



Audit Practice Statement



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.

National Relay Service TTY: 133 677
(to assist people with hearing and voice impairment).

On request, we can deliver this report in an alternative format.

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VISION

Supporting accountability and continuous improvement in the public sector through an informed Parliament and community.



Introduction

We have issued this *Audit Practice Statement* as required by section 24(2)(b) of the *Auditor General Act 2006* (AG Act). This section requires the Auditor General to inform Parliament of any major change in the extent or character of the audit function. With the establishment of our forensic audit function and *Strategic Plan 2021-2025*, it is timely to provide an updated statement.

This statement offers a concise summary of:

- why we audit
- who we audit
- how we audit.

It also includes information on our ethical standards and commitment to audit quality, previously shared in our Transparency Report.¹

We refer to our audit clients as public sector entities (entities) which includes:

- State government entities (State entities)
- local government entities (LG entities).

For more information about our Office and our functions, please refer to our website:

www.audit.wa.gov.au.

Why we audit

In the Westminster system of parliamentary democracy, all authority for government activity stems from Parliament. Entities are accountable to Parliament for the use of public resources and the powers and responsibilities it confers on them.

To help it to oversee the public sector, Parliament seeks independent assurance from the Auditor General that entities are operating, and accounting for their resources and performance, in accordance with Parliament's purpose.

The Auditor General's role is set out in the AG Act, and includes financial audits, key performance indicator audits, performance and compliance audits, information systems audits, forensic audits, and providing opinions on ministerial notifications given under section 82 of the *Financial Management Act 2006* (FM Act). We also report to LG entities as required by the *Local Government Act 1995* and regulations.

The independent financial audit opinions and reports we table in Parliament promote accountability and transparency, and help members of Parliament and the public to have a better understanding of public sector entity performance. These reports, together with the recommendations, help entities' management and the government of the day to improve governance and control environments and determine how cost effective, compliant and responsive public services are.

Reports with adverse findings raise matters of concern to Parliament and the public while other reports can share good practice across the sector and can increase Parliament and community confidence.

¹ Transparency reports were identified as necessary for private sector audit firms where public accountability disclosures are not separately mandated by legislation. As the Auditor General functions and approach are outlined in legislation, and discharged through our annual report and this statement, we will not continue to produce a transparency report.



Who we audit

We audit the following entities and accounts:

- approximately 180 State entities:
 - State government departments
 - statutory authorities
 - State-owned corporations
 - entities controlled by public sector agencies
- Public Ledger – the Consolidated Account, Treasurer’s Advance Account and Treasurer’s special purpose accounts
- Annual Report on State Finances
- approximately 145 WA local governments and regional councils (LG entities).

We may also audit entities performing functions on behalf of public sector entities using ‘follow-the-dollar’ powers, and undertake audits on request.

In 2017, the *Local Government Act 1995* (LG Act) was amended to require the Auditor General to audit LG entities. Performance audits could begin straight away and there was a staged transition arrangement for financial audits. As the existing audit contract for a LG entity expired, the responsibility for auditing that entity transitioned to the Auditor General. As of the 2020-21 financial year, all LG entities are audited by the Auditor General, regardless of whether or not their existing audit contracts have expired.

For a comprehensive list of audited entities each year please refer to our annual report at www.audit.wa.gov.au.



Types of audits

The Auditor General performs the following financial and assurance audits.

Financial audits

These annual audits provide Parliament, ministers and LG entity councils with independent assurance that entities have:

- based their financial statements on proper accounts
- fairly presented their operating results, cash flows and financial position at the end of the financial reporting period, in accordance with relevant legislation, regulations, Australian Accounting Standards and other mandatory professional reporting and disclosure requirements.

Controls opinion of State entities

Controls are the policies and procedures established for the governance and management of an entity. For the State entities, where mandated, these opinions provide assurance that there are sufficiently adequate controls for the receipt, expenditure and investment of money, the acquisition and disposal of property, and the incurring of liabilities in accordance with legislative provisions.

Key performance indicator audits of State entities

Treasurer's Instruction 904 mandates that most State entity key performance indicators (KPIs) are reported in annual reports.

Performance indicators allow State entities to measure, monitor, evaluate, report and improve their performance.

The KPI audit involves providing independent assurance that:

- KPIs are relevant and appropriate to help users assess State entity performance
- KPI results fairly represent indicated performance for the period under review.

Financial position of LG entities

Unlike State entities, LG entity audits do not include an opinion on their controls or KPIs. However, where relevant, we report significant non-compliance if identified during the course of the audit. Examples could include non-compliance with Part 6 of the LG Act, the Local Government (Financial Management) Regulations 1996 or other applicable financial controls essentials to good governance.



Performance audits

Our performance audits seek to provide Parliament and the people of Western Australia with assessments of the effectiveness and efficiency of public sector programs and activities, and identify opportunities for improved performance.

Performance audits are an integral part of our overall program of audit and assurance for Parliament. Internally we differentiate audits on the basis of size and complexity. We conduct these performance audits in accordance with section 18 of the AG Act. Our topic selection approach is outlined on page 22.

Our audits can focus on entity compliance with legislation, public sector policies and accepted good governance practice. These audits highlight issues surrounding regulatory, financial and administrative processes and make recommendations for improvement.

Each year we also conduct a number of more complex performance audits on a range of topics. These audits primarily focus on the effective management and operation of State and LG entity programs and activities.

Our audits also seek to highlight best practice approaches for all entities to consider implementing, so as to maximise the benefit derived from our audit program.

Focus area performance audits

We conduct these audits at a sample of State or LG entities as an extension of our annual financial audits, using more detailed testing than is required for forming our financial audit opinions. Our aim is to assess how well they establish and implement common business practices and related financial controls. The findings of these audits provide an insight to good practice, so all entities, including those not audited, can consider their own performance.

Information systems (IS) audits

IS audits focus on the information technology (IT) environments of entities. We audit general computer control (GCC) environments to determine whether the controls effectively support the confidentiality, integrity and availability of IS. These audits support the financial audit and controls opinions. GCCs include controls over the IT environment, computer operations, access to programs and data, program development and changes. We use the results of our GCC work to inform our capability assessments of entities. We have developed a model that uses accepted industry good practice as the basis for assessing the maturity of entities' IT controls across the 6 areas of:

- information security
- business continuity
- management of IT risks
- IT operations
- change control
- physical security.

The model provides a benchmark for entity performance and a means for comparing results from year to year.

We also review a selection of important applications that entities rely on to deliver services. Applications are software programs that facilitate an entity's business processes including human resources, case management, licensing and billing. We focus on the key controls that ensure data is secure, complete, accurately captured, processed, maintained and reported.

Forensic audit

In 2019, following a request from the then Treasurer, we established a Forensic Audit business unit. The unit's purpose is to improve resilience to fraud and corruption across the WA public sector by conducting targeted, risk based, forensic audits that identify vulnerabilities to, and indicators of, significant fraud in State government entities. These audits are conducted under section 18 of the AG Act. Forensic audit targeting identifies a high-risk entity and its activities or a high-risk activity and the entities most significantly exposed to that activity, prioritising instances where these entities and activities intersect for targeted forensic audits. Our reports will detail fraud and corruption vulnerabilities that we identify and provide recommendations for improvement. Where we discover indicators of potential fraud or corruption, entities will be given relevant information and supporting evidence to enable them to investigate further.

Audit requests from parliamentary committees

As per the topic selection process outlined in this document, the Auditor General must have regard to the audit priorities of Parliament. In particular, this includes requests from either House of Parliament, the Public Accounts Committee (PAC) or the Estimates and Financial Operations Committee (EFOC) (section 8 and section 20 of the AG Act).

The Auditor General formally invites PAC and EFOC to suggest audits to include in our forward program and also welcomes suggestions from the other committees and members of Parliament.

Before undertaking an audit requested by a committee, we will advise the committee of our intended audit objective and criteria, and then keep them informed of our progress as appropriate.

