial and management control weaknesses for last four years**

*The greater proportion of control weaknesses continue to relate to payroll and human resources and expenditure. Governance issues are showing an increasing trend.*

Examples of the control weaknesses identified across agencies in these areas were:

## Payroll and Human Resources

We reported 94 payroll and human resource control weaknesses with recommendations to 38 agencies. Eleven were rated as significant. As payroll forms a major part of most agencies' cost of operation, it is essential that human resource management and payroll controls are effective. Controls to reduce the following types of weaknesses are needed:

- Payroll cost centre reports at 11 agencies were not reviewed and signed off, or were not signed off promptly by cost centre managers nor returned prior to payment of payroll. This was a significant issue at five of these agencies, requiring immediate action to implement this control. Although cost centre managers are not expected to identify every detailed error in the payroll, these managers are best placed to identify any significant errors. These may include overpayments to staff who are on leave without pay, have recently ceased acting on higher pay or are no longer employed.
- Commencement and termination procedures not communicated promptly or not adequately documented and retained on file.

Documentation of all appointments and terminations needs to be prepared, signed by the appropriate parties and retained on file. Use of termination checklists and review of termination pay calculations should be routinely undertaken to ensure that outgoing employees are not overpaid and all agency property, attractive assets and purchasing cards are returned.

- Records of employees' annual and long service leave not accurate as well as negative leave balances, leave approved after being taken and leave accruing while on leave without pay.

  Employee leave needs to be approved, recorded in their time records and personal records to ensure that staff only take leave to which they are entitled.

- Payroll reconciliation procedures at six agencies were not appropriately completed in accordance with good practice. Reconciliations to the general ledger were either not performed in a timely manner or were not evidenced or signed by preparer and reviewer, increasing the risk of fraud and error.

### Expenditure

We reported 92 expenditure control weaknesses to 41 agencies in 2013-14. Fifteen were rated as significant.

- Purchasing (credit) card control weaknesses included evidence of transactions to support payments not being submitted in a timely manner or not approved by the cardholder's manager or supervisor. There were also instances where records did not clearly demonstrate that the expenditure was for business purposes. My *Across Government Benchmarking Audits – Controls Over Purchasing Cards* was tabled on 1 April 2014.

- Officers incurring or certifying expenses beyond their approved limits or approving expenditure when they were not authorised to do so.

### Governance

We reported 90 governance or legal compliance issues to 45 agencies. Sixteen were rated as significant. These included:

- Outdated policies and procedures in various aspects of agency operations including strategic planning, risk management and internal audit. In some instances plans or registers either did not exist or were not up to date. As a consequence, management or staff may not be fully conversant with future direction, business risks or challenges their agency may face.

- Financial management manuals were not up to date or did not reflect current policies and procedures. Consistent administration of policies and procedures ensures an agency's operations and financial management practices are routinely and continuously applied by all staff including new and temporary staff.

## Expenditure on Hospitality

Our sampling of government purchasing card use routinely identifies expenditure on official hospitality. We assess whether the expenditure is consistent with the Public Sector Commissioner's Circular – 'Guidelines for Expenditure on Official Hospitality'. During the 2013-14 audits we noted a higher incidence of hospitality expenses that we could not clearly conclude was consistent with the guideline.

The guideline provides criteria for incurring hospitality expenditure "…while recognising that Chief Executive Officers and others charged with responsibility for hospitality expenditure need

to be able to exercise some discretion". The guideline also provides that hospitality should only be incurred where it is considered essential to facilitating the conduct of public business but also that it "…should not be a substitute for business meetings, which would ordinarily be conducted in the workplace."

Issues we found mostly related to the need to record the attendees/recipients of the hospitality and to document the purpose of the hospitality so as to provide transparency and accountability for the expenditure. These shortcomings were reported to management. However, more serious issues were identified at the WA Health Promotion Foundation. Discussions with the Foundation did not address our concerns and hence we, along with the Foundation, referred the issues to the Public Sector Commissioner for consideration. The Commissioner is currently investigating these issues.

Our 2014-15 annual audits will again review hospitality expenditure and will also assess whether the specific recommendations we made in 2013-14 have been implemented.

## Recommendations

**Agencies should continuously maintain the integrity of their financial control environment. This should include:**

- **periodic review and updating of all financial, asset, human resource and other policies by management and communicating these policies to staff**
- **ensuring that there is ongoing review and improvement of internal control systems**
- **ongoing monitoring of staff compliance with relevant legislation and instructions**
- **promptly addressing control weaknesses brought to their attention by our audits.**

## Information Systems (IS) Controls

Information systems underpin most aspects of agency and government operations and services. It is therefore vital that agencies implement appropriate controls to maintain reliable, secure and resilient information systems.

Audits of general computer controls are a major part of the information systems work we undertake. Well implemented general computer controls ensure reliable and secure processing of financial and key performance information. We focus our computer audit capacity on those agencies with significant computer environments to determine whether their controls are appropriately designed and operating effectively.

In 2013-14, 301 weaknesses were identified. Four per cent of the issues were rated as significant and 56 per cent were rated as moderate requiring action as soon as possible. The other 40 per cent were rated as minor.

Figure 3 shows the percentage of total findings made against our six categories of control risk. Most of the weaknesses we identified related to information security (42 per cent) and IT operations (37 per cent). The distribution of findings made this year was similar to last year. While many of these weaknesses are relatively simple to fix, if not resolved they leave agencies potentially vulnerable to significant disruption and costs.

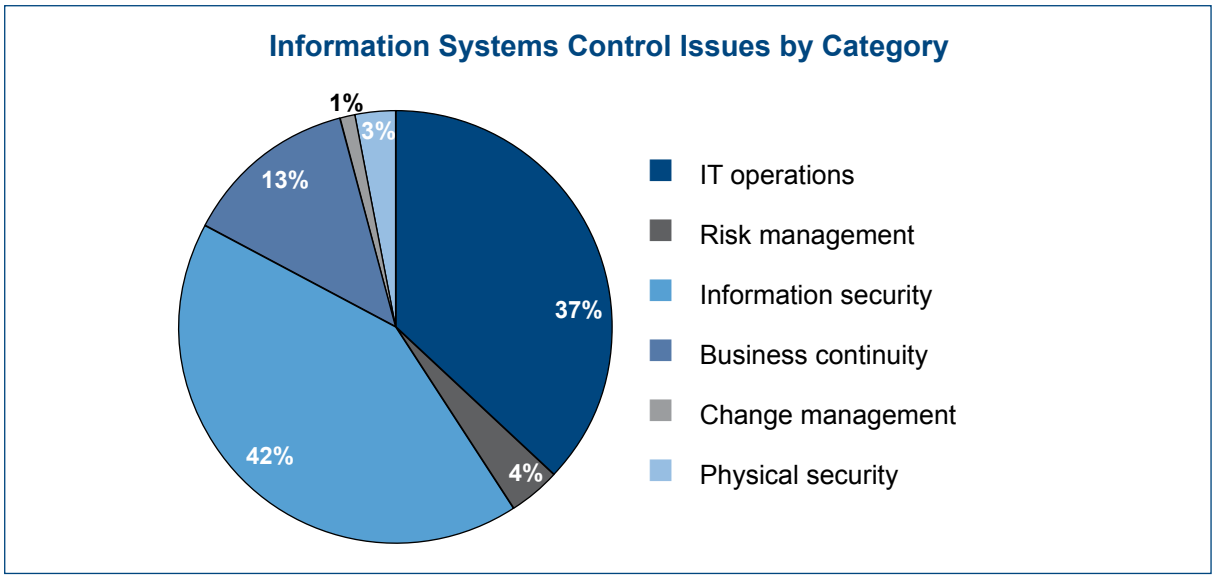



**Figure 3: IS control issues by category for 2013-14**

A more detailed report on the results of our information system audits is planned for early 2015. The report will consolidate the results of audits of agencies with a 30 June 2014 reporting date with upcoming work on agencies with a 31 December 2014 reporting date.

## Key Performance Indicators (KPIs)

As shown in Table 5, there was an above average number of agencies that received qualified opinions on their KPIs in 2012-13 and had other significant shortcomings. Most of the agencies addressed these issues in 2013-14 and consequently we reported less KPI findings to management.

| KPI Shortcomings and Qualifications | 2010-11 | 2011-12 | 2012-13 | 2013-14 |
|---|---|---|---|---|
| Number of agencies with KPI weaknesses | 26 | 22 | 25 | 29 |
| Number of KPI weaknesses reported | 79 | 59 | 56 | 38 |
| Significant KPI weaknesses reported | 29 | 29 | 20 | 10 |
| Number of agencies with qualified KPI opinions | 5 | 5 | 7 | 3 |

**Table 5: Summary of KPI weaknesses reported to agencies**

Figure 4 below shows that the continuing relevance of some KPIs is the most commonly identified area needing improvement. Data collection and integrity has improved but remains a high priority issue. The increase in 'Other' issues is partly because some agencies did not obtain the required approval of the Under Treasurer to change their KPIs.

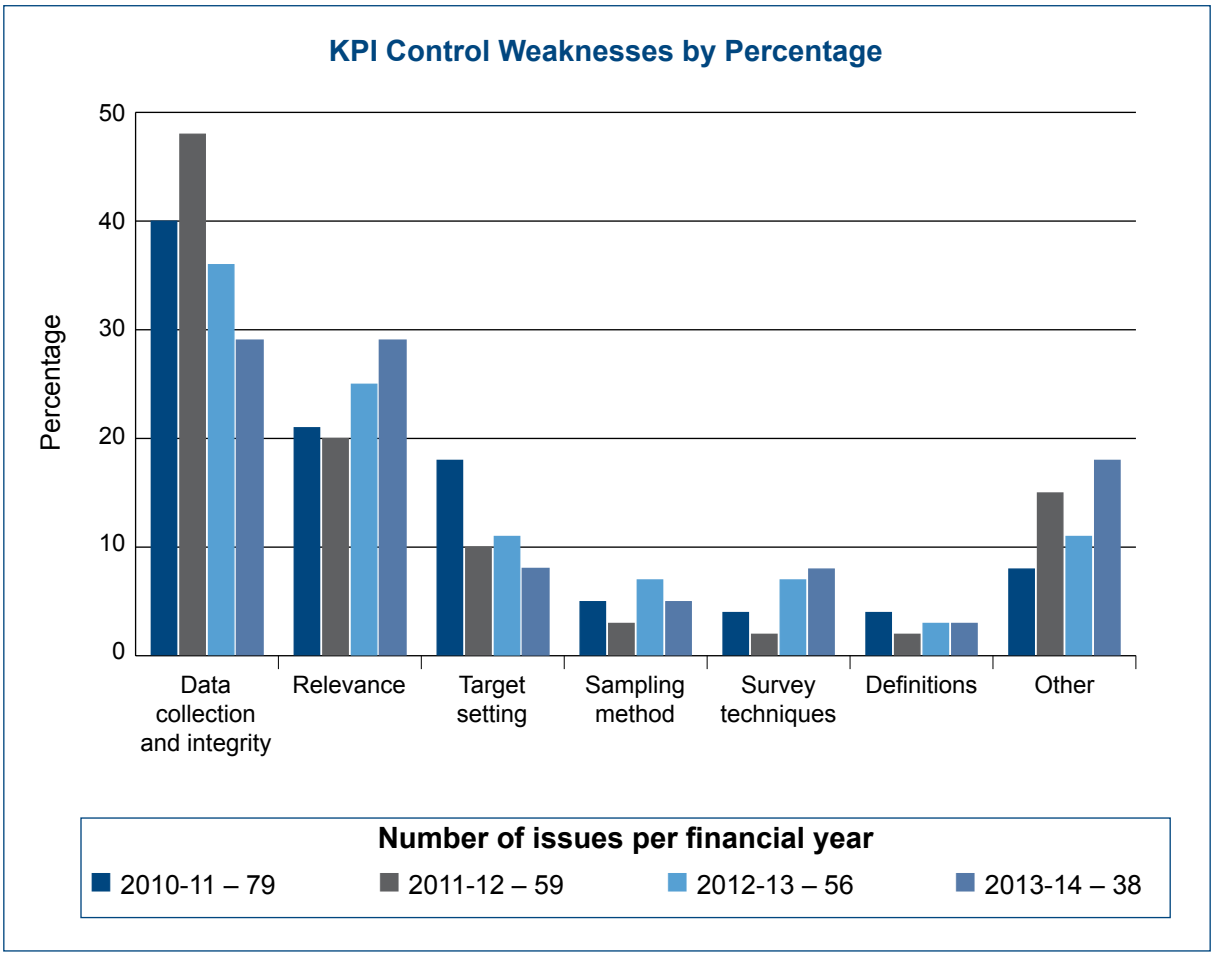



**Figure 4: Weaknesses relating to KPIs for last four years**

## Data collection and integrity

We reported 11 control weaknesses relating to data collection and integrity to nine agencies. Two were rated as significant. These included:

- data being incorrectly recorded
- data not accurate or not easily verifiable (especially if collected by third parties)
- insufficient data collected
- data not collected for the full period of review
- data not secured to prevent amendment after being entered.

## Relevance

The information needs of KPI users continually evolve as changes occur over time to an agency's mandate, priorities, service delivery methods or information availability. There is a risk that if not periodically reviewed, KPIs may not continue to meet user expectations in terms of relevance.

## Review of KPIs

As part of a Budget Framework Reform initiative, Cabinet agreed to a review of the outcomes based management (OBM) reporting structures and KPIs of a number of large agencies. The main purpose of the review was to enhance the level of detail at which agencies' operations are reported and the usefulness of associated performance measures.

The resultant OBM structures and KPIs proposed by agencies, if approved by the Under Treasurer, are expected to involve an increased number of services and associated KPIs. We are providing audit related advice during the review to Treasury and agencies regarding the relevance of the proposed new KPIs. Further, we have encouraged agencies to consider the issues and recommendations in my April 2012 report *Beyond Compliance: Reporting and managing KPIs in the public sector*, when formulating any revised KPIs.

Changes to the type and number of KPIs arising from the review will require adjustment to audit testing and effort. Increase in the number of approved services will also result in additional reporting and auditing of service-level expenses and revenues in the financial statements of agencies.

## Recommendation

All agencies should review their KPIs on a periodic basis to ensure that they remain relevant, appropriate and fairly present performance against realistic targets.

