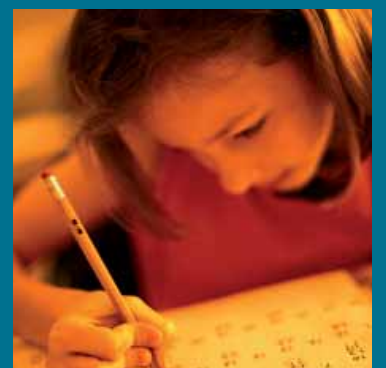


Office of the
AUDITOR GENERAL
for Western Australia



In achieving our Purpose of
Serving the Public Interest
we act as the eyes and ears of Parliament
by delivering insight into the use of
taxpayers' money and resources.

ANNUAL REPORT
2004-2005



Serving the Public Interest

Independent and forthright reports tabled in Parliament by the Auditor General assist Parliamentarians and the public to have a better understanding of the performance of public sector agencies. Together with advice provided to agencies, they assist agency management to improve the cost effectiveness and responsiveness of their services.

The information provided by the Auditor General also reassures the public that an independent accountability official is serving their interests. Collectively, these commitments contribute to improving community confidence in the public sector.

In serving the public interest, the Office of the Auditor General acts as the eyes and ears of Parliament by delivering insight into the use of taxpayers' money and resources. It seeks to be recognised as being: insightful; trusted and relevant.

In its widest context the Office of the Auditor General serves the public interest as the Auditor General is a key provider of independent and impartial information on public sector accountability and performance to the Parliament. He has a responsibility to the community as its 'watchdog'.



In serving the public interest the Office of the Auditor General seeks to be

INDEPENDENT,
CREDIBLE and
INNOVATIVE.

The Office of the Auditor General jealously guards its **independence**. It is and will always be:

- ▶ **independent** of government and all political interests
- ▶ **independent** of mind
- ▶ **independent** in its approach

The **credibility** of the Office will be evidenced in:

- ▶ being balanced in raising issues
- ▶ making judgements that are reliable and trusted
- ▶ applying transparent processes and practices
- ▶ being relevant and timely

Innovation at the Office of the Auditor General is characterised by:

- ▶ exceeding expectations
- ▶ embracing challenge and change
- ▶ learning from what has been done before
- ▶ seeking and sharing information and ideas

Highlights

2004-2005

Tabled in Parliament 8 reports identifying 64 Matters of Significance.

Completed 219 Financial Statement Audits and 152 Performance Indicator Audits.

Eight Controls Compliance and Accountability reports tabled in Parliament and one other completed and ready for tabling. The eight examinations covered 29 public sector agencies.

Completed and reported to Parliament three Performance Examinations and one Follow-up Examination.

Audits of agencies with 30 June balance dates, collectively covering controlled and administered assets of \$82.7 billion comprising approximately 85 per cent of the audited assets, were completed by 30 September 2004.

Total audit program completed within statutory deadlines.

Quality Assurance Reviews completed for Attest Audits, Controls Compliance and Accountability Examinations and Performance Examinations. Training provided to address issues arising from the reviews.

Auditor General Des Pearson appointed to the Australian Accounting Standards Board.

2003-04 Annual Report wins WS Lonnie Cup for best WA government agency Annual Report and a Silver Award in the national Australasian Annual Reporting Awards for excellence in annual reporting.

ACCOUNTABLE OFFICER'S REPORT FOR THE YEAR ENDED 30 JUNE 2005

In accordance with section 62, as modified by Part 11 of Schedule 1A, of the *Financial Administration and Audit Act 1985* I hereby submit to Parliament my Report as Accountable Officer of the Office of the Auditor General for the year ended 30 June 2005.

This Report, prepared in accordance with that Act, deals with issues arising from my powers, duties and functions as accountable officer and includes matters arising from the administration of the Office.



D D R PEARSON
AUDITOR GENERAL
31 August 2005

THIS REPORT

This Report describes the functions and operations of the Office of the Auditor General and presents the audited financial statements and performance indicators for the Office for the year ended 30 June 2005. It is not a report on the results of audits conducted, as this information is tabled in Parliament separately.

When reading this Report readers should be aware that the OUTCOME we seek is *an informed Parliament on public sector accountability and performance*.

This OUTCOME is achieved through our SERVICE of *Performance Auditing*.

Performance Auditing comprises:

- Financial Attest Audits
- Performance Indicator Audits
- Controls Compliance and Accountability Examinations
- Performance Examinations

These audits and examinations result in *Reports to Parliament* that identify *Matters of Significance* which ultimately generates our desired OUTCOME.

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Throughout this report are photographs of some of the dedicated staff that make the Office of the Auditor General leaders in performance auditing.

Introducing the OAG

Our Purpose

Serving the Public Interest.

Our Mission

To enable the Auditor General to meet Parliament's need for independent and impartial information regarding public sector accountability and performance.

Who We Are

We are an audit office of around 100 staff responsible to the Western Australian Auditor General for auditing the Western Australian public sector.

Our Ethos

Our ethos is that we seek to be recognised as:

- Independent
- Credible
- Innovative.

What Guides Us in Our Audit Work?

To achieve our vision and objectives we adhere to the following principles when conducting audits:

- all audits are conducted in accordance with professional standards and international best practice
- the highest standards of ethical and personal behaviour are demonstrated
- all audits are approached in a fair and constructive way
- audits are conducted and reported in an impartial manner.

Our Operating Environment

The Western Australian public sector comprises some 220 government departments, statutory authorities and other bodies, with agencies varying in size from those employing a few people to those employing many thousands. Together these agencies employ about 115 000 people and generate a combined revenue and expenditure in excess of \$33 billion annually in providing a range of services to the citizens of Western Australia.

Our Clients

Our clients are the Parliament, Western Australian public sector agencies, and ultimately the people of Western Australia. In its widest context the Office serves the public interest.

The Auditor General

The Auditor General scrutinises the public sector to see there has not been waste of taxpayers' resources and that government agencies deliver services in an equitable, efficient and effective manner to the benefit of all Western Australians.

The Auditor General is thereby an 'ally of the People and Parliament'. He must act, and be seen to be acting, independently in carrying out all his powers and duties. This independence is the cornerstone of public sector audit, and therefore to properly discharge his responsibilities the Auditor General must be free from pressure, influence or interference from any source that may erode that independence.



Snapshot of some of our staff, from the top, Adam Sofoulis, Niki Sarapis, Dexter Malonzo, Dr Ana Badulescu and Ron Kew

At a glance...



New organisational structure delivers desired energy, ideas and initiatives...

Progress initially evidenced in improved timeliness of audits, well exceeding targets...

Sixty-four matters of significance reported to Parliament...

Breadth and depth of reporting gives Parliament comprehensive picture of public sector performance...

Survey of MPs indicates OAG is sustaining and improving on effort of previous years...

Eighty per cent of MPs conclude OAG has achieved its outcome...



Des Pearson
AUDITOR GENERAL

'The capacity to learn from the past is the key to continuous improvement and innovation, which in turn gives an organisation relevance and the ability to keep apace with changes in the operating environment.'

Auditor General's Foreword

In last year's annual report I referred to challenges confronting the Office. Primarily, these emanated from an ever-evolving Western Australian public sector and a growing demand from an earnest Parliament and discerning public for independent and impartial information regarding agency accountability and performance.

I outlined our planned response and the broader strategies we were to adopt to meet those challenges as we endeavoured to balance our operations between the imperatives of Parliament, the demands of government, and needs of audit clients.

In 2004-05 it was then indeed gratifying to see that in fulfilling our purpose of Serving the Public Interest and thereby building public confidence in the process of government, our new organisational structure, flagged in last year's report, began to deliver the desired new energy, ideas and initiatives. The Office was more clearly-focused on its deliverables and outcome driven, and well positioned at the forefront of public sector auditing in Australia. Our strategic and operational plans were meticulously researched and even more closely aligned to client needs in an increasingly complex and rapidly changing operating environment.

Progress

That we have progressed in 2004-05 is initially evidenced in the improvement in the timeliness of our audits, with 60 per cent of opinions issued and

85 per cent of the State's assets audited within three months of balance date, well exceeding our targets, and the total audit program completed within statutory deadlines.

Equally, the 64 matters of significance reported to the Parliament, primarily through our performance examinations and controls, compliance and accountability examinations, stand as testimony to our progress. The breadth and depth of this reporting ensured that Parliament was given a comprehensive and detailed picture of public sector performance on which to base its resourcing decisions. I would cite the performance examination 'Responding to Major Bushfires', and the examinations covering the setting of fees and charges and the management of corporate credit cards, as generating considerable thought, discussion, and subsequent action.

Our level of success in these endeavours is primarily gauged in an annual survey of Members of Parliament, and the results for 2004-05 indicate that we are sustaining, and in critical areas improving on, the effort of previous years – but as always with room for improvement.

Overall though, it was gratifying to note that 90 per cent of Members felt our reports dealt with matters of significance, 78 per cent agreed our services were useful to Parliament, and 80 per cent concluded that the Office had achieved its outcome of 'an informed Parliament on public sector accountability and performance'.

Self-Assessment

However, given an awareness that for a number of reasons, which I will touch on in my Overview, it was proving to be a 'difficult' year, some highly important questions remained: Had we achieved the results we were after? Could we do better?



I could answer 'Yes' and 'Of course'; but self-assessment, if it is to be a powerful catalyst for progress and improvement, is never that simple. It is, however, essential. Without such an analysis, harsh as it may be at times, it would be impossible to ensure that an organisation is adequately equipped for any challenge that lies ahead. The capacity to learn from the past is the key to continuous improvement and innovation, which in turn gives an organisation relevance and the ability to keep apace with changes in the operating environment.

Such a stringent process of ongoing, honest self-assessment was pursued in 2004-05; essentially assessing if what we regarded as our successes were actually that, whilst clinically ascertaining where we could have done things better and then to putting in place strategies to ensure that we actually did.

Initiatives

Examples of the broader initiatives taken include the refinement of our Parliamentary Survey to better ascertain Parliament's view of our products and services and to also improve the standard and meaningfulness of our performance indicators, and participation in a benchmarking project through the Australasian Council of Auditors General to enable better evaluation of our performance against peer audit offices. At a corporate level, the most significant development was the extension of our progressive

quest for continuous improvement into a formal process for Office renewal. The key principals to drive the process will be Revisit, Review, Renew. When actualised this plan will hopefully be the catalyst for achieving better audit coverage and stakeholder engagement, re-energising staff, and better recognising the contribution of

individuals throughout the organisation.

The achievements, results and outcomes generated through our process of self-assessment are contained in the pages of this Annual Report. Suffice to say the report shows, and I can with all honesty claim, yes, it has been a solid year of progress with many positives, and yes, we could have done it better and we will in the future.

Thanks

Such progress though would not have been possible without the cooperation, dedication and commitment of all Office staff. I would like to acknowledge and congratulate each staff member for the professionalism and individual effort shown in facing up to the many challenges presented in 2004-05.

However, in the end it is not what we say or claim about ourselves but what those whom we serve – the Parliament, public sector agencies, and the people of Western Australia – say about us and the quality of our work and services, which determines whether the Office has been successful. I leave it to you to make that judgement.

D D R PEARSON
AUDITOR GENERAL

Auditor General's Overview 2004-2005

The Challenges

The 2004-05 year was again one of challenge and transformation. Change continued. Parliament, the Office's primary client, and the Western Australian public sector, the key stakeholder in our operations, were a part of that change, with new or emerging needs. Structural changes to the public service had a significant influence on the core business of the Office, affecting both the number and complexity of audits undertaken. Further pressure came from an increased expectation by Parliament and the public sector regarding the scope of matters and issues examined by the Office. The Office is a named Proper Authority in the administration of the *Public Interest Disclosure Act 2003* (namely, 'Whistleblower' legislation) and in line with national trends is subject to a diverse range of requests for advice, consultation and investigations from members of the public. Equally, as the public sector grows in reach, size and cost to the community so Parliament seeks incisive, independent insight into matters of accountability and performance. In such a public sector operating environment, with additional stresses emanating from the broader business environment, the impact on core business was significant.

Workforce Planning

Without doubt workforce planning and audit capacity was a major issue for the Office in 2004-05. Economic growth and reduced supply triggered a demand for skilled professionals in the audit labour market and competition for graduates and well-trained professionals intensified. This competition came from both the private and public sector, the latter because of increasing demand for trained financial managers.

Compounding this situation was the cumulative effect of attrition among our assurance audit staff. Over the last few years this has produced a gap in Assurance Services' middle management and currently about half of the Office's 45 Assurance Services staff has less than four years audit experience. Recent staff movements in Performance Review

At a glance...



Stringent process of self-assessment pursued in 2004-05...

Parliamentary survey refined to better ascertain MP's views...

Benchmarking project of OAG performance against peer audit offices begun...

Process of office renewal formalised and commenced...

Structural change in public sector has impact on core business...

Increased expectation by Parliament and public regarding scope of matters and issues examined...

Workforce planning and audit capacity a major issue for the Office in 2004-05...

Competition for graduates and well-trained professionals from the private and public sector is intense...

Attrition among audit assurance staff results in half of assurance staff having less than four years experience...

Auditor General's Overview ... continued

also shifted the staffing profile, with a larger component of less experienced staff the result. In addition to staffing, the competitive labour market also affected the availability of outsourced audit labour for both attest and performance examination audit functions.



The drive to reduce turnaround time for attest audit functions in line with national trends to increase the timeliness of public sector agencies' annual reporting added to the challenges. The Office increased resources to this area and sought efficiencies in audit processes whilst continuing to work with Treasury and

agencies to encourage more timely submission of financial statements.

Such a situation challenged the Office's ability to meet fully the ambitious goals and targets it had set. If viewed out of context it could be construed that some areas had under-achieved. However, whilst acknowledging that in some cases we did fall short of divisional targets, the reality was that the situation required flexibility and for the Office to keep its focus on the broader public sector audit picture; ensuring that beyond simply meeting some internal targets the public interest was served. Hence, though the number of reports tabled has fallen in quantity, their quality, the value of the information provided, and the significance of the matters raised was as high as ever.

An Evolving Public Sector

Further pressure on core business, especially in Assurance Services, came from an evolving public sector reform process and an increasingly demanding Parliament and public.

Public sector initiatives such as the implementation of shared service centres, a shift from output based management to outcome based management via a revised Treasurer's Instruction 904, and the introduction of Australian Equivalents to the International Financial Reporting Standards (AIFRS) from January 2005, required either scrutiny, response, reasoned input, or education of agencies, thereby consuming resources and eating into valuable time.

The Achievements

It is a testament to the professionalism and dedication of all staff that under such demanding circumstances, ultimately, almost all our broader corporate goals were effectively achieved.

Western Australian taxpayers certainly got excellent value for the \$11 million the Office received from Parliament. At the end of the day the Office, with just some 100 staff, was able to undertake the financial attest and performance indicator audit of some 220 agencies with an estimated turnover of around \$18 billion, all within statutory deadlines. At the same time the Office conducted three wide-ranging performance examinations and eight controls, compliance and accountability examinations across the public sector. Collectively our eight reports to Parliament arising from audits and examinations identified 64 matters of significance, alerting Parliament and the public to issues of accountability and performance.

In so doing, it was clearly evident from Parliamentary, agency and public reaction to our audits, reports or services, and ongoing requests to utilise our expertise from a range of public sector bodies, that we had made a difference to improving accountability across the public sector, to the way agencies manage their

operations, and to deliberations of Executive Government. Examples of where we are making, and continue to make, a positive contribution can be found across a range of Office activity. For example:

- Our work with Parliamentary Counsel on the current review of the *Financial Administration and Audit Act* and the creation of a separate Auditor General Act with the Office having the role of Instructing Officer for this Bill and liaising with the Department of Treasury and Finance on its progress. There is ongoing consultation with the Treasurer's Office to finalise the Bill and to identify any emerging major policy issues.
- Our continuing liaison with agencies on the transition to Australian Equivalents to the International Financial Reporting Standards, with the Office working with the Department of Treasury and Finance to address AIFRS issues as they emerge and providing advice and feedback on revised model financial statements for provision to departments.
- The OAG maintaining a consultative relationship with the Office of Shared Services by providing feedback on position papers and business cases for the shared services environment and being an observer on the Senior Finance Reference Group.

And, whilst it is not easy to gauge the direct impact of our audits and examinations, it is highly evident from agency and Parliamentary feedback and follow-up examinations that agencies respond positively to the findings in our reports, giving high priority to implementing their recommendations. Our work, of course, has impact beyond agencies, acting as a catalyst for new Government initiatives or generating community debate. In 2004-05 audit work that produced such positive outcomes included:

- The controls and compliance examination *Setting Fees – The Extent of Cost Recovery* which tested the processes behind the setting of thousands of fees raised across

At a glance...



The situation challenges the Office's ability to meet fully ambitious goals and targets...

In some cases the Office falls short of divisional targets...

Focus on serving public interest rather than meeting internal targets...

Number of reports falls but the quality and the value of information provided remains as high as ever...

Public sector initiatives such as shift to outcome based management and introduction of AIFRS requires considerable Office input...

Almost all broader corporate goals achieved...

Three Performance Examinations and eight CCA Examinations reported ...

OAG reports make a difference to improving accountability across the public sector...

Reports act as catalyst for new government initiatives and generate community debate...

government. The report generated substantial Parliamentary and public interest and a government commitment to review and enhance the fairness and transparency of the cost recovery practices used in the setting of fees.

■ The Performance Examination

Responding to Major Bushfires

which identified the need to establish a more cohesive fire fighting structure and a sound authoritative basis for managing major bushfire emergencies, generated considerable debate and consultation amongst the relevant responsible agencies as to how this could be best established.

■ The Performance Examination

Developing the State – The Management of State Agreement

Acts, outlined attempts to remove iron ore royalty concessions and resulted in renewed efforts to claw back over \$40 million per year in concessions. Though tabled in June 2004, the report and the issues raised were the catalyst in 2005 for Parliamentary debate and a government initiative to renegotiate the concessions. It was reported in the press that the report's recommendations are believed to have '... significantly strengthened the Government's negotiating position'.

Other examinations to have impact or prove to be a medium for improvement included *'Management of WA Government Corporate Credit Cards'*, *'Under the Microscope: Support for Health and Medical Research in WA'*, *'Management of Natural Resource Management Funding'*, *'Software Licensing'* and *'The Use of Consultants'*.



Serving the Parliament

Throughout the year Parliament, and thus ultimately the people of Western Australia, were kept abreast of a wide spectrum of public sector accountability issues via the tabling of the aforementioned Reports to

Parliament that identified 64 matters of

significance. The Office met with the newly-constituted Public Accounts Committee (PAC) on two occasions to provide briefings on audit activity and public sector matters and to assist the new committee in their deliberations on key issues and directions. This continued the close and positive working relationship the Office has with the PAC. The Office also liaised with, or briefed, other relevant Parliamentary committees and their research staff. Following the tabling of each report briefings for Parliamentarians were conducted, with a solid level of attendance at each.

Also during the year the Office conducted a seminar for all newly-elected MPs on the role and functions of the OAG, provided individual portfolio briefings for Ministers and members of Shadow Cabinet, and responded to formal enquiries by MPs regarding aspects of the administration and performance of the public sector.

Parliamentary Survey

Each year the Office undertakes a survey of Members of Parliament to determine how successful we are in meeting the needs of Parliament. The survey includes a number of questions to measure our success in achieving a range of goals, and importantly, it contains three key questions to measure our success in achieving our single outcome of – an informed

Parliament on public sector accountability and performance. I am pleased to see that the results of this year's Parliamentary survey, fully reported on page 22, represent a significant improvement on the previous two years.

The Public Sector

Whilst the year was not without public comment and headlines regarding public sector accountability issues or agency performance, in reviewing the findings and matters raised in my reports to Parliament during 2004-05, I can assure Parliament and the Western Australian public that overall the public sector is coping adequately with functional review reforms and the challenge of change. And, whilst the issues raised in my reports are significant and need to be addressed in a timely manner, on the whole this does not indicate that standards have slipped or are unsatisfactory. It is more symptomatic of an increasingly transparent and accountable public sector. In this context it is pleasing to note there was no evidence of systemic shortcomings but what did emerge were largely operational issues of controls or compliance, or the need for better management. It is also pleasing to note that in the instances where concerns were raised during the course of audits or examinations, many agencies took action to ensure these issues were rectified promptly. That there were only three qualifications in the 2004 audit cycle is evidence of this. That said, many issues not warranting a qualification were reported to agency management for action to improve controls and the quality of reporting.

Some concerns though remain, with some control and compliance issues previously reported not having improved or progressed. Significant information technology security weaknesses and inadequate disaster recovery plans or business continuity plans were evident across the public sector. The warnings in my reports in regard information technology over the past three years seem to have gone unheeded. Also of concern was that a significant proportion of agencies continue to submit poor quality financial statements and performance indicators.

At a glance...



Parliament kept abreast of wide spectrum of public sector accountability issues...

Public Accounts Committee briefed twice ... seminar conducted for newly-elected MPs, and portfolio briefings held for Ministers ...

Results of Parliamentary survey highly positive...

Public sector coping adequately with functional review reforms and challenge of change...

Standards have not slipped...

Only three qualifications in 2004 audit cycle...

Concerns remain regarding technology weaknesses, poor quality of financial statements and weaknesses in payroll controls and asset management...

Auditor General's Overview ... continued

In terms of accountability I am pleased to say the sector continues to improve and progress. The spur for that progress has undoubtedly been a drive for improved corporate governance and such initiatives as the establishment of the Corruption and Crime Commission, introduction of Public Interest Disclosure legislation and a renewed focus on integrity through such bodies as the Integrity Coordination Group comprising the Commissioner for Public Sector Standards, Ombudsman, Auditor General, and the Corruption and Crime Commissioner.

In such a climate I see the real risk confronting the public sector as complacency. When things are running relatively smoothly it is all too easy to assume that the job is done. Public sector managers must remain ever vigilant and be acutely aware of the shifts and changes going on around them. They must continue to manage purposefully, cognisant of the risks inherent in all aspects of their operations. Standards must be maintained or enhanced, with continuous improvement a watchword. They must not take their eye off the ball. In this way the public interest will be served.

Outlook

Over the last decade, a more contemporary audit function has been developed through substantial and sustained productivity improvements. In line with national and international trends, this function is diversifying into a broader role for audit in the community, with a more responsive audit office providing investigations, advice and better practice information outside of the traditional Reports and Audit Opinions functions. Examples of this new and



diverse role for audit include our developing responsibilities as a Proper Authority under the *Public Interest Disclosure Act 2003* and growth in the area of investigations and requests for advice to agencies, with a number of such projects undertaken in 2004-05.

Australian Equivalents to the International Financial Reporting Standards

The introduction of Australian Equivalents to the International Financial Reporting Standards (AIFRS) from 1 January 2005 is anticipated to have wide ranging implications for public sector entities and therefore for public sector audit.

Based on experience with the introduction of other significant changes in financial accounting principles and practices, the adoption of the AIFRS will continue to have a significant impact on this Office's assurance services workload over the next two years.

Auditor General Act

The proposed new Auditor General Act will incorporate many of the recommendations of the 1992 WA Royal Commission and the 1995 Commission on Government to increase the powers and independence of the Auditor General.

This will potentially require a significant commitment from middle and senior levels within the Office in 2005-06. The legislation is viewed as a crucial strategic opportunity to improve the effectiveness of audit and respond to the changing external pressures and expectations from Parliament and the community.

Financial Administration Legislation Amendment Act 2005 (FALAA)

The FALAA amends the FAAA and current annual reporting timeframes with a single requirement for the Minister to table annual reports within 90 days of the end of the financial year.

These changes, which apply to both departments and statutory authorities, reflect a clear desire by Parliament for earlier financial reporting at both the agency and whole of government level.

The FALAA also imposes tighter deadlines on whole of government financial reporting. Similar to agency annual reporting, the FALAA requires a new 'Annual Report on State Finances' to be tabled by the Treasurer within 90 days of the end of the financial year. This annual report will replace the current Treasurer's Annual Statements, Government Financial Results Report and Consolidated Financial Statements.

These changes will have significant impact on Office operations and recognising this, the Office has worked and will continue to work with agencies to effect efficiencies in annual reporting and audit processes.