Audits by arrangement

Under section 22 of the AG Act, we can conduct audits and other services by arrangement for any person or body. This includes auditing financial statements and accounts relating to hundreds of Commonwealth or State grants where this is a condition, and joint audits with other Australian Auditors General in relation to Commonwealth/State activities.

Additional requests or dispensations

Requests from the Treasurer

The Auditor General may audit any accounts specifically requested by the Treasurer. These requests generally arise when Government has given a grant or advance of money to a person for a specific purpose. The Treasurer may request the Auditor General audits that person's or entity's accounts to determine if they have used the money appropriately for the purpose of the grant or advance. These audits are performed in accordance with section 19 of the AG Act.

Requests from the Minister

The Auditor General may perform supplementary audits of LG entities requested by the Minister for Local Government.

Supporting public sector accountability and performance

Better practice guides

Where we believe there is value to the WA public sector, we develop better practice guidance to build understanding and capability in entities. This may include sharing the principles of sound public administration that we conduct our performance audits against or developing more comprehensive guidance documents. This guidance aims to help entities perform at their most efficient level, encouraging them to adopt better practices to transform and improve business processes and accountability.

Forming an opinion on ministerial notifications (section 82)

Where a minister decides not to provide certain information to Parliament about an agency's conduct or operation (usually in response to a parliamentary question), certain requirements under the FM Act and the AG Act come into force. The minister must notify the Auditor General and both Houses of Parliament. The Auditor General is then required to form an opinion on how reasonable and appropriate the minister's decision to not provide information was. We report the opinion to Parliament. See page 27 for our process. This function is designed as a safeguard to promote disclosure in the public interest, by checking the veracity of a minister's claim as to why they considered it reasonable and appropriate to not provide the requested information to Parliament.

Other work

We also support entities by:

- **Management letter findings** – Our management letters have an educative role in conveying our financial and IS audit findings to entities, ministers and councillors including recommendations to address those findings, and implementations if not addressed.
- **Preparing position papers on emerging financial reporting matters** – We provide our view on significant matters relating to accounting treatments, where necessary, to achieve consistent reporting in the sector. To facilitate a common understanding we may issue a position paper on specific accounting or auditing matters.
- **Interacting with audit committees** – We aim to improve the efficiency and effectiveness of entity audit committees by increasing our interaction with committees and raising awareness of the cost-effective governance benefits a good audit committee brings.
- **Commenting on audit related matters and liaising with central agencies and standard setters** – We proactively engage with entities to enhance financial management, governance practices and performance capability to achieve tangible improvements in the capacity and confidence in the sector. We also liaise with those who set the standards and with central entities to improve auditing and financial reporting in WA and reduce red tape wherever possible and appropriate.
- **Presenting at forums** – We present our work at relevant forums including public sector conferences, professional membership organisations, various local government events and at educational institutions to share insights and learnings.

How we audit

General principles

In achieving our purpose of serving the public interest, we follow the principles of:



Integrity

We conduct our business in an independent, professional and ethical manner. We apply an open, honest and fair approach to our stakeholders.



Quality

We provide credible work that makes a difference. We take pride in our work and strive to deliver above expectations, being agile to improve our efficiency and effectiveness.



Service

We perform our duty to the Parliament and community, valuing the contribution of our people and stakeholders, and encouraging a collaborative and open approach to our work.



Compliance

We conduct audits in accordance with applicable auditing and assurance standards, and where relevant we will take into account the unique circumstances and benefits to the people of WA provided by our mandated role working across entities and sectors.



Fairness

We approach all audits in a fair and constructive way.



Professional judgement

We report matters of significance arising from audits to entities and the Parliament.

Our approach

There are some common elements that support the quality of audits performed within our Office:

- our audits are supported by sufficient and appropriate evidence to ensure accuracy and fairness
- priority is given to effective communications around our audit work
- all audits follow a clear methodology with multiple levels of control and review.



Quality

Independence

The Auditor General is an independent statutory officer with responsibility for auditing WA entities.

The [Governor](#) appoints the Auditor General for a non-renewable term of 10 years.

The Auditor General reports directly to [Parliament](#).

This independence is the cornerstone of public sector audit and the Auditor General must be free from pressure, influence or interference from any source that may erode or be perceived to erode that independence. The provisions of the AG Act strongly articulate and support the independence of the Auditor General's function. The Auditor General is not involved in Executive Government decision-making or subject to direction from the Government of the day.

Subject to the AG Act and other laws, the Auditor General has complete discretion around how they perform their work.

The Auditor General is the accountable authority and Chief Executive Officer of the Office of the Auditor General (OAG), which is a public sector entity established to support the Auditor General. OAG employees are also independent and we assess and manage declared interests as appropriate, including a requirement for the audit team to declare any conflicts of interest at the beginning of each audit.

Audit evidence

Through risk-based audit procedures we gather sufficient appropriate evidence to form our conclusions and recommendations.

Our auditors gather information and evidence from a range of sources including entity records systems, data extraction and analysis, interviews with relevant employees and stakeholders and surveys or questionnaires. From time-to-time for audit purposes we undertake data matching processes with data we receive from other entities. We ensure close supervision, review and monitoring of audit progress, analysis and findings throughout the audit process, and constitution.

Access to information

Under the AG Act, auditors have unrestricted access to entities' information in order to fulfill their duty to the Parliament and provide assurance on government administration. This is irrespective of any restrictions on disclosure imposed on those entities by other legislation such as secrecy and commercial-in-confidence provisions, or common law privileges including claims of Cabinet Confidentiality.

Audit files and working papers remain confidential through strict provisions of the AG Act. Audit information is exempt under the *Freedom of Information Act 1992* (FOI Act).



Acting on recommendations of the Auditor General

The Auditor General has no authority to force entities to adopt audit recommendations.

While an audit can be a catalyst for positive change, the Auditor General cannot, and should not, be responsible for implementing such change. This remains the responsibility of entity management, Executive Government and ultimately Parliament.

The Legislative Assembly's Public Accounts Committee will often examine entity responses to our performance audit reports, and on occasion other audit reports, to ensure our recommendations receive due consideration. The Committee may write to entities seeking an update or call them to appear at public hearings to discuss their responses to our recommendations in depth. On occasions, we are called to attend these hearings as observers and provide feedback to the committee on the testimonies given.

The Legislative Council's Estimates and Financial Operations Committee has a critical remit to consider and report on 'any matter relating to the financial administration of the State'. As part of this remit, EFOC consults with us regularly and may use information from our reports to scrutinise entities' financial management controls and performance.

Quality review

With independence and wide-ranging powers comes the responsibility to undertake audits efficiently, effectively and to a high standard.

A number of internal and external quality assurance mechanisms are in place to help us meet our mandate and comply with professional standards.

These include:

- auditing in compliance with relevant Australian auditing and assurance standards
- an internal peer review through our engagement quality control and quality threshold review processes
- internal review during audits and on completion
- quality assurance reviews of audit files overseen by our Audit Quality Monitoring Committee
- external peer review of the audit files by other Australasian Council of Auditors-General (ACAG) audit offices or independent contract professionals
- self-assessment against a framework agreed to by the ACAG
- a regular parliamentary performance review.

Highly trained, professional workforce

Our auditors are required to have, at a minimum, an undergraduate qualification.

All financial auditors are also required to have (or for junior employees be working towards) professional accounting and audit qualifications, and participate in ongoing training.

As members of professional bodies and subject to the quality standards prescribed by the Auditor General, our auditors are required to observe professional ethical standards.

The Office attracts employees with a broad range and depth of experience in the private and public sector with academic, not-for-profit, international, regulatory, economic and industry backgrounds. Where possible, when an employee's experience is relevant to an audit we will assign them to the audit team.



Community involvement

We encourage our employees and senior leaders to participate in community activities including committees, professional membership organisations, not-for-profit organisations and to take non-executive board positions where participation does not affect the Office's independence. This community involvement broadens the respect and appreciation for community and other governance challenges.

