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13 / 11 / 18



## Internal Memo

**TO:** Auditor General and Executive Management  
**FROM:** A/Deputy Auditor General  
**DATE:** 6 February 2018  
**FILE REF:** 4917-02  
**SUBJECT:** FORWARD AUDIT PROGRAM AND KPI TARGETS FOR 2018-19 TO 2020-21

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### Recommendations

1. Approve the KPI number and report category targets for 2018-19 to 2020-21 as shown in the table below.
2. Approve a minor change to clarify that the 'Governance' report category focuses generally on agency own operations.
3. Confirm that the definition of what constitutes a report for the purposes of the KPIs should remain unchanged.

### Introduction

The 2017-18 financial year sees the end of our current 3-year KPI target for tabled reports. The purpose of this memo is to propose targets for the next 3-year period starting on 1 July 2018. It is also timely to reflect on whether the report category descriptions and report definitions remain appropriate.

Our effectiveness KPI involves us demonstrating that we keep Parliament informed on accountability and performance in the public sector. It entails an annual and a three-year target of tabled reports across four categories.

The target also accounts for:

- Our desire to maintain our performance audit effort at about the current levels, but take into account the local government mandate. Note - the Auditor General's long-term objective of pushing performance audit effort above 30% of total audit effort is not recognised in these targets as this is dependent on government funding.
- The desired performance audit mix of large scope, narrow scope and AGBA and focus area type audits. Note – the EMG endorsed the mix as part of the Business Unit goal setting at the November 2016 strategic planning session.

## Current KPI targets

We currently have a 3-year target per category for the period until 30 June 2018 and the expected outcome as follows:

Category	3 year target to 2017-18	Expected outcome	Difference
Service Delivery	15	18	3
Economic Development	9	6	-3
Social and Environment	9	8	-1
Governance	42	56	14
<b>TOTAL REPORTS</b>	<b>75</b>	<b>88</b>	<b>13</b>

The 75 reports per 3-year cycle were allocated for performance measurement purposes to the following business units:

27 – Performance audit

33 – ISPA

15 – Financial Audit

## Impact of Local Government on targets

In the approved budget papers, received back from Treasury last year, the indicative increase in audit effort was an increase in reports by 3 in 2017-18 to 6 in 2020-21. Other than 2017-18, this is an increase of 1 report per year for the next 3 years.

2017-18	2018-19	2019-20	2020-21
3	4	5	6

For the purposes of planning our work program, I am of the view that we can use this as a reasonable basis.

## Proposed new KPI targets

I am therefore proposing that the targets for the 3-year period and for the year commencing 1 July 2018 be confirmed as below.

Category	3 year target to 2020-21	2018-19 annual target
Service Delivery	21	7
Economic Development	12	2
Social and Environment	12	5
Governance	45	15
<b>TOTAL REPORTS</b>	<b>90</b>	<b>29</b>

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The 3-year target for the 'Governance' category is based on the following assumptions:

- All 18 FA reports
- 3 IS reports per year, i.e. 9 in total
- 2 local government and 2 state agency (or a mix) reports on areas such as management of contracts, IT, records, fraud risk, performance measures each year (12 in total)
- Around 2 s82 reports each year (6 in total) – although we can't set specific targets, it does seem, based on recent history, that this is realistic

The other targets are skewed toward service delivery, as this would be the main purpose of many government agencies and local governments.

The annual target is based on the attached forward work program discussed with the Auditor General and the AAGs for PA, ISPA and FA on 23 January 2018. This forward program is indicative only, and subject to change as priorities, resources and agency focuses change.

It is proposed to allocate the 90 reports over the 3-year cycle as follows between the business units:

Business unit	Total	2018-19	2019-20	2020-21
Performance audit	31	10	10	11
ISPA	41	13	14	14
Financial Audit	18	6	6	6
<b>Total</b>	<b>90</b>	<b>29</b>	<b>30</b>	<b>31</b>

### KPI Report categories

The report categories used in the targets above, and for public reporting purposes were established in 2009 (Refer D09/72982) and retained for the current reporting period (refer D12/05953).

In reviewing the categories for the purposes of setting of targets, it would appear that the current 'Governance' category has been used where we have provided assurance over the regulation of industries, which could equally be considered government operations that support economic development, the provision of services to the public, or industry. It is therefore proposed that the category definition be amended to clarify that the main purpose would be to focus on an agency's own operations. For elimination of doubt and to ensure that we have adequately catered for all report categories, it is proposed that we specifically allocate s82 reports to the 'Governance' category.

The attached Appendix 1 shows a marked up version of the proposed changes.