Workforce Capacity

The issue of capacity is considered as a priority in the Office's 2005-07 Human Resource Plan. A stronger focus on recruitment and retention will utilise strategies such as continued active graduate recruitment, increased focus on flexible working arrangements, market loading for key positions and stronger organisational emphasis on professional development. Hopefully, the strategy will address potential capacity issues at middle and senior levels.

At a glance...



Public sector accountability continues to improve and progress...

Real risk confronting the public sector is complacency...

Public sector managers must remain vigilant, manage purposefully and realise the risks inherent in operations...

An emerging broader role for audit in the community beyond traditional reports and audit opinions...

A more responsive Office to provide investigations, advice and better information...

AIFRS, proposed new Auditor General Act and earlier financial reporting will all have significant impact on operations...

The issue of workforce capacity is a priority for next year...

A stronger focus on recruitment and retention and the active recruitment of high quality graduates.

Summary of Key Results 2004-2005

What we planned to do	What we achieved
For our Stakeholders Independently inform Parliament on public sector accountability and performance Contribute to facilitating a better performing public sector	Parliament Kept Parliament informed on public sector accountability and performance issues via the tabling of eight reports throughout the year that identified 64 matters of significance. Briefed the Standing Committee on Delegated Legislation on these reports, complemented by briefings for Parliamentarians after the tabling of each report. Briefed new ministers as a result of the State election, in addition to briefing new Parliamentarians on the roles and responsibilities of the Auditor General. 90 per cent (up from 76 per cent) of MPs agreed that our Reports dealt with matters of significance. 80 per cent (up from 66 per cent) of MPs believed the Auditor General is effective in achieving his desired outcome of informing Parliament on public sector accountability and performance, whilst 78 per cent agreed the Auditor General provides high quality reports and services. Responded to enquiries and complaints by MPs about the administration and performance of the public sector. Public Sector Agencies Provided advice and briefings to senior officers of WA's public sector agencies on performance indicators, financial statements and compliance and accountability matters. In conjunction with Treasury conducted a Principal Accounting Officers Forum to advise public sector managers of current and emerging public sector issues.
For our Staff Attract, develop and retain quality staff that add value and facilitate improved public sector performance.	Adopted innovative approaches in recruitment with the aim of attracting a greater number of applicants, particularly those with skills and experience that may increase the Office's current skills base. Staff undertook external professional development and training courses at a cost of \$242 065 or around \$2521 per staff member. Ongoing training in the use of the Office's audit methodology (ADAPT), incorporating the latest in audit software and technology. Provided assistance to staff undertaking either the Professional Year program with the Institute of Chartered Accountants or the CPA Program with CPA Australia. Five graduates completed the Office's graduate induction program in 2005, which included structured internal training on audit and accounting issues and on the job training.



What we planned to do	What we achieved
In our Operations	
Issue audit opinions in a timely manner	Audit opinions were issued for 35 government departments, 127 statutory authorities, 10 corporate bodies, 23 subsidiaries, 8 cemetery boards, 15 request audits, and the Treasurer's Annual Statements and the Consolidated Financial Statements for the whole of government sector.
Identify matters of significance in our reports to Parliament	Improved timeliness in the issue of our 30 June balance date audits. Audits of approximately 85 per cent of the assets controlled and administered by agencies were completed by 30 September 2004.
Ensure quality and the highest of standards in products and services	32 certifications issued to assist agencies to meet grant, legislative or funding conditions. Results of 219 financial statement and controls audits and 152 performance indicator audits reported to Parliament in two reports. The Ministerial Portfolio Report and Audit Results Report identified 18 matters of significance.
Provide advice to public sector agencies on performance and accountability issues	22 per cent of audits are contracted to private sector firms. Management of these audits is a critical part of the audit process.
Enhance our corporate systems	<p>Tabled three Performance Examination reports and one Follow-up Examination including relevant agency response to major bushfires, support for health and medical research, and management of community-based sentencing.</p> <p>Reported on a wide range of public sector controls, compliance and accountability issues in two Public Sector Performance reports and one stand-alone report, covering administration of legislation and financial and management control issues.</p> <p>Continued research and development of an Auditor General's Act, separate from the State's financial management legislation.</p> <p>Awarded the WS Lonnie Cup for the best annual report in the public sector and a Silver Award in the Australasian Annual Reporting Awards for excellence in annual reporting.</p> <p>Continued the refinement of the Office's financial systems and related processes as part of the integration of the Office's key corporate systems, leading to a more efficient administrative function.</p> <p>Further developed the Office's other corporate systems, including the records management system, Internet and Intranet.</p> <p>Provided input into the development of audit standards through professional organisations such as CPA Australia, the Australasian Evaluation Society and the Information Systems Audit and Controls Association.</p> <p>Actively involved in the Australasian Council of Auditors General, leading to improved Australian standards in public sector audit.</p>

Summary of Financial Performance 2004-2005

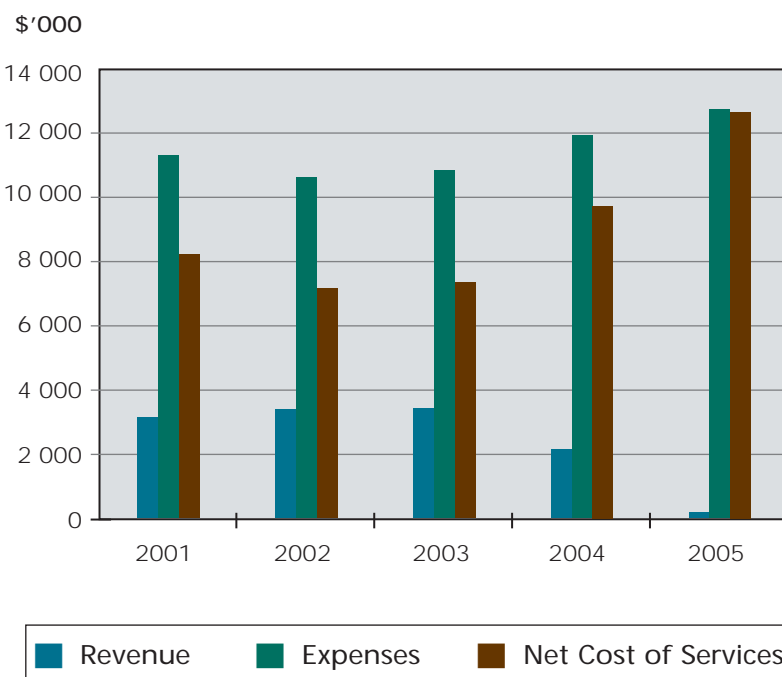
The following is a summary of the financial performance of the Office and trends from 2001 through to the current period ended 30 June 2005. The summary is based on the information provided in the Office's audited statements of financial performance.

There are two notable developments which distinguish 2005 from prior years:

- First, changed fee arrangements with effect from 1 July 2004 were introduced. In addition to extending the levying of fees to encompass budget dependent agencies, audit fees are no longer retained by the Office. They are paid directly into the Consolidated Fund. In consequence revenue has reduced significantly while net cost of services has increased correspondingly. Audit fees are now reported as Administered transactions in the Notes to the financial statements.
- Second, an increase in baseline funding of \$800 000 was provided to strengthen the assurance services function and to enable the rebuilding of staff expertise.

	2001 \$'000	2002 \$'000	2003 \$'000	2004 \$'000	2005 \$'000
Financial Performance					
Total Income	10 879	11 194	11 526	10 587	12 704
Net Cost of Services	8 217	7 166	7 352	9 770	12 627
Change in Net Assets	-439	578	717	-1 339	-75

	2001 \$'000	2002 \$'000	2003 \$'000	2004 \$'000	2005 \$'000
Financial Performance					
Revenue	3 101	3 450	3 457	2 133	152
Expenses	11 318	10 616	10 809	11 926	12 779
Net Cost of Services	8 217	7 166	7 352	9 770	12 627



Future Directions 2005-2006

Areas of Work	What We Plan to Deliver
Stakeholders <p>Fulfil the Auditor General's audit mandate, while being committed to acting in the public interest, with the aim of contributing to public confidence in the State's public administration.</p>	<p>Table in Parliament six single topic reports on various compliance and performance examinations that have identified matters of significance in various areas of public sector performance and accountability.</p> <p>Table in Parliament three public sector performance reports during the year. These reports will contain the results of smaller examinations that address compliance and performance issues, including follow-up reviews of examinations previously undertaken.</p> <p>Table in Parliament two reports on the results of financial statement, controls and performance indicator audits undertaken during the year with expanded analytical comment (quality and quantity) in Audit Results Reports. The first volume will focus on agencies with a 30 June reporting date, while the second will focus on agencies from the tertiary education sector which have a 31 December reporting date.</p>
Operations <p>Continue to issue audit opinions in a timely manner; identify matters of significance in our reports to Parliament; further enhance our corporate systems.</p>	<p>With an emphasis on earlier completion, audit the financial statements, controls and performance indicators of:</p> <ul style="list-style-type: none"> • 34 government agencies; • 106 statutory authorities • 10 corporate bodies; • 2 trusts; • 4 universities, 10 colleges and their 12 subsidiaries (including 3 new subsidiaries); • 13 requests, 10 subsidiaries and 8 cemetery audits; and • the Treasurer's Annual Statements and the Consolidated Financial Statements for whole of government <p>Complete all audits within 90 days of balance date.</p> <p>Continue to foster the smooth introduction of the AIFRS.</p> <p>Complete drafting of the Auditor General Bill for introduction in Parliament.</p>
Our Staff <p>To attract, develop and retain quality staff who add value and facilitate improved public sector performance.</p>	<p>Continue implementation of sustainable workforce planning strategies to address the attrition of audit staff through the ageing of the office workforce and increased demand from across the public and private sector.</p> <p>Continue to enhance the readability of audit reports through the finalisation of a three year program of training and development.</p>
Finance <p>Control spending of the Office's appropriation and improve management reporting processes.</p>	<p>Refine the audit fee structure to provide Consolidated Fund agencies with improved information on the recouping of attest audit costs.</p>

At a glance...



Key effectiveness indicators show an improved overall performance ...

Cost per matter of significance and average cost per audit opinion rise ...

219 financial audits completed with three qualified opinions issued ...

Audits of agencies with 30 June balance dates comprising 85 per cent of audited assets completed by 30 September ...

151 clear opinions issued on performance indicators with one qualification ...



Jacquie Stepanoff, Manager Planning and Coordination

'Parliamentary survey results revealed a number of key qualities that MPs considered as strengths of the Office, including informativeness, objectivity, succinctness, usefulness, clarity, uniqueness and responsiveness.'

Performance 2004-2005

Effectiveness

All Members of Parliament are surveyed annually to determine the extent to which the Office's reports and services fulfil the needs of Parliament. Responses to specific questions relating to the achievement of our Outcome were sought by the Office and are reported as key effectiveness indicators below.

KPI	2002-03	2003-04	2004-05	2004-05 Target
The Office of the Auditor General is effective in achieving its desired outcome of informing Parliament on accountability and performance of the public sector	66%	66%	80%	85%
Reports dealt with matters of significance to Parliament	83%	76%	90%	85%
Services and reports of the Office of the Auditor General are useful to Parliament	76%	83%	78%	80%

Efficiency

The efficiency indicators reported below incorporate the cost and quantity measures of the Office's single service of performance auditing, and gauge the overall efficiency in achieving the desired outcome of an informed Parliament on public sector accountability and performance.

KPI	2002-03 Actual \$	2003-04 Actual \$	2004-05 Actual \$	2004-05 Target \$
Cost per Matter of Significance	23 267	30 494	50 781	36 420
Average cost per Audit Opinion	100 739	109 539	128 293	106 869
	Cost per major audit			
	13 197	17 101	17 265	20 619
	Cost per other audit			

Financial Statement Audits

During 2004-05, 219 financial statement audits were completed with three qualified opinions issued. Details of the audited opinions issued during the year are:

Audits conducted under the FAAA: (Treasurer's Annual Statements, Departments 35 and Statutory Authorities 127)	163
Audits conducted under other legislation: (Subsidiaries 23, Corporatised Entities 10 and Cemetery Boards 8)	41
Audits requested by the Treasurer under section 78 of the FAAA	15

The focus of audit opinion activity was on the dollar value of assets audited, rather than on the number of opinions issued. 'Time Period' and 'Dollar Value of Assets Audited' targets were set early in the year for audits with 31 December and 30 June balance dates.

Audits of agencies with 30 June balance dates, collectively covering assets of \$82.7 billion comprising approximately 85 per cent of the audited assets, were completed by 30 September 2004.

In addition to audit opinions, 32 Certifications of Statements were issued to government agencies for purposes such as Commonwealth funding and grants acquittal.

Performance Indicator Audits

Advice is provided to agencies to assist them in the ongoing development and refinement of Key Performance Indicators that meet the requirements of the *Financial Administration and Audit Act 1985* and Treasurer's Instruction 904.

During the year 151 clear opinions were issued from 152 completed performance indicator audits (a further nine agencies failed to submit the required indicators).

Parliamentary Survey

Each year the Office conducts a survey of Parliament to determine our strengths and weaknesses and to enable us to continuously improve our performance. The 2005 survey incorporated a number of innovations including questions that can be benchmarked with other Australian audit offices. The survey of Parliament is conducted by an independent market research company that also conducts similar Parliamentary surveys for audit offices in other States. The survey investigates MPs' views on the services to Parliament over the previous year. All 91 MPs were invited to participate in the survey, of whom 35 (38 per cent) responded. This is significantly lower than last year's figure (51). The low response rate may have been influenced by the timing of the survey, which was held immediately after the formation of the new Parliament in May 2005, and during the Budget Estimates process. To ensure the data was representative despite the low response rate, the survey results were weighted by group: government, opposition, and independent/minor party.



was achieving his desired outcome of informing Parliament on accountability and performance of the public sector effectively, and that the Auditor General's reports dealt with matters of significance to Parliamentarians both rose by 14 per cent this year and were close to target. Seventy eight per cent of respondents considered that the Auditor General's reports and services were useful to Parliament, a slight decline against the previous year.

Results

- This year's survey results indicate an improved overall performance. Eighty nine per cent of respondents were either satisfied or very satisfied with the Auditor Generals' reports and services. This is a strong improvement on 2003-04 results. The survey results revealed a number of key qualities that MPs considered as strengths of the Office, including informativeness, objectivity, succinctness, usefulness, clarity, uniqueness and responsiveness.
- There has been strong improvement since the last survey in Parliamentarians' ratings for two of the OAG's three key performance indicators. The levels of agreement *that the Auditor General*
- Some respondents identified specific Auditor General reports as being particularly helpful – in general, these were identified because the matters they dealt with were of personal interest or were seen as particularly important.
- A new question in this year's survey revealed that more than half of the respondents have had dealings with the Auditor General or his Office, other than simply reading audit reports. These contacts included Parliamentary briefings, appearances before Parliamentary Committees, enquiries or complaints about public sector integrity issues, general discussions with the Auditor General, and introductory briefings. All respondents rated these services positively, and many suggested that Parliamentarians would benefit from further access to this kind of advice. The response to this question has provided the Office with new insight into the importance of these services to Parliament.
- The main suggestions made by respondents for how the Auditor General and OAG could better meet their needs and expectations were to increase the number of reports that address Parliamentarians' specific areas of interest and increase the number of Parliamentary briefings and opportunities to individually discuss issues with the Auditor General.

Summary of Reports to Parliament

The Report of the Accountable Officer (the OAG's Annual Report) and eight audit reports (as summarised below) were tabled in Parliament during 2004-05:

Third Public Sector Performance Report

(22 September 2004)

The Report contains the results of three Controls, Compliance and Accountability (CCA) examinations.

■ Setting Fees – The Extent of Cost Recovery

The examination found insufficient and fragmented policy direction contributed to inappropriate fee setting decisions and limited disclosure of agency pricing policies.

■ Management of Western Australian Government Corporate Credit Cards

Some minor breaches of corporate card policies and guidelines were evident, however, overall the controls over the use of corporate cards was adequate and no unauthorised use of corporate cards was disclosed.

Responding to Major Bushfires

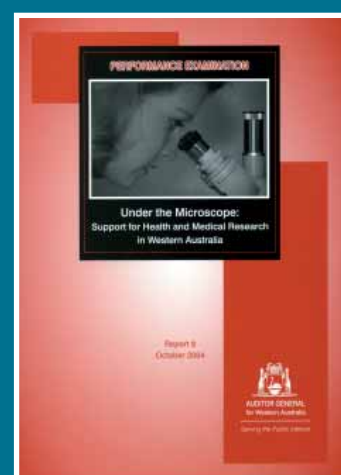
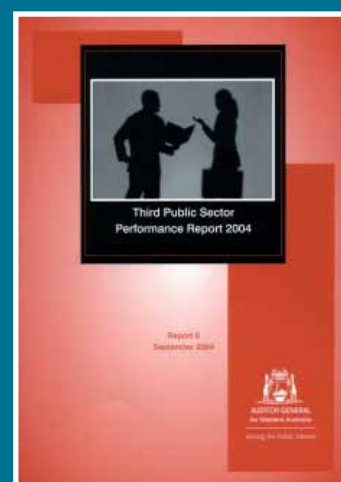
(20 October 2004)

The arrangements for fighting bushfires need to be better coordinated as the absence of a State-wide command structure weakens the capacity for effectively managing bush fires. Fire fighting organisations also need to be better prepared and must improve activities such as planning and staff and volunteer training. The report recommended that Government establish emergency management legislation which clarifies State and local government responsibilities.

Under the Microscope: Support for Health and Medical Research in Western Australia

(27 October 2004)

Support for health and medical research needs to be better structured and coordinated, and teaching hospitals need to better manage the costs and benefits of research. Funding



Performance 2004-2005 Summary of Reports to Parliament... continued

agencies should better demonstrate the basis of allocating research funding and improve monitoring of funding agreements.

Report on Ministerial Portfolios at November 1, 2004 and Performance Examination of Management of Natural Resource Management Funding

(10 November 2004)

This Report provides a summary of the results of the 169 financial statement and controls audits, 126 performance indicator audits completed to 1 November; commentary on the timeliness and quality of financial statements and performance indicators; and details of specific control, corporate governance, accounting and auditing issues.

It also includes details of 16 certifications issued on agencies' financial and statistical data.

Performance Examination of Natural Resource Management Funding. Improved governance arrangements are needed before funding of up to \$400 million over four years to six regional natural resource management groups proceeds.

Public Sector Performance Report

(4 May 2005)

This Report contains the result of four Controls, Compliance and Accountability examinations and one Performance Examination (PE) Report.

■ Software Licensing

Management of Software Licensing in Government agencies is adequate for core software but improvements are needed in the management of non-core software licenses as well as in areas such as software monitoring, security and cost effective purchasing.

■ Regulation of Incorporated Associations and Charities

At least one third of the 18 000 registered associations may not be operating and aspects of government administration of associations can be improved. The report also found that unclear accountability requirements for charities means that government is restricted in its capacity to monitor their activities.

■ The Use of Consultants

The examination found that the sampled agencies were following appropriate processes in the engagement and management of consultants. However, the reporting of government wide use of consultants was inaccurate and untimely.

■ Management of Leave Liability

Tracking and management of leave liability across government has improved and this has contributed to a slightly lower average leave accrual since June 2000. Further improvements to management strategies can still occur.

■ Environmental Assurance on Agricultural Research Stations

Although the Department of Agriculture has adequate assurance strategies for other areas, improved environmental assurance strategies are necessary to ensure the long term sustainability of research stations.

Follow-up Performance Examination: Implementing and Managing Community Based Sentences (CBS)

(25 May 2005)

Case management of adult offenders serving CBSs has improved; the proportion of successfully completed CBSs has remained stable in recent years; and new information and performance measurement systems are still under development.

Audit Results Report on Universities and TAFE Colleges and other audits completed since 1 November 2004

(25 May 2005)

Primarily, this Report summarises the results of 50 financial statement and controls audits and 26 performance indicator audits for four universities, 10 TAFE colleges, their 10 subsidiaries and two other agencies with 31 December 2004, 22 agencies with a 30 June 2004 reporting date and two final audits.

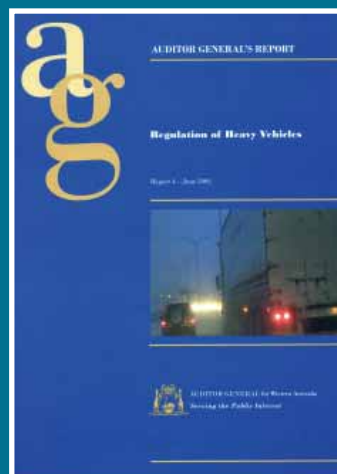
It also contains commentary on issues identified during the 2004 audits of universities and TAFE colleges and details of 15 certifications issued on agencies' financial and statistical data.

An update of government agencies' progress with implementing the Australian equivalents to International Financial Reporting Standards (AIFRS) is also included in the Report.

Regulation of Heavy Vehicles

(29 June 2005)

Regulation of heavy vehicles is adequate. Improvements to regulatory practices are occurring though some of these have been slow in eventuating and opportunity for improvement in other areas still exists.



Analysis of Reports to Parliament

Report	Type	Date Tabled	Cost	Number of Matters of Significance
Third Public Sector Performance Report		22/09/04		
• Setting Fees – The Extent of Cost Recovery	CCA		\$111 822	4
• Management of Western Australia Government Corporate Credit Cards	CCA		\$70 217	1
Repending to Major Bushfires	PE	20/10/04	\$420 488	12
Under the Microscope: Support for Health and Medial Research in Western Australia	PE	27/10/04	\$285 121	5
Report on Ministerial Portfolios at November 1, 2004 and Performance Examination of Management of Natural Resource Management Funding	Attest	10/11/04	\$73 962	10
	CCA		\$56 185	2
Public Sector Performance Report		4/06/05		
• Software Licensing	CCA		\$84 419	5
• Regulation of Incorporated Associations and Charities	CCA		\$47 334	5
• The Use of Consultants	CCA		\$79 500	2
• Management of Leave Liability	CCA		\$46 000	2
• Environmental Assurance on Agricultural Research Stations	PE		\$63 863	2
Follow-up Performance Examination: Implementing and Managing Community Based Sentences	PE	25/05/05	\$76 651	3
Audit Results Report on Universities and TAFE Colleges and other audits completed since 1 November 2004	Attest	25/05/05	\$61 832	8
Regulation of Heavy Vehicles	CCA	29/06/05	\$72 928	3

Follow-up Examinations

The Office of the Auditor General revisits performance examination reports to identify how the issues identified in the reports have been addressed. These 'Follow-up' performance examinations typically report the progress government agencies have made in implementing recommendations in a report.

Outlined below are the typical stages that occur to follow-up the implementation of Auditor General's reports. The Public Accounts Committee (PAC) of the Legislative Assembly has a significant role to play in this process.

Auditor General's Report

A performance examination or controls, compliance and accountability examination report by the Auditor General is tabled in Parliament.

Response to Recommendations

The PAC requires relevant public sector agencies to report on their actions in relation to recommendations made in a CCA or PE report within twelve months of the report's tabling in Parliament. The PAC expects agencies to provide information on progress towards the implementation of each recommendation. If any recommendations have not been actioned, the PAC requires agencies to provide reasons or details of future planned implementation.

Parliamentary Oversight

The PAC may respond to an agency's report on their implementation of the Auditor General's recommendations in a number of ways. If unsatisfied with the progress of implementation or the information provided by an agency, the PAC may decide to:

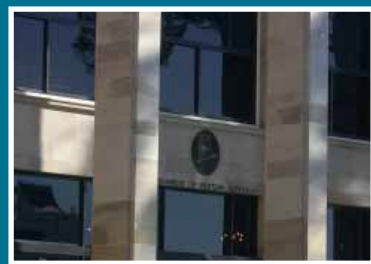
- convene a hearing or other form of inquiry to investigate the issue further
- consult with another Parliamentary Committee with relevant portfolio responsibilities, the OAG, and/or central government agencies about alternative ways to progress implementation of the Auditor General's recommendations.

Government Response

The Minister with the relevant portfolio responsibility for the area or agency subject to the CCA or PE report may respond to the findings of the PAC.

