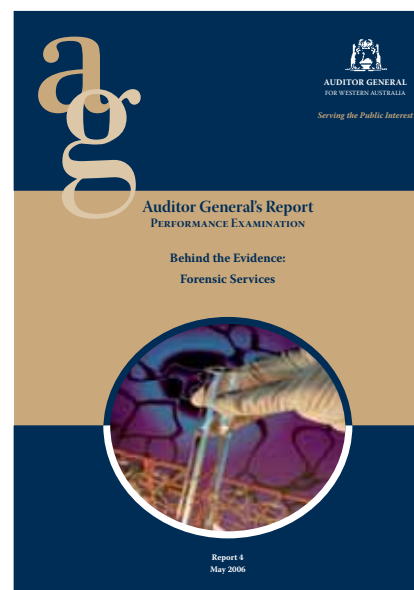
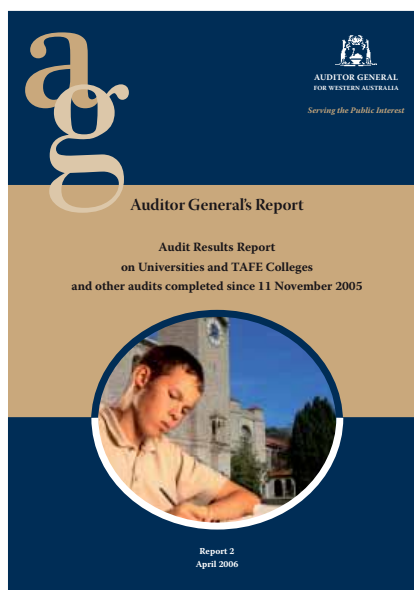
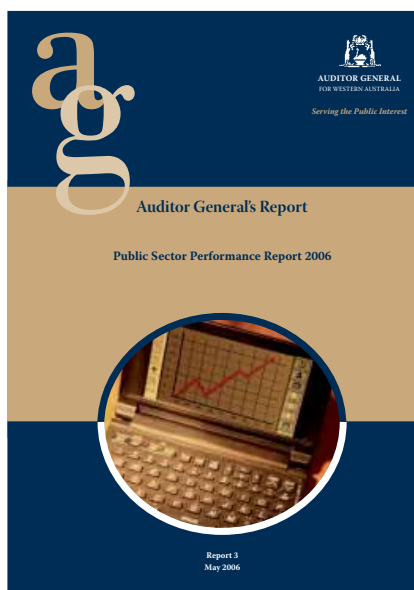


Office of the Auditor General

Annual Report

2005-2006



*In its widest context the Office serves the public interest –
since the Auditor General is a key provider of independent and impartial information
on public sector accountability and performance to the Parliament.*

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

THE PRESIDENT
LEGISLATIVE COUNCIL



THE SPEAKER
LEGISLATIVE ASSEMBLY

ACCOUNTABLE OFFICER'S REPORT FOR THE YEAR ENDED 30 JUNE 2006

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 2006.

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 2006



Highlights 2005-2006

- In what was the most productive year on record the Office:
 - overall, tabled in Parliament 15 Reports identifying 106 Matters of Significance
 - completed 214 Financial Statement audits and 148 Performance Indicator audits
 - reported the results of 10 Control Compliance and Accountability examinations to Parliament in four reports. The 10 examinations covered 17 public sector agencies
 - completed and reported eight Performance Examinations and two Follow-up Examinations to Parliament
 - completed the total audit program within statutory deadlines.
- The annual survey of Parliament produced outstanding results, with the Office's reports and services highly rated by Members of Parliament.
- The survey of client agencies found a high level of satisfaction with the performance of the Office across all audit services.
- Quality Assurance Reviews conducted for Attest Audits, Controls, Compliance and Accountability Examinations and Performance Examinations.
- Training provided to staff for Australian Equivalents to the International Reporting Standards (AIFRS).
- OAG Annual Report wins Silver Award in the national Australasian Reporting Awards.
- For the first time in OAG's history an Auditor General's report is tabled away from Parliament House. The report *Behind the Evidence: Forensic Services* was tabled in the Regional Parliament in Geraldton in May 2006.



Associate Director Performance Review Karen Schmidt, lead the team that produced the report on forensic services in Western Australia. She was responsible for briefing Parliamentarians on the report at the Regional Parliament in Geraldton in May.

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 2006. 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 desired outcome the Office seeks is an informed Parliament on public sector accountability and performance.



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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 Auditor General for Western Australia 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 215 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.



How We Go About OUR BUSINESS

To fulfil the Office of the Auditor General's purpose of
Serving the Public Interest,
the Office assists the Auditor General to:

- Independently inform Parliament on public sector performance
- Contribute to facilitating a better performing public sector

Strategies to achieve this include:

**Reporting on
public sector
performance in
a relevant and
authoritative
manner**

**Effectively
communicating
with Parliament,
the public sector
and the wider
community**

**Providing timely
information and
advice to the
Auditor General to
effectively fulfil his
watchdog role**

**Building a leading
edge organisation**

The **Outcome** we seek is:

An informed Parliament on public sector accountability and performance

This is achieved through our Service of

Performance Auditing

which comprises

**Financial Attest and
Controls
Performance Indicator
Audits**

**Controls, Compliance
and Accountability
Examinations (CCAs)**

**Performance
Examinations (PEs)**

Performance Auditing results in Reports to Parliament

15 Reports tabled in Parliament in 2005-06

These Reports identify Matters of Significance which ultimately generates our desired Outcome

106 Matters of Significance identified in 2005-06

Were We SUCCESSFUL IN 2005-2006?

What we set out to do	What we achieved	Comment
Report 100 Matters of Significance in reports to Parliament.	106 Matters of Significance identified.	Target exceeded
Table in Parliament six single topic reports (results of compliance or performance examinations) that identify matters of significance in areas of public sector performance and accountability.	Tabled eight Performance Examinations and two Follow-up Examinations.	Target exceeded
Table in Parliament three public sector performance reports during the year.	Tabled 3 reports and 2 stand alone Controls Compliance and Accountability reports.	Target exceeded
Table in Parliament two reports on the results of financial statement controls and performance indicator audits undertaken during the year with expanded analytical comment.	Tabled two reports.	Target met
With an emphasis on earlier completion, audit the financial statements, controls and performance indicators of 34 government agencies; 105 statutory authorities; 11 corporate bodies; 4 universities and their 10 subsidiaries; 10 TAFE colleges; 14 requests, 11 subsidiaries, 8 cemetery boards; 5 final audits and the Treasurer's Annual Statements and the Consolidated Financial Statements for whole of government.	Completed audits within statutory deadline.	Target met
Complete 60 per cent of audits covering 90 per cent of assets within three months of balance date.	56 per cent of audit opinions covering 95 per cent of assets were completed within three months of balance date.	Target for assets audited exceeded
Continue implementation of sustainable workforce planning strategies to address the attrition of audit staff.	<ul style="list-style-type: none"> ● Job Application processes revised to attract a broader range of applicants. ● Attraction and Retention allowances initiated. 	Target met
Continue to enhance the readability of audit reports through the finalisation of a three-year program of training and development.	Independent review of OAG reports against 10 specific readability indicators finds 'improvement in readability' in eight of the 10 areas. Plain English Program initiative to be rerun in 2006.	Target met/ exceeded
Refine the audit fee structure to provide agencies with improved information on the recouping of attest audit costs.	Fees now reflect full cost of work conducted. Greater detail to be provided at estimate and invoicing stages in future.	Target met

Auditor General's FOREWORD

The past year was not without its tensions as the emerging difficulties and challenges foreshadowed in last year's annual report became realities.

The challenges were generated primarily by ongoing public sector reform initiatives that had a considerable impact on long-standing control and accountability structures across the public sector and thus on Office operations.

This situation was compounded by the State's strong economic growth triggering strong demand for skilled professionals in the audit labour market. With intense competition in the recruitment of graduates and well-trained auditors and an attrition rate higher than in past years, workforce planning and audit capacity became a major issue for the Office.

Thus, for the Office not only was there a compelling need to rethink and reconfigure audit approaches, but also a need to re-evaluate and refine the quality, level and type of information provided to our primary client, the Parliament of Western Australia. Our challenge was to be more innovative, more strategic, more focused and more attuned to emerging public sector issues.

Obviously any fundamental shift in our approach to core business could not be accomplished without some attendant pain and temporary dislocation. Stresses were evident as we strove to effectively adjust our products and services to meet



the escalating needs of an increasingly complex public sector and a demanding Parliament hungry for timely, relevant and impartial information on public sector accountability and performance.

However, our commitment to continuous improvement and innovation was strong and we took heart from the realisation that ours was a situation mirrored in peer audit offices across the country.

Hence, with some finetuning of our office structure – that saw the appointment of a Deputy Auditor General and the recruitment of highly-experienced individuals in key Assistant Auditor General and Executive Director positions in the operational and planning divisions – collectively the Office rose to the challenge.



As a result it is with great satisfaction that I can report that through our efforts we have been able to sustain and build upon the progress of last year.

The following pages of this report will show that in fact 2005-06 has been an outstanding year. Ultimately, our endeavours saw us complete 214 financial statement and 148 performance indicator audits, eight performance examinations, two follow-up examinations, and 10 controls, compliance and accountability examinations across the public sector.

The results of this work were detailed in 15 reports identifying 106 Matters of Significance tabled in Parliament – in terms of reports tabled our best result ever. This excellent outcome has been complemented by highly-positive results in our annual survey of Parliament's satisfaction with our performance, with the admirable results obtained last year sustained.

Here, I wish to pay tribute to my staff. Such progress would not have been possible without their cooperation, dedication and commitment. I would like to acknowledge and congratulate each staff member for their professionalism and individual effort shown in facing up to the challenges presented in 2005-06.

In what will be my last annual report for the Office, I would also like to thank the many public sector employees my Office worked with during the year and in past years. Whilst it is true that my reports, in the main, tend to focus on problems in the public sector, it is also true that wherever

our work leads us we find many talented and dedicated individuals. I would like to take this opportunity to acknowledge their cooperation and commitment to serving the public.

Further, I would also like to express my appreciation to all Members of Parliament, particularly the Public Accounts Committee of the Legislative Assembly and Public Administration Committee of the Legislative Council, for their confidence in, and ongoing support of, the work of my Office. Parliament is my Office's primary client and in my broader role of serving the public interest as an 'ally of the people and Parliament', I have found their input and assistance of inestimable value.

I know I leave the Office in good hands. It has shown through its successes great potential for being an integral part in building a more accountable, efficient and effective public sector. There is, however, no heavier burden than great potential. Thus I would sincerely urge the Office in the coming years to focus even more clearly on its long-term goals and objectives, recognising that as much as it may dislike the constant transformations of which they are now inextricably a part, overcoming the challenges and celebrating growth and progress are milestones in the journey towards fulfilling that potential.

D D R PEARSON
AUDITOR GENERAL

31 August 2006

Auditor General's OVERVIEW

The 2005-06 year was one of hard decisions for the Office, with structural reform spearheading our response to the many challenges presented by an evolving public sector and an increasingly demanding Parliament and public.

Essentially, it was realised that to maintain the effectiveness, quality and currency of the services provided to Parliament and the public sector, the key products of the Office, our reports to Parliament, needed to identify a greater breadth and depth of issues and to be completed on a more timely basis. More effective ways of communicating results and outcomes had to be found.

As an independent Office reporting on the regularity, efficiency and effectiveness of the public sector, it was important that we operated and were seen to operate in a cost effective and clearly accountable manner.

Thus it was that we again fine-tuned our organisational framework and more clearly defined accountabilities to generate improved organisational performance.

Meeting the Challenges

Against this background, it is pleasing to report, that after a slow start, it has been a highly-successful year. As mentioned, the journey was not without its stresses and trials and in striving for optimal performance sometimes we did it tough.

However, as the year progressed, as an organisation we began to attain a consistency of effort, understanding that



what was required was an evenness of performance across all divisions, with results delivered simultaneously whilst balancing cost, time and quality. This enabled us to be more purposeful in what we did, moving from the distractions of retrieval to focus on the proactive.

Workforce Planning

Like many other public and private sector workplaces, in 2005-06 the Office faced a shrinking labour market, and strong competition for the skills we needed. 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.

Increasing numbers of our audit staff left the organisation for the private sector, a new trend in 2005-06. In the past, audit staff were more likely to leave for other public sector positions – but competition has boosted conditions in the private sector to make this destination more attractive.

We responded vigorously, and launched a range of strategies to attract and keep a high quality workforce into the next decade.



These new approaches included year-round advertising, more flexible employment, improved conditions and streamlined recruitment. The Office is proud that our recruitment processes now take around half the average time of the Western Australian public sector.

These attraction and retention programs will continue to develop in the coming year, and will help to keep the Office competitive in an ever-tightening field. Along with a stronger involvement from private sector contractors and firms, our workforce planning will ensure we have the capacity to meet the demands of the Parliament and public sector.

Our Achievements

That we ultimately attained, and in some instances even exceeded, our organisational goals is a credit to all staff and the effort and hard work they put in. Western Australian taxpayers received excellent value for the some \$14 million expended by the Office. At the end of the day some 100 staff were able to undertake the financial attest and performance indicator audit of around 215 agencies (with an estimated revenue plus expenditure of around \$33 billion), whilst at the same time conducting eight wide-ranging performance examinations, two follow-up examinations, and 10 controls, compliance and accountability examinations across the public sector. These audits and examinations collectively identified 106 matters of significance in 15 reports, alerting Parliament and the public to issues of accountability and performance.

Making a Difference

The decisions of government and public sector agencies are often based on a number of interacting factors and information from a variety of sources, hence it is not always easy to measure the direct impact of our work.

