

Western Australian Auditor General's Report



Audit Results Report – Annual 2019-20 Financial Audits of State Government Entities



**Report 7: 2020-21
11 November 2020**

**Office of the Auditor General
Western Australia**

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ISSN: 2200-1913 (print)
ISSN: 2200-1921 (online)

The Office of the Auditor General acknowledges the traditional custodians throughout Western Australia and their continuing connection to the land, waters and community. We pay our respects to all members of the Aboriginal communities and their cultures, and to Elders both past and present.

WESTERN AUSTRALIAN AUDITOR GENERAL'S REPORT

Audit Results Report – Annual 2019-20 Financial Audits of State Government Entities

Report 7: 2020-21
November 2020



**THE PRESIDENT
LEGISLATIVE COUNCIL**

**THE SPEAKER
LEGISLATIVE ASSEMBLY**

AUDIT RESULTS REPORT – ANNUAL 2019-20 FINANCIAL AUDITS OF STATE GOVERNMENT ENTITIES

This report under section 24 of the *Auditor General Act 2006* covers 2019-20 financial audit activity to 4 November 2020 and includes:

- opinions and results of audits on the controls, financial statements and key performance indicators of departments and statutory authorities with reporting dates primarily on 30 June 2020
- opinions and results of annual financial statement audits of corporatised bodies reporting under their enabling legislation, subsidiary bodies and other entities audited as requested by the Treasurer
- audit certifications of financial and statistical information produced by entities to discharge conditions of Australian Government funding, grants, Royalties for Regions funding agreements and other legislation
- a summary of the effects of the COVID-19 operating environment on the 2019-20 audits and entities
- recent and upcoming changes to accounting and auditing standards that impact on government financial reporting and accountability.

I wish to acknowledge the assistance provided by the boards of accountable authorities, directors general, chief executive officers, chief finance officers and others during the conduct of the annual financial audit program and in finalising this report.

A handwritten signature in black ink, appearing to read 'Caroline Spencer'.

CAROLINE SPENCER
AUDITOR GENERAL
11 November 2020

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Auditor General's overview

I am enormously proud of the efforts of my staff and contract auditors to deliver this year's June State government sector financial audits, with almost all finalised on time, and positioning us to sign off the Annual Report on State Finances before its statutory deadline at the end of September.

This is an extraordinary achievement in a year that was disrupted like few others. It is a testament to the Department of Treasury's central leadership role, their determination and planning, as well as the dedication of finance and leadership teams across the sector.



Good governance is foundational to a safe and prosperous society, and is critical to directly raising affordable capital, attracting on-shore investment and providing confidence in the supply reliability of our exports, all of which support West Australians' standard of living. I am proud and ever more convinced of the critical role the OAG plays in supporting the good public governance of this State; formally through our audits, and in the countless informal conversations and engagement across the sector each day.

This report summarises for Parliament the results of our annual audits of 143 State government entities mainly for the year ended 30 June 2020 – the final quarter of which saw the COVID-19 viral pandemic and various responses affect communities globally.

The number of entities with serious deficiencies requiring a qualified opinion on financial statements, controls or key performance indicators, increased from 3 last year to 7 this year. The control deficiencies reported were identified earlier in the financial year or were ongoing from prior years and did not result from pandemic measures implemented under pressure. However, our audits identified over 100 more financial management and control weaknesses than last year, including an increase of almost 60 significant findings.

It is difficult to precisely identify the number of findings attributable to COVID-19 disruption, although we recognise the change in operational focus of entities did delay activities to address some previous audit findings and the implementation of new processes required to address changes in Treasurer's instruction 304. The swift roll-out of technology to support working from home in an environment where hardware was not readily available revealed some weaknesses in systems and remote access arrangements. The audit results require close attention by entities and monitoring by audit committees to ensure identified shortcomings are promptly addressed.

This year's report contains a number of as yet not widely recognised insights into various impacts of the COVID-19 pandemic response on the Western Australian government sector. Given our role overseeing the entire public sector – where we may have audit teams working at or in contact with up to a quarter of public sector entities in any given week – we are uniquely placed to look across the sector in a timely, measured and consistent way. Impacts reported include entities' service disruptions, additional expenses incurred and stimulus initiatives administered by entities, as well as how our engagement and auditing approach was adapted for the 2019-20 audit period.

During 2019-20, entities were also required to adopt new accounting standards for reporting of leases and revenue. There were varied degrees of readiness and preparedness in entities, with some additional audit work required. Reporting the valuation of land transfers between entities also received increased audit attention to ensure that fair and consistent values were used to account for the transfers by all reporting entities involved. This is an area we suggest the Parliament maintain a watchful eye in coming years.

This report also provides information on other selected significant financial transactions and matters that we noted during our audits. It includes key financial ratios and information commonly used for assessing financial performance. Pleasingly, we also saw most entities had appointed independent chairs to their audit committees by the time our audits were concluded, following amendments to the requirements in the Treasurer's instructions in late 2019. Audit committees are an important cost-effective contributor to good public governance, and some independence from management is essential. We report this information to provide insight to some of the important matters considered during the audits.

An additional tool used by my Office for some financial audits this year was the capability of our burgeoning Forensic Audit business unit. Some of their early work is outlined in this report. Overall, the team provided valuable additional comfort over very large financial datasets of Health entities to provide insights as to the extent to which their operations were disrupted in the last part of the year, as well as examining some matters in further detail that were referred in-flight by financial audit teams.

I wish to thank my incredibly hardworking staff, our contract audit firm partners and staff in the audited entities who contributed to this year's audit process for their adaptability, professionalism, skill and cooperation in working through uncommon challenges. Much has been learned, beyond just the public health response. I expect that this period will strengthen broader appreciation of the enduring importance of accountability and sound management of public resources, and provide further clarity and purpose in those charged with public governance, of just what it is that is being safeguarded for the benefit of the community we are so privileged to serve.

Executive summary

This Audit Results Report contains the findings primarily from the annual financial audits of State government entities with a 30 June 2020 reporting date.

At 4 November 2020, we had completed audits and issued audit opinions for 33 departments, 82 statutory authorities, 12 corporations and 16 other audits, and also many certifications (including grant acquittals) for those entities.

The *Auditor General Act 2006* (AG Act) requires the Auditor General to audit the financial statements, controls and key performance indicators (KPIs) of all State government entities annually. A clear (unqualified) audit opinion indicates satisfactory financial controls and KPIs, and that the financial statements are materially complete, accurate, comply with relevant legislation and applicable accounting standards, and fairly represent performance during the year and the financial position at year end.

Key findings

Audit opinions

(page 11 and Appendix 1, page 57)

- We issued 143 audit opinions for State government entities by 4 November 2020 relating to the 2019-20 financial year, and 85 certification opinions.
- We issued qualified audit opinions to 7 entities for reasons of inaccuracies or deficiencies in their financial statements or KPIs or due to control weaknesses, an increase from 3 in the prior year.

These entities were:

(page 12)

- Department of Communities
- Department of Local Government, Sport and Cultural Industries
- Department of Primary Industries and Regional Development
- Health Support Services
- Housing Authority
- Office of the Parliamentary Inspector of the Corruption and Crime Commission
- Western Australian Greyhound Racing Association.
- We have highlighted, through Matter of Significance paragraphs, that the Under Treasurer continued to grant 5 health services approval to not report an audited KPI for emergency department waiting times. (page 14)
- Nineteen entities applied to Treasury for an exemption from reporting selected KPIs at year end. A Matter of Significance paragraph was included in the audit opinion to inform readers of the reason, most related to the COVID-19 pandemic response and conduct of client surveys. (page 15)
- Details of the final 3 auditor's reports for local government entities are noted in Appendix 4. This completes our reporting on the local government sector audits for the 2018-19 financial year. The 2019-20 audits are currently in progress. (page 67)

Financial reporting, accountability and audit issues (page 36)

- Our Forensic Audit business unit commenced targeted forensic audits of State government entities' accounts and matters relating to public money. They used advanced data analytics to target entity disbursements in support of financial audit work. (page 36)
- Entities' operations and our 2019-20 audits were significantly impacted by the COVID-19 pandemic. We engaged with major stakeholders, including central entities and audit committee chairs, and briefed the Treasurer and parliamentary committees, to implement a flexible but practical audit approach for the 2019-20 audits. (page 26)
- Our COVID-19 audit findings are reported under the headings:
 - information security exposures when working remotely (page 28)
 - controls over urgent procurement of personal protective equipment (page 29)
 - impact on entities where services were disrupted (page 30)
 - entities' expenses for directly managing the impact of COVID-19 (page 31)
 - administering distribution of stimulus funding or initiatives (page 33)
 - ongoing or future potential effect of COVID-19. (page 35)
- We reviewed the valuation of land assets transferred between several entities to determine whether the transactions were recorded at a consistent and fair value. After consultation and corrections, transfers at fair value complying with the Australian Accounting Standards and Treasurer's instructions were reported at year end.(page 37)
- Revision of Treasurer's instruction 1201 *Internal Audit* in December 2019 resulted in most entities' improving the role and quality of their internal audit committees and appointing an independent audit committee chair. (page 37)
- Of the 21 entities required to prepare a 2020-21 Statements of Corporate Intent, only 1 was tabled before the 2020-21 State Budget in October 2020. (page 38)
- Changes to the accounting standards for reporting of leases and also for revenue and income, including revenue from contracts, applied from 1 July 2019. Most entities made the adjustments required to ensure their financial statements for the 2019-20 year complied with the accounting standards. (page 42)

Annual Report on State Finances (page 43)

- The Treasurer released the Annual Report on State Finances (ARSF) on 25 September 2020. In this Audit Results Report, we have supplemented the information contained in the ARSF with related information that some readers may find useful. (page 44)

Selected significant financial transactions and financial ratios

- We have summarised significant financial transactions that we noted during our audits and key financial ratios and information that are commonly used for assessing financial performance. (page 48)

Management issues (page 18)

- We identified and reported 430 financial management control weaknesses to entities in 2019-20, an increase from 323 in the previous year. The number of significant issues

increased from 36 to 95, and the proportion of unresolved issues increased from 20% to 26%. (page 19)

- 423 information system control weaknesses were identified and reported to entities in 2019-20 of which 41% were unresolved issues from the previous year. The majority of issues are simple to fix but if not resolved will leave entities vulnerable to security incidents and disruption to systems. (page 23)
- We reported 26 KPI weaknesses to entities in 2019-20 and identified data integrity and collection processes as the main areas for improvement. (page 24)

Quality and timeliness of reporting

- Sixty-five percent of State government entities were ready for their audit within 20 days of year end. This was a commendable achievement for 2019-20. (page 55)
- Our engagement with audit clients and flexible audit plans enabled 93% of our financial statement and KPI audits to be completed within the 90 day *Financial Management Act 2006* tabling timeframe.
- We have acknowledged the top 40 best practice entities for timeliness in their financial reporting, good financial controls and reporting practices. (page 56)

Recommendations

1. All entities should ensure they maintain the integrity of their financial control environment by:
 - a. periodically reviewing and updating all financial, asset, human resources, governance, information systems and other management policies and procedures and communicating these to relevant staff
 - b. conducting ongoing reviews and improvement of internal control systems in response to regular risk assessments
 - c. regularly monitoring compliance with relevant legislation
 - d. promptly addressing control weaknesses brought to their attention by OAG audits. (page 23)
2. Entities should periodically review their KPIs to ensure that:
 - a. they are calculated from reliable and complete data
 - b. they remain relevant, appropriate and fairly present performance against realistic targets
 - c. the KPI instructions are periodically updated and approved so that KPIs are consistently reported and comparable. (page 25)
3. The Office of Digital Government should use information about the strengths and weaknesses identified during the pandemic, in relation to working from home and other remote system access arrangements, as part of their ongoing support and guidance to entities. (page 29)
4. Entities and Treasury should continue to facilitate timely tabling of Statements of Corporate Intent to ensure compliance with legislation. (page 41)
5. Treasury should continue to provide guidance to assist entities with the adoption of new accounting standards. Entities should continue to make timely preparations for implementation of these new standards. (page 42)

Audit opinions

Introduction

The *Financial Management Act 2006* governs financial accountability of most State government entities while the *Auditor General Act 2006* governs the activities and role of the Auditor General.

The Auditor General is required to issue an opinion to the Parliament through the responsible Minister for each State government entity audited. Entities include the audit opinion in their annual report.

The opinion relates to the financial statements and, depending on each entity'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 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 entity 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 4 November 2020, we had issued audit opinions for 143 State government entities, primarily with financial periods ending on 30 June 2020. Appendix 1, commencing on page 57, is a table of all the audit opinions issued since our last audit results report on 12 May 2020.

Audit opinion issued on	Type of entity	Number
Financial statements, controls and KPIs	Departments	33
	Statutory authorities	82
Financial statements only	Annual Report on State Finances	1
	Corporatised entities	12
	Subsidiary entities	14
	Request audits	1
TOTAL NUMBER OF AUDIT OPINIONS ISSUED		143

Source: OAG

Table 1: Number and type of audit opinions issued between 4 May 2020 and 4 November 2020

The final 3 local government entity auditor's reports for the 2018-19 financial year were also completed. Appendix 4 on page 67 reports the dates and details the qualified opinion issued.

Other audit services

In addition to entity opinions, we also issued 85 financial certifications.

Appendix 2 (page 62) details the 14 certifications we issued on the financial and statistical information produced by entities to discharge reporting obligations for Australian Government grants or under other legislation. The certifications for 71 Royalties for Regions program grants issued up to 4 November 2020 are listed in Appendix 3 (page 64).

An agreed upon procedures engagement for the regulatory financial statements of the Electricity Networks Corporation for the years ending 30 June 2018 and 30 June 2019 was also completed. These reports were prepared for submission to the Economic Regulation Authority.

Qualified opinions

We issue a qualified opinion on an entity's audited financial statements or KPIs if we consider it is necessary to alert readers to inaccuracies or limitations. If we issue a qualified opinion on controls, it is because we consider a financial control deficiency makes the entity non-compliant with legislation.

Seven entities received qualified opinions:

Department of Communities Qualified opinion on controls

We identified significant weaknesses in the payroll controls implemented by the Department. These weaknesses could result in salary errors such as overpayments or payments to individuals who are not entitled to receive payment. Consequently, controls to prevent invalid and inaccurate payroll payments were inadequate.

We also identified significant weaknesses in the procurement controls implemented by the Department. Our testing showed controls were inadequate to sufficiently demonstrate that the ordering of goods or services was approved prior to ordering. This increases the risk of erroneous or fraudulent payments, and ordering of inappropriate or unnecessary goods or services.

For procurements without a purchase order, the Department does not evidence that goods or services were received by someone independent of the incurring officer. Rather, the incurring officer fulfils the receiving function at the time of incurring. This is inadequate segregation of duties and contrary to the requirements of Treasurer's instruction 304 *Authorisation of Payments*. It also increases the risk of erroneous and fraudulent payments.

Department of Local Government, Sport and Cultural Industries Qualified opinion on controls

We identified significant weaknesses in the Department's control procedures for:

- payroll system, processes and leave management which could result in unauthorised access to the Department's payroll system, and salary errors such as overpayments, payments to individuals who are not entitled to receive payment and overstated leave balances. Consequently, controls to prevent invalid and inaccurate payroll payments were inadequate.
- procurement where purchase order processes are not effectively restricted, goods and services are ordered prior to necessary approval, procurement without a purchase order and no evidence that goods or services were received by someone independent

of the incurring officer. These weaknesses and inadequate segregation of duties increase the risk of erroneous or fraudulent payments or ordering of inappropriate or unnecessary goods or services.

- general computer authentication controls and privileged access rights reported in our qualified opinion last year which had not been adequately addressed throughout 2019-20. This access could be used to override management controls that prevent fictitious or fraudulent transactions and could undermine the integrity of data. However, our audit testing did not detect any inappropriate or fraudulent transactions.

The weaknesses indicate some capability gaps for the Department. With an OAG performance audit underway and local government entities' audits currently in progress, we will be monitoring for any further gaps which may impact on outcomes for the local government sector. The Department is responsible for regulating and supporting this sector.

Department of Primary Industries and Regional Development

Qualified opinion on controls

Prior to April 2020, the Department did not have an effective process in place to regularly monitor restricted cash balances. Such controls are of heightened importance during periods where there may be an operating cash shortfall, which the Department experienced during 2019-20. However, controls over these restricted funds, including monitoring of their use, to ensure that restricted funds were solely used for their approved purpose for the entire reporting period, were inadequate. The Department advised that it was aware of the shortfall in operational cash early in the year and applied for supplementary funding at the earliest opportunity.

We also identified significant weaknesses in general computer controls which could result in unauthorised access to sensitive information and increased risk of information loss. The combined weaknesses expose the Department to vulnerabilities which can undermine the integrity of information in the Department's finance, human resources and other business systems.

Health Support Services

Qualified opinion on controls

We identified significant weaknesses in remote access and network security controls implemented by Health Support Services. These weaknesses could result in a potential security exposure such as unauthorised access to sensitive information and an increased risk of information loss. The weaknesses exposed the network to increased vulnerabilities which could undermine the integrity of data across all systems, including the financial system.

Housing Authority

Qualified opinion on controls

We identified significant weaknesses in the procurement controls implemented by the Authority. Our testing showed controls were inadequate to demonstrate that the ordering of goods or services was approved prior to ordering. This increases the risk of erroneous or fraudulent payments and ordering of inappropriate or unnecessary goods or services.

For procurements without a purchase order, the Authority does not evidence that goods or services were received by someone independent of the incurring officer. Rather the incurring officer fulfilled the receiving function at the time of incurring. This is inadequate segregation of duties and contrary to the requirements of Treasurer's instruction 304 *Authorisation of Payments*. It also increases the risk of erroneous and fraudulent payments.

Office of the Parliamentary Inspector of the Corruption and Crime Commission Qualified opinion on KPIs

The Office did not maintain adequate records for the period October 2019 to March 2020 to enable reliable reporting on actual performance for their key efficiency indicators 'average cost per investigation/case' and 'cost of the audit function as a percentage of total cost of operations'. We were also unable to confirm the actual performance by alternative means. Consequently, sufficient appropriate audit evidence was not available to determine if the key efficiency indicators were fairly presented.

Western Australian Greyhound Racing Association Qualified opinions on financial statements

In prior years, grants the Association received from Racing and Wagering Western Australia to fund construction costs for the new Cannington track were not recognised as income in accordance with Australian Accounting Standard AASB 1004 – *Contributions*. Instead, these grants were recorded as 'Non-Current Liabilities – Payables', with income being recorded progressively over the life of the asset. This accounting treatment continued in 2019-20.

As a result, for the year ended 31 July 2020, 'Non-Current Liabilities – Payables' are overstated by \$14,359,772 in 2020 and \$14,837,879 in 2019. Retained Earnings are understated by the same amount for each respective year. In addition, 'Grants and subsidies received from State Government' in the Statement of Comprehensive Income is overstated by \$478,108 for 2020 and \$497,262 for 2019. We therefore issued a qualified opinion on the financial statements.

Matters of Significance in auditor's reports

Where a matter in relation to the financial statements or KPIs is undisclosed or not apparent in the financial statements or KPIs, we may include a Matter of Significance paragraph in our auditor's report to bring it to the attention of readers.

Entity	Details of Matter of Significance
Child and Adolescent Health Service, East Metropolitan Health Service, North Metropolitan Health Service, South Metropolitan Health Service WA Country Health Service	<p>Our audit reports highlighted that the 4 metropolitan health services and WA Country Health Service have approval to not report emergency waiting times as an audited KPI.</p> <p>The Under Treasurer has continued his approval to remove the reporting of an audited KPI 'Percentage of Emergency Department patients seen within recommended time'. The approval was conditional on unaudited KPIs being included in annual reports until implementation of a new Emergency Department data collection system. The Under Treasurer's approval requires WA Health to reassess whether this indicator can be re-instated as a KPI once a new emergency department data collection system has been implemented. There is currently no set timeframe for implementation of a new system.</p> <p>The existing systems are clinical management tools designed to assist with prompt and effective treatment of patients, but not necessarily for accurate recording of waiting time data.</p>
Department of Primary Industries and Regional Development	<p>The <i>Biosecurity and Agriculture Management Act 2007</i> requires the Western Australian 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.</p>

Entity	Details of Matter of Significance
	We have highlighted this in the auditor's report so that readers are aware of this arrangement, as the Department's financial statements do not separately identify WAAA's transactions.