Auditor General Follow-up Reports

Depending on the outcome of the process outlined above, and on the current importance and relevance of the issue, the Auditor General may decide to conduct a follow-up examination two to three years after the original report was tabled.



The Accountability Process

AG Report

Reports are tabled in Parliament



Government Response

The Minister may comment or respond to the report at the time it is tabled



PAC Report

The Public Accounts Committee reviews all reports, and requires agencies to respond within 12 months of tabling of performance examinations



Government Response

The Minister may respond to the comments, findings or recommendations of the PAC.



AG Follow-up Report

The Auditor General typically follows up some performance examinations two to three years after tabling.

Operating Framework



The **Outcome** we seek is:

- an informed Parliament on public sector accountability and performance

This is achieved through the Service of:

- Performance Auditing

Performance Auditing comprises:

- Financial Attest Audits
- Controls, Compliance and Accountability examinations
- Performance Indicator Audits
- Performance Examinations

These result in:

- Reports to Parliament

That identify:

- Matters of Significance, which ultimately generates our desired Outcome of An informed Parliament on public sector accountability and performance.



Trish Scully, Manager Standards and Quality Division

'Quality Reviews ensure that all comments, information and data in reports are backed up by appropriate evidence, that all necessary approvals were obtained, and documentation is kept on record in the appropriate form.'

Review of Operations 2004-2005

To fulfil the Office of the Auditor General's Purpose of
Serving the Public Interest,
the Office:

independently informs Parliament on public sector accountability and performance and thereby contributes to a better performing public sector.

Strategies to achieve this Purpose are:

Reporting on public sector performance in a relevant and authoritative manner, through:	Effectively communicating with Parliament, the public sector and the wider community, through:	Providing timely information and advice to the Auditor General to effectively fulfil his watchdog role, through:	Building a leading edge organisation, through:
Delivering an increased quantity and quality of reports to Parliament.	Strengthening focus on agency relationship management through stronger relationship management emphasis in assurance services and the reintroduction of agency surveys.	Successfully re-engineer assurance business processes to meet new timeliness challenges for attest audit.	Reviewing OAG key performance indicators to improve robustness and ensure ongoing relevance.
Achieving a timely spread of reporting across the year – delivering what we said we would, when we said we would.	Strengthening focus on Parliamentary service including expanding the Parliamentary survey and broadening Parliamentary liaison activities.	Continuing to shift the emphasis from audit opinions to matters of significance through increasing the quality and quantity of analysis in attest work.	Focusing human resource planning and services on improving OAG capacity, performance and professional development, with particular focus on workforce retention and succession planning
Continuing to strengthen the cycle of internal quality and review procedures, through challenge review, post-project review, quality assurance and external review as required.	Continuing to expand delivery of information through e-communications to reach a broader community.	Increasing the timeliness and relevance of advice to the Auditor General through leveraging stronger external alliances and an enhanced national profile.	Committing to an office-wide focus on knowledge management through a range of major information management initiatives.

Review of Operations 2004-2005 ... continued

The Western Australian community makes a significant contribution to meeting the cost of services provided by the State Government. As such, it has a right to expect that its hard-earned tax dollars are not wasted but used wisely by public sector agencies in efficiently and effectively delivering services that make best use of those dollars, are equitable, and result in positive outcomes for all.

Therefore during the year core operations of the Office of the Auditor General focused on ensuring that through accountability to Parliament community expectations regarding the use of public funds were realised.

Equally, given that our core business entails reporting to Parliament on how well others in the public sector utilise the resources entrusted to them, it was imperative that we conducted our own affairs with maximum efficiency and effectiveness, striving to continually improve organisational performance.

Summary of Activity

The core operations of the Office resulted in the completion of 219 audits of agencies' financial statements, 152 audits of performance indicators, the conduct of eight controls, compliance and accountability examinations (CCAs), three Performance Examinations (PEs), and one follow-up examination. In total 64 matters of significance were reported to Parliament.

Work in Progress

A further seven CCAs and six PEs were being developed at the end of the financial year, and two



examinations had been placed on hold. Three examinations were not progressed either because of internal government reviews being undertaken in the respective area at the time or because significant matters were not evident.

Topic Selection

Ideas and suggestions for CCA and PE projects are identified through a topic selection process. This process involves regular scans and analysis of Hansard, media reports, letters of enquiry and complaint, meeting with key stakeholders and feedback from OAG audit teams. Topics are added to a topic database and are prioritised based on the level of resources involved and likely community impact. One hundred and thirty six new topics were entered into the topic database in 2004-05.

Project Reviews and Quality Assurance

The Office is committed to producing the highest quality reports to Parliament, and as such engages in a variety of review and evaluation activities on each performance examination, compliance audit and report. This process includes:

Challenge Reviews – a cooperative internal process where officers outside of the audit team review drafts and project reports to provide assurance to the Auditor General that key audit findings are identified and developed appropriately. Each performance examination or compliance audit must go through this robust Challenge Review process at least once, often three times, in its life cycle before the report is tabled in Parliament.

Post-Project Reviews – self-assessments generated by the audit team, focusing on the areas of success for the project, the areas for improvement, how well the report progressed against target timelines and budgets, and what lessons there may be for the future.

Quality Reviews – run by the Standards and Quality Division, these reviews ensure that all comments, information and data in the reports are backed up by appropriate evidence, that all necessary approvals were obtained and documentation is kept on record in the appropriate form.

Enquiries and Complaints

During the year over 230 hours were spent responding to enquiries and complaints about the public sector. There was a 49 per cent decrease in enquiries and complaints, with a total of 95 received (down from 185 last year). There were 43 telephone contacts and 52 written contacts.

Written enquiries and complaints from the public went down from 76 to 52, whilst those from MPs went down from nine to two. Formal contact via the telephone from the public decreased from 93 to 43, with telephone contact from MPs decreasing by six contacts on the previous year.

PIDs and Special Investigations

The Office undertook additional work in relation to the investigation of Public Interest Disclosures (PIDs) and other significant public sector complaints. One PID was registered in 2004-05. The Office investigated and finalised this PID, as well as two others that were registered the previous year. In total over 460 hours were spent on public interest disclosures. The Office investigated complaints about the public sector when there was evidence that the matters raised were material or systemic in nature. Approximately 10 such reviews, referred to as special investigations, were undertaken in 2004-05.

At a glance...



Core operations focus on ensuring that through accountability to Parliament community expectations regarding the use of public funds are realised ...

219 financial statement audits, 152 performance indicator audits, eight CCAs, three PEs and one Follow-up with identification of 64 matters of significance comprise bulk of audit activity ...

A further seven CCAs and six PEs are in progress ...

136 new topics added to topic database ...

Challenge, Post-project and Quality Reviews conducted on all reports ...

230 hours spent on responding to 95 enquiries or complaints ...

One Public Interest Disclosure registered and investigated and two from previous year finalised ...

Ten investigations undertaken ...

Significant Issues and Trends

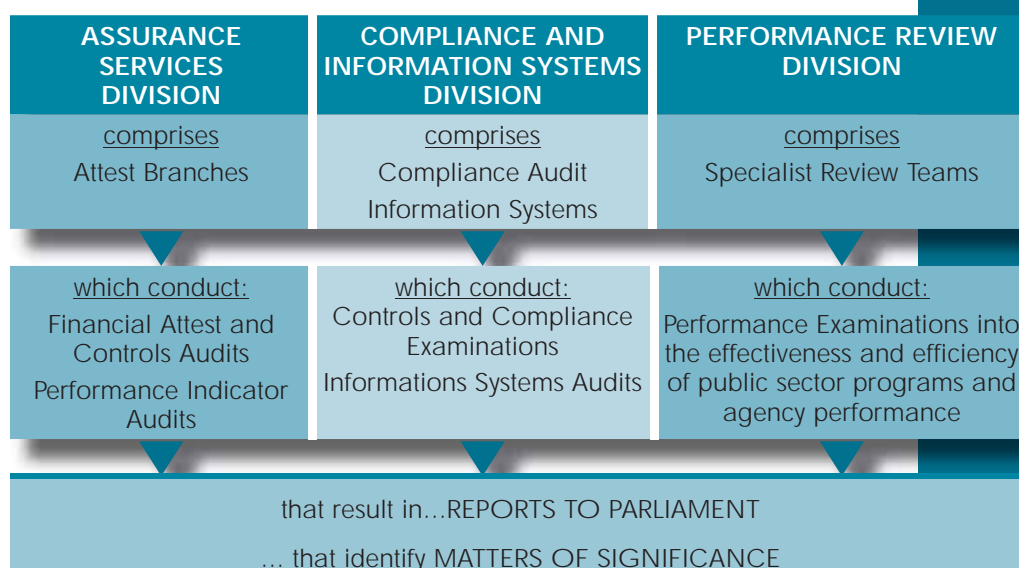
- The application of the Australian Equivalents of the International Financial Reporting Standards (AIFRS) from 1 January 2005 impacts on around two thirds of existing Australian Accounting Standards. As such it will have wide ranging implications for public sector entities and a substantial impact on the Office's assurance workload over several years.
- The introduction of shared corporate service centres continues to increase the complexity of the audit task. It precludes continued reliance on previous audit work and there will be a need to evaluate controls in the shared service centres as well as in individual agencies. In consequence, increased audit work will be required to re-establish appropriate levels of assurance regarding the new systems and accountability relationships. There is potential for some longer term audit efficiencies to be gained through the standardisation of public sector corporate services and a reduction in the diversity and numbers of corporate information systems.
- Community expectations for independent and impartial information regarding accountability and performance in the public sector continue to grow. In 2004-05 there has been a steady growth in the requests for advice, consultation and investigations from both members of the public and public sector agencies, with the trend expected to continue into 2005-06.



- There was an improvement on previous years in agency compliance with statutory deadlines for submitting financial statements and performance indicators for audit in the 2004 audit cycle. However, the quality of agency end-of-year reporting remains an issue, placing demand on audit resources.
- Contract audit costs for the 2005 audit cycle are expected to rise substantially in response to the application of the AIFRS.
- As the complexity of the audit task increases, so has the pressure to reduce turnaround time for attest audit functions, in line with national trends to increase timeliness of annual reporting of public sector agencies.
- The role of the Office as a named Proper Authority in the administration of the *Public Interest Disclosure Act 2003* declined in 2004-05 with fewer public interest disclosures registered than the four in 2003-04.
- The ever increasing importance and complexity of critical information technology systems in government continues to require more audit effort and cost. Parliamentary reports arising from examination of these systems and information technology issues in general are becoming a major product of this Office.

Operating Structure

The Office is structured into five divisions, three operational and two support.



Summary of Divisional Operations

Division	Key Accountabilities
<p>ASSURANCE SERVICES</p> <p>Objective: To report to Parliament on the results of financial statement, controls and performance indicator audits of government entities.</p>	<ul style="list-style-type: none"> ■ Prepares audit opinions and produces reports for tabling in Parliament covering the financial statement, controls and performance indicator audits of departments, statutory authorities and corporatised entities under the FAAA. ■ Provides advice to agencies on financial and performance reporting including the application of the FAAA, Treasurer's Instructions and accounting standards. ■ Audits financial and statistical information produced by departments and statutory authorities to assist them discharge conditions of Commonwealth funding agreements, grants and other legislation. ■ Liaises with Department of Treasury and Finance on financial reporting issues and changes to legislative compliance requirements.
<p>COMPLIANCE AND INFORMATION SYSTEMS</p> <p>Objective: To provide key information to Parliament about the regulatory, financial and administrative compliance and performance of agencies.</p>	<ul style="list-style-type: none"> ■ Produces reports to Parliament detailing the results of control, compliance and accountability examinations undertaken across the public sector. ■ Produces technical advice to agencies arising from information systems audits. ■ Provides advice to public sector agencies including central agencies. ■ Undertakes Public Interest Disclosure (PID) investigations. ■ Provides advice to the Auditor General on areas of public sector operations that may warrant examination.
<p>PERFORMANCE REVIEW</p> <p>Objective: To conduct efficiency and effectiveness examinations of public sector agencies and programs.</p>	<ul style="list-style-type: none"> ■ Produces reports to Parliament detailing the results of Performance Examinations undertaken across the WA public sector. ■ Provides briefings and advice to Parliament, Executive Government, and agencies on the reports.
<p>STANDARDS AND QUALITY</p> <p>Objective: Providing a high standard of cost effective advice and customer service.</p>	<ul style="list-style-type: none"> ■ Reviews audit files and working papers to provide assurance that audits and examinations have been conducted in accordance with office and professional standards. ■ Coordinates advice to agencies on performance and accountability issues. ■ Provides technical advice to staff and public sector agencies in relation to financial reporting including AIFRS and the preparation of key performance indicators (KPIs). ■ Liaises with the Department of Treasury and Finance (DTF) on financial reporting issues, changes to legislation affecting financial and compliance requirements and key Performance Indicator Reporting. ■ Provides advice and information to the Auditor General on strategic, policy and technical issues affecting the audit operations of the Office.
<p>BUSINESS AND STRATEGIC SERVICES</p> <p>Objective: Providing a high standard of cost effective advice and customer service.</p>	<ul style="list-style-type: none"> ■ Manages strategic issues, relationships and innovation in the OAG and coordinates internal planning, review and reporting cycles. ■ Reviews projects and reports to Parliament to ensure content is aligned with the priorities of the Auditor General and that all relevant risks are managed. ■ Undertakes the coordination and in-house production of reports to Parliament, and their distribution to key client groups. ■ Ensures that the human, information, financial and other resources of the OAG are used efficiently to provide services responsive to the needs of staff and stakeholders in Office operations.

Key Outputs	Key Outcomes	Future Directions
<ul style="list-style-type: none"> ■ 219 Financial Statement and 152 Performance Indicator audits completed. ■ 2 reports tabled in Parliament. ■ 32 certifications issued to assist agencies to meet funding conditions. 	<ul style="list-style-type: none"> ■ Members of Parliament and agency management are able to make more measured, timely and appropriate decisions due to receiving early quality information on the outcomes of financial statement and performance indicator audits. ■ Audits of agencies with 30 June balance dates, collectively covering controlled and administered assets of \$82.7 billion comprising approximately 85 per cent of the audited assets, were completed by 30 September 2004. 	<ul style="list-style-type: none"> ■ Continue the strategy of improvement in quality and more timely submission of financial statements and performance indicators for audit to ensure compliance with revised legislative timeframes for annual reporting to parliament commencing in 2006. ■ Further development of methodology to prepare for audit of shared service clusters. ■ Review agencies' compliance with AIFRS periodically ahead of timelines for formal implementation and assess changes in performance indicators necessitated by recent changes to Treasurer's Instructions.
<ul style="list-style-type: none"> ■ 8 CCA examinations reported to Parliament covering 29 agencies. ■ One CCA completed and ready for tabling in Parliament. ■ 6 CCA projects at varying stage of completion and preliminary development underway on 18 other topics. ■ Information systems assessed at 47 sites in support of financial statements, performance indicators and control opinions. ■ Managed the registration and investigative process of three public interest disclosures. ■ Extraordinary advice and assistance to several government agencies. 	<ul style="list-style-type: none"> ■ A Parliament which is better informed and able to make decisions about regulatory, financial and administrative issues facing agencies. ■ Changes to agency practices resulting in enhanced and more reliable performance. ■ Public confidence in the State's public interest disclosure regime. 	<ul style="list-style-type: none"> ■ Reduced staff downtime between CCA projects via a well developed store of new topics ■ Increased use of specialist information systems audit assistance to address identified risks ■ Adoption of automated tools for audit of shared systems sites.
<ul style="list-style-type: none"> ■ 3 Performance Examinations reports tabled. ■ 6 projects at varying stages of completion. 	<ul style="list-style-type: none"> ■ Performance examination reports generated positive impacts and reforms in public sector agencies and across the public sector in general. ■ Parliament was provided with high quality analysis of public sector accountability and performance on which to base decision-making. ■ Continued recognition for the Division as a leading authority on improving performance. 	<ul style="list-style-type: none"> ■ Continued use of specialist assistance to undertake performance examination work, particularly in technical areas that require expert knowledge.
<ul style="list-style-type: none"> ■ Quality assurance reviews undertaken of a sample of Attest Audits, CCAs and PEs. ■ Advice given to auditors, agencies and Outcome Structures Review Group (OSRG) on KPIs. ■ Contributed to DTFs latest revision of the Treasurer's Instructions and model financial statements and assisted in preparing the public sector for International Financial Reporting Standards (AIFRS). 	<ul style="list-style-type: none"> ■ Provides assurance to Parliament that audits and examinations have been conducted in accordance with OAG and professional standards. ■ KPIs are clearly linked to outcomes and are measurable. ■ Model financial statements issued by DTF were reviewed. Support to auditors in reviewing agencies opening AIFRS Balance Sheets. 	<ul style="list-style-type: none"> ■ Continue with reviews. ■ Through the OSRG assist in the development of clearer outcomes and KPIs. ■ Ongoing preparation of OAG staff for AIFRS implementation and development of audit approach for shared service centres under FRIT.
<ul style="list-style-type: none"> ■ Parliamentary Survey coordinated. ■ 13 major reports coordinated and produced, with accompanying media relations. ■ Advice and briefings provided to the Auditor General on accountability issues and Office performance. ■ Provide advice and strategic support to the Auditor General to strengthen relationships with Parliament. 	<ul style="list-style-type: none"> ■ Integrated Office planning and coordination of services. ■ Awareness of the role and contribution of the Auditor General to public sector accountability. ■ Responsive support to operational Divisions in the delivery of services. 	<ul style="list-style-type: none"> ■ Recruiting, developing and retaining staff to best meet current and future operational requirements. ■ Maintain and strengthen services that assist operational divisions to deliver their planned outcomes. ■ Facilitate development of business plans by divisions and monitor delivery against plans.

Achievements...



- One Ministerial Portfolio Report and one Tertiary Sector report tabled.
- 18 matters of significance identified in the reports produced by the Division.
- 219 financial statements and 152 performance indicators audits completed
- 32 certifications issued to assist agencies to meet funding conditions.
- Total audit program completed within statutory deadlines
- Five graduates recruited and commenced training.
- Further enhancements made to Audit methodology and training conducted.

Review of Operations 2004-2005...continued

Improving Public Sector Performance

The core business of the Office is called Performance Auditing. This is a total audit service, encompassing the audit of public sector agencies' financial statements and performance indicators, ensuring controls within agencies are adequate and that all relevant regulations have been complied with, and, most importantly, extending to direct examinations into the efficiency, effectiveness, and economy of agency operations or programs. The Office's three operational divisions – **Assurance Services Division, Compliance and Information Systems Division, Performance Review Division** – share the key accountabilities in improving public sector performance through Performance Auditing, as it is the results of their audits and examinations that are reported directly to Parliament via Reports of the Auditor General.

Improving Financial Management and Administration

The operations of the **Assurance Services Division** serve a two-fold purpose – providing Parliament with opinions on the integrity of public sector agency financial statements, performance indicators and related legislative controls, whilst concurrently promoting greater agency accountability through improved financial management and control systems.

Whilst focused on achieving the corporate outcomes and divisional objectives sought by the Office, the scope and nature of the work and the results delivered have an impact beyond simply ensuring that the 'books balance' and agencies comply with the rules. At a wider level it is about serving the public interest, by providing Parliament with quality information through reports tabled in Parliament that identify matters of significance. Such information can then be factored into Parliament's decision-making when resourcing agencies to deliver programs and services.

Hence operations have the potential to initially improve financial management and accountability across the public sector, increase the transparency of public sector operations, and thus ultimately provide Parliament with assurance about public administration. In turn that assurance, complemented by our scrutiny of any changes in public sector strategic direction, has the propensity to build public trust in the process of government and improve public confidence in government.

Improving the Efficiency and Effectiveness of Agency Operations

The role of the Auditor General is not simply about ensuring public money is spent according to the rules – it is also about ensuring that the community receives value for its tax dollars. The **Performance Review Division** therefore conducts detailed examinations of government activities to ensure they are both efficient and effective.

Examinations do not question the objectives of government programs, but focus on whether stated objectives are being met. Ultimately they deliver reports to Parliament analysing programs, identifying key findings and making recommendations for changes that will improve public sector performance.

The findings and recommendations are designed to encourage and assist agencies to remedy deficiencies by identifying ways of improving systems and controls. The reports promote good management principles and practices that are applicable to the wider public sector. Together the examinations and the follow-up reviews of selected examinations two to three years later, aim to provide Parliament with a reliable basis to assess agency performance.

Improving Controls, Compliance and Accountability

The broad purpose of the **Compliance and Information Systems Division** is to enhance agency operations by assessing whether key areas of public sector operations are reliable and following accepted good practice. This is done through two equally important functions.

One involves the undertaking of Controls, Compliance and Accountability (CCAs) examinations on issues that have a broad application across the public sector such as contract management, procurement and records management. CCAs also focus on important regulatory compliance areas such as food safety and water licensing. The other function involves assessing the capacity of agency computer systems to provide accurate and reliable financial and performance indicator information.

Reports to Parliament and advice to agencies arising from both functions enhance transparency, accountability and facilitate improvements to public sector operations.

Achievements...



- Completed three examinations and one follow-up. Six projects at varying stages of completion.
- 22 Matters of Significance identified.
- Extensive development work undertaken to identify topics of public and Parliamentary interest.
- Quality and integrity of reports as assessed by Corporate Executive, sustained.
- Eight CCA examinations tabled involving 29 different agencies.
- 24 Matters of Significance identified.
- One CCA report is ready for tabling, six projects at varying stages of completion and preliminary development underway on 18 new topics.
- Quality targets met as assessed by Corporate Executive.
- Three Public Interest Disclosures (PIDs) managed to completion
- Project advice and special assistance provided to agencies on four matters.
- Information system auditors completed assessments of 93 per cent of agency computer systems by key target dates.

Achievements...



- Quality Assurance reviews undertaken of a sample of Attest Audits, CCAs and PEs
- The Division contributed to the Department of Treasury and Finance's latest revision of the Treasurer's Instructions and model financial statements
- Comments provided on all relevant Exposure Drafts on accounting and auditing issued by Standards Setting bodies
- Through the OSRG assist in the development of clearer outcome statements and KPIs
- Provided advice in relation to accountability issues and compliance with the FAAA to the Functional Review Implementation Team (FRIT)

Review of Operations 2004-2005...continued

Improving Organisational Performance

The responsibility of supporting the work of the three operational divisions, efficiently and effectively managing the Office and improving organisational performance falls to the **Standards and Quality Division** and the **Business and Strategic Services Division**.

Collectively it is appreciated that quality is the key to delivering superior products and services that bring value to our clients' operations and our own. Near enough is never good enough. Equally, it is realised that to remain leaders in public sector audit the Office must have the vision and broad perspective that enables us to stand at the forefront of our profession, set the standards and show the way.

Enhancing the Standard and Quality of Audit Services

The **Standards and Quality Division's** primary purpose is to provide the Auditor General with assurance that the operational divisions of the Office are complying with Office and professional standards in the conduct and reporting of audits and examinations.

In addition, the Division fulfils a significant role in the quality of key performance indicator reporting within the Western Australian public sector. It also identifies and develops audit approaches to public sector wide initiatives such as the implementation of AIFRS and Shared Corporate Service Centres (SCSC).

The development and adoption of standards relating to the Office's assurance services and performance review functions, and the monitoring of performance against these standards is a major function of the Division. Technical support and advice is given to audit staff on audit policies, practices and procedures, and on developments in auditing, Accounting Standards and Treasurer's Instructions.

The quality review work undertaken ensures that audits and examinations have been conducted in accordance with Office methodology, policies and standards. These reviews also contribute to the continuous improvement of audits and examinations.

Performance indicator services involve liaison with the Departments of Treasury and Finance, and the Premier and Cabinet to ensure that agency outcomes can be measured and are clearly linked to government strategic goals and outcomes.

Enhancing the Relevance, Quality and Timeliness of Services

The **Business and Strategic Services Division** supports the Auditor General in fulfilling his mandate and ensures his reports and wider role in the community best address the needs of Parliament and public for independent information. It also provides integrated services that support and enhance the performance of the OAG. The Division's responsibilities in this pivotal support role for the Office are further detailed in the following 'Managing the Office' section of this report, and highlight key accountabilities in the areas of corporate governance, stewardship of our resources, human resources management, and building strategic relationships with our stakeholders.