However, during 2005-06 it was clear from Parliamentary, agency and public reaction to our reports, that we have made, and are making, a difference to improving accountability across the public sector, to the way agencies are managed and operate, and to the way issues of public interest are addressed by Executive Government. Evidence of this can be found in the gravity with which the Public Accounts Committee considers the findings contained in our reports and similarly in the way Government Ministers respond, directing agencies to expeditiously 'get things fixed'. Equally it is evident that agencies too respond positively to the findings in our reports, giving high priority to implementing the recommendations.

Undoubtedly our reports can have wide reach and impact, acting as a catalyst for new programs, generating debate in areas of public concern and alerting Government to what progress is being made on major projects or in the implementation of significant reform initiatives. As an example the reports *Progress with Implementing the Response to the Gordon Inquiry* and *Early Diagnosis: Management of the Health Reform Program* outlined what had been achieved and what needed to

be done if ambitious plans developed in response to recommendations arising from government inquiries in these areas were to deliver on the promises made. Equally, the report *Contract Management of the City Rail Project* revealed that one of the most significant infrastructure projects in WA's history had got off to a good start but cautioned that it would require purposeful and diligent management if that early success was to be sustained. In a similar vein, *Procurement Reform* revealed details of the millions in savings made in the early stages of the procurement reform process but warned that the quest for future savings should not compromise the delivery of services to the public.

Other examinations to generate wide public interest and comment included:

- *Regulation of Child Care Services*, that highlighted the need for improvement in several key areas of childcare.
- *Unlicensed Drivers and Unregistered Vehicles in Western Australia*, that revealed the possibility that there could be as many as 66 000 unlicensed drivers and 70 000 unlicensed vehicles on WA roads.
- *Behind the Evidence: Forensic Services* that confirmed a 37 000 backlog of exhibits awaiting DNA analysis and found that delays in obtaining forensic evidence are resulting in delayed prosecutions and court adjournments.

Perhaps the Office's most far-reaching report for the year was *Help Wanted: Public Service Workforce Management* that flagged a lack of leadership for management of the public service as a whole.

With Government experiencing increasing problems in managing the public service and agencies struggling to attract and retain staff, the report called for a revisiting of the approach to public service workforce management.

Further, examples of where we made, or continued to make, a positive contribution can be found in:

- The absence of Owner Onus legislation in relation to speeding drivers, first raised in a Performance Examination 10 years ago and then revisited in the Controls and Compliance examination *Unauthorised Driving – Unlicensed Drivers and Unregistered Vehicles in WA* in November 2005, being addressed by Government this year. The new legislation closes a loophole that was estimated to be costing the government some \$1 million a year.
- A new Premier's Circular 'Guidelines for Expenditure on Official Hospitality', was issued in June 2006. The major change in the revised circular relates to the findings of the Office's *Third Public Sector Performance Report* in 2004. The Report includes a review of the management of Western Australian Government corporate credit cards. The review found a lack of consistent understanding across agencies in regard to the use of cards for hospitality and associated purposes and recommended agencies should ensure that cardholders understand and comply with corporate card controls. The guidelines were updated in light of our report.

Serving the Parliament



The last year has been one of the most productive ever in the Office's association with Parliament. The breadth and depth of our reporting ensured that Parliament was given an insightful and detailed picture of public sector performance on which to base its resourcing decisions. 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 15 reports to Parliament that identified 106 matters of significance.

In addition to our reports, 63 of the 91 Members of Parliament had some other form of contact. The Auditor General or his representatives attended 11 meetings with four Parliamentary Committees involving 28 Members across both Houses of Parliament, outlining audit directions and supporting Parliamentary inquiries with relevance to the audit mandate. Twenty Parliamentarians attended our briefings following the tabling of reports to Parliament, and 18 either wrote to or met with the Auditor General directly on matters of interest to them.

Once again, the Auditor General also provided individual portfolio briefings for Ministers and members of the Shadow Cabinet. Further, the Office met with the Public Accounts Committee on four occasions to provide briefings on audit activity and public sector matters to assist them in their deliberations on key issues and directions. This continued the close and positive working relationship the Office has with the Public Accounts Committee.

The Office also liaised with, or briefed, other relevant Parliamentary committees and their research staff.

This significant upsurge in Parliamentary service comes at a time when the Office is entering a new phase in its relationship with Parliament. The new Auditor General Bill, introduced in July 2006, will establish the Auditor General as an independent office of Parliament, enhancing the independence of the position and strengthening his accountability mandate.

An indication of just how successful we were in meeting the needs of Parliament is found in the results of the Office's annual survey of Members of Parliament.

The survey includes a number of questions to measure our performance in attaining a range of corporate goals and targets. Importantly, it contains three key questions to measure our success in our single outcome - an informed Parliament on public sector accountability and performance.

This year's results are highly positive, showing significant improvement in some key areas of operation. A summary of the results can be found on page 17 of this report.

The Public Sector

In general, public sector accountability continued to improve during the year. Three qualified opinions were issued from the total of 214 financial statement and controls audits completed during the audit cycle, these being a continuation of the three qualifications issued in the previous year. This continuing improvement, however, should not be seen as a reason for complacency.

Challenges are ahead. Agencies must now table their annual report in Parliament within 90 days of the end of the agency's financial year. In addition, financial statements are to be prepared on an Australian Equivalents to the International Financial Reporting Standards (AIFRS) basis. This requires a more rigorous approach to preparation of financial statements and performance indicators by agencies and increased cooperation with my Office. I look forward to seeing improvement in this area.

Agencies also need to make more use of their key performance indicators to evaluate trends and performance against delivery of their Government desired outcomes. For the 2004-05 audit cycle 38 per cent of agencies were not routinely reporting to executive management or boards their key performance indicators. I realise this is a challenge for many agencies but with a purposeful approach and close consultation with my Office I feel sure agency management has the capacity to turn this situation around.

I am pleased to note that during the year, issues raised with management of many agencies during their audits were rectified promptly. Unfortunately, significant information systems security weaknesses

and inadequate business continuity plans at many agencies have not improved or progressed over the past three years and Parliament has been alerted to this.

Some sector wide lessons emerged from our performance examinations in 2005-06. Inter-agency collaboration has become a compelling necessity, but agencies found this challenging to achieve. Ineffective collaboration and coordination between agencies can significantly impact on the effective delivery of programs and services. Across-government reform initiatives also need more timely development of evaluation frameworks and more accountable reporting of progress as project timelines advance.

Finally, at a whole of public sector level I would reiterate the concern expressed in my report *Help Wanted: Public Service Workforce Management*, that deliberate and proactive management of the public service workforce is essential to maintain and improve the quality of government services. I appreciate that workforce management is a difficult and complex area, but worrying signs are evident and I am concerned that the challenge of ensuring that there are motivated, capable staff and an alignment between services, outcomes and workforce management has gone largely unaddressed.

I thus urge the government, Members of Parliament and the wider community to recognise the fundamental importance of, and very high expectations placed on, the public service. There needs to be a re-think about how best to provide a management framework that delivers coordinated responses and high-quality services into the future.

Outlook



New Auditor General and Financial Management Legislation

After the drafting and consultation process, the new Auditor General and Financial Management bills were tabled in Parliament in July. Incorporating many of the recommendations of the 1992 WA Royal Commission, the 1995 Commission on Government, and the Public Accounts Committee, the separation of audit and financial management legislation will enhance the independence and structure of the Office. It will widen audit powers while at the same time increasing the accountability of the Auditor General and strengthening the Office's relationship with Parliament.

The new legislation will also enable the Office to align itself with contemporary audit practice and the amended provisions of the financial management legislation.

Accelerated Financial Reporting

As mentioned, the *Financial Administration Legislation Amendment Act 2005* (FALAA) amended the annual reporting timeframes to a single requirement for the Minister to table annual reports within 90 days of the end of the financial year. The Office's audit experience to date indicates that many agencies will need to better prioritise the timeliness and quality of their financial statements and performance indicators in order to meet the earlier legislative tabling requirements.

The Office is working with agencies to achieve efficiencies in annual reporting and audit processes to improve the timeliness of the issue of audit opinions for agencies with 30 June and 31 July year ends.

Senior officers have represented the OAG on the public sector's Accelerated Reporting Steering Committee and its working groups. The Steering Committee has developed and issued timelines for agencies to submit their financial returns for whole of government reporting and other end of year financial reporting.

New Australian Accounting Standards

In the 18 months since the introduction of the AIFRS, the wide ranging implications for public sector entities and public sector audit have materialised.

The adoption of AIFRS has had a significant impact on the Office's assurance workload during the year. The Office has recognised the need to retrain staff as well as monitor and assist agencies in addressing the wide ranging implications of these changes for public sector entities.

AIFRS has also impacted on around two thirds of existing Australian Accounting Standards, with potential for further impact as review and implementation continues. It is anticipated that because of this the scope and complexity of the Office's assurance workload will continue to increase over the next several years.

Our Performance 2005-2006

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. This year has shown a strong improvement in participation rates and a more balanced representation of respondents.

Responses to specific questions relating to the achievement of our desired Outcome were sought by the Office and are reported as key effectiveness indicators below. Once again, ratings for two out of the three indicators have significantly increased, with two results close to the Office's highest historical level. This is a significant achievement and to reinforce the Office's commitment to continuous improvement we have further raised 2006-07 targets.

KPI	2001-02	2002-03	2003-04	2004-05	2005-06	2005-06 Target
The Office of the Auditor General is effective in achieving its desired outcome of informing Parliament on accountability and performance in the public sector	84%	66%	66%	80%	92%	85%
Reports dealt with matters of significance to Parliament	92%	83%	76%	90%	85%	85%
Services and reports of the Office of the Auditor General are useful to Parliament	94%	76%	83%	78%	89%	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. There has been a decrease in our Cost per MoS, largely due to a large number of reports being tabled early in the year whilst their production costs were borne in 2004-05. Cost per Opinion continues to rise, due to a range of cost pressures in the assurance services area including: the shift to earlier reporting of audit opinions; transition of the sector to International Financial Reporting Standards and significant increases in staff attrition. These changes required greater use of external contractors, in many instances at significantly increased market rates.

KPI	2003-04 Actual \$	2004-05 Actual \$	2005-06 Actual \$	2005-06 Target \$
Cost per Matter of Significance (MoS)	30 494	50 781	50 781	34 226
Average cost per Audit Opinion				
Cost per major audit	109 539	128 293	128 293	137 901
Cost per other audit	17 101	17 265	17 265	20 032



Financial Statement Audits

During 2005-06, 214 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 34 and Statutory Authorities 123)	158
Audits conducted under other legislation: (Subsidiaries 21, Corporatised Entities 12 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 30 and June balance dates.

Audits of agencies with 30 June balance dates, collectively covering \$89 billion comprising 95 per cent of the audited assets, were completed by 30 September 2005.

In addition to audit opinions, 38 Certifications of Statements were issued to government agencies for purposes such as Commonwealth funding and grants acquittal and three half yearly reviews for corporatised bodies to mirror *Corporations Act 2001* requirements were completed.

Performance Indicator Audits

Advice is provided to agencies to assist with ongoing development and refinement of Key Performance Indicators that meet the requirements of the *Financial Administration and Audit Act 1985*, especially to address recent changes to Treasurer's Instruction 904.

During the year, clear opinions were issued for all of the 148 performance indicator audits completed. A further seven agencies failed to submit the required indicators.

Our Performance 2005-2006 ... continued

Summary of Financial Performance

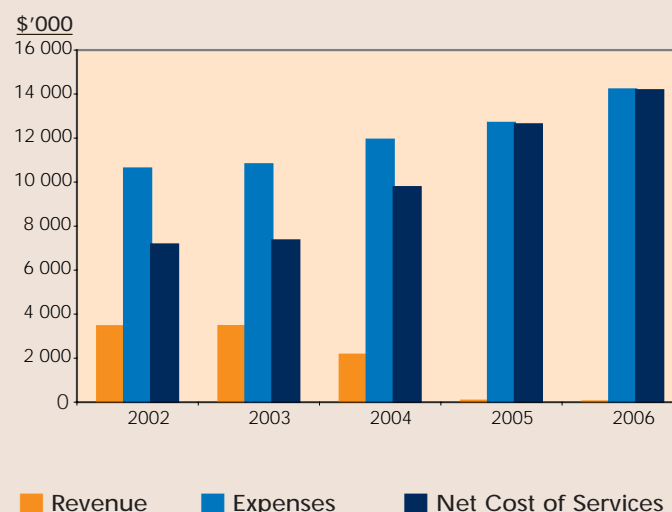
The following is a summary of the financial performance of the Office and trends from 2002 through to the current period ended 30 June 2006. The summary is based on the information provided in the Office's audited statements of financial performance.

There are two notable developments which distinguish 2006 from prior years:

- First, a successful budget submission provided an increase in appropriations of \$1 472 000 to assist the Office with the audit of the new entities arising from the disaggregation of Western Power Corporation; aligning of Auditing Standards; the New Executive Structure and additional costs in relation to financial audits.
- Second, to fund the strategy of contracting out audits during the period of transition to earlier reporting.

	2002 \$'000	2003 \$'000	2004 \$'000	2005 \$'000	2006 \$'000
Financial Performance					
Total Income	11 194	11 526	10 587	12 619	14 664
Net Cost of Services	7 166	7 352	9 770	12 627	14 176
Change in Net Assets	578	717	-1 339	-75	455

	2002 \$'000	2003 \$'000	2004 \$'000	2005 \$'000	2006 \$'000
Financial Performance					
Revenue	3 450	3 457	2 156	67	33
Expenses	10 616	10 809	11 926	12 694	14 209
Net Cost of Services	7 166	7 352	9 770	12 627	14 176



Parliamentary Survey



The Office conducts an annual survey of Parliament to determine our strengths and weaknesses, and to continuously improve our performance. The 2006 survey built on the innovations introduced in 2005, including online delivery, a stronger emphasis on qualitative questions and the inclusion of measures that can be benchmarked with other Australian audit offices. To improve our understanding of the responses, demographic information was also sought in relation to party membership, status and committee membership.

This year's results were very positive, and in some cases represented our highest ever achievement. In response, the Office has raised its 2006-07 targets even higher, as part of its commitment to continuous improvement.