# Other Financial Reporting and Audit Issues

- **We identified errors totalling many hundreds of millions of dollars during our audit of agencies' financial statements. The breadth and magnitude of errors leaves us concerned about the reliability of financial management information in some agencies and that management may be misinformed about their agency's true financial position. Because these errors were not identified by agencies themselves during the year, the net impact of these adjustments ($69 million) on the overall State surplus was only recognised and made after year-end.**
- **The State's total leave liabilities increased at a slower rate than recent years, but agencies need to continue their efforts and/or do more to reduce their leave liabilities.**
- **The decommissioning of the Office of Shared Services was completed with most agencies successfully implementing replacement systems and processes. However a few agencies experienced significant problems, with three receiving a qualified opinion on their financial controls, and one of these being unable to complete its financial statements and table its annual report within the statutory timeframe.**
- **Inconsistent methods were used for calculating redundancy payments. The overall cost to the State could have been lower if written notice to employees had been correctly made in a timely manner.**
- **Tabling of annual Statements of Corporate Intent (SCI) after the commencement of the financial year to which they relate continues. Four 2014-15 SCIs were tabled by 30 June 2014 and a further six were tabled by 30 September 2014. Currently eight are yet to be tabled and so are not available for scrutiny by Parliament.**
- **There is a need to consider reducing the financial reporting and auditing requirements of small agencies. Sixty-three agencies in total account for less than one per cent of the State's expenditure and yet they are required to prepare the same voluminous financial statements as Australia's largest government agencies and not-for-profit organisations.**

This part of the report details issues of current significance and legislative compliance:

- errors in financial statements identified during our audits
- excessive leave balances
- shared services decommissioning
- audit of redundancy payouts
- forgiving of inter-agency debts
- Statements of Corporate Intent
- reducing the cost of financial reporting for small agencies.

## Errors in Financial Statements Identified During Our Audits

The preparation of financial statements with only minimal or minor errors at year-end is one indicator that management are also reliably informed of their agency's true financial position and performance during the year. It also minimises the costs of rework.

Table 6 summarises the errors identified in agency financial statements by our auditors during the audit process.

| Category Affected | Total number of errors | Total Under-statements ($m) | Total Over-statements ($m) | Net Error ($m) |
|---|---|---|---|---|
| Assets | 134 | 390 | 418 | 28 |
| Liabilities | 122 | 143 | 39 | 104 |
| Expenditure | 158 | 240 | 96 | 144 |
| Revenue | 62 | 89 | 14 | 75 |

**Table 6: Financial statement errors identified during the audit process**

Because these errors were not identified by agencies themselves during the year, overstatement of the State's (Total Public Sector) net assets by $132 million and a net $69 million overstatement of the surplus were only corrected after year-end when the audits detected the errors. Late identification impacts the accuracy of government's ongoing predictions of estimated outturns.

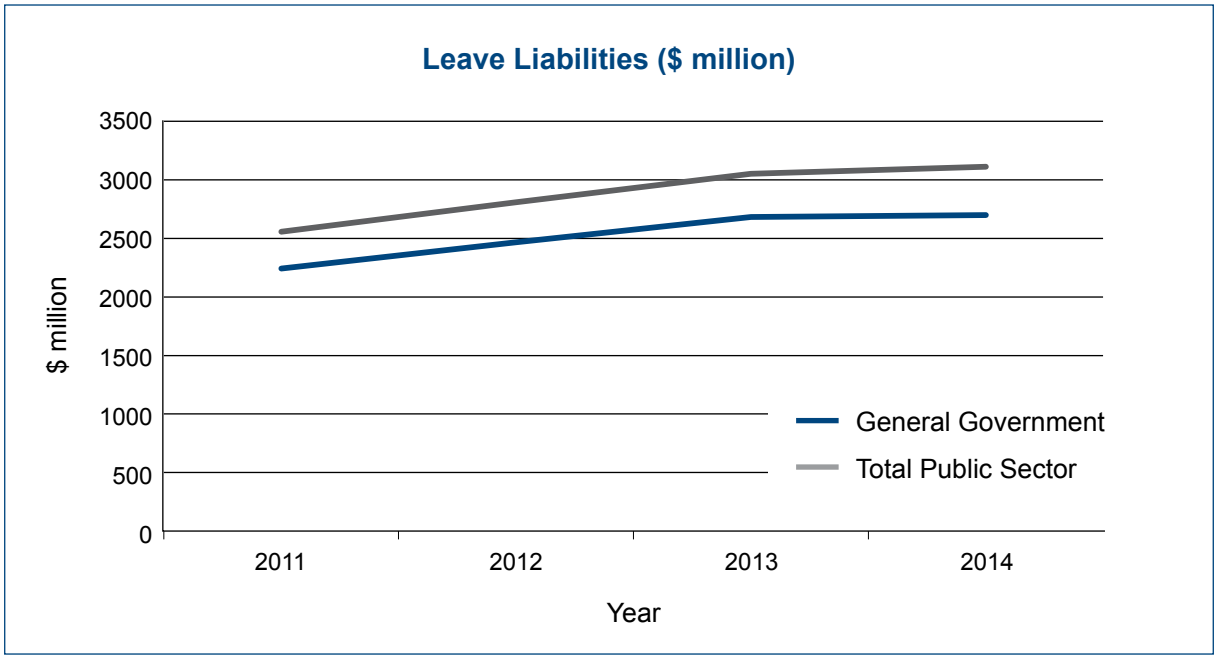
The errors reported above only relate to the Income Statements and Balance Sheets of agencies. Numerous other less significant errors elsewhere in the financial statements were also identified by our auditors and corrected by management.

As reported under Quality and Timeliness of Reporting on page 44, there was no notable improvement in the number of errors in financial statements submitted for audit compared to the previous year. In that section we have listed best practice initiatives that would help agencies to improve their financial reporting.

## Excessive Leave Balances

The Total Public Sector leave liability owing to employees increased marginally by $60 million to $3.1 billion during 2013-14.

Agencies were informed by Treasury that they needed to actively manage their leave liabilities during 2013-14. As shown in Figure 5 below, the rate of increase in the overall public sector liability has slowed during 2013-14.




Source: Tabled Annual Reports on State Finances

**Figure 5: WA Public Sector leave liability 2011-2014**

The overall two per cent increase in Total Public Sector leave liability in 2013-14 was less than the pay increases that most employees received near the end of the previous financial year. Although this indicates some success in managing the liabilities, several agencies need to do more to manage their liabilities. We reported details of high leave balances to management of 20 agencies, with recommendations that they continue and/or improve current initiatives to manage their liabilities.

Large leave liabilities have an adverse effect on the State's net assets position. These liabilities also need to be closely managed for a number of other reasons. Large balances can lead to difficulties in raising sufficient cash to pay out balances in the future as and when staff resign or retire. It is also important that staff take regular leave for their health and wellbeing and because fraud can be more easily concealed by staff who do not take leave.

Factors that contributed to reducing liabilities included:

- a significant number of senior staff with large leave balances left the public service through voluntary separation programs. For example, the Police Service's leave liability was reduced by approximately 139 000 hours during 2013-14, partially through officers and other staff leaving the Police Service via a voluntary separation program.
- close monitoring by management of leave plans to ensure that staff scheduled and took appropriate leave.
- some staff opting to take part of their leave as a cash payout.

Challenges that impact upon successful leave management include:

- service delivery pressures.
- ad hoc management of leave, including lack of planning.

## Recommendations

- Achievement of leave plans should be reported regularly to CEO's and boards, preferably on a cost centre basis, so that problem areas can be readily identified.
- Management should facilitate effective succession planning and training so that back up staff are available when key staff take leave.
- Agencies should encourage staff to take part of their leave as time off and part as a cash payout if that option exists and meets their needs.

## Shared Services Decommissioning

In the second half of 2013, the final 28 agencies transitioned their financial and human resource/payroll systems and processes from the Department of Finance's Shared Services Centre to their own systems as part of the decommissioning program.

The Department of Finance amortised a further $53 million of the shared services software value in 2013-14, following a similar amount the previous year, thereby reducing the value of the decommissioned software to zero.

Our audit work included confirming the complete and accurate conversion of information from the Centre to the agencies' new systems and auditing agencies' revised financial and information system controls following roll-out.

The decommissioning in 2013-14 generally involved larger agencies than those that rolled out in the previous financial year. Although most agencies successfully transitioned to their own systems, a few experienced noteworthy problems that resulted in increased cost of transition and/or control weaknesses:

- Department of Agriculture and Food rolled out of shared services in August 2013. The new system and related processes had reporting deficiencies and lack of reconciliations and users were allowed inappropriate system access capabilities. As a consequence, a qualified audit opinion on controls was issued for the Department (refer page 9).
- Department of Corrective Services rolled out of shared services on 27 September 2013. The replacement system implemented at correctional facilities was essentially a manual system that used spreadsheets for processing and recording expenditure that totalled $10.3 million in 2013-14. There was inadequate segregation of duties for making payments, inadequate system access security and no logging of changes to information. As a consequence, a qualified audit opinion on controls was issued for the Department (refer page 10).
- The Department of Fisheries roll-out of shared services on 1 September 2013 resulted in significant difficulties with the data conversion to their new information systems. The Department could not obtain accurate and complete information for determining staff leave entitlements and received a qualified audit opinion on its controls, financial statements and KPIs (refer page 10). The Department also could not complete its 2013-14 financial statements until early October 2014. As a consequence, its annual report was tabled on 23 October 2014 rather than before the FM Act deadline of 28 September.

## Audit of Redundancy Payouts

As part of our expenditure testing, we sample tested redundancy payouts made to 1 112 employees from 55 different agencies under the 2013-14 Enhanced Voluntary Separation Program (EVSP). The cost to government of the payouts was $119.8 million. This amount relates to the redundancy portion of payouts and does not include other components such as accumulated leave and superannuation. Other agency self-funded separations were also audited.

For the EVSP our testing identified inconsistent methods of calculating the portion of the payouts that was made in lieu of notice, which totalled $35 million. The Public Sector Management (Redeployment and Redundancy) Regulations 1994 require that employees be given 'written prescribed notice' that their position is to be abolished and that they will become surplus to requirements of their organisation. For the EVSP, if this notice was not given in writing more than 20 weeks prior to an employee's cessation date, they were entitled to receive pay in lieu of notice, up to a maximum of 20 weeks' pay, depending on when written notice was given.

In most instances, the agency's written notice to the employee did not contain the abovementioned required advice and therefore did not represent 'prescribed written notice' under the Regulations. This resulted in employees being eligible for and receiving the full 20 weeks of pay in lieu of notice. Further, many agencies were tardy in providing written notice to employees. Agencies need to address these shortcomings.

We recommended to the Public Sector Commission that in future, clear guidance be provided to agencies for calculating redundancy payments. The Commission has since reminded agencies of requirements and has also advised that its guidelines for the Government's recently announced targeted voluntary separation offer for 2014-15 will include a further reminder of each agency's obligations to comply.

I am considering further investigation of this matter.

## Recommendation

Agencies should comply with all legislative requirements in relation to employee severance payouts.

## Forgiving of Inter-agency Debts

During the 2013-14 annual audit cycle, we collected further information on debts owed between WA government agencies as a follow-up to my Report 5: April 2014 on Debtor Management, in which I reported that there was no clear guidance to agencies for the extinguishing of debts owed between agencies.

At 30 June, inter-agency debts amounted to $206 million. There was a wide variety of debts including leave liabilities of employees who have transferred between agencies, assets that have been identified for transfer as a result of restructuring and/or the transfer of functions from one agency to another, and power and water accounts.

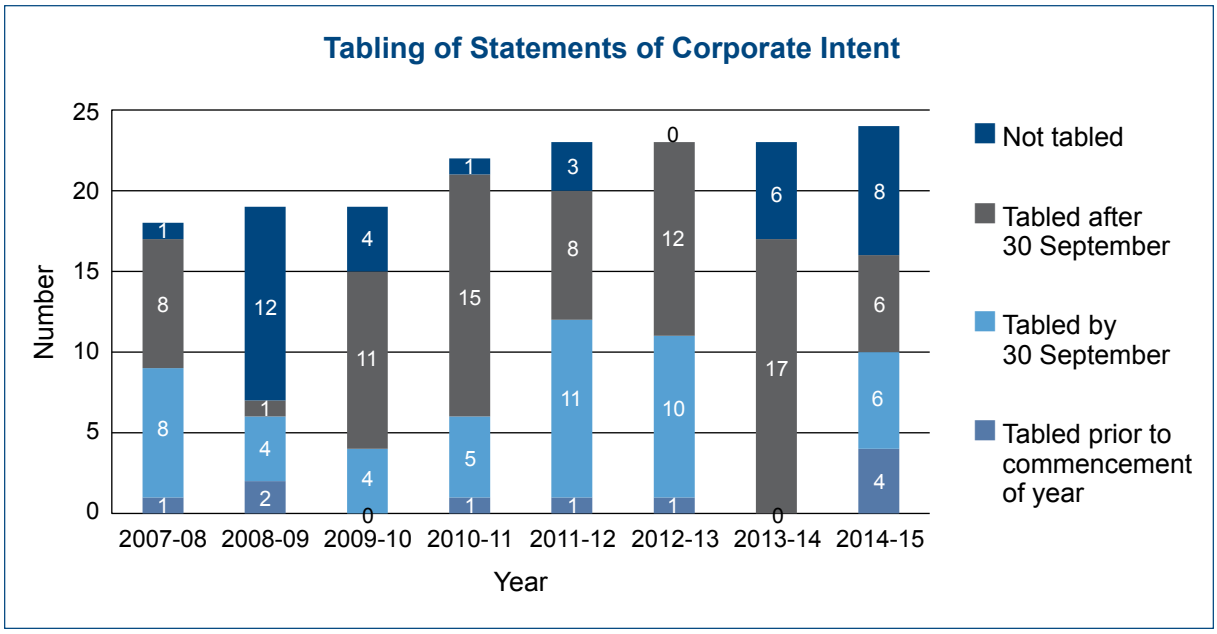
Treasurer's Instruction 807 does not regard the forgiving of inter-agency debts as a write-off and does not specify the circumstances for allowing the forgiving of a debt or the authority levels for approving the extinguishment of such debts. Although the write-off of an inter-agency debt does not result in loss of revenue to the State, if not properly justified, approved and reported, the true cost of operating the agency may not be transparently reported. Treasury has advised that they intend to review the guidelines in Treasurer's Instruction 807 *Write-offs* to provide further guidance on extinguishing inter-agency debts to achieve greater transparency and accountability.

## Recommendation

Guidelines on the extinguishing of inter-agency debts should be enhanced to provide greater transparency and accountability.

## Statements of Corporate Intent

There has been improvement in the number of annual Statements of Corporate Intent (SCI) tabled in a timely manner. Of the 24 agencies that operate at arm's length of government and for which an SCI must be tabled by their Minister, four were tabled before 1 July 2014, another three within the first two weeks of July and three by 30 September 2014. While this was a considerable improvement on the prior year, it was still well short of what is required by legislation. Figure 6 below shows that untimely tabling of SCIs has occurred for many years.