The planning and coordination role entails the provision of strategic advice, monitoring and analysing issues and trends, and liaising with key stakeholders in the Office's operations. A range of editorial and communication services are provided to the Auditor General to ensure that both staff and external clients, such as Parliament and the media, are fully informed of Office policy, practice and operations.

Leadership in the management of human, information, financial and other resources is provided to the Office to ensure their efficient use and the flexibility to meet emerging needs. The skills, information and knowledge held by staff and Office systems are the most valuable assets of the organisation. Expert advice is provided on HR matters to support the recruitment, development and retention of the highly skilled staff needed to support the Office's mission. Innovative approaches are continually being sought to better manage the Office's information and knowledge, and to provide financial and administrative support that is closely integrated with OAG operational requirements. The development and maintenance of strategic relationships is a further key component of the Division's wider role.

Achievements...



- Supported the Auditor General to work closely with the Parliamentary Counsel on the review of the FAAA and the creation of a separate Auditor General Act
- Encouraged excellence in public sector audit through coordination of the annual benchmarking project of the Australasian Council of Auditors General
- 2003-04 Annual Report won the WS Lonnie Cup for second year running
- Implemented new focus on e-communications as primary vehicle for OAG publications and communications, including strong focus on access for people with disabilities
- Briefing papers prepared for presentations by the AG to 12 public conferences and forums and nine meetings with Parliamentary Committees, the Premier, Deputy Premier and Leader of Opposition
- Briefing letters prepared for 17 Ministers assuming new or altered portfolio responsibilities
- 95 enquiries and complaints about public sector agencies responded to

At a glance...



As an audit office we strive to practice what we preach and attempt to conduct our own affairs with maximum efficiency and effectiveness ...

The challenge of exemplary corporate governance underpins all aspects of our operations ...

Our corporate philosophy is based on a commitment to quality, professional conduct and excellence of service ...

Our greatest strength is the competence, dedication and enthusiasm of our staff ...

Our ethos is that we seek to be recognised as Independent, Credible and Innovative ...

We always act in a way that values Integrity, Quality and our People ...



Rebekah Lothian, Contracts and Facilities Officer

'Our aim, as in every year, was for efficiency, cost effectiveness, and accountability in the provision of business systems and services to support the core activities of the Office.'

Managing the Office

Given that in serving the public interest our core business entails reporting to Parliament on how others in the public sector utilise the resources entrusted to them, it is imperative that we conduct our own affairs with maximum efficiency and effectiveness. We aim to be exemplary in managing our resources, managing our people and managing our relationships.

This challenge of exemplary corporate governance underpins all aspects of our operations – from the soundness of our strategic planning and quality assurance, through the conduct of our audits and examinations, to our stewardship of the funds allocated to us by Parliament and the professional development of the individuals that choose to be part of our organisation.

The factors that shape and sustain this corporate philosophy are diverse. They are implicit in the organisation's structure, management style and processes, which support the values and behaviours that underlie the Office's purpose of 'Serving the Public Interest'.

Our corporate philosophy is based on a commitment to quality, professional conduct and excellence of service in acting as a catalyst in improving management in the public sector.

Above all the Office recognises that the key factor pivotal to the success of all client service and audit strategies is the creation of an ethical and equitable workplace, free from bias, which values diversity and encourages both individual and collective achievement. Our greatest strength is the competence,

dedication and enthusiasm of our staff.

Independence exercised with integrity and objectivity is the foundation upon which all operations and professional relationships are built. Our ethos is that we seek to be recognised as: Independent, Credible, and Innovative.

Hence we are determined that in achieving our purpose as an organisation and as individuals we will always act in a way that values:

- **Integrity** – we will conduct our business in a professional, ethical and objective manner and take an open, honest and fair approach to our external and internal stakeholders.
- **Quality** – we will improve the performance of the Office and the public sector by working together to do the right thing well and at the right time.
- **People** – we will respect and value the contribution of our people and encourage a cooperative approach to how things get done.

Our Office is committed to the highest standards of corporate governance –

- **managing our resources,**
- **managing our people and**
- **managing our relationships**

as befits a leader in public sector audit and thus ensuring we practice what we preach.

Managing the Office ... continued The Organisation



AUDITOR GENERAL

DES PEARSON

B Bus, Grad Dip Mgt,
FIPAA
FCPA, FAIM

Extensive experience in
corporate management
and public sector audit.



EXECUTIVE DIRECTOR
Stephen Howell,
Dip Crim J, FCPA, MIPAA

ASSURANCE SERVICES DIVISION

Extensive senior executive
experience in Federal and
State public sectors throughout
Australia in the financial
services regulatory environment
together with corporate
governance and enforcement
expertise in both Australia and
South East Asia.

ATTEST AUDIT Directors

Ian Goldsmith
Nayna Raniga
Stella Rapanaro
Vince Turco



EXECUTIVE DIRECTOR
Glen Clarke,
B Bus, CPA

COMPLIANCE AND INFORMATION SYSTEMS DIVISION

Extensive audit and
corporate management
experience in the public
and not-for-profit sectors.

COMPLIANCE AUDIT

Principal Performance
Analyst, Colin Campbell

INFORMATION SYSTEMS

Manager, Steve Mackessy



A/EXECUTIVE DIRECTOR
Peter Wilkins,
PhD, MIPAA

PERFORMANCE REVIEW DIVISION

Diverse experience in
Australia and overseas
including roles as an
engineer, university lecturer,
research consultant and
over 20 years as a public
sector manager.

SPECIALIST REVIEW TEAMS

Director

Neil Brown

Associate Directors

Peter McCann
Karen Schmidt
Peter Ridgway



A/EXECUTIVE DIRECTOR
Paul Jost,
B Bus, FCPA

STANDARDS AND QUALITY DIVISION

Extensive audit and
corporate management
experience in the public
sector.

STANDARDS

Director

Barry Rowe

PERFORMANCE INDICATOR REVIEW

Principal Adviser Performance
Indicator Standards, Rod Berg



A/EXECUTIVE DIRECTOR
Don Cunninghame,
B.Com, FCPA, CISA

BUSINESS AND STRATEGIC SERVICES DIVISION

Diverse experience in
public and private sectors
in Australia and overseas,
including financial attest,
information systems and
internal audit

COMMUNICATIONS

Manager, Peter Villiers

FINANCIAL AND ADMINISTRATIVE RESOURCES

Manager, Les Johnstone

HUMAN RESOURCES

Manager, Pam Aaronson

INFORMATION RESOURCES

Knowledge Manager,
Christina Weeden

PLANNING AND COORDINATION

Manager, Jacque Stepanoff

Corporate Governance

Best practice in Corporate Governance is a key objective of the Office. Achievement of this objective is a major responsibility of Corporate Executive and entails the consideration and approval of all Office policies, setting strategic direction and resource allocation, as well as monitoring Office performance, progress against targets and resource use. In this regard, two strategic committees support the Office:

- Office Consultative Committee (OCC)
- Occupational Safety and Health Committee (OS&H)

Details on the purposes of these committees can be found in Appendix 3 (p100).

Peer Review

To ensure that the Office lives up to its high standards a regular external Peer Review of the Office is undertaken. The Peer Review is a vital part of the process of continuous improvement, and provides the impetus for the Office to finetune operations to better serve Parliament, the public and audit clients.

A Peer Review was conducted by two highly-experienced, senior auditors and a report provided to the Office in 2004. The review recommendations and our responses to that report were presented to the Public Accounts Committee of the Legislative Assembly and Public Administration and Finance Committee of the Legislative Council in July 2004.

The report indicates that overall the reviewers endorsed current approaches and methodologies, concluding that the Office operates effectively and is efficient in meeting its goals. A number of the Review's recommendations were taken up in our Corporate Planning process, and have been progressively implemented across the reporting year.

At a glance...



Best practice in corporate governance is the foundation on which all operations are built ...

Corporate Executive sets strategic direction, oversees resource usage and monitors performance ...

A regular Peer Review tells us if we are on the right track and facilitates continuous improvement ...

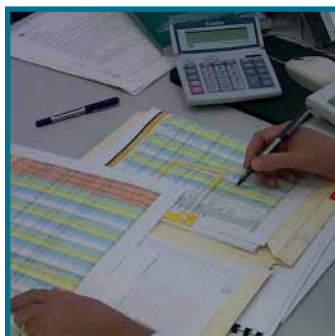
A Peer Review was completed in 2004 and its recommendations and our responses were presented to the Public Accounts Committee and Public Administration and Finance Committee of the Parliament ...

The Review overall endorsed current approaches and methodologies concluding that the Office operates effectively and is efficient in meeting its goals ...

Managing the Office ... continued

Internal Audit

The Office's internal audit function, which covers operational, financial, compliance and other matters as directed by the Auditor General, is resourced through contracted expertise. The Executive Director Standards and Quality Division has responsibility for internal audit.



commitment to ensuring staff are aware of their obligations in respect to the Code of Ethics and Code of Conduct, and policies in relation to Equal Employment Opportunity, access to the Office's facilities and physical assets, and use of the Internet.

External Audit

The independent external audit review of the Office is undertaken by the private firm Fowler Rix Levy who are appointed by the Governor pursuant to Section 81 of the *Financial Administration and Audit Act 1985*.

Risk Management

Operations are undertaken against a whole-of-office risk management matrix, as approved by Corporate Executive. Whilst the Executive Director Business and Strategic Services has overall responsibility for risk management and reports bi-annually to Corporate Executive, the relevance of the matrix is regularly monitored and reviewed by the Office Consultative Committee throughout the year.

Code of Conduct and Staff Declarations

The Office's Code of Conduct is regularly reviewed and amended to ensure its ongoing importance and relevance to staff. It is available to all staff on the Office's intranet and is linked to the Office of Public Sector Standards' Code of Ethics. The Code is part of the induction process and all permanent and temporary employees are required to read and acknowledge it.

All new and current employees are required to sign annual Staff Declaration forms as part of the Office's

Corporate Executive

The Corporate Executive of the Office of the Auditor General comprises the Auditor General and five Executive Directors (Assurance Services, Compliance and Information Systems Audit, Performance Review, Standards and Quality, and Business and Strategic Services). These Officers are all professionally qualified in their area of expertise and possess relevant, broadly-based policy development, performance evaluation, functional review, audit and accountancy skills. All have extensive public sector experience.

The Corporate Executive attests that all of the following corporate governance responsibilities have been appropriately and fully addressed:

- Confirming the Office's financial statements
- Appropriate consideration of the recommendations and advice of the internal and external auditors and other external advisers on the operational and financial risks that face the Office
- Ensuring the Office has an appropriate internal control environment in place to manage identified key risks
- Reviewing and improving existing Office risk management strategies.
- Ensuring adherence to the Office Code of Conduct, the Public Sector Code of Ethics, and all directives of the Office of the Public Sector

Standards Commissioner by all executives, management and staff in carrying out their duties and responsibilities

- Providing the Auditor General with advice on strategic direction
- Assisting in developing corporate policy
- Monitoring the operations and finances of the Office



Nayna Raniga, Acting Director Attest Audit, one of the young executives building a career at the OAG.

At a glance...



The Office's internal audit function is resourced through contracted expertise ...

The independent external audit review of the Office is undertaken by a private firm which is appointed by the Governor ...

Risk management principles are applied to all areas of operation ...

Staff are guided by a Code of Conduct and a Code of Ethics ...

Staff are required to sign Staff Declarations acknowledging their obligations ...

Corporate Executive are all professionally qualified in their areas of expertise and possess broadly based policy development, performance evaluation, audit and accountancy skills ...

Managing our Resources

The year proved to be highly productive, with the consolidation and extension of initiatives commenced in the previous year. The aim, as in every year, was for efficiency, cost-effectiveness, and accountability in the provision of business systems and services to support the core activities of the Office and contribute to its success.



information systems and their usage by staff to maximise technology contributions to business development.

A review of the Branch was initiated in March 2005 to identify further opportunities to improve service delivery and enhance operational effectiveness.

Financial and Administrative Resources

The Financial and Administrative Resources Branch continued to provide financial and administrative support services for the Office. The efficiency of the Branch was further improved during the year with the continued improvement of the Office's key corporate systems and the finetuning of the financial system and its related processes.

A highlight was the extension of charging audit fees to encompass all agencies commencing with 2003-04 audits. This new fee arrangement was implemented during 2004-05 efficiently and effectively despite the number of invoices issued increasing by 100 per cent. In addition, a review of the internal financial management reporting processes through the monthly management reports resulted in Corporate Executive being delivered more tailored and relevant information to assist in their decision-making.

Information Resources

The Information Resources Branch provides Information Management, Information Technology, and Reception services to office staff and external visitors. A Knowledge Manager was appointed to assist raise the level of effectiveness of office

Library and Records

The Information Management section initiated a major project committed to improving the management of information within the office. The Improving Information Management Project streamlines the capture, sharing and lifecycle management of electronic and hardcopy records within the office to enhance business operations and ensure compliance with the State Records Act and the Office's approved Recordkeeping Plan. The Project included upgrading the office electronic document and records management system to TRIM Context. The Office's thesaurus and controlled vocabulary was also refined.

The Staff Induction Program continued to cover recordkeeping practices and responsibilities. A Training Program incorporating recordkeeping awareness and using TRIM Context was developed and will be progressively implemented from July 2005. Recordkeeping training is an ongoing program that is monitored and adapted to suit both business processes and SRC Standard 2 – Principle 6 compliance.

Section 82 contracts and other Office contract templates were amended to ensure compliance with the *State Records Act* and the State Records Commission Standard 6 on Outsourcing.

Performance Indicators are being developed for the Improving Information Management Project. These indicators will focus on the delivery of services.

Information Technology

The Information Technology section continued to provide technical support to Office staff working at remote locations and for staff at central office. All laptop computers were upgraded as part of a cyclical equipment refreshment program, delivering improved functionality and operational reliability to all staff. A new server, mass storage devices and critical networking equipment based on high availability, high redundancy technology were implemented to replace obsolete equipment, and critical server applications were upgraded to improve reliability and security.

An independent software audit was conducted of the software licence management processes, and returned a highly positive assessment.

Reception

An effective and customer-focused Reception service continued to provide the initial contact point for visitors and telephone enquiries. The telephone management software was enhanced and future plans include additional communication services to all Office staff such as unified messaging services that integrate with the office email system.

The Environment

Recognising its broader environmental obligations as a good corporate citizen, the Office actively sought to minimise any impact of its operations on the environment through education and responsible management. Reduce, reuse and recycle was the approach, with practical measures such as the use of recycled paper in publications, use of recycled diskettes, recycling toner cartridges and the positioning of recycling bins through the organisation helped all staff to do their bit for the environment.

At a glance...



Continued improvement of the Office's key corporate systems and the finetuning of the financial system...

New fee arrangement was implemented during 2004-05 efficiently and effectively despite the number of invoices issued increasing by 100 per cent...

A review of Information Resources Branch undertaken in March to improve service delivery and enhance operational effectiveness ...

Major project started to improve the management of information in the Office, enhance business operations, and ensure compliance with the State Records Act and the Office's approved record keeping plan ...

Information technology was upgraded as part of a cyclical equipment upgrade program ...

Office recognises its obligations to the environment with reduce, reuse and recycle the approach ...

Energy Saving Initiatives

The table below shows an eight per cent variation in energy consumption for 2004-05 over the baseline target. The increase was primarily due to:

- A temporary increase in the number of computer servers required for corporate systems which contributed to increased energy consumption.
- A problem with the air conditioning system in the Office's computer room. This problem was ongoing throughout 2004-05 and had an impact on the Office's energy consumption.



OAG Website Development – Internet and Intranet

Throughout the year the OAG website was modified and enhanced to better serve our stakeholders and staff.

Innovations included:

Upgraded Search Engine – the Zoom Website Search Engine was

purchased to replace the existing search facility. The new search engine allows for greater control on how the search engine scans the OAG website and the way search results are displayed. The new engine also allows for better access to search logs to better understand what search phrases are being used

by those who access the OAG website.

Matters of Significance – added to the OAG website and contains a PDF document that lists all the matters of significance that were identified during the year. This page has been accessed over 1 000 times since it has been added to the OAG website.

OAG Annual Report – in recent

years the OAG Annual Report has been produced in both Html and Adobe PDF format for the OAG Website. A link to this page has been placed in the navigation structure on the left hand side of each page which means it is accessible from anywhere on the site. In the 12 months after tabling the 2004 Annual Report was downloaded nearly 13 000 times.

Energy Smart Government Program	Baseline Data	2004-05 Actuals	Variation %
Energy Consumption (MJ)	630	681	8%
Energy Cost (\$)	\$22 764	\$24 554	
Greenhouse Gas Emissions (tonnes of CO2)	161	172	
Performance Indicators			
MJ/sqm	317MJ/m2	300 MJ/m2	
MJ/FTE	6 001 MJ/FTE	5 362 MJ/FTE	

Despite the problems indicated above that increased the Office's energy consumption, management is confident that these issues have now been addressed. The Office remains committed to achieve a 12 per cent reduction in non-transport related energy use by 2006-07 in accordance with Energy Smart Government policy.

Reports uploaded within minutes of tabling – In the past 12 months all of the Reports to Parliament have been uploaded to the OAG Website within five minutes of tabling the Report. This includes the summary of the Report, the full PDF, the media statement and a link to the Report from the front page of the site.

Smaller PDFs for downloading – In the last 12 months work continued on reducing the size of the Auditor General's Report when placed on the OAG website in Adobe PDF. In previous years the Reports averaged one megabyte in size. With a newer version of the Acrobat software and continuing to streamline our processes, we have been able to reduce the size of the Reports to an average of 200 to 300 kilobytes. This reduction in size dramatically reduces the download times for users and requires less space on the OAG website servers.

Search Engine Submission – regular submission of the OAG website and the Auditor General's Reports to the major search engines continued. This ensured that OAG Reports were made available to as wide an audience as possible.

Emailing list – The Office emailing list continued to grow with members from around the world, including MPs, agencies, members of the public, students and media representatives. Subscribers receive a personalised email which includes the text of the summary card for the Reports and a link to the full report and media statement on the OAG website. Currently over 350 people are subscribed to the list. During the year the Mailing List software was upgraded to allow closer integration with Microsoft Outlook. This upgrade has greatly enhanced the process of managing and sending emails to the subscribers.

Website Visits ...



Report	Downloads
Annual Report 2004	12 896
Life Matters: Management of Deliberate Self-Harm in Young People	8 271
Balancing Act: The Leasing of Government Assets	6 402
A Critical Resource: Nursing Shortages and the Use of Agency Nurses	3 447
Report on Ministerial portfolios at November 1, 2004 and Performance Examination of Management of Natural Resource Management Funding	3 028
Responding to Major Bushfires	2 903
Listen and Learn: Using customer surveys to report performance in the Western Australian public sector	2 629
Preparing Performance Indicators	1 939
Annual Report 2003	1 845
Under Wraps! Performance Indicators of Western Australian Public Hospitals	1 684

Managing our People

The Office of the Auditor General is made up of some 113 dedicated staff from a diversity of backgrounds. They are committed, talented professionals with the skills, personal attributes and qualifications to serve the public interest through the comprehensive external audit of the Western Australian public sector. This commitment enables the Auditor General to fulfil his mandate of improving public sector accountability and performance.

Audit staff have accounting, finance and business management qualifications whilst evaluation staff come from a number of disciplines including engineering, finance, economics and psychology. Some of our support staff have finance, computing and human resource qualifications including extensive work related experience.

Recruitment

To remain at the forefront of public sector audit and maintain its leadership in performance auditing, the Office endeavours to attract high-quality staff via innovative and timely recruitment processes. There is a set process in place for recruitment and selection enabling a six to eight week time line from start to finish. A pool of suitable applicants is retained for six months at the conclusion of the selection process. The comprehensive graduate recruitment process requires applicants to have a number of interviews, produce a case study and undergo psychometric testing to ensure their suitability as an auditor.

The Office offers prospective employees flexible working practices, including purchased leave, working from home and part-time working arrangements.



Leave without pay opportunities are also considered on a case by case basis to enable staff to manage family responsibilities, and perhaps experience work in overseas accounting firms and in other audit offices in Australia. By providing and supporting these flexible working arrangements the OAG is able to

accommodate most staff as they attempt to balance their home and work life. These policies assist in making the Office an employer of choice.

Graduate Recruitment

The focus of the Office's Graduate Development Program is to provide new graduates with a three year structured path that enables them to become productive auditors, while at the same time giving them the fundamental skills and competencies to pursue careers that will take them to positions of leadership.

The program aims to give graduates:

- an understanding of the principles and precedents of external auditing in the WA public sector
- a well-rounded experience of the Office of the Auditor General
- skills and competencies to perform the responsibilities associated with the position of graduate auditor
- skills and competencies to enable progressive development to positions of leadership and management
- a healthy balance between professional and personal development.

In February 2005 the Office appointed five graduate auditors.

Equity and Diversity

The Office strived to meet its projected staffing targets in the five diversity categories as outlined in Premier's Circular 2001. This year the Office equalled and surpassed its projections in four of the Diversity categories; improved distribution of women, people from cultural backgrounds, people with disabilities, and youth. Currently one indigenous cadet is on the staff with plans in place to take on another cadet in the near future.

Categories	Actual 2001	Actual 2003	Actual 2004	Actual 2005	Projected 2005
Equity index	60	49	49	62	63
Improved distribution of women					
Indigenous Australians	0	1.9%	2.7%	0.8%	1.9%
People from cultural backgrounds	3.8%	1.9%	*17.3%	*20%	14.3%
Disabilities	1.9%	1.9%	1.8%	5.1%	3.8%
Youth	9.5%	19%	9%	17%	10.5%

* revised EEO questionnaire

The male/female ratio at 30 June 2005 is 54/59.

The action plans contained in the Office's five year EEO and Diversity Plan have now been finalised and preparation is underway for a new plan to consolidate an office that is harassment free and where people are treated with courtesy and respect.

Youth

The Office supports employment of young people. The current average age profile of the Office is 38 years. Each year the graduate auditor intake as well as taking school based trainees replenishes the Office's youth profile. The current school based trainee works two days per week in our Information Resource Branch. This traineeship provides a great opportunity for young people to experience and learn in a working environment and is a valuable resource to the Office. Our first trainee is now one of our permanent staff. She was selected as trainee of the year for the Swan District.

At a glance...



The Office has some 113 staff with a variety of expertise and professional qualifications ...

Innovative recruitment practices are used to attract high quality staff ...

Flexible working hours enable staff to gain experience and skills and to balance their home and work life ...

New graduates recruited to the Office have a structured development program to start them in their careers ...

The Office equalled and surpassed its projections in four of the five diversity categories it is required to report ...

Currently the Office employs one indigenous cadet with another joining in the near future ...

The male/female ratio of the Office is 54/59 ...

The Office actively supports employment of young people ...

Managing the Office Managing our People... continued

Indigenous Cadetship Program

Our first indigenous cadet graduated as a lawyer in December 2004. The Office now has another indigenous cadet studying law. She works in the Office during the summer semester in the Performance Review and Business and Strategic Services Divisions.



It helps to maximise efficiencies in employee resources during peak periods, without incurring any overtime expenses. The arrangement supports the Office's ongoing commitment to reduce costs and increase productivity, whilst at the same time provide flexible working arrangements for staff. Staff are also able to clear accumulated

leave during the Christmas break when the auditing cycle has been finalised.

Disability Services Plan

A five-year Disability Services Plan is in place to ensure that people with a disability have access to the Office's services, and in particular our Reports to Parliament. The plan identifies objectives and strategies to overcome barriers to accessing our building and reading our reports.

Grievance Resolution

Should a staff member wish to seek confidential counselling to resolve issues affecting their work they may attend sessions with an Employee Assistance Provider.

The Office has trained Grievance Officers to assist staff in grievance issues and to explain rights in a grievance. The Grievance Officer endeavours to provide a constructive way of resolving these issues in accordance with the Office's Grievance Resolution guidelines.

Employee Relations

Agency Specific Agreement (ASA) 2005

The Office's second ASA was registered in the Industrial Relations Commission in February 2005. The ASA provides a formal framework to administer and manage flexible working arrangements for staff.