Source: OAG

Table 2: Matter of Significance comments included in auditor's reports

Effect of COVID-19 on KPI reporting - Exemptions from reporting selected KPIs

For a variety of reasons, mostly related to the COVID-19 pandemic response, some entities applied to Treasury for exemptions from reporting selected KPIs for 2020. Treasury approved most of these applications. Reasons included an inability to collect performance information such as survey data due to the COVID disruptions or to free up entity staff for operational purposes.

Where KPIs were not reported, we included a Matter of Significance paragraph with the audit opinion, to inform users of the reason why entities had not reported the KPIs. The audit opinion in each entity's annual report will provide readers with further information on the following KPIs not reported for 2020:

Entity	KPI not reported
Aboriginal Affairs Planning Authority	Customer satisfaction survey indicator
Animal Resources Authority	Customer survey key effectiveness indicator
Botanic Gardens and Parks Authority	Customer satisfaction survey indicator
Department of Biodiversity, Conservation and Attractions	Visitor satisfaction in national parks and other lands and waters
Department of Mines, Industry Regulation and Safety	Stakeholder satisfaction survey indicators
Disability Services Commission	Key efficiency indicators for average cost per service
Gascoyne, Goldfields-Esperance, Great Southern, Kimberley, Mid West, Peel, South West and Wheatbelt Development Commissions	Client survey KPI effectiveness indicators for each entity
Mental Health Commission	Key efficiency indicators for average cost per service
Public Transport Authority of Western Australia	Customer satisfaction index for country passenger rail and road coach services
Rottne Island Authority	Visitor satisfaction index at Rottne Island
School Curriculum and Standards Authority	Key efficiency indicator for average cost per student for NAPLAN testing, as tests were not conducted
Zoological Parks Authority	Customer satisfaction indicator

Source: OAG

Table 3: Entities with exemption from reporting KPIs for 2020

Emphasis of Matter paragraphs in auditor's reports

If a matter is appropriately presented or disclosed in the financial report but, in our judgement, is of such importance that it should be drawn to the attention of Parliament, we may include an Emphasis of Matter paragraph in our auditor's report. The following list describes the more noteworthy matters that we highlighted through Emphasis of Matter paragraphs.

Entity	Description of Emphasis of Matter paragraphs
Annual Report on State Finances	Contingent liability relating to a claim of \$28 billion made against the State in respect of a legal dispute between the parties to a state agreement and the Western Australian Government. This is recognised in the financial report of the Department of Jobs, Tourism, Science and Innovation.
Department of Jobs, Tourism, Science and Innovation	Contingent liability disclosed in the financial report recognises a claim of \$28 billion made against the State in respect of a legal dispute between the parties to a state agreement and the Western Australian Government. The claim is still current.
Electricity Generation and Retail Corporation (Synergy)	The contingent liability note in the financial report describes the status of the investigation by the Economic Regulation Authority into the Corporation's pricing in balancing submissions made in the Western Australian Wholesale Electricity Market.
Gold Corporation	The events occurring after the reporting period note to the financial statements disclosed that elements of Gold Corporation's risk assessment process in respect of responsible sourcing require strengthening, and that a corrective action plan is being implemented.
Insurance Commission of Western Australia	The notes to the financial statements describe an event occurring after the reporting period relating to the liquidation settlement scheme arrangements agreed between the Bell Group companies and their creditors, the Supreme Court of Western Australia orders approving the settlement, and receipt of the \$665 million settlement.

Source: OAG

Table 4: Selected Emphasis of Matter paragraphs in auditor's reports

Prior year qualified opinion removed in 2019-20

Rottnest Island Authority – qualified opinion on controls removed

During 2019-20, the Authority improved controls by regularly reviewing system logs recording changes to rates, refunds and discounts for its records of accommodation, bike and equipment hire and other miscellaneous revenue. Consequently, the qualification from 2018-19 and 2017-18 relating to these controls has been removed.

2019-20 financial statement audits not undertaken

Three entities were not audited for the 2019-20 year.

We dispensed with these audits under section 14 of the AG Act because the operations of the entities have ceased or there was insufficient activity to justify undertaking an audit. We dispensed with the audits after consultation with the Treasurer.

Entity	Reason why audits dispensed
Landcare Trust (inactive since 2004)	The Trust ceased to operate in 2004 and holds no funds. Legislation to repeal Part VA of the <i>Soil and Land Conservation Act 1945</i> , which created the Trust, is required. The Department of Primary Industries and Regional Development now administers this legislation.
State Supply Commission (inactive since 2009)	The Commission's functions and records were transferred in June 2009 to the Department of Finance. The <i>State Supply Commission Act 1991</i> has not been repealed.
Western Australian Building Management Authority (inactive since 2009)	The Authority ceased to operate in 2009 and is awaiting repeal of its legislation, Part 1A of the <i>Public Works Act 1902</i> . The Department of Finance holds the Authority's records.

Source: OAG

Table 5: 2019-20 audits dispensed under section 14 of the AG Act

Since the entities ceased operation, we have completed audits every 3 years. The latest audit was for the 2017-18 financial year. If these entities are not abolished in this year, we will perform an audit for 2020-21, as required by section 14(5) of the AG Act.

Management issues

Control environment

Entity management is responsible for developing and maintaining adequate systems of internal control to ensure legislative compliance, as well as accurate recording and reporting of financial information and KPIs. 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 KPIs, are accurately maintained
- assets are appropriately safeguarded
- errors and other irregularities are prevented or detected
- compliance with legislation and policy guidelines
- internal and external financial and non-financial performance reporting is reliable and timely.

The AG Act requires the Auditor General to audit entity accounts and, in the case of entities operating under the *Financial Management Act 2006*, to also form an opinion on their financial controls. This involves, as a minimum, an assessment of the design and implementation of relevant financial management and reporting controls.

We report our control findings in management letters to the Accountable Authority. Control weaknesses are rated according to their potential impact and we base our ratings on the audit team's assessment of risks and concerns about the probability and/or consequence of adverse outcomes if action is not taken. We consider the:

- quantitative impact – for example, financial loss
- qualitative impact – for example, inefficiency, non-compliance, poor service to the public or loss of public confidence.

Risk category	Audit impact	Management action required
Significant	Control weaknesses that potentially present a significant financial or business risk to the entity if not addressed promptly. These significant risk findings impact: <ul style="list-style-type: none">• likelihood of material misstatement in the financial report• ability to achieve objectives or comply with legislation.	Priority or urgent action by management to correct the material misstatement in the financial report to avoid a qualified opinion or for control risks, implement a detailed action plan as soon as possible, within 1-2 months.
Moderate	Normally matters requiring system or procedural improvements or low risk matters from previous audits that have not been satisfactorily resolved. These moderate risk findings include: <ul style="list-style-type: none">• misstatement in the financial report that has occurred, although not material	Control weaknesses of sufficient concern to warrant action being taken as soon as practicable, within 3 to 6 months. If not addressed promptly, they may escalate to significant or high risk.

Risk category	Audit impact	Management action required
	<ul style="list-style-type: none"> ongoing system control weakness which could or is having a moderate adverse effect of achieving objectives or legislative compliance. 	
Minor	<p>Isolated occurrences, non-systemic or procedural control weaknesses that are administrative shortcomings.</p> <p>Minor weaknesses which are not of primary concern but still warrant action being taken.</p>	Management to implement an action plan within 6 to 12 months to improve existing process or internal control.

Source: OAG

Table 6: Risk categories for control weaknesses reported to management

We give management the opportunity to review our audit findings and provide comments prior to completion of the audit. Often management improves policies, procedures or practices after we raise them and before the audit is completed. At the completion of each audit, we send a copy of our management letter to the responsible Minister along with the audit opinion.

When management responds to control weaknesses, we request that they set a timeframe for remedial action to be completed. Most entities set themselves challenging timeframes for remedial action, and generally meet those timeframes. It is however disappointing that some entities do not remedy control weaknesses in a timely manner.

This year, 26% or 113 of our financial control findings and 41% or 173 of our information system control findings were unresolved findings from the previous year. Last year the comparative results were 20% or 65 for financial management control findings and 44% or 193 for information system control findings.

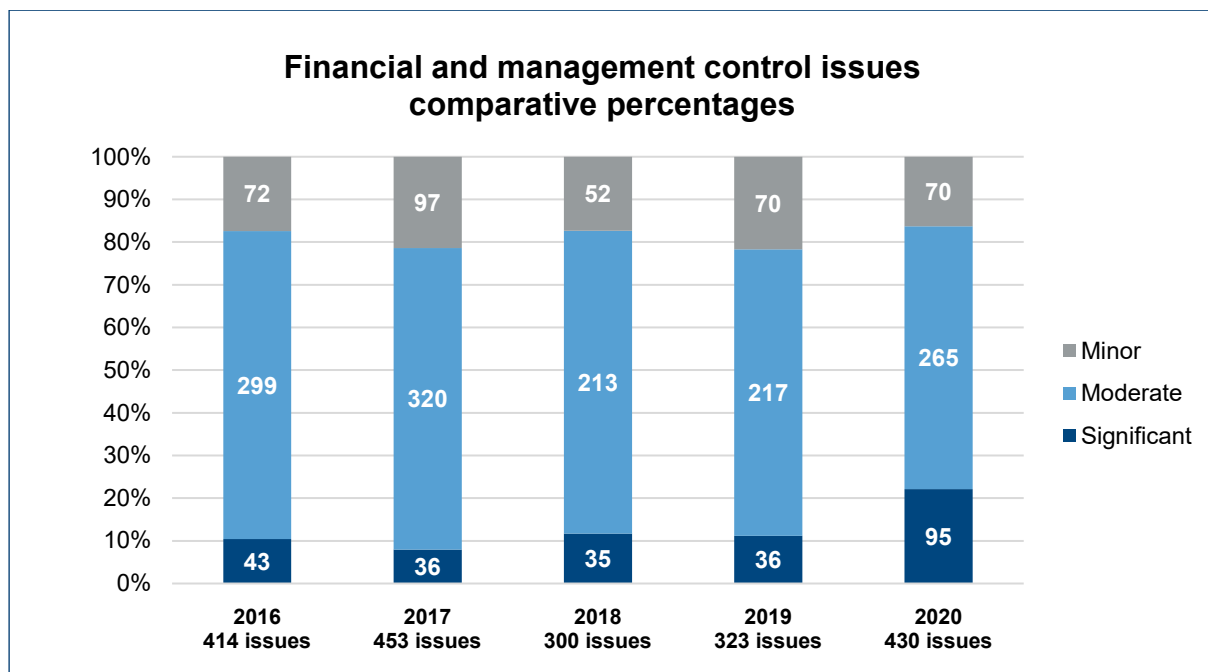
While our management letters relate specifically to an individual entity, the weaknesses are often common to other government entities. The following is a summary of control weaknesses identified during 2019-20.

Financial and management controls

During 2019-20, we alerted 87 entities to control weaknesses that needed their attention. At the conclusion of our audits, responsible Ministers received advice of these deficiencies.

In total, we reported 430 control weaknesses to management at entities. This was higher than the 323 reported in the previous year. The number of issues we rated as significant increased from 36 to 95. (Figure 1).

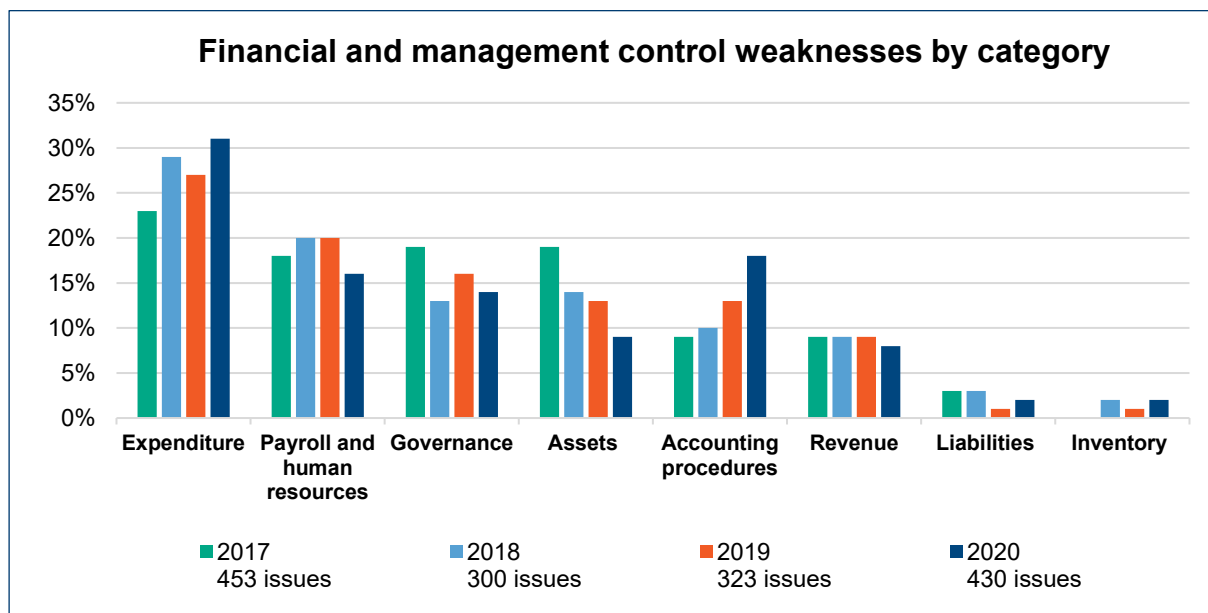
However, it was disappointing to note that 113 control weaknesses (26%) at 38 entities were unresolved from the prior year.



Source: OAG

Figure 1: Ratings of financial and management control weaknesses reported to entities – by number and percentage

Figure 2 shows a breakdown of the categories of control weaknesses identified for the last 4 years. Expenditure control weaknesses again represented the highest proportion, followed by weaknesses in accounting procedures, payroll and human resource management, and governance controls.



Source: OAG

Figure 2: Financial and management control weaknesses for last 4 years

Following are examples of control weaknesses in the major categories:

Expenditure

We reported 133 expenditure control weaknesses to 49 entities in 2019-20. Thirty-four were rated as significant and 39 weaknesses were unresolved from the prior year.

From January 2020, Treasurer's instruction 304 *Authorisation of Payments* was revised, requiring entities to immediately review their purchasing and payment processes to ensure segregation of duties. Our audits have reported to management at 33 entities that their payment processes remain in need of improvement. For some entities, this included the need to more clearly comply with TI 304.

The mandatory requirements of TI 304 now expressly include segregation of the ordering, receiving, incurring and certifying functions. This was previously included in the guidelines to the TI only. Segregation of duties and the requirement for officers to be appointed to perform the various functions to delegated limits are key controls for every entity.

The following 4 purchasing functions are required to be performed by separate officers:

- Ordering - goods and services must be ordered by an authorised officer raising a purchase order, after seeking quotations or completion of a tender process (where necessary) and receiving the required level of delegated approval. Full details or specifications of the item/s or services ordered, and the agreed price and delivery instructions are to be included in the order.
- Receiving - goods and services are required to be received by a staff member with appropriate authority, with evidence retained of the receipt.
- Incurring – an authorised incurring officer must check any differences between the order, the goods received report, invoice charges and quoted or contracted rates. This review is to be documented or evidenced before the officer incurs the payment.
- Certifying – a certifying officer, with appropriate delegated authority, must review the procurement evidence for the goods or services prior to certifying the invoice for payment.

These functions were not always separated, which increases the risk of inappropriate purchases and/or fraud due to the same person having control of too many checkpoints.

TI 304(4) allows an entity with limited resources where it is not 'reasonably practicable' to have the required segregation of duties to agree and approve an alternative arrangement between the Accountable Authority and the Audit and Risk Committee. However, any approved alternative arrangements cannot allow the same officer to perform the functions of incurring and certifying in relation to the same payment.

During our audits, we noted several entities that had approved alternative arrangements under TI 304(4). We gave consideration to these alternative arrangements and, although we made some recommendations for improvement, we considered the controls generally satisfactory.

Other expenditure control weaknesses included procurement procedures not routinely implemented. There were instances where purchase orders were prepared after the suppliers' invoices and goods had been received. In some entities, staff were not seeking quotes (where required) or not completing purchase orders to start the ordering process and accountability trail. Sometimes quotes were received but evidence was not retained.

Of the 133 expenditure control weaknesses, 40 related to use of purchasing cards contrary to the policies and procedures at 18 entities. Our testing found instances where:

- purchasing card statements and supporting transaction documents were not submitted by the cardholder before the payment due date for review and approval
- staff exceeded their approved limits or expenditure categories
- another staff member used the card while the cardholder was absent or on leave
- 6 entities did not promptly cancel the purchasing card held by a cardholder who ceased employment.

Accounting procedures

During our audits we identified 79 accounting procedures issues at 39 entities. Eighteen rated as significant and 11 were unresolved from the previous year. The major control weaknesses included:

- at 12 entities, manual journal entries were recorded without evidence of review by a second senior officer or without appropriate supporting documentation. Accounting journals can represent significant adjustments to previously approved accounting transactions and can also be used to hide fraud. They should therefore be appropriately reviewed and approved.
- bank account signatories were not updated in a timely manner to remove terminating employees or to reflect changes in employees' responsibilities. This exposes the entity to potential fraudulent activity over its cash balances.
- registers of contracts and leases were not maintained or kept up-to-date. Lack of complete and accurate information on all contracts, and any variations, could potentially limit the entity's ability to effectively monitor and manage contractual obligations.
- review of the application of new or revised accounting standards was not conducted in a timely manner to ensure that management reporting was compliant with the current accounting standards at year end.

Payroll and human resources

We reported 69 payroll and human resource control weaknesses to 27 entities. Seventeen rated as significant and 16 were unresolved from the previous year. Our payroll controls audits identified the following weaknesses:

- Business unit managers were not promptly reviewing and returning their business unit cost centre payroll reports to the human resources division. This is an important control in all but small entities, as business unit managers are best placed to identify incorrect payments to their staff on leave, leave without pay, acting on higher pay, no longer employed or employees who are unknown to them or not employed in their business unit. This control also helps identify any fraudulent 'ghost employees' on the payroll. Early notice of any errors can be actioned promptly to avoid making invalid salary payments.
- At 17 entities we found weaknesses in commencement and termination procedures, including delays in communicating the start and termination information of employees to the payroll section which meant delays in processing these changes. This requires subsequent adjustments to pays. We advised 12 entities that their termination procedures required improvement to ensure that outgoing employees return all entity property, attractive assets, purchasing cards and security passes, and have their access to systems withdrawn promptly.

- We found 6 entities' employee leave application procedures and reporting processes need improvement to ensure that leave taken is recorded in each employee's record. For financial reporting, the correctness of an entity's leave liability depends on the accuracy of its employees' outstanding leave entitlements.

Governance

During our audits we identified 61 governance and legal compliance issues at 45 entities. Eleven rated as significant and 21 were unresolved from the previous year.

We reported to 25 entities that they were not fully compliant with a section of the *Financial Management Act 2006*. These included the requirement to prepare or update their audit and risk charter, their risk management policy and plan or their strategic plan. Without up-to-date policies, there is an increased risk that key business functions will not operate efficiently and continuously to support the entity's operations. Also, some entities are still using pre-Machinery of Government (2017) policies and procedures or the financial management manual of their former entities. Documentation of the entity's current policies and procedures provides guidance to management and staff and reduces the likelihood of transactions being inadequately controlled or performed.

Recommendations

1. All entities should ensure they maintain the integrity of their financial control environment by:
 - a. periodically reviewing and updating all financial, asset, human resources, governance, information systems and other management policies and procedures and communicating these to relevant staff
 - b. conducting ongoing reviews and improvement of internal control systems in response to regular risk assessments
 - c. regularly monitoring compliance with relevant legislation
 - d. promptly addressing control weaknesses brought to their attention by OAG audits.