Source: Data collated from Parliament – Tabled Papers

**Figure 6: History of agencies' Statements of Corporate Intent being tabled in Parliament**

SCIs are a form of annual agreement with government and are therefore an important governance and accountability mechanism. The contents of SCIs can vary with agency legislation but generally they include:

- outline of objectives and major planned achievements for the next financial year
- nature and scope of functions proposed to be performed during that year
- performance targets and other measures by which performance may be judged
- outline of capital expenditure, proposed borrowings, pricing arrangements and dividend policy
- accounting policies that apply to the preparation of financial statements
- types of information to be given to the Minister, including periodic and annual reporting
- nature and extent of community service obligations to be performed, costing and funding of these activities and any compensation arrangements
- other matters agreed on by the Minister and the board.

Agencies are required by their Act or regulations to draft the annual SCI for agreement with their Minister and the Treasurer. Negotiations can be part of the agreement process between the agency, the Minister and the Treasurer but the Minister is responsible for ensuring that the SCI is tabled in Parliament within 14 days of it being agreed.

Tabling requirements vary slightly but generally SCIs are either required or expected to be tabled before the commencement of the financial year or early in the financial year to which they relate. Where the Minister has not agreed or the Treasurer has not concurred, then the latest draft SCI takes effect. However, tabling of the SCI does not take place until full agreement is reached.

The Department of Treasury (Treasury), which works with the agencies, portfolio Ministers and the Treasurer in this SCI process, advised that there are a number of factors contributing to the ongoing non-compliance with tabling requirements. These include:

- content of draft SCI not reflecting government objectives or policy
- inclusion of financial information not consistent with approved forward estimates
- lack of incentives for agencies to address these issues in order to comply with their legislation.

Treasury intends to pursue non-legislative options to improve the SCI arrangements for 2015-16 as part of the budget process. Their aim is to reinforce the roles and responsibilities of Ministers and agencies to ensure that SCIs approved by the Minister and submitted to the Treasurer contain financial information that is consistent with outcomes in the Budget.

Treasury considers that improvements to the tabling of SCI require concerted efforts of all stakeholders.

SCI tabling dates for the last two years are shown below.

| | 2013-14 SCI tabled^ | 2014-15 SCI tabled |
|---|---|---|
| **Corporatised Entities** | | |
| Bunbury Water Corporation | n/a | 11/09/2014 |
| Busselton Water Corporation | n/a | 14/08/2014 |
| Horizon Power – Regional Power Corporation | Not tabled | Not tabled |
| Synergy – Electricity Generation and Retail Corporation | n/a | Not tabled |
| Synergy – Electricity Retail Corporation | Not tabled | n/a |
| Verve Energy – Electricity Generation Corporation | 19/02/2014 | n/a |
| Water Corporation | 12/11/2013 | 14/08/2014 |
| Western Australian Land Authority (Landcorp) | 25/06/2014 | Not tabled |
| Western Power – Electricity Networks Corporation | Not tabled | Not tabled |
| **Statutory Authorities** | | |
| Chemistry Centre (WA) | 18/03/2014 | 14/10/2014 |
| Forest Products Commission | 16/10/2013 | 17/06/2014 |
| Gold Corporation | Deemed 07/10/2013 | 08/07/2014 |
| Government Employees Superannuation Board | Not tabled | 19/06/2014 |
| Insurance Commission of Western Australia | Not tabled | 25/06/2014 |
| Lotteries Commission | Deemed 07/10/2013 | 09/07/2014 |
| Racing and Wagering Western Australia | 15/10/2013 | Not tabled |
| Western Australian Land Information Authority (Landgate) | 12/11/2013 | 01/07/2014 |
| Western Australian Treasury Corporation | Not tabled | 26/06/2014 |

| | 2013-14 SCI tabled^ | 2014-15 SCI tabled |
|---|---|---|
| **Port Authorities** | | |
| Albany Port Authority ** | 31/10/2013 | 14/10/2014 |
| Broome Port Authority ( Kimberley Ports Authority from 1 July 2014) | 31/10/2013 | 14/10/2014 |
| Bunbury Port Authority ** | 31/10/2013 | Not tabled |
| Dampier Port Authority * | 20/11/2013 | 14/10/2014 |
| Esperance Port Authority ** | 31/10/2013 | Not tabled |
| Fremantle Port Authority | 31/10/2013 | 14/10/2014 |
| Geraldton Port authority (Mid West Ports Authority from 1 July 2014) | 31/10/2013 | Not tabled |
| Port Hedland Port Authority * | 31/10/2013 | 14/10/2014 |

Source: Parliament – Tabled Papers

**Table 7: Statements of Corporate Intent tabled in Parliament**

^ Treasury advised that late tabling of the State Budget on 8 August 2013 would impact on finalisation of 2013-14 SCIs.

* Pilbara Ports Authority commenced on 1 July 2014 following amalgamation of Dampier and Port Hedland Port Authorities. The Pilbara Ports Authority is to submit a joint 2015-16 SCI.

** Southern Ports Authority commenced on 1 October 2014 following amalgamation of Albany, Bunbury and Esperance Port Authorities. The Southern Ports Authority is to submit a joint 2015-16 SCI.

*Four approved 2014-15 SCI were tabled in Parliament before commencement of the year, as highlighted.*

## Recommendations

Statements of Corporate Intent should be tabled within timeframes required by their relevant legislation.

The Department of Treasury should finalise its review of the SCI process in time for new procedures to be implemented for the 2015-16 SCIs.

## Reducing the Cost of Financial Reporting for Small Agencies

Many agencies are small in size but are still required to prepare voluminous financial statements under the same disclosure requirements as Australia's largest not-for-profit government agencies and companies.

High quality financial reporting is essential, however this does not necessarily require a high level of detail in all circumstances. I have previously expressed the view that for small agencies, significant cost savings can be made if detailed, low value information is excluded from the audited financial statements. In my view, excluding such information would likely have little or no impact on Parliament and other stakeholders' capacity to monitor public sector performance.

The Australian Accounting Standards Board (AASB) has recognised the financial reporting burden on small organisations by releasing two standards, operative from 1 July 2013, that provide for reduced disclosure. These are AASB 1053 *Application of Tiers of Australian Accounting Standards* and AASB 2010-2 *Amendments to Australian Accounting Standards arising from Reduced Disclosure Requirements*. The effect of these standards is that preparers of general purpose financial statements of small organisations can elect to apply specified

reduced disclosures in the Notes to the financial statements. Implementation in WA merely requires amendment to the Treasurer's Instructions. Treasury has advised that it is considering various options.

Notably, legislation in some other Australian States has reduced the financial reporting burden on small entities, including allowing the preparation of special purpose financial statements that report only key information, rather than general purpose financial statements, and dispensing with audits. Tasmania's *Audit Act 2008* and Queensland's *Financial Accountability Act 2009* enable some small agencies to prepare special purpose financial statements. Tasmania's *Audit Act 2008* also enables Tasmania's Auditor General to dispense completely with the audits of some agencies or their subsidiaries if considered appropriate. In addition, New Zealand introduced a revised accounting standards framework on 1 July 2014 that provides four tiers of reporting, ranging from comprehensive financial statements complying with full accounting standards to statements that are based on significantly simplified accounting principles. These are further potential ways of reducing financial reporting requirements for small agencies.

There is a significant variation in the funds expended by WA government agencies that are consolidated into the Annual Report on State Finances[1]. Table 8 shows that 88 agencies account for 99 per cent of total operating expenditure of government agencies while Table 9 shows that 63 agencies account for only one per cent.

| Eighty-eight agencies with expenditure between $5 billion and $18.5 million account for 99 per cent of total operating expenditure | | |
|---|---|---|
| **Agency** | **2013-14 Operating Expenditure ($000)** | **Percentage of State Expenditure** |
| Gold Corporation | 5 151 382 | 11.8 |
| Metropolitan Public Hospitals | 4 973 366 | 11.4 |
| Department of Education | 4 313 406 | 9.8 |
| Electricity Generation and Retail Corporation – Synergy | 2 543 942 | 5.8 |
| Water Corporation | 1 578 000 | 3.6 |
| Department of Finance | 1 515 528 | 3.5 |
| + 76 agencies – not listed | | |
| Botanic Gardens and Parks Authority | 23 505 | 0.05 |
| Western Australian Health Promotion Foundation | 23 311 | 0.05 |
| Zoological Parks Authority | 22 838 | 0.05 |
| Western Australian Greyhound Racing Authority | 22 643 | 0.05 |
| Metropolitan Cemeteries Board | 22 358 | 0.05 |
| Perth Market Authority | 18 503 | 0.04 |

Source: Audited statements in tabled annual reports

**Table 8: Agencies accounting for 99 per cent of total operating expenditure**

1 Refer Figure 1, page 33 for agencies not consolidated into the Annual Report on State Finances.

Table 9, below, illustrates the potential for reduced disclosure.

| Sixty-three agencies with expenditure between $17.9 million and $49 000 account for one per cent of total operating expenditure | | |
|---|---|---|
| **Agency** | **2013-14 Operating Expenditure ($000)** | **Percentage of State Expenditure** |
| Swan River Trust | 17 929 | 0.04 |
| Broome Port Authority | 17 719 | 0.04 |
| Burswood Park Board | 17 623 | 0.04 |
| Independent Market Operator | 17 489 | 0.04 |
| C Y O'Connor Institute | 17 444 | 0.04 |
| Goldfields Institute of Technology | 17 325 | 0.04 |
| + 51 agencies – not listed | | |
| Racing Penalties Appeal Tribunal of Western Australia | 207 | 0.00 |
| Trustees of the Public Education Endowment | 206 | 0.00 |
| Coal Miner's Welfare Board of Western Australia, The | 157 | 0.00 |
| Legal Costs Committee | 119 | 0.00 |
| Western Australian Coastal Shipping Commission | 70 | 0.00 |
| Western Australian Energy Disputes Arbitrator | 49 | 0.00 |

Source: Audited statements in tabled annual reports

**Table 9: Agencies accounting for one per cent of total operating expenditure**

Treasury has advised that they support the principle of reducing the cost of financial reporting for small agencies and will consider various options after giving due regard to what other jurisdictions have implemented and to ensure that there are no inconsistencies or unintended consequences impacting across whole-of-government reporting.

## Recommendation

Strong consideration should be given to reducing the financial reporting requirements of small agencies.

# Audit of the Annual Report on State Finances

## Introduction

The Annual Report on State Finances (ARSF) reports on the State's annual financial results and financial position at year-end and explains significant variations from the prior year and from the annual budget estimates. The ARSF brings together key financial information for the three sectors of government as shown in Figure 7. In addition to this consolidated financial reporting, each agency also prepares and tables its own annual report which provides greater detail of its individual finances. The ARSF is prepared by the Department of Treasury and is audited under the *Government Financial Responsibility Act 2000*.

This section of our report provides information that supplements that contained within the ARSF with other information that Parliament and other readers might find useful.

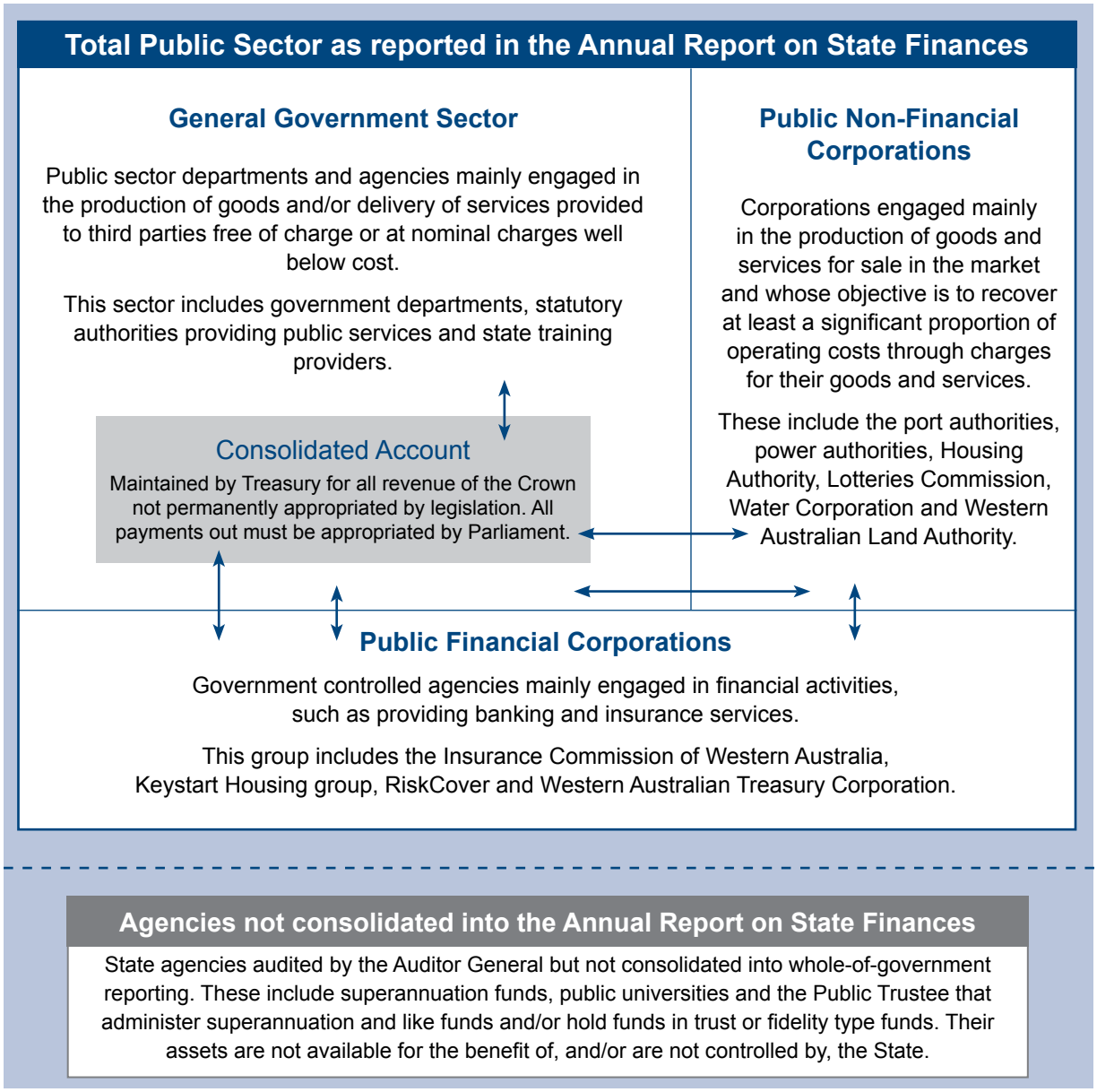



**Figure 7: Financial relationships between sectors of Western Australian government**

## Timeliness

A clear (unqualified) audit opinion was issued to the Treasurer on 19 September 2014. The audited ARSF was tabled in Parliament on 23 September 2014, meeting the statutory reporting deadline of 90 days after the end of the financial year.