Classification	Female		Male		Total	
Level 1	7	(10)	4	(3)	11	(13)
Level 2	9	(11)	1	(3)	10	(14)
Level 3	8	(3)	4	(3)	12	(6)
Level 4	8	(11)	5	(7)	13	(18)
Level 5	14	(9)	7	(5)	21	(14)
Level 6	7	(8)	11	(11)	18	(19)
Level 7	3	(3)	10	(12)	13	(15)
Level 8	3	(2)	6	(7)	9	(9)
Level 9		-	3	(3)	3	(3)
Class 1		-	2	(2)	2	(2)
Class 3		-		-		
Special		-	1	(1)	1	(1)
TOTALS	59	(57)	54	(57)	113	(114)

Employees by Gender at 30 June 2005

Comparative figures for 2004 are in parenthesis

Redeployment, Termination and Discipline

No staff were redeployed during the year and no staff member had their employment terminated. It was not necessary to apply any formal disciplinary procedures during 2004-05.

Industrial Relations

There were no industrial issues during the year.

Human Resource Management

Strategic Plan

The Human Resource Branch operate through a comprehensive Strategic Plan linked to Key Performance Indicators. Each year the Manager Human Resources prepares an overview for Corporate Executive on the status of recruitment outcomes, future staffing needs, legislative changes that impact on conditions of employment and statistical analysis of current staffing across the Office.

Staff Turnover and Personal Leave

Staff Turnover for the past three years has remained relatively constant. In 2002-03, 18 per cent; 2003-04 14 per cent and 2004-05, 16 per cent.

The Office continues to monitor personal leave usage and contain and reduce that usage. The average personal leave usage per person for 2003-04 was 4.5 days and six days for 2004-05.

Information Management System

The Human Resources Branch successfully upgraded its Human Resource Information Management Systems in December 2004. This web kiosk functionality enables staff to electronically apply for leave, view their leave balances, change their personal and bank details, and view their pay slips.

Work and Development Planning Tool

The Office's work and development planning tool, the vehicle for managing staff performance continues to evolve across divisions and has become the driving force for bringing together and linking individual and team objectives with corporate ethos and objectives. It also identifies development opportunities for individuals.

At a glance...



Our first indigenous cadet graduated as a lawyer in 2004 ...

A five-year Disability Services Plan is in place ...

The Office's second Agency Specific Agreement registered in 2005 providing a formal framework to manage flexible working arrangements ...

There is a strong commitment to professional development both in terms of financial resource and time ...

Employees by Business Unit at 30 June 2005

Auditor General's Division	5
Assurance Services Division	57
Performance Review Division	13
Compliance, & IS Audit Division	12
Standards & Quality Division	4
Business & Strategic Services Division	22
Total	113

These figures include 12 staff currently on secondment, parental leave and leave without pay

Professional Development

The Office has a strong commitment to professional development, both in terms of financial resources as well as providing staff time to attend professional development opportunities.



- specific training for functional areas
 - Assurance Service staff received IDEA and International Accounting Standards training
- support for staff undertaking post-graduate and professional qualifications, such as with the Institute of Chartered Accountants or CPA Australia

Initiatives have been implemented in a number of areas to consolidate the Office's position as an employer of choice:

- a comprehensive induction process for all new staff
- linking the Work and Development Planning Tool to incorporate identified training and development needs
- whole of Office training in Report Writing.

- attendance at courses and seminars on topical issues.

Occupational Health, Safety

During the year the highly successful Wellness Program, begun four years ago, concluded.

Discussions are now underway for the development of a replacement program.

Monitoring of Sick and Carer's Leave continued. The average sick leave usage per person remained stable on the previous year.

Factor	2002-03	2003-04	2004-05
Frequency Rate*	5.5	5.29	5.34
<u>Number of LTI/D X 1 000 000</u> Total Hours Worked			
Incidence Rate*	1.09	1.03	1.04
<u>Number of LTI/D X 100</u> Total Number of Employees			
Average Lost Time Rate*	1	0	0
<u>Number of Working Days Lost</u> Number of LTI/D			
Estimated Cost of Claims per \$100 payroll	0.03	0.03	0.04
<u>Estimated Cost of Claims Incurred X 100</u> Total Payroll			
Premium Rate	0.48	0.36	0.32
Premium as a percentage of Payroll			
Rehabilitation Success Rate	100%	100%	100%
<u>Number of Rehabilitated Employees X 100</u> Number of employees eligible for Rehabilitation			

* Journey and recess claims are excluded from these factors in conformity with National Occupational Safety data collection practice.

Workers Compensation and Rehabilitation

The comparative indicator factors in the table (left) are those recommended by the State Government Insurance Commission for agencies to meet their reporting requirements.

Managing our Relationships

The needs of our clients and our desire to continuously improve ourselves and the services and products we offer, is the foundation on which all our relationships are built. Such relationships are forged in the knowledge that we have a leadership role in public sector audit, are committed to the Office being a good corporate citizen, and ultimately that we are here to serve the public interest.

Referrals

The number of enquiries and complaints about the public sector received by the Office declined significantly in 2004-05. The Office received a total of 95 enquiries and complaints, a 49 per cent decrease on the 185 enquiries and complaints received in 2003-04.

Several factors may have contributed to this decline. New accountability agencies have been established and other initiatives have been launched which are aimed at better informing the public of avenues for complaint about the public sector. These new agencies and initiatives include:

- the establishment of new accountability agencies and legislation such as the State Administrative Tribunal, the Corruption and Crime Commission and the *Public Interest Disclosure Act 2003*.
- the Western Australian Government complaints policy, which aims to strengthen and promote complaints management procedures right across the public sector, including internal complaint procedures within agencies
- the Integrity Coordinating Group (ICG), a cross-agency venture established by the Commissioner for Public Sector Standards, the Corruption and Crime Commissioner, the State Ombudsman and the Auditor General. One of the aims of the ICG is to clarify and promote the roles of accountability agencies, helping agencies and the public refer their concerns to the most appropriate body in the first instance.

In past years, the Office has often acted as a 'broker' for complaints about the public sector, referring the public to other more appropriate agencies to assist them with their concerns. The new agencies and initiatives outlined above may have contributed to the decrease of these types of enquiries and complaints.

At a glance...



Client needs and continuous improvement are the foundation on which our relationships are built ...

The number of enquiries and complaints declined significantly ...

The reason for that decline is the establishment of new accountability agencies and other initiatives aimed at better informing the public of avenues for complaint or query ...

The Integrity Coordinating Group (Commissioner for Public Sector Standards, Corruption and Crime Commissioner, Ombudsman and Auditor General) promotes the roles of accountability agencies and helps the public refer their concerns to the most appropriate body ...

Client Focus

Client focus is an integral part of evaluating and developing the Office's approach to core business and the vehicle for aligning services and products to client needs and determining their success. The cornerstone of this strategy remains the Parliamentary Survey, with support from both formal and informal client feedback. Our relationship with Parliament, our primary client, and public sector agencies has already been outlined in the earlier pages of this report. The results of this year's Parliamentary Survey are detailed at page 22.

During the year in the normal course of business interaction feedback was obtained from a variety of agencies as to the Office's performance. The feedback was generally positive and identified a number of issues that were considered. Overall, it is evident that agencies are satisfied that the Office has a good understanding of their business and the risks they face. Equally, most were satisfied with the level of expertise and customer service demonstrated by OAG officers, and viewed the Office as being impartial, independent and providing confidence.

However, while this informal agency feedback has proved highly useful to the Office, it was decided during the year that to better serve public sector agencies the biennial Agency Survey, discontinued some years ago, would be reintroduced in improved form starting from next year. The improved survey is being developed in a joint project with peer audit offices under the auspices of the Australasian Council of Auditors General. When complete not only will it enable the Office to better ascertain the needs of its audit clients, but also it will be possible for the Office to benchmark its performance against that of peer offices.



Leadership in Public Sector Audit

During the year the Auditor General was appointed by the Chairman of the Financial Reporting Council to be a member of the Australian Accounting Standards Board. The Board is responsible for developing and issuing Accounting Standards and the 'care

and maintenance' of the body of Standards. With the Office recognised by national and international observers as being at the leading-edge of public sector audit, Mr Pearson's views on accountability, contracting, business ethics and public sector management issues were keenly sought.

He was invited to sit on a number of panels during the year to provide insight and incisive input on issues such as ethics and corporate governance, including:

- 'New Directions in Governance – What are the Signposts Saying?' – Seminar presented by the Corporate Governance and Social Responsibility Research Unit of Curtin Graduate School of Business
- 'Building and Sustaining Public Sector Integrity – Presenting a Collaborate Approach' – Office of the Public Sector Standards Commission and Corruption and Crime Commission

Presentations given by the Auditor General included

- 'Operating an Ethical Organisation' – Museum Assistance Program Course, Introduction to the Roles of Museums and Museum Practices.
- 'Auditor General's Roles and Responsibilities' – Lecture series involving staff of the Public Sector Standards Commission, Office of Health Review, Freedom of Information and the Ombudsman.

- 'Accountability, Governance and Delivering Community Outcomes' – Aged and Community Services WA, Contemporary Issues in Public Accountability, and 2005 Community Compass Conference on Volunteering Western Australia.
- 'Relationship Issues between the Office of the Auditor General and the Western Australian Accounting Profession: Issues and Influences likely to impact the Financial Administration and Audit of both Public and Private Sector Entities in 2005' – The Institute of Chartered Accounts in Australia Networking Breakfast.

Also during the year Senior Officers of the OAG presented a number of Papers.

- CPA Congress 2005 – 'Encapsulating Corporate Governance in the Identification of Fraudulent Activity'.
- FAAW Corporate Governance Forum – 'Achieving Better Corporate Governance'
- Presentation to CPA Week: Who Is Using Public Sector Performance Information, and Why?
- Presentation 'Contemporary Issues in Public Sector Audit - an Australian Perspective' to Audit Scotland and the Chambre Regionale des Comptes, Marseille, France
- Australasian Council of Auditors General Conference 2005 – 'Implications of New and Emerging Roles for Auditors General'

Regional Assistance

Many of the Office's clients are located in regional areas of Western Australia. Agencies include health services, colleges, port authorities, development commissions and water boards, in addition to regional offices of larger departments.

During the annual audit process Office staff travel to all parts of the State to audit these regional clients. The Office also supports local economies by giving preference to regionally based accounting firms in the tender process for any out-sourced regional audits.

Expanding technologies are also providing these agencies with levels of customer service comparable with agencies located in the metropolitan area. The Internet and associated facilities has increased our clients' accessibility

At a glance...



Client focus is an integral part of evaluation and developing the Office's approach to core business and the vehicle for aligning services and products to client needs ...

The Parliamentary Survey lies at the heart of this ...

During the year feedback was obtained from agencies as to the performance of the Office ...

Feedback was positive and identified a number of issues that were considered ...

During the year it was decided that to better serve public sector agencies the biennial Agency Survey would be reintroduced in superior form ...

The Auditor General was at the forefront in presenting to a wider audience the role of public sector audit ...

Staff have regular direct contact with clients in regional Western Australia through the conduct of audits ...

Managing the Office Managing our Relationships.. continued

to our staff and given them convenient and easy access to the Office's reports and publications.

Agency Assistance

Staff responded to client queries on a range of public sector accountability issues including:

- corporate governance matters
- public sector financial management and reporting
- application of Australian Accounting Standards, Treasurer's Instructions and AIFRS
- content and presentation of agency performance information
- compliance with State Supply Commission procurement guidelines.

Australasian Council of Auditors General (ACAG)

ACAG matters were again given a high priority by the Office, with ongoing involvement in a range of cross-jurisdiction public sector audit issues. 2005 marked the tenth anniversary of our role as national coordinator of the ACAG Macro Benchmarking project, an initiative designed to allow audit offices across Australia to share information on best practice in public sector audit.

We continued to take a leading role in national conversations on current technical issues and the development of new audit methodologies. In addition, the Office provided responses on exposure drafts and discussion papers on accounting and auditing, and on a rotational basis coordinated the ACAG responses. During 2004-05 the Office coordinated the development of four exposure drafts, made significant



contribution to 20 drafts or discussion papers initiated by other offices and responded to 16 general requests for information on our audit practice.

Audit Committee Membership

Senior audit staff participated on over 36 of our clients' audit committees

throughout the year. Not only did this provide our staff with greater insight into our clients' operations, but also OAG staff were able to provide advice and assistance directly to client management when issues arose. Staff responded to client queries on a range of public sector accountability issues including corporate governance, financial management and reporting, Australian Accounting Standards and Treasurer's Instructions.

Participation by Office staff on audit committees increases agency awareness of public sector accountability and reporting requirements and also promotes greater compliance with these requirements across the public sector.

Professional Affiliations

Senior members of staff were actively involved in professional organisations such as the Public Sector Accountants Group, various committees of CPA Australia, the Australasian Evaluation Society, the Information Systems Audit and Controls Association, the Institute of Public Administration Australia, the Australasian Council of Auditors General Liaison Committee, the Legislation Review Board of AARE, the Business Law School Advisory Committee of Curtin University, and the Department of the Premier and Cabinet's Reference Group on Complaints Management.

International Liaison

During the year the Office hosted senior audit officials from the Chamber of Accounts of the Republic of Azerbaijan who were keen to observe our operations and discuss accountability and public sector audit issues whilst gaining insight into our approach to performance and value for money audits.

A comprehensive three-day program was prepared for our visitors, with presentations delivered by the Auditor General, Executive Directors and senior officers. Topics covered included working methods and IT, preparation of budgets, quality control and assurance, auditing treasury functions, performance auditing, reporting, and training and staff development.

The feedback from the delegation was highly complimentary, indicating that they had gained valuable insight and information which would assist in purposefully establishing and consolidating a meaningful public sector audit function in the Republic. Members expressed the view that the scope and depth of the Office's presentation had far exceeded that of the other agencies they had visited across Australia.

Peer Office Liaison

In staying at the forefront of public sector audit, close liaison was maintained with peer audit offices in other States, not only on audit issues but also covering such areas as communications, legislation, human resources and EEO practice.

At a glance...



OAG staff routinely assist all agency clients on a range of accountability issues ...

Involvement in the Australasian Council of Auditor Generals is a priority for the Office ...

2005 marked the tenth anniversary of our role as national coordinator of ACAG benchmarking project ...

Senior staff are represented on over 36 of our clients audit committees ...

Staff are actively involved in professional organisations such as CPA Australia, the Australasian Evaluation Society and IPAA ...

During the year senior audit officials from the Chamber of Accounts of the Republic of Azerbaijan were given a comprehensive three day program on a variety of audit, accounting and reporting issues ...

Close liaison is maintained with peer audit offices in such areas as communications, legislation and audit matters ...

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Les Johnstone, Finance Manager

'One notable development for the year was an increase in baseline funding of \$800 000 to strengthen the assurance services function and to enable the rebuilding of staff expertise.'

Financial Statements and Performance Indicators

Financial Overview

The following is a summary of the financial performance and position of the Office showing trends from 2001 through to the current period ended 30 June 2005. The summary is based on the information provided in the Office's audited financial statements.

There are two notable developments which distinguish 2005 from prior years:

- First, to better recognise the role as Parliament's auditor, changed fee arrangements with effect from 1 July 2004 were introduced. In addition

to extending the levying of fees to encompass budget dependent agencies, audit fees are now collected on behalf of government and reported as Administered transactions in the Notes to the Financial Statements rather than being treated as revenue of the Office. All audit fees are now paid directly into the Consolidated Fund. The effect is that revenue has reduced significantly while net cost of services has increased correspondingly.

- Second, an increase in baseline funding of \$800 000 was provided to strengthen the assurance services function and to enable the rebuilding of staff expertise.

	2001 \$'000	2002 \$'000	2003 \$'000	2004 \$'000	2005 \$'000
Financial Performance					
Total Income ^(a)	10 879	11 194	11 526	10 587	12 704
Total Expenditure	11 318	10 616	10 809	11 926	12 779
Net Cost of Services	8 217	7 166	7 352	9 770	12 627
Change in Net Assets	-439	578	717	-1 339	-75
Financial Position					
Total Assets	1 593	2 765	3 318	2 498	2 600
Total Liabilities	1 501	1 716	1 523	1 920	2 205
Employee Entitlements	1 048	1 293	1 093	1 468	575
Analytical Information					
Operating Result to Total Income ^(b)	-4.04%	5.16%	6.22%	-12.65%	-0.59%
Current Ratio ^(c)	1.11	2.20	2.84	1.49	1.59
Receivables to Total Income ^(d)	0.07	0.11	0.13	0.02	0.02

a) Total Income refers to Total Operating Revenue and Total Revenues from Government. 2004 reflects the initial effect of the changed audit fee arrangement indicated above where audit fees are reported as Administered transactions from 1 July 2004. The effect in 2004 was that Work in Progress valued at \$1 184 000 was not recognised in the Office's accounts as revenue. The increase in 2005 is also due to the \$800 000 increase in baseline funding. Had these changes not occurred, there would be no material change in the underlying trends.

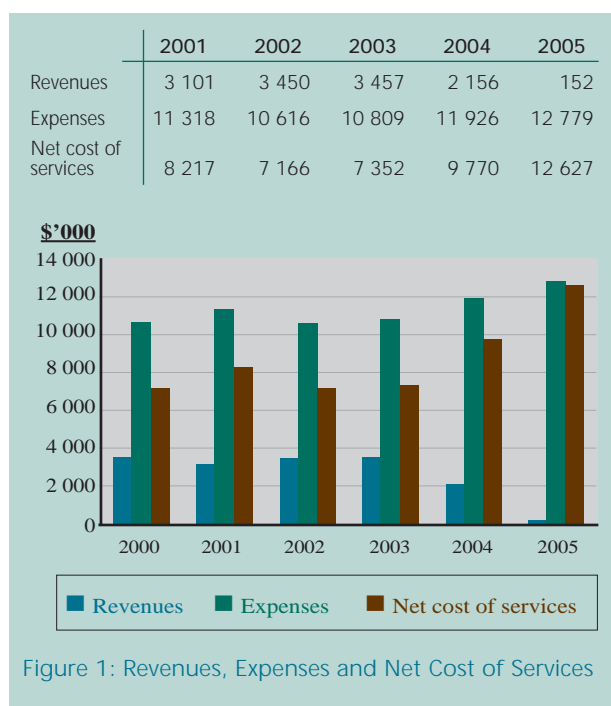
(b) The ratio of Change in Net Assets to Total Income

(c) The ratio of Current Assets to Current Liabilities

(d) The ratio of Receivables and Work in Progress to Total Income

Financial Performance

The Office's net cost of services has increased by 30 per cent (\$12.6m: 2005, \$9.7m: 2004). The increase is mainly due to a revised appropriation following a change in the net appropriation arrangements for audit fees commencing 1 July 2004 and an increase in the Office's baseline funding (\$800 000) for 2004-05.



Revenue

Revenue decreased by \$2 004 000 in 2004-05 due to the revised arrangement for treatment of audit fee revenue whereby fees collected in respect of audit services are now paid directly into the Consolidated Fund.

Expenditure

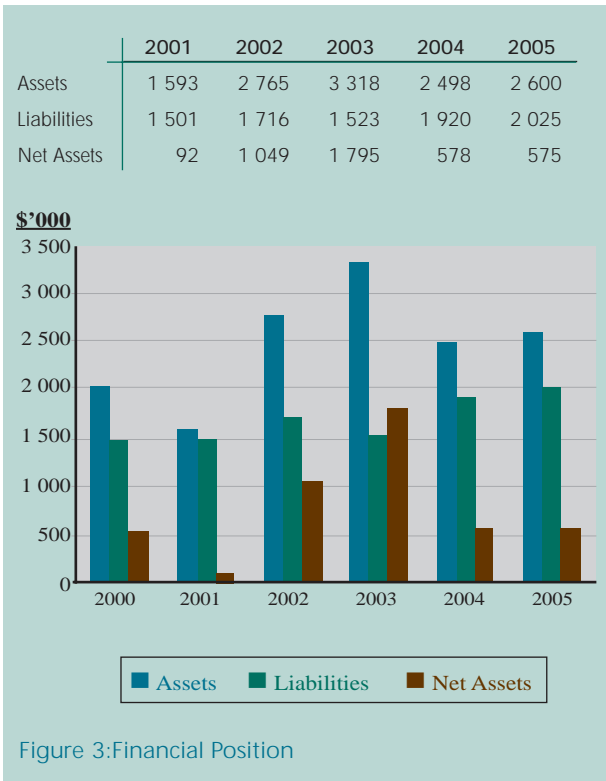
The largest expenditure item for the Office is salaries representing 51 per cent of the 2004-05 total cost of services. Total salaries has remained constant compared to the previous year as that year included a non-recurring severance payment which is offset by salary increases in 2004-05. Private sector audit contract payments increased by 27 per cent (\$562 000) due to a greater use of short-term contract staff. This provided flexibility to meet earlier reporting timetables and the challenge of additional work relating to AIFRS. Other operating expenses increased by \$292 000 (8.9 per cent) largely driven by increased accommodation costs (\$62 000), depreciation expense (\$62 000) and the cost of disposal of non current assets (\$111 000).

Figure 2 presents trends in the total cost of services highlighting salaries, private sector audit contracts and other expenditures over a five-year period.



Financial Position

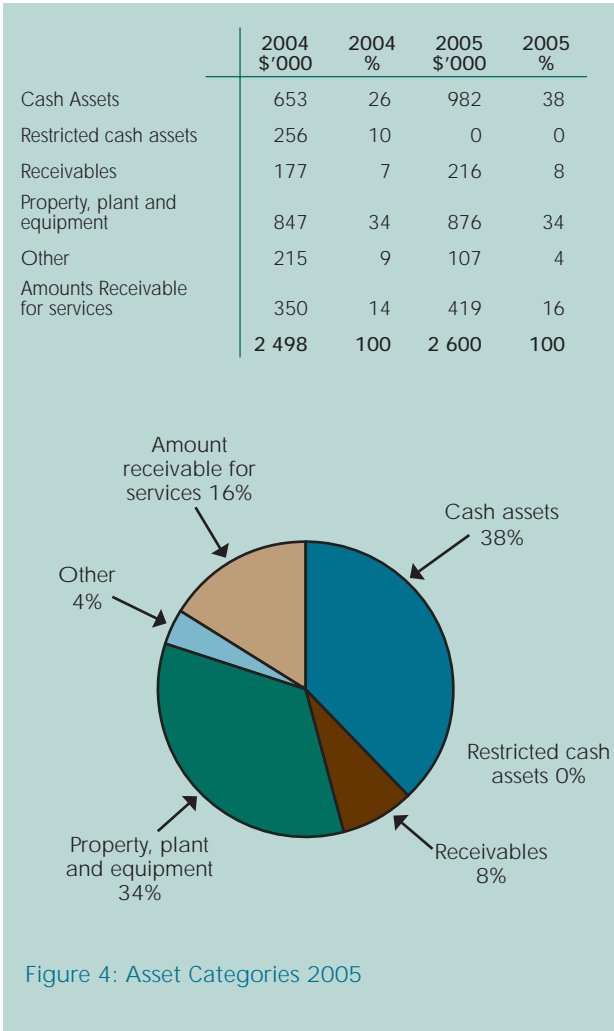
The Statement of Financial Position provides information on the Office’s assets and liabilities. This shows a reasonably constant trend recognising the proportion of Information Technology assets with short useful life cycles and the steady escalation of employee entitlements associated with wage increments. Figure 3 provides an overview of the assets and liabilities position of the Office.



The net assets represents the State’s residual interest in the assets of the Office after deducting the probable call on these resources, represented by liabilities. This position has decreased by only \$3 000 (0.5 per cent) during the financial year mainly due to increases in Cash Assets and Furniture and Equipment and an equivalent offsetting increase in Provisions (increase in employee benefit liabilities).