Results

The participation rate of 53 per cent represents a substantial increase on the previous year, and is a positive result in its own right. The vast majority of Parliamentarians were satisfied with the Auditor General's reports and services overall, consistent with the result in 2005. Ratings of several of the aspects of the reports and services increased from 2005 and were particularly positive in relation to the Office's provision of:

- valuable information on public sector performance
- high quality reports and services
- reports and services that help to improve public sector administration.

Three of the survey questions formed the Office's effectiveness Key Performance Indicators (KPIs). These KPI targets were all exceeded, with increases in

Parliamentarians' ratings for two of the Office's three KPIs:

1. 92 per cent considered that the Auditor General was effective in informing Parliament on accountability and performance of the public sector – up from 80 per cent in 2005 and the highest ever achievement
2. 85 per cent agreed that the Auditor General's reports dealt with matters of significance to Parliamentarians – down slightly from 90 per cent in 2005
3. 89 per cent of respondents considered that the Auditor General's reports and services were useful to Parliament – up from 78 per cent in 2005.

The vast majority of respondents rated their dealings with OAG positively, particularly the Auditor General's openness to receiving information/views, the provision of advice/information and his responsiveness in addressing concerns comprehensively. Overall, our ratings relating to the usefulness, value, quality and helpfulness in improving public administration all increased from last year (with the latter rated at 98 per cent).

Suggestions by respondents on how the Office could better meet their needs included:

- reassess the type of issues investigated and state the reasons for their priority
- avoid commenting on Government policy
- make reports easier to read (through summaries and highlights).

When benchmarked against two other jurisdictions, the results did not identify any statistically significant variations between offices. Overall, the Office remained in the mid-range and outperformed other States in our reports and services helping to improve public sector administration.

Agency Survey

The Office has invested substantially in innovations such as this pilot project. The survey is benchmarked nationally with other jurisdictions, and also with the Parliamentary Survey, to enhance its usefulness and transparency for all stakeholders.

Agencies subject to financial audits (incorporating compliance and information systems) and performance audits were asked to participate. There was a high level of participation (84 per cent response rate).

Results

Our clients viewed the Office's performance positively across five areas: audit reporting, financial statement audit services, information systems audits, audit process and performance indicator audit services. Four of the five areas had a positive rating over 70 per cent, with only one (performance indicator audit services) being slightly less positive.

The vast majority of respondents were satisfied with the performance of the Office in the area of audit process:

- 95 per cent agreed that auditors interacted with their staff in a professional manner
- 93 per cent were satisfied that auditors demonstrated that they had the professional skills and knowledge required to conduct an audit.

All responses regarding the audit reporting process were positive, with 81 per cent or more of respondents agreeing to each statement in the questionnaire. Highlights included:

- 93 per cent agreed the Auditor General's audit opinion is issued in a timely manner

- 87 per cent agreed their organisation was provided with adequate opportunity to comment on audit findings and issues before the finalisation of management letters.

When benchmarked with four other jurisdictions, the Office's financial audit section surpassed all other States in five of the nine audit process questions, four of the seven reporting questions and both value questions. Ratings showed that the Office compared particularly favourably for the timely provision of management letters and audit opinions, effective communication, responsiveness to client needs, accuracy and fair/balanced findings and issues, and financial audit services provided a valuable sense of assurance.

Ratings for Performance Indicator services showed that over 70 per cent of respondents believed that the Office's Performance Indicator opinions provided their organisation with assurance and that the recommendations and/or observations of the Office have the potential to improve performance management.

The majority of our information system audit clients (79 per cent) viewed both the manner of our interaction and our communication with their office positively.

On average, performance and compliance audit clients viewed the Office's performance favourably in all three areas of audit process, reporting and value. Follow-up interviews with agencies highlighted that they thought these audits provided funding priority and the impetus for improvement in administration. Benchmarking data showed that the Office's performance audit section exceeded other jurisdictions in our professional interaction with clients and appropriate audit involvement by senior staff.

Future Directions Outcomes and Objectives 2005-09



OUTCOME:

An informed parliament on public sector accountability and performance

Key Objectives and Strategies in Achieving the Office's Outcome

Objectives	Strategies
Reporting on public sector performance in a relevant and authoritative manner	<p>Maintaining quantity and delivering an increased quantity and quality of reports to Parliament</p> <p>Achieving a timely spread of reporting across the year – delivering what we said we would when we said we would</p> <p>Continuing to strengthen cycle of quality and review procedures</p>
Effectively communicating with Parliament, the public sector and the wider community	<p>Strengthening agency relationship management in assurance services, including reintroduction of agency surveys</p> <p>Strengthening Parliamentary service including improved use of the Parliamentary survey and broadening Parliamentary liaison activities</p> <p>Continuing to expand delivery of information through e-communications to reach a broader community</p>
Providing timely information and advice to the Auditor General to effectively fulfil his watchdog role	<p>Re-engineering assurance business processes to meet new timeliness challenges for attest audit</p> <p>Continuing to shift emphasis from opinions to matters of significance through increasing the quality and quantity of analysis in attest work</p> <p>Increasing the timeliness and relevance of advice to the Auditor General through leveraging stronger external alliances and an enhanced national profile</p>
Building a leading edge innovative organisation	<p>Supporting the achievement of ongoing innovation and renewal in the Office through coordination of business improvement activities across Divisions</p> <p>Reviewing the Office's key performance indicators to improve robustness and ensure relevance</p> <p>Focusing human resource planning and services on improving the Office's capacity, performance and professional development, with particular focus on workforce retention and succession planning</p> <p>Committing to an office-wide focus on practice and knowledge management through a range of major information-management initiatives in 2005-09</p>

Review of OPERATIONS

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 is 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 214 audits of agencies' financial statements, 148 audits of performance indicators, the conduct of 10 controls, compliance and accountability examinations (CCAs), eight performance examinations (PEs), and two follow-up examination. In total 106 matters of significance were reported to Parliament.

Work in Progress

One performance examination and one compliance examination have been completed and are ready for tabling. A

further three CCAs and seven PEs were being developed at the end of the financial year. One examination was not progressed because of internal government reviews being undertaken in the respective area at the time and a likely overlap in findings with other examinations.

Topic Selection

Topics 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 the Office audit teams. Topics are added to a topic database and are prioritised based on the level of resources involved and likely community impact.

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 examination and financial and performance indicator audits. 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 examination 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 – conducted by the Standards and Quality Division, these reviews ensure that all audit opinions, 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.
- Review of Reports – An independent review of three OAG reports facilitated through the Australasian Council of Auditors-General was undertaken during the year. The review was conducted by three experts including a former MP. The reviewers positively assessed our reports against a range of criteria and highlighted opportunities for further improvement. This feedback is being incorporated into the planning process for future performance examinations.

Addressing the Concerns of Parliament and the Public

Members of the public and Members of Parliament will often direct to the Auditor General their concerns about the efficiency, effectiveness, compliance and accountability of agencies in the Western Australian public sector. These enquiries and complaints often involve a request for the Auditor General to audit an activity or advise them on how to resolve their

concerns. The Office uses this information to assist our scrutiny of the public sector, and to inform our areas of audit in our attest and performance examinations programs.

The Office responds to these concerns in accordance with applicable legislation:

- The *Financial Administration and Audit Act 1985* (FAAA) provides the Auditor General with the mandate to audit, investigate and examine public sector resources and performance. Any matters of significance that are identified must be reported to Parliament. The Office may explore matters raised in complaints to determine their potential interest for audit, but will comply with restrictions and obligations specified in the FAAA. Under the FAAA, the Office cannot resolve individual complaints nor enforce a course of action upon an agency.
- The *Public Interest Disclosure Act 2003* (PID Act) enables people to make disclosures about wrongdoing within the State public sector, local government and public universities without fear of reprisal. The Office is a named proper authority for assessing, investigating and acting on complaints made under the PID Act. Public sector complaints may become Public Interest Disclosures, and as such the individual making the disclosure has specific protection and certain responsibilities. However, not all matters for complaint can satisfy the conditions of a Public Interest Disclosure, and must be assessed first by the Office.

Review of Operations ... continued

- A number of State agencies control companies created under the *Corporation Act 2001* and have as required by the FAAA appointed the Auditor General as auditor. This Act imposes legal obligations on auditors of companies if they receive a revelation from a 'whistleblower', such as an employee or ex-employee of a public sector corporation. No such disclosures have yet been received.

Often, the complainant is referred by the Office to an accountability authority that can better assist with individual complaints. These include:

- Corruption and Crime Commission
- Office of the Public Sector Standards Commissioner
- Ombudsman of Western Australia
- State Administrative Appeals Tribunal
- State Supply Commission
- Office of Health Review
- Department of Consumer and Employment Protection

Enquiries and Complaints

During the year over 380 hours were spent responding to enquiries and complaints about the public sector. There was a slight increase in enquiries and complaints during the year, with a total of 102 received (up from 95 last year). The nature of complaints was broad-ranging, however issues appearing with some frequency included: fees and charges, contracted-out government services, public sector boards, and health services. There were 36

telephone contacts and 66 written contacts, a significant increase in the proportion of written contacts from last year. The increase in written complaints allowed the Office to more easily identify relevant information, act on the issue and provide an informed response. Fifteen of the complaints resulted in further action by the Office, and 22 were referred to other accountability agencies to progress the complaint.

There were eight requests for audit activity or information from individual members of Parliament during the year, remaining relatively constant with previous years. In most cases the Office was able to assist to the full satisfaction of the Member. Time spent by the Office on complaints from MPs increased significantly to over 165 hours during the 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. Four PIDs were registered in 2005-06. The Office investigated and completed three of these, whilst the fourth was referred to the Corruption and Crime Commission as it related to alleged corruption by public officers. In total over 250 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. Seven such reviews known as special investigations, were undertaken in 2005-06, with one being referred to another agency for action.



Significant Issues and Trends

- A combination of factors is placing mounting pressure on the assurance audit function of the Office. The impact of revised Australian Accounting and Auditing Standards has added to the complexity of the audit task, whilst new Western Australian financial management legislation has reduced available time for finalisation of attest audit.

This is taking place in the context of a shrinking labour market for audit and finance professionals, and escalating difficulty in attracting and retaining qualified assurance audit staff. These pressures combine to drive up audit costs across both in-house and contracted services, and highlight the importance of the Office's human resource and knowledge management functions in coming years.

- The implementation of shared corporate service centres will preclude reliance on previous audit work and require comprehensive evaluation of controls in the shared service centres and individual agencies. Substantial audit effort will be required to re-establish appropriate levels of assurance regarding the new systems and accountability relationships.
- The introduction of the Australian Equivalents of the International Financial Reporting Standards (AIFRS) has impacted upon around two thirds of existing Australian Accounting

Standards, with a potential for further impact as review and implementation continues. The Office will continue to monitor and assist agencies in addressing the wide ranging implications of these changes for public sector entities and, as such, anticipates continuing increases to the scope and complexity of the Office's assurance workload over several years.

- The ever increasing importance and complexity of information technology systems in government continues to require more audit effort. Parliamentary reports and audit findings arising from examination of these systems continue to grow in importance as a major product of this Office.
- The Public Accounts Committee of the Legislative Assembly (PAC) has established a new approach to following up reports tabled by the Auditor General. Agencies are required to report to the PAC on their progress with implementing the Auditor General's recommendations within 12 months of tabling. The PAC will table, in their annual report, their findings in relation to agencies' progress. This process is expected to make a valuable contribution to accountability.

Review of Operations ... continued

Reports to Parliament

Report (see Appendix 2 for report summary)	Type	Date Tabled	Cost	Number of Matters of Significance
Protection of Critical Infrastructure Control Systems	CCA	24/08/05	\$159 634	3
Administration of Protection of Old Growth Forest Policy Funding Programs	PE	24/08/05	\$327 707	3
Contract Management of the City Rail Project	PE	31/08/05	\$341 690	6
Second Public Sector Performance Report		19/10/05		
● The Personnel and Payroll Function of the Department of Education and Training	CCA		\$189 039	5
● Production, Transport and Disposal of Controlled Waste	CCA		\$104 713	4
● Regulation of Child Care Services	CCA		\$90 940	5
● Follow-up – Life Matters: Management of Deliberate Self-Harm in Young People	PE		\$51 628	5
Third Public Sector Performance Report		16/11/05		
● Management of the Light Vehicle Fleet	CCA		\$135 223	6
● Unauthorised Driving: Unlicensed Drivers and Unregistered Vehicles in Western Australia	CCA		\$123 620	2
● Redeployment and Redundancy	CCA		\$73 088	2
● Level Pegging – Managing Mineral Titles in Western Australia Follow-Up	PE		\$39 019	2
Making the Grade? Financial Management of Schools	PE	16/11/05	\$586 421	7
Progress with Implementing the Response to the Gordon Inquiry	PE	23/11/05	\$277 083	4
Audit Results Report by Ministerial Portfolios at 11 November 2005	Attest	23/11/05	\$90 662	9
Management of the TRELIS Project	CCA	12/04/06	\$264 202	8
Audit Results Report on Universities and TAFE Colleges and other Audits completed since 11 November 2005	Attest	12/04/06	\$29 160	4
Public Sector Performance Report 2006		17/05/06		
● Management of the Waterwise Rebate Program	CCA		\$70 928	5
● Regulation of Animal Feedstuffs, Hormonal Growth Promotants and Veterinary Chemicals	CCA		\$450 862	3
Behind the Evidence: Forensic Services	PE	31/05/06	\$191 711	6
Early Diagnosis: Management of the Health Reform Program	PE	14/06/06	\$133 029	7
Help Wanted: Public Service Workforce Management	PE	21/06/06	\$279 130	4
Procurement Reform: Beyond Compliance to Customer-Focus	PE	28/06/06	\$149 305	6

Follow-up Reports



Following the commencement of the Public Accounts Committee's process of following up Auditor General reports within 12 months of tabling, the Auditor General decided to suspend the routine consideration of follow-ups of examinations within two to three years of tabling. It is expected that follow-up of tabled reports by the Office will only occur on an exceptional basis in future.