Information systems controls

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

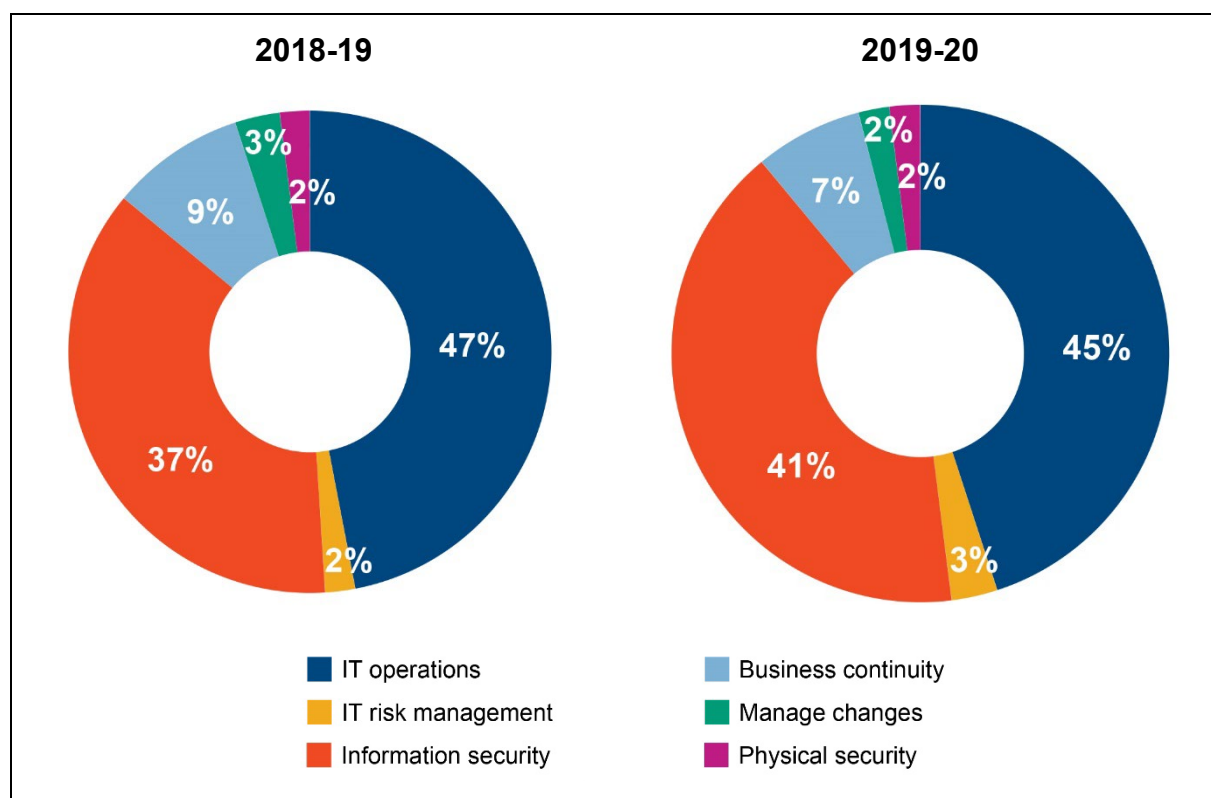
Audits of general computer controls are a major part of work we undertake to assess the effectiveness of information system controls. Well implemented and managed general computer controls ensure reliable and secure processing of financial and key performance information. We focus our information systems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

In 2019-20, we identified 423 weaknesses across 49 entities where our information system audits have been completed. Forty-one percent of these were unresolved issued from the previous year. Last year we reported 434 findings at 41 entities. Five percent of the issues were rated as significant and 71% were rated as moderate requiring action as soon as possible. The other 24% were rated as minor.

Of the weaknesses identified:

- 41% related to information security issues. These included system vulnerabilities, weak passwords, poor remote access controls, and unauthorised and inappropriate access
- 45% related to operations issues. These included the processing and handling of information, monitoring user activity, and review of access privileges.

Figure 3 shows the percentage of total findings made against our 6 categories of control risk. Information technology (IT) operations and business continuity findings decreased by 2% this year while there was a 1% reduction in change management findings. Information security findings increased by 4% and IT risk management findings increased by 1%. The distribution of findings in the physical security category was similar to last year. The majority of issues are simple to fix, but if not resolved these issues leave entities potentially vulnerable to security incidents and disruption of systems.



Source: OAG

Figure 3: Information systems control issues by category

A more detailed report on the results of our information system audits is planned for the first quarter of 2021. The report will consolidate the results of audits of entities with a 30 June 2020 reporting date and upcoming work on entities with a 31 December 2020 reporting date.

Details of our additional audit testing for COVID-19 pandemic IT risks commence on page 27 in the revised audit planning for COVID-19 section.

Key performance indicators

In 2019-20 we reported 26 KPI weaknesses to management at 19 entities. The number of qualified KPI audit opinions was 1.

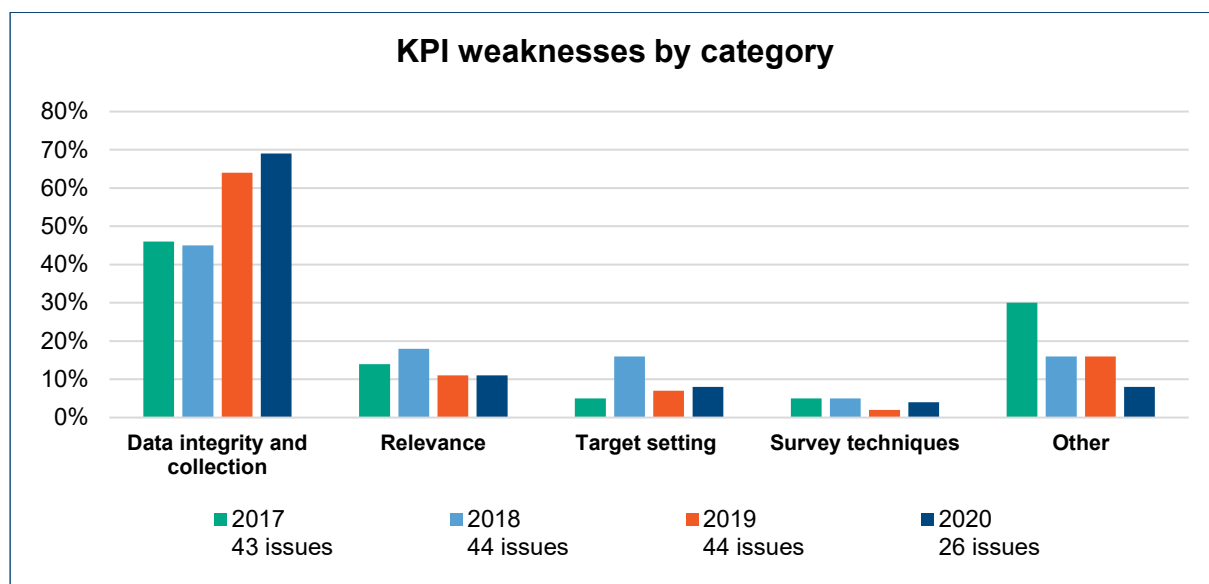
Almost all of the 26 weaknesses need prompt or urgent attention by entities.

KPI shortcomings and qualifications	2016-17	2017-18	2018-19	2019-20
Number of entities with KPI weaknesses	20	13	26	19
Number of KPI weaknesses reported	43	44	44	26
Number of KPI weaknesses rated as significant	20	16	18	9
Number of entities with qualified KPI opinions	5	4	1	1

Source: OAG

Table 7: Summary of KPI weaknesses reported to entities

Figure 4 shows that data integrity and collection is the key area needing improvement.



Source: OAG

Figure 4: KPI control weaknesses for last 4 years

We reported 18 control weaknesses relating to data integrity and collection to 13 entities. Seven rated as significant. The weaknesses included:

- data not accurately entered at source or from source documents. This resulted in the KPIs being calculated from data that was not consistent with the supporting records.
- some data was not accurate or not easily auditable, especially where collected by third parties.

All data recorded by entities needs to be accurate, reliable and verifiable in order to measure and report the entity's achievement of their outcomes.

Recommendations

2. Entities should periodically review their KPIs to ensure that:
 - a. they are calculated from reliable and complete data
 - b. they remain relevant, appropriate and fairly present performance against realistic targets
 - c. the KPI instructions are periodically updated and approved so that KPIs are consistently reported and comparable.

Impact of COVID-19 on audited entities and our audit response

In response to COVID-19, we engaged extensively with audited entities, central entities and audit committee chairs around audit flexibility, and provided written briefings to the Treasurer and relevant parliamentary committees on key priorities and considerations.

Initial high level communication of a more flexible audit approach

On 27 March, the Auditor General communicated to all stakeholders our audit response to COVID-19, including working together, and maintaining good governance and controls during the time of disruption.

This addressed the impact on the financial statements, the internal controls and service delivery. We undertook to implement a flexible audit plan, whereby we:

- evaluated our audit processes and program to reduce the burden on entities wherever reasonable and appropriate.
- ceased all performance audits at the health entities and recognised that our 2019-20 financial audit program in key entities would be delayed or altered. We revaluated our forward performance audit program and considered modifying or temporarily suspending audits involving significantly impacted entities.
- minimised our time spent at audited entities, with our staff being rostered to work from home or in the office.
- participated in working parties with Treasury and Health entities, to develop strategies to ensure that financial reporting for the Annual Report on State Finances (ARSF) and for Health entities could be completed and audited, despite the significant additional COVID related administrative and operational burden on Treasury and Health.
- focused on auditing the ARSF as a top priority. We committed to working with Treasury and entities that comprise approximately 95% of State assets and expenditure, to gain assurance over the financial balances of those entities material for the ARSF by September 2020.

In consultation with Treasury, we agreed that, depending on the ongoing effects of the pandemic, other less-material aspects of the key entities' financial statements, and the smaller non-material entities, could be audited at a later stage. However, due to the State's easing of internal restrictions, almost all audits were completed before the ARSF was released by Treasury. This effort attests to the dedication of entity finance teams, Treasury officials and our audit teams, including contracted firms.

- worked with entities to establish which areas of the audit could be done earlier, and those that could be done later.
- reduced the amount and length of audit meetings, and conducted them via audio or video conference, wherever possible, or postponed them.
- made increased use of technology to enable the collection of evidence and analysis of financial and performance data.
- continued to use our portal and then secure large file transfer to transmit and receive audit documents.

Advice for entity management

At an early stage of the pandemic, we sent the following advice to entities about key risks that can be heightened in times of crisis.

- Good business governance and controls can be at risk during times of disruption, particularly in environments of crisis and urgent response. There are some who may seek to take advantage of any sense of chaos for their own interests. We encourage entities to maintain good controls, particularly over cash, expenditure and assets throughout this period.
- Information systems may be the subject of increased cyber-attacks and phishing attempts, so there needs to be continued focus on information security.
- We published on our website a guidance paper 'COVID-19 Financial controls matters' and an extract from our Report 18: 2019-20 – Information Systems Audit Report 2020 – State Government Entities, 'Security considerations for remote working arrangements'. These guidance papers are presented as Appendix 5, page 68, and Appendix 6, page 71. For other better practice guidance published by our office, refer to the index at Appendix 7, page 73.

Revised audit planning and testing approach

The pandemic affected WA at the time that we were planning for the 30 June year-end audits or had commenced interim audit testing. Our response included:

- Our technical team provided advice and developed an approach that reduced planning inquiries for the 2019-20 financial audits. The principle was for the audit teams to minimise enquiries with senior management and those charged with governance during the March-June 2020 period (our initial estimate of the period when those charged with governance would need to direct their attention to matters other than audit).
- At the request of some entities we postponed entrance meetings and interim audits. Once these entities informed us they would like the audits to continue, we amended our schedule accordingly. These delays caused an 'audit bottleneck' around year-end. To manage the extra workload around year-end, we employed 16 temporary contract audit personnel to supplement our existing resources.
- While our staff and contract firms were adapting to revised schedules and ways of working, entities were also adapting to working from home and providing more audit evidence in electronic format. We wish to thank entity management and staff for their collaborative approach to completing the audits.
- We considered the control environment to be higher risk from March 2020 to June 2020 and amended the level of controls testing during that period. At many of the entities we performed more controls testing and larger sample size testing of transactions.
- We identified a key IT risk that when staff were redeployed to work from home, some used private devices over private networks. We responded to this audit risk by developing a test plan covering information security risks associated with remote access.
- Entities incurred additional expenditure due to COVID-19 and we separately tested this expenditure. This was an important procedure as, in certain circumstances, the State could claim some of this expenditure from the Australian Government.
- The State government announced a range of stimulus measures to support business and the public, and to help the financial and social recovery from COVID-19. Stimulus

transactions before 30 June 2020 were tested as part of our 2019-20 financial audits, and those from 1 July 2020 are currently being audited as part of a focus audit.

- In addition to the stimulus measures, the State government announced procurement changes to help boost local business during COVID-19. A focus audit will be conducted on the associated controls and compliance with the temporary abbreviated procurement requirements for State government entities that were put in place for the expected recovery phase following COVID-19.
- The Office of State Revenue has a large part to play in the 'Grant to payroll tax clients' measure. At the Commissioner of State Revenue's request during its early implementation, we assisted by reviewing their process and providing recommendations to improve the process.

Audit findings reported to management

Our extended audit testing of controls and transactions for the period March to June 2020 generally did not identify significant systemic audit findings. However, the following matter requires attention at some entities:

Information security exposures when working remotely

At the height of the COVID-19 pandemic, many staff were working remotely from home. We extended our testing of controls, to assess whether data security and integrity had been maintained.

We found that, under the circumstances, management had responded well to the crisis situation, and had generally been able to implement satisfactory controls for working from home. However, the situation highlighted a need at some entities to improve their information and communication technology (ICT) remote access infrastructure and practices for working from home.

An exposure we identified at some entities related to staff who needed to perform their tasks on their personal devices, because insufficient devices could be procured by the entity at a time of global supply chain disruption and increased demand. In some of these instances, staff were required to connect their personal devices via a remote network and use remote desktop protocol (RDP) to access resources. Using RDP to access a network involves data being transferred from the network to the personal devices. This created risks because there was no recording or monitoring of what information had been transferred or accessed from those personal devices. In addition, there was generally no use of multi-factor authentication when accessing the network remotely. Although virtual private network (VPN) was used, in the absence of adequate monitoring, anti-malware software, and security patches on personal devices, integrity and confidentiality of systems and data may have been compromised. However, our financial audits did not identify any instances where these weaknesses compromised information.

We recommended that management of those entities review their remote access mechanisms and the use of personal devices for remote access and/or working from home. This matter may be resolved if entities implement appropriate controls to govern the use of personal devices. Moreover, they may consider replacing existing office desktop devices with, for example, office laptops that can be ported by staff when required.

A more detailed report on this topic will be included in our information system audit report, planned for the first quarter of 2021.

Recommendations

3. The Office of Digital Government should use information about the strengths and weaknesses identified during the pandemic, in relation to working from home and other remote system access arrangements, as part of their ongoing support and guidance to entities.

Controls over urgent procurement of personal protective equipment (PPE)

We sample tested emergency health inventory purchases during the peak period of the COVID pandemic. One purchase for face masks in April 2020 demonstrates the importance of sound controls and decision making in times of crisis:

Case study 1 – Importance of sound controls and decision making in times of crisis

At the height of global supply chain disruption in April 2020, Health Support Services (HSS) was contacted by an Australian supplier through the internet, by phone and through a dedicated email inbox set up by HSS to receive offers from potential suppliers of PPE and other equipment. In this instance, the supplier offered to provide 1 million N95 face masks to Western Australia at a cost of \$7 million.

Product specifications were discussed during a number of phone calls and emails between HSS and the supplier over a 2-week period. The supplier provided specification documents and product brochures to HSS, which it reviewed to determine quality and suitability. After these discussions, the supplier requested full payment within the next 2 hours to secure the goods. As a precaution, HSS agreed to pay a deposit of \$2.3 million. Approvals in line with standard delegations were obtained and the payment was made.

Two days after payment was made, the HSS procurement team inspected the goods through photographs and it was determined that the face masks did not meet WA Health specifications. HSS did not take possession of the inventory and requested a refund.

After extensive negotiations the supplier refunded the full amount to HSS through a number of separate payments.

It is important to consider the context of this transaction:

- The lack of PPE for health workers was a tangible risk. HSS needed to compete in a global market to secure supplies of critical medical products. Manufacturing capacity, restrictions on transport and distribution, and disruptions related to lockdowns and flight cancellations all contributed to the urgency and challenge of the situation.
- WA Health and the Department of Finance were well aware of the existence of fraudulent suppliers taking advantage of the global supply shortages.
- The supplier was an Australian organisation and therefore subject to Australian consumer legislation.
- Due diligence included review of products by a committee that included clinical representation from the health service providers.
- Despite significant pressure from the supplier to make the purchase and pay the full \$7 million, HSS decided to only pay the \$2.3 million deposit, with acceptance of the offer in full being conditional on quality and suitability.
- When the supplier advised that the masks to be supplied differed from those in their initial representation of the product, HSS acted swiftly to cancel the transaction and negotiate a non-litigative outcome that resulted in full recovery of the deposit amount.

In the circumstances, we consider the administrative staff managed the situation well. However, the broader question of the State's disaster preparedness remains open.

COVID-19 impacts on entities

During our audits of financial statements, KPIs and controls, we noted numerous impacts of COVID-19 on entities. Disruption to the health sector including, for example, cancellation of elective surgery, closure of schools and universities, and extensive additional time worked by emergency personnel and other public servants, are generally well-known. In this section of the report we have summarised a selection of COVID-19 effects that have not been as widely reported.

Some of the information below also appears in each entity's tabled annual report but we have summarised key aspects here for the convenience of Parliament. We trust this will also provide insight to important issues considered during the 2019-20 final audits.

Disruption of services

Botanic Gardens and Parks Authority

The reduced number of visitors, functions and events, and deferral of tenants' rent, resulted in a 23%, or \$463,058, decline in user charges and fees. Sales, predominantly from the Aspects Gallery shop in Kings Park, declined by 18% or \$541,776.

Department of Transport

The Department's following service deliveries were disrupted and foregone 2019-20 revenue collections attributed to COVID-19 are noted:

- delicensing of non-residential parking bays reduced anticipated Perth Parking revenue collections – approximately \$3 million
- small business tenants located at the Department's maritime facilities received a 6-month rent waiver - \$2.1 million
- tourism charters and commercial fishing vessels penned or moored at the Department's maritime facilities received a 12-month fee waiver - \$1.1 million
- on-demand booking services authorisation holders received a 12-month fee waiver - \$0.4 million.

Library Board of Western Australia

With the closure of the State Library building to the public, the entity shifted its focus to the delivery of resources and services online. There was an 18% increase in the use of online heritage collection images. Additionally, State Library members accessed more online resources (e.g. e-books, e-audiobooks and streaming videos) and online databases (e.g. Ancestry Library Edition) from their own homes. Use of online resources increased by 24% and online databases by 89%.

Perth Theatre Trust

Closure of the Trust's venues due to the COVID-19 pandemic resulted in a 16%, or \$1.028 million, reduction in user fees and charges.

Public Transport Authority of Western Australia

From March 2020 the Public Transport Authority experienced decreased usage of services mainly following the closure of schools and businesses. User fees and charges decreased by \$36.7 million (16%) due to lower patronage.

Rottnest Island Authority

User charges and fees (mainly accommodation and admission fees) dropped by \$3.4 million to \$37.2 million, largely due to closure of the island from the end of March to 5 June 2020. The decrease was partially offset by a \$1.3 million reimbursement from the Department of Health for travellers quarantined on the island.

School Curriculum and Standards Authority

The Authority's supplies and services costs decreased mainly due to cancellation of NAPLAN testing due to the COVID-19 pandemic.

Swan Bells Foundation

Visitors to the Bell Tower declined due to a shut down period between March and June. An 18%, \$65,000 decrease in user charges and fees was reported.

Western Australian Museum

The 26% decrease in visitors to the Museum and non-Museum sites was due to COVID-19 closure when compared to 2018-19 actual. However, online visitors to websites exceeded 1.2 million, higher than the previous year.

Western Australian Sports Centre Trust (VenuesWest)

VenuesWest reported a \$17.4 million (28%) reduction in user charges and fees from venue hire, admission, conference and facilities fees and other charges such as car parking, room hire and stadium tours. In addition, sales dropped by \$24.4 million (29%) for stadium memberships, and sale of food and merchandise, due to venue closures.

