



**THIRTY-EIGHTH PARLIAMENT**

**REPORT 25**

**STANDING COMMITTEE ON ESTIMATES AND  
FINANCIAL OPERATIONS**

**BUDGET OF THE OFFICE OF THE AUDITOR  
GENERAL**

Presented by Hon Giz Watson MLC (Chair)

April 2010

## **STANDING COMMITTEE ON ESTIMATES AND FINANCIAL OPERATIONS**

### **Date first appointed:**

30 June 2005

### **Terms of Reference:**

The following is an extract from Schedule 1 of the Legislative Council Standing Orders:

#### **“2. Standing Committee on Estimates and Financial Operations**

2.1 *An Estimates and Financial Operations Committee* is established.

2.2 The Committee consists of 5 Members, 3 of whom shall be non-government Members.

2.3 The functions of the Committee are to consider and report on -

- (a) the estimates of expenditure laid before the Council each year;
- (b) any matter relating to the financial administration of the State;
- (c) any bill or other matter relating to the foregoing functions referred by the House;
- (d) to consult regularly with the Auditor General and any person holding an office of a like character.”

### **Members as at the time of this inquiry:**

Hon Giz Watson MLC (Chair)

Hon Ljiljanna Ravlich MLC

Hon Philip Gardiner MLC (Deputy Chair)

Hon Ken Travers MLC

Hon Liz Behjat MLC

### **Staff as at the time of this inquiry:**

Lisa Peterson, Advisory Officer (General)

Renae Jewell, Committee Clerk

### **Address:**

Parliament House, Perth WA 6000, Telephone (08) 9222 7222

lcco@parliament.wa.gov.au

Website: <http://www.parliament.wa.gov.au>

**ISBN 978-1-921634-30-7**

## **Government Response**

This Report is subject to Standing Order 337:

*After tabling, the Clerk shall send a copy of a report recommending action by, or seeking a response from, the Government to the responsible Minister. The Leader of the Government or the Minister (if a Member of the Council) shall report the Government's response within 4 months.*

The four-month period commences on the date of tabling.



# CONTENTS

REPORT.....	1
-------------	---



## REPORT OF THE STANDING COMMITTEE ON ESTIMATES AND FINANCIAL OPERATIONS

### IN RELATION TO THE

### BUDGET OF THE OFFICE OF THE AUDITOR GENERAL

---

- 1.1 The *Auditor General Act 2006* provides that a Joint Standing Committee on Audit (**Joint Committee**) be established comprising of an equal number of members appointed by each House.<sup>1</sup>
- 1.2 The Estimates and Financial Operations Committee (**Committee**) notes that the Joint Committee has yet to be established, however, it is proposed that Members from the Committee be appointed to the Joint Committee.<sup>2</sup>
- 1.3 One of the functions of the proposed Joint Committee is to make recommendations to the Treasurer in relation to the budget of the Office of the Auditor General (**OAG**) for a financial year.<sup>3</sup>
- 1.4 In the absence of the Joint Committee and in order to fulfil that function, the Committee resolved to provide the Auditor General with an opportunity to make a submission on the budget of the OAG for the 2010-11 financial year, with a view to the Committee making a recommendation to the Legislative Council and/or the Treasurer on the budget of the OAG.
- 1.5 Mr Colin Murphy, Auditor General, appeared before the Committee at a private hearing on 8 March 2010.
- 1.6 The Auditor General advised that the Government has approved for his Office to move to a net appropriation funding model for the annual financial audit function. This means that the OAG will no longer receive an appropriation for the assurance audits it undertakes. This currently represents 75 per cent of the OAG's audit activities and covers the audits of financial statements, controls and performance indicators of some 200 agencies.<sup>4</sup>
- 1.7 The Auditor General advised the Committee that the change will allow the OAG to recoup from agencies the cost of additional audit effort and unforeseen expenditure

---

<sup>1</sup> Section 43, *Auditor General Act 2006*.

<sup>2</sup> Hon Norman Moore MLC, Leader of the House, Western Australia, Legislative Council, *Parliamentary Debates (Hansard)*, 24 September 2009, p7617c.

<sup>3</sup> Section 44, *Auditor General Act 2006*.

<sup>4</sup> Mr Colin Murphy, Auditor General, Office of the Auditor General, *Transcript of Evidence*, 8 March 2010, p2.

---

arising from changes to accounting and auditing standards and inadequate agency practices.