Compliance with standards and policies

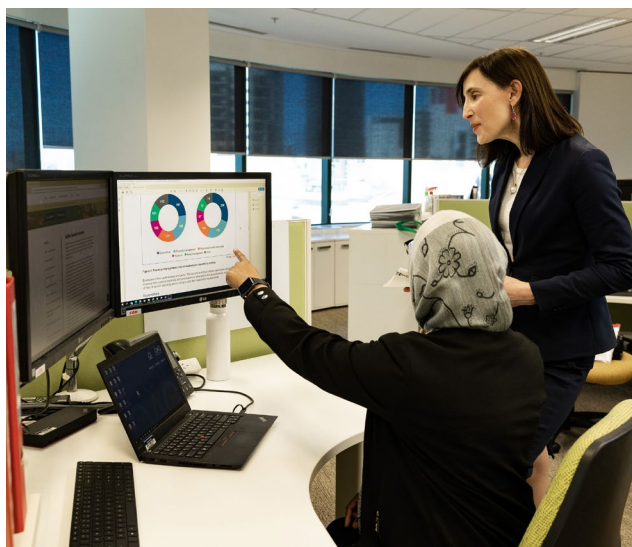
Our employees are required to abide by and annually acknowledge their compliance with our *Code of Conduct*. It sets out the standards of conduct, behaviour and professionalism expected from employees including impartiality, independence and integrity, confidentiality, credibility and equity.

Our *Conflict of Interest* policy also requires employees to submit an annual declaration of independence and to declare any potential or perceived conflicts of interest.

Employees are also required to prepare an audit engagement declaration for each audit that they perform to ensure that they are specifically independent of that engagement. They are also required to report outside of these times any matter that may arise.

A register is maintained, which records perceived or actual conflict of interest matters and identifies employees that are prohibited from working on specific audit engagements and how any identified conflicts will be managed or mitigated.

Our *Receipt of Gifts, Benefits and Hospitality* policy sets the criteria for employees accepting gifts and requires approval for acceptance of all gifts from the relevant Executive Management Group member. A Gifts Decision Register records the decision to either accept or decline the gifts. The register is reviewed at least every 6 months to ensure compliance with the policy and to identify any issues of concern.





Professional development

The professional development of our employees is important. We demonstrate this by:

- a structured professional development framework which includes a graduate recruitment and induction program
- the delivery of internal technical and non-technical, public sector and non-public sector training to develop employee knowledge in a broad range of areas
- external training offered to employees to meet individual needs.

Contract auditors

The Auditor General may appoint an appropriately qualified and experienced person who is not an employee of the Office to be a contract auditor. Contract audit firms conducting financial audits are registered by Australian Securities and Investments Commission (ASIC) as company auditors.

Contract auditors:

- are authorised auditors for the purpose of the AG Act and have the same audit access powers as employees
- are appointed by the Auditor General from our register of accredited firms
- must not provide other services of any nature to an entity they are auditing, during the period of the contract for audit services, without the prior written approval of the Auditor General. Approval will generally only be granted for services of an assurance nature such as grant acquittal.

All work undertaken by contract auditors must be performed in accordance with the Office contract for services and the auditing and assurance standards.

After the audit is complete we perform a review of its scope and quality to ensure that it complies with the auditing and assurance standards, including those relating to ethics and independence. The audit is subject to our internal quality review process and the Auditor General or delegate finalises and signs the audit opinion.





Quality

External consultants or subject matter experts

The Auditor General may decide to engage an external consultant or subject matter expert when needed for audits. Their work is subject to our internal quality control processes.

We have in-house experts on audit, accounting and financial reporting, who advise audit teams and contribute as relevant to submissions on accounting and audit standards and inter-jurisdictional public sector audit matters.

Rotation policy

We use a rotation policy for our senior employees and contract audit firms to ensure that our auditors and firms do not remain on the same audit for an extended period of time and thereby risk losing their independence or objectivity as a result of familiarity. Our policy complies with auditing standards that employees must rotate off an entity audit after a maximum of 7 consecutive years.



Audited entity

Effective communication with entities is a key part of the audit process. To achieve this we:

- consult early with stakeholders on potential topics for the forward audit program to see where we can best add value through independent assurance
- communicate throughout the audit with the entity to ensure a no surprises approach, as appropriate
- ensure we continue to liaise with nominated entity contacts as well as those also necessarily involved
- resolve any issues in a timely way
- offer entities and officials natural justice and procedural fairness as we finalise our reports, and ask them to provide a response to our recommendations.

In some cases we de-identify audited entities in our reports. This may be for security reasons, to reduce pressure on entities (for example, during the State Government response to COVID-19) or to highlight that the findings are generally applicable across the sector with our audit serving as a representative benchmark. In all cases, entities receive detailed findings so they can address any identified shortcomings.

Reporting to Parliament

Under section 24 of the AG Act, the Auditor General is required to report to Parliament at least once a year on the results of audits that are significant and require further reporting. These reports may include matters of significance from financial, performance and forensic audits. In addition, the Auditor General may submit a report to Parliament on any performance audit matter.

These reports highlight issues of importance to Parliament and can generate considerable parliamentary and community debate.

Audit findings and recommendations relate to areas such as:

- how well entities have achieved value for money using taxpayers' dollars
- how effective and/or efficient entities are in meeting Government objectives
- compliance with legislative, regulatory and policy frameworks.





Complaints and enquiries from the public

Community members make contact with the Office to suggest areas for audit. These are often about specific actions by entities. We call these referrals.

The referrals can be a crucial early warning of issues relating to the sector's performance, probity and compliance. Not all of the matters by themselves lead directly to performance audits as our audits tend to focus on systemic issues rather than individual cases. Nevertheless, they can often serve as background and indicators of the need for an audit.

The Office tries to assist referrers by providing advice on where they should direct their referral, if the Auditor General is not the appropriate authority.

Other audit offices

The Auditor General regularly liaises with other Australian audit offices to develop best practice and share management processes. This is done through the Australasian Council of Auditors-General.

Engagement with central entities

The Office engages closely with central entities such as the departments of the Premier and Cabinet; Treasury; Finance; Local Government, Sport and Cultural Industries and the Public Sector Commission to support initiatives to improve the public sector's financial management, accountability and governance.

Communication with local government bodies

We regularly meet with peak local government bodies:

- to learn and share knowledge and audit findings with stakeholders
- through observer status on various working groups and forums convened by the Department of Local Government, Sport and Cultural Industries.





Risk-based methodology

To support audit quality, we have established audit and assurance methodologies (approaches and tools) to guide our audit teams. Our audit approach for both financial audits and performance audits is based on risk and materiality. This ensures that we focus our limited resources on the areas of significance and where risk and impact of errors or deficiencies is higher. Our audit and assurance methodologies are adapted to developments in professional standards, new functions such as our Forensic Audit business unit and to findings from peer reviews and external quality control reviews.

Our financial audit methodology and toolset was developed and shared across multiple jurisdictions, building on best approaches from public sector and private sector audit practices.

Our Performance Audit Manual, in conjunction with our methodology, is a key part of our governance mechanisms and shows how our Office complies with the Australian Assurance Standard ASAE 3500 Performance Engagements issued by the Australian Auditing and Assurance Standards Board. This standard outlines how to scope, conduct and report on audits, to ensure that we maintain and improve quality where needed.

Specific standards for forensic audit do not exist, so we are drawing on the principles in audit and accounting standards and other professional practices to underpin the development of our methodology and approach.

Australian auditing and assurance standards

The methodology for all of our audit opinions complies with the Australian auditing and assurance standards applicable to all assurance engagements. Where relevant, we take into account our unique circumstances provided by our mandated role and the WA public sector legislative and regulatory framework.

Technology

The Office takes a multi-layered approach to information handling and storage including encryption, multifactor authentication and information classification. Data is transferred using encryption email or large file transfer to OAG systems or encrypted laptops, and where unavoidable, encrypted OAG USB storage devices in accordance with the Office's information classification framework and handling policies. Compliance with this is regularly monitored. Data is securely stored within our audit tool software or our records management system. We continually review our operations in response to emerging technologies and the changing information security landscape, including the use of data analytics to streamline audits.