Assets

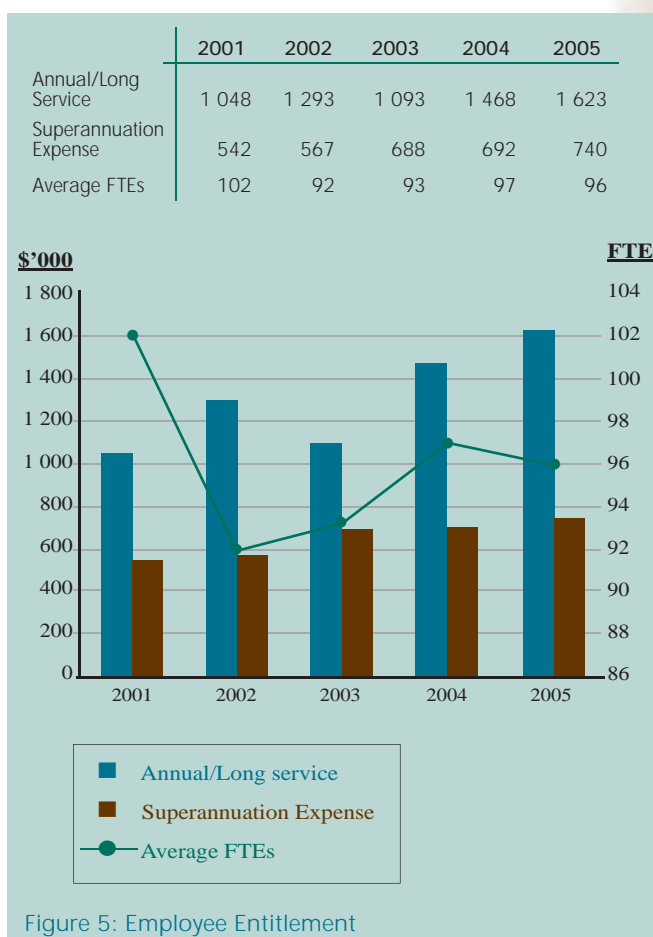
The Office’s asset holdings comprise mainly of Cash and Restricted Cash Assets (38 per cent) and Property, Plant and Equipment (34 per cent) as shown in Figure 4.



Liabilities

The liabilities of the Office comprise mainly of provisions for employee benefits, private audit contracts in progress and payables. The major component of the Office's liabilities for the 2005 financial year (80.1 per cent) relate to employee entitlements. Employee entitlements which consist of annual and long service leave and associated on-costs have increased by \$155 000 (10.5 per cent) during the 2004-05 financial year.

Superannuation is an expense and therefore does not feature in the Statement of Financial Position. However, it is depicted below to provide an overall analysis of the trend in employee related costs and entitlements over the years.



Rod Berg , Principal Adviser Performance Indicator Standards, provided expert advice to numerous agencies on the development and standard of their performance indicators.

OFFICE OF THE AUDITOR GENERAL

FINANCIAL STATEMENTS

CERTIFICATION OF FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2005

The accompanying financial statements of the Office of the Auditor General have been prepared in compliance with the provisions of the *Financial Administration and Audit Act 1985* from proper accounts and records to present fairly the financial transactions for the financial year ending 30 June 2005 and the financial position at 30 June 2005.

At the date of signing we are not aware of any circumstances which would render any particulars included in the financial statements misleading or inaccurate.



D D R PEARSON
ACCOUNTABLE OFFICER
26 August 2005



D CUNNINGHAME
PRINCIPAL ACCOUNTING OFFICER
26 August 2005

INDEPENDENT AUDITOR'S OPINION

OFFICE OF THE AUDITOR GENERAL FINANCIAL STATEMENTS



RIX LEVY FOWLER
CHARTERED BUSINESS ADVISORS

**INDEPENDENT AUDIT REPORT
TO THE PARLIAMENT OF WESTERN AUSTRALIA**

**OFFICE OF THE AUDITOR GENERAL
FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2005**

SCOPE

I have audited the financial statements comprising the Statement of Financial Performance, Statement of Financial Position, Statement of Cash Flows and Notes to the financial statements of the Office of the Auditor General for the year ended 30 June 2005 under the provisions of the Financial Administration and Audit Act 1985.

The Accountable Officer is responsible for keeping proper accounts and maintaining adequate system of internal control, preparing and presenting the financial statements, and complying with the Act and other relevant written law. The primary responsibility for the detection, investigation and prevention of irregularities rests with the Accountable Officer.

My audit was performed in accordance with section 81 of the Act to form an opinion based on a reasonable level of assurance. The audit procedures included examining, on a test basis, the controls exercised by the Office of the Auditor General to ensure financial regularity in accordance with legislative provisions, evidence to provide reasonable assurance that the amounts and other disclosures in the financial statements are free of material misstatement and the evaluation of accounting policies and significant accounting estimates. These procedures have been undertaken to form an opinion as to whether, in all material respects, the financial statements are presented fairly in accordance with Accounting Standards and other mandatory professional reporting requirements in Australia and the Treasurer's Instructions, so as to present a view which is consistent with our understanding of the Office of the Auditor General's financial position, the results of its operations and its cash flows.

The audit opinion expressed below has been formed on the above basis.

AUDIT OPINION

In my opinion:

- (i) The controls exercised by the Office of the Auditor General provide reasonable assurance that the receipt and expenditure of moneys and the acquisition and disposal of property and the incurring of liabilities have been in accordance with legislative provisions; and
- (ii) The financial statements of the Office of the Auditor General are based on proper accounts and present fairly in accordance with Accounting Standards and other mandatory professional reporting requirements in Australia and the Treasurer's Instructions, the financial position of the Office of the Auditor General as at 30 June 2005 and financial performance and cash flows ended on that date.

Rix Levy Fowler

RIX LEVY FOWLER
Chartered Business Advisors

DATED at PERTH this ²⁶ day of August 2005

Phillip Rix

PHILLIP RIX
Partner

P:\OAG Office of the Auditor General\Audit\2005\Audit Report 2005.doc

Partners
Phillip Rix FCA
Jon Carcich CA
George Lazarou CA
Ranko Matić CA

Business Address
Level 1,
12 Kings Park Road,
West Perth WA 6005

Postal Address
PO Box 44
West Perth WA 6872

Ph: 08 9226 4500
Fax: 08 9226 4300
www.rixlevyfowler.com.au



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OFFICE OF THE AUDITOR GENERAL

STATEMENT OF FINANCIAL PERFORMANCE
FOR THE YEAR ENDED 30 JUNE 2005

COST OF SERVICES	Note	2 005 \$'000	2 004 \$'000
Expenses from ordinary activities			
Employee expenses	4	7 320	7 273
Supplies and services	5	4 220	3 597
Depreciation expense	6	398	336
Accommodation expenses	7	616	554
Capital User Charge	8	114	166
Costs of disposal of non-current assets		111	0
Total cost of services		12 779	11 926
Revenues from ordinary activities			
<i>Revenue from operating activities</i>			
User charges and fees	9	0	2 133
<i>Revenue from non-operating activities</i>			
Other revenues from ordinary activities	10	67	22
Proceeds from disposal of non-current assets		85	1
Total revenues from ordinary activities		152	2 156
NET COST OF SERVICES		12 627	9 770
REVENUES FROM STATE GOVERNMENT	11		
Service Appropriation		12 405	8 336
Liabilities assumed by the Treasurer		110	66
Resources received free of charge		37	29
Total revenues from State Government		12 552	8 431
CHANGE IN NET ASSETS		(75)	(1 339)

The Statement of Financial Performance should be read in conjunction with the accompanying notes.

OFFICE OF THE AUDITOR GENERAL**STATEMENT OF FINANCIAL POSITION
AT 30 JUNE 2005**

	Note	2 005 \$'000	2 004 \$'000
Current Assets			
Cash assets	19(a)	982	653
Restricted cash assets	12	0	256
Receivables	13	216	177
Amounts receivable for services	14	419	350
Other assets		107	215
Total Current Assets		<u>1 724</u>	<u>1 651</u>
Non Current Assets			
Furniture and Equipment	15	<u>876</u>	<u>847</u>
Total Non-Current Assets		<u>876</u>	<u>847</u>
TOTAL ASSETS		2 600	2 498
Current Liabilities			
Payables		113	65
Provisions	16	682	656
Other liabilities	17	289	387
Total Current Liabilities		<u>1 084</u>	<u>1 108</u>
Non-Current Liabilities			
Provisions	16	<u>941</u>	<u>812</u>
Total Non-Current Liabilities		<u>941</u>	<u>812</u>
TOTAL LIABILITIES		2 025	1 920
Equity	18		
Contributed equity		602	530
Accumulated surplus / (deficiency)		(27)	48
TOTAL EQUITY	18	575	578
TOTAL LIABILITIES AND EQUITY		2 600	2 498

The Statement of Financial Position should be read in conjunction with the accompanying notes.

OFFICE OF THE AUDITOR GENERAL

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2005

	Note	2 005 Inflows (Outflows) \$'000	2 004 Inflows (Outflows) \$'000
CASH FLOWS FROM STATE GOVERNMENT			
Service appropriations		11 986	7 986
Capital contributions		72	122
Holding account drawdowns		350	365
Net cash provided by State Government		12 408	8 473
Utilised as follows:			
CASH FLOWS FROM OPERATING ACTIVITIES			
Payments			
Employee costs		(7 128)	(6 350)
Superannuation		(634)	(610)
Supplies and services		(2 798)	(2 603)
Capital User Charge		(80)	(166)
GST payments on purchases		(460)	(401)
GST payments to taxation authority		0	(19)
Other payments		(1 298)	(1 367)
Receipts			
User charges and fees		83	3 456
GST receipts on sales		5	333
GST receipts from taxation authority		398	108
Other receipts		32	22
Net cash provided by / (used in) operating activities	19(b)	(11 880)	(7 597)
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from sale of non-current physical assets		85	1
Purchase of non-current physical assets		(540)	(271)
Net cash provided by/ (used in) investing activities		(455)	(270)
Net increase in cash held		73	606
Cash assets at the beginning of the financial year		909	303
CASH ASSETS AT THE END OF THE FINANCIAL YEAR	19(a)	982	909

The Statement of Cash Flows should be read in conjunction with the accompanying notes.

OFFICE OF THE AUDITOR GENERAL

SUMMARY OF CONSOLIDATED FUND APPROPRIATIONS AND REVENUE ESTIMATES FOR THE YEAR ENDED 30 JUNE 2005

	2 005 Estimate \$'000	2 005 Actual \$'000	Variance \$'000	2 005 Actual \$'000	2 004 Actual \$'000	Variance \$'000
DELIVERY OF SERVICES						
Item 35 Net amount appropriated to deliver services	12 518	12 183	335	12 183	8 114	4 069
Amount Authorised by Other Statutes <i>Financial Administration and Audit Act 1985 (FAAA)</i>	222	222	0	222	222	0
Total appropriations provided to deliver services	12 740	12 405	335	12 405	8 336	4 069
CAPITAL						
Item 125 Capital Contribution	113	72	41	72	122	(50)
GRAND TOTAL OF APPROPRIATIONS	12 853	12 477	376	12 477	8 458	4 019
Details of Expenses by Services						
Performance Auditing	12 690	12 779	(89)	12 779	11 926	853
Total Cost of Service	12 690	12 779	(89)	12 779	11 926	853
Less total revenues from ordinary activities	(20)	(152)	132	(152)	(2 156)	2 004
Net Cost of Services	12 670	12 627	43	12 627	9 770	2 857
Adjustments (I)	70	(222)	292	(222)	(1 434)	1 212
Total appropriations provided to deliver services	12 740	12 405	335	12 405	8 336	4 069
Capital Expenditure						
Purchase of non-current physical assets	463	540	(77)	540	271	269
Adjustment for other funding sources	(350)	(468)	118	(468)	(149)	(319)
Capital Contributions (appropriation)	113	72	41	72	122	(50)
DETAILS OF REVENUE ESTIMATES						
Revenues disclosed as Administered Revenues	9 037	13 157	(4 120)	13 157	0	13 157

(I) Adjustments are related to movements in cash balances and other accrual items such as receivables, payables and superannuation.

The Summary of Consolidated Fund Appropriations, Variance to Budget and Actual should be read in conjunction with the accompanying notes.

This Summary provides the basis for the Explanatory Statement information requirements of TI 945, set out in Note 27.

OFFICE OF THE AUDITOR GENERAL

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2005

1 OFFICE MISSION AND FUNDING

The Office of the Auditor General's mission, through Performance Auditing, is to enable the Auditor General to serve the public interest by communicating to Parliament independent and impartial information regarding public sector accountability and performance.

The Office is predominantly funded by Parliamentary appropriation. The financial statements include all funds through which the Office controls resources to carry on its functions.

2 SIGNIFICANT ACCOUNTING POLICIES

The following accounting policies have been adopted when preparing the financial statements. Unless otherwise stated these policies are consistent with those adopted in the previous year.

General Statement

The financial statements constitute a general purpose financial report which has been prepared in accordance with Accounting Standards, Statement of Accounting Concepts and other authoritative pronouncements of the Australian Accounting Standards Board, and Urgent Issues Group (UIG) Consensus Views as applied by the Treasurer's Instructions. Several of these are modified by the Treasurer's Instructions to vary the application, disclosure, format and wording. The *Financial Administration and Audit Act 1985* and the Treasurer's Instructions are legislative provisions governing the preparation of financial statements and take precedence over Accounting Standards, Statement of Accounting Concepts and other authoritative pronouncements of the Australian Accounting Standards Board, and UIG Consensus Views. The modifications are intended to fulfil the requirements of general application to the public sector, together with the need for greater disclosure and also to satisfy accountability requirements.

If any such modification has a material or significant financial effect upon the reported results, details of that modification and where practicable, the resulting financial effect, are disclosed in individual notes to these financial statements.

Basis of accounting

The financial statements have been prepared in accordance with Accounting Standard AAS 29 'Financial Reporting by Government Departments'.

The statements have been prepared on the accrual basis of accounting using the historical cost convention.

Administered assets, liabilities, expenses and revenues are not integral to the Office in carrying out its functions and are disclosed in the notes to the financial statements, forming part of the general purpose financial report of the Office. The Administered items are disclosed on the same basis as is described above for the financial statements of the Office. The administered assets, liabilities, expenses and revenues are those which the Government requires the Office to administer on its behalf. The assets do not render any service potential or future economic benefits to the Office, the liabilities do not require the future sacrifice of service potential or future economic benefits of the Office and the expenses and revenues are not attributable to the Office.

As the administered assets, liabilities, expenses and revenues are not recognised in the principle financial statements of the Office, the disclosure requirements of the Accounting Standard AAS 33 'Presentation and Disclosure of Financial Instruments', are not applied to administered transactions.

2 SIGNIFICANT ACCOUNTING POLICIES contd

(a) Service Appropriation

Service Appropriations are recognised as revenues in the period in which the Office gains control of the appropriated funds. The Office gains control of appropriated funds at the time those funds are deposited into the Office's bank account or credited to the holding account held at the Department of Treasury and Finance. *Refer to note 11 for further commentary on service appropriations.*

(b) Contributed Equity

Under UIG 38 'Contributions by Owners Made to Wholly-Owned Public Sector Entities' transfers in the nature of equity contributions must be designated by the Government (owners) as contributions by owners (at the time of, or prior to transfer) before such transfers can be recognised as equity contributions in the financial statements. Capital contributions (appropriations) have been designated as contributions by owners and have been credited directly to Contributed Equity in the Statement of Financial Position. *Refer to Note 11 for further commentary on the application of UIG 38 and TI 955.*

(c) Net Appropriation Determination

Pursuant to section 23A of the *Financial Administration and Audit Act*, the net appropriation determination by the Treasurer provides for retention of the following moneys received by the Office:

- Executive Vehicle Scheme
- Other Revenue

Retained revenues may only be applied to the services specified in the 2004-05 Budget Statements.

(d) Acquisition of Assets

The cost method of accounting is used for all acquisitions of assets. Cost is measured as the fair value of the assets given up or liabilities undertaken at the date of acquisition plus incidental costs directly attributable to the acquisition.

Assets costing less than \$1 000 are expensed in the year of acquisition (other than where they form part of a group of similar items which are significant in total).

(e) Depreciation of non-current assets

All non-current assets having a limited useful life are systematically depreciated over their estimated useful lives in a manner which reflects the consumption of their future economic benefits.

Depreciation is calculated on the straight-line basis, using rates which are reviewed annually. Expected useful lives for each class of depreciable asset are:

Asset category	Life (years)
Computer equipment	3
Office equipment, furniture & fittings	10

(f) Employee benefitsAnnual leave

This benefit is recognised at the reporting date in respect to employees' services up to that date and is measured at the nominal amounts expected to be paid when the liabilities are settled.

Long service leave

The liability for long service leave expected to be settled within 12 months of the reporting date is recognised in the provisions for employee benefits and is measured at the nominal amounts expected to be paid when the liability is settled. The liability for long service leave expected to be settled more than 12 months from the reporting date is recognised in the provisions for employee benefits and is measured at the present value of expected future payments to be made in respect of services provided by employees up to the reporting date. Consideration is given, when assessing expected future payments, to expected future wage and salary levels including relevant on-costs, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

Superannuation

Staff may contribute to the Pension Scheme, a defined benefits pension scheme now closed to new members, or to the Gold State Superannuation Scheme, a defined benefit lump sum scheme now also closed to new members. All staff who do not contribute to either of these schemes become non contributory members of the West State Superannuation Scheme, an accumulation fund. The Office contributes to this accumulation fund in compliance with the *Commonwealth Government's Superannuation Guarantee (Administration) Act 1992*. All of these schemes are administered by the Government Employees Superannuation Board (GESB).

The superannuation expense comprises the following elements:

- (i) change in the unfunded employer's liability in respect of current employees who are members of the Pension Scheme and current employees who accrued a benefit on transfer from that Scheme to the Gold State Superannuation Scheme; and
- (ii) employer contributions paid to the Gold State Superannuation Scheme and West State Superannuation Scheme.

The superannuation expense does not include payment of pensions to retirees, as this does not constitute part of the cost of services provided by the Office in the current year.

A revenue 'Liabilities assumed by the Treasurer' equivalent to (i) is recognised under Revenues from State Government in the Statement of Financial Performance as the unfunded liability is assumed by the Treasurer. The GESB makes the benefit payments and is recouped by the Treasurer.

The Office is funded for employer contributions in respect of the Gold State Superannuation Scheme and the West State Superannuation Scheme. These contributions were paid to the GESB during the year. The GESB subsequently paid the employer contributions in respect of the Gold State Superannuation Scheme to the Consolidated Fund.

The liabilities for superannuation charges under the Gold State Superannuation Scheme and West State Superannuation Scheme are extinguished by payment of employer contributions to the GESB.

Employee benefit on-costs

Employee benefit on-costs are recognised and included in employee benefit liabilities and costs when the employee benefits to which they relate are recognised as liabilities and expenses. (See note 4 and 16).

2 SIGNIFICANT ACCOUNTING POLICIES contd

(g) Leases

The Office has entered into a number of operating lease arrangements for accommodation, certain equipment and motor vehicles. The lessors effectively retain all of the risks and benefits incident to ownership of the items held under the operating lease. Equal instalments of the lease payments are charged to the Statement of Financial Performance over the lease term as this is representative of the pattern of benefits to be derived from the leased items.

(h) Cash

For the purpose of the Statement of Cash Flows, cash includes cash assets and restricted cash assets.

(i) Receivables

Receivables are recognised at the amounts receivable as they are due for settlement no more than 30 days from the date of recognition.

Collectability of receivables is reviewed on an ongoing basis. Debts which are known to be uncollectable are written off. A provision for doubtful debts is raised where some doubt as to collection exists and in any event where the debt is more than 60 days overdue.

(j) Payables

Payables, including accruals not yet billed, are recognised when the Office becomes obliged to make future payments as a result of a purchase of assets or services. Payables are generally settled within 30 days.

(k) Accrued Salaries

The accrued salaries suspense account (refer note 12) consists of amounts paid annually into a suspense account over a period of 10 financial years to largely meet the additional cash outflow in each eleventh year when 27 pay days occur in that year instead of the normal 26. No interest is received on this account.

Accrued salaries (refer note 17) represent the amount due to staff but unpaid at the end of the financial year, where the end of the last pay period for that financial year does not coincide with the end of the financial year. Accrued salaries are settled within a few days of the financial year end. The Office considers the carrying amount of accrued salaries to be equivalent to the net fair value.

(l) Revenue Recognition

Revenue from the rendering of services and the sale of goods is recognised when the Office has delivered service or passed control of the goods to the customer.

Audit fees are recognised in accordance with the percentage of the audit completed. The percentage of the audit completed is measured by reference to labour hours incurred to date as a percentage of the estimated total hours.

(m) Resources Received Free of Charge or For Nominal Value

Resources received free of charge or for nominal value which can be reliably measured are recognised as revenues and as assets or expenses as appropriate at fair value.

2 SIGNIFICANT ACCOUNTING POLICIES contd

(n) Comparative Figures

Comparative figures are, where appropriate, reclassified to be comparable with the figures presented in the current financial year.

(o) Rounding of amounts

Amounts in the financial statements have been rounded to the nearest thousand dollars.

3 SERVICE OF THE OFFICE OF THE AUDITOR GENERAL

The Office's key service and its description is:

Service 1 : Performance Auditing

The Auditor General is responsible for undertaking the external audit of the Western Australian public sector. This is done through audits of controls, financial statements and performance indicators, examinations of efficiency and effectiveness and the tabling of reports to Parliament.

4 EMPLOYEE EXPENSES

	2 005	2 004
	\$'000	\$'000
Salaries	5 637	5 541
Superannuation	740	692
Annual leave	511	509
Other related expenses (i)	432	531
	<u>7 320</u>	<u>7 273</u>

(i) These employee expenses include superannuation, workers compensation premiums and other employment on-costs associated with the recognition of annual and long service leave liability. The related on-costs liability is included in employee benefit liabilities at Note 16.

5 SUPPLIES AND SERVICES

	2 005	2 004
	\$'000	\$'000
Private sector audit contracts	2 642	2 080
Services and contracts	247	249
Communications	65	66
Consumables	191	154
Repairs and maintenance	182	157
Administration	420	447
Other staffing costs	342	310
Advertising	23	23
Lease expenses	96	100
Other	12	11
	<u>4 220</u>	<u>3 597</u>

6 DEPRECIATION EXPENSE

	2 005 \$'000	2 004 \$'000
Furniture and Fittings	22	23
Office and computer equipment	376	313
Total Depreciation	<u>398</u>	<u>336</u>

7 ACCOMMODATION EXPENSES

	2 005 \$'000	2 004 \$'000
Office rent	383	328
Office parking	59	55
Monthly Outgoings	174	171
	<u>616</u>	<u>554</u>

8 CAPITAL USER CHARGE

	2 005 \$'000	2 004 \$'000
Capital user charge	<u>114</u>	<u>166</u>

A capital user charge rate of 8 per cent has been set by the Government and represents the opportunity cost of capital invested in the net assets of the Office used in the provision of service. The charge is calculated on the net assets adjusted to take account of exempt assets. Payments are made to the Department of Treasury and Finance on a quarterly basis.

9 USER CHARGES AND FEES

	2 005 \$'000	2 004 \$'000
Fees for audit services during the year	0	2 133
	<u>0</u>	<u>2 133</u>

Revenue from User Charges and Fees for 2005 reflects the changed arrangements from 1 July 2004 whereby all audit fees collected by the Office are paid directly into the Consolidated Fund (ie: Administered transactions).

Details of audit fees collected under these Administered arrangements are set out in Note 30.

10 OTHER REVENUES FROM ORDINARY ACTIVITIES

	2 005	2 004
	\$'000	\$'000
Contributions for the use of motor vehicles	14	16
Miscellaneous	53	6
	<u>67</u>	<u>22</u>

11 REVENUES FROM STATE GOVERNMENT

	2 005	2 004
	\$'000	\$'000
Appropriation revenue received during the year:		
Service appropriations (I)	12 405	8 336
The following liabilities have been assumed by the Treasurer during the financial year:		
- Superannuation (II)	<u>110</u>	<u>66</u>
Total liabilities assumed by the Treasurer	110	66
Resources received free of charge (III)		
Determined on the basis of the following estimates provided by agencies:		
Crown Solicitor's Office	<u>37</u>	<u>29</u>
Total resources received free of charge	37	29
Total revenues from State Government	<u>12 552</u>	<u>8 431</u>

- (I) Service appropriations are accrual amounts reflecting the full cost of services delivered. The appropriation revenue comprises a cash component and a receivable (asset). The receivable (holding account) comprises the depreciation expense for the year and any agreed increase in leave liability during the year.
- (II) The assumption of the superannuation liability by the Treasurer is only a notional revenue to offset the notional superannuation expense reported in respect of current employees who are members of the pension scheme and current employees who have a transfer benefit entitlement under the Gold State Superannuation scheme.
- (III) Where assets or services have been received free of charge or for nominal consideration, the Office recognises revenues (except where the contributions of assets or services are in the nature of contributions by owners in which case the Office shall make a direct adjustment to equity) equivalent to the fair value of the assets and/or the fair value of those services that can be reliably determined and which would have been purchased if not donated, and those fair values shall be recognised as assets or expenses, as applicable.