Zoological Parks Authority

Admissions revenue at the Perth Zoo was \$1.8 million or 20% below the previous year, mainly due to temporary closure. Visitor numbers were 17% below budget, which had been estimated to counter for the previous year's higher attendances linked to the Perth Zoo's 120th birthday and a special Zoorassic Park dinosaur exhibit held over an extended period.

Entities' expenses for directly managing the impact of COVID-19

Most entities incurred additional expenses in 2020 to maintain a clean and healthy work environment and equip staff to work from home to maintain service delivery to the public. Table 8 includes some notable costs of managing the pandemic. These expenses were examined in our audits on a sample basis. While some of these activities and related costs continued into the 2020-21 financial year, the costs in this table relate to the period up to 30 June 2020 only.

Some of the larger entities, such as the health service providers, Department of Education and Police Service, redirected existing appropriation funding to meet COVID-19 expenses during the final quarter of 2019-20. Table 8 provides details of their COVID-19 expenses and funding arrangements.

Name of entity	Cost 2019-20	Major reason for additional expenses (or redirection of appropriation funding)
Commissioner of Main Roads	\$4.7 million	Regional border control assistance and metropolitan traffic management during COVID-19.
Department of Education	\$35.8 million	Redirection of funding included \$23.9 million to schools for additional cleaning services, cleaning products and purchase of personal protective equipment (PPE), of which \$19.7 million was for the salaries of additional cleaners. The additional funding was allocated to schools through the endorsed one-line budget funding approach, which is supported by the Department's existing governance and financial controls. No specified account codes were created to track schools' associated expenditure.
Department of Health	\$36 million	\$21 million for hotel quarantine (including security costs) and \$15 million various COVID-19 initiatives for the response and readiness to support the pathway to recovery and an increase in pharmacy services.
	\$45 million	Private hospital payments. This funding was part of the National Partnership Agreement with the Australian Government.
	\$12 million	Purchase of medical equipment, including ventilators.
Department of the Premier and Cabinet	\$2.6 million	COVID-19 pandemic communications campaign expenses.
Department of Water and Environmental Regulation	\$975,000	Salaries of additional fixed term staff to address business demand due to COVID-19, cleaning, communication and consultants.
East Metropolitan Health Service	\$17 million	COVID clinics, COVID planning and equipment, COVID call centre and hotel quarantine. Redirection of funding as no additional appropriation was received for COVID-19.
Electricity Generation and Retail Corporation (Synergy)	\$3.6 million	Additional personnel expenses for the Muja and Collie sites due to travel restrictions, additional advertising of assistance to customers facing financial hardship, and cleaning services and supplies.
Electricity Networks Corporation (Western Power)	\$3.7 million	Additional supplies, overalls and assorted PPE and hardware / IT support services to facilitate working from home.
Health Support Services	\$33.2 million	Purchase of additional PPE in line with the COVID-19 response.
	\$8.4 million	Additional ICT investment in response to COVID-19 pandemic.
North Metropolitan Health Service	\$11.4 million	\$7.7 million related to payroll expenses for COVID-19 clinics and patient care. All expenses were met by redirection of funding as no additional appropriation was received for COVID-19.
PathWest Laboratory Medicine WA	\$4.9 million	Employee costs, PPE supplies, medical and non-medical equipment and other expenses to support COVID-19 testing work.
	\$6.6 million	COVID-19 specific medical supplies and consumables including test kits purchased during 2019-20, of which \$3.8 million in stock at 30 June 2020.

Name of entity	Cost 2019-20	Major reason for additional expenses (or redirection of appropriation funding)
		Additional funding was received from the Department of Health for these costs.
Pilbara Ports Authority	Nil	The overall financial impact was minimal as higher cleaning and ICT costs were offset by reduced business travel costs. The Authority also received and granted rental concessions, where lessees demonstrated hardship.
Police Service	\$30.5 million	Redirection of funding included \$9.2 million for salaries. Additional employee expenses included \$5.3 million for allowances and overtime costs of deploying additional police across the State to track and trace COVID-19 affected people or people in quarantine, and to enforce border restrictions. Other major expenses included PPE, \$3 million, equipment purchases for police officers, \$3.3 million, and \$2.9 million for the development of automatic number plate recognition and e-monitoring systems.
Public Transport Authority	\$8.9 million	Additional cleaning services and supplies.
South Metropolitan Health Service	\$23.2 million	\$18.3 million for emergency departments and admitted in-patients, \$2.4 million for COVID clinics and \$2.5 million for State Public Health payments for equipment. Redirection of funding as no additional appropriation was received for COVID-19.
WA Country Health Service	\$17.6 million	\$11.6 million related to additional costs for COVID-19 clinics and teams, of which \$6.4 million was payroll expenses. Redirection of funding as no additional appropriation was received for COVID-19.
Water Corporation	\$2.1 million	Additional PPE and safety equipment (cleaning and hygiene products), customer communication campaigns, additional IT support to enable working from home and business resilience consultants.

Source: OAG based on entities' financial reports

Table 8: Additional costs of COVID-19 pandemic reported by entities

Stimulus funding distributed or initiatives administered by entities

The Australian and State governments both announced stimulus packages or initiatives to support a variety of sectors of the community and assist those facing financial hardship as a consequence of the COVID-19 pandemic. Many entities continue to play a role in distributing this funding into 2020-21.

Electricity corporations' stimulus funding

Synergy and Horizon Power administered 3 stimulus funding initiatives in 2019-20, as shown in Table 9. Western Power did not participate in any COVID-19 State government stimulus measures during the 2019-20 year.

Stimulus measure or action	Synergy	Horizon Power
Disconnections on-hold Temporary stop to disconnection activities from 23/03/2020 to 30/09/2020 for customers who consume less than 50MWh per annum. Synergy recognised the financial impact of this measure as an onerous contract.	\$21.3 million	N/A

Stimulus measure or action	Synergy	Horizon Power
Energy Assistance Payment (EAP) One-off boost payment of \$305.25 to eligible customers who registered for the EAP before 30/09/2020 to assist with their electricity costs.	\$42 million	\$1.02 million
Small Business and Charity Tariff Offset (SBCTO) A State Government scheme to pay \$2,500 into eligible customers' accounts from 01/05/2020 to assist them in mitigating the economic impacts of COVID-19.	\$57 million	\$5.3 million
Additional financial provisions		
Additional provision for bad and doubtful debts, relating to current market conditions and COVID-19.	\$21.5 million	\$1.3 million

Source: OAG based on entities' financial reports

Table 9: Electricity entities COVID-19 stimulus measures

Department of Finance

The Office of State Revenue (now RevenueWA) in the Department of Finance, administered the following relief measures in 2019-20:

- \$1.6 million was paid to concession card holders identified and assessed by RevenueWA as eligible for an Energy Assistance Payment under the Energy Concession Extension Scheme. These customers are not directly billed by or do not have a billing relationship with their electricity providers as they reside in retirement villages, caravan parks or apartment complexes without separate metering
- 4 month waiver of payroll tax \$165 million
- changes to penalty tax and payments arrangements for payroll tax, transfer duty, landholder duty, vehicle duty and land tax.

In addition to the relief measures administered by RevenueWA, the Department's Government Office Accommodation administered the 6 month waiver on rental payments by non-government tenants in the Minister for Work's owned buildings, \$0.175 million.

RevenueWA is also administering 2 building grant schemes announced in June 2020. One is the State's \$117 million building bonus scheme of \$20,000 grants to owner-occupiers and investors entering into a contract to build a new home on vacant land or purchase a home off-the-plan in a single tier development under construction. The second is the Australian Government's HomeBuilder \$25,000 grants to eligible owner-occupiers building a new home, renovating an existing home or purchasing a home off-the-plan. A single application process for both grants has been implemented, with grant distribution to commence in 2020-21.

Further stimulus measures announced during 2019-20 to be administered by RevenueWA in 2020-21 include \$17,500 small business grants totalling \$107 million, and the \$1 million payroll tax threshold change being brought forward, estimated at \$7 million reduction in revenue.

Department of Transport

The Department's stimulus payments totalled \$2.4 million, to provide assistance to some regional routes and airlines (\$0.8 million) and a \$2,500 one-off relief payment to individuals and companies who held both an on-demand booking service authorisation and at least 1 passenger transport vehicle authorisation (\$1.6 million).

Government Employees Superannuation Board – early release of superannuation

GESB is administering the Australian Government's Early Release of Superannuation (ERS) scheme for its members. GESB processed approximately \$77.6 million in ERS payments from May 2020 to 30 June 2020. Further ERS payments continue to be made to eligible members as applications under the scheme may be submitted until 31 December 2020.

Lotteries Commission

COVID-19 Relief Funding of \$37.55 million was distributed for relief and support of resilient organisations in sport and recreation, culture and arts, and the community. Relief was also provided for event cancellation by sport, recreation, art and community organisations. Our Office will be tabling a report on this scheme in the near future.

Additional relief funding was provided for Lotteries retailers' including incentive support packages, and terminal and service fee waivers.

Police Service

The Government announced a \$74.3 million stimulus initiative for the next 4 years' funding of 150 additional police officers. The recruitment process commenced in 2019-20 with several planned intakes from 29 June 2020. The financial effect of this initiative is expected to be seen over the forward estimates, commencing in 2020-21.

Water Corporation stimulus initiatives and funding

The Water Corporation has undertaken a number of stimulus measures, including:

- freezing household fees and charges
- 6 month waiver on rental payments
- wastewater charge relief for eligible business customers
- delaying increases in non-residential charges across 10 regional schemes
- interest free payment arrangements for customers experiencing COVID-19 related financial hardship.

The Water Corporation also applied no water supply restrictions for customers experiencing financial hardship or difficulty as a result of COVID-19.

Western Australian Tourism Commission

The Tourism Recovery Program paid out \$5.5 million as support to small and micro tourism industry operators up to 30 June 2020.

Advertising and promotion expenses reduced from \$29.5 million to \$15.9 million, largely due to a \$10.6 million reduction in promotion and co-operative campaigns expenditure as a result of the impacts of COVID-19 on the activities of the Commission when restrictions on travel were introduced.

Future potential effect of COVID-19

The impact of COVID-19 is ongoing and for some entities, the associated uncertainty and operational trends after year end warranted recognition by way of an 'Events after the reporting date' note to their financial statements. We support this prudent reporting of information that may be relevant to next year's financial outcome. We have not however identified factors that we consider warrant us, through this report, further drawing Parliament's attention to those disclosures.

Other financial reporting, accountability and audit matters

Forensic audit

During 2019-20, the OAG established a Forensic Audit business unit (Forensic) to conduct targeted audits supported by advanced data analytics of State government entities' accounts to identify indicators of suspected fraud with public money. In addition to its primary role of identifying indicators of wrongdoing with stand-alone audits and contributing to financial and performance audits with data analytic support, Forensic is also accelerating data analytics capability development across the OAG.

Main activities of Forensic

- Routine analysis of datasets (financial and complementary) for indicators of wrongdoing
- Joint audits with performance, financial or information systems audit teams
- Targeted audits of State government entity accounts and matters related to public money (e.g. procurement and contract management), public property and approvals
- Referrals to CCC/law enforcement entities for further investigation where relevant

Since becoming operational in March 2020, Forensic has received a number of referrals relating to financial, integrity and governance matters. During the course of evaluating these referrals, Forensic reviewed associated travel expenditure, credit card transactions, reimbursements, general ledger entries and payroll data. While no major fraud was uncovered, recommendations were made to enhance internal controls and practices for a number of State entities.

Example of work achieved so far by Forensic

In providing support to OAG audits, Forensic work to date has included taking general ledger data – some tens of millions of transactions - from a number of entities and running analytics over it to identify possible anomalies. To date, Forensic has not identified anomalies or patterns in datasets analysed that have indicated fraud. It did, however, provide an additional degree of comfort that our audit procedures were adequate in this unusual financial year, and that unusual items could be explained in the context.

Other work undertaken by Forensic considered where there may be incidences of unreported conflicts of interest and or concerns around the legitimacy of procurement processes. In addition to this procurement related work, Forensic also reviewed credit card expenditures and associated policies to determine whether travel expenses incurred by certain individuals were legitimate.

Example of current work underway in Forensic

Forensic has carried out data analytic tests on data and information relating to possible conflicts of interest (or bias) in procurement and contract management in support of a performance audit underway. While undertaking this work, Forensic used its own in-house capability, while at the same time engaging consultancy services to both quality assure and accelerate the development of its own data analytic capability.

A number of standalone targeted forensic audits are in the final stages of scoping and consultation to commence shortly.

Land valuations on transfer between entities

The financial statements of Western Australian Land Authority (WALA) and Metropolitan Redevelopment Authority (MRA), operating jointly or severally as DevelopmentWA, and the Department of Jobs, Tourism, Science and Innovation (DJTSI) required adjusting during the audit process because land and buildings were transferred to WALA at values below their fair value.

One transaction related to approximately 16 hectares of Technology Park land and associated buildings in Bentley, East Victoria Park, Kensington and Munster transferred from DJTSI to WALA for no consideration.

Australian Accounting Standards require such transfers to be at the fair value of the assets. DJTSI initially recognised the transfer out at a value of \$35 million, being the value provided by the Valuer General on the basis of the current use. WALA, however, recognised the transfer in at \$350,000 based on an 'income approach'. Our office is of the view that \$25 million was the fair value at the time of transfer, being the \$35 million determined by the Valuer General less an adjustment to take into account a peppercorn lease on 1 of the assets (a long term lease to the CSIRO). After discussion and extensive further audit consideration, both entities corrected the recorded value to \$25 million.

Other parcels of land and buildings were transferred from MRA to WALA after applying a discount of 25%, being a 'sale in one line' or 'risk premium' discount. Some of the assets were also transferred at their carrying value (measured in accordance with AASB 102 *Inventories*) instead of their fair value for purposes of the transfer. Our office considered the asset values to be overall understated because these 2 approaches were contrary to the valuation requirements of Australian Accounting Standards. After corrections, the value transferred was \$113 million.

In addition to the abovementioned requirements of Australian Accounting Standards, Treasurer's instruction 955 *Contributions by owners made to wholly owned public sector entities* requires that asset transfers between entities be recognised at fair value. Although WALA is not subject to the requirements of the Treasurer's instructions, the MRA and DJTSI are required to comply. Consequently, WALA is required to recognise assets transferred for no consideration at fair value, rather than the previous carrying amount of the transferor entity prior to transfer, so that the transfer is made at a consistent value.

After discussion and further consideration all 3 entities made correcting adjustments to record the fair value at transfer on the basis of the higher valuation.

However, these particular significant transactions and this arrangement's potential application to other public sector entities has prompted the OAG to prioritise a closer examination of land transfers and asset sales in a performance audit.

Independent audit committee chairs appointed

Audit committees are very important to an entity's governance framework as they assist directors general and boards to fulfil their oversight responsibilities. The audit committees' key roles are ensuring that management promptly address weaknesses identified in internal and external audits, and rigorously overseeing internal audit, risk management and compliance functions of the entity.

TI 1201 *Internal Audit* was revised in December 2019, requiring each accountable authority to ensure that their agency 'has an internal audit committee which is independently chaired by a suitably qualified person who is not employed within the agency.' The TI provides guidance on the role of internal audit, its charter, independence and objectivity, as well as its

resourcing and management. Further, it prescribes the role of the independent audit committee and its independent chair, and what 'suitably qualified' means.

Independent audit committee members who are free from management responsibilities, and especially the chair, bring an objective perspective and fresh insights to audit committee matters.

From reviewing the audit committee chairs of 133 State government entities, we concluded that 114 were independent, 3 were not independent and 16 entities did not have an audit committee. As shown in Table 10, these 16 entities are mostly small entities. Almost all have no staff and their business services, including the audit committee function, are provided by a larger entity. Two of the 3 entities without independent audit committee chairs have, since our audit, appointed independent chairs and the other entity anticipates the matter to be resolved during their amalgamation with a large department, which is in progress.

Many of the independent chairs also have a role on the board of the entity. This is common and appropriate practice in both private and public sectors, and the chairs, as non-executive directors or members, are not involved in the operational management of the entity, but have knowledge of the entity, its outcomes, performance and accountability requirements.

Number of entities per total expenditure range	In range	Independent chair	Chair not independent	No committee
Greater than \$80 million	56	55	0	1
\$5 million - \$80 million	45	39	1	5
Less than \$5 million	32	20	2	10
Total	133	114	3	16

Source: OAG

Table 10: Independence of entities' audit committee chairs

Our Office keenly supported enhancement of the TI and took an active role in informing entities on compliance with TI 1201. Audit committee chairs were invited to our inaugural in-house and online forum in June 2020, which included the launch of our publication, *Western Australian Public Sector Audit Committees – Better Practice Guide* (Report 26). This is available on our website at <https://audit.wa.gov.au/reports-and-publications>.

Late tabling 2020-21 Statements of Corporate Intent

Twenty-one entities are required to have their annual Statements of Corporate Intent (SCI) tabled in Parliament. None of the 2020-21 SCIs were tabled before 1 July 2020, and 1 was tabled in the first 2 months of 2020-21 and 2 in early November. Although the improvement in earlier tabling achieved last year has not been repeated, this was because the budget was delayed until 8 October 2020 due to COVID-19. Treasury advised that it was considered appropriate to delay tabling of SCIs for 2020-21 to ensure their content reflected relevant Government decisions during the budget process.

Why are SCIs important?

The 21 State entities operating outside the Government's budget process prepare an SCI which is required to be tabled by their Minister before or early in the financial year.

SCIs are an annual agreement between the entities listed in Table 11 and the Government, and are an important governance and accountability mechanism. These commercially based entities undertake revenue generating activities under specific legislation passed by

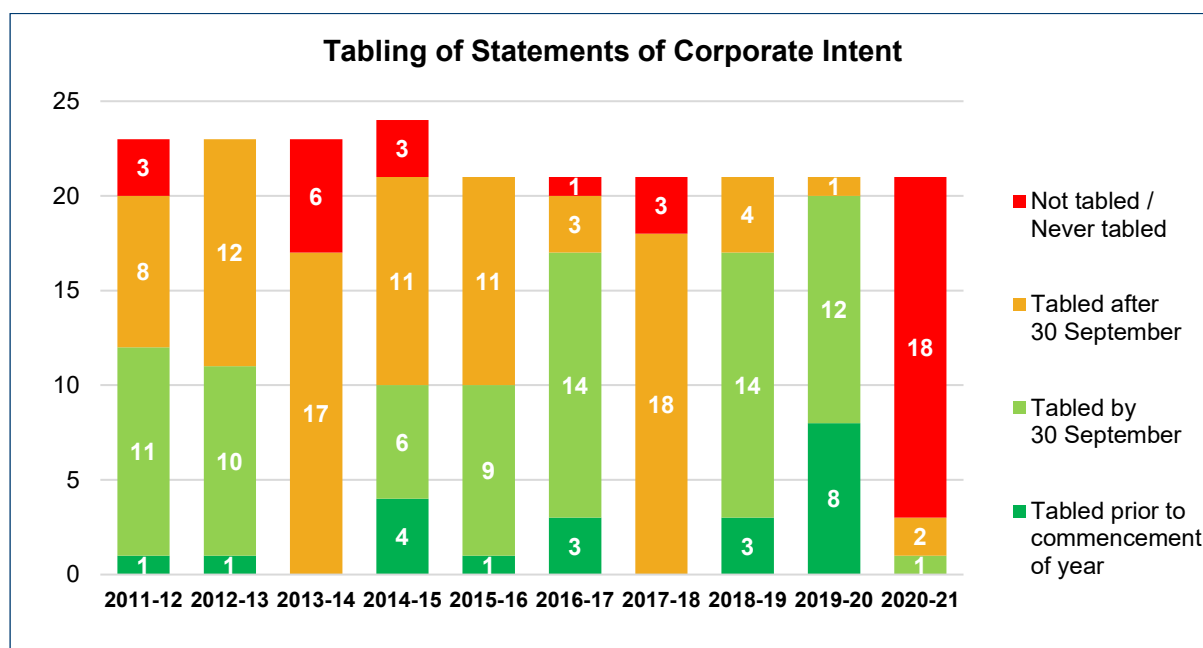
Parliament. Until their SCIs are tabled, key information about their future budgets, planning and direction is not available for parliamentary or public scrutiny.