Outlined below are the typical stages that occur to follow-up the implementation of Auditor General's reports.

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 12 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.

The PAC will then report the results of their follow-ups as part of their annual report to Parliament.

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.



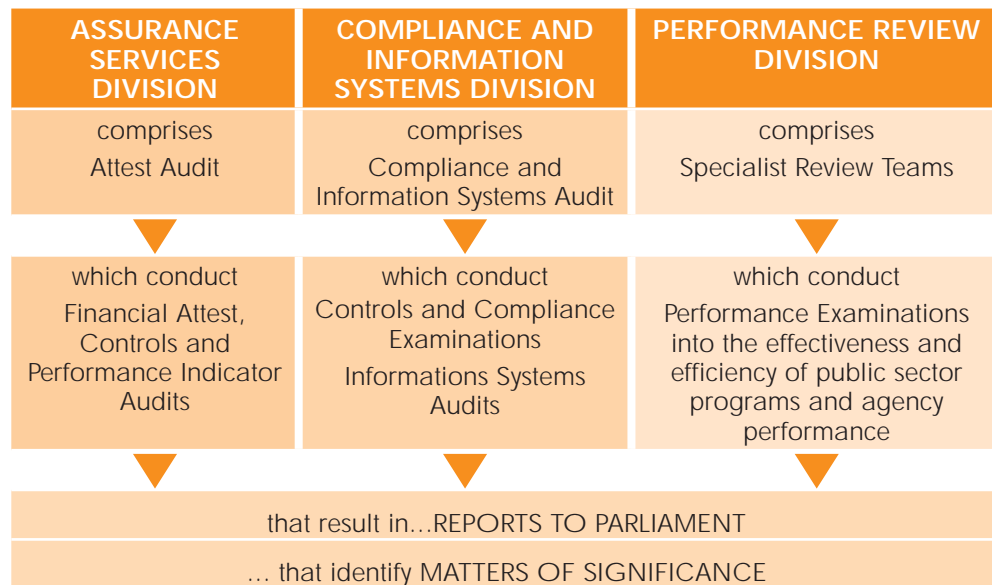
Performance Analyst Frances Hobday was on the team that conducted the follow-up examination of the 2002 OAG report on managing mineral titles in Western Australia.

Review of Operations ... continued

Operating Structure

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

Operational



Support



Improving Public Sector and Organisation Performance



Improving Public Sector 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.

ACHIEVEMENTS 2005-06

- One Ministerial Portfolio Report and one Tertiary Education Sector Report tabled
- 13 Matters of Significance identified
- 214 financial statements and controls audits and 148 performance indicators audits completed
- 38 certifications issued to assist agencies to meet funding conditions
- Total audit program completed within statutory deadlines
- Four graduates recruited and commenced training
- Further enhancements made to Audit methodology and training conducted



James Tasovac, a highly-skilled all-rounder, has conducted both financial attest audits and performance examinations for the Office.

Improving Public Sector and Organisation Performance

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. The examinations provide Parliament with a reliable basis to assess and follow-up agency performance.

ACHIEVEMENTS 2005-06

- Tabled eight Performance Examinations and two follow-up Examinations.
- One performance Examination completed, but not yet tabled.
- Seven Performance Examinations being planned and progressed.
- 50 Matters of Significance identified.



Performance Analyst Linda Barker undertook two major performance examinations for the Office this year – *Contract Management of the City Rail Project* and *Help Wanted: Public Service Workforce Management*.



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 2005-06

- The reports of 10 CCA examinations involving 17 agencies were reported to Parliament in four reports
- 43 Matters of Significance identified
- One CCA report is ready for tabling
- Quality targets met as assessed by Corporate Executive
- Three CCA reports in progress



Senior Information Systems Analyst Dexter Malonzo is part of a specialist team that conducts information systems audits across the WA public sector.

Improving Public Sector and Organisation Performance

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.

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.

ACHIEVEMENTS 2005-06

- 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 assisted in the development of clearer outcome statements and KPIs for agencies
- Provided advice in relation to accountability issues and compliance with the FAAA to the Functional Review Implementation Team (FRIT)



Director Standards and Quality Barry Rowe reviews audits and examinations to ensure the Office's stringent standards are met and quality maintained.



Enhancing the Relevance, Quality and Timeliness of Services

The **Strategy, Policy and Innovation Division** provides integrated services that support and enhance the performance of the Office. The Division's responsibilities in this pivotal support role are further detailed in the following 'Managing the Office' section of this report.

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. 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 corporate knowledge, and to provide financial and administrative support that is closely integrated with Office operational requirements. The development and maintenance of strategic relationships is a further key component of the Division's wider role.

ACHIEVEMENTS 2005-06

- Revised fee structure developed in line with AIFRS, remaining competitive with private sector
- Acted as Instructing Agency for the Auditor General Bill
- Improved Parliamentary Survey response rate (by close to 20 per cent) achieving highest ever participation
- Introduced Agency Surveys
- Coordinated national Benchmarking Survey of Australian public sector audit offices
- Reduced job application waiting times to close to half public sector averages
- Prepared 45 written briefings for 63 Parliamentarians
- OAG Annual Report wins Silver Award in the national Australasian Annual Reporting Awards



Manager Planning and Coordination Jacquie Stepanoff this year coordinated both the Parliamentary Survey and the Agency Survey.

Managing the OFFICE

Given that in serving the public interest our core business entails reporting to Parliament on how well 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, our people and our relationships – consistent with being a leader in public sector auditing.

This challenge of exemplary corporate governance underpins all aspects of our operations – from the soundness of our strategic planning and quality assurance, 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, 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 people**
- **managing our resources**
- **managing our relationships**

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

The Organisation



AUDITOR GENERAL

DES PEARSON

B Bus, Grad Dip Mgt, FIPAA, FCPA, FAIM

Extensive experience in corporate management and public sector audit.



A/ASSISTANT AUDITOR GENERAL

Paul Jost,
B Bus, FCPA



ASSISTANT AUDITOR GENERAL

Sandy Thomson,
FAAQHC, AFCHSE, MHSM

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

STRATEGY, POLICY AND INNOVATION DIVISION

Diverse and extensive experience in corporate management particularly in the public health sector. Accredited Surveyor for the Australian Council of Health Care Standards.

COMMUNICATIONS

Manager, Peter Villiers

FINANCIAL AND ADMINISTRATIVE RESOURCES

A/Manager, Natalie Mar

HUMAN RESOURCES

Manager, Nigel Pay

INFORMATION RESOURCES

Manager, Vince Partridge

PLANNING AND COORDINATION

Manager, Jacquie Stepanoff



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

Don Cunningham

Vince Turco

Glenn Joseph

Director – Contracts

Peter Sparkes

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

Principal Analyst, Peter Bouhlas

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

Associate Directors

Peter McCann

Karen Schmidt

Peter Ridgway

Kim Lazenby

Jason Beeley



EXECUTIVE DIRECTOR

Glen Clarke,
B Bus, CPA



EXECUTIVE DIRECTOR

Peter Wilkins,
PhD, MIPAA

DEPUTY AUDITOR GENERAL

JOHN DOYLE

MBA, MAcc, FCPA, FCCA, FIIA, CIA

Extensive experience as an academic, chief financial officer and in corporate governance.

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 4 (p108).

Peer Review

One way in which the Office has achieved and maintained its high standards is by periodically undergoing an external Peer Review. Such a Review of the Office was conducted in 2004 and its recommendations have now been either fully or partly implemented.

The next Peer Review will be conducted in 2007.

During the year the Executive Director Performance Review conducted a peer review of the performance audit function of the New South Wales Audit Office in conjunction with his counterpart from the New Zealand Office of the Auditor General. Similarly, the Executive Director Compliance and Information Systems Audits undertook a peer review of the Northern Territory Audit Office in June 2006.

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 Assistant Auditor General Standards and Quality Division has responsibility for internal audit.

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 Assistant Auditor General, Strategy, Policy and Innovation Division 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.

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

Corporate Executive

The Corporate Executive of the Office of the Auditor General comprises the Auditor General, Deputy Auditor General, two Assistant Auditor Generals and three Executive Directors. 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:

- 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.
- 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.



Sandy Thomson, Assistant Auditor General Strategy Policy and Innovation is also the Office's Chief Finance Officer

Managing Our People

The Office of the Auditor General is made up of some 100 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.

Assurance Services staff have accounting, finance and business management qualifications whilst Performance Examination and Controls and Compliance Audit staff come from a number of disciplines including evaluation, engineering, finance, information technology, economics and psychology. Some of our support staff have finance, computing and human resource qualifications including extensive work-related experience.

Human Resource Objectives and Strategies 2005-09

The key identified priority for the Office from 2005-09 is succession planning – managing the current and future risks to our capacity through recruitment, workforce retention, leadership development and knowledge management. The strategies below are designed to ensure the Office has the capability to achieve its Outcome and its Objectives in the period ahead.

Capacity

- Continue to encourage younger applicants via targeted marketing for annual graduate intake – measured annually via number recruited.
- Continue to provide a family friendly workplace by supporting staff with family responsibilities or lifestyle changes through flexible working arrangements.
- Further develop induction programs for graduates as a core group.
- Review induction programs to take account of the changing face of the Office with a large percentage of new (non-graduate) staff coming from the private sector.
- Identify staff close to retirement age who have accumulated a large amount of corporate knowledge and extensive experience during their working career and make plans for transference of their knowledge, including identifying potential retirement dates.

Performance

- Promote use of a six-monthly process of reviewing delivery against plans and identification of individual strengths and development needs.
- Promote use of appropriate Australasian Council of Auditors-General benchmarks in performance measurement.
- Recognising exceptional performance through expedited increments.



Development

- Skills training areas of focus for 2005-09:

Operational Staff – Supervision, Project Management and Negotiation

Management Staff – Resource Management, Negotiation Skills and Leadership

Executive – Leadership and governance training and individual executive development
- Focus on coaching and mentoring those staff fast-tracked to management positions.
- Balance external learning (for the Office 'subject' specialists and operational leaders) and internal learning for provision of basic knowledge and skills (for example, information management and IT, audit methodology, report writing, EEO).
- Continue to support external provision of initial professional qualifications (for example, CPA/CA) and post graduate qualifications or equivalent

Diversity

The Office has targeted the following areas for improvement through its Equal Employment Opportunity Plan:

- The integration of EEO principles into policies and practices.
- Investigate and address factors impacting on the employment and retention of women and other EEO groups.
- Raising staff awareness of EEO principles.

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 an innovative and timely recruitment process. With the current skill shortage effecting all areas within the financial sector, the Office selection process now includes retaining a pool of suitable applicants for a period of six-months after the conclusion of that selection process. This enables the Office to quickly react to peak workloads by offering short-term or casual contracts to applicants placed in the pool. This year procedures have been put in place to expedite recruitment and selection, enabling a six to eight-week time line from start to finish. A comprehensive graduate recruitment process is also in place requiring applicants to undergo a number of interviews, undertaking a case study and psychometric testing to assess 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, experience working overseas and in other audit offices in Australia. By providing and supporting these flexible working arrangement the Office is able to accommodate changes in staff lifestyle. These policies assist in making the Office an employer of choice.

Managing Our People

Executive Recruitment

The Office this year appointed a Deputy Auditor General. This position was created to lead the operational divisions in meeting the objectives of the Office. Also appointed were an Executive Director Performance Review and an Assistant Auditor General Strategy, Policy and Innovation. All positions are part of the Senior Executive Service and sit on the Office's Corporate Executive.

Graduate Recruitment

The focus of the Office's Graduate Development Program is to provide new graduates with a three-year structured program 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
- skills and competencies to perform the responsibilities associated with being an auditor
- skills and competencies to enable progressive development to positions of leadership and management
- a healthy balance between professional and personal development.

In February 2006 the Office appointed four graduate auditors.

Code of Conduct and Staff Declarations

Each year all staff are required to sign the Office's Code of Conduct that is now incorporated into a annual Staff Declaration form. This ensures that staff acknowledge their responsibilities in relation to compliance with policies and legislation and adherence to the Code in respect to ethics, confidentiality, conflicts of interest and respect for colleagues and clients.

Indigenous Cadetship Program

The Office currently has one indigenous cadet. The cadet, who is studying law, works in the Office during the summer semester in the Performance Review and Strategy, Policy and Innovation divisions.

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.

Staff Turnover

Staff Turnover increased to 27 per cent in 2005-06, after remaining constant at levels between 14 per cent and 18 per cent for the previous three years. A shrinking labour market for audit and finance professionals has led to strong competition from the private sector in attracting and retaining assurance audit staff. This phenomenon



is not unique to our Office – other public sector audit offices across Australia report similar challenges in retaining quality assurance audit staff. Through our HR Strategic Plan, the Office has put in place a number of strategies to improve the attraction and retention of staff, and early indications suggest that these may have a positive impact.

Work and Development Planning Tool

The Office's work and development planning tool continues to evolve across divisions. It has become the driving force for linking individual and team objectives with the OAG's ethos and objectives, and in creating development opportunities for individuals.