Timely and efficient preparation of the ARSF by Treasury and its audit by us is dependent on agencies submitting accurate year-end financial balances to Treasury on time. It is of concern that Treasury advised of 62 agencies making material changes to their balances in late August and early September, well after Treasury's 25 July deadline for submitting their balances.

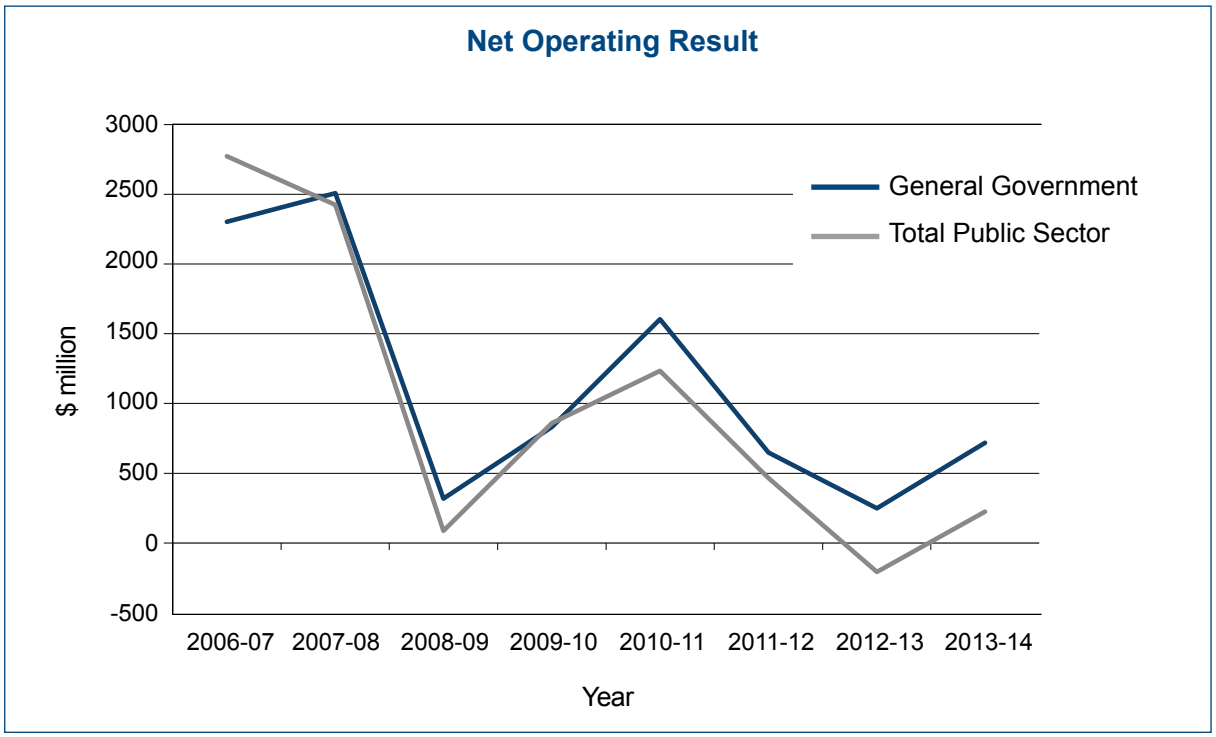
# Western Australia's Finances – Selected Key Indicators

The ARSF reports the State's annual financial operations and financial position at year-end and explains significant variations from the prior year and from the annual budget estimates. We have supplemented the information contained within the ARSF with other information (graphed over eight years).

- net operating result for General Government and for the Total Public Sector
- infrastructure renewal ratio
- Total Public Sector debt and debt sustainability.

## Net Operating Result

The net operating result for the General Government Sector and the Total Public Sector are graphed below. A large number of factors impact on the result including economic circumstances, interest rates, Commonwealth funding and legislation. However a surplus is generally an indicator of sound financial management and/or good budgeting.




Source: Tabled Annual Reports on State Finances

**Figure 8: Net Operating Result from 2006-07 to 2013-14**

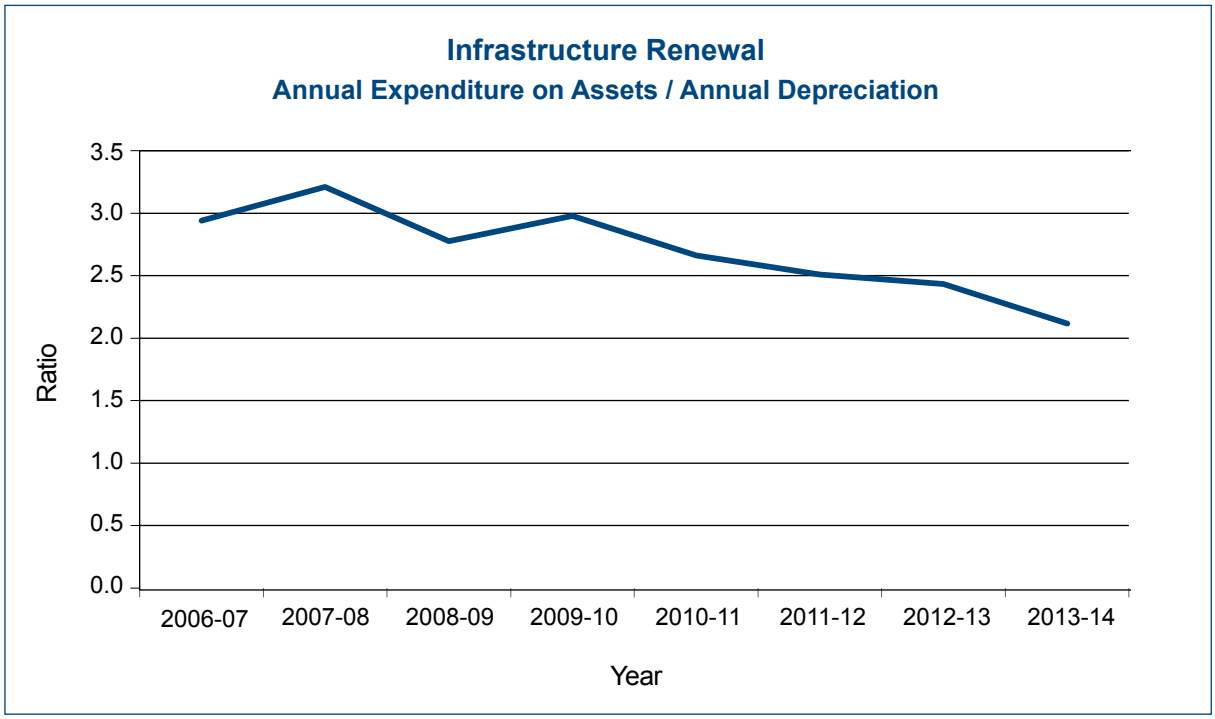
Figure 8 shows that the net operating result for General Government and the Total Public Sector both improved, with the latter returning to surplus.

## Infrastructure Renewal

A challenge to governments is to maintain existing infrastructure and also develop and provide new assets to achieve the social, economic and environmental objectives of the State.

In Figure 9, infrastructure assets is represented almost entirely by roads, ports, water and electricity assets and networks, hospitals and schools. Other assets such as biological and intangible assets represent a small proportion. In 2013-14 the value of infrastructure assets for the Total Public Sector increased by 4.6 per cent, from $147.2 billion to $154 billion.

The infrastructure renewal ratio is an indicator of the rate at which existing infrastructure is being replaced and increased compared with the rate at which it is being used up. The ratio compares the annual expenditure on assets with the annual depreciation charge on assets. A ratio higher than 1:1 indicates that overall the State's infrastructure is increasing.




Source: Tabled Annual Reports on State Finances

**Figure 9: Infrastructure renewal ratios from 2006-07 to 2013-14**

Figure 9 indicates that although infrastructure renewal is slowing, it remains well above the ratio of 1:1.

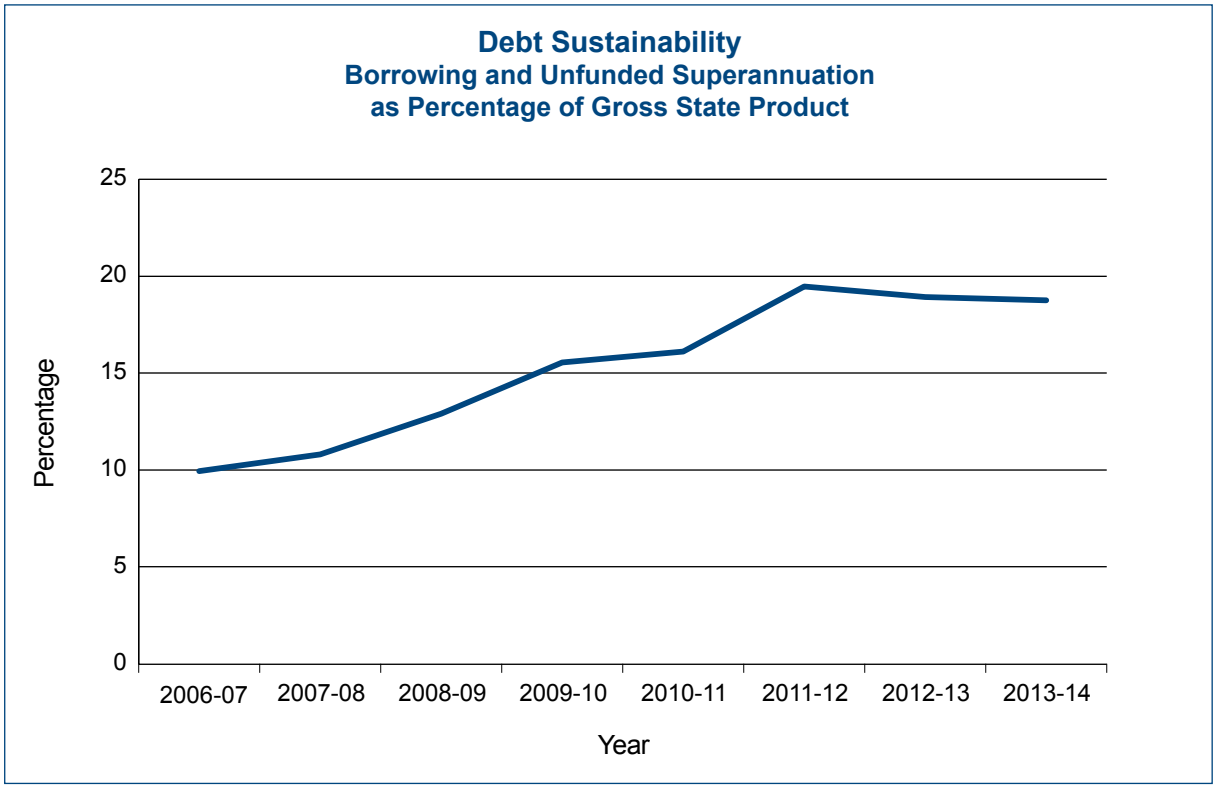
The infrastructure renewal rate is a high level indicator and caution is needed when interpreting the results. For example, this indicator does not inform on the extent to which maintenance of existing assets is prolonging their useful life.

## Total Public Sector Debt and Debt Sustainability

The ARSF contains important information on the State's net debt. In Figure 10 below, we have reported another commonly used high level indicator relating to debt, the 'Debt Sustainability' ratio. In this graph, the debt sustainability ratio is the value of borrowings and unfunded superannuation liability of the total public sector as a percentage of gross state product (GSP).

It should be noted that measuring sustainable debt is difficult as the ability to pay debts involves factors such as economic growth, interest rates and the capacity of the State to generate surpluses in the future. As debt is repaid over a long period, these factors cannot be forecast reliably.

Since 2006-07, Total Public Sector gross debt has increased 160 per cent from $18.9 billion to $49.2 billion at 30 June 2014 due to both increases in borrowings and unfunded superannuation liability. Over the same period, borrowings increased 210 per cent, from $13.3 billion to $41.2 billion compared with an increase in GSP of 38 per cent.




Source: Tabled Annual Reports on State Finances and Australian Bureau of Statistics

**Figure 10: Debt sustainability ratios from 2006-07 to 2013-14**

*Note: As ABS data for 2013-14 is not yet available, 2013-14 is based on a Treasury estimate of GSP.*

Although the graph indicates improvement over the last two years in the State's ability to meet its debt obligations, it shows a general decline over the eight years in capacity to service debt obligations. As State debt increases, the interest payments to service the debt will generally increase. This will impact on the State's future net results and its ability to repay debt in the future.

# Selected Significant Financial Transactions and Financial Ratios

## Introduction

While the previous section of this report dealt with the ARSF and the whole-of-government financial position, this section provides information that focuses on individual agencies. Specifically, it details selected significant financial transactions made in 2013-14 that we noted during our audits and selected key financial ratios and information that are commonly used for assessing financial performance or analysing the financial health of agencies. Reporting this information is consistent with a developing theme within the auditing profession of the need for auditors to provide transparency about important issues considered during the audit.

Some of the information we have reported may also be reported in each agency's tabled annual report but we have summarised it here for the convenience of Parliament. Inclusion of these items in this report is not intended to imply that we have a residual concern with these transactions.

## Selected Significant Financial Transactions

### Assets

- Western Australian Treasury Corporation's investments reduced by 35 per cent or $1 476 million mainly due to greater use of investment funds for loans to agencies.
- Department of the Premier and Cabinet is holding restricted cash of $31.1 million at 30 June 2014 for the Browse Economic Development Fund and Indigenous Housing Fund (Browse LNG Precinct Agreement). The funds are held in a Trust Account established in December 2013 and are not expected to be expensed until the 2016-17 financial year.
- During 2013-14 NIB Stadium was transferred from the Department of Sport and Recreation to the Western Australian Sports Centre Trust (VenuesWest) following completion of the redevelopment. The value of the stadium at transfer was $91.4 million.
- There was a $18.5 million reduction in State assets due to the change in use of road reserves upon transfer from Main Roads to the Metropolitan Redevelopment Authority for the Elizabeth Quay project.
- Water Corporation commissioned the Southern Seawater Desalination Plant (Stage 2) at Binningup on 17 January 2014 with a value of $427 million. Further, as a buyer for the Burrup Desalination Plant could not be found and the plant is not estimated to generate future returns, an impairment write-down of $15.7 million was applied to the asset value.
- Fremantle Port Authority's property, plant and equipment increased mainly due to expenditure on two large projects during the year. These were the North Quay Rail Terminal extension ($29.3 million) and the Rous Head project ($9.2 million).
- The Department of Fire and Emergency Services' ministerial body entered into an agreement for the future sale of the old FESA House site in Hay Street for the development of a hotel and business centre. An impairment write-down of $12.3 million was applied to the valuation of the land and building to reflect this future use of the site.
- The net position of the Government Employees Superannuation Fund improved to $356 million compared to $130 million in 2013 mainly due to higher than expected investment returns. Funds under management increased by 15.5 per cent to $18.8 billion.