SCI information varies with each entity's legislation, but generally includes:

- an 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
- an 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 their 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.

The 2020-21 SCIs were tabled later than in past years

We have reported to Parliament on the tabling of SCIs for over 20 years. Figure 5 shows the mixed tabling achievements for the last 10 years.



Source: OAG based on Parliament's tabled papers

Figure 5: Ten year history of the tabling of SCIs

	2018-19 SCI tabled	2019-20 SCI tabled	2020-21 SCI tabled
Corporatised entities			
Bunbury Water Corporation	28/08/2018	27/06/2019	Not tabled
Busselton Water Corporation	28/08/2018	27/06/2019	Not tabled
Horizon Power – Regional Power Corporation	20/09/2018	01/08/2019 *	Not tabled
Synergy – Electricity Generation and Retail Corporation	24/07/2018 *	15/08/2019	Not tabled
Water Corporation	28/08/2018	19/07/2019 *	Not tabled
Western Australian Land Authority (Landcorp)	07/01/2019 *	08/08/2019	Not tabled
Western Power – Electricity Networks Corporation	20/07/2018 *	14/08/2019	Not tabled
Statutory authorities			
Chemistry Centre (WA)	11/09/2018	18/07/2019 *	04/11/2020
Forest Products Commission	11/09/2018	23/07/2019 *	Not tabled
Gold Corporation	26/10/2018 *	28/06/2019 *	Not tabled
Government Employees Superannuation Board	28/06/2018	18/06/2019	11/08/2020
Insurance Commission of Western Australia	28/06/2018	28/06/2019 *	Not tabled
Lotteries Commission	19/06/2018	20/06/2019 *	03/11/2020
Racing and Wagering Western Australia	30/10/2018	19/11/2019	Not tabled
Western Australian Land Information Authority (Landgate)	12/09/2018	25/06/2019	Not tabled
Western Australian Treasury Corporation	09/10/2018	25/06/2019	Not tabled
Port authorities			
Fremantle Port Authority	21/08/2018	21/08/2019	Not tabled
Kimberley Ports Authority	21/08/2018	21/08/2019	Not tabled
Mid West Ports Authority	21/08/2018	21/08/2019	Not tabled
Pilbara Ports Authority	12/09/2018	21/08/2019	Not tabled
Southern Ports Authority	21/08/2018	21/08/2019	Not tabled

Source: OAG based on Parliament's tabled papers

* Deemed tabled – Date the SCI was received by the Clerk of the Parliament when Parliament was not sitting.

Highlighting represents SCIs that were tabled before commencement of the year.

Note: Late State Budget on 8 October 2020 impacted on tabling of 2020-21 SCIs.

Table 11: Dates SCIs tabled in Parliament in last 3 years

What are the requirements?

Entities are required by their Act or regulations to draft the annual SCI, which is consistent with their strategic development plan, for agreement with their Minister and, in most instances, with concurrence of the Treasurer. The agreement process can include negotiations between the entity, the Minister and the Treasurer, with the Minister responsible for tabling the SCI in Parliament within 14 days of it being agreed.

Tabling requirements vary slightly between entities 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.

Current status of Treasury's reform program

Following the Government's Service Priority Review and Special Inquiry into Government Programs and Projects in 2017-18, in October 2019 Treasury established a government trading enterprises (GTE) reform program to develop a framework for governance, accountability and oversight structures. The GTE Governance and Oversight Unit (GOU) was established by Treasury to progress the non-legislative aspects of the framework.

Treasury has advised that GOU:

'continues to implement the GTE Governance Framework to support GTEs in meeting the accountability and oversight requirements of the Government, including developing guidelines on best practice processes that support the principles of the GTE Framework and improve the quality of information provided to the Government and Parliament. Treasury has also progressed work to transition GTEs to publishing full Budget Papers, with this improvement to administrative oversight expected to be implemented in the 2021-22 State Budget.'

Treasury advised that deferred tabling of SCIs this year was appropriate to ensure that their content reflected relevant Government decisions. Chief executive officers and chief financial officers at the entities, and their Ministers, were advised of this revised timeframe in July 2020. Treasury's 2020-21 timeframe detailed that 'all SCIs should be finalised shortly after the State Budget is tabled' with the expectation that 'SCIs to be tabled before Parliament is scheduled to rise in 2020'.

Recommendation

4. **Entities and Treasury should continue to facilitate timely tabling of SCIs to ensure compliance with legislation.**

Accounting standards reporting changes for 2019-20

Public sector entities applied the following new accounting standards of the Australian Accounting Standards Board (AASB) from 1 July 2019.

Entities elected to apply the modified retrospective option in the standards for their transition. The benefit of using this approach was comparative figures for prior years did not need to be restated, therefore reducing the amount of work required. A detailed note to the financial statements discloses the impact of these changes in accounting treatment from 1 July 2019.

Reporting of leases – AASB 16

The key change of AASB 16 is that the majority of operating leases, which were previously recorded off-balance sheet, are now required to be capitalised on the balance sheet (Statement of Financial Position). Accordingly, most property, motor vehicle and equipment operating leases are now accounted for as right-of-use assets with their associated lease liability.

Using this approach, on initial application of AASB 16 from 1 July 2019, entities recognised right-of-use assets and the lease liabilities.

Case study 2 – Application of AASB 16 by Department of Finance

At 30 June 2020, the Department of Finance's right-of-use assets increased by \$1.44 billion and its lease liabilities increased by \$1.68 billion on adoption of AASB 16. Right-of-use assets represent the mainly commercial government office accommodation which the Department leases from private landlords. The Department also reported the associated lease liabilities on these contracts.

The leased accommodations are on-leased to government entities for their use. The lessee entities were exempted from recognising a right-of-use asset and corresponding lease liability as the on-lease arrangements were considered to be out of scope of AASB 16 due to the Department of Finance's right of substitution of the leased accommodation.

Reporting of revenue and income under AASB 15 and AASB 1058

From 1 July 2019, revenue from contracts (AASB 15), such as grant money received with performance obligations, is reported by allocating the grant money to each performance obligation and recognising the revenue as or when the obligations are satisfied. Similarly, grant money received with an obligation to acquire or construct an asset that will be retained by the entity (i.e. a capital grant under AASB 1058) is recognised as income as or when the obligation to acquire or construct the asset is satisfied. This means a grant received for the construction of an asset is recognised as income in stages during the construction. The full value of the grant is recognised by the time the constructed asset is put into operation. Prior to the introduction of the new standards, this practice of deferring revenue recognition was common in the private sector but not for not-for-profit public sector entities.

Under AASB 1058, transactions relating to assets acquired at significantly less than fair value also have new recognition principles.

The implementation of these standards by the public sector entities resulted in adjustments of opening equity and recognition of deferred revenue.

Future impact of changes to accounting standard

The new standard, AASB 1059 – *Service Concession Arrangements: Grantors*, will apply for years beginning on or after 1 January 2020 (2020-21 reporting year). This standard is applicable to public sector entities (grantors) that enter into service concession arrangements with generally private sector operators. It requires grantors to recognise a service concession asset and, where applicable, a service concession liability on the balance sheet. The initial balance sheet accounting, as well as the ongoing income statement impacts, will have implications for grantors and for whole-of-government reporting.

We are preparing for this change and are training financial audit staff in the requirements and updating relevant audit policies and procedures.

Recommendation

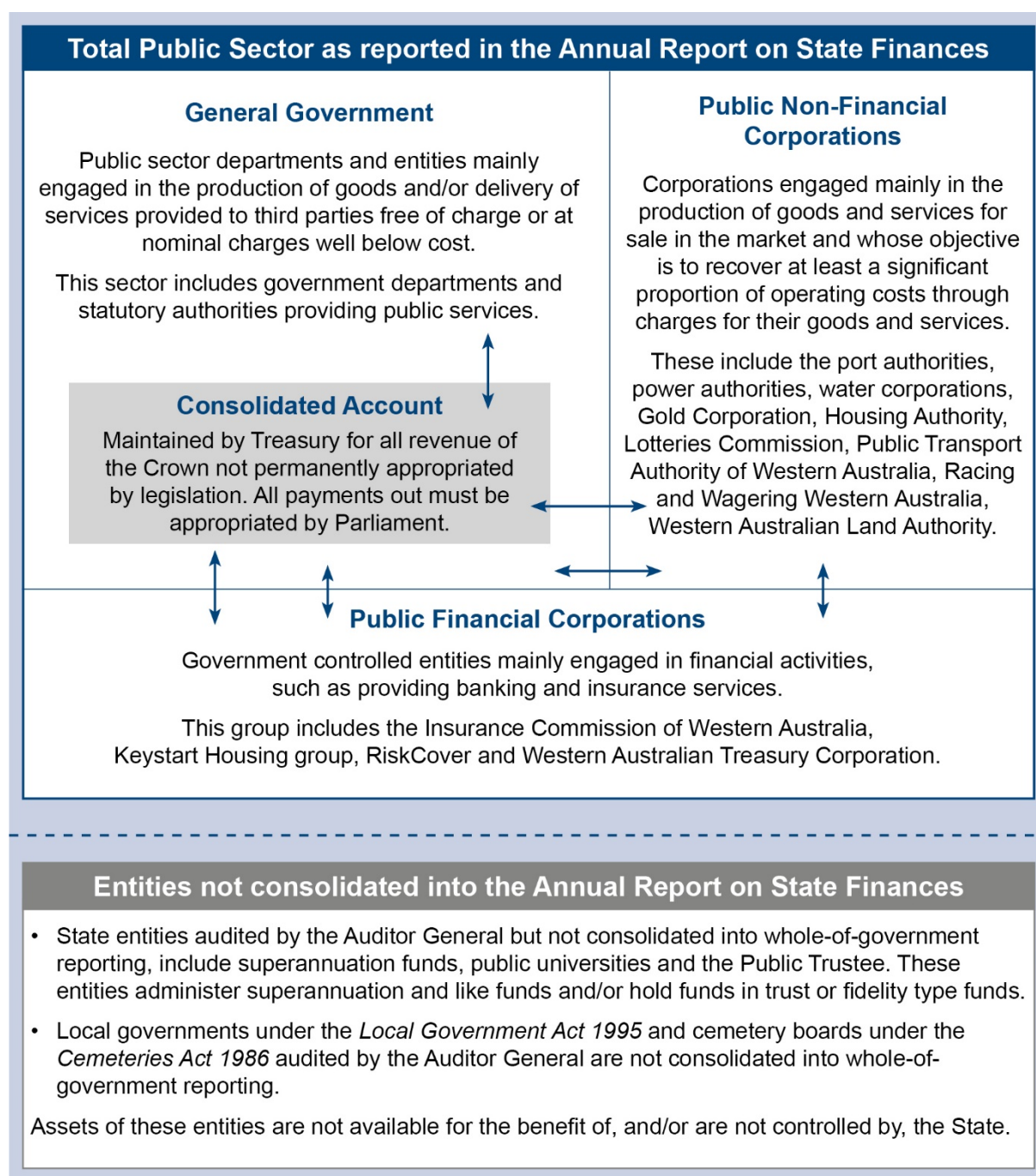
5. Treasury should continue to provide guidance to assist entities with the adoption of new accounting standards. Entities should continue to make timely preparations for implementation of these new standards.

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 and explains significant variations from the prior year and from the annual budget estimates. Treasury prepares the ARSF and we audit key aspects under the *Government Financial Responsibility Act 2000*.

The ARSF brings together key financial information for the 3 sectors of government as shown in Figure 6. In addition to this consolidated financial reporting, each entity also prepares and tables its own annual report that provides detail of its individual finances.



Source: OAG based on ARSF

Figure 6: Financial relationships between sectors of Western Australian government

Audit opinion

We issued a clear (unqualified) audit opinion and the Treasurer released the ARSF on 25 September 2020, meeting the statutory reporting deadline of 90 days after the end of the financial year, being 28 September 2020.

The ARSF opinion contained an Emphasis of Matter paragraph for a contingent liability of the State. This related to a claim of \$28 billion made against the State in respect of a legal dispute between the parties to a state agreement and the Western Australian Government recognised in the financial report of the Department of Jobs, Tourism, Science and Innovation.

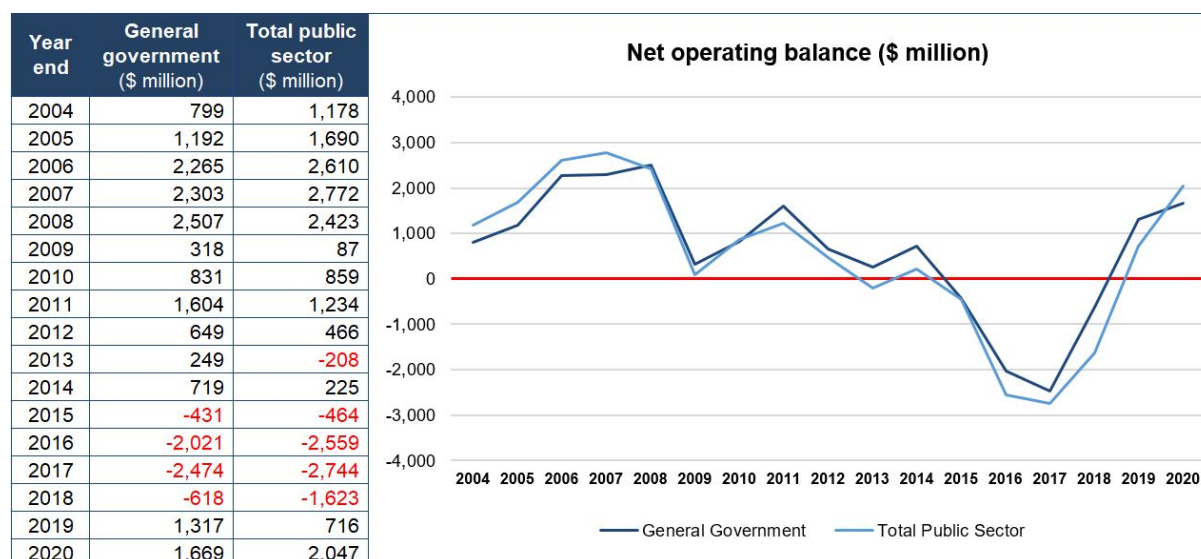
Western Australia's finances – selected key indicators

This section supplements information contained in the ARSF that Parliament and other readers might find useful:

- net operating balance for general government and for the total public sector
- infrastructure renewal ratio
- borrowings and unfunded superannuation
- debt sustainability
- total borrowings and expense commitments
- current trend in leave liability balances.

Net operating balance

Figure 7 shows the net operating balance for the general government sector and the total public sector. A large number of factors affect the result, including economic circumstances, the performance of the State's main industries (e.g. mining, tourism, agriculture), interest rates, Australian Government funding and legislation. However, a surplus is generally an indicator of sound financial management and/or good budgeting.



Source: OAG based on ARSF

Figure 7: Net operating balance from 2003-04 to 2019-20

Infrastructure renewal

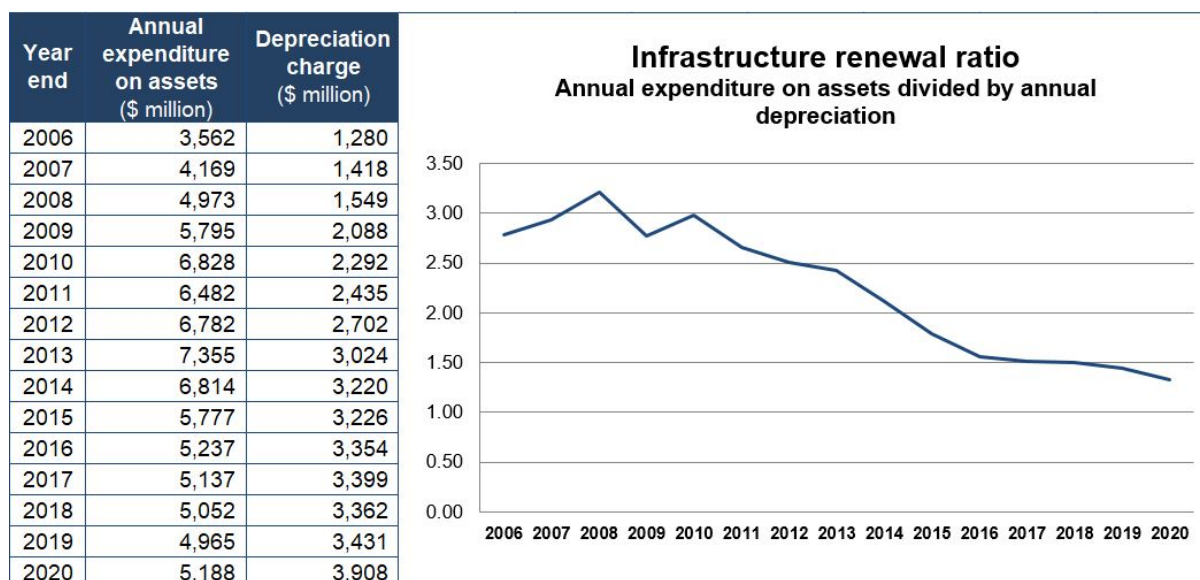
Governments face an ongoing challenge to maintain existing infrastructure and also develop and provide new assets to achieve desired social, economic and environmental outcomes.

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 1.00 indicates that overall the State's infrastructure is increasing.

Infrastructure assets mainly include land, roads, ports, water and electricity assets and networks, hospitals and schools. These represent almost the entire balance of non-financial assets. In 2019-20 the value of non-financial assets for the total public sector increased from \$153.0 billion to \$159.3 billion.

Figure 8 indicates that although infrastructure renewal is slowing, it remains above the ratio of 1.00.

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.



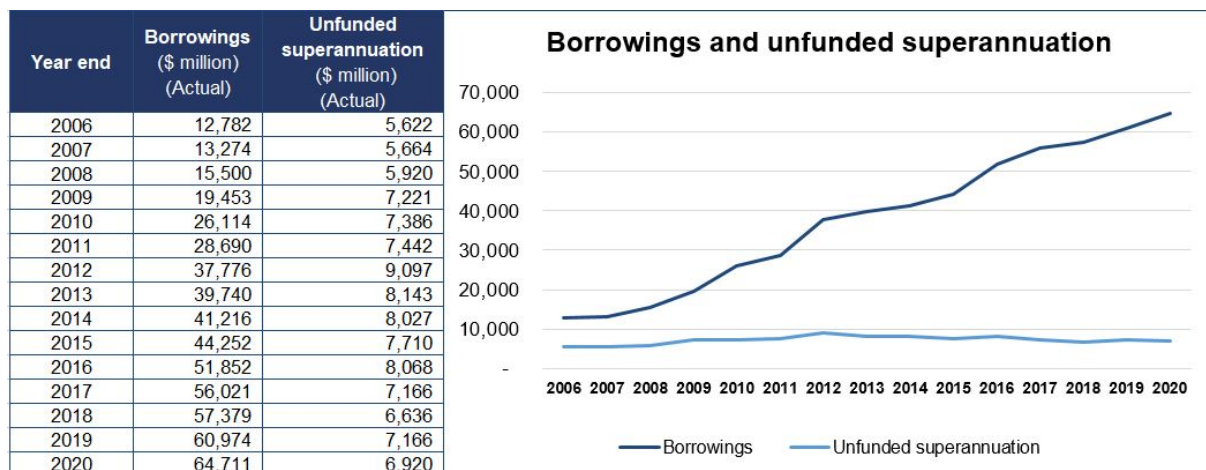
Source: OAG based on ARSF

Figure 8: Infrastructure renewal ratios from 2005-06 to 2019-20

Borrowings and unfunded superannuation

Information on the State's debt is contained in the ARSF. Borrowings and the State's unfunded superannuation are significant components of this debt. The increase in 2019-20 was due to a \$3.7 billion increase in borrowings.

Borrowings data in the following tables and charts excludes leases recognised for the first time in 2019-20 under the new accounting standard, AASB 16 – *Leases*. Under the new standard, leases previously excluded from the balance sheet as operating lease arrangements are now included as borrowings on the balance sheet (i.e. a lease liability with a corresponding right-of-use asset).