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### Definition of 'Report' for KPI purposes

The definition of a report for KPI purposes was approved in 2012 (refer D14/25980). In my view the criteria adopted then remain appropriate because they still reflect significance and substance, which were the aims of originally defining what would constitute a report. Accordingly, I propose that we reconfirm that the following criteria be used for defining a report:

Stems from work involving at least 75 hours or a cost exceeding \$15000	The report must be either: <ul style="list-style-type: none"><li>- A stand-alone report or</li><li>- A part of a combined/omnibus report or an Audit Results Report that is a distinct and separate item from the other items.</li></ul>	At least 3 pages	Contains a matter of significance
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Note that there is a view that the 3 page criterion is the most arbitrary as it does not reflect the work effort required. For now I have proposed retaining it, but also open to the view that this should be dropped altogether, provided that the 'at least 75 hours' criterion is subject to upfront AG or Deputy approval.

## Appendix 1

### OAG EFFECTIVENESS INDICATOR

#### Description of examination categories

OAG tabled reports are categorised according to the following descriptions:

##### Service delivery

Examinations under this category will primarily focus on the direct provision of government services to the public. Examples include:

- Health services
- Educational and training services
- Housing services
- Police, fire and other emergency services
- Community services such as child welfare and disability
- Court and legal services

##### Economic development

Examinations under this category will primarily focus on government operations that support the economic advancement of the State and its interaction with the private sector. Examples include:

- Economic forecasting
- Budgetary management
- Management of intellectual property
- Management of the State's mineral and agriculture resources
- Partnership and contractual arrangements with the private sector
- Planning, infrastructure and transport

##### Social and environment

Examinations under this category will primarily focus on government operations that support the social and environmental wellbeing of the people of Western Australia.

Examples include:

- Culture and arts
- Sport and recreation
- Protection and management of water resources
- Protection and management of native flora and fauna including fisheries resources
- Harvesting of natural resources (other than minerals)
- Natural resource management funding
- Multicultural support
- Heritage

##### Governance

Examinations under this category will generally focus on an agency's own operations, i.e. primarily focus on accountability and compliance with legislation, government and internal agency policies and accepted good practice. Examples include:

- Summary results of audit opinion work
- Procurement practices by government agencies
- Contract employment practices by government agencies
- FBT and GST payments by government agencies
- Public Interest Disclosure investigations
- Management of grant funding by government agencies

## Appendix 1

Where they meet the requirements to be categorised as a report, section 82 inquiries will also fall within this category.

*2/10/12*  
**INTERNAL MEMO**

<b>TO:</b>	Auditor General	
<b>CC:</b>	Corporate Executive	<b>Approved/Not Approved</b>
<b>FROM:</b>	Deputy	<i>[Signature]</i>
<b>DATE:</b>	9 July 2012	<b>Auditor General</b>
<b>FILE REF:</b>	4917	<i>10/7/12</i>
<b>SUBJECT:</b>	DEFINING A 'REPORT' FOR THE OAG'S EFFECTIVENESS KPI	

**Introduction**

Our effectiveness KPI which measures the 'extent that we inform Parliament' is based on a count of the number of reports we table against the four categories of subject matter. Until recently we have taken for granted what constitutes a 'report'. However, I now consider that the definition of a report needs to be defined to give clarity and certainty about our target and performance.

**Recommendation**

The following criteria be used for defining a report:

Stems from work involving at least 75 hours or a cost exceeding \$15000	The report must be either: <ul style="list-style-type: none"> <li>- A stand-alone report or</li> <li>- A part of a PSP Report or an ASD Audit Results Report that is a distinct and separate item from the other items.</li> </ul>	At least 3 pages	Contains a matter of significance
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**Discussion**

The following extract from the Act is important for setting the boundaries of what could be a report:

S24 of the Act refers to the AG reporting on "*matters arising out of the performance of the AGs functions that in the opinion of the AG are of such significance as to require reporting*".

These words are important because they imply that a report does not have to be a matter that arises directly from a specific audit. A report could for instance be an opinion piece by the AG that arises from general observations about public sector performance or public sector issues if they relate to the AG's mandate.

Some consideration was given during this exercise to defining a report as a matter that followed our methodological approach. I.e., planning, execution and reporting. However, in some circumstances this sort of defined approach may not be explicitly followed on some audits or used at all in the development of an 'opinion' piece.

## INTERNAL MEMO

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Some consideration was given to whether a report and by extension our targets should be defined according to our product type. I.e a performance audit, or a limited assurance audit or a s82 opinion or ASD audit results. However, using these descriptions to define reports and then set targets risks causing uncertainty about the comparative value and merit of our different types of product. For instance, have we better informed Parliament if we table

- 6 large performance reports, 14 limited scope reports, 2 Audit results reports and an opinion piece by the AG (total of 23 reports)

Compared to a target of

- 8 large performance audits, 10 limited scope performance audits and 2 Audit results (total of 20 reports)

Consideration was given to the need for a Report to be of some genuine substance so that we cannot easily manipulate the KPI. Hence, the recommendation to use criteria that demonstrate substance in form of cost or hours and a minimum number of printed pages. It also goes without saying that the report should contain a matter of significance.

Use of these criteria would have the following effect:

- The recent s82 notice from Minister Hames and the subsequent investigation would not qualify as a report because it failed the hours and cost test
- IS Audit's report on its six application reviews would meet all criteria and would be counted as a report