12 RESTRICTED CASH ASSETS

	2 005	2 004
	\$'000	\$'000
Accrued salaries suspense account	<u>0</u>	<u>256</u>

Amount held in the suspense account is only to be used for the purpose of meeting the 27th pay in a financial year that occurs every 11 years. There were 27 pays in 2004-05.

13 RECEIVABLES

	2 005	2 004
	\$'000	\$'000
Current		
Receivables for services supplied	0	93
Other Debtors	76	0
Less: provision for doubtful debts	0	0
GST Receivable	<u>140</u>	<u>84</u>
	<u>216</u>	<u>177</u>

14 AMOUNTS RECEIVABLE FOR SERVICES

	2 005	2 004
	\$'000	\$'000
Amounts receivable for services	<u>419</u>	<u>350</u>

This asset represents the non-cash component of service appropriations. It is restricted as it can only be used for asset replacement.

15 FURNITURE AND EQUIPMENT

	2 005 \$'000	2 004 \$'000
FURNITURE & FITTINGS		
At Cost	248	244
Accumulated depreciation	(57)	(35)
	<u>191</u>	<u>209</u>
OFFICE & COMPUTER EQUIPMENT		
At Cost	1 602	1 605
Accumulated depreciation	(917)	(967)
	<u>685</u>	<u>638</u>
	<u>876</u>	<u>847</u>

Reconciliation of the carrying amounts of office and computer equipment and furniture & fittings at the beginning and end of the current financial year are set out below:

	Furniture and Fittings	Office and Computer Equipment	Total
	\$'000	\$'000	\$'000
Carrying amount at start of year	209	638	847
Additions	4	535	539
Disposals	0	(112)	(112)
Depreciation	(22)	(376)	(398)
Carrying amount at end of year	<u>191</u>	<u>685</u>	<u>876</u>

16 PROVISIONS

	2 005 \$'000	2 004 \$'000
Current		
Annual leave	495	427
Long service leave	187	229
	<u>682</u>	<u>656</u>
	2 005 \$'000	2 004 \$'000
Non-Current		
Long service leave	941	812
	<u>941</u>	<u>812</u>

The settlement of annual and long service leave liabilities gives rise to the payment of employment on-costs including superannuation and workers compensation premiums. The liability for such on-costs is included here. The associated expense is included under Other related expenses (under Employee expenses) at Note 4.

The Office considers the carrying amount of employee benefits to approximate the net fair value.

Employee Benefit Liabilities

The aggregate employee benefit liability recognised and included in the financial statements is as follows:

	2 005 \$'000	2 004 \$'000
Provision for employee benefits		
Current	682	656
Non-Current	941	812
	<u>1 623</u>	<u>1 468</u>

In determining the present value of long service leave employee benefits, a Treasury Fixed Coupon Bond with a yield of 5.10 percent was used.

17 OTHER LIABILITIES

	2 005 \$'000	2 004 \$'000
Work in Progress - Contractor payments	289	97
Accrued Salaries	0	290
	<u>289</u>	<u>387</u>

18 EQUITY

Equity represents the residual interest in the net assets of the Office. The Government holds the equity interest in the Office on behalf of the community.

	2 005 \$'000	2 004 \$'000
CONTRIBUTED EQUITY		
Opening balance	530	408
Capital contribution (I)	72	122
Closing balance	<u>602</u>	<u>530</u>

- (I) Capital Contributions have been designated as contributions by owners and are credited directly to equity in the Statement of Financial Position.

	2 005 \$'000	2 004 \$'000
ACCUMULATED SURPLUS/(DEFICIENCY)		
Opening balance	48	1 387
Change in net assets from operations	(75)	(1 339)
Closing balance	<u>(27)</u>	<u>48</u>

19 NOTES TO THE STATEMENT OF CASH FLOWS

(a) Reconciliation of cash

Cash at the end of the financial year as shown in the Statement of Cash Flows is reconciled to the related items in the Statement of Financial Position as follows:

	2 005	2 004
	\$'000	\$'000
Cash assets	979	653
Cash advances	3	0
Restricted cash assets (refer to note 12)	0	256
	<u>982</u>	<u>909</u>

(b) Reconciliation of net cost of services to net cash flows provided by / (used in) operating activities

	2 005	2 004
	\$'000	\$'000
Net cost of services	(12 627)	(9 770)
Non-cash items:		
Depreciation	398	336
Liabilities assumed by the Treasurer	110	66
Resources received free of charge	37	29
Net (Profit)/Loss on sale of non-current assets	26	(1)
(Increase)/decrease in assets:		
Current receivables (III)	17	1 330
Other current assets	108	(29)
Increase/(decrease) in liabilities:		
Current payables (III)	48	(55)
Current provisions	26	239
Other current liabilities	(98)	77
Non-current provisions	129	136
Net GST receipts/(payments) (I)	(57)	(21)
Change in GST in receivables/payables (II)	3	66
Net cash provided by/(used in) operating activities	<u>(11 880)</u>	<u>(7 597)</u>

(I) This is the net GST paid/received, ie. cash transactions.

(II) This reverses out the GST in receivables and payables.

(III) Note that ATO receivable/payable in respect of GST and receivable / payable in respect of the sale / purchase of non-current assets are not included in these items as they are not reconciling items.

20 COMMITMENTS FOR EXPENDITURE

At the reporting date, contracts were in force for the following commitments:

	2 005 \$'000	2 004 \$'000
Private Sector Contracts		
These commitments are due for payment:		
Within one year	2 241	1 732
Later than one year but not later than five years	1 473	894
Later than five years	0	0
	<u>3 714</u>	<u>2 626</u>
Operating Lease Commitments		
These commitments are due for payment:		
Within one year	508	464
Later than one year but not later than five years	1 875	1 600
Later than five years	1 004	1 252
	<u>3 387</u>	<u>3 316</u>

These commitments are all inclusive of GST.

21 REMUNERATION OF SENIOR OFFICERS

Senior Officers are classified as those members of Corporate Executive.

The number of senior officers, whose total of fees, salaries, superannuation and other benefits for the financial year, fall within the following bands are:

	2 005	2 004
\$0 - \$10 000	0	1
\$100 001 - 110 000	0	1
\$110 001 - 120 000	0	1
\$120 001 - 130 000	3	2
\$140 001 - 150 000	2	1
\$220 001 - 230 000	0	1 *
\$260 001 - 270 000	0	1
\$320 001 - 330 000	1 **	0
	2 005	2 004
	\$'000	\$'000
The total remuneration of senior officers is:	<u>996</u>	<u>1 105</u>

* Includes a retirement payment.

** Includes leave payout

The superannuation included here represents the superannuation expense incurred by the Office in respect of senior officers.

No senior officers are members of the Pension Scheme.

22 AUDITOR'S REMUNERATION

	2 005 \$'000	2 004 \$'000
An independent auditor is appointed by the Governor under section 81 (2) of the <i>FAAA (1985)</i> to audit the accounts of the Office with the fee being paid by this Office	<u>10</u>	<u>10</u>

23 RESOURCES PROVIDED FREE OF CHARGE

	2 005 \$'000	2 004 \$'000
During the year, audit services were provided free of charge to a number of Departments, Authorities and for Request audits. The current year amount is significantly lower than last year as most audit services previously provided free of charge are now subject to an audit fee. This included Departments and Authorities operating directly from the Consolidated Fund or substantially financed from that Fund.	<u>223</u>	<u>5 889</u>

24 EVENTS OCCURING AFTER REPORTING DATE

Nil

25 RELATED BODIES

Nil

26 AFFILIATED BODIES

Nil

27 EXPLANATORY STATEMENT

The Summary of Consolidated Fund Appropriations and Revenue Estimates discloses appropriations and other statutes expenditure estimates, the actual expenditures made and revenue estimates and payments into the Consolidated Fund. Appropriations are on an accrual basis.

The following explanations are provided in accordance with Treasurer's Instruction 945.

Significant variations are considered to be those greater than 10 per cent or \$250 000.

(i) Significant variances between estimate and actual – Total appropriation to deliver services.

	2005 Estimate \$'000	2005 Actual \$'000
Item 35 Net amount appropriated to deliver services	12 518	12 183

The net amount appropriated to deliver services was adjusted primarily due to savings from procurement reforms, capital user charge and contractors.

There was no significant variation in the total cost of the output 'Performance Auditing'.

(ii) Significant variances between actual and prior year actual – Total appropriation to deliver services.

	2005 \$'000	2004 \$'000
Item 35 Net amount appropriated to deliver services	12 183	8 114
Total cost service 'Performance Auditing'	12 779	11 926
Revenues from ordinary activities	152	2 156

The increase in the net amount appropriated to deliver services was mainly due to a revised appropriation for 2004-05 following a change in the net appropriation arrangements for audit fees commencing 1 July 2004.

The total cost of 'Performance Auditing' increased in line with an increase in baseline funding for 2004-05. Increased expenditure was primarily for contractors as this provided flexibility to enable earlier reporting timetables and the tabling of public sector performance reports.

Revenues from ordinary activities decreased significantly because of the change in net appropriation arrangements for audit fees commencing 1 July 2004. Audit fees are now recognised as Administered Revenues (see note v and vi below).

iii) Significant variances between estimate and actual – Capital Contribution.

	2005 Estimate \$'000	2005 Actual \$'000
Purchase of non-current physical assets	463	540

Actual capital expenditure was higher than the estimate mainly due to a revised approach to the planned replacement of the Office laptops from 2003-04 to 2004-05.

iv) Significant variances between actual and prior year actual – Capital Contribution.

	2005 \$'000	2004 \$'000
Purchase of non-current physical assets	540	271

The increase in the purchase of assets from the prior year was mainly attributable to the Office laptop replacements which were deferred from 2003-04 to 2004-05.

v) Significant variances between estimate and actual - Administered revenues.

	2005 Estimate \$'000	2005 Actual \$'000
Revenues disclosed as Administered Revenues	9 037	13 157

Administered revenue was significantly higher than the estimate due to the recognition of Work in Progress (valued at \$4 043 000) as an Administered transaction for the first time.

vi) Significant variances between actual and prior year actual – Administered revenues.

	2005 \$'000	2004 \$'000
Revenues disclosed as Administered Revenues	13 157	0

Administered revenue reflects the changed arrangements from 1 July 2004 whereby all audit fees collected by the Office are paid directly into the Consolidated Fund. Audit fees were previously subject to net appropriation arrangements and were recognised as controlled revenue.

28 FINANCIAL INSTRUMENTS

INTEREST RATE RISK EXPOSURE

The Office's exposure to interest rate risk is nil as the relevant financial instruments consisting of cash assets, accrued salaries suspense account, receivables, payables and accrued salaries are all non-interest bearing.

CREDIT RISK EXPOSURE

All financial assets are unsecured.

Amounts owing by other government agencies are guaranteed and therefore no credit risk exists in respect of those amounts. In respect of other financial assets the carrying amounts represent the Office's maximum exposure to credit risk in relation to those assets.

The following is an analysis of amounts owing by other government agencies:

	2 005	2 004
	\$'000	\$'000
Western Australian Government agencies	76	93
Government agencies of other jurisdictions	0	0
Total	76	93

NET FAIR VALUES

The carrying amount of financial assets and financial liabilities recorded in the financial statements are not materially different from their net fair values, determined in accordance with the accounting policies disclosed in Note 2 to the financial statements.

29 SUPPLEMENTARY FINANCIAL INFORMATION

Write-Offs

	2 005	2 004
	\$'000	\$'000
During the financial year the following amounts were written off the Office's asset register under authority of:		
The Accountable Officer	3	3
The Minister	0	0
Executive Council	0	0

Losses Through Theft, Defaults And Other Causes

	2 005	2 004
	\$'000	\$'000
Losses of public moneys and public or other property through theft or default	0	6
Amount Recovered	0	0

Gifts of Public Property

	2 005	2 004
	\$'000	\$'000
Gifts of Public Property	0	0

30 ADMINISTERED TRANSACTIONS**Administered Expenses and Revenues**

	2 005	2 004
	\$'000	\$'000
Expenses		
Receipts paid into Consolidated Fund	8 924	0
Total Administered Expenses	<u>8 924</u>	<u>0</u>
Revenues		
Fees for Audit Services (II)	13 157	0
Total Administered Revenues	<u>13 157</u>	<u>0</u>

Administered Assets and Liabilities

	2 005	2 004
	\$'000	\$'000
Current Assets		
Cash Assets	107	0
Receivables (II)	4 252	0
Total Administered Current Assets	<u>4 359</u>	<u>0</u>
Current Liabilities		
GST Payable	126	0
Total Administered Current Liabilities	<u>126</u>	<u>0</u>

Notes to Administered Items

- (I) 2005 is the first year that the Office reports Administered transactions. This reflects the changed arrangements from 1 July 2004 whereby all audit fees collected by the Office are paid directly into the Consolidated Fund.
- (II) Fees for Audit Services and Receivables includes Work in Progress valued at \$4 043 000. Work in Progress is being recognised as an Administered transaction for the first time and is calculated in accordance with the percentage of audit completed. The percentage of audit completed is measured by reference to labour incurred to date as a percentage of the estimated total audit hours.

31 THE IMPACT OF ADOPTING AUSTRALIAN EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (AIFRS)

Australia is adopting Australian equivalents to International Financial Reporting Standards (AIFRS) for reporting periods beginning on or after 1 January 2005. The Office of the Auditor General will adopt these Standards for the first time for the year ended 30 June 2006.

Accounting Standard AASB 1047 'Disclosing the Impacts of Adopting Australian Equivalents to International Financial Reporting Standards' requires disclosure of any known or reliably estimable information about the impacts on the financial statements had they been prepared using AIFRS.

The information provided below discloses, where applicable, the main areas impacted due to the effects of adopting AIFRS. Management have determined the quantitative impacts using their best estimates available at the time of preparing the 30 June 2005 financial statements. These amounts may change in circumstances where the accounting standards and/or interpretations applicable to the first AIFRS financial statements are amended or revised.

(a) Reconciliation of total equity as presented under previous AGAAP to that under AIFRS

	30 June 2005 \$000	1 July 2004 \$000
Total equity under AGAAP	575	578
Current Employee Benefits Provision	554	459
Non Current Employee Benefits Provision	(554)	(459)
Total equity under AIFRS	575	578

The reclassification of employee benefits provision from non-current to current represents unconditional long service leave. This was classified as non-current under AGAAP as historical evidence indicated that the liability may not be settled within 12 months after reporting date.

(b) Reconciliation of surplus/(deficit) for the period as presented under previous AGAAP to that under AIFRS.

No material impacts are expected from adopting AIFRS with respect to surplus for the period.

(c) Statement of Cash Flows.

No material impacts are expected from adopting AIFRS with respect to the Statement of Cash Flows.

OFFICE OF THE AUDITOR GENERAL

PERFORMANCE INDICATORS

**CERTIFICATION OF PERFORMANCE INDICATORS
FOR THE YEAR ENDED 30 JUNE 2005**

The attached performance indicators have been prepared and are reported as indicators of the performance of the Office of the Auditor General for the year ending 30 June 2005.

I certify that the performance indicators are based on proper records, are relevant and appropriate for assisting users to assess the Office's performance, and fairly represent the indicated performance of the Office.



D D R PEARSON
ACCOUNTABLE OFFICER
26 August 2005

INDEPENDENT AUDITOR'S OPINION

OFFICE OF THE AUDITOR GENERAL PERFORMANCE INDICATORS



RIX LEVY FOWLER
CHARTERED BUSINESS ADVISORS

**INDEPENDENT AUDIT REPORT
TO THE PARLIAMENT OF WESTERN AUSTRALIA**

**OFFICE OF THE AUDITOR GENERAL
PERFORMANCE INDICATORS FOR THE YEAR ENDED 30 JUNE 2005**

SCOPE

I have audited the key effectiveness and efficiency performance indicators of the Office of the Auditor General for the year ended 30 June 2005 under the provisions of the Financial Administration and Audit Act 1985.

The Accountable Officer is responsible for developing and maintaining proper records and systems for preparing and presenting performance indicators. I have conducted an audit of the key performance indicators in order to express an opinion on them to the Parliament as required by the Act.

My audit was performed in accordance with section 81 of the Act to form an opinion based on a reasonable level of assurance. The audit procedures included examining, on a test basis, evidence supporting the amounts and other disclosures the performance indicators, and assessing the relevance and appropriateness of the performance indicators in assisting users to assess the performance of the Office of the Auditor General. These procedures have been undertaken to form an opinion as to whether, in all material respects, the performance indicators are relevant and appropriate having regard to their purpose and fairly represent the indicated performance.

The audit opinion expressed below has been formed on the above basis.

AUDIT OPINION

In my opinion, the key effectiveness and efficiency performance indicators of the Office of the Auditor General are relevant and appropriate for assisting users to assess the Office's performance and fairly represent the indicated performance for the year ended 30 June 2005.

RIX LEVY FOWLER
Chartered Business Advisors

PHILLIP RIX
Partner

DATED at PERTH this 26 day of August 2005.

Partners
Phillip Rix FCA
Jon Cardich CA
George Lazarou CA
Ranko Matic CA

Business Address
Level 1,
12 Kings Park Road,
West Perth WA 6005

Postal Address
PO Box 44
West Perth WA 6872

Ph: 08 9226 4500
Fax: 08 9226 4300
www.rislevyfowler.com.au

OFFICE OF THE AUDITOR GENERAL

PERFORMANCE INDICATORS

Outcome: An informed Parliament on public sector accountability and performance.

Service: Performance Auditing

EFFECTIVENESS INDICATORS

All Members of Parliament are surveyed annually to determine the extent to which the Office's reports and services meet the needs of Parliament. The Survey was carried out between May and July 2005. Responses to specific questions relating to the achievement of the above outcome are reported as key effectiveness indicators below.

KPI	01-02	02-03	03-04	04-05	04-05 Target
Parliamentary Census	%	%	%	%	%
The Office of the Auditor General is effective in achieving its desired outcome of informing Parliament on accountability and performance of the public sector.	84	66	66	80	85
Reports dealt with matters of significance to Parliament.	92	83	76	90	85
Services and reports of the Office of the Auditor General are useful to Parliament.	94	76	83	78	80

EFFICIENCY INDICATORS

The Office has a single Service - 'Performance Auditing', and efficiency indicators are formulated to measure the cost per quantity unit. At the commencement of 2004-05, the Office's internal Cost Allocations Model in the Financial Management Information System was altered. This had the effect of redistributing certain costs as allocated overheads which were previously viewed as directly attributable to the production of MoS. In the table below, the previous years' efficiency indicators have been adjusted to enable direct comparison to the current year.

KPI		02-03 Actual (adjusted) ¹ \$	03-04 Actual (adjusted) ¹ \$	04-05 Actual \$	04-05 Target \$
Cost per Matter of Significance (MoS)	Cost per MoS	23 267	30 494	50 781	36 420
Average cost per Audit Opinion	Cost per major audit	100 739	109 539	128 293	106 869
	Cost per other audit	13 197	17 101	17 265	20 619

¹ Unadjusted previous years' efficiency indicators are provided for comparative purposes in the Explanatory Notes to the Performance Indicators

PERFORMANCE INDICATORS

Explanatory Notes for Performance Indicators

How were the performance indicators derived?

EFFECTIVENESS INDICATORS

The effectiveness indicators are measured via an annual census of all Members of Parliament administered by an independent consultant. Respondents are not identifiable when the results are presented.

The 2005 Parliamentary Census was sent to all members of Parliament, with a request that the survey be conducted either via telephone interview or for a completed form be returned to the consultant by 30 June 2005. Thirty eight per cent of Members responded (compared to 56 per cent last year and 67 per cent the year before).

Many Parliamentarians who declined to participate in the Survey cited unavailability of time as the deciding factor. This could have been influenced by the timing of the survey, which was held immediately after the forming of a new Parliament in May 2005, and during the Budget Estimates process. This was unusually late in comparison to the two previous years, where survey fieldwork was undertaken in March and April.

The three measures used as indicators show the extent to which Parliamentarians felt that: the Auditor General was achieving his desired outcome of informing Parliament on accountability and performance of the public sector, reports dealt with matters of significance, and services and reports were useful to Parliament. Responses were sought on a five point rating scale, with the measure being calculated as the number of responses with a rating of either four or five divided by the total number of responses to that question. Because of the relatively small number of responses, variations of less than 10 per cent should be treated with caution.

Efficiency Indicators

Efficiency indicators are formulated to measure the cost per quantity unit. The total cost for 2004-05 is derived from the Office's Cost Allocations Model in the Financial Management Information System. Projects are costed by the Cost Allocations Model using labour hours and direct costs, and allocating indirect costs. Quantity measures used to calculate efficiency indicators are extracted from the Office's Resource Management Information System and departmental files.

Matters of Significance (MoS) are considered by the Office as being the key messages contained in reports submitted to Parliament. Key messages are defined as those issues a general parliamentary reader would take away from the report after the detail of specific findings and recommendations have receded into the background. MoS are included in all the Auditor General's reports tabled in Parliament under Section 95 of the *Financial Administration and Audit Act 1985*.

Draft MoS are subject to internal review and the final MoS are determined by the Auditor General. Generally, these were identified in the Executive Summary of each Report and at the beginning of each chapter as a series of dot points.

A single, overall 'cost per audit' would not be a particularly useful Efficiency Indicator because of the variation in the size and complexity in Office's clients. Two average costs have therefore been calculated:

- major audits – the largest and/or more complex and sensitive attest audits undertaken each year. These agencies cover approximately 94 per cent of State assets.
- other audits – the remaining smaller, less complex attest audits.

A full list of Audit Clients is provided elsewhere in this Annual Report, with 'major audits' being separately identified.

What are the variations from previous indicators?

EFFECTIVENESS INDICATORS

In order to mitigate the lower response rate, the results have been weighted by political party grouping to provide better estimates of the underlying views of Parliament. This is the first year such a weighting has been applied. The weighting procedure has involved breaking the sample results up by party group (Government, Opposition and Independent/Minor), calculating the percentage results to each question for each group and then aggregating the results by multiplying the group results by the share of the Parliamentary population accounted for by the group.

The weighting tends to make the overall results a little less positive. The variation between weighted and unweighted results for each indicator is less than 10 per cent.

Efficiency Indicators

At the commencement of 2004-05, the Office's internal Cost Allocations Model in the Financial Management Information System was altered. This had the effect of redistributing certain costs as allocated overheads which were previously viewed as directly attributable to the production of MoS. The previous years' efficiency indicators have been adjusted in line with these changes to enable direct comparison with the current year. For comparison with the adjusted figures, the table below includes the previous years' unadjusted figures as reported in the 2003-04 Annual Report.

KPI (prior year figures as reported in 2003-04 Annual Report)		02-03 Actual \$	03-04 Actual \$	04-05 Actual \$	04-05 Target \$
Cost per Matters of Significance (MoS)	Cost per MoS	28 712	35 571	50 781	36 420
Average cost per Audit Opinions	Cost per major audit	94 514	102 220	128 293	106 869
	Cost per other audit	12 139	15 959	17 265	20 619

Why are the indicators considered relevant to the outcome and services?

The Office's Outcome for 2004-05 is: An informed Parliament on public sector accountability and performance.

Parliament is the Auditor General's principal client and as such, the indicators relate to the products and services that the Auditor General provides to Parliament, which in turn contribute to the desired Outcome. Members' satisfaction with the Auditor General's reports, services and his contribution to the public sector directly measures the effectiveness of informing Parliament.

MoS are included in all reports tabled in Parliament under Section 95 of the *Financial Administration and Audit Act 1985*.