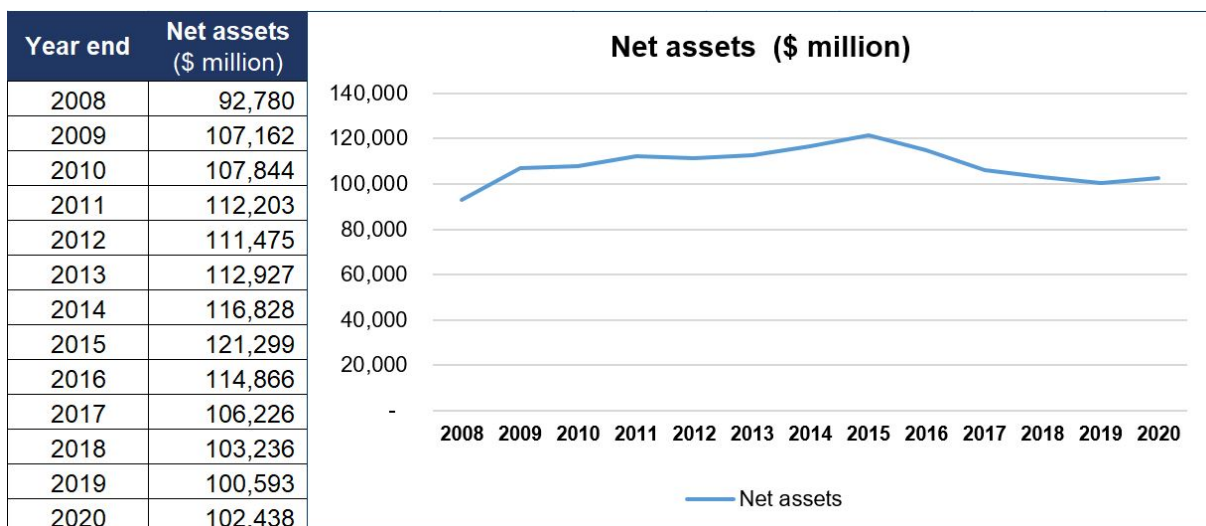
Source: OAG based on ARSF

Note: Refer explanation above on impact of AASB16 on 2020 borrowings amount.

Figure 9: Borrowings and unfunded superannuation from 2005-06 to 2019-20

Net assets

Net assets represent the total net worth (equity) of the State, total assets minus total liabilities. Figure 10 shows the movement in the State's net assets position.



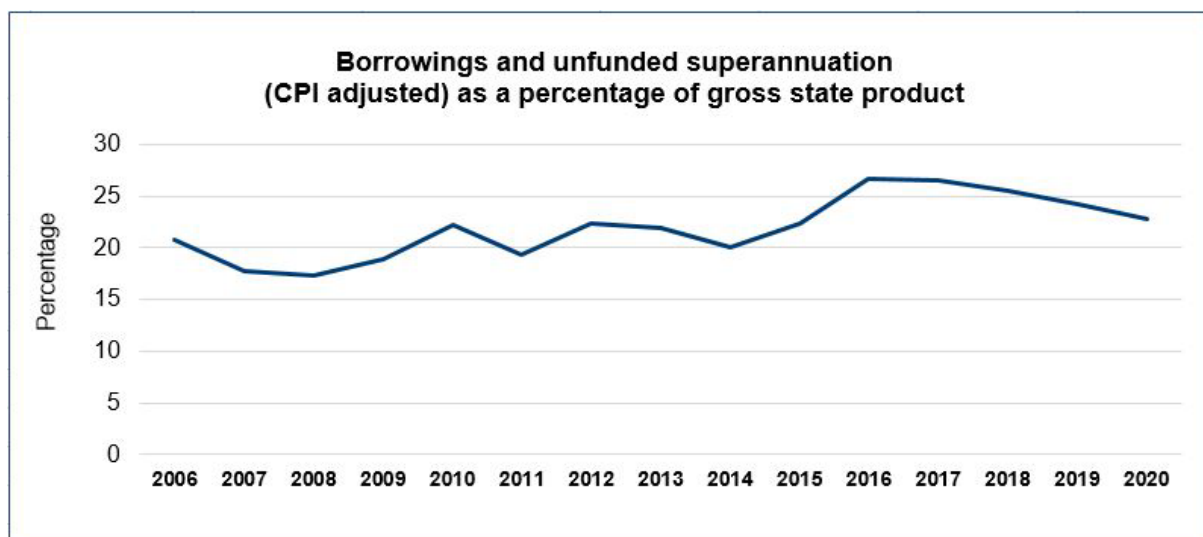
Source: OAG based on ARSF

Figure 10: Net assets from 2007-08 to 2019-20

Debt sustainability

The ARSF contains important information on the State's net debt. Figure 11 reports 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 revenue and surpluses in the future. As debt is repaid over a long period, these factors cannot be forecast reliably.



Source: OAG based on ARSF and Australian Bureau of Statistics

Note: As ABS data for 2019-20 is not yet available, 2019-20 is based on a Treasury estimate of GSP.

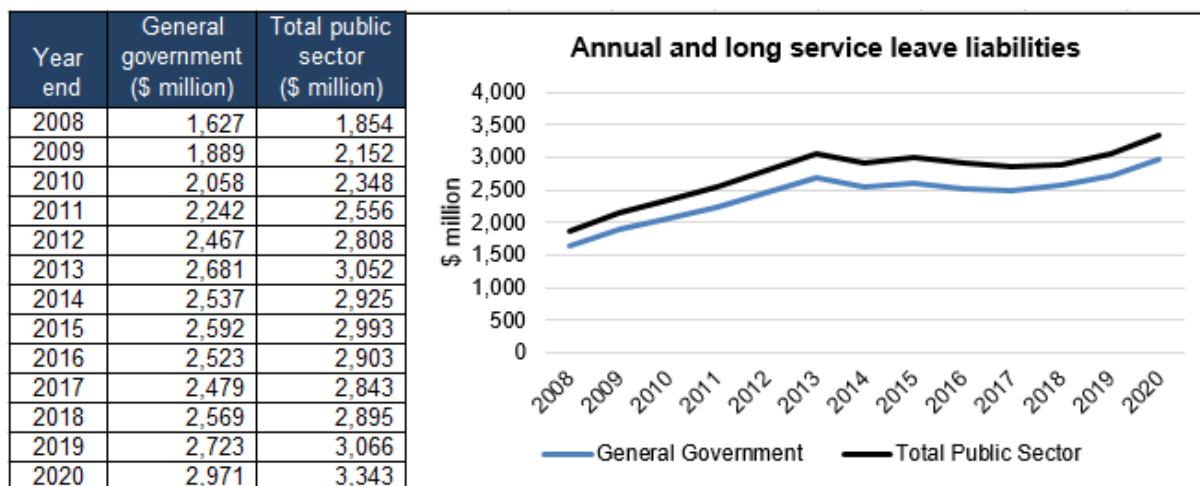
Note: Refer explanation above Table 9 on impact of AASB16 on 2020 borrowings amount.

Figure 11: Borrowings and unfunded superannuation as a percentage of GSP

Current trend in leave liability balances

The total public sector annual and long service leave liability owing to employees increased by \$277 million, taking the balance to \$3.3 billion at year end.

This increase is mainly due to employees not taking leave during the peak of the COVID-19 pandemic. In front-line entities especially, staff had to postpone their leave in order to continue to provide services to the public. In some entities additional staff were engaged to ensure that an increased volume of services could be provided to meet demand and deliver the new services required.



Source: OAG based on ARSF

Figure 12: WA public sector annual and long service leave liabilities 2007-08 to 2019-20

As the pandemic conditions ease, management at entities will need to review their leave position and proactively manage their leave liabilities. Staff will be more in need of leave for their health and well-being. It is important for staff to take regular leave and for the entity to develop staff to perform the tasks of others. It should also be noted that fraud can be more easily concealed by staff who do not take leave.

Selected significant financial transactions and financial ratios

Introduction

This section of the report provides information on selected significant financial transactions made in 2019-20 that we noted during our audits. It also includes selected key financial ratios and information commonly used for assessing financial performance or analysing the financial health of entities. We report this information to provide insight to important issues considered during the audits. Other notable transactions relating to the COVID-19 pandemic are reported on page 31.

Some of the information below may also be reported in each entity's tabled annual report but we have summarised it here for the convenience of Parliament. By including these items in this report, we are not implying that we have a residual audit-related concern with these transactions.

Selected significant financial transactions

Assets

- **Commissioner of Main Roads** spent \$1.25 billion on developing infrastructure, mainly on construction of the Karratha-Tom Price road, Bunbury outer ring road, Smart Kwinana Freeways, Murdoch Drive extension and the Armadale Road bridge over the Kwinana Freeway. Additional funding of \$116 million was also received for local government roadworks including the Broome to Cape Leveque Road, the Outback Way and Stephenson Avenue.
- There was an 11%, \$491.3 million, increase in the **Keystart Housing Scheme Trust** loan portfolio. This was mainly due to the continued demand for the Keystart low deposit product from credit worthy borrowers who are unable to meet the lending criteria of mainstream lenders in Western Australia. It also includes additional lending resulting from increased income limits.
- The **Department of Planning, Lands and Heritage's** property, plant and equipment value increased by \$197.5 million, to \$333.6 million, mainly due to an increase in the value of pastoral leased land held. This resulted from the rent review of pastoral leases, required by the *Land Administration Act 1997*, undertaken by the Valuer General.
- **Department of Local Government, Sport and Cultural Industries** spent \$93 million on the new Museum project which consisted of \$52 million of building cost and \$41 million of exhibit cost. The project is scheduled for completion in November 2020.
- From 1 February 2020 the **Child and Adolescent Health Service** took over responsibility for neonatal services transferred from the North Metropolitan Health Service. Assets totalling \$18.8 million were transferred. Neonatal staff expenses and related contracts for services were also transferred.
- A \$251.4 m loss on revaluation of land, mostly for State forest lands, was reported by the **Department of Biodiversity, Conservation and Attractions**. The Department's significant land parcels across the State were valued by the Valuer General, and the lower value was mainly attributed to a 10-15% general reduction in values across the State.

Liabilities

- The **Annual Report on State Finances** reported \$198 million for entities' total combined provision for doubtful debts. This increase of \$182 million on the previous year was mainly due to the impact of COVID-19 on the economic and social circumstances of individuals and businesses. In addition, Keystart reported \$30 million additional doubtful debts provision related to loans to homebuyers.
- **Western Australian Treasury Corporation's** borrowings increased by \$2.8 billion, or 5%, mainly to meet routine client lending requirements. Decreases in interest rates were reflected in the reduced interest received from authorities and interest paid on borrowings.
- **Bunbury Water Corporation** (Aqwest) obtained a \$7.5 million loan advance from the Western Australian Treasury Corporation in November 2019 for construction of the Ngoora Moolinap Water Treatment Plant project. Aqwest invested a further \$2.32 million of its own funds into the \$15 million project during the 2019-20 financial year.

Expenditure

- **WA Country Health Service's** employee benefits expense increased by \$69 million to \$1,126 million due to FTE growth of 316 for new programs such as palliative care and Country Health Initiative programs, as well as additional FTE for COVID clinics, preparedness and containment.
- Taxi plate owners received \$118.2 million during 2019-20 under the Voluntary taxi plate buy back scheme from the **Department of Transport**. The Department also paid \$35 million under a settlement of a litigation on behalf of State Government in respect to a dispute under the *Marine and Harbours Act (1981)* relating to an agreement to build and operate a port in Western Australia.
- **Health Support Services'** expenses on computer services (supplies and services category) were \$18.1 million higher in 2019-20 than the previous year. This was largely due to additional government investment on the HealthNext project which included the establishment of new cloud services and state-side digital communications network, as well as additional ICT investments for the WA health system in response to the COVID-19 pandemic.
- Grants made by the **Department of the Premier and Cabinet** included \$3.5 million to Telethon, \$2.4 million to the Kalamunda Community Centre, and payments from the Land and Equity Fund totalling \$2.7 million.
- Following the 2018-19 Independent Review of the **Public Sector Commission**, and development of its new remit and strategic plan, the Commission filled staff vacancies in 2019-20. This contributed to the Commission's \$3.5 million (25%) increase in employee benefits expenses between 2018-19 and 2019-20.
- The **Parliamentary Commissioner for Administrative Investigations** (Ombudsman) employee benefits expense increased by \$893,000, 11.5%, for an expanded Child Death Review function that commenced in 2019-20, to plan and develop a new Reportable Conduct Scheme in 2019-20 and to meet the workload associated with the role of the Energy and Water Ombudsman.

Revenue

- **Gold Corporation's** revenue of \$23.87 billion in 2020 was 32% higher than 2019, due primarily to increased precious metal prices during the year. Cost of Goods Sold also increased by 32%. There was a relatively small resulting increase in net profit.
- The Landgate Partial Commercialisation of the **Western Australian Land Information Authority** (Landgate) on 22 October 2019 raised \$1.41 billion. This amount was transferred to the State Government.
- **Synergy's** sales of energy to retail customers increased by \$94 million (4%) due to a 1.75% increase in tariffs and increased consumption, attributed to a warmer than usual summer and people working from home during the COVID-19 shutdown. For similar reasons, **Horizon Power's** 1.75% tariff increase and 7.8% volume consumption increase for residential customers resulted in a \$7.9 million increase in revenue.
- Australian Government grants and contributions to the **Department of Education** increased by \$91.5 million, mainly due to the additional \$90.0 million Quality Schools funding under the National School Reform Agreement.
- **Water Corporation's** annual service charge revenue increased by 3.9% overall or \$51 million to \$1,361 million due to the impact of price increases and the growth in number of connections. Developer contributions declined by 7%, or \$16 million, mainly due to the decline in development activity around the State for part of the year.
- Annual land sales under **Western Australian Land Authority's** programs were \$74.9 million industrial, \$55.6 million metropolitan and \$10.9 million regional. The Authority's regional program was the only 1 to report an increase on the previous year.
- **Pilbara Ports Authority's** revenue increased by 8% (\$32.9 million) due to increases in tonnage fees, pilotage charges and security fees from 1 July 2019. Increased tonnage volumes at Port Hedland and increased shipping volumes at Port Hedland and Ashburton also contributed to the improved revenue result.
- Dividends received from entities into the State's Consolidated Account decreased from \$1.35 billion in 2018-19 to \$392 million for the financial year 2019-20. This was reported in the **Annual Report on State Finances**.
- **The Building and Construction Industry Training Board's** levy revenue increased from \$27.2 to \$38.8 million, largely due to the removal of the exemption for the resources sector. This was partially offset by the slowdown in residential housing construction during the COVID-19 pandemic.
- **Construction Industry Long Service Leave Payments Board's** contribution income from employers decreased from \$37.7 to \$32.7 million, 13%, due to an average 9% reduction in contribution levy rates agreed by the Board after consulting their actuary. The levy rate reduction provides financial relief to the construction industry due to the uncertainty of the COVID-19 pandemic.
- The **Department of Training and Workforce Development** secured \$44 million for 2019-20 through the Royalties for Regions program to support regional TAFEs. Funding was used to support resourcing of smaller regional TAFEs and lecturer housing.
- **Mental Health Commission** received \$12.2 million in Royalties for Regions funding in 2019-20 for the North West Drug and Alcohol Support Program which included \$5.9 million relating to 2018-19 funding received in early 2019-20.

- During 2019-20, **Police Service** received \$16 million for the Police Redress Scheme set up by the Western Australian Government for former police officers who were medically retired for a work-related illness or injury. All funds received were paid out during the year.
- **Public Trustee's** fees and charges income increased by 16%, or \$2.9 million, to \$21.2 million. This resulted from a combination of growth in client activity and the annual CPI increase.
- The **Art Gallery of Western Australia** received a number of significant donations of artworks totalling \$704,000, up from \$246,000 last year.

Key financial ratios of public sector entities

In this section we present selected key financial ratios and information commonly used for assessing financial performance or analysing the financial health of entities:

Liquidity (current) ratio for all entities – 4 year trend

The liquidity or current ratio is a traditional method of assessing an entity's ability to meet its debts as and when they fall due. It is calculated by dividing current assets by current liabilities. A ratio of more than 1 is generally accepted to show a low risk.

Eighty-one percent of entities at 30 June 2020 had a current ratio above 1.0, similar to previous years.

Liquidity ratio	Percentage of entities 30/6/17	Percentage of entities 30/6/18	Percentage of entities 30/6/19	Percentage of entities 30/6/20
Greater than or equal to 1 (low risk)	81	82	83	81
Less than 1	19	18	17	19

Source: OAG based on audited financial statements in tabled annual reports

Table 12: Liquidity ratios of entities – 4 year trend

Financial result for all entities – 4 year trend

A number of factors can determine whether an entity 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.

Sixty-eight entities (54%) reported a surplus for 2019-20, lower than the previous 3 years. The following table is a summary of the financial results of entities over the past 4 years.

Financial result	Percentage of entities 2016-17	Percentage of entities 2017-18	Percentage of entities 2018-19	Percentage of entities 2019-20
Surplus	72	70	59	54
Deficit	28	30	41	46

Source: OAG based on audited financial statements in tabled annual reports

Table 13: Financial results of entities – 4 year trend

Borrowings to assets ratio

While a relatively small number of entities have a borrowings liability, their borrowings are significant in value. The borrowings to assets ratio is an indicator of the extent to which an entity's borrowings are covered by 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 that an entity has debt obligations.

Entity name	Borrowings to assets ratio				Trendline
	2016-17	2017-18	2018-19	2019-20	
Corporatised entities					
Bunbury Water Corporation	0.4%	0.3%	0.2%	6%	
Fremantle Port Authority	34%	33%	31%	29%	
Horizon Power	43%	37%	39%	38%	
Kimberley Ports Authority	23%	21%	16%	15%	
Mid West Ports Authority	8%	7%	6%	5%	
Pilbara Ports Authority	9%	8%	5%	4%	
Southern Ports Authority	12%	10%	7%	4%	
Synergy	7%	6%	2%	11%	
Water Corporation	34%	35%	35%	33%	
Western Australian Land Authority	15%	18%	19%	18%	
Western Power	69%	67%	65%	64%	
Statutory authorities					
Country Housing Authority	59%	53%	51%	42%	
Gold Corporation	18%	23%	26%	24%	
Housing Authority	25%	28%	29%	32%	
Metropolitan Redevelopment Authority	56%	69%	47%	59%	
Public Transport Authority of Western Australia	25%	26%	24%	23%	
South Metropolitan Health Service	8%	6%	4%	0%	
Western Australian Sports Centre Trust	0%	19%	18%	17%	
Western Australian Treasury Corporation	93%	98%	97%	94%	
Departments					
Department of Finance	7%	5%	4%	2%	
Department of Fire and Emergency Services	10%	8%	7%	7%	
Department of Justice #	na	15%	15%	0%	

Source: OAG based on audited financial statements in tabled annual reports

The Departments of the Attorney General and Corrective Services amalgamated from 1 July 2017 to become the Department of Justice.

Note: Entities with a low percentage borrowing (ratio below 5%) have been omitted.

Figure 13: Borrowings to assets ratio of entities – 4 year trend

Dividends paid by public corporations to general government

Dividends paid by public corporations contributed \$392 million to the general government sector financial results in 2019-20, compared with \$1,350 million in 2018-19.

Each corporation operates under their own enabling legislation with differing requirements and processes for the payment of dividends to Government. Treasury has advised that, in general terms, the dividend payout ratios are determined each year through a combination of SCIs and the annual budget process. The dividends are generally calculated as a percentage of net profit after tax¹.

The timing of dividend payments and the required approval processes are also prescribed in each corporations' legislation. Broadly, however, the board makes a recommendation to the Minister, who consults with the Treasurer before determining the amount of the dividend. The process of seeking the Treasurer's concurrence includes Treasury review of the actual and budget financial statements of the corporation. Once the dividend amount has been agreed, the corporation pays the dividend to the Treasurer (the Consolidated Account), in accordance with their legislation. If the Minister directs a different dividend amount, then this direction is required to be tabled in Parliament.

Dividends paid during a financial year generally include an interim dividend for that year and the final dividend from the preceding financial year. Therefore, dividends paid during a financial year do not wholly relate to the trading surplus of that year.