- The assets and liabilities of the Joondalup, Peel and Midland health campuses were transferred from the Department of Health to the Metropolitan Public Hospitals (MPH) on 1 January 2014 following legislative changes that transferred control over the contracts with, and services of, the private health service providers to MPH. This increased MPH net assets by $508 million.
- Expenditure on the Ord River Expansion project development and capital infrastructure works in progress, met from Royalties for Regions funding via the Department of State Development totalled $52 million during 2013-14. Completed road infrastructure of $105.4 million was transferred to the Shire of Wyndham-East Kimberley, which brought the capital value of the project to $187 million at 30 June 2014. The transfer of other assets to responsible departments and authorities is scheduled to be made during 2014-15.
- Public Transport Authority's railway infrastructure increased by $489 million to $2.46 billion mainly due to the Perth City Link projects ($311 million), Butler Extension ($37 million) and car park extensions ($25 million).
- The Department of Education completed $426 million of building works including seven new schools, and six new buildings to facilitate the transition of Year 7 students to secondary school in 2015.

## Liabilities

- The Western Australian Treasury Corporation decreased its borrowings by one per cent compared to the prior year. The Corporation decreased its overseas borrowings from $2 208 million to $855 million while increasing domestic borrowings by $867 million to $33 billion.
- The Police Service paid out $38 million in voluntary redundancy packages to 190 police officers and 19 other staff. This has contributed to the leave liability being reduced by $5.5 million during 2013-14.

## Expenditure

- The Department of Health's grants and subsidies increased by $596 million in 2013-14 to $5.1 billion. The increase in grants paid results from higher levels of funding received from the State and Commonwealth governments under the National Health Reform Agreement as well as Royalties for Regions funding. The funding received was distributed to the Health Services/Local Hospital Networks.
- The Mental Health Commission purchased services from the Department of Health and other health entities to the value of $554.9 million in 2013-14. This was an increase of $50.2 million on 2012-13 mainly due to the increased mental health funding from State and Commonwealth governments under the National Health Reform Agreement.
- Because of growth in the number of children and young people in the Department for Child Protection and Family Support's care, as well as additional funding received, spending on funding for service contracts with the not-for-profit sector increased by 9.1 per cent to $156 million.
- Disability Services Commission's expenditure on services provided by funded agencies increased by 14 per cent to $567.8 million mainly due to funding under the Commonwealth National Disability Agreement and sustainable funding and contracting for not-for-profit sector initiative, and state growth/indexation.

- Department of Fire and Emergency Services (DFES) paid out $12.4 million in Western Australia Natural Disaster Relief and Recovery Arrangements (WANDRRA) funding for eight natural disasters. On 1 April 2014 responsibility for WANDRRA transferred from DFES to the Department of Premier and Cabinet who paid out a further $46 million for damage related to a variety of disasters.
- Claims paid out by the Insurance Commission of Western Australia increased by 31 per cent or $118 million in 2013-14. This was mainly due to a record number of severe injuries from motor accidents.
- Department of Finance payments under the First Home Owners Grant fell by $19.6 million to $114.2 million although the number of grants increased slightly from 19 277 to 19 806. This mainly reflects revised arrangements since September 2013 when grants for newly constructed homes increased from $7 000 to $10 000, while grants for established homes decreased from $7 000 to $3 000.
- The Department of Commerce's Supplies and Services expenditure decreased by $15.6 million (35 per cent), of which $5.8 million is attributed to the wind down of the Gas Appliance Rectification Program.
- The Lotteries Commission's total approved grants to beneficiaries decreased by 1.1 per cent to $271 million due to lower lottery sales in 2013-14. Sales were higher in the previous year because of an exceptionally high level of jackpots.

## Revenue

- GST grants from the Commonwealth in 2013-14 were $428.5 million (14.6 per cent) lower than in 2012-13, largely due to a sharp decline in Western Australia's share of the national GST pool. The State's population share reduced from 55.1 to 44.6 per cent in 2013-14.
- Land tax collections rose $92 million to $659 million in 2013-14 mainly due to a 12.5 per cent increase in land tax rates together with higher land values and increased numbers of taxpayers.
- Western Australian Land Authority, LandCorp's land sales increased by $29 million (nine per cent) compared to the previous year predominantly driven by increased sales in metropolitan areas while sales for industrial and regional land have declined.
- Housing Authority sales increased by $96 million (28 per cent) to $432.8 million mainly due to an increase in the sale of vacant land.
- Gold Corporation's revenue and cost of sales decreased by $678 million (12 per cent) and $687 million (12 per cent) respectively due to decreases in gold and silver prices and trading. Profit after tax was $8.5 million (33 per cent) lower than the previous year.
- The Police Service recorded a 10 per cent reduction in user fees and charges to $32.9 million mainly because vehicle escort services for over-width and over-length vehicles were transferred to Main Roads. Furthermore, debtors of $1.84 million were written off, mostly relating to charges for recovery costs for impounded vehicles.
- Bunbury Water Corporation's water sales increased by $1.9 million in 2013-14 due to a 19.6 per cent increase in charges as well as a seven per cent increase in residential water consumption. Similarly, Busselton Water Corporation's water sales were $1.2 million higher due to a 6.8 per cent increase in fees and a nine per cent increase in residential water consumption (volume).

- The Department of Commerce's administered User Charges and Fees increased by $19 million to $22.1 million mainly due to an increase in premiums collected under the State Government's revised Home Indemnity Insurance temporary arrangement. Under this one year arrangement (1 November 2013 to 31 October 2014) the State wholly underwrote the provision of new home indemnity insurance policies to provide cover for financial loss resulting from the death, insolvency or disappearance of a builder or building group.

## Key Financial Ratios of Public Sector Agencies

Selected key financial ratios and information that are commonly used for assessing financial performance or analysing the financial health of agencies are presented in this section:

- liquidity or current ratio
- financial results for all agencies
- borrowings to assets ratio
- dividends paid to General Government by public corporations and agencies
- agencies with negative net assets.

### Liquidity or Current Ratio for All Agencies – Four Year Trend

The liquidity or current ratio is a traditional method of assessing an entity's ability to meet their debts as and when they fall due. It is calculated by dividing current assets by current liabilities. A ratio of more than one is generally accepted to show a low risk.

Twenty-one per cent of agencies at 30 June 2014 had a current ratio below 1.0, up from 20 per cent in the previous year.

| Liquidity ratio | Percentage of agencies 30 June 2011 | Percentage of agencies 30 June 2012 | Percentage of agencies 30 June 2013 | Percentage of agencies 30 June 2014 |
|---|---|---|---|---|
| Greater than or equal to 1 (Low Risk) | 74 | 78 | 80 | 79 |
| Less than 1 | 26 | 22 | 20 | 21 |

Source: Audited statements in tabled annual reports

**Table 10: Liquidity ratios of agencies – four year trend**

### Financial Result for All Agencies – Four Year Trend

A number of factors can determine whether an agency achieves a surplus financial result. However, a surplus is generally an indicator that an entity is adequately funded and/or has sound financial management including good budgeting.

One hundred agencies reported a surplus and 44 reported a deficit for 2013-14. The following table is a summary of the financial results of agencies over the past four years:

| Financial Result | Percentage of Agencies 2010-11 | Percentage of Agencies 2011-12 | Percentage of Agencies 2012-13 | Percentage of Agencies 2013-14 |
|---|---|---|---|---|
| Surplus | 58 | 68 | 61 | 69 |
| Deficit | 42 | 32 | 39 | 31 |

Source: Audited statements in tabled annual reports

**Table 11: Financial results of agencies – four year trend**

## Borrowings to Assets Ratio

While a relatively small number of agencies have a borrowings liability, their borrowings are significant in value. The borrowings to assets ratio is an indicator of the extent to which an agency's borrowings are exceeded by its assets. However, caution is needed when interpreting the results as the indicator does not differentiate between current and non-current assets and borrowings. It is a high level indicator of the extent to which an agency has taken on debt obligations.

| Agency Name | Borrowings to Assets Ratio | | | |
|---|---|---|---|---|
| | 2010-11 (%) | 2011-12 (%) | 2012-13 (%) | 2013-14 (%) |
| **Corporatised Entities** | | | | |
| Broome Port Authority | 37 | 36 | 37 | 34 |
| Bunbury Port Authority | 9 | 8 | 6 | 5 |
| Dampier Port Authority | 60 | 54 | 48 | 32 |
| Esperance Port Authority | 63 | 59 | 57 | 51 |
| Fremantle Port Authority | 53 | 50 | 45 | 43 |
| Geraldton Port Authority | 69 | 67 | 61 | 50 |
| Horizon Power – Regional Power Corporation | 26 | 30 | 39 | 41 |
| Independent Market Operator | 50 | 72 | 76 | 47 |
| Port Hedland Port Authority | 45 | 40 | 39 | 31 |
| Water Corporation | 29 | 31 | 33 | 34 |
| Western Australian Land Authority | 8 | 10 | 16 | 13 |
| Western Power – Electricity Networks Corporation | 76 | 75 | 76 | 75 |
| **Statutory Authorities** | | | | |
| Country High School Hostels Authority | 25 | 20 | 19 | 16 |
| Country Housing Authority | 64 | 63 | 64 | 64 |
| Gold Corporation | 2 | 4 | 2 | 11 |
| Housing Authority | 28 | 26 | 24 | 24 |
| Metropolitan Redevelopment Authority | n/a | 45 | 46 | 50 |
| Perth Market Authority | 27 | 25 | 24 | 22 |
| Public Transport Authority of Western Australia | 20 | 21 | 23 | 25 |
| Western Australian Treasury Corporation | 98 | 94 | 95 | 90 |
| **Departments** | | | | |
| Department of the Attorney General | 32 | 30 | 28 | 25 |
| Department of Education Services | 118 | 114 | 109 | 105 |
| Department of Finance | n/a | 9 | 9 | 7 |
| Department of Fire and Emergency Services | n/a | n/a | 20 | 16 |
| Department of Fisheries | 34 | 29 | 28 | 25 |
| Department of Regional Development | n/a | n/a | n/a | 20 |

Source: Audited statements in tabled annual reports

**Table 12: Borrowings to Assets Ratio of agencies – four year trend**

*Note: Agencies with a low percentage borrowing (ratio below five per cent) have been omitted.*

## Public Corporations and Agencies Paying Dividends to General Government

Dividends paid by public corporations contribute significantly to the surplus for the General Government Sector (GGS). Higher dividends can provide more funds for GGS agencies to deliver services. However, it is also important that the corporations retain enough of their surplus to meet asset maintenance and infrastructure renewal requirements.

Except for Water Corporation, dividend paying entities are only allowed by their legislation to declare and pay a dividend after year-end. Therefore, the following table shows the dividends paid by corporations compared to their financial results of the prior year.

| Agency Name | 2012-13 surplus (000's) | Dividends paid 2013-14 (000's) | Percentage of 2013 surplus paid as dividend | Percentage of 2012 surplus paid as dividend |
|---|---|---|---|---|
| Albany Port Authority | 4 451 | 2 906 | 65 | 65 |
| Broome Port Authority | 3 995 | 2 596 | 65 | 65 |
| Bunbury Port Authority | 10 821 | 7 033 | 65 | 65 |
| Dampier Port Authority | 19 604 | 12 742 | 65 | 65 |
| Esperance Port Authority | -469 | 0 | 0 | 0 |
| Forest Products Commission * | 3 222 | 2 094 | 65 | 65 |
| Fremantle Port Authority ** | 36 196 | 18 795 | 52 | 56 |
| Geraldton Port Authority | 22 580 | 14 677 | 65 | 65 |
| Gold Corporation | 25 704 | 19 278 | 75 | 75 |
| Horizon Power – Regional Power Corporation ^ | 51 199 | 33 292 | 65 | 124 |
| Insurance Commission of Western Australia | 312 034 | 65 790 | 21 | 0 |
| Port Hedland Port Authority | 45 807 | 29 777 | 65 | 65 |
| Synergy – Electricity Generation and Retail Corporation | 57 851 | 37 600 | 65 | n/a |
| Water Corporation ^^ | 507 000 | 486 764 | 75 | 74 |
| Western Australian Land Authority | 48 279 | 31 946 | 66 | 100 |
| Western Australian Land Information Authority | 26 374 | 3 956 | 15 | 0 |
| Western Australian Treasury Corporation | 16 016 | 10 410 | 65 | 65 |
| Western Power – Electricity Networks Corporation | 191 334 | 124 395 | 65 | 65 |

Source: Audited statements in tabled annual reports

**Table 13: Percentage of surplus paid as dividends**

* Forest Products Commission dividend is based on profit before change in biological asset valuation, onerous contracts and grants and subsidies from government less tax.

** Fremantle Port Authority's surplus was adjusted for one off revenues in the dividend calculation.

^ Horizon Power's dividends paid in 2012 were for two years, 2011-12 and 2010-11.

^^ Water Corporation's surplus includes developer take over asset contributions, which are excluded for dividend calculation purposes. Dividends each financial year comprise a final dividend for the prior year and an interim dividend for the current year.

## Agencies with Negative Net Assets During the Last Four Years

Four agencies had a negative net assets position at 30 June 2014 (refer Table 14 below).

A negative net asset position can generate concern as to whether the entity is a 'going concern'. This is particularly the case in the private sector where it may result in the auditor modifying the audit opinion. However, in many ways the private sector concept of a going concern is inappropriate to the public sector, particularly for agencies receiving annual appropriations and/or providing services on a non-commercial basis such as those listed below.

Agency financial statements in the public sector are prepared with the expectation of continuing as a going concern unless there are clear policy statements that the government will cease to support an agency. However, the absence of such statements does not mean that the continuity of an agency or its programs is assured. Agency resources can be affected at short notice by Cabinet or ministerial decisions at either State or Commonwealth level.

If such statements or decisions are made, the Accountable Authority of the agency has responsibility to disclose in the annual report how this could adversely impact the operations or long term viability of the agency and, if of a financial nature, in the notes to the financial statements.