Work Exchange Program

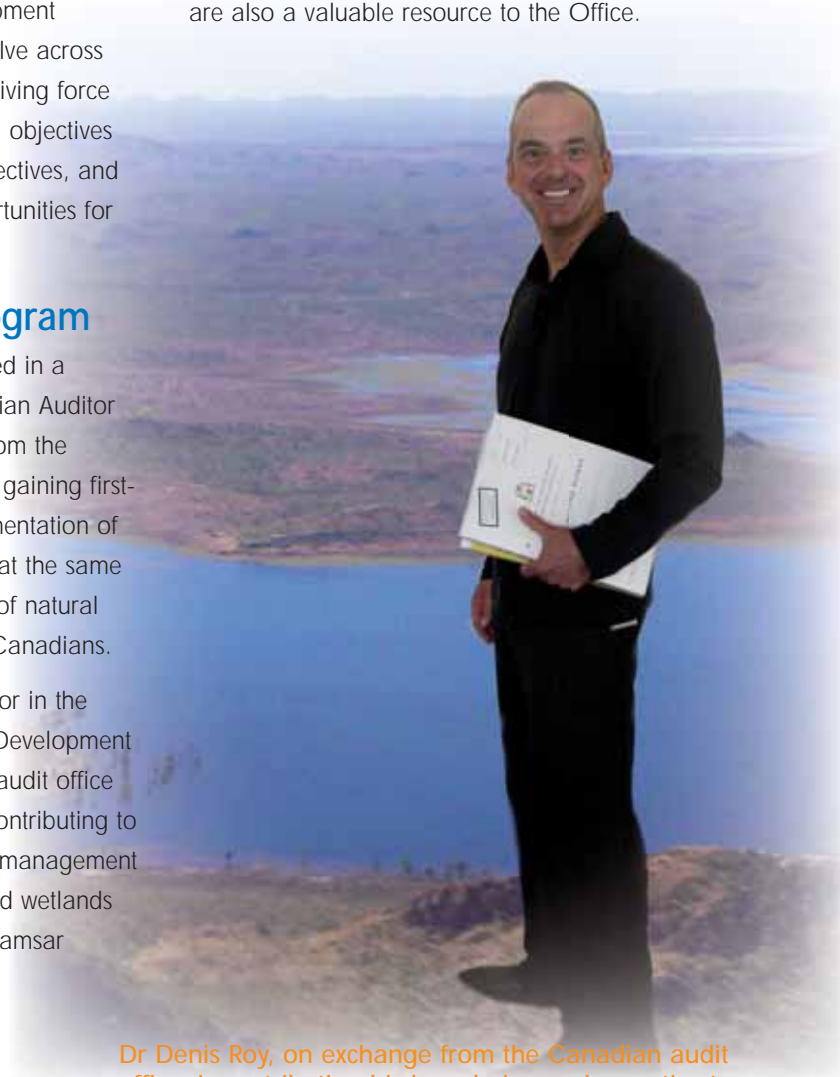
This year the Office participated in a staff exchange with the Canadian Auditor General's Office. An officer from the Compliance and IS Division is gaining first-hand experience in the implementation of sustainability legislation whilst at the same time imparting his knowledge of natural resource management to the Canadians.

In turn, Mr Denis Roy, a Director in the Environment and Sustainable Development Commission in the Canadian audit office has joined our Office and is contributing to an environmental audit of the management of 12 internationally recognised wetlands that are registered under the Ramsar Convention.

The Office also assisted a German student to complete her degree by allowing her to undertake work experience in the Office.

Youth

The Office actively encourages employment of young people and this is reflected in our current average age profile of 38 years. The Office supports school-based traineeships which provide a great opportunity for young people to experience and learn in a working environment. They are also a valuable resource to the Office.



Dr Denis Roy, on exchange from the Canadian audit office, is contributing his knowledge and expertise to an environmental audit of WA's Ramsar wetlands.

Managing the Office ... continued

Managing Our People

Equity and Diversity

Given the size of the Office, when reviewing our performance against the Public Sector Composite Equity Index (that measures the equity of outcomes achieved by agencies in applying the principles of merit, equity and probity) the results are favourable, as is shown on the table below. Our combined Equity Index that covers all five EEO groups is 77, placing the Office in the upper quartile for the public sector.

During the year the action plans contained in the Office's five-year EEO and Diversity Plan were finalised and preparation of for a new plan is underway. This will consolidate the gains made and help build a working environment that is harassment free and where all staff are treated with respect.

The male to female ratio for the Office at 30 June 2006 was 45/55. Strategies are in

place to encourage and support our female staff in preparation for senior management positions.

Operative Employees by Gender – at 30 June 30 2006						
Comparative figures for 2005 are in parenthesis						
Classification	Female		Male		Total	
Level 1	8	(7)	1	(4)	9	(11)
Level 2	3	(9)	-	(1)	3	(10)
Level 3	6	(8)	3	(4)	9	(12)
Level 4	11	(8)	8	(5)	19	(13)
Level 5	10	(14)	3	(7)	13	(21)
Level 6	10	(7)	8	(11)	18	(18)
Level 7	4	(3)	8	(10)	12	(13)
Level 8	2	(3)	8	(6)	10	(9)
Level 9			1	(3)	1	(3)
Class 1	1		2	(2)	3	(2)
Class 2			1		1	
Special			2	(1)	2	(1)
TOTALS	55	(59)	45	(54)	100	(113)

Categories	Actual 2003	Actual 2004	Actual 2005	Actual 2006	Community Representation
Equity index of women	49	49	62	59	–
Indigenous Australians	1.9%	2.7%	0.8%	0.9%	3.2%
People from culturally diverse backgrounds	1.9%	*17.3%	20%	24.3%	17%
Disabilities	1.9%	1.8%	5.1%	4.7%	4%
Youth	19%	9%	17%	11.2%	11.5%

* revised EEO questionnaire



Employee Relations

Grievance Resolution

The Office has a number of trained Grievance Officers to assist staff. These Officers endeavour to provide a constructive way of resolving grievances, guided by the Office's Grievance Resolution guidelines. During the year new Grievance Officers were appointed and trained. Refresher training was also provided to those already in the role.

Should a staff member wish to seek confidential counselling to resolve personal or work related issues beyond the grievance resolution process they may attend sessions with our Employee Assistance Provider.

Redeployment/Termination

No staff were redeployed during the year. No staff member had their employment terminated.

Employees by Business Unit at 30 June, 2006

Auditor General's Division	6
Assurance Services Division	60
Performance Review Division	17
Compliance, and Information System Audit Division	11
Standards and Quality Division	4
Strategy Policy and Innovation Division	21
TOTAL	119

These figures include 19 staff currently on secondment, parental leave and leave without pay

Discipline

No disciplinary procedures were applied during 2005-06.

Industrial Relations

There were no industrial issues during the year.



Principal Analyst Information Systems Peter Bouhlas is one of six Grievance Officers at the OAG.

Managing the Office ... continued

Managing Our People

Professional Development

The Office has a strong commitment to professional development, both in terms of financial resources and in providing staff time to attend professional development opportunities. This commitment was further strengthened this year by the creation of a position specifically dedicated to the professional development of the Office's employees. When appointed, the Director Professional Development will be responsible for the creation and conduct of development modules for staff across the office.

Initiatives have been implemented on a number of fronts 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 for report writing and in Microsoft Outlook
- 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 CA, CPA and CISA.
- attendance at courses and seminars on relevant issues.

Human Resource Information Management System

The Human Resources Branch successfully upgraded its Human Resource Information Management Systems in December 2005. The system has been expanded to include the recording of training information. This information will provide more accurate reporting and assessment for professional development programs.

A Web Kiosk functionality in the system enables staff to electronically apply for leave, view their leave balances, change their personal and bank details and view their payslips.



Human Resources Officer Niki Sarapis ensures all HR systems and processes run efficiently and meet the needs of OAG staff.

Leave

The Office continues to monitor personal leave usage and contain and reduce the usage. The average personal leave usage per person for 2004-05 was 4.5 days and 6.6 days for 2005-06.

Occupational Health, Safety

The Office's OH&S committee was revamped this year with new Terms of Reference. A more formal process for incident reporting and management has been one of the first priorities of the committee. Ergonomic training is high on

the agenda so staff can organise their work stations correctly as they move from agency to agency.

Flu shots were organised and offered to all staff. This new initiative was taken up by 35 per cent of staff. Measures have been put in place to assess the effectiveness of this initiative.

Workers Compensation and Rehabilitation

The comparative indicator factors in the Table below are those recommended by the State Government Insurance Commission for agencies to meet reporting standards.

Factor	2003-04	2004-05	2005-06
Frequency Rate*	5.29	5.35	0
<u>Number of LTI/D X 1 000 000</u>			
Total Hours Worked			
Incidence Rate*	1.03	1.04	0
<u>Number of LTI/D X 100</u>			
Total Number of Employees			
Average Lost Time Rate*	0	0	0
<u>Number of Working Days Lost</u>			
Number of LTI/D			
Estimated Cost of Claims per \$100 payroll	0.03	0.04	0.14
<u>Estimated Cost of Claims Incurred X 100</u>			
Total Payroll			
Premium Rate	0.36	0.32	0.33
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.

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.

Financial and Administrative Resources

The Finance 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 continued improvement of the Office's key corporate systems and the finetuning of the financial system and its related processes.

Highlights include improvements made to increase the timeliness of project costings to provide more timely and relevant financial information to Corporate Executive. In addition, other initiatives included the updating of the Assurance Services contracts for audit services, a successful budget submission for extra funding for the Office to assist with the additional requirements placed on the Assurance Services Branch, and the preparation of the Office's first set of AEIFRS financial statements.

Information Resources

The Information Resources Branch provides Information Management, Information Technology, and Reception Services to office staff and external visitors as appropriate.

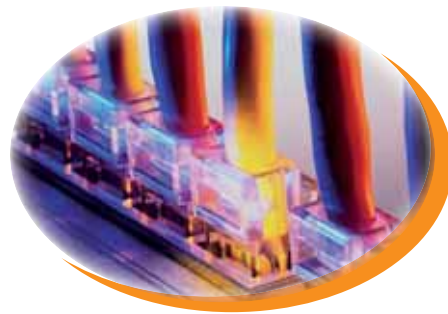
In 2005-06 the primary project undertaken by the Branch was the implementation of the 'Improving Information Management' project. With the assistance of a dedicated Knowledge Manager and support from records management specialists, this project involved the simultaneous migration from an old version of the TRIM electronic document management system to a current version, and also implementation a number of business process enhancements designed to improve the capture and use of electronic records.

Substantial planning was also undertaken to redesign the centralised computer hardware environment used to deliver essential IT services to the Office, supporting both its core business activities and ancillary functions. This planning work culminated in the acquisition of high capacity hardware components that will be implemented in the latter half of 2006. This improved hardware environment will form the base from which enhancements to the Office's corporate information systems will be delivered in 2006-07 and beyond.

Library and Records

In accordance with *State Records Commission Standard 2 Principle 6 – Compliance*, the Office is continuing to improve its efficiency and effectiveness in recordkeeping.

In August 2005, as part of the 'Improving Information Management' project, the Office successfully upgraded its electronic document management system from TRIM Captura to TRIM Context, concurrently



implementing a number of business process enhancements. This project involved all divisions and all staff were trained in the new recordkeeping system by the end of November 2005.

The success of the project can be found in the 13 Performance Audits and eight Compliance Audits being completed or continuing in the new system. Monthly statistics are being kept and reported to Corporate Executive. These statistics have shown an increased usage of the TRIM recordkeeping system with a corresponding increase in electronic document capture. An evaluation of the system is now undertaken with PE staff assessing modifications that can increase efficiency.

New staff are receiving recordkeeping awareness training as part of the induction process. Training programs in advanced TRIM techniques are being developed to enhance staff skills.

Information Technology

The Information Technology section continued to provide technical support to Office staff working at both the central office, and remote locations. As part of the section's continuous improvement program a number of obsolete servers were replaced with current technology to ensure the ongoing availability of essential computer systems. Improvements were also made to enhance the reliability of internal network systems. Trials of wireless technology were conducted by some Office field staff, enabling staff to connect to corporate applications from any location where a mobile telephone signal can be acquired.

The use of mobile computing technologies will provide auditors with the flexibility and convenience of accessing corporate information systems when working away from the Office, thereby enhancing productivity. Further wireless technology trials are planned for 2006-07.

Reception

Reception staff continued to provide professional and courteous services to staff, visitors to the Office, and telephone callers. In addition, reception staff were involved in the planning and implementation of an upgrade to the Office's central PABX telephone system and replacement of obsolete digital handsets with new models. These upgrade activities have improved the communication services available to all Office staff. Further enhancements to office communication systems are planned for 2006-07, and reception staff are participating in the design and implementation of these improvements.

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.

Managing Our Resources

Energy Saving Initiatives

The Office's energy costs increased from \$24 554 in 2004-05 to \$25 510 in 2005-06.

The table below shows a 17 per cent variation in energy consumption for 2005-06 over the baseline target (the baseline is 2001-02 actual data).

Energy Smart Government Program	Baseline (target) Data	2005-06 Actual	Variation %
Energy Consumption (MJ)	630	739	17%
Energy Cost (\$)	\$22 764	\$25 510	
Greenhouse Gas Emissions (tonnes of CO ₂)	161	185	
Performance indicators			
MJ/sqm	317 MJ/m ²	427 MJ/m ²	
MJ/FTE	6 001 MJ/FTE	8 396 MJ/FTE	

The 8.5 per cent increase in 2005-06 over 2004-05 was primarily due to an increase in the number of electronic componentry used by staff to fulfil their duties, and an increase in the number of staff based at head office.

During 2005-06 the Office implemented the following energy-saving strategies:

- Progressive replacement of obsolete equipment with energy compliant devices including printers and monitors.
- Review of equipment configuration settings to ensure that power-saving sleep timers are activated.
- Review of the air conditioning requirements for the computer room, ensuring an energy effective balance between cooling requirements

and maintenance of appropriate environmental conditions within the computer room.

The Office also engaged Building Management to conduct an audit of electricity consumption. The report showed that there were no problems and our consumption figures were correct.

In addition, the Office developed detailed technical plans to reduce the number of computer servers being used within the computer room, and procured the necessary

equipment and software to implement these plans. The new equipment will be implemented in the first quarter of 2006-07, and will initially result in a net reduction of four servers. Further reductions in servers will progressively be achieved over the remainder of 2006-07.