Entity name	2016-17		2017-18		2018-19		2019-20	
	Dividends paid (\$ m)	Surplus /deficit (\$ m)	Dividends paid (\$ m)	Surplus /deficit (\$ m)	Dividends paid (\$ m)	Surplus /deficit (\$ m)	Dividends paid (\$ m)	Surplus /deficit (\$ m)
Bunbury Water Corporation	2.0	2.9	1.9	2.6	1.9	3.1	2.6	2.5
Busselton Water Corporation	1.5	2.1	1.4	3.4	1.5	2.7	1.0	0.9
Forest Products Commission	2.5	4.0	3.6	23.2	1.0	1.4	0.0	-2.6
Fremantle Port Authority	12.4	47.6	65.0	58.0	34.8	49.4	12.8	46.2
Gold Corporation *	22.2	17.0	12.8	6.7	5.0	7.9 *	6.0	31.3 *
Horizon Power	16.4	35.4	43.8	111.9	36.6	35.9	2.4	8.9
Insurance Commission of Western Australia	116.9	193.1	149.3	277.7	102.6	203.8	207.5	-2.9
Kimberley Ports Authority	2.6	-3.0	0.4	0.1	0.0	-1.7	0.0	-6.8
Mid West Ports Authority	5.3	9.9	18.1	10.2	12.4	14.7	4.1	11.8
Pilbara Ports Authority	13.1	151.7	220.7	180.6	150.9	126.3	31.7	131.7
Southern Ports Authority	6.3	28.4	43.2	24.6	26.2	22.9	6.4	39.0
Synergy	0.0	14.1	148.0	-45.7	18.2	-656.3	2.8	-26.7
Water Corporation #	483	647	528	651	605	787	4	808
Western Australian Land Authority	43.2	17.9	53.8	6.8	37.9	6.8	8.4	2.3
Western Australian Treasury Corporation	7.3	12.3	9.2	24.4	18.2	29.2	21.9	28.5
Western Power #	102	327	419	351	298	366	80	391
TOTAL DIVIDENDS PAID	836.7		1,718.2		1,350.2		391.6	

Source: OAG based on audited annual financial statements of entities

* Owner of Gold Corporation surpluses – excludes surplus attributable to non-controlling interests

financial reports present whole numbers only

Table 14: Dividends paid by public corporations to general government

¹ Public Corporation Dividend Payout Ratios - refer to page 240, 2020-21 Economic and Fiscal Outlook paper of the State Budget.

Quality and timeliness of reporting

Quality and accuracy

Because of the COVID-19 pandemic, financial management staff faced greater challenges this year to maintain financial operations to a standard that would enable reliable and timely financial reporting. (Refer to the section on Impact of COVID-19 on audited entities, page 26.)

Under these circumstances, and given simultaneous significant changes to accounting standards, it was pleasing that financial statements prepared for audit were generally of satisfactory quality. In our view this was mainly because this year, more entities' financial statements were reviewed by their audit committee before being released for audit. Having established quality control practices which include review of the financial statements by an audit committee, will greatly enhance the standard of financial report preparation.

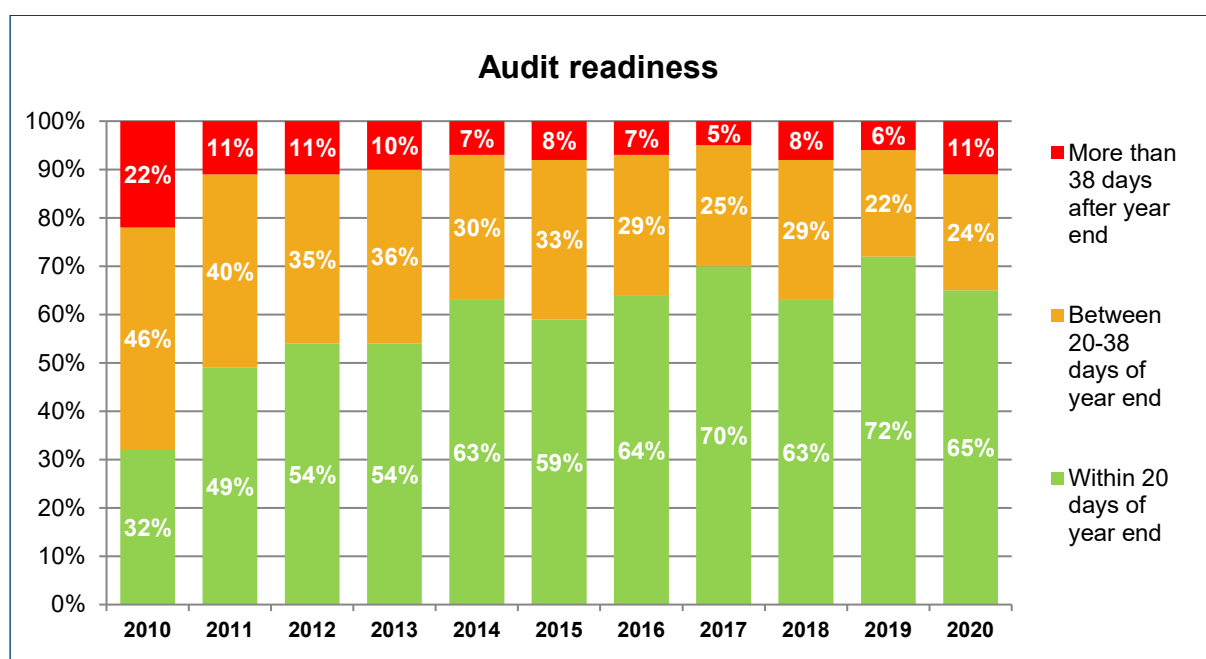
Although the vast majority of financial statements and KPIs were of a satisfactory standard, the audits of 9 entities could not be completed within the 90 day *Financial Management Act 2006* tabling timeframe, because of a variety of problems experienced by the entities.

Timeliness

Sixty-five percent of the entities were 'audit ready' within 20 days of their financial year end. Although this was lower than recent years, it still represents a sound achievement, given the challenges that the COVID-19 environment posed for financial management of many entities approaching year end.

Being ready for audit as soon as possible after year end enables entities 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 entity was 'audit ready' is reported in Appendix 1 (commencing on page 57) while Figure 14 summarises timeliness over the last 11 years.



Source: OAG

Figure 14: Percentage of entities 'audit ready' within 3 time brackets for last 11 years

Best practice entities

Each year we rate entities on their financial reporting and financial controls and recognise the top 20 large and top 20 small best practice entities (Table 15). Our definition of small is entities with total expenditure below \$41 million.

We congratulate the entities we rated as the top achievers for 2019-20.

Our assessment criteria include:

- clear opinion on financial statements, controls and KPIs
- 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 KPIs, 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 entities	Best practice top 20 small entities
Commissioner of Main Roads Department of Finance Department of Mines, Industry Regulation and Safety Department of Training and Workforce Development Department of Water and Environmental Regulation Electricity Generation and Retail Corporation (Synergy) Electricity Networks Corporation - Western Power Government Employees Superannuation Board Insurance Commission of Western Australia Legal Aid Commission of Western Australia Lotteries Commission Mental Health Commission Mid West Ports Authority Pilbara Ports Authority Public Transport Authority of Western Australia South Metropolitan Health Service Southern Ports Authority Water Corporation Western Australian Tourism Commission Western Australian Treasury Corporation	Busselton Water Corporation Chemistry Centre (WA) Country Housing Authority Economic Regulation Authority Keep Australia Beautiful Council (W.A.) Kimberley Ports Authority Metropolitan Cemeteries Board Minerals Research Institute of Western Australia Office of the Information Commissioner Parliamentary Commissioner for Administrative Investigations Parliamentary departments (Department of the Legislative Assembly, Department of the Legislative Council and Parliamentary Services Department) Public Sector Commission Queen Elizabeth II Medical Centre Trust, The Rural Business Development Corporation Small Business Development Corporation Western Australian Health Promotion Foundation Western Australian Meat Industry Authority Western Australian Museum, The WorkCover Western Australia Authority Zoological Parks Authority

Source: OAG

Table 15: Top 20 best practice entities in 2 expenditure categories for 2019-20

Appendix 1: State government entities audited

Audit opinions issued to 143 State government entities and 3 local government entities completed between 4 May 2020 and 4 November 2020 are listed below. Qualified opinions and other notes appear after the entity's name.

The entities primarily had reporting dates of 30 June or 31 July 2020. The audit opinion is issued to the responsible Minister for each government entity and is printed in full in the entity's annual report. The annual report is tabled in Parliament by the Minister and also normally posted on the entity's website.

The table lists each entity 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		
Entity's submission date	Rating	Colour coding
On or before 19 July 2020	Good	Green
By Wednesday 5 August 2020	Satisfactory	Yellow
After 5 August 2020	Needs improvement	Red

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

In the following table the names of entities are as audited for 2019-20. Entities' names are listed alphabetically without 'The' in their statutory names.

Audit ready	Entity	Opinion issued
15/07/2020	Aboriginal Affairs Planning Authority, The	16/09/2020
13/07/2020	Agricultural Produce Commission	06/08/2020
08/07/2020	Animal Resources Authority	23/07/2020
n/a	Annual Report on State Finances	25/09/2020
16/07/2020	Board of the Art Gallery of Western Australia, The	27/08/2020
10/08/2020	Botanic Gardens and Parks Authority	18/09/2020
27/07/2020	Building and Construction Industry Training Board	04/09/2020
31/07/2020	Bunbury Water Corporation	26/08/2020
24/07/2020	Burswood Park Board, The	02/09/2020
16/07/2020	Busselton Water Corporation	31/08/2020
16/07/2020	Chemistry Centre (WA)	27/08/2020
16/07/2020	Child and Adolescent Health Service	04/09/2020
23/07/2020	Coal Miners' Welfare Board of Western Australia, The	17/09/2020
14/07/2020	Combat Sports Commission	03/09/2020
03/08/2020	Commissioner for Children and Young People	10/09/2020
06/08/2020	Commissioner for Equal Opportunity	09/09/2020
16/07/2020	Commissioner of Main Roads	08/09/2020
23/07/2020	Construction Industry Long Service Leave Payments Board	15/09/2020

Audit ready	Entity	Opinion issued
10/07/2020	Corruption and Crime Commission	26/08/2020
16/07/2020	Country Housing Authority	01/09/2020
16/07/2020	Department of Biodiversity, Conservation and Attractions	16/09/2020
31/07/2020	Department of Communities	12/10/2020
16/07/2020	Department of Education	18/09/2020
16/07/2020	Department of Finance	07/09/2020
16/07/2020	Department of Fire and Emergency Services	17/09/2020
04/08/2020	Department of Health	15/09/2020
16/07/2020	Department of Jobs, Tourism, Science and Innovation	21/09/2020
17/07/2020	Department of Justice	17/09/2020
07/08/2020	Department of Local Government, Sport and Cultural Industries (Qualified opinion on controls. Details on page 12.)	18/09/2020
16/07/2020	Department of Mines, Industry Regulation and Safety	18/09/2020
17/07/2020	Department of Planning, Lands and Heritage	17/09/2020
21/07/2020	Department of Primary Industries and Regional Development (Qualified opinion on controls. Details on page 13.)	13/10/2020
16/07/2020	Department of the Legislative Assembly	25/08/2020
16/07/2020	Department of the Legislative Council	31/08/2020
11/08/2020	Department of the Premier and Cabinet	07/09/2020
13/07/2020	Department of the Registrar, Western Australian Industrial Relations Commission	24/08/2020
16/07/2020	Department of Training and Workforce Development	31/08/2020
16/07/2020	Department of Transport	18/09/2020
17/07/2020	Department of Treasury	18/09/2020
15/07/2020	Department of Water and Environment Regulation	18/09/2020
27/07/2020	Disability Services Commission	22/09/2020
16/07/2020	East Metropolitan Health Service	23/09/2020
17/07/2020	Economic Regulation Authority	09/09/2020
16/07/2020	Electricity Generation and Retail Corporation – Synergy Subsidiaries:	31/08/2020
n/a	South West Solar Development Holdings Pty Ltd	03/09/2020
n/a	Synergy Renewable Energy Development Pty Ltd	03/09/2020
n/a	Vinalco Energy Trust (Final audit to 23/06/2020)	31/08/2020
n/a	Vinalco Energy Pty Ltd (Final audit to 26/06/2020)	31/08/2020
16/07/2020	Electricity Networks Corporation – Western Power	28/08/2020
16/07/2020	Energy Policy WA	13/10/2020
11/08/2020	Fire and Emergency Services Superannuation Board	23/09/2020
03/08/2020	Forest Products Commission	17/09/2020
15/07/2020	Fremantle Port Authority	31/08/2020
04/08/2020	Gaming and Wagering Commission of Western Australia	08/09/2020

Audit ready	Entity	Opinion issued
17/07/2020	Gascoyne Development Commission	03/09/2020
14/07/2020	Gold Corporation	15/09/2020
17/07/2020	Goldfields-Esperance Development Commission	14/09/2020
31/07/2020	Government Employees Superannuation Board	02/09/2020
14/07/2020	Governor's Establishment	05/10/2020
17/07/2020	Great Southern Development Commission	03/09/2020
31/07/2020	Health and Disability Services Complaints Office	04/09/2020
15/07/2020	Health Support Services (Qualified opinion on controls. Details on page 13.)	10/09/2020
15/07/2020	Heritage Council of Western Australia	17/09/2020
28/08/2020	Housing Authority (Qualified opinion on controls. Details on page 13.)	26/10/2020
n/a	Subsidiaries: Goldmaster Enterprises Pty Ltd	23/10/2020
n/a	Homeswest Loan Scheme Trust	21/09/2020
n/a	Keystart Bonds Limited	21/09/2020
n/a	Keystart Housing Scheme Trust	21/09/2020
n/a	Keystart Loans Limited	05/10/2020
n/a	Keystart Support Trust	21/09/2020
13/07/2020	Infrastructure WA	25/08/2020
16/07/2020	Insurance Commission of Western Australia	18/09/2020
14/07/2020	Keep Australia Beautiful Council (W.A.)	18/09/2020
17/07/2020	Kimberley Development Commission	03/09/2020
20/07/2020	Kimberley Ports Authority	01/09/2020
31/07/2020	Law Reform Commission of Western Australia	07/10/2020
15/07/2020	Legal Aid Commission of Western Australia	27/08/2020
31/07/2020	Legal Contribution Trust (01/01/2019 – 30/06/2019)	17/09/2020
16/07/2020	Legal Costs Committee	22/09/2020
22/07/2020	Library Board of Western Australia, The	04/09/2020
17/08/2020	Local Health Authorities Analytical Committee	22/09/2020
16/07/2020	Lotteries Commission	21/08/2020
16/07/2020	Mental Health Commission	21/09/2020
09/07/2020	Metropolitan Cemeteries Board	20/08/2020
15/07/2020	Metropolitan Redevelopment Authority	16/09/2020
17/07/2020	Mid West Development Commission	18/09/2020
14/07/2020	Mid West Ports Authority	04/09/2020
15/07/2020	Minerals Research Institute of Western Australia	24/08/2020
13/07/2020	National Trust of Australia (W.A.), The	10/09/2020
13/08/2020	North Metropolitan Health Service	15/09/2020
15/07/2020	Office of the Director of Public Prosecutions	27/08/2020

Audit ready	Entity	Opinion issued
15/07/2020	Office of the Information Commissioner	21/09/2020
05/08/2020	Office of the Inspector of Custodial Services	31/08/2020
16/07/2020	Parliamentary Commissioner for Administrative Investigations	02/09/2020
17/07/2020	Parliamentary Inspector of the Corruption and Crime Commission (Qualified opinion on controls. Details on page 14.)	01/10/2020
15/07/2020	Parliamentary Services Department	31/08/2020
13/07/2020	PathWest Laboratory Medicine WA	06/10/2020
17/07/2020	Peel Development Commission	18/09/2020
31/07/2020	Perth Theatre Trust	10/09/2020
17/07/2020	Pilbara Development Commission	08/09/2020
16/07/2020	Pilbara Ports Authority	01/09/2020
16/07/2020	Police Service	08/09/2020
19/08/2020	Professional Standards Council	12/10/2020
16/07/2020	Public Sector Commission	02/09/2020
30/07/2020	Public Transport Authority of Western Australia	11/09/2020
31/07/2020	Public Trustee	09/09/2020
23/07/2020	Quadriplegic Centre	11/09/2020
27/07/2020	Queen Elizabeth II Medical Centre Trust, The	04/09/2020
28/08/2020	Racing and Wagering Western Australia (01/08/2019 – 31/07/2020)	14/10/2020
29/07/2020	Racing Penalties Appeal Tribunal of Western Australia	08/09/2020
06/08/2020	Regional Power Corporation – Horizon Power	14/09/2020
17/07/2020	Rottneet Island Authority	22/09/2020
11/07/2020	Rural Business Development Corporation	24/08/2020
16/07/2020	School Curriculum and Standards Authority	18/09/2020
24/07/2020	Small Business Development Corporation	21/08/2020
16/07/2020	Southern Ports Authority	02/09/2020
16/07/2020	South Metropolitan Health Service	15/09/2020
17/07/2020	South West Development Commission	04/09/2020
30/07/2020	Swan Bells Foundation Incorporated	16/09/2020
09/07/2020	Trustees of Public Education Endowment	04/08/2020
n/a	University of Western Australia, The	02/10/2020
n/a	Subsidiaries: Perth International Arts Festival Limited	
n/a	Subsidiaries' financial statements for year ended 31/12/2019:	
n/a	UWA Accommodation Services Pty Ltd	03/06/2020
n/a	UWA Sport Pty Ltd	21/05/2020
n/a	Young Lives Matter Foundation UWA Ltd	21/05/2020
14/08/2020	WA Country Health Service	18/09/2020
14/07/2020	Water Corporation	03/09/2020

Audit ready	Entity	Opinion issued
16/07/2020	Western Australian Coastal Shipping Commission	17/09/2020
01/09/2020	Western Australian Electoral Commission	23/09/2020
16/07/2020	Western Australian Energy Disputes Arbitrator	26/08/2020
08/09/2020	Western Australian Greyhound Racing Association (01/08/2019 - 31/07/2020) (Qualified opinion on financial statements and KPIs. Details on page 14.)	06/10/2020
15/07/2020	Western Australian Health Promotion Foundation	14/08/2020
15/07/2020	Western Australian Land Authority	16/09/2020
24/08/2020	Western Australian Land Information Authority	08/10/2020
17/07/2020	Western Australian Meat Industry Authority	27/08/2020
16/07/2020	Western Australian Museum, The	10/09/2020
17/07/2020	Western Australian Planning Commission	22/09/2020
30/07/2020	Western Australian Sports Centre Trust	22/09/2020
16/07/2020	Western Australian Tourism Commission	02/09/2020
14/07/2020	Western Australian Treasury Corporation	04/09/2020
17/07/2020	Wheatbelt Development Commission	03/09/2020
15/07/2020	WorkCover Western Australia Authority	19/08/2020
16/07/2020	Zoological Parks Authority	21/09/2020

Request audits – audits requested by the Treasurer under the *Auditor General Act 2006* do not have a statutory date for submitted financial statements

The Delegate of the Queen Elizabeth II Medical Centre Trust	04/09/2020
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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 entities to discharge conditions of Australian Government funding, grants or other legislation. This service to entities 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 to the 14 certifications listed below, we also issued 71 certifications for projects funded under the Royalties for Regions program. They are listed in Appendix 3, commencing on page 64.

The following certifications were completed between 4 May 2020 and 4 November 2020. Unless stated, the certifications were for the year ended 30 June 2020.