The efficiency indicators incorporate the cost and quantity measures of the Office's single service, and gauge the overall efficiency in achieving the desired outcome of an informed Parliament on public sector accountability and performance.

Why they are key indicators of performance?

The indicators chosen directly measure the Office's effectiveness and efficiency in delivering its services and meeting its outcome.

How can the indicators assist the reader to assess performance?

The effectiveness indicators inform the reader how well the reports tabled in Parliament and other services contribute to improved public sector accountability and performance as perceived by the Auditor General's principal major client, Parliament. Efficiency indicators gauge the unit cost of each service. Results are presented as simple percentages or ratios for easy comprehension. Results for both effectiveness and efficiency can be directly compared with performance from previous years.

It should be noted a proportion of the MoS, identified in performance examinations and controls, compliance and accountability reports tabled in Parliament during the financial year, result from work which occurred in the previous financial year.

What major movements in the measurements occurred as a result of unusual events or circumstances?

EFFECTIVENESS INDICATORS

There has been significant improvement since the last survey in 2004 in Parliamentarians' ratings for two of the OAG's three key effectiveness indicators. Eighty per cent of respondents considered that the Auditor General was achieving his desired outcome of informing Parliament on accountability and performance of the public sector effectively. This is an increase of 14 per cent on last year's result and only slightly below the target of 85 per cent. Ninety per cent of respondents agreed that the Auditor General's reports dealt with matters of significance to Parliamentarians, an increase of 14 per cent on last year's result and slightly above the OAG's target.

Seventy eight per cent of respondents considered that the Auditor General's reports and services were useful to Parliament. This is close to target but a slight decline against the previous year. There were no respondents who disagreed that the Auditor General's reports and services were useful to Parliament.

The reasons for the movements are not immediately apparent; however qualitative information provided by Parliamentarians in the Survey supports these positive results, showing that many Parliamentarians view the work of the Auditor General as objective, informative, clear, succinct, useful, unique and responsive. This and other qualitative information provided in Parliamentarians' survey responses will be used to continue to improve the Auditor General's reports and services to Parliament and maintain the higher achievement against these indicators.

Efficiency Indicators

The average cost per MoS at \$50 781 has risen 67 per cent from the previous year and is 39 per cent above the target for 2004-05. This is largely due to a decrease in the number of Reports to Parliament tabled during the year and a corresponding decrease in the number of total MoS. At 30 June 2005, eight Reports that had been previously scheduled for tabling in 2004-05 were in progress, containing an estimated 39 MoS. This is an increase on the corresponding amount of work in progress MoS (23) at 30 June 2004.

The average cost of other audit was 16 per cent below target and has not changed significantly from the previous year. The average cost of major audit was 20 per cent above target and 17 per cent higher than previous year. The increases in average cost of major audit since last year are the result of the shift to earlier reporting of audit opinions and the additional costs associated with the transition of the public sector to the Australian equivalent of International Financial Reporting Standards. These changes involved the use of additional contractors.

The Auditor General

The Auditor General is an appropriately qualified independent statutory officer appointed by the Governor under the *Financial Administration and Audit Act 1985* (FAAA) and retains office until retirement, unless suspended by the Governor and removed from office by a resolution of both Houses of Parliament. He is also the Accountable Officer and Chief Executive Officer of the Office, a department of the public service of the State under the *Public Sector Management Act 1994*. For the purpose of executive administration, the Office currently falls within the ministerial portfolio of the Treasurer.

As the Accountable Officer, the Auditor General must discharge responsibilities under the FAAA (as modified by Part II of Schedule 1A). As Chief Executive Officer, the Auditor General is also responsible for a range of staffing functions under the *Public Sector Management Act 1994*.

Accountability and Authority

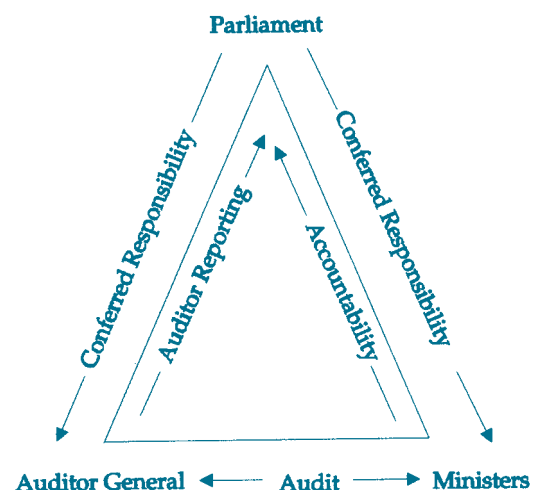
Accountability within the public sector is traditionally established when Parliament confers responsibility on public sector agencies, subject to control of a Minister of the Crown, to account through that Minister for all that is done in the exercise of their authority, the manner in which it is done and the ends sought to be achieved.

The Auditor General's responsibility, conferred by Parliament, is to audit and report upon the manner in which conferred responsibilities have been discharged by agencies. As such the Auditor General has a responsibility to the community generally and his role

is superimposed on the accountability relationship between the responsible Minister and Parliament. The interrelationships can best be demonstrated diagrammatically by the 'accountability triangle' below.

Thus the Auditor General can be seen as serving the public interest and an 'ally of the people and Parliament'. He must act, and be seen to be acting, independently in carrying out all of his powers and duties. This independence is the foundation of the external audit function in the public sector context.

The Auditor General's role is recognised under statute in his appointment by the Crown and by conferred authority to undertake audits in the manner he sees fit. In order therefore to properly discharge his responsibilities in terms of law, he must be free from pressure, influence or interference from any source that may erode such independence.



Audit Clients

Audits Under FAAA

Departments

Administration of the Joint House Committee
Administration of the Legislative Assembly
Administration of the Legislative Council
Commissioner for Equal Opportunity
*Department for Community Development
*Department for Planning and Infrastructure
*Department of Agriculture
*Department of Conservation and Land Management
*Department of Consumer and Employment Protection
*Department of Culture and the Arts
*Department of Education and Training
Department of Education Services
*Department of Environment
*Department of Fisheries
*Department of Health
*Department of Housing and Works
*Department of Indigenous Affairs
*Department of Industry and Resources
*Department of Justice
*Department of Land Information
Department of Local Government and Regional Development
*Department of Racing, Gaming and Liquor
Department of Sport and Recreation
*Department of the Premier and Cabinet
Department of the Registrar, Western Australian Industrial Relations Commission
*Department of Treasury and Finance
Governor's Establishment
Office of Energy
Office of the Director of Public Prosecutions
Office of the Information Commissioner
Office of the Inspector of Custodial Services
Office of the Public Sector Standards Commissioner

Parliamentary Commissioner for Administrative Investigations

*Police Service

*Treasurer's Annual Statements

Western Australian Electoral Commission

Statutory Authorities and Corporations

Agricultural Practices Board of Western Australia

Agricultural Produce Commission

Animal Resources Authority

Armadale Redevelopment Authority

Botanic Gardens and Parks Authority

Building and Construction Industry Training Board

Bunbury Water Board

Busselton Water Board

*Central TAFE

Central West TAFE

*Challenger TAFE

Coal Industry Superannuation Board

*Commissioner of Main Roads

Construction Industry Long Service Leave Payments Board

Corruption and Crime Commission

Country High School Hostels Authority

Country Housing Authority

Curriculum Council

*Curtin University of Technology

C Y O'Connor College of TAFE

*Disability Services Commission

East Perth Redevelopment Authority

Economic Regulation Authority

*Edith Cowan University

*Fire and Emergency Services Authority of Western Australia

Fire and Emergency Services Superannuation Board

Forest Products Commission

Gaming and Wagering Commission of Western Australia

Gascoyne Development Commission

*Gold Corporation

Goldfields-Esperance Development Commission

Government Employees' Housing Authority

*Government Employees Superannuation Board

Great Southern Development Commission

Great Southern TAFE

Hawthorn Hospital

Heritage Council of Western Australia

*Insurance Commission of Western Australia

Keep Australia Beautiful Council (WA)

Kimberley TAFE

Kimberley Development Commission

Landcare Trust

Law Reform Commission of Western Australia

Legal Aid Commission of Western Australia

Legal Contribution Trust

Legal Costs Committee

Local Health Authorities Analytical Committee

*Lotteries Commission

Metropolitan Cemeteries Board

Midland Redevelopment Authority

Mid West Development Commission

Minerals and Energy Research Institute of Western Australia

*Murdoch University

Office of Health Review

Parliamentary Inspector of the Corruption and Crime Commission

Peel Development Commission

Peel Health Services

Perth International Centre for Application of Solar Energy

Perth Market Authority

Perth Theatre Trust

Pilbara Development Commission

Pilbara TAFE

Potato Marketing Corporation of Western Australia

Professional Combat Sports Commission

Professional Standards Council

*Public Transport Authority of Western Australia

*Public Trustee

Quadriplegic Centre Board

*Racing and Wagering Western Australia

Racing Penalties Appeal Tribunal of Western Australia

Real Estate and Business Agents
Supervisory Board
Recreation Camps and Reserve Board
*Rottnest Island Authority
Rural Business Development Corporation
Screen West (Inc.)
Settlement Agents Supervisory Board
Small Business Development Corporation
South West Development Commission
South West Health Board
South West Regional College of TAFE
State Government Insurance Corporation
State Supply Commission
Subiaco Redevelopment Authority
Swan Bells Foundation Inc
Swan River Trust
*Swan TAFE
The Aboriginal Affairs Planning Authority
The Agriculture Protection Board of
Western Australia
The Anzac Day Trust
The Board of the Art Gallery of Western
Australia
The Burswood Park Board
The Coal Miners' Welfare Board of
Western Australia
The Eastern Goldfields Transport Board
The Library Board of Western Australia
*The Minister for Health in his capacity
as the Deemed Board of Metropolitan
Public Hospitals
The National Trust of Australia (WA)
The Potato Growing Industry Trust Fund
Advisory Committee (Final audit issued
15/4/05)
The Poultry Industry Trust Fund Committee
(Final audit issued 15/4/05)
The Queen Elizabeth II Medical Centre
Trust
*The State Housing Commission
*The University of Western Australia
The Western Australian Centre for
Pathology and Medical Research (Final
audit to 14/7/05)
The Western Australian Egg Marketing
Board
The Western Australian Museum
Trustees of the Public Education
Endowment
*WA Country Health Service
Water and Rivers Commission

West Coast TAFE
Western Australian Alcohol and Drug
Authority
Western Australian Building Management
Authority
Western Australian Coastal Shipping
Commission
Western Australian Gas Disputes Arbitrator
Western Australian Greyhound Racing
Association
Western Australian Health Promotion
Foundation
Western Australian Institute of Sport
*Western Australian Land Authority
Western Australian Meat Industry Authority
*Western Australian Planning Commission
Western Australian Sports Centre Trust
*Western Australian Tourism Commission
*Western Australian Treasury Corporation
Wheatbelt Development Commission
*Workers Compensation and
Rehabilitation Commission
Zoological Gardens Authority

Subsidiaries

Advanced Nanotechnology Ltd (Final audit
to 23/2/05, ASX listed 24/2/05)
Curtin Consultancy Services Limited
ECU Resources for Learning Ltd
Fresh Western Pty Ltd
Homeswest Loan Scheme Trust
Integral Leadership Centre Ltd
Keystart Bonds Limited
*Keystart Housing Scheme Trust
Keystart Loans Limited
Keystart Support (Subsidiary) Pty Ltd
Keystart Support Pty Ltd
Keystart Support Trust
MS Biotechnology Pty Ltd (Dormant)
Murdoch ILO Pty Ltd
Murdoch Investments Company Pty Ltd
Murdoch Link Pty Ltd
Murdoch Ventures Pty Ltd
Murdoch Retirement Services Ltd
Paragen Pty Ltd
Tarolinta Pty Ltd
The University Company Pty Ltd (dormant)
Uniservices Kalgoorlie Pty Ltd
WA Mint Pty Ltd (dormant)
WANMTC Pty Ltd
Wind Energy Corporation Pty Ltd

Request Audits

Aberdeen Unit Trust
Beverley Frail Aged Lodge Inc (Final audit
to 1/6/01)
*Consolidated Financial Statements for the
Government of Western Australia
Curtin University of Technology
Superannuation Scheme
Foundation for Advanced Medical
Research Inc
Friends of the WCHS Inc
Government House Foundation of
Western Australia
Ngala Inc
Numbers Investments Pty Ltd
Poongsan Perth Mint Joint Venture
SB Investment Trust
South West Cogeneration Joint Venture
Tertiary Institutions Service Centre (Inc)
The Director of Legal Aid and Others in
Trust

Audits Under Other Legislation

Cemeteries

Albany Cemetery Board
Bunbury Cemetery Board
Chowerup Cemetery Board
Dwellingup Cemetery Board
Geraldton Cemetery Board
Kalgoorlie-Boulder Cemetery Board
South Caroling Cemetery Board
Upper Preston-Lowden Cemetery Board

Port Authorities

Albany Port Authority
Broome Port Authority
Bunbury Port Authority
Dampier Port Authority
Esperance Port Authority
*Fremantle Port Authority
Geraldton Port Authority
Port Hedland Port Authority

Other Legislation

*Water Corporation
*Western Power Corporation

* Office of the Auditor
General's major audit clients

Office Committees

Corporate Executive

Provides strategic direction and formulates corporate policies



Reporting to Corporate Executive

Committee	Purpose
Office Consultative Committee (OCC)	To facilitate the efficient and effective conduct of Office activities by enabling the views of employees to be taken into account in decision-making
Occupational Safety and Health Committee (OS&H)	Provides employees and visitors to the Office with a safe and healthy place of work as required under the <i>Occupational Safety and Health Act 1984</i>



Statement of Compliance with Relevant Written Laws

ENABLING LEGISLATION

The administration of the Office of the Auditor General is established under Part III of the *Financial Administration and Audit Act 1985*.

LEGISLATION ADMINISTERED

The Office does not administer legislation.

LEGISLATION IMPACTING ON OFFICE ACTIVITIES

In the performance of its functions the Office complies with the following relevant written laws:

- *Financial Administration and Audit Act 1985* (FAAA), and *Corporations (Western Australia) Act 1990* (Corporations Law).
- *Public Sector Management Act 1994*, *Salaries and Allowances Act 1975*, *Public and Bank Holidays Act 1972*, *Equal Opportunity Act 1984*, *State Superannuation Act 2000*, *Superannuation and Family Benefits Act 1938*, *Occupational Safety and Health Act 1984*, *Workers' Compensation and Injury Management Act 1981*, *Minimum Conditions of Employment Act 1993* and *Industrial Relations Act 1979* (Employment Acts).
- *State Records Act 2000*
- *Corruption and Crime Commission Act 2003*
- *State Supply Commission Act 1991*
- *Disability Services Act 1993*
- *Electoral Act 1907*
- *Electronic Transactions Act 2003*
- *Public Interest Disclosure Act 2003*

The following written laws also impact on the Office's activities:

- *Constitution Act 1889* and *Constitution Acts Amendment Act 1899*, *Treasurer's Advance Authorisation, Supply, Loan and Appropriation Acts* and *Financial Agreement Acts*.
- *Interpretation Act 1984*, and written law affecting agencies and activities subject to audit by the Auditor General.

In the financial administration of the Office we have complied with the requirements of the FAAA and every other relevant written law, and exercised controls which provide reasonable assurance that the receipt and expenditure of moneys and the acquisition and disposal of public property and incurring of liabilities have been in accordance with legislative provisions.

At the date of signing we are not aware of any circumstances which would render the particulars included in this statement misleading or inaccurate.



D D R PEARSON
ACCOUNTABLE OFFICER



D CUNNINGHAME
PRINCIPAL
ACCOUNTING OFFICER
26 August 2005

COMPLIANCE WITH PUBLIC SECTOR MANAGEMENT ACT SECTION 31(1)

The Office assesses compliance issues in relation to the Code of Ethics and Code of Conduct through proactive management and ongoing monitoring. Active discussion with staff regarding the Office's ethos and values is a formal component of the Work and Development Planning process and reinforces compliance with the Codes. When matters are raised concerning ethical issues, it is usually managed in-house, however on occasions advice and assistance is sought from an appropriate body. The Office is staffed by professional people who pride themselves in maintaining a well-earned reputation of trust and credibility. To ensure that staff are aware of their responsibilities each year they are required to sign our Code of Conduct and Staff Declaration form stating that they will 'undertake to comply with all the relevant OAG policies and legislation and the Code of Conduct'.

The Office's Internal Auditor (who is an independent contractor) has reviewed Human Resource documentation in relation to compliance of Public Sector Standards in Human Resource management. This audit confirmed that procedures and documentation provide evidence of compliance with Human Resource Standards and the Office's policies. 'No instances of non-compliance noted.'

In addition, the reviews of selection reports carried out by the HR Manager provided additional assurance of compliance with policies and standards.



D D R PEARSON
AUDITOR GENERAL
26 August 2005

COMPLIANCE WITH ELECTORAL ACT 1907 SECTION 175ZE(1)

Any public agency required to publish an Annual Report under the FAAA or any other law is required under section 175ZE (1) to include a statement in the annual report setting out details of all expenditure in relation to:

- advertising agencies
- market research organisations
- polling organisations
- direct mail organisations
- media advertising organisations

detailing the amount of the expenditure and in relation to each class of expenditure constituted by subsection (1) the amount of the expenditure for the class, and the name of each person, agency or organisation to whom an amount was paid.

In compliance with the above, I submit the following details of advertising for job vacancies and the Parliamentary Survey:

- Total Expenditure \$32 186
- Advertising Agencies \$22 971
 - Beilby \$14 145
 - Marketforce \$8 551
 - Institute of Chartered Accountants \$275
- Market Research Organisations \$9 215
 - Audit Office of NSW \$9 215



D D R Pearson
Accountable Officer
26 August 2005

Glossary of Terms

Accountability is traditionally established when Parliament confers responsibility on public sector agencies to account through a Minister of the Crown for all that is done in the exercise of their authority, the manner in which it is done and the ends sought to be achieved.

Accrual Accounting provides information on revenues earned and expenditure incurred in an accounting period irrespective of when actual cash transactions occur (ie. when money is received or paid). It also involves accounting for the portion of assets consumed and liabilities incurred during the period and provides a summary of the net worth of the entity at the end of the accounting period.

Attest Audit is 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.

Auditor General's Report is the vehicle used to report to the Parliament the results of audits and examinations conducted under sections 79 and 80 of the *Financial Administration and Audit Act 1985*.

Controls, Compliance and Accountability Examinations (CCAs) focus on financial administration and management issues with the objective of identifying opportunities for improving agencies' operational performance, accountability, use of resources and compliance with legislation.

Corporatised Entities operate under enabling legislation in a similar manner to companies under the *Corporations Act 2001*.

Department means a body established or deemed to have been established under the *Public Sector Management Act 1994*.

Direct Reporting is an examination resulting in a written report being prepared where the party responsible for the matter examined has

not been significantly involved in initiating or preparing the report.

Effectiveness Indicators are performance indicators that provide information on the extent to which agency level government desired outcomes have been achieved, or contributed to, through the delivery of services.

Efficiency Indicators are performance indicators that generally relate services to the level of resource inputs required to deliver them.

Entrance Interviews are formal meetings with senior management conducted during the audit planning phase to provide the opportunity to canvass with management issues of importance and to explore the proposed audit emphasis and areas of coverage.

Exit Interviews are formal meetings with senior management at the penultimate stage of audits and examinations to confirm understandings and to explain audit findings and conclusions.

Financial Statements are a presentation of financial information including accompanying notes derived from accounting records to communicate for a period of time an entity's financial performance and cash flows and at a point of time its financial position.

Follow-up Examination Performance Examinations are routinely followed up two to three years after tabling to review what has been done. A **Follow-on Examination** is a more extensive follow-up examination where a topic still has significant importance and relevance.

Interim Report is a report issued where the Auditor General is unable to issue an audit opinion within the predefined deadlines stipulated in the *Financial Administration and Audit Act 1985*.

Management Letter is a letter to senior management that conveys the significant audit findings and result of an audit.

Materiality is the magnitude of an omission or misstatement of accounting or performance information that, in the light of context or circumstances, makes it probable that the judgment of a reasonable person relying on the information would have been changed or influenced.

Matters of Significance are the 'key messages' in OAG reports. 'Key messages' are defined as the issues a general Parliamentary reader would take away from the report after the detail of specific findings and recommendations has receded into the background.

Outcomes are the effect, impact, result on or consequence for the community, environment or target clients of government services.

Performance Auditing encompasses the range of audit and review activities from annual attest audit work on financial statements and performance indicators through to the preparation of direct reports on performance examinations.

Performance Examination (PE) is work performed in examining the accountability, efficiency and effectiveness of public sector agencies or specific areas within an agency or across a number of government agencies.

Performance Indicator (PI) is information about service performance or outcome achievement.

Performance Indicator Audit is work performed to enable an opinion to be expressed about whether or not the indicators are relevant and appropriate having regard to their purpose and fairly represent indicated performance.

Qualified Audit Opinion is expressed when the audit identified that the financial statements or performance indicators are likely to be misleading to users, controls were inadequate, there was material conflict between applicable financial

reporting frameworks or an unavoidable limitation on audit work.

Service means the supply of an activity or good to a user external to the entity providing the service. Services comprise programs and outputs.

Significance is the relative importance in the circumstances, in relation to audit objectives, of an item, event or information, or problem the auditor identifies.

Statutory Authority means a person or body specified in Schedule 1 of the *Financial Administration and Audit Act 1985*. These agencies are established by Parliament under legislation for specified purposes.

Treasurer's Annual Statements report the transactions and balances of the Consolidated Fund, the Treasurer's Advance Account and the Trust Fund on a predominantly cash accounting basis in accordance with the *Financial Administration and Audit Act 1985*.

Treasurer's Instructions are prescribed requirements at a minimum level with respect to financial administration that have the force of law and must be observed by public sector agencies under the *Financial Administration and Audit Act 1985*.

Unqualified Audit Opinion is expressed when the audit concludes that in all material respects the financial statements and performance indicators are presented fairly in accordance with the enabling legislation of the agency, applicable Accounting Standards, Treasurer's Instructions and other mandatory professional reporting requirements in Australia.

Working Papers are documents that record the auditor's planning, audit procedures performed, the auditor's findings and the conclusions drawn from the audit evidence obtained.

Office Directory

at 31 August

AUDITOR GENERAL'S OFFICE

Des Pearson 9222 7501
Auditor General

Peta Mullane 9222 7502
Executive Officer

ASSURANCE SERVICE DIVISION

Stephen Howell 9222 7507
Executive Director

Molly Elymos 9222 7506
Executive Assistant

Nayna Raniga 9222 3948
Acting Director

Ian Goldsmith 9222 7559
Director

Vince Turco 9222 7515
Director

Stella Rapanaro 9222 7590
Director

COMPLIANCE AND INFORMATION SYSTEMS AUDIT DIVISION

Glen Clarke 9222 7543
Executive Director

Colin Campbell 9222 3937
Principal Performance Analyst,
Compliance Audit

Steve Mackessy 9222 7554
Manager, Information Systems Audit

PERFORMANCE REVIEW DIVISION

Peter Wilkins 9222 7588
Acting Executive Director

Neil Brown 9222 7551
Director

Peter McCann 9222 7545
Associate Director

STANDARDS AND QUALITY DIVISION

Paul Jost 9222 7514
Acting Executive Director

Barry Rowe 9222 7503
Director Standards

Rod Berg 9222 7591
Principal Adviser Performance Indicator
Standards

BUSINESS AND STRATEGIC SERVICES DIVISION

Don Cunninghame 9222 7526
Acting Executive Director

Thelma Fermo 9222 7504
Executive Assistant

Christina Weeden 9222 3906
Knowledge Manager

Peter Villiers 9222 7558
Manager, Communications

Vince Partridge 9222 7508
Manager, Information Resources

Les Johnstone 9222 3919
Manager, Finance and
Administrative Resources

Pam Aaronson 9222 7553
Manager, Human Resources

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Office of the
Auditor General
for Western Australia

4th Floor, Dumas House

2 Havelock Street

WEST PERTH WA 6005

Telephone: 9222 7500

Fax: 9322 5664

Email: info@audit.wa.gov.au

Website: www.audit.wa.gov.au

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