*Being 75 per cent of our budget, that has caused us some difficulties in the past; from time to time there are changes in the structure of government, the number of government agencies or indeed the work that is involved in government agencies; for example, when Western Power was disaggregated, there was a significant amount of additional work. In the past we have had to go to government and seek additional funding for any of those changes, or indeed, any additional work that we have needed to do as a result of the agencies' preparation of financial statements. That difficulty no longer exists because with a net appropriation arrangement I have the ability to charge those clients directly for those costs; they are required under legislation to pay that amount.<sup>5</sup>*

- 1.8 The Committee supports the change to a net appropriation model of funding for the OAG.
- 1.9 It was noted that the net appropriation model does not extend to funding requirements associated with the performance audits undertaken by the OAG.
- 1.10 The Auditor General advised the Committee that he had provided a 2010-11 budget submission for the OAG to the Treasurer on 23 December 2009. The submission requested funding to support an increase to the performance auditing function which has been identified by the OAG as the major strategic budget issue facing the Office.
- 1.11 Performance audits are comprehensive examinations of government activities to ensure they are both efficient and effective. Performance examination reports are an essential tool for Parliament to be better informed in assessing government performance.
- 1.12 In written advice provided to the Committee the Auditor General advised that performance audits are an important function of the OAG. In recent years, however, various changes in the audit environment have limited the capacity of the OAG to shift resources into performance audits. These include legislative changes (such as opinion timelines and ministerial notifications under section 82 of the *Financial Management Act 2006*) as well as obligations imposed by the Accounting and Auditing Standards Board. The Auditor General stated:

*In the past before the net appropriation arrangement, the office had a strategic intent and direction of trying to direct more of its resources into that performance audit area. It has been a particularly difficult*

---

<sup>5</sup> *Ibid.*, pp1-2.



*time to try to achieve that because demands, in particularly the financial audit area, have increased. Audit standards have lifted, the introduction of international financial reporting standards and, indeed, although it was some time ago, earlier reporting with the 90-day time frame kept driving the need for more resources in the area of financial audits and therefore we have no opportunity to achieve the outcome desired, which is trying to lift the level of performance audits.*<sup>6</sup>

- 1.13 The Committee notes that the resources allocated to performance audits have not increased in recent years and represent less than 25 per cent of the audit effort. The Auditor General advised that this number has remained fairly consistent over the past five years.

*Over the past five years that number has remained fairly consistent and that is for the reasons I outlined. Despite the fact that we have made efforts to try to increase resources to that area, there has been a lot of change in accounting standards, auditing standards and time pressures on reporting. It has remained fairly consistent over the past five years.*<sup>7</sup>

- 1.14 Further, as a result, the position of the OAG as “Leaders in Performance Audits” has shifted to lagging behind other jurisdictions.

*I am well aware that in the past the office had as its mission statement, “leading in performance auditing”. I feel that over recent years other jurisdictions are putting significantly more effort into the performance audit function than Western Australia does.*<sup>8</sup>

- 1.15 The Auditor General has an important role in assisting Parliament to oversee the performance of executive government, through the provision of independent and accurate information on the performance and financial management of public sector agencies and bodies. The Committee is of the view that this role should not be hindered in any way.

- 1.16 The Auditor General advised that he would like to lift the performance audit component of the OAG to 30 per cent of the audit effort. This would require an increase in the OAG appropriation from \$5 million to \$6 million.

- 1.17 Recognising the difficulties arising from the current economic climate, the Auditor General advised that he would be happy for a phased-in approach to achieve this over

---

<sup>6</sup> *Ibid.*, p2.

<sup>7</sup> *Ibid.*, p3.

<sup>8</sup> *Ibid.*, p2.

four years. On this basis, the Committee supports an increase in the budget of the OAG of at least \$250,000 in 2010-11.

- 1.18 The Auditor General advised the Committee that his Office only has the resources to conduct a small number of performance examinations each year. The OAG currently has eight performance examinations underway<sup>9</sup> and 29 projects under consideration for future inquiry, 13 of which are categorised as medium to large projects. The Committee notes that without additional funding the OAG will not be able to achieve examinations into all of the proposed projects. As stated by the Auditor General:

*The proposed work program is a good example of the type of work that I cannot do. I will not be able to achieve all of that. ... They are matters that have been drawn to our attention by other parties or that have come up through our own analysis from a number of different areas.*<sup>10</sup>

- 1.19 The Committee notes the need for an increase in the performance audit capacity of the OAG to ensure that it maintains a reasonable level of scrutiny into the efficient and effective expenditure of public monies. The Committee therefore recommends that it is in the public interest that the budget of the OAG for performance audits be increased.
- 1.20 The Committee looks forward to the establishment of the Joint Committee, which will continue to scrutinise the budget of the OAG and to make recommendations to the House regarding the budgetary requirements of the OAG.

**Recommendation 1: The Committee recommends that the Office of the Auditor General receive an increase in its appropriation of at least \$250,000 in the 2010-11 budget.**



---

**Hon Giz Watson MLC**  
**Chair**

**Date: 1 April 2010**

---

<sup>9</sup> <http://www.audit.wa.gov.au/workinprogress.php>, (viewed on 25 March 2010).

<sup>10</sup> *Supra*, p12.