Sampling methodology

When selecting a sample of documents to audit, an auditor will use their judgement and knowledge of the audited entity to make a preliminary assessment of control risk, detection risk and planning materiality, all of which affect sample size. Our financial audit methodology uses automated sampling methodology. This provides a robust audit framework that we use to determine the size of the samples and generate automated sample selections from the data population. Statistical sampling is our primary selection method for financial audits, using random or monetary unit sampling. Before selecting our sample, we consider stratification of the data population where appropriate. Non-statistical sampling is a secondary method we use. Our performance audits use sampling methodologies which we match to the type of analysis required.



Data analytics

A driver and key element of our forensic audits, we also consider if data analytics is applicable to our performance and financial audits. In the case of financial audits, a lot of the analysis is standardised, especially for journals testing. We are building our data analytics capability through our forensic audit business unit to identify potential indicators of fraud and other wrongdoing. Our performance audits also regularly analyse entity datasets to inform audit findings.

Supervision, consultation and review

We have a strong culture of consultation, supervision and support embedded throughout the audit methodology. Engagement quality control reviewers, technical specialists such as IS auditors, industry specialists and our Technical and Audit Support business unit provide quality control and support for our employees.

Continuous improvement

The Office is committed to always looking for areas where we can improve the efficiency of the audit methodology and audit process.

Our regular survey of members of Parliament, entities and audit committees assists us to monitor our performance in meeting our outcome of an informed Parliament on public sector accountability and performance. Through the surveys, members and audited entities can share their views in areas such as satisfaction with our services and the effectiveness and usefulness of our products.

We also participate in benchmarking surveys which allow us to compare our activities with other Australian audit offices on a variety of quantitative and qualitative measures. We use this information to inform decision-making and organisational planning.

What our audits cover

Our audits provide reasonable assurance on what we have audited. For example that the financial statements as a whole are free from material misstatement.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Australian auditing and assurance standards will always detect a material misstatement when it exists. This is because external audit techniques involve:

- use of reasonableness as a professional judgement
- materiality which enables a focus on more significant matters
- use of sample testing
- assessment of the effectiveness of internal control structures
- assessment of risk
- limited scope in relation to fraud.

The primary responsibility for the detection, investigation and prevention of irregularities, fraud, illegal acts and errors always rests with entities. The entity's management is responsible for:

- keeping proper accounts and maintaining adequate systems of internal control
- preparing and presenting the financial statements and performance indicators
- complying with the FM Act, the LG Act and other relevant legislation.

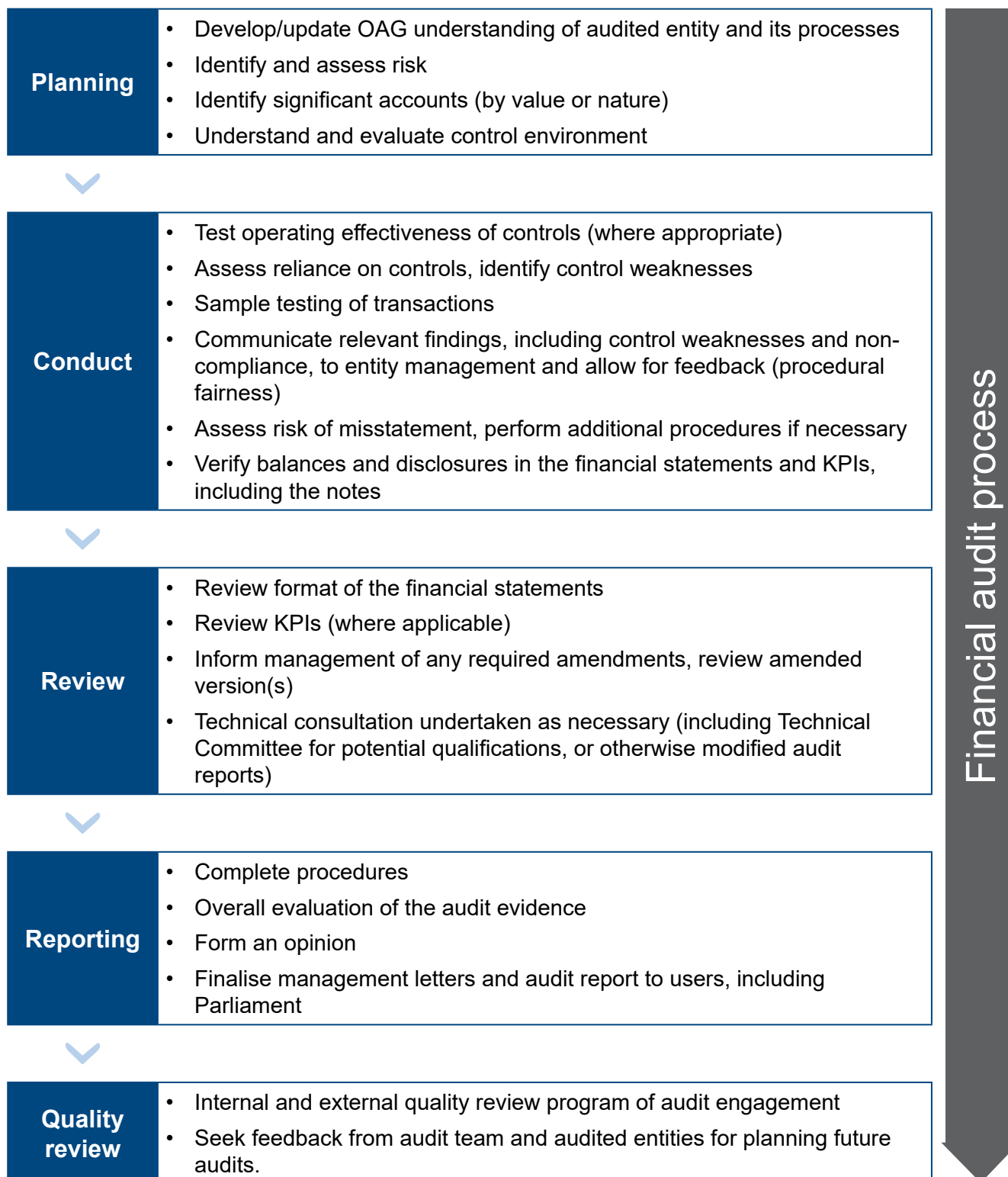
In some cases, providing reasonable assurance is not possible or not considered by the Auditor General to be necessary in the circumstances. In these cases, a lower (limited) level of assurance will be provided. If no assurance is provided, such as due to an inability to obtain sufficient and appropriate evidence, a disclaimer of opinion will be issued.

Our assurance process

From time-to-time, as part of our ongoing process improvements, we may add new elements into our approach. Where significant, and once embedded to the overall process, we will update this *Audit Practice Statement*.