In the absence of such statements, we will regard an agency as a going concern.

| Agency Name | Net assets at year-end (S for Surplus, N for Negative) | | | |
|---|---|---|---|---|
| | 2010-11 | 2011-12 | 2012-13 | 2013-14 |
| Department of Education Services | N | N | N | N |
| Office of the Environmental Protection Authority | S | S | N | N |
| Office of the Information Commissioner | N | N | N | N |
| Office of the Inspector of Custodial Services | N | N | N | N |

Source: Audited statements in tabled annual reports

**Table 14: Agencies that reported a negative net assets amount at 30 June 2014**

# Quality and Timeliness of Reporting

- **There was no overall improvement in the number of errors in financial statements submitted for audit compared to the previous year with the number still high. The breadth and magnitude of errors raises concerns about the reliability of financial management information in some agencies and the potential for management to be misinformed about their agency's true financial position. Significant errors also increase the cost of the audit process and delay the completion of the audits.**
- **63 per cent of agencies demonstrated efficiency in their year-end processes by being audit ready within 20 days of year-end – a substantial improvement on the prior year and a continuation of a strong positive trend.**
- **The top 40 'Best Practice' agencies across two categories are acknowledged for timeliness in their financial reporting, good financial controls and reporting practices.**

## Quality and Accuracy

The number of errors identified and corrected during the 2013-14 audit process was about the same as the previous year. Details of errors in the balance sheets and income statements of agencies are reported on page 23.

The high number of errors and their value demonstrates the continuing need for many agencies to improve their internal quality assurance processes prior to submitting their financial statements for audit. The quality of agency financial statements, KPIs and supporting working papers provided for audit has a direct bearing on the timeliness and cost of the audit.

Various best practice initiatives can be implemented by agencies to improve the quality of their financial reporting. To generate reliable financial reports, initiatives should be undertaken throughout each financial year and after year-end, including as part of the budgeting process, a confirmation of the accounting policies to be applied for the ensuing year.

Before year-end, agencies need to:

- prepare a project plan of human and financial resources, assign responsibilities for tasks and set timeframes for financial reporting
- avoid receiving asset valuations late in the financial year or after year-end and ensure that management reviews the valuations before they are included in the financial statements
- identify and review changes to accounting standards and reporting requirements and confirm the approach to any changes with Audit
- determine the form and content of their KPIs and obtain necessary approvals from Treasury
- prepare pro-forma financial reports, including all comparative information that can be reviewed by Audit well in advance of the final audit visit.

After year-end:

- analyse variations between actual and budget as well as previous year results to identify and correct omissions and/or errors
- ensure managers with sign off responsibility for components of the financial report do so as per the established timetable
- ensure the draft financial report has received an internal quality assurance review, preferably by internal audit or other suitably qualified professionals.

## Timeliness

Sixty-three per cent of the agencies were 'Audit Ready' within 20 days of their financial year-end.

Being ready for audit as soon as possible after year-end enables agencies to release resources for other important financial management tasks, thereby improving the overall efficiency and financial management of the public sector.

The date when each agency was 'Audit Ready' is reported in Appendix 1 (commencing on page 47) while Figure 11 below summarises the improvement over the last six years. In 2014 more agencies were audit ready within 20 days and overall, 49 per cent of agencies submitted earlier than the previous year.

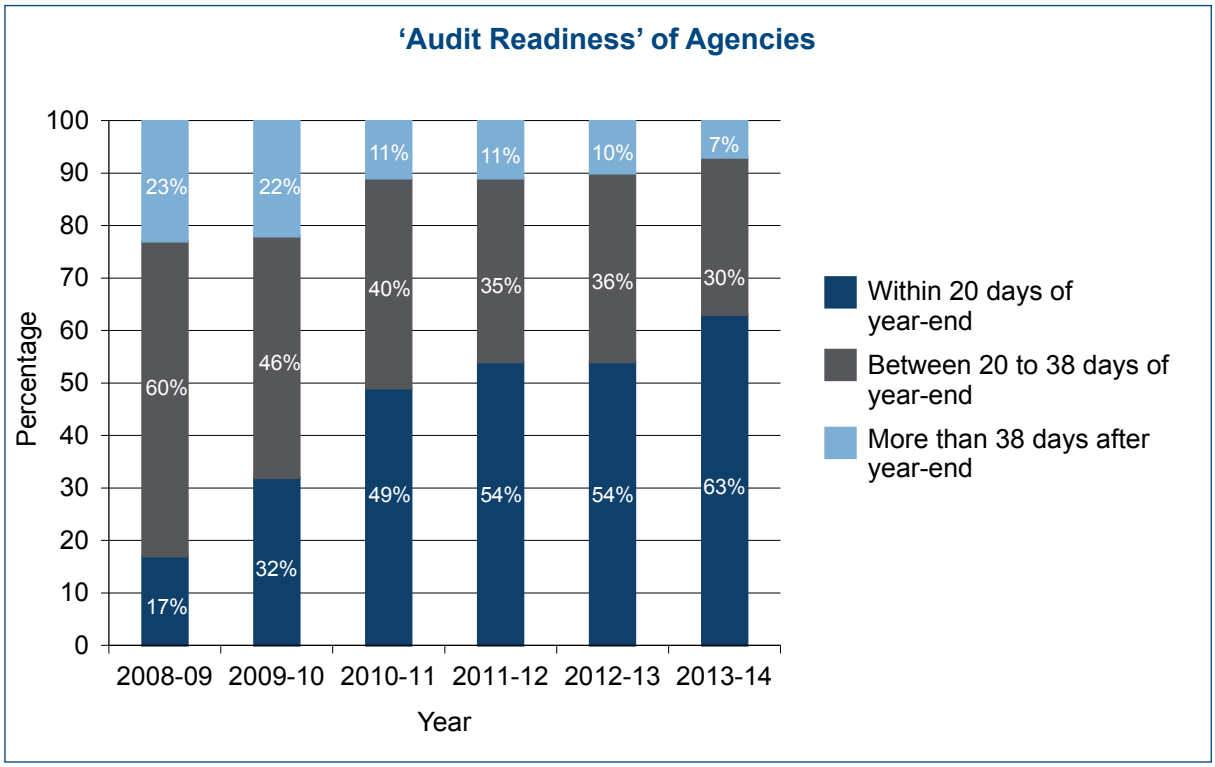



**Figure 11: Percentage of agencies 'Audit Ready' within three time brackets for last six years**

## Best Practice Agencies

Each year we rate agencies on their financial reporting and financial controls and recognise the top 20 large and top 20 small 'best practice' agencies (Table 15). We congratulate the agencies we rated as the top achievers for 2013-14.

Our assessment criteria include:

- clear opinion on financial statements, controls and key performance indicators
- the number and significance of control weaknesses raised in management letters
- audit ready early, ideally no later than 20 days after financial year-end
- good quality financial statements and key performance indicators, supported by reliable working papers and submitted for audit within the agreed timeframe
- management resolution of accounting standards and presentation issues
- key staff available during the audit process.

| Best Practice Top 20 Large Agencies | Best Practice Top 20 Small Agencies |
|---|---|
| Construction Industry Long Service Leave Payments Board | Albany Port Authority |
| Dampier Port Authority | Botanic Gardens and Parks Authority |
| Department of Mines and Petroleum | Broome Port Authority |
| Department of Training and Workforce Development | Bunbury Port Authority |
| Electricity Networks Corporation – Western Power | Chemistry Centre (WA) |
| Esperance Port Authority | Commissioner for Children and Young People |
| Fremantle Port Authority | Corruption and Crime Commission |
| Geraldton Port Authority | Department of the Registrar, Western Australian Industrial Relations Commission |
| Gold Corporation | Economic Regulation Authority |
| Government Employees Superannuation Board | Governor's Establishment |
| Insurance Commission of Western Australia | Heritage Council of Western Australia |
| Legal Aid Commission of Western Australia | Kimberley Development Commission |
| Lotteries Commission | Metropolitan Cemeteries Board |
| Port Hedland Port Authority | Office of the Information Commissioner |
| Water Corporation | Parliamentary Commissioner for Administrative Investigations |
| Western Australian Alcohol and Drug Authority | Public Sector Commission |
| Western Australian Land Authority | Small Business Development Corporation |
| Western Australian Sports Centre Trust | Western Australian Electoral Commission |
| Western Australian Tourism Commission | WorkCover Western Australia Authority |
| Western Australian Treasury Corporation | Zoological Parks Authority |

**Table 15: Top 20 best practice agencies in two expenditure categories for 2013-14**

# Appendix 1: Agencies Audited

Audit opinions issued for 158 audits completed between 1 May 2014 and 3 November 2014 are summarised below. These agencies primarily had reporting dates of 30 June or 31 July 2014. The audit opinion is issued to the responsible Minister for each government agency and is printed in full in the agency's annual report. The annual report is tabled in Parliament by the Minister and also normally posted on the agency's website.

The table lists each agency audited and the 'Audit Ready' date when their financial statements were submitted for the audit to commence.

| Rating codes for timeliness / audit readiness used in Appendix 1 | | |
|---|---|---|
| **Agency's Submission Date** | **Rating** | **Colour Coding** |
| On or before 19 July 2014 | Good | Green |
| By Tuesday 5 August 2014 | Satisfactory | Yellow |
| After 5 August 2014 | Needs Improvement | Red |

*Ratings are not reported for the Annual Report on State Finances, subsidiaries, request audits, cemetery boards and final audits of abolished agencies. These are marked as 'n/a' in the 'Audit Ready' column.*

Audit opinions were issued on financial statements, controls and KPIs unless a '❖' follows the agency name. This denotes that the opinion was on financial statements only. Qualified opinions or any other notes appear against the agency's name and are referenced to details in the report.

Agencies' names are listed alphabetically without 'The' in their statutory names.

| Audit Ready | Agency | Opinion Issued |
|---|---|---|
| 16/07/2014 | Aboriginal Affairs Planning Authority, The | 29/08/2014 |
| 20/08/2014 | Agricultural Produce Commission | 12/09/2014 |
| 16/07/2014 | Albany Port Authority ❖ | 03/09/2014 |
| 14/07/2014 | Animal Resources Authority | 20/08/2014 |
| n/a | Annual Report on State Finances ❖ | 19/09/2014 |
| 14/07/2014 | Board of the Art Gallery of Western Australia, The | 05/09/2014 |
| 16/07/2014 | Botanic Gardens and Parks Authority | 10/09/2014 |
| 16/07/2014 | Broome Port Authority ❖ (Final Audit) | 09/09/2014 |
| 23/07/2014 | Building and Construction Industry Training Board | 14/08/2014 |
| 16/07/2014 | Bunbury Port Authority ❖ | 27/08/2014 |
| 04/08/2014 | Bunbury Water Corporation | 03/09/2014 |
| 18/07/2014 | Burswood Park Board, The | 03/09/2014 |
| 21/07/2014 | Busselton Water Corporation | 03/09/2014 |
| 16/07/2014 | Chemistry Centre (WA) | 29/08/2014 |
| 16/07/2014 | Coal Industry Superannuation Board (Final Audit) | 22/09/2014 |
| 21/07/2014 | Coal Miners' Welfare Board of Western Australia, The | 06/08/2014 |

❖ Opinion relates to financial statements only

| Audit Ready | Agency | Opinion Issued |
|---|---|---|
| 30/07/2014 | Combat Sports Commission | 15/09/2014 |
| 14/07/2014 | Commissioner for Children and Young People | 05/08/2014 |
| 13/08/2014 | Commissioner for Equal Opportunity | 22/08/2014 |
| 16/07/2014 | Commissioner of Main Roads | 22/08/2014 |
| 16/07/2014 | Construction Industry Long Service Leave Payments Board | 28/08/2014 |
| 15/07/2014 | Corruption and Crime Commission | 22/09/2014 |
| 28/07/2014 | Country High School Hostels Authority | 19/09/2014 |
| 16/07/2014 | Country Housing Authority | 29/08/2014 |
| 14/07/2014 | Dampier Port Authority ❖ (Final Audit) | 05/09/2014 |
| 16/07/2014 | Department for Child Protection and Family Support | 08/08/2014 |
| 16/07/2014 | Department of Aboriginal Affairs | 29/08/2014 |
| 06/08/2014 | Department of Agriculture and Food<br>(Qualified opinion on controls and Matter of Significance paragraph in opinion. Details on pages 9 and 12.) | 22/09/2014 |
| 18/07/2014 | Department of Commerce | 17/09/2014 |
| 16/07/2014 | Department of Corrective Services<br>(Qualified opinion on controls. Details on page 10.) | 12/09/2014 |
| 16/072014 | Department of Culture and the Arts | 08/09/2014 |
| 19/07/2014 | Department of Education | 12/09/2014 |
| 01/08/2014 | Department of Education Services | 15/09/2014 |
| 16/07/2014 | Department of Environment Regulation | 19/09/2014 |
| 16/07/2014 | Department of Finance | 11/09/2014 |
| 01/08/2014 | Department of Fire and Emergency Services | 29/08/2014 |
| 03/09/2014 | Department of Fisheries<br>(Qualified opinion on financial statements, controls and KPIs. Details page 10.) | 16/10/2014 |
| 28/07/2014 | Department of Health | 22/09/2014 |
| | Department of Housing (2014 audit dispensed with – s14 of AG Act) | No opinion |
| 18/07/2014 | Department of Lands | 22/09/2014 |
| 04/08/2014 | Department of Local Government and Communities<br>(Qualified opinion on financial statements, controls and KPIs. Details page 10.) | 22/09/2014 |
| 16/07/2014 | Department of Mines and Petroleum | 17/09/2014 |
| 25/07/2014 | Department of Parks and Wildlife | 12/09/2014 |
| 18/07/2014 | Department of Planning | 16/09/2014 |
| 30/07/2014 | Department of Racing, Gaming and Liquor | 16/09/2014 |
| 28/07/2014 | Department of Regional Development | 18/09/2014 |
| 16/07/2014 | Department of Sport and Recreation | 07/08/2014 |