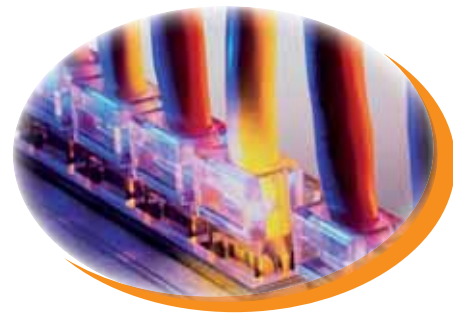
Website Development

During the year a number of significant enhancements, designed to improve access, navigation and user experience, were made to the Office's website.

Recent Innovations

Enhancement to the Search Engine

– Last year the Zoom Website Search Engine was purchased to replace our existing search facility. This has been further



enhanced by an upgrade of the server which now allows the use of PHP program language. PHP coding offers a more refined search result and processes the requests faster. The PHP search form has been accessed over 12 000 times since it has been installed. The Zoom search engine has also been installed on the Office Intranet.

RSS Feeds from OAG website – RSS feeds are special XML links created on web pages. The RSS feeds allow users to copy and paste the link into a software package (usually a free newsreader software) on their PC. This software automatically scans for updates to websites and feeds them into the software. Users can open the software and see the latest updates or news without having to visit the site. RSS feeds are available on the OAG website for the latest Reports that are tabled and for Media Statements. This innovation allows the distribution of Auditor General's Reports to a wider audience.

Purchase of DVD Recorder and Software – the purchase a DVD recorder and editing software has enabled the recording and editing of media coverage in real time. This then can be distributed via email, or placed on the OAG website or the OAG Intranet. This is a vast improvement on the limited use of video tape.

General Updates

Reports uploaded within minutes of Tabling – In the past 12 months all Reports to Parliament have been uploaded to the OAG Website within five minutes of tabling.

TOP 10 DOWNLOADS 2005-06	
Report	Downloads
Office of the Auditor General's Annual Report 2005	15 515
Life Matters: Management of Deliberate Self-Harm in Young People	7 033
Office of the Auditor General's Annual Report 2004	5 993
A Critical Resource: Nursing Shortages and the Use of Agency Nurses	4 134
Audit Practice Statement	3 259
Balancing Act: The Leasing of Government Assets	2 618
Third Public Sector Performance Report 2005	2 490
Public Sector Performance Report 2005	2 216
Protection of Critical Infrastructure Control Systems	2 008
Listen And Learn - Using customer surveys to report performance in the Western Australian public sector	1 818

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.

E-Mailing list – The OAG's report emailing list continues to grow with subscribers from across the world, including MPs, agencies, members of the public, students and media representatives. Each subscriber receives 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 there are over 350 individuals or organisations subscribed to this list. The entire list receives the email within 10 to 20 minutes of tabling.

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.

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.

Parliamentary Survey

The cornerstone of our Client Focus strategy remains the Parliamentary Survey, with support from both formal and informal client feedback. Our relationship with Parliament, our primary client, has already been outlined in the earlier pages of this report. The results of this year's Parliamentary Survey are detailed at page 17.

Agency Survey

An agency, or 'audit client' survey is conducted in order to measure the effectiveness and quality of the services of the office, enhance the Office's relationship with its clients and benchmark with other audit offices across Australia. The last agency survey conducted by the Office was in 2002, with 2005 being the first year of the survey in a new form.

The Agency Survey is conducted by the same independent market research company that conducts the Parliamentary Survey. The results of this Agency Survey have been detailed at page 18.

Integrity Coordinating Group

The Office has continued its active participation in the Integrity Coordinating Group (ICG). ICG comprises the Commissioner for Public Sector Standards, the Corruption and Crime Commissioner, the State Ombudsman and the Auditor General. ICG members collaborate to promote and strengthen integrity in the WA public sector by encouraging coordinated research, evaluation and monitoring, and fostering operational cooperation and consistency in communication and education. Each year, the ICG identifies key themes for collaboration.

This year, the ICG has focused its efforts on publishing guidelines for identifying and managing conflicts of interest in the Western Australian public sector. These Guidelines will assist agencies to identify, plan for and manage conflicts of interest in order to improve governance and maintain public trust. The Office has also participated in the Institute of Public Administration Australia's seminar on this topic in November 2005.

Current projects include improving the coordination and communication of the mechanisms for reporting improper conduct to relevant agencies. ICG is working to ensure those systems are easily understood by people reporting and referring those matters.



Leadership in Public Sector Audit

Auditor General Des Pearson was again at the forefront in presenting to a wider audience the role of public sector audit and its relevance. Within that context, the Auditor General outlined how through its public sector audit role the Office fulfilled its purpose of Serving the Public Interest. With the Office recognised by national and international observers as being at the leading-edge of public sector audit and Mr Pearson also Commissioner of the State Records Commission, his views on accountability, business ethics and public sector management issues were keenly sought.

Presentations from the Auditor General were prepared for a number of public sector agencies and professional organisations including:

- National Public Sector Chief Finance Officers Forum (CPA Australia/PriceWaterhouseCoopers) – ‘Accountability Considerations with AIFRS Globally and Shared Services Locally Tempered by GFS/GAAP Harmonisation’
- Institute of Public Administration Australia, in partnership with State Records Commission Seminar – ‘Implications for the State and Local Public Sector of the State Records Framework’
- Oceania Computer Audit, Control and Security Conference (CACS) 2005 (Striking a Balance) – ‘IT Governance: I Thought That Was Your Job’

- A Gathering of the Minds: Values, Ethics and Integrity (The Garden of Good and Evil) Seminar – ‘Why Lack of Integrity Makes Front Page News’
- Seminar sponsored by the Council for Australasian Archives and Records; State Records Office WA, Edith Cowan University and the Australian Society of Archivists – ‘Recordkeeping Legislation: Why Comply?’
- Leadership Western Australia Program – ‘Accountability, Volunteering, and Delivering Community Outcomes’
- Information Enterprises Australia, Electronic Document and Records Management System Seminar – ‘Importance of Accountability of Records in Today’s Electronic Environment’

Also during the year senior officers from the Office published or presented a number of papers:

- The Executive Director Performance Review Dr Peter Wilkins gave a presentation to the IPAA/AES Seminar Measuring Sustainability in August 2005 titled ‘Sustainability Reporting – The Roles of Whole-of-Government Reports and External Audit’
- A senior staff member gave a presentation on ‘New Approaches to Performance Audit’ at the 7th Australasian Council of Auditors General Performance Audit meeting in October 2005

Managing the Office ... continued

Managing our Relationships

- Dr Wilkins co-authored a book chapter on the international experience in the auditing of performance information, which has been published in 'Quality Matters: Seeking Confidence in Evaluation, Auditing and Performance Reporting'. Additionally he has finalised two other book chapters that are to be published in the coming year – 'Public Sector Auditing for Accountability: New Directions' and 'Consumer Perspectives on the Preparation and Reporting of Public Sector Performance Information'.
- The Office hosted the first Australian Evaluation Society WA 'Evaluation Café' on sustainability assessment. It was facilitated by Dr Bill Grace, Deputy Chair of the WA Sustainability Roundtable.

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 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)

The Office maintained a high level of commitment to ACAG's information sharing processes and national working groups during 2005-06. In addition, the Office consulted with Australasian audit colleagues to gain perspective on some important operational and strategic issues faced by the Office.

ACAG provided a submission to the Public Accounts Committee (PAC) Inquiry on the new Auditor General Bill. The submission raised some key points on independence, contemporary audit practice and



professional standards and contributed to some improvements in the Bill.

ACAG also assisted the Office with its contributions to the current PAC Inquiry into Local Government Accountability, giving the Office and the PAC an excellent perspective on audit issues for local governments in other States, and providing some potential models for improved practice in WA.

In 2005-06, the Office's role as national coordinator of the ACAG Macro Benchmarking project underwent a shift, with the Office taking part in a review of the project in a partnership with other ACAG offices and an independent research consultancy. After 10 years of operation, this review is designed to improve information sharing between public sector audit offices across Australia and assist Auditors General to move successfully into new areas of contemporary audit practice.

The Office 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 standards, and on a rotational basis coordinated the ACAG responses.

During 2005-06 the Office coordinated the ACAG response for one Exposure Draft and one Consultation Paper, made a significant contribution to the ACAG responses for 50 other Exposure Drafts (mainly related to the reissuance of Auditing and Assurance Standards) or discussion papers initiated by other offices

and responded to 15 general requests for information on our audit practices, or on policies and practices within the Western Australian public sector.

Audit Committee Membership

Senior audit staff participated on over 50 of our clients' audit committees throughout the year. Not only did this provide our staff with greater insight into our clients' operations, but staff also 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

Managing the Office ... continued

Managing our Relationships

Board of AARF, 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

An international visitor to the Office in 2005-06 was the South African Auditor General Mr Shauket Fakie. During his visit discussions with the Auditor General and senior officers centred on the performance, compliance and financial attest audit of the public sector, professional development of staff, and audit-related research and development undertaken by the Office.

International links were further strengthened when the Executive Director Performance Review undertook a three-week study tour of North America during May and June 2006. His itinerary included meetings with senior officers from national and state auditors and researchers in the USA and Canada with a focus on accountability and audit. In addition to benefiting from the exchange of ideas and methods, contacts have been established to enable return visits to Western Australia and future staff exchanges.

A September 2004 visit from Ms Johanne Gelin, the Commissioner of the Environment and Sustainable Development within the Office of the Auditor General of Canada, produced a highly beneficial outcome for both Offices during the year when an invitation by Ms Gelin to staff of the WA Office to consider a secondment to the Canadian Office was taken up. Mr Colin Campbell, an Associate Director in

our Office, swapped roles for 12 months (and indeed houses) with Mr Denis Roy, a Director in the Environment and Sustainable Development Commission in the Canadian audit office.

Mr Campbell who has a Master of Science in Natural Resource Management, is now developing his expertise in environmental auditing and reporting under the guidance of the Canadian office which is generally recognised as the world leaders in public sector environmental auditing. Mr Roy has brought his expertise to WA and is now contributing to an environmental audit of WA's management of 12 internationally recognised wetlands that are registered under the International Convention of Wetlands.

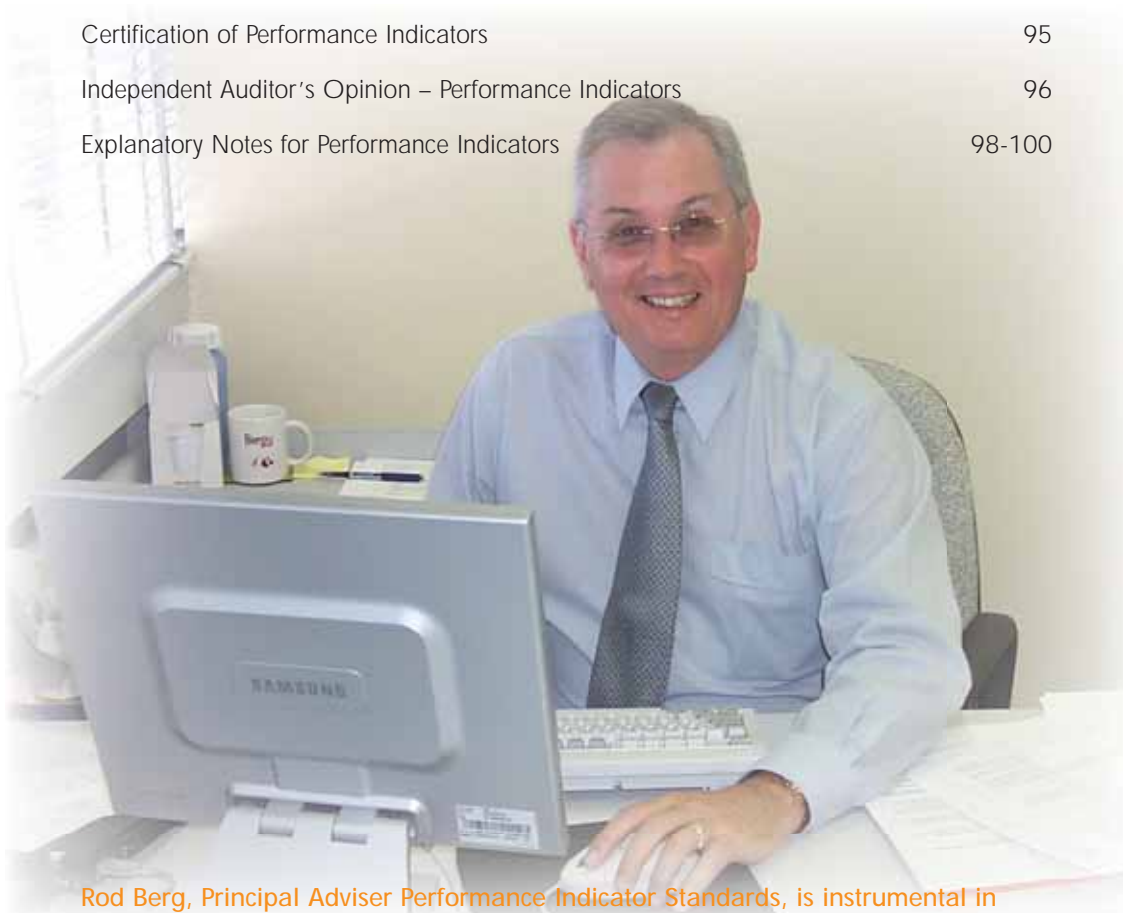
Peer Office Liaison

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 in such areas as communication, legislation, human resources and EEO practice.

Financial Statements and Performance Indicators

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Rod Berg, Principal Adviser Performance Indicator Standards, is instrumental in developing the OAG's Key Performance Indicators.

Financial Overview

Summary

The following is a summary of the financial performance and position of the Office showing trends from 2002 through to the current period ended 30 June 2006. The summary is based on the information provided in the Office's audited financial statements.

There are two notable developments which distinguish 2006 from prior years:

- First, a successful budget submission provided an increase in appropriations of \$1 472 000 to assist the Office with the audit of the new entities arising from the disaggregation of Western Power Corporation; aligning of Auditing Standards; the New Executive Structure and additional costs in relation to financial audits.
- Second, to fund the strategy of contracting out audits during the period of transition to earlier reporting.