Entity	Certification relates to	Date issued
Curtin University	Higher Education Funding Act 1988: Higher Education Research Data Collection for year ended 31/12/2019	16/06/2020
Department of Health	National Health Funding Pool Act 2012 (WA): Western Australian State Pool Account	17/09/2020
Edith Cowan University	Higher Education Funding Act 1988: Higher Education Research Data Collection for year ended 31/12/2019	29/06/2020
Electricity Generation and Retail Corporation	Compliance with Part 2, Divisions 1 and 2 of the Electricity Corporations (Electricity Generation and Retail Corporation) Regulations 2013 and with the Segregation and Transfer Pricing Guidelines 2013 throughout the year ended 30 June 2020	14/10/2020
	Compliance with Electricity Generation and Retail Corporation Regulatory Scheme as evaluated against the requirements of Part 3 Division 1 of the Electricity Corporations (Electricity Generation and Retail Corporation) Regulations 2013 and with the Electricity (Standard Products) Wholesale Arrangements 2014 throughout the year ended 30 June 2020	14/10/2020
Family Court of Western Australia	Family Court Act 1975: Statement of income and expenditure under the Australian Government-state agreement for the year ended 30 June 2019	13/05/2020
Fire and Emergency Services Superannuation Board	Australian Prudential Regulation Authority (APRA): Independent Auditor's report on APRA reporting forms and Reasonable Assurance report on compliance	24/09/2020
	APRA: Limited assurance report on compliance by Independent Auditor	24/09/2020
	Australian Securities and Investments Commission: Auditor's report on Australian Financial Services licensee (Form FS71) under the <i>Corporations Act 2001</i>	28/10/2020
	Trustee entity's financial statements	24/09/2020

Entity	Certification relates to	Date issued
Mental Health Commission	Road Trauma Trust Account grant: Alcohol Interlocks Assessment and Treatment Services	27/10/2020
Murdoch University	Higher Education Funding Act 1988: Higher Education Research Data Collection for year ended 31/12/2019	29/06/2020
The University of Western Australia	Higher Education Funding Act 1988: Higher Education Research Data Collection for year ended 31/12/2019	26/06/2020
Western Australian Electoral Commission	Electoral Distribution Act 1907: Electoral Distribution Commissioners' Expenses for the period 01/07/2019 – 30/06/2020	21/09/2020

Appendix 3: Royalties for Regions certifications

Clear certification opinions were issued for the annual 2019-20 Statements of Receipts and Payments of 71 approved projects funded under the *Royalties for Regions Act 2009*.

The Department of Primary Industries and Regional Development (DPIRD) is responsible for the current governance processes for Royalties for Regions funded projects with State government entities. Entities are required to provide a cumulative expenditure report in March each year, detailing expenditure to date for the current year for all projects of that entity. Submitting an audited annual report for each project and a final report on completion of the project to DPIRD are still requirements for every Royalties for Regions project.

We issued audit opinions on each Royalties for Regions project's Statement of Receipts and Payments listed below. The opinions were that, in all material respects, the funding was used as approved by the existing memorandum of understanding or in accordance with the new terms and conditions agreed when the funding was approved.

Delivering entity	Royalties for Regions approved projects	Date certification issued
Regional Community Services Fund		
Commissioner of Main Roads	Broome Cape Leveque Upgrade	23/10/2020
	Collie Preston Road Upgrades	23/10/2020
	Duncan Road and Gordon Downs Road Upgrades	23/10/2020
	Local Government Commodity Freight Route	23/10/2020
Department of Jobs, Tourism, Science and Innovation	Brand WA Stage 2	30/10/2020
	Collie Emergency Services Vehicle Manufacturing	30/10/2020
	Collie Futures Fund	30/10/2020
	Develop Serviced Land at Kemerton and Shotts Strategic Industrial Areas	30/10/2020
	Science and Agribusiness Connect (SAC) Program	30/10/2020
Department of Justice	Enhanced Driver Training and Education for Regional and Remote Communities 2018-19 to 2019-20	14/10/2020
	Enhanced Driver Training and Education for Regional and Remote Communities 2019-20 20 2022-23	14/10/2020
	Regional Youth Justice Strategy – Kimberley and Pilbara Expansion	14/10/2020
Department of the Premier and Cabinet	Collie Delivery Unit	06/10/2020
	Dampier Peninsula Project	06/10/2020
	Fitzroy River Management Plan	06/10/2020
	Plan for Our Parks – Indigenous Land Use Agreements	06/10/2020
	Wellington Dam Mural and Collie Art Trail	06/10/2020
	Yawuru Strategic Economic Development	06/10/2020

Department of Training and Workforce Development	Muresk Institute Agricultural Degree	24/09/2020
	Muresk Institute Agriculture Skills Development Pathway	24/09/2020
	TAFE Regional Studies	24/09/2020
Library Board of Western Australia	Better Beginnings Family Literacy	01/10/2020
Mental Health Commission	Alcohol and Drug Residential Rehabilitation and Low Medical Withdrawal Beds in the South West Region of Western Australia	01/10/2020
	Alcohol and Other Drug Residential Rehabilitation and Treatment Services in the Kimberley Business Case	01/10/2020
	Community Subacute and Non-acute Mental Health Services in Karratha and Bunbury	01/10/2020
	North West Drug and Alcohol Support Program	01/10/2020
	3 Tier Youth Mental Health Program	01/10/2020
North Metropolitan Health Service	Find Cancer Early	30/09/2020
Perth Theatre Trust	Albany Entertainment Centre	15/10/2020
Police Service	Regional Traffic Enforcement Unit	30/09/2020
	Regional Police Incentives	30/09/2020
Western Australian Land Authority	Albany Middleton Beach Stage 2: Middleton Beach Redevelopment Precinct Enhancements	01/10/2020
	Transforming Bunbury Waterfront Stage 3 – Business Case Development	01/10/2020
Western Australian Museum	Gwoonwardu Mia Cultural Centre Carnarvon	29/09/2020
	Regional Collections Development Program (Regional Museum Grants)	29/09/2020
Western Australian Tourism Commission	Aboriginal Tourism Initiatives	30/09/2020
	Brand WA – Destination Marketing	30/09/2020
	Brand WA – Event Tourism (Regional Events Program)	30/09/2020
Regional Infrastructure and Headworks		
Commissioner of Main Roads	Aglime Routes Upgrade Project	23/10/2020
	Albany Ring Road – Stage 2	23/10/2020
	Coolgardie-Esperance Highway	23/10/2020
	Great Eastern Highway – Dual Anzac Road to Gatacre Drive, Kalgoorlie	23/10/2020
	Great Northern Highway – Gibb River Road	23/10/2020
	Great Northern Highway – Ord River North (Turkey Creek)	23/10/2020
	Karratha – Tom Price – Sealing of 50 kilometres to Millstream	23/10/2020

Commissioner of Main Roads	New Road Alignment Study Dongara to Northampton	23/10/2020
	Outback Way – Seal Priority Sections	23/10/2020
	South Coast Highway – Widening Pfeiffer Road Manypeaks to Jerramungup Road	23/10/2020
	Square Kilometre Array Roads	23/10/2020
Department of Justice	Bunbury Regional Prison	14/10/2020
	Community Safety Network – Regional Radio Network	14/10/2020
	Community Safety Network – Police	14/10/2020
	Fitzroy Crossing Courthouse Replacement	14/10/2020
	Kununurra Courthouse	14/10/2020
Department of Water and Environmental Regulation	Regional Estuaries Initiative	05/10/2020
	Revitalising the Waterways of Geographe Bay #1	05/10/2020
	Revitalising the Waterways of Geographe Bay #2	05/10/2020
	Watering Western Australia	05/10/2020
Mental Health Commission	Geraldton Step Up / Step Down Facilities	01/10/2020
	Mental Health Step Up / Step Down Facilities – Kalgoorlie/Goldfields	01/10/2020
Police Service	Air-conditioning at Five Remove Multifunctional Policing Facilities	30/09/2020
	Capel Police Station	30/09/2020
	Australian Government Legislated Radio Frequency Change - Police Radio Network	30/09/2020
	Community Safety Network/Regional Radio Network Replacement Program	30/09/2020
	Community Safety Network/Regional Radio Network	30/09/2020
Western Australian Land Authority	Batavia Coast Marina Stage 2 Remediation	01/10/2020
	Newman Town Centre Revitalisation – Stage 3	01/10/2020
	South Hedland Town Centre Revitalisation Stage 2	01/10/2020
	Transforming Bunbury Waterfront Stage 2 – Casuarina Drive Redevelopment	01/10/2020
	Transform Peel Phase 1: Peel Business Park, Nambeelup	01/10/2020
Administration of the Royalties for Regions Fund		
Department of Treasury	Governance for Royalties for Regions Program	06/10/2020

Appendix 4: Local government entities audited

Of the 112 local government audits we performed for 2018-19, the following 3 were part of a group of audits delayed while the entities provided outstanding information required for the audits:

Local government entities Auditor's report on 2018-19 financial reports and certifications completed since 4 May 2020	
Pilbara Regional Council – Clear opinion	13/10/2020
Shire of Kojonup – Clear opinion	03/06/2020
Shire of Wiluna – Qualified opinion The Shire reported a total balance at 30 June 2019 of \$1,399,945 for 2 bank accounts held with a financial institution. We inspected the bank statements, including post balance date closure and funds transfer, to confirm the amount held in the bank accounts. However, it was not possible to confirm whether there were any other bank accounts held by the financial institution in the Shire's name, as management would not pay the required fee charged by the financial institution to release an audit certificate.	24/07/2020

This concludes our reporting on the local government entity audits for the 2018-19 financial year.

Appendix 5: COVID-19 Financial control matters

We issued this to all public sector entities on 6 April 2020

We recognise that State and local government entities are spending significant time and effort dealing with the operational ramifications of the COVID-19 public health response. We have prepared consideration points to prevent key control breakdown during this period.

It is vitally important that entities are aware that times of disruption present a heightened risk environment. Those who are dishonestly inclined will be keen to take advantage of any sense of crisis. Good control over finances and key decisions during this period means that entities and senior decision-makers will be better prepared to resume normal operations when the crisis is over. It also means they won't be left dealing with the ramifications of fraud, error or decisions taken in haste that may be regretted when conditions are calmer. Importantly, public trust will be upheld.

Management should ensure staff maintain good controls, particularly over cash, expenditure and assets. Good controls are also important for any regulatory or non-financial decisions that bind the entity, or the State, into the future, such as for approvals, concessions, operating permits, or conditions.

Some contextual considerations for entities

- Consider if there is an exaggerated sense of urgency that may persuade or permit staff to override important controls.
- Recognise that existing gaps in controls, which in normal times may not be exploited, can become gaping holes when staff are not overseen as closely when working from home or key people are distracted by other matters.
- Have you explicitly promoted a culture encouraging staff to speak if they see something that poses a risk during this period? If staff or stakeholders see something, they should say something, are they aware of fraud control reporting, including public interest disclosures.
- Are credentials (for example, qualifications, working with children checks and police checks) and references still checked before on-boarding new personnel?
- Are delegations and authorisations valid, and changes to delegations approved (for example, if there are senior management absences due to illness or secondments)?
- Are licenses and/or permits lawfully issued/approved, and with due probity? A sense of urgency or chaos may override due process as well as bring opportunistic requests. Be cautious, weigh risks and benefits with probity to prevent conflicts of interest and good record keeping.
- Are debt waiver/acts of grace authorised in accordance with law?
- Are purchasing/corporate credit cards issued in line with policy? [See our better practice guidance on [Purchasing cards](#) (for State government) and our May 2018 report [Controls over Corporate Credit Cards](#) (for local government).]
- Are senior management continuing to monitor and scrutinise spending against the budget, with genuine understanding of the reasons for variances? And monitoring cash flow and balances?
- Is there timely cancellation of automatic/periodical payments for services that are no longer being provided?

- Are working from home conditions clearly defined and approved? [See our better practice guidance on [Security considerations for remote working arrangements](#)]

Assets – Risk of misappropriation, unauthorised purchases or disposals

Entities should ensure:

- all purchases are in line with their procurement policy and any temporary divergence from the policy is approved by the DG or CEO and recorded in a central registry
- asset acquisitions are approved in line with the delegation of authority
- asset reconciliations between the register and the general ledger are prepared and reviewed on a timely basis
- asset disposals/write-offs are appropriately authorised
- loans of assets to other entities are properly recorded and authorised
- where necessary, key responsibilities continue to be segregated in relation to asset acquisition, recording, custody, disposal and reconciliation
- appropriate records of portable and attractive assets are maintained, particularly those that staff may take home to use when working from home.

Cash – Risk of misappropriation

Entities should ensure:

- regular bank reconciliations are prepared and reviewed, reconciling items are investigated and resolved
- all bank accounts have at least 2 signatories
- online purchasing policies are reviewed to reflect the current period
- increases in purchasing card limits are appropriately approved
- there are appropriate and timely reviews of credit card usage.

Expenditure – Risk of unauthorised or invalid payments, incorrect or invalid suppliers, and increased risk of fraudulent payments

Entities should ensure:

- all purchases are in line with their procurement policy and any temporary divergence from the policy is approved by the DG or CEO and recorded in a central registry
- changes to vendor master files are documented and approved (see our better practice guidance on [Management of supplier master files](#))
- there is separation between the vendor creation and payment approval functions
- a 3-way match is performed of invoices, receipt of goods and purchase orders
- payment authorisation is made in line with the delegation of authority and requires 2 to sign. Signatories should pay particular attention to the delivery addresses of goods received
- purchase orders are prepared and appropriately authorised

- appropriate security and checks are in place over EFT payment data
- there is segregation of duties between officers performing the functions of ordering, receiving, incurring and certifying (for State government entities, in line with [Treasurer's Instruction 304](#))

Queries

If you have any queries please contact your OAG financial audit engagement leader or our general enquiries via info@audit.wa.gov.au or phone (08) 6557 7500. For information on making a [Public Interest Disclosure](#) (PID), phone (08) 6557 7500 and ask to speak to a PID officer.

Appendix 6: Security considerations for remote working arrangements

This was included in our [*Information Systems Audit Report 2020 – State Government Entities*](#) report tabled in Parliament on 6 April 2020

In response to the spread of the Coronavirus (COVID-19), entities in all sectors across Australia are encouraging staff to work remotely from home. Rapid transition to these arrangements can introduce risks and challenges for entities who may not have previously implemented large-scale remote working arrangements. It is important that entities manage and address these risks, as well as staff security behaviour, to prevent people from exploiting the current situation to compromise systems and information.

The following table outlines some guiding principles entities should consider when rolling out remote working technology and procedures. This is not intended to be an exhaustive list. Entities can obtain further guidance from the Australian Cyber Security Centre² and the Office of Digital Government has recently issued some considerations for remote work.

Principle	Our expectation
Prioritise and simplify	Each entity needs to assess their unique risks associated with remote working arrangements and address critical risks as a priority. These risks will be different for each entity depending on the functions staff perform remotely and the types of information being accessed. Entities should ensure that procedures and technology for remote working are simple and easy to follow. Complex processes can introduce vulnerabilities that could result in undesired outcomes.
Engage with staff	Increase staff awareness by clearly communicating expectations including policies and any occupational health and safety requirements. The business continuity plan may come into effect and it is also important that staff understand how the plan impacts their day to day working procedures. Staff should have easy access to a forum or group where they can seek answers to their queries related to working from home and security.
Remote access technology	The technology used for remote access needs to be secure. The security controls that entities select will depend on the method of remote access, such as: <ul style="list-style-type: none"> • virtual private network (VPN) • web applications • remote desktop access Remote access servers should enforce technical controls in line with security policies.
Security of network	The majority of the remote workers will use internet to access entity resources. Entities should implement appropriate policies to secure remote access originating from untrusted networks. VPN is one of the better methods of securing remote access because it uses encryption to protect the confidentiality and integrity of communication over the network.

² <https://www.cyber.gov.au/news/cyber-security-essential-when-preparing-covid-19>

Principle	Our expectation
Physical security	<p>Remote working locations may not be as secure as office environments. Entities need to understand the risks associated with this and define and implement appropriate controls to protect information. For example, implementing encryption on portable devices is a simple method to improve security.</p> <p>Entities also need to ensure the security of sensitive hard copy documents is maintained.</p>
Multi-factor authentication	<p>Remote access into entity systems and networks must be secured by strong authentication controls. Entities should implement multi-factor authentication for all remote access.</p>
Bring your own device (BYOD) policies	<p>A risk based policy should define the requirements for personal devices if they are allowed to access entity resources. Personal devices are generally not as secure as those provided by entities and attackers could exploit this weakness as more people work from home.</p> <p>Considerations should be given to:</p> <ul style="list-style-type: none"> • encryption • access levels • segregated network zone for personal devices • security patch levels • malware controls.
Patch systems	<p>All systems should be patched with latest updates. This applies to all the internet facing infrastructure and client applications.</p>
Stay vigilant	<p>Stay alert and educate staff on the risks especially phishing emails and text messages themed around COVID-19.</p>

Source: OAG based on Australian Cyber Security Centre guidance

Appendix 7: Better practice guidance

We continue to develop better practice guidance to help the Western Australian public sector perform efficiently and effectively. This includes:

- practical guidance in the application of standards
- case studies
- checklists to assess existing frameworks and processes
- information to help entities to better understand how to comply with legislation and standards.

Topic	Report	Date
Western Australian Public Sector Audit Committees	<i>Western Australian Public Sector Audit Committees – Better Practice Guide</i>	25 June 2020
Managing technical vulnerabilities	<i>Information Systems Audit Report 2020 – Local Government Entities</i>	25 June 2020
Contract management – extensions and variations	<i>Local Government Contract Extensions and Variations</i>	4 May 2020
Controls for the management of monies held for specific purposes	<i>Control of Monies Held for Specific Purposes</i>	30 April 2020
COVID-19 financial and governance matters	<i>Stand alone guidance</i>	6 April 2020
Security considerations for remote working arrangements	<i>Information Systems Audit Report 2020 – State Government Entities</i>	6 April 2020
Purchasing cards	<i>Controls over Purchasing Cards</i>	25 March 2020
Effective fee-setting	<i>Fee-setting by the Department of Primary Industries and Regional Development and Western Australian Police Force</i>	4 December 2019
Fraud prevention	<i>Fraud Prevention in Local Government</i>	15 August 2019
Regulating building approvals	<i>Local Government Building Approvals</i>	26 June 2019
Project management	<i>PathWest Laboratory Information System Replacement Project</i>	19 June 2019
Verifying employee identity and credentials principles	<i>Verifying Employee Identity and Credentials</i>	19 June 2019
Engaging consultants for strategic advice	<i>Engaging Consultants to Provide Strategic Advice</i>	5 June 2019
Cloud application (software as service agreement)	<i>Information Systems Audit Report 2019</i>	15 May 2019
Records management	<i>Records Management in Local Government</i>	9 April 2019
Management of supplier master files	<i>Management of Supplier Master Files</i>	7 March 2019
Procurement	<i>Local Government Procurement</i>	11 October 2018

Topic	Report	Date
Online services	<i>Delivering Services Online</i>	25 May 2016
Contract management	<i>Health Department's Procurement and Management of its Centralised Computing Services Contract</i>	17 February 2016

Glossary and abbreviations

AASB	Australian Accounting Standards Board
AG Act	<i>Auditor General Act 2006 (WA)</i>
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 KPIs are presented fairly in accordance with the enabling legislation of the entity, Australian Accounting Standards (including Australian Accounting Interpretations) and the Treasurer's Instructions.
Contract audit	Audit of an entity undertaken by an appropriately qualified individual or firm, on behalf of the Auditor General, appointed under a contract.
Entity	Term used to describe entities audited by the Auditor General, including departments, statutory authorities, corporations, subsidiaries, request audits and cemetery boards.
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.
IS	Information systems, primarily computerised systems
KPI	Key performance indicator – information about critical or material aspects of service performance or outcome achievement.
Management letter	Letter to entity management that conveys significant audit findings and results of the audit. A copy is also sent to the responsible Minister.
Materiality	The characteristic based on the size and/or nature of an omission or misstatement of accounting, performance or compliance information that, in the light of context or circumstances, has the potential to adversely affect the economic decisions of users of the information or the discharge of accountability by senior management.
Matter of Significance	An item of concern in relation to an entity's financial statements, key performance indicators or controls which does not warrant a qualified opinion.
OAG	Office of the Auditor General, Western Australia
Qualified opinion	Auditor General's opinion expressed when an audit identifies that the financial statements or KPIs 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 entities under the FM Act.
Treasury	Department of Treasury

Auditor General's 2020-21 reports

Number	Title	Date tabled
6	Transparency Report: Major Projects	29 October 2020
5	Transparency Report: Current Status of WA Health's COVID-19 Response Preparedness	24 September 2020
4	Managing the Impact of Plant and Animal Pests: Follow-up	31 August 2020
3	Waste Management – Service Delivery	20 August 2020
2	Opinion on Ministerial Notification – Agriculture Digital Connectivity Report	30 July 2020
1	Working with Children Checks – Managing Compliance	15 July 2020

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