❖ Opinion relates to financial statements only

| Audit Ready | Agency | Opinion Issued |
|---|---|---|
| 13/07/2014 | Department of State Development | 16/09/2014 |
| 21/07/2014 | Department of the Attorney General | 05/09/2014 |
| 01/08/2014 | Department of the Legislative Assembly | 03/09/2014 |
| 01/08/2014 | Department of the Legislative Council | 03/09/2014 |
| 21/07/2014 | Department of the Premier and Cabinet | 14/08/2014 |
| 15/07/2014 | Department of the Registrar, Western Australian Industrial Relations Commission | 25/07/2014 |
| 16/07/2014 | Department of Training and Workforce Development | 12/09/2014 |
| 01/08/2014 | Department of Transport | 08/09/2014 |
| 16/07/2014 | Department of Treasury | 12/09/2014 |
| 18/07/2014 | Department of Water | 24/09/2014 |
| 15/07/2014 | Disability Services Commission | 17/09/2014 |
| 16/07/2014 | Economic Regulation Authority | 11/08/2014 |
| 21/08/2014 | Electricity Generation and Retail Corporation - Synergy ❖ | 12/09/2014 |
| | Request audits: | 22/09/2014 |
| n/a | South West Hub Joint Venture ❖ | 22/09/2014 |
| n/a | South West Hub Pty Ltd ❖ | 25/09/2014 |
| n/a | Vinalco Energy Trust ❖ | 25/09/2014 |
| n/a | Vinalco Energy Pty Ltd ❖ | |
| 16/07/2014 | Electricity Networks Corporation – Western Power ❖ | 03/09/2014 |
| n/a | Electricity Retail Corporation – Synergy (Final audit to 31/12/2013) | 12/09/2014 |
| 16/07/2014 | Esperance Port Authority ❖ | 18/09/2014 |
| 03/08/2014 | Fire and Emergency Services Superannuation Board | 23/09/2014 |
| 16/07/2014 | Forest Products Commission | 16/09/2014 |
| 16/07/2014 | Fremantle Port Authority ❖ | 29/08/2014 |
| 30/07/2014 | Gaming and Wagering Commission of Western Australia | 16/09/2014 |
| 04/08/2014 | Gascoyne Development Commission | 16/09/2014 |
| 15/07/2014 | Geraldton Port Authority ❖ (Final Audit) | 12/09/2014 |
| 16/07/2014 | Gold Corporation | 12/09/2014 |
| 17/07/2014 | Goldfields-Esperance Development Commission | 08/09/2014 |
| 01/08/2014 | Government Employees Superannuation Board | 11/09/2014 |
| 07/07/2014 | Governor's Establishment | 21/07/2014 |
| 15/07/2014 | Great Southern Development Commission | 09/09/2014 |
| 16/07/2014 | Health and Disability Services Complaints Office | 31/07/2014 |
| 15/07/2014 | Heritage Council of Western Australia | 05/09/2014 |

❖ Opinion relates to financial statements only

| Audit Ready | Agency | Opinion Issued |
|---|---|---|
| 18/07/2014 | Housing Authority | 15/09/2014 |
| | Subsidiaries: | |
| n/a | Homeswest Loan Scheme Trust ❖ | 01/09/2014 |
| n/a | Keystart Bonds Limited ❖ | 01/09/2014 |
| n/a | Keystart Housing Scheme Trust ❖ | 01/09/2014 |
| n/a | Keystart Loans Limited ❖ | 01/09/2014 |
| n/a | Keystart Support Trust ❖ | 01/09/2014 |
| 16/07/2014 | Independent Market Operator ❖ | 19/09/2014 |
| 16/07/2014 | Insurance Commission of Western Australia | 18/09/2014 |
| 16/07/2014 | Keep Australia Beautiful Council (W.A.) | 22/08/2014 |
| 15/07/2014 | Kimberley Development Commission | 16/09/2014 |
| n/a | Landcare Trust (2014 audit dispensed with – s14 of AG Act) | No opinion |
| 16/07/2014 | Law Reform Commission of Western Australia | 11/09/2014 |
| 16/07/2014 | Legal Aid Commission of Western Australia | 17/09/2014 |
| 30/07/2014 | Legal Contribution Trust (01/01/2014 – 30/06/2014) (Qualified opinion on financial statements, controls and KPIs. Details page 10.) | 12/09/2014 |
| 15/07/2014 | Legal Costs Committee | 05/09/2014 |
| 16/07/2014 | Library Board of Western Australia, The | 12/09/2014 |
| 08/07/2014 | Local Health Authorities Analytical Committee | 11/08/2014 |
| 16/07/2014 | Lotteries Commission | 22/08/2014 |
| 21/07/2014 | Mental Health Commission | 03/09/2014 |
| 16/07/2014 | Metropolitan Cemeteries Board | 09/09/2014 |
| 16/07/2014 | Metropolitan Redevelopment Authority | 29/08/2014 |
| 24/07/2014 | Mid West Development Commission | 16/09/2014 |
| 18/08/2014 | Minerals Research Institute of Western Australia (from 01/02/2014) | 17/09/2014 |
| 28/07/2014 | Minister for Health in his capacity as the Deemed Board of the Metropolitan Public Hospitals (Qualified opinion on controls and a Matter of Significance paragraph in opinion. Details pages 11 and 12.) | 22/09/2014 |
| 04/08/2014 | National Trust of Australia (W.A.), The | 16/09/2014 |
| 05/08/2014 | Office of the Director of Public Prosecutions | 16/09/2014 |
| 08/07/2014 | Office of the Environmental Protection Authority (Qualified opinion on controls. Details page 11.) | 04/08/2014 |
| 15/07/2014 | Office of the Information Commissioner | 28/08/2014 |
| 18/07/2014 | Office of the Inspector of Custodial Services | 15/08/2014 |
| 16/07/2014 | Parliamentary Commissioner for Administrative Investigations | 31/07/2014 |
| 16/07/2014 | Parliamentary Inspector of the Corruption and Crime Commission | 25/08/2014 |
| 01/08/2014 | Parliamentary Services Department | 03/09/2014 |

❖ Opinion relates to financial statements only

| Audit Ready | Agency | Opinion Issued |
|---|---|---|
| 16/07/2014 | Peel Development Commission | 29/08/2014 |
| 16/07/2014 | Perth Market Authority | 22/08/2014 |
| 16/07/2014 | Perth Theatre Trust | 28/08/2014 |
| 22/07/2014 | Pilbara Development Commission | 16/09/2014 |
| 14/07/2014 | Police Service | 27/08/2014 |
| 14/07/2014 | Port Hedland Port Authority ❖ (Final Audit) | 09/09/2014 |
| 04/08/2014 | Potato Marketing Corporation of Western Australia | 17/09/2014 |
| 01/08/2014 | Professional Standards Council | 16/09/2014 |
| 16/07/2014 | Public Sector Commission | 13/08/2014 |
| 01/08/2014 | Public Transport Authority of Western Australia | 16/09/2014 |
| 05/08/2014 | Public Trustee | 19/09/2014 |
| 21/07/2014 | Quadriplegic Centre Board | 05/09/2014 |
| 15/08/2014 | Queen Elizabeth II Medical Centre Trust, The | 19/09/2014 |
| 26/09/2014 | Racing and Wagering Western Australia (01/08/2013 – 31/07/2014) | 14/10/2014 |
| 30/07/2014 | Racing Penalties Appeal Tribunal of Western Australia | 16/09/2014 |
| 01/08/2014 | Regional Power Corporation – Horizon Power ❖ | 08/09/2014 |
| 04/08/2014 | Rottnest Island Authority | 17/09/2014 |
| 22/08/2014 | Rural Business Development Corporation | 17/09/2014 |
| 18/07/2014 | School Curriculum and Standards Authority | 15/09/2014 |
| 16/07/2014 | ScreenWest Inc | 28/08/2014 |
| 16/07/2014 | Small Business Development Corporation | 11/09/2014 |
| 22/07/2014 | South West Development Commission | 14/08/2014 |
| 14/08/2014 | State Emergency Management Committee Secretariat | 24/09/2014 |
| n/a | State Supply Commission<br>(2014 audit dispensed with – s14 of AG Act) | No opinion |
| 16/07/2014 | Swan Bells Foundation Incorporated | 08/09/2014 |
| 24/07/2014 | Swan River Trust | 22/08/2014 |
| 18/07/2014 | Trustees of the Public Education Endowment Trust | 12/09/2014 |
| 31/07/2014 | WA Country Health Service<br>(Matter of Significance paragraph in opinion. Details page 12.) | 22/09/2014 |
| 09/07/2014 | Water Corporation ❖ | 18/08/2014 |
| 11/07/2014 | Western Australian Alcohol and Drug Authority | 08/08/2014 |
| n/a | Western Australian Building Management Authority (2014 audit dispensed with – s14 of AG Act) | No opinion |
| 01/08/2014 | Western Australian Coastal Shipping Commission | 03/09/2014 |
| 16/07/2014 | Western Australian Electoral Commission | 09/09/2014 |
| 16/07/2014 | Western Australian Energy Disputes Arbitrator | 11/08/2014 |

❖ Opinion relates to financial statements only

| Audit Ready | Agency | Opinion Issued |
|---|---|---|
| 15/09/2014 | Western Australian Greyhound Racing Association (01/08/2013 – 31/07/2014) (Qualified opinion on financial statements. Details page 11) | 22/10/2014 |
| 14/07/2014 | Western Australian Health Promotion Foundation | 25/07/2014 |
| 15/07/2014 | Western Australian Institute of Sport | 29/08/2014 |
| 16/07/2014 | Western Australian Land Authority ❖ | 28/08/2014 |
| 16/07/2014 | Western Australian Land Information Authority | 05/09/2014 |
| 18/07/2014 | Western Australian Meat Industry Authority | 29/08/2014 |
| 16/07/2014 | Western Australian Museum, The | 28/08/2014 |
| 18/07/2014 | Western Australian Planning Commission | 18/09/2014 |
| 15/07/2014 | Western Australian Sports Centre Trust | 18/09/2014 |
| 16/07/2014 | Western Australian Tourism Commission | 12/09/2014 |
| 17/07/2014 | Western Australian Treasury Corporation | 27/08/2014 |
| 15/07/2014 | Wheatbelt Development Commission | 18/09/2014 |
| 11/07/2014 | WorkCover Western Australia Authority | 22/08/2014 |
| 16/07/2014 | Zoological Parks Authority | 12/09/2014 |

| ***Request Audit – Audits requested by the Treasurer under the Auditor General Act 2006 do not have a statutory date for submitting financial statements.*** | | |
|---|---|---|
| n/a | Tertiary Institutions Service Centre (Inc) ❖ | 24/09/2014 |
| ***Cemetery Board Audits – Cemetery Boards audited under the Cemeteries Act do not have a statutory date for submitting financial statements.*** | | |
| n/a | Geraldton Cemetery Board ❖ | 21/10/2014 |

❖ Opinion relates to financial statements only

# Appendix 2: Audit Certifications

Audit work is also undertaken throughout the year to certify financial and statistical information produced by departments and statutory authorities. This assists agencies to discharge conditions of Commonwealth funding, grants or other legislation. This service to agencies ensures that they meet conditions of their funding agreements in a timely manner and are in a position to receive ongoing funding or apply for future funding under existing or new agreements.

In addition, certifications under the Royalties for Regions program were issued by the Auditor General. These are detailed in a separate table of this appendix, commencing on page 55.

The following certifications were completed between 1 May 2014 and 3 November 2014. Unless stated, the certifications were for the year-ended 30 June 2014. Managements' assertions were confirmed except in two instances noted below. Details of the qualified opinions are reported on page 13.

| Client | Certification Relates to | Date Issued |
|---|---|---|
| Chemistry Centre (WA) | **Ellen Brook Coil Amendment Trial:** 01/05/2011 – 30/06/2014. | 13/10/2014 |
| Coal Industry Superannuation Board (Trustee of) | **Australian Prudential Regulation Authority (APRA) Annual Return and Compliance:** Compliance with APRA Prudential Standard SPS 310 – Audit and Related Matters and SRF 540 relating to Fees. (Details of qualified opinion on page 13.) | 24/10/2014 Qualified Opinion |
| | **APRA Annual Return** including Statement of Financial Position, Statement of Financial Performance, Wind Up and Operational Risk Financial Requirements and compliance with Registrable Superannuation Entity (RSE) Licensee responsibilities under the *Superannuation Industry (Supervision) Act (SIS) 1993.* | 24/10/2014 |
| | **Australian Securities and Investments Commission:** Australian financial services license returns under *Corporations Act 2001.* | 24/10/2014 |
| | **Trustee Company Audit Report** | 22/09/2014 |
| Curtin University of Technology | ***Higher Education Funding Act 1988:*** Higher Education Research Data Collection for year-ended 31/12/2013. | 19/06/2014 |
| Department of Health | ***National Health Funding Pool Act 2012:*** Western Australian State Pool Account. | 15/09/2014 |
| Department of the Premier and Cabinet | **Indian Ocean Territories – Service Delivery Arrangements** | 16/10/2014 |
| Department of Training and Workforce Development | **Australian Vocational Education and Training Management Information Statistical Standard (AVETMISS)** for year-ended 31/12/2013. | 04/06/2014 |
| Department of Transport | Enhanced Speed Enforcement Administration Costs | 23/09/2014 |

| Client | Certification Relates to | Date Issued |
|---|---|---|
| Department of Transport and Commonwealth Department of Infrastructure and Transport | ***National Building Program (National Land Transport) Act 2009:*** | |
| | • Kewdale Intermodal Rail Supply Chain 01/07/2009 – 30/06/2012 | 14/05/2014 |
| | • Kewdale Intermodal Rail Supply Chain for the year-ended 30/06/2013 | 14/05/2014 |
| | • Portlink Inland Freight Corridor Concept Plan for year-ended 30/06/2013 | 14/05/2014 |
| | • Perth Light Rail Planning Study for year-ended 30/06/2013. | 14/05/2014 |
| Edith Cowan University | ***Higher Education Funding Act 1988:*** Higher Education Research Data Collection for year-ended 31/12/2013. | 12/06/2014 |
| Electricity Generation and Retail Corporation – Synergy | **Compliance with Electricity Corporations (Electricity Generation and Retail Corporation) Regulations 2013 and Segregation and Transfer Pricing Guidelines** for six months ending 30/06/2014. (Details of qualified opinion on page 13.) | 12/09/2014<br>Qualified Opinion |
| | **Compliance with Electricity Corporations (Electricity Generation and Retail Corporation) Regulations 2013 and Wholesale Arrangements** | 30/09/2014 |
| Family Court of Western Australia | ***Family Law Act 1975:*** Commonwealth-State Agreement for the year-ended 30/06/2012. | 10/10/2014 |
| Fire and Emergency Services Superannuation Board | **Australian Prudential Regulation Authority (APRA) Annual Return and Compliance:** Compliance with APRA Prudential Standard SPS 310 – Audit and Related Matters and SRF 540 relating to Fees. | 31/10/2014 |
| | **APRA Annual Return** including Statement of Financial Position, Statement of Financial Performance, Wind Up and Operational Risk Financial Requirements and compliance with Registrable Superannuation Entity (RSE) Licensee responsibilities under the *Superannuation Industry (Supervision) Act (SIS) 1993.* | 31/10/2014 |
| | **Australian Securities and Investments Commission:** Australian financial services license returns under *Corporations Act 2001.* | 31/10/2014 |
| | **Trustee Company audit report** | 23/09/2014 |
| Murdoch University | ***Higher Education Funding Act 1988:*** Higher Education Research Data Collection for year-ended 31/12/2013. | 24/06/2014 |
| Quadriplegic Centre Board | **Department of Health:** Board's Home Visiting Service. | 05/09/2014 |
| The University of Western Australia | ***Higher Education Funding Act 1988:*** Higher Education Research Data Collection for year-ended 31/12/2013. | 25/06/2014 |
| Western Australian Electoral Commission | ***Electoral Distribution Act 1907:*** Electoral Distribution Commissioners' Expenses for the period 01/07/2013 – 30/06/2014. | 04/07/2014 |

| Client | Certification Relates to | Date Issued |
|---|---|---|
| Western Australian Land Authority and Commonwealth Department of Social Services | Australian Government Housing Affordability Fund Capital Works Funding Agreement – Broome North Project for the year-ended 30/06/2013 | 22/10/2014 |
| | Australian Government Housing Affordability Fund Capital Works Funding Agreement – Broome North Project for period 01/07/2013 – 28/02/2014 | 22/10/2014 |
| | Australian Government Housing Affordability Fund Capital Works Funding Agreement – Mandurah Junction Project for the year-ended 30/06/2013 | 22/10/2014 |

## Royalties for Regions Certifications

Clear certification opinions were issued to 37 state government agencies for their 2013-14 Statements of Receipts and Payments under the Royalties for Regions program. The Department of Regional Development administers this program. Agencies that receive funding sign a memorandum of understanding (MOU) with the Department that requires quarterly unaudited reporting to the Department and an audited Statement of Receipts and Payments for each financial year.