	2002 \$'000	2003 \$'000	2004 \$'000	2005 \$'000	2006 \$'000
Financial Performance					
Total Income ^(a)	11 194	11 526	10 587	12 619	14 664
Total Expenditure	10 616	10 809	11 926	12 694	14 209
Net Cost of Services	7 166	7 352	9 770	12 627	14 176
Change in Net Assets	578	717	-1 339	-75	455
Financial Position					
Total Assets	2 765	3 318	2 498	2 600	3 936
Total Liabilities	1 716	1 523	1 920	2 025	2 878
Employee Entitlements	1 293	1 093	1 468	1 623	1 634
Analytical Information					
Change in Net Assets to Total Income ^(b)	5.16%	6.22%	-12.65%	-0.59%	3.10%
Current Ratio ^(c)	2.20	2.84	1.49	1.05	1.18
Debtor Turnover ^(d)	0.11	0.13	0.02	0.03	0.03

(a) Total Income refers to Total Operating Revenue and Total Revenues from Government. All agencies are now charged for audit services on a commercial basis. The increase in 2006 relates to additional funding approved to assist the Office in delivering services.

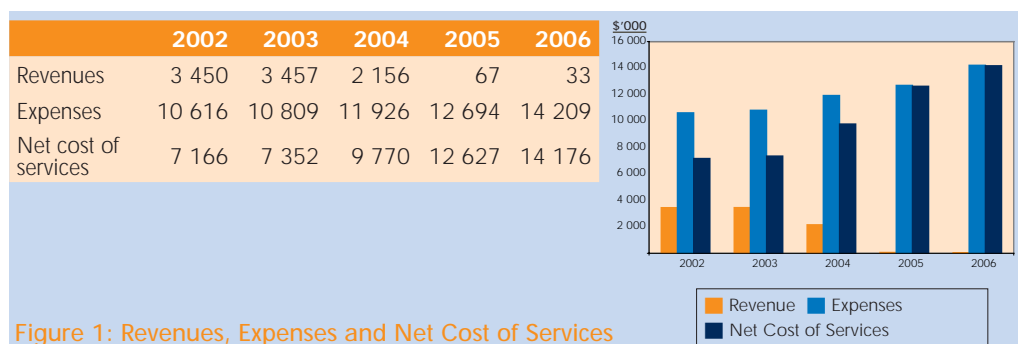
(b) The ratio of Change in Net Assets to Total Income

(c) The ratio of Current Assets to Current Liabilities

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

Financial Performance

The net cost of services has increased by 12 per cent (\$14.2m: 2006, \$12.6m: 2005). The increase is mainly due to the additional funding for the audit of the new entities arising from the disaggregation of Western Power Corporation; aligning of Auditing Standards; the New Executive Structure and additional costs in relation to financial audits.



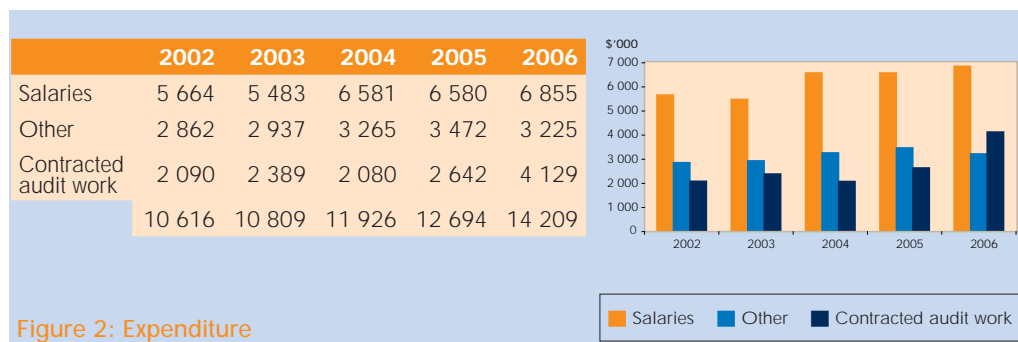
Revenue

Revenue decreased by \$2 089 000 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 as Administered Revenue.

Expenditure

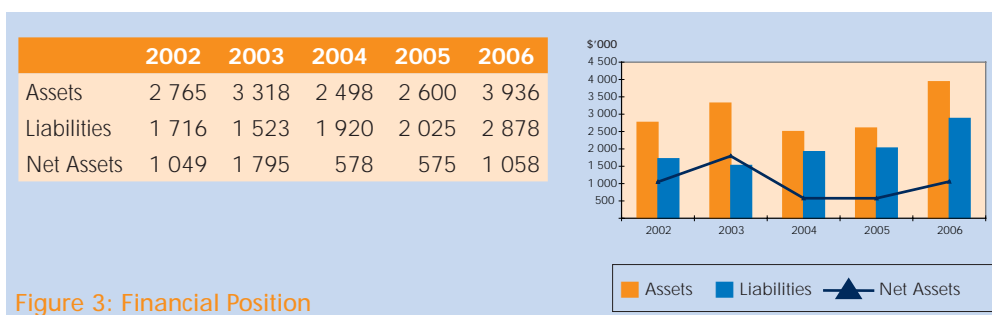
The largest expenditure item is salaries (48 per cent of the 2005-06 total cost of services). Contracted audit work payments increased by 56 per cent (\$1 487 000) due to earlier reporting timelines and resourcing issues faced by the Office. Other operating expenses decreased by \$247 000 (-7.1 per cent) largely driven by a decrease in the Capital User Charge (\$99 000), depreciation expense (\$60 000) and administration expenses (\$91 000).

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



Financial Position

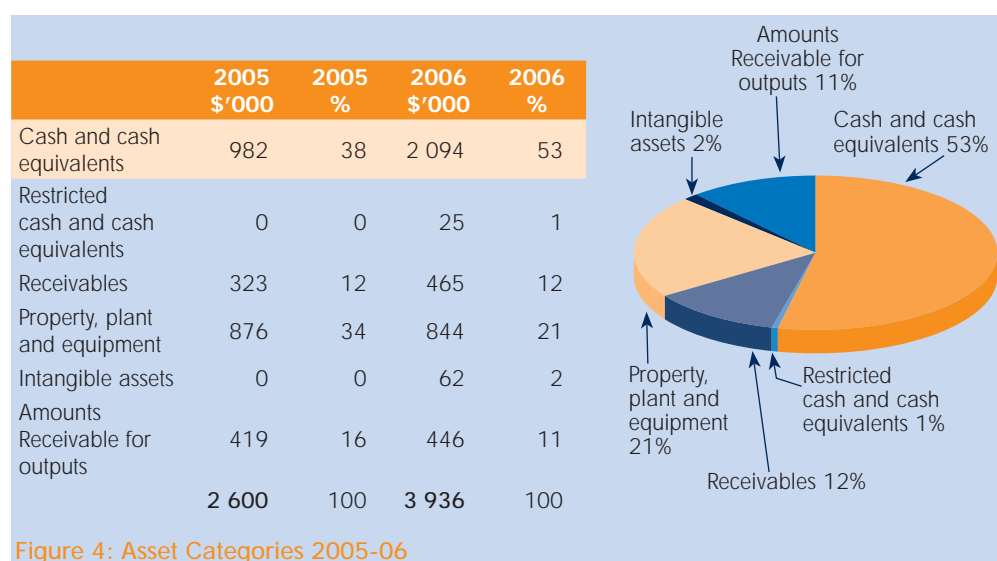
The Statement of Financial Position provides information on assets and liabilities. This shows an increase in cash and cash equivalents and other liabilities and represents an accumulation of cash that will be consumed in 2006-07 by contract audit payments. Figure 3 provides an overview of the assets 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 increased by \$483 000 (84 per cent) during the financial year mainly due to increases in Cash Assets and Receivables and an equivalent offsetting increase in Other current liabilities (increase in work in progress – Contractor payments). These funds will be applied to audit services in future years.

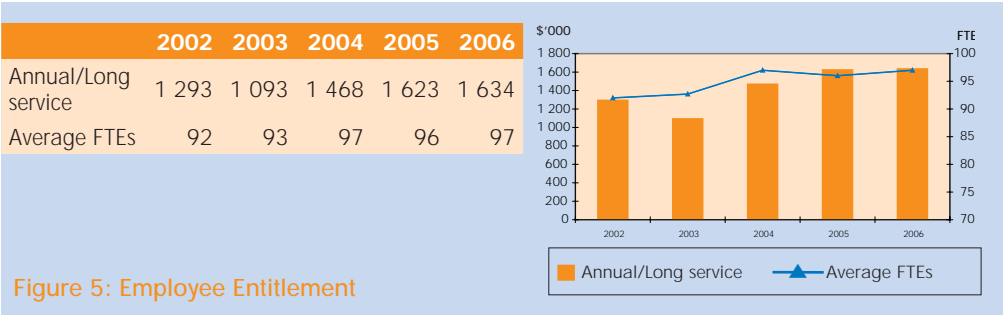
Assets

The Office's asset holdings comprise mainly of Cash and Restricted Cash Assets (54 per cent) and Property, Plant and Equipment (21 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 2006 financial year (56.8 per cent) relate to employee entitlements. Employee entitlements which consist of annual and long service leave and associated on-costs have increased by \$11 000 (0.7 per cent) during the 2005-06 financial year.



Contracts and Facilities Officer Bek Lothian maintains the Office’s Assets Register and has responsibility for the annual stocktake.

CERTIFICATION OF FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006

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 2006 and the financial position at 30 June 2006.

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
24 August 2006



S THOMSON
CHIEF FINANCE OFFICER
24 August 2006

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 2006**

SCOPE

I have audited the financial statements comprising the Income Statement, Balance Sheet, Cash Flow Statement and Notes to the financial statements of the Office of the Auditor General for the year ended 30 June 2006 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 2006 and financial performance and cash flows ended on that date.

RIX LEVY FOWLER
Chartered Business Advisors

DATED at PERTH this 24th day of August 2006

PHILLIP RIX
Partner

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OFFICE OF THE AUDITOR GENERAL

**INCOME STATEMENT
FOR THE YEAR ENDED 30 JUNE 2006**

COST OF SERVICES	Note	2006 \$'000	2005 \$'000
Expenses			
Employee benefits expense	7	7 596	7 320
Supplies and services	8	5 657	4 220
Depreciation and amortisation expense	9	338	398
Accommodation expenses	10	609	616
Capital user charge	11	49	114
Loss on disposal of non-current assets	12	0	26
Total cost of services		14 249	12 694
Income			
Revenue			
Other revenue	13	100	67
Total revenue		100	67
NET COST OF SERVICES		14 149	12 627
INCOME FROM STATE GOVERNMENT	14		
Service Appropriation		14 535	12 405
Liabilities assumed by the Treasurer		84	110
Resources received free of charge		12	37
Total income from State Government		14 631	12 552
SURPLUS/(DEFICIT) FOR THE PERIOD		482	(75)

The Income Statement should be read in conjunction with the accompanying notes.

OFFICE OF THE AUDITOR GENERAL

BALANCE SHEET AT 30 JUNE 2006

	Note	2006 \$'000	2005 \$'000
ASSETS			
Current Assets			
Cash and cash equivalents	25	2 094	982
Receivables	16	498	323
Amounts receivable for services	17	446	419
Total Current Assets		3 038	1 724
Non Current Assets			
Restricted cash and cash equivalents	15	25	0
Property, plant and equipment	18	844	876
Intangible assets	19	62	0
Total Non-Current Assets		931	876
TOTAL ASSETS		3 969	2 600
LIABILITIES			
Current Liabilities			
Payables		51	113
Provisions	22	1 308	1 236
Other current liabilities	23	1 193	289
Total Current Liabilities		2 553	1 638
Non-Current Liabilities			
Provisions	22	332	387
Total Non-Current Liabilities		332	387
TOTAL LIABILITIES		2 885	2 025
NET ASSETS		1 084	575
EQUITY			
Contributed equity	24	629	602
Accumulated surplus / (deficiency)		455	(27)
TOTAL EQUITY		1 084	575
TOTAL LIABILITIES AND EQUITY		3 969	2 600

The Balance Sheet should be read in conjunction with the accompanying notes.

OFFICE OF THE AUDITOR GENERAL

**STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2006**

	Note	2006 \$'000	2005 \$'000
Balance of equity at start of period		575	578
CONTRIBUTED EQUITY			
Balance at start of period		602	530
Capital contribution		27	72
Other contributions by owners		#	
Distributions to owners			
Balance at end of period	24	<u>629</u>	<u>602</u>
ACCUMULATED SURPLUS (RETAINED EARNINGS)			
Balance at start of period		(27)	48
Surplus/(deficit) for the period		<u>482</u>	<u>(75)</u>
Balance at end of period	24	<u>455</u>	<u>(27)</u>
BALANCE OF EQUITY AT END OF PERIOD		1 084	575
Total income and expense for the period		482	(75)

The Statement of Changes in Equity should be read in conjunction with the accompanying notes.