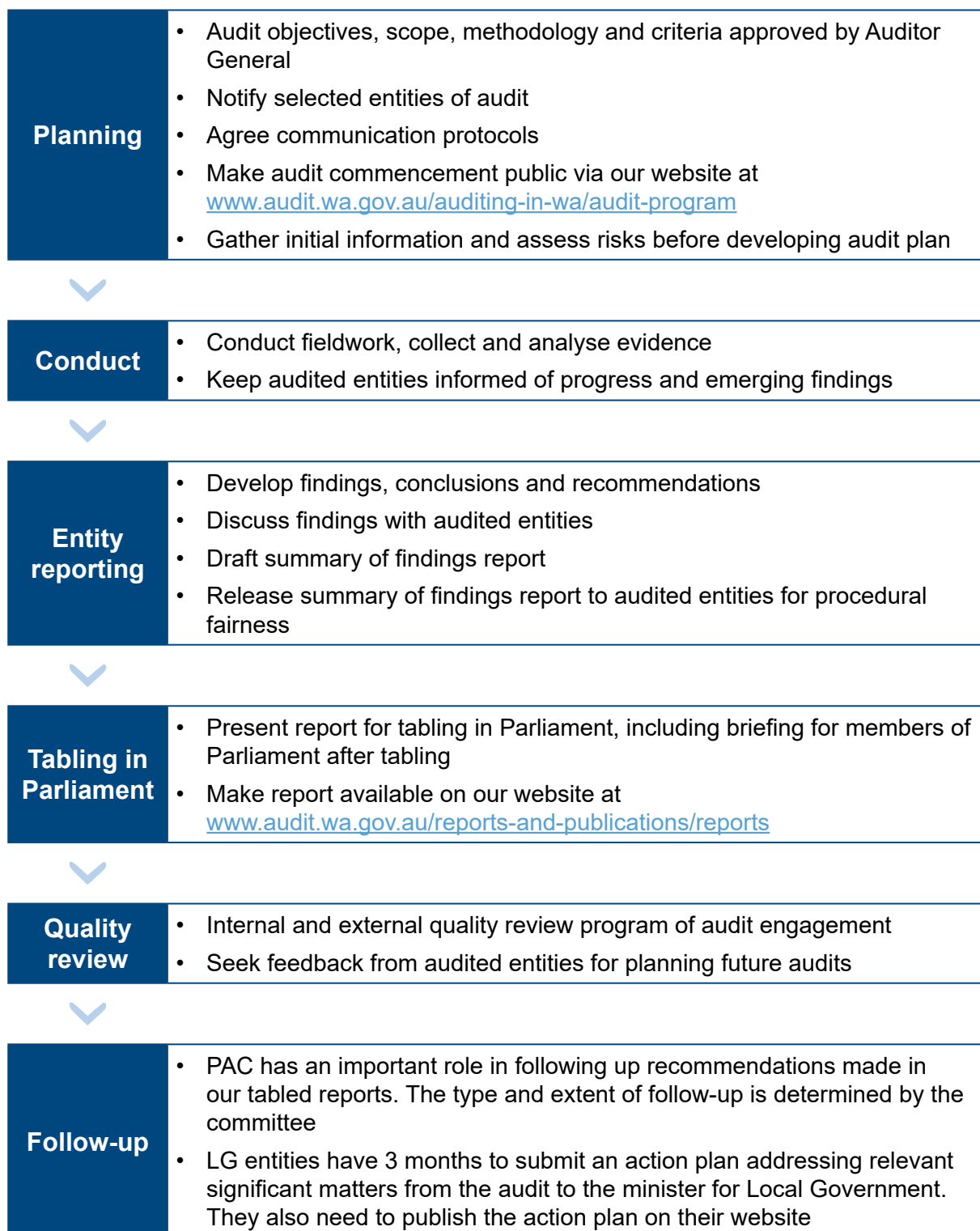
Financial audit approach

Our nationally recognised audit approach, which accords with Australian Auditing Standards and nationally recognised best practice, comprises 4 steps.



Performance audit approach

Our performance audits conducted in accordance with Australian Standards on Assurance Engagements and nationally recognised best practice, follow a phased approach.



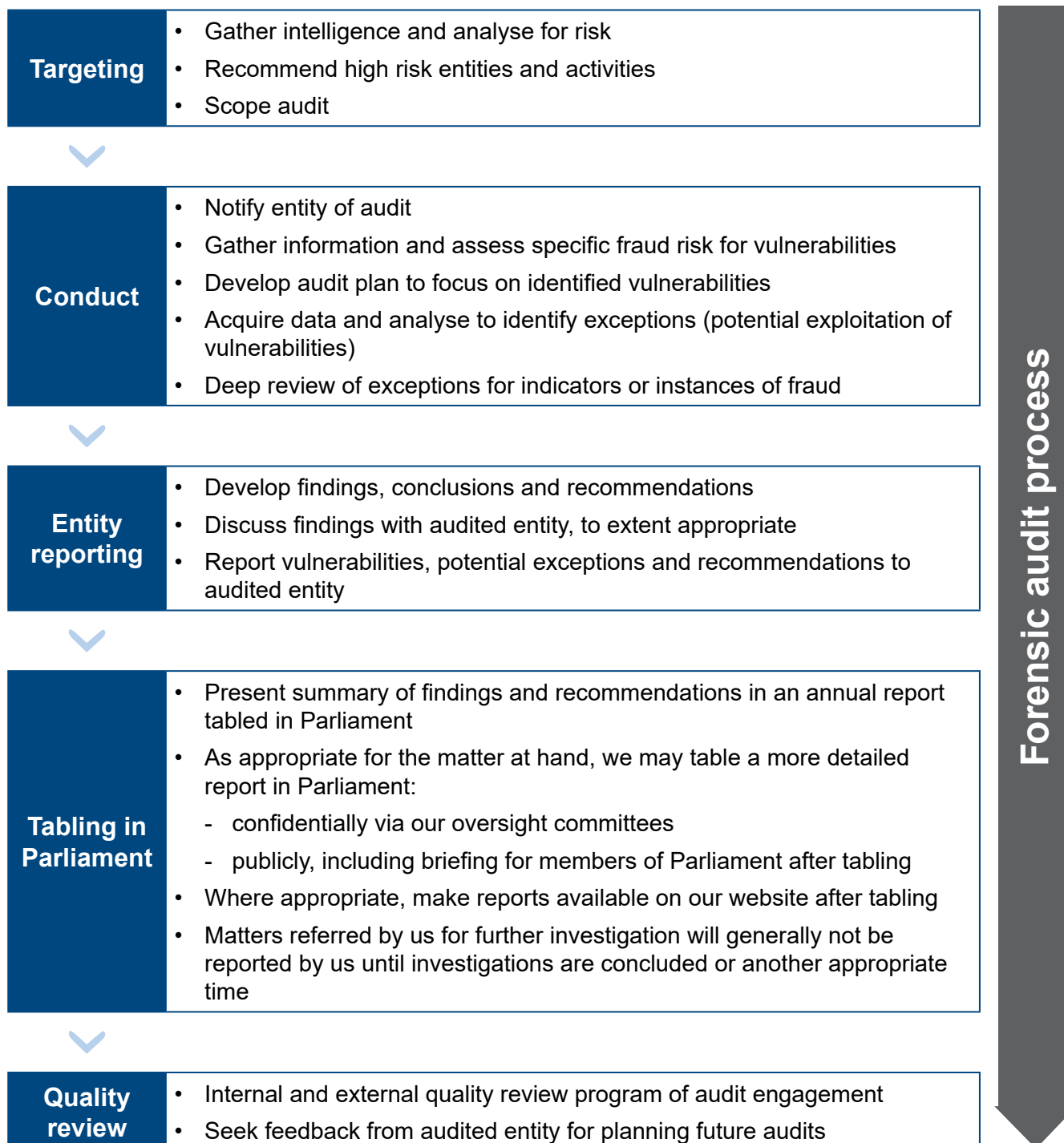
Performance audit process

Tabling protocol

The Auditor General is obliged to table and make public a report within 14 days of signing. If Parliament is not sitting on the day of tabling (for instance during parliamentary recess and caretaker periods), the report will be deemed tabled by the Clerk of each House, and announced in Parliament on the next sitting day. Once a report is tabled, we publish it on our website, notify members of Parliament and email subscribed members of the public. Where appropriate, we also offer briefings to members of Parliament, post on social media and engage with media requests.

Forensic audit approach

A unique function for an Australian audit office, our forensic audit unit continuously applies data analytics, strategic intelligence and audit methodology to recommend, conduct, evidence and inform audits. Selecting an entity for audit does not mean we suspect fraud or corruption is occurring. Forensic audits are confidential while in progress and we will not be publishing a forward audit program listing entities and audit topics.



If during any of this audit work instances of misconduct and/or fraud are identified, we will refer them to the entity, the Corruption and Crime Commission, WA Police Force or Public Sector Commission as appropriate.