The audit opinions for each recipient agency reported that the Statement of Receipts and Payments of the Royalties for Regions Funding for the year-ended 30 June 2014 was prepared, in all material respects, in accordance with the terms and conditions of the signed MOU. Certification opinions were issued on the Statements of Receipts and Payments of the following agencies for 173 approved projects.

These Royalties for Regions program payments totalled $740 million in 2013-14.

| Delivering Agency | Royalties for Regions Approved Projects | Date Issued |
|---|---|---|
| **Country Local Government Fund** | | |
| Department of Local Government and Communities | Supporting Local Government Reform | 26/09/2014 |
| Department of Regional Development | Administration of Country Local Government Fund | 30/09/2014 |
| | Local Infrastructure Asset Renewal and New Assets | 30/09/2014 |
| | Regional Groupings of Local Governments | 30/09/2014 |
| Great Southern Development Commission | Support to Regional Grouping of Country Local Governments 28/06/2010 – 16/06/2014 | 01/07/2014 |
| Mid West Development Commission | Support to Groupings of Country Local Governments MWDC 01/07/2009 – 09/06/2014 | 11/06/2014 |
| | Support to Groupings of Country Local Governments MWDC 01/07/2013 – 09/06/2014 | 11/06/2014 |
| South West Development Commission | Support to Regional Groups of Local Governments | 24/09/2014 |

| Delivering Agency | Royalties for Regions Approved Projects | Date Issued |
|---|---|---|
| **Regional Community Services Fund** | | |
| Department for Child Protection and Family Support | Indigenous Visitor Hostels – Derby – Operational Funding | 04/09/2014 |
| | Responsible Parenting Services | 04/09/2014 |
| Department of Aboriginal Affairs | Aboriginal Community Emergency Response Fund | 26/09/2014 |
| Department of Agriculture and Food | Regional Men's Health Program | 22/10/2014 |
| | Royal Agricultural Society (RAS) Show Concessions – Free Entry for Children | 22/10/2014 |
| | Wild Dogs Management Program | 22/10/2014 |
| Department of Commerce | Regional Buy Local Initiatives – Regional Business | 17/09/2014 |
| | Regional Workers' Incentives – Project Officer Funding | 17/09/2014 |
| Department of Corrective Services | Regional Youth Justice Strategy Kimberley and Pilbara Expansion | 23/09/2014 |
| Department of Culture and the Arts | Performing Arts Regional Tours Boost | 16/09/2014 |
| Department of Fisheries | Great Kimberley Marine Park – Fisheries | 25/09/2014 |
| | Marine Parks Management – Ngari Capes Marine Park | 25/09/2014 |
| | South-West Recreational Fishing Enhancement Structure Pilot Project | 25/09/2014 |
| Department of Local Government and Communities | Caravan and Camping – Department of Local Government and Communities | 26/09/2014 |
| | Regional Community Child Care Development Fund | 26/09/2014 |
| Department of Regional Development | Aboriginal Community Critical Response Fund | 30/09/2014 |
| | Caravan and Camping in Western Australia | 30/09/2014 |
| | Community Resource Centres | 30/09/2014 |
| | Regional Workers Incentives – Price Index Funding | 30/09/2014 |
| Department of Sport and Recreation | Community Sporting and Recreation Facilities Fund | 22/09/2014 |
| | Hay Park South Regional Multi Sports Pavilion Facility | 22/09/2014 |
| | Mandurah Aquatic and Recreation Centre Redevelopment | 22/09/2014 |
| | Regional Talent Development Network | 22/09/2014 |
| | Sounness Park Community Recreation Development | 22/09/2014 |
| | Supporting Community Sport Initiative – Athlete Travel Subsidy Scheme | 22/09/2014 |
| | Supporting Community Sport Initiative – Community Sporting Club Equipment Subsidy Scheme | 22/09/2014 |
| | YMCA Swim for Like Program | 22/09/2014 |

| Delivering Agency | Royalties for Regions Approved Projects | Date Issued |
|---|---|---|
| Department of the Attorney General | Enhanced Driver Training and Education for Regional and Remote Communities | 21/08/2014 |
| | Enhanced Services for Victims of Crime Within Regional and Remote Communities | 21/08/2014 |
| Department of Transport | Country Age Pension Fuel Card | 26/09/2014 |
| Great Southern Development Commission | Development of the Great Southern Regional Investment Blueprint and Related Planning and Business Case Development 2012/13 – 2013/14 | 25/09/2014 |
| | Regional Grants Scheme – Great Southern | 25/09/2014 |
| Housing Authority | Improving Water Quality in Remote Aboriginal Communities | 26/09/2014 |
| | Jigalong Essential Services Pilot | 26/09/2014 |
| | Remote Area Essential Services Program – Feasibility study for the establishment of a Housing Finance Corporation to promote Affordable Housing in the Regions | 26/09/2014 |
| Library Board of Western Australia | Better Beginnings Program | 30/09/2014 |
| Mid West Development Commission | Development of the Mid West Regional Investment Blueprint and Related Planning and Business Case Development 2012-13 – 2013-14 | 26/09/2014 |
| | Regional Grants Scheme | 26/09/2014 |
| Peel Development Commission | Development of the Peel Regional Investment Blueprint and Related Planning and Business Case Development 2012-13 – 2013-14 | 25/09/2014 |
| | Regional Grants Scheme – Peel | 25/09/2014 |
| Pilbara Development Commission | Development of the Pilbara Regional Investment Blueprint and Related Planning and Business Case Development 2012-13 - 2013-14 | 25/09/2014 |
| | Regional Grants Scheme – Pilbara | 25/09/2014 |
| Police Service | WA Police Regional Incentive Scheme | 20/08/2014 |
| Public Sector Commission – Implementing Public Sector Regional Leadership | Element 1: Strategic Direction | 19/09/2014 |
| | Element 2: Integrity and Ethics | 19/09/2014 |
| | Element 3: Public Sector Reform | 19/09/2014 |
| | Element 4: Leadership Development | 19/09/2014 |
| | Element 5: Regional Employment | 19/09/2014 |
| | Element 6: Indigenous Employment | 19/09/2014 |
| Public Transport Authority of Western Australia | Upgrade of 'Orange' School Buses in Regional Western Australia | 24/09/2014 |
| Racing and Wagering Western Australia | Support for Racecourse Infrastructure Grants Program | 25/09/2014 |

| Delivering Agency | Royalties for Regions Approved Projects | Date Issued |
|---|---|---|
| Small Business Development Corporation | Regional Buy Local Initiatives | 22/09/2014 |
| South West Development Commission | Development of South West Regional Investment Blueprint and Related Planning and Business Case Development 2012-13 – 2013-14 | 24/09/2014 |
| WA Country Health Service | Ambulance Services in Country Western Australia | 23/09/2014 |
| | Patient Assisted Travel Scheme 2012-13 – 2014-15 | 23/09/2014 |
| | Pilbara Cardio Vascular Screening Program | 23/09/2014 |
| | Remote Indigenous Health Clinics | 23/09/2014 |
| | Renal Dialysis Service Expansion | 23/09/2014 |
| | Royal Flying Doctor Service 01/07/2008 – 30/06/2013 | 23/05/2014 |
| | Royal Flying Doctor Service 2013-14 | 23/09/2014 |
| | Rural Generalist Pathways in Western Australia | 23/09/2014 |
| | Women's Health Care Association Inc's Rural in Reach Program | 23/09/2014 |
| Western Australian Alcohol and Drug Authority | North West Drug and Alcohol Support Program | 08/08/2014 |
| | North West Drug and Alcohol Support Program – Carnarvon Dual Purpose Centre | 08/08/2014 |
| Western Australian Land Information Authority | Location Information Strategy for Western Australia | 16/09/2014 |
| Western Australian Tourism Commission | Caravan and Camping – Tourism Western Australia | 30/09/2014 |
| | Kimberley Science and Conservation Strategy Tourism Components | 30/09/2014 |
| | Regional Events Program Part 1 of 3 – Tourism, Staffing, Marketing and Event Leveraging Funding | 30/09/2014 |
| | Regional Events Program Part 2 of 3 – Regional Events Scheme | 30/09/2014 |
| | Regional Events Program Part 3 of 3 – Regional Events Funding for Larger Events | 30/09/2014 |
| | Regional Tourism Marketing Program | 30/09/2014 |
| | Western Australian Indigenous Tourism Operators Council Funding Extension (2013-14) | 30/09/2014 |
| Wheatbelt Development Commission | Development of the Wheatbelt Regional Investment Blueprint and Related Planning and Business Case Development 2012-13 – 2013-14 | 21/10/2014 |
| | Regional Grants Scheme – Wheatbelt | 21/10/2014 |

| Delivering Agency | Royalties for Regions Approved Projects | Date Issued |
|---|---|---|
| **Regional Infrastructure and Headworks** | | |
| Country High School Hostels Authority | Esperance Residential College – Capital Works | 23/09/2014 |
| | Geraldton Residential College – Mid West Investment Plan | 23/09/2014 |
| | Merredin Residential College – Capital Works | 23/09/2014 |
| | Regional Residential College Upgrades Merredin Residential College (Stage 2) | 23/09/2014 |
| | Regional Residential College Upgrades Narrogin Residential College | 23/09/2014 |
| | Regional Residential College Upgrades Esperance Residential College (Stage 2) | 23/09/2014 |
| Department of Agriculture and Food | Regional Natural Resource Management Storm Water Reuse | 30/09/2014 |
| Department of the Attorney General | Fitzroy Crossing Courthouse Replacement | 17/09/2014 |
| | Kununurra Courthouse | 17/09/2014 |
| Department of Commerce | Pilbara Maritime Common Use Facility | 17/09/2014 |
| | Regional Mobile Communications Project | 17/09/2014 |
| Department of Corrective Services | Community Safety Network – Corrective Services (Regional Radio Communications) | 23/09/2014 |
| | Community Safety Network – DCS (Digital Terminal Equipment) | 23/09/2014 |
| | Regional Work Camp Enhancement Program and Roebourne Work Camp | 23/09/2014 |
| Department of Planning | North West Planning Program | 26/09/2014 |
| | Pilbara Cities Planning Program | 26/09/2014 |
| Department of Regional Development | Coral Bay Seasonal Staff Accommodation Management Agreement | 30/09/2014 |
| | Gascoyne Development Plan – Gascoyne Unit | 30/09/2014 |
| | Living Lakes (Feasibility and Planning) | 30/09/2014 |
| | OEKEP – Aboriginal Development Package | 30/09/2014 |
| | Ord-East Kimberley Expansion Project | 30/09/2014 |
| Department of Training and Workforce Development | Muresk Institute Revitalisation State One: Establishing Muresk Institute | 22/09/2014 |
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| Electricity Generation and Retail Corporation (Synergy) | Mid West Solar Photovoltaic Power Station | 02/09/2014 |
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| | Hedland 125 House Service Worker Intervention Package | 26/09/2014 |
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| | Indigenous Visitor Hostels – Derby and Broome – Construction | 26/09/2014 |
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| Mid West Development Commission | Transfer of Management and Royalties for Regions Operational Funding for the Mid West Unit | 26/09/2014 |
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| Police Service | Community Safety Network – WAPOL | 22/08/2014 |
| Port Hedland Port Authority | Port Hedland Main Street Jetty Extension | 19/08/2014 |
| Public Transport Authority of Western Australia | Continuance of the Avon Link Rail Services | 24/09/2014 |
| Regional Power Corporation (Horizon Power) | Murchison Radio-Astronomy Observation Power Station | 30/09/2014 |
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| WA Country Health Service | Busselton Health Campus | 23/9/2014 |
| | Busselton Hospital Redevelopment Project Information and Communications Technology Package | 23/9/2014 |
| | Carnarvon Health Campus Redevelopment | 23/9/2014 |
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# Glossary

| | |
|---|---|
| AASB | Australian Accounting Standards Board |
| Agency | Term used to describe clients audited by the Auditor General, including departments, statutory authorities, corporations, subsidiaries, request audits and cemetery boards. |
| AG Act | *Auditor General Act 2006* |
| ARSF | Annual Report on State Finances |
| Clear opinion (or unqualified opinion) | Auditor General's opinion expressed when an audit concludes that in all material respects the financial statements, controls and key performance indicators are presented fairly in accordance with the enabling legislation of the agency, Australian Accounting Standards (including Australian Accounting Interpretations) and the Treasurer's Instructions. |
| Contract audit | Audit of an agency undertaken by an appropriately qualified individual or firm, on behalf of the Auditor General, appointed under a contract. |
| Financial audit | Work performed to enable an opinion to be expressed regarding a report about financial or performance matters prepared by the party who is accountable for the financial transactions or the performance summary. |
| FM Act | *Financial Management Act 2006* |
| IS | Information systems, primarily computerised systems. |
| KPI | Key performance indicator – information about service performance or outcome achievement. |
| Management letter | Letter to agency management that conveys significant audit findings and results of the audit. A copy is also sent to the responsible Minister. |
| Materiality | Magnitude of an omission or misstatement of accounting or performance information that, in the light of context or circumstances, makes it probable that the judgement of a reasonable person relying on the information would have been changed or influenced. |
| Matter of Significance | An item of concern in relation to an agency's financial statements or key performance indicators which does not warrant a qualified opinion. |
| Qualified opinion | Auditor General's opinion expressed when an audit identifies that the financial statements or performance indicators are likely to be misleading to users, controls were inadequate, there was material conflict with applicable financial reporting frameworks or a limitation of scope on audit work. |
| SCI | Statement of Corporate Intent |
| Significance | Relative importance in the circumstances, in relation to audit objectives, of an item, event or information, or problem the auditor identifies. |
| TI | Treasurer's Instructions – prescribed requirements for financial administration at a minimum level that have the force of law and must be observed by public sector agencies under the FM Act. |
| Treasury | Department of Treasury |

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| 13 | Royalties for Regions - are benefits being realised? | 25 June 2014 |
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