OFFICE OF THE AUDITOR GENERAL

**CASH FLOW STATEMENT
FOR THE YEAR ENDED 30 JUNE 2006**

	Note	2006 \$'000	2005 \$'000
CASH FLOWS FROM STATE GOVERNMENT			
Service appropriation		14 089	11 986
Capital contributions		27	72
Holding account drawdowns		419	350
Net cash provided by State Government		14 535	12 408
Utilised as follows:			
CASH FLOWS FROM OPERATING ACTIVITIES			
Payments			
Employee benefits		(7 675)	(7 762)
Supplies and services		(3 975)	(2 798)
Capital User Charge		0	(80)
Accommodation		(615)	(621)
GST payments on purchases		(593)	(460)
GST payments to taxation authority		0	0
Other payments		(713)	(677)
Receipts			
User charges and fees		0	83
GST receipts on sales		3	5
GST receipts from taxation authority		521	398
Other receipts		18	32
Net cash provided by / (used in) operating activities	25	(13 029)	(11 880)
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from sale of non-current physical assets		0	85
Purchase of non-current physical assets		(369)	(540)
Net cash provided by/ (used in) investing activities		(369)	(455)
Net increase/(decrease) in cash and cash equivalents		1 137	73
Cash and cash equivalents at the beginning of period		982	909
CASH AND CASH EQUIVALENTS AT THE END OF PERIOD	25	2 119	982

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

OFFICE OF THE AUDITOR GENERAL

SUMMARY OF CONSOLIDATED FUND APPROPRIATIONS AND INCOME ESTIMATES FOR THE YEAR ENDED 30 JUNE 2006

	2006 Estimate \$'000	2006 Actual \$'000	Variance \$'000	2006 Actual \$'000	2005 Actual \$'000	Variance \$'000
DELIVERY OF SERVICES						
Item 40 Net amount appropriated to deliver services	12 826	14 204	(1 378)	14 204	12 183	2 021
Amount Authorised by Other Statutes <i>Financial Administration and Audit Act 1985 (FAAA)</i>	237	331	(94)	331	222	109
Total appropriations provided to deliver services	13 063	14 535	(1 472)	14 535	12 405	2 130
CAPITAL						
Item 132 Capital Contribution	27	27	0	27	72	(45)
GRAND TOTAL	13 090	14 562	(1 472)	14 562	12 477	2 085
Details of Expenses by Service						
Performance Auditing	13 043	14 249	(1 206)	14 249	12 694	1 555
Total Cost of Service	13 043	14 249	(1 206)	14 249	12 694	1 555
Less total income	(20)	(100)	80	(100)	(152)	52
Net Cost of Services	13 023	14 149	(1 126)	14 149	12 542	1 607
Adjustments (I)	40	386	(346)	386	(137)	523
Total appropriations provided to deliver services	13 063	14 535	(1 472)	14 535	12 405	2 130
Capital Expenditure						
Purchase of non-current physical assets	446	369	77	369	540	(171)
Adjustment for other funding sources	(419)	(342)	(77)	(342)	(468)	126
Capital Contribution (appropriation)	27	27	0	27	72	(45)
DETAILS OF INCOME ESTIMATES						
Income disclosed as Administered Income	9 584	11 143	(1 559)	11 143	13 157	(2 014)

(I) Adjustments comprise 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 33.

OFFICE OF THE AUDITOR GENERAL

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006

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 out its functions.

2 FIRST TIME ADOPTION OF AUSTRALIAN EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS

General

This is the Office's first published financial statements prepared under Australian equivalents to International Financial Reporting Standards (AIFRS).

Accounting Standard AASB 1 'First-time Adoption of Australian Equivalents to International Financial Reporting Standards' has been applied in preparing these financial statements. Until 30 June 2005, the financial statements have been prepared under the previous Australian Generally Accepted Accounting Principles (AGAAP).

The Australian Accounting Standards Board (AASB) adopted the Standards of the International Accounting Standards Board (IASB) for application to reporting periods beginning on or after 1 January 2005 by issuing AIFRS which comprise a Framework for the Preparation and Presentation of Financial Statements, Australian Accounting Standards and the Urgent Issue Group (UIG) Interpretations.

In accordance with the option provided by AASB 1 paragraph 36A and exercised by Treasurer's Instruction (TI) 1101 'Application of Australian Accounting Standards and Other Pronouncements', financial instrument information prepared under AASB 132 and AASB 139 will apply from 1 July 2005 and consequently comparative information for financial instruments is presented on the previous AGAAP basis. All other comparative information is prepared under the AIFRS basis.

Early adoption of standards

The Office cannot early adopt an Australian Accounting Standard or UIG Interpretation unless specifically permitted by TI 1101 'Application of Australian Accounting Standards and Other Pronouncements'. This TI requires the early adoption of revised AASB 119 'Employee Benefits' as issued in December 2004, AASB 2004-3 'Amendments to Australian Accounting Standards; and 2005-3 'Amendments to Australian Accounting Standards [AASB 119]'; AASB 2005-4 'Amendments to Australian Accounting Standard [AASB 139, AASB 132, AASB 1, AASB 1023 & AASB 1038]' and AASB 2005-6 'Amendments to Australian Accounting Standards [AASB 3]' to the annual reporting period beginning 1 July 2005. AASB 2005-4 amends AASB 139 'Financial Instruments: Recognition and Measurement' so that the ability to designate financial assets and financial liabilities at fair value is restricted. AASB 2005-6 excludes business combinations involving common control from the scope of AASB 3 'Business Combinations'.

Reconciliations explaining the transition to AIFRS at 1 July 2004 and 30 June 2005 are provided at note 37 'Reconciliations explaining the transition to AIFRS'.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) General Statement

The financial statements constitute a general purpose financial report which has been prepared in accordance with the Australian Accounting Standards, the Framework, Statement of Accounting Concepts and other authoritative pronouncements of the Australian Accounting Standards Board as applied by the Treasurer's Instructions. Several of these are modified by the Treasurer's Instructions to vary application, disclosure, format and wording. *For example, AASB 116 requires land and buildings to be measured at cost or fair value; TI 954 mandates the fair value option.*

The *Financial Administration and Audit Act* and the Treasurer's Instructions are legislative provisions governing the preparation of financial statements and take precedence over the Accounting Standards, the Framework, Statements of Accounting Concepts and other authoritative pronouncements of the Australian Accounting Standards Board.

Where modification is required and has a material or significant financial effect upon the reported results, details of that modification and the resulting financial effect are disclosed in the notes to the financial statements.

(b) Basis of Preparation

The financial statements have been prepared in accordance with Accounting Standard AAS 29 'Financial Reporting by Government Departments' on the accrual basis of accounting using the historical cost convention.

The accounting policies adopted in the preparation of the financial statements have been consistently applied throughout all periods presented unless otherwise stated.

The financial statements are presented in Australian dollars and all values are rounded to the nearest thousand dollars (\$'000).

The judgements that have been made in the process of applying the Office's accounting policies that have the most significant effect on the amounts recognised in the financial statements are disclosed at note 4 'Judgements made by management in applying accounting policies'.

The key assumptions made concerning the future, and other key sources of estimation uncertainty at the reporting date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are disclosed at note 5 'Key sources of estimation uncertainty'.

(c) Reporting Entity

The reporting entity comprises the Office of the Auditor General.

The Office administers assets, liabilities, income and expenses on behalf of Government which are not controlled by, nor integral to the function of the Office. These administered balances and transactions are not recognised in the principal financial statements of the Office but schedules are prepared using the same basis as the financial statements and are presented at note 36 'Administered expenses and income' and note 36 'Administered assets and liabilities'.

(d) Contributed Equity

UIG Interpretation 1038 'Contributions by Owners Made to Wholly-Owned Public Sector Entities' requires transfers in the nature of equity contributions to be designated by the Government (the owner) as contributions by owners (at the time of, or prior to transfer) before such transfers can be recognised as equity contributions. Capital contributions (appropriations) have been designated as contributions by owners by TI 955 'Contributions by Owners made to Wholly Owned Public Sector Entities' and have been credited directly to Contributed Equity.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *contd*

(e) Income

Revenue

Revenue is measured at the fair value of consideration received or receivable. Revenue is recognised for the major business activities as follows:

Sale of goods

Revenue is recognised from the sale of goods and disposal of other assets when the significant risks and rewards of ownership control transfer to the purchaser.

Rendering of services

Revenue is recognised upon delivery of the service to the client or by reference to stage of completion. Audit fees are recognised in accordance with the percentage of the audit completed. The percentage of audit completed is measured by reference to labour hours incurred to date as a percentage of the estimated total hours.

Service Appropriations

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. See note 14 'Income from State Government' for further detail.

Net Appropriation Determination

The Treasurer may make a determination providing for prescribed revenues to be retained for services under the control of the Office. In accordance with the determination specified in the 2005-06 Budget Statements, the Office retained \$33 000 in 2006 (\$67 000 in 2005) from the following:

- Executive Vehicle Scheme
- Other Revenue

Gains

Gains may be realised or unrealised and are usually recognised on a net basis. These include gains arising on the disposal of non-current assets.

(f) Property, Plant and Equipment

Capitalisation/Expensing of assets

Items of property, plant and equipment costing over \$1 000 are recognised as assets and the cost of utilising assets is expensed (depreciated) over their useful lives. Items of property, plant and equipment costing less than \$1 000 are immediately expensed direct to the Income Statement (other than where they form part of a group of similar items which are significant in total).

Initial recognition and measurement

All items of property, plant and equipment are initially recognised at cost.

For items of property, plant and equipment acquired at no cost or for nominal consideration, the cost is their fair value at the date of acquisition.

Subsequent measurement

Items of property, plant and equipment are carried at historical cost less accumulated depreciation and accumulated impairment losses.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *contd*

Depreciation

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 using the straight line method, 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

(g) Intangible Assets

Capitalisation/Expensing of assets

Acquisitions of intangible assets costing over \$5 000 and internally generated intangible assets costing over \$50 000 are capitalised. The cost of utilising the assets is expensed (amortised) over their useful life. Costs incurred below these thresholds are immediately expensed directly to the Income Statement.

All acquired and internally developed intangible assets are initially recognised at cost. For assets acquired at no cost or for nominal cost, the cost is their fair value at the date of acquisition.

The cost model is applied for subsequent measurement requiring the asset to be carried at cost less any accumulated amortisation and accumulated impairment losses.

The carrying value of intangible assets is reviewed for impairment annually when the asset is not yet in use, or more frequently when an indicator of impairment arises during the reporting year indicating that the carrying value may not be recoverable.

Amortisation for intangible assets with finite useful lives is calculated for the period of the expected benefit (estimated useful life) on the straight line basis using rates which are reviewed annually. All intangible assets controlled by the Office have a finite useful life and zero residual value. The expected useful lives for each class of intangible asset are:

Software	3 years
----------	---------

Computer Software

Software that is an integral part of the related hardware is treated as property, plant and equipment. Software that is not an integral part of the related hardware is treated as an intangible asset. Software costing less than \$5 000 is expensed in the year of acquisition.

(h) Impairment of Assets

Property, plant and equipment are tested for any indication of impairment at each reporting date. Where there is an indication of impairment, the recoverable amount is estimated. Where the recoverable amount is less than the carrying amount, the asset is considered impaired and is written down to the recoverable amount and an impairment loss is recognised. As the Office is a not-for-profit entity, unless an asset has been identified as a surplus asset, the recoverable amount is the higher of an asset's fair value less costs to sell and depreciated replacement cost.

The risk of impairment is generally limited to circumstances where an asset's depreciation is materially understated or where the replacement cost is falling. Each relevant class of assets is reviewed annually to verify that the accumulated depreciation reflects the level of consumption or expiration of asset's future economic benefits and to evaluate any impairment risk from falling replacement costs.

See note 20 'Impairment of assets' for the outcome of impairment reviews and testing.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES contd

(i) Leases

The Office has entered into a number of operating lease arrangements for accommodation, certain equipment and motor vehicles where the lessors effectively retain all of the risks and benefits incident to ownership of the items held under the operating lease. Lease payments are expensed on a straight line basis over the lease term as this represents the pattern of benefits to be derived from the leased items.

(j) Financial Instruments

The Office has two categories of financial instrument:

- Receivables (including cash); and
- Non trading financial liabilities (payables).

Initial recognition and measurement of financial instruments is at fair value which normally equates to the transaction cost or the face value. Subsequent measurement is at amortised cost using the effective interest method.

The fair value of short term receivables and payables is the transaction cost or the face value because there is no interest rate applicable and subsequent measurement is not required as the effect of discounting is not material.

(k) Cash and Cash Equivalents

For the purpose of the Cash Flow Statement, cash and cash equivalents includes cash on hand and restricted cash and cash equivalents.

(l) Accrued Salaries

The accrued salaries suspense account (refer note 15 'Restricted cash and cash equivalents') 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 instead of the normal 26. No interest is received on this account.

Accrued salaries (refer note 23 'Other liabilities') represent the amount due to staff but unpaid at the end of the financial year, as the pay date for the last pay period for that financial year does not coincide with the end of the financial year. Accrued salaries are settled within a fortnight of the financial year end. The Office considers the carrying amount of accrued salaries to be equivalent to its net fair value.

(m) Amounts Receivable for Services (Holding Account)

The Office receives appropriation funding on an accrual basis that recognises the full annual cash and non-cash cost of services. The appropriations are paid in cash and partly as an asset (Holding Account receivable) that is accessible on the emergence of the cash funding requirement to cover items such as asset replacement and leave entitlements.

See also note 14 'Income from State Government' and note 17 'Amounts receivable for services'.

(n) Receivables

Receivables are recognised and carried at original invoice amount less an allowance for uncollectible amounts (i.e. impairment). The collectability of receivables is reviewed on an ongoing basis and any receivables identified as uncollectible are written off. The allowance for uncollectible amounts (doubtful debts) is raised when there is objective evidence that the Office will not be able to collect the debts. The carrying amount is equivalent to fair value as it is due for settlement within 30 days. See note 3(j) 'Financial Instruments' and note 16 'Receivables'.

(o) Payables

Payables are recognised when the Office becomes obliged to make future payments as a result of a purchase of assets or services. The carrying amount is equivalent to fair value, as they are generally settled within 30 days. See note 3(j) 'Financial Instruments' and note 21 'Payables'.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *contd*

(p) Provisions

Provisions are liabilities of uncertain timing and amount and are recognised where there is a present legal, equitable or constructive obligation as a result of a past event and when the outflow of economic benefits is probable and can be measured reliably. Provisions are reviewed at each balance sheet reporting date. See note 22 'Provisions'.

(i) Provisions – Employee Benefits

Annual Leave and Long Service Leave

The liability for annual and long service leave expected to be settled within 12 months after the end of the reporting date is recognised and measured at the undiscounted amounts expected to be paid when the liabilities are settled