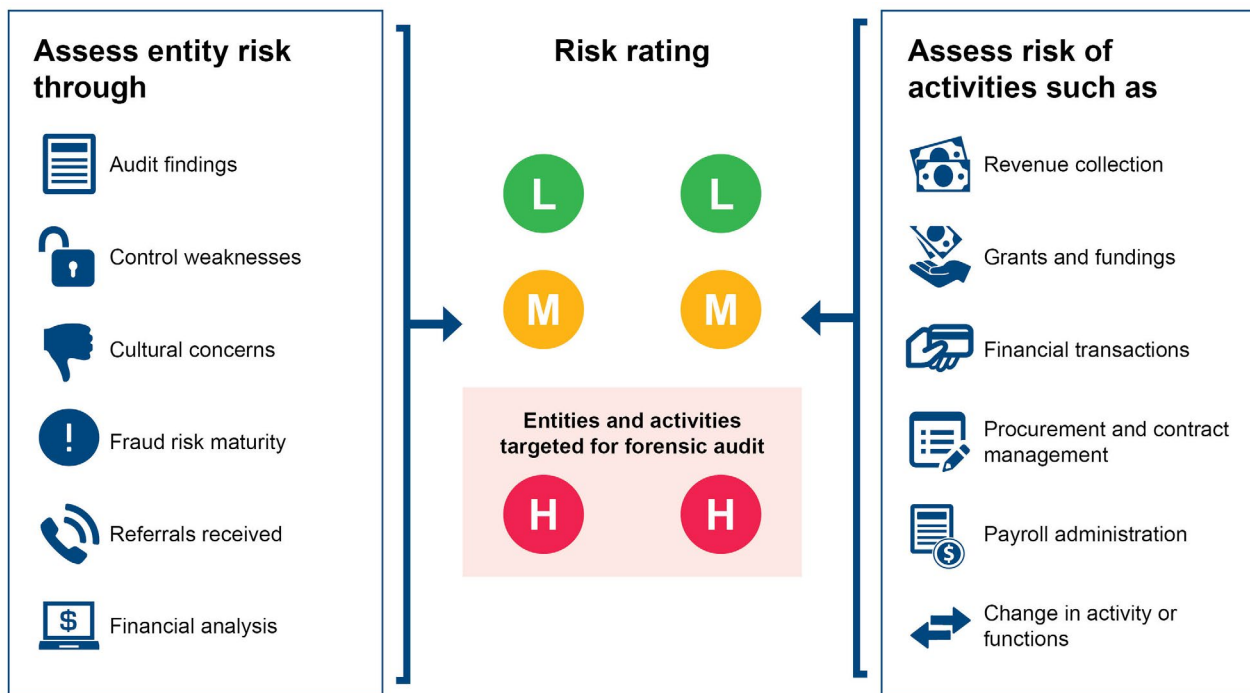
Our tabling protocol mirrors that of performance audit.

How we target forensic audits

Our approach to targeting forensic audits is driven by an assessment of risk at a sector, entity and activity level supported by intelligence gathered through various mechanisms and data analytics.

Selecting an entity for a forensic audit does not mean we suspect fraud or corruption is occurring within that entity. Our intent is, preferably, to identify vulnerabilities in higher risk entities or activities that can be eliminated before actual fraud has occurred. However, we recognise that our forensic audit work may detect wrongdoing that will need to be referred.

We assess entity risk by analysing indicators of internal deficiencies and fraud exposure, and activity risk by analysing an activity's susceptibility to fraud.



Source: OAG

Our risk driven approach then examines those entities and activities to further profile potential fraud risks specific to the entity (e.g. the procurement process: 1 entity appears high risk in vendor management fraud whereas another entity may appear highly exposed to potential bid-rigging).

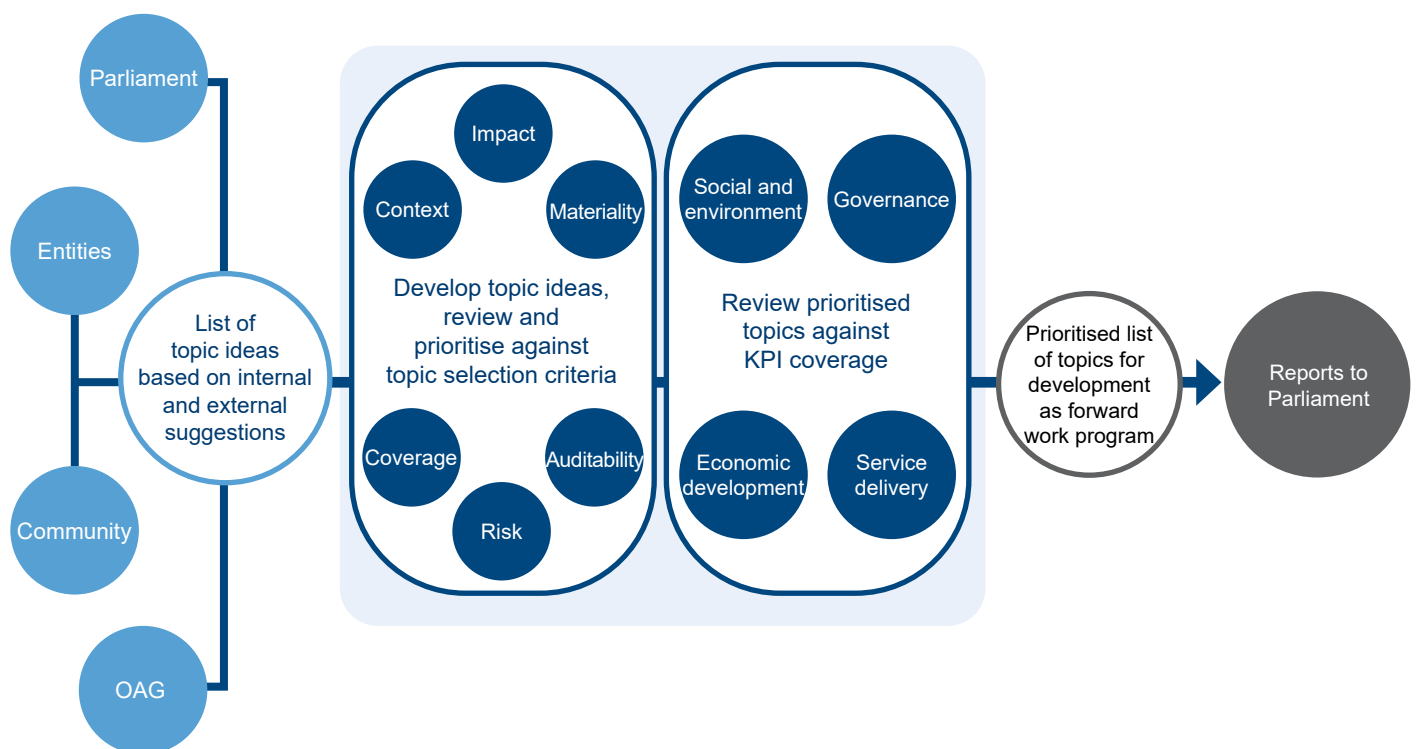
Topic selection

Our performance audit program is an important part of the Auditor General's ability to provide timely assurance on important matters of public administration. The Auditor General's ability to determine what, when and how to audit, without direction, is a key part of their independence. However, in determining audits we prioritise early engagement with entities, other oversight entities, members of Parliament, parliamentary committees and other key stakeholders.

Feedback on potential audit themes and topics is an important part of developing a forward program of audits that meets Parliament and the community's need for assurance and transparency on how efficiently and effectively taxpayers' money is used to deliver services and infrastructure. We publish our audit program on our website at www.audit.wa.gov.au/audit-program.

Each year we also receive many enquiries (referrals), expressions of concern and requests for audits from members of Parliament and the community. The information we receive often helps us to identify topics for future audits. Our topic selection process allows us to balance these demands and to choose audits based on full consideration of their relative merits.

We assess and review potential topics against our criteria, priority themes and KPIs. We have processes in place to make sure that the selection of topics is objective, robust, transparent and generally focuses on systemic issues where an audit may have greatest impact on the efficiency or effectiveness of public sector service delivery. Individual grievances and cases do not generally result in a performance audit but may inform areas of focus. Our selection process is below:



Source: OAG

Our topic pool contains many more options than we are resourced to deliver as audits. Consultation on the themes and draft program is useful in prioritising which audits will go ahead. We keep Parliament, the public sector and community informed through consultation with entities, members of Parliament and parliamentary committees, and through the audit program published on our website.

We collate all our potential topics for audit and select priority projects for our forward program. We aim to have a program that is balanced in its coverage, contains topics that matter to Parliament and the community, and that reflects how and where the State is spending taxpayers' money. We use the following criteria:



Materiality

Does the activity or program have potentially significant financial, economic, social or environmental management implications?



Impact

Is an audit likely to have a positive impact on the community? Could it lead to improvements across the public sector in efficiency, effectiveness or accountability? Would an audit address concerns of the Parliament?



Risk

Are there any indicators of known or suspected problems? Has the program changed significantly or undergone sudden expansion? Are issues emerging in related areas that could affect the area being considered for audit? Are there inherent risks that may not be well managed? Would any problems result in adverse consequences?



Context

Is there strong community and/or parliamentary interest in the topic? Does the program have high community sensitivity or state-wide importance? Is it the right time to review this area? Are issues already well known? Is there another review, inquiry or audit in progress covering similar issues? Would an audit of the area reinforce other important current messages or themes?



Coverage

Have we audited this area/entity recently? Does the topic help meet our objective of providing balanced coverage of government portfolios and performance over time? Does the topic impact Aboriginal communities and require Aboriginal community consultation?



Auditability

Is the area amenable to audit? Does the Auditor General have a role to highlight efficiency or effectiveness in this area? Will information and evidence be available? Can a past methodology be used or will the methodology be reusable? Can analytical tools be used? Can it be audited with resources that match the impact and materiality of the topic or will it take disproportionate resources for limited benefit?

Forming an opinion on ministerial notifications (section 82)

Introduction

Certain requirements under the FM Act and the AG Act come into force when a minister decides not to provide certain information to Parliament about the conduct or operation of an agency¹ within their portfolio (usually a decision taken in response to a parliamentary question).

Section 82 of the FM Act requires a minister who decides that it is reasonable and appropriate not to provide certain information to Parliament, to give written notice of the decision to both Houses of Parliament and the Auditor General within 14 days of the decision.

Section 24 of the AG Act requires the Auditor General to provide an opinion to Parliament as to whether the minister's decision was reasonable and appropriate.

Principles behind section 82

The Auditor General recommends agencies consider transparency and accountability in the public interest when advising a minister considering whether to provide information to Parliament.

Sections 81 and 82 of the FM Act were introduced to support the disclosure of information to Parliament. Consequently, the default position of a minister and their entities and advisers should be one of disclosure, when it not contrary to the public interest. This is also consistent with the aim of the *Freedom of Information Act 1992*.

Agencies who deal with sensitive information should consider if the requested information is already publicly available. They should also consider if it could be contrary to the public interest to disclose it, whether it could be provided to those with a need and a right to know as appropriate, either in redacted form, through limited dissemination or in a private session.

How soon must the minister send a notice?

Section 82 requires a minister to issue the Auditor General with a notice within 14 days of making a decision not to provide the information to Parliament.

The Auditor General may also take action if they become aware that a minister has decided not to provide information to Parliament and has not issued a notice within the 14 day statutory requirement. Such action could include contacting the minister to advise them of the legislative requirement.

When are section 82 notices not required?

A notice under section 82 of the FM Act is unlikely to be required in the following circumstances:

- the minister has advised that information will be provided at a later date and there is reasonable justification for the delay
- an answer has been provided in a previous question
- the information is already publicly available and the minister has referred the questioner to the public information
- the requested information does not concern the conduct or operation of an agency as required by the FM Act
- the information is already being sought under the FOI Act and a decision has not yet been made
- the minister refers the request for information to another minister, with responsibility for the agency in question
- the information does not exist.

If a notice falls into a category above, the Auditor General may form the view that the notice was unnecessary and an opinion pursuant to section 24(2)(c) of the AG Act is not required. In this event, the Auditor General will advise the Parliament of this assessment.

¹ The *Financial Management Act 2006* defines an agency as a department, a sub-department or a statutory authority.

Methodology

All notices received under section 82 of the FM Act lead to an assessment by the OAG.

Our practice is to:

1. Determine if the notice was required by section 82 of the FM Act. If the notice was not required (not valid), then the Auditor General will inform the minister and Parliament.

2. If the notice was required, we will review the information in the notice, including the minister's explanation for the decision.

If the minister's reason for not providing the information was that it is:

- commercial-in-confidence
- Cabinet-in-confidence
- subject to legal professional privilege
- other valid reason

then we will obtain and assess relevant information from entities and the minister's office to see if it meets our criteria and considerations for these areas, maintaining the confidentiality of the information during the process.

3. Based on this detailed review, an opinion will be provided that the minister's decision was either:
 - reasonable and therefore appropriate
 - not reasonable and therefore not appropriate.

Reporting

We include the Auditor General's opinion and the reasons for reaching the opinion in a report tabled in Parliament. The report is tabled as soon as feasible after the opinion is determined. We advise the member of Parliament, who asked the minister for the information, of the report's tabling date.

Our procedural fairness process includes providing the draft report which incorporates the audit team's recommended opinion to the minister and the relevant agency for comment before the Auditor General considers feedback and finalises the opinion for tabling in Parliament.

Even if we find the minister's decision not reasonable and therefore not appropriate, we generally do not disclose the requested information in our report.

Common reasons for not providing information to Parliament

Our approach supports a culture of openness and accountability for the expenditure of public money, efficient and effective management of government agencies, and the most appropriate and beneficial use of public resources.

Commercially confidential

The FM Act does not provide an interpretation of 'commercially confidential'. In its absence, we draw on a 2002 legal briefing published by the Australian Government Solicitor on identifying and protecting confidential information. It can be viewed at: www.ags.gov.au/publications/legal-briefing/br64.htm.

Our assessment draws the distinction between information that is commercially confidential to a third party and information generated by and confidential to Government.

If the information is commercially confidential to a third party, the following criteria apply:

- a) the confidential information is specifically identified
- b) the information was provided under an understanding that it would remain confidential
- c) the information must be sufficiently secret. This means that the information should not generally be known or ascertainable
- d) disclosure would cause unreasonable detriment to the owner of the information or another party.

Criterion a) is critical when assessing information provided to Government by a third party. If it is not met, the other criteria are not assessed.

If the information is commercially confidential to government, the following criteria apply:

- a) the information must be sufficiently secret. This means that the information should not generally be known or ascertainable
- b) disclosure would cause unreasonable detriment to the owner of the information or another party.

In considering public interest, we also are mindful of the requirements of section 81 of the FM Act, which limits the capacity of a minister to cite commercial confidentiality, as grounds to not provide information to Parliament. Section 81 states:

The Minister and the accountable authority of an agency are to ensure that –

- (a) no action is taken or omitted to be taken; and*
- (b) no contractual or other arrangement is entered into, by or on behalf of the Minister or agency that would prevent or inhibit the provision by the Minister to Parliament of information concerning any conduct or operation of the agency.*

Government contracts typically reflect this requirement in a standard clause that allows the disclosure of confidential information if it is 'required by any law, judicial or parliamentary body or governmental agency'.

Cabinet confidentiality

Cabinet confidentiality is a particularly complex area of assessment. There is no science or statute to determine when it applies.

To help guide our assessments, our office has reviewed a range of state and national resources, including cabinet handbooks and freedom of information acts.

We base our examinations on the consensus view that the core principle of cabinet confidentiality is to **protect information that would reveal deliberations and decisions of Cabinet**.

We assess the following:

- Was the information created for the purpose of informing Cabinet or being discussed in Cabinet? Does it include policy options or recommendations prepared for submission to Cabinet?
- Does the information contain material that would reveal the deliberations and decisions of Cabinet?
- Is part or all of the information publicly available, or readily available within the agency?

- Did the Minister consider providing any sections of the information that would not reveal deliberations and decisions of Cabinet?

When information requested in Parliament relates to cabinet records of a previous Government, a minister can seek access, and we consider that they should, in accordance with established conventions, to provide the information to Parliament.

Legal professional privilege

For legal professional privilege to apply, communications between the client and lawyer '...must be for the dominant purpose of legal advice or in relation to actual or anticipated litigation ...'.² If the dominant purpose test is met, then legal professional privilege is frequently asserted as extending to draft and final versions of notes, memoranda or other documents. Only information related to the dominant purpose of the legal advice may require protection. Similar to the Cabinet confidentiality approach, any other information could be appropriately released.

Access to information

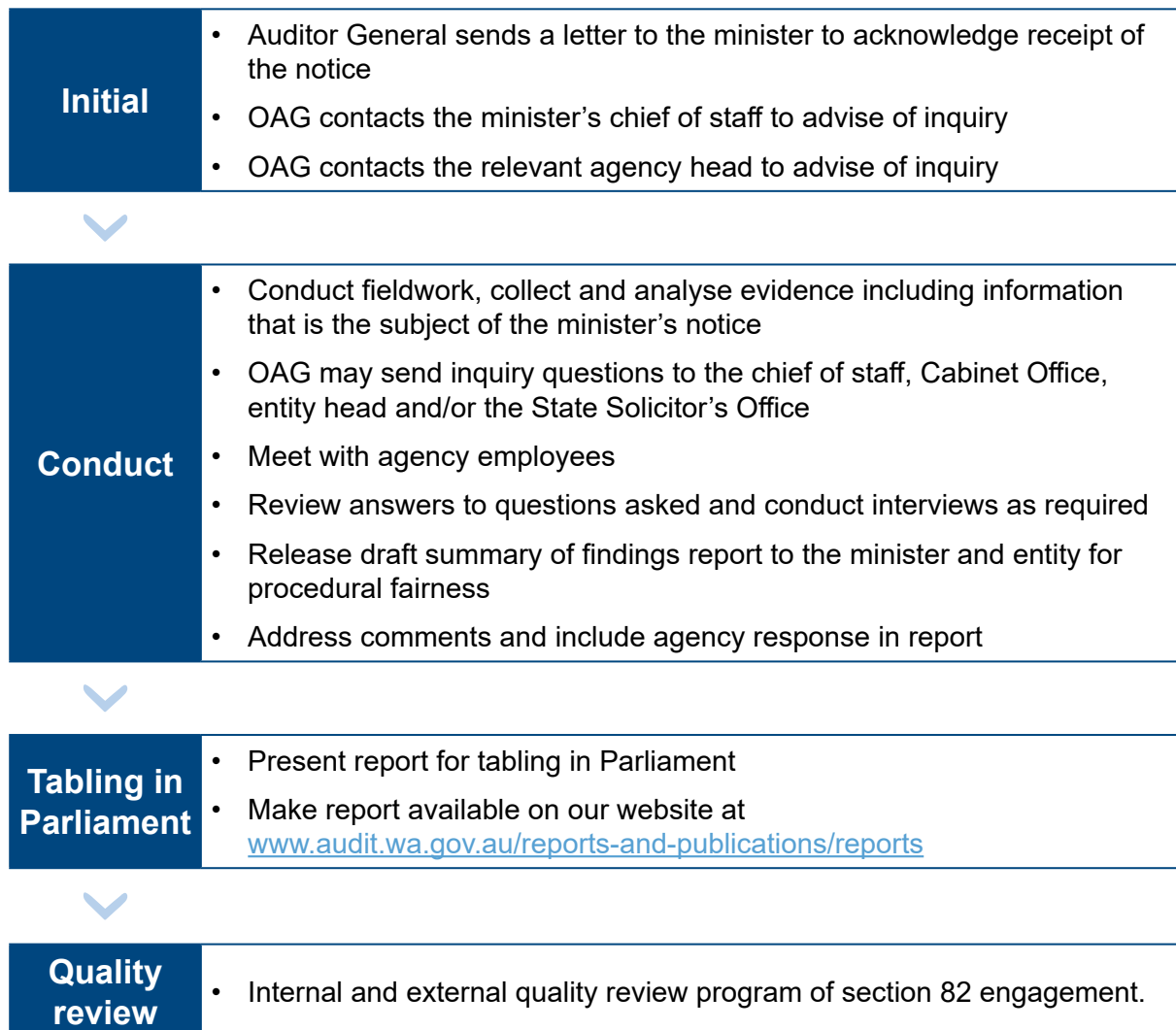
The Auditor General is an integral part of the Westminster system of responsible government, ultimately providing independent assurance to the Parliament of WA on public spending and aspects of government decision-making. In WA, this includes the requirement under section 82 of the FM Act for the Auditor General to form an opinion on whether a minister's decision not to provide information requested in Parliament is reasonable and appropriate.

This work may require access to confidential information, including documents subject to claims of legal professional privilege or public interest immunity. Providing access to the Auditor General for these legislated functions, and who maintains confidentiality, does not break the chain of privilege attached to such documents.

² Victorian Government Solicitor's Office, Understanding Legal Professional Privilege, 2007.

Our approach to forming an opinion on ministerial notifications (section 82)

After a minister notifies the Auditor General and both Houses of Parliament of their decision not to provide information to Parliament, we follow the below approach. While this is not an audit, our procedures follow Australian auditing standards.



Section 82 process

References for further information

Report on the Royal Commission into the Commercial Activities of Government and Other Matters Part II, 1992.

Standing Committee on Estimates and Financial Operations, Report 62: Provision of Information to the Parliament, May 2016, chaired by the Hon Ken Travers.

Legal opinion by Mr Bret Walker SC on the Construction and interpretation of the *Financial Management Act 2006* section 82 and the Auditor General Act 2006 section 24(2)(c), January 2015.

State Solicitor's response to the Mr Bret Walker SC legal opinion on the construction and interpretation of the *Financial Management Act 2006* section 82 and the *Auditor General Act 2006* section 24(2)(c) November 2015.

Legislative Assembly, Freedom of Information Bill: Second Reading, 10 November 1992, p. 6468.

Joint Standing Committee on Audit, Report 7: Review of the Operation and Effectiveness of the Auditor General Act 2006, August 2016.

OAG, Opinion on Ministerial Notification, Report 18, 11 August 2016, Appendix 1: Cabinet confidentiality.

OAG, Opinion on Ministerial Notification, Report 21, 6 October 2016.

OAG, Opinion on Ministerial Notification, Report 6, 31 October 2018, Appendix 1: Auditor General's view on legal professional privilege and access to information.

OAG, Disclaimer of Opinion on Ministerial Notification – Bushfire Centre of Excellence, Report 32, 23 June 2021.

Oversight of the Auditor General

We are subject to various oversight and review processes, which we value as they hold us accountable to those we serve and provide us and our stakeholders with assurance that our processes are effective, efficient and evolving as necessary. This includes an annual audit of our financial statements, controls and KPIs by an independent auditor.

The AG Act requires Parliament's Joint Standing Committee on Audit (JAC) to carry out a review of the operation and effectiveness of the Act and the performance of the Auditor General every 5 years. The Committee appoints independent reviewers to carry out this work under their direction.

A review framework developed by ACAG helps us obtain assurance we are meeting relevant legal and professional standards. The framework comprises 4 sections: office governance, audit practice management, financial audit assessment and performance audit assessment, and reflects the ethical and quality monitoring requirements that apply to professional auditing and accounting practice.

The framework enables self-assessment but is most effective when undertaken by expert reviewers, including senior employees from other audit offices or professional firms. We arrange for other Australian audit offices to peer review a sample of our audits.

See our [annual report](#) for our latest reviews.



Source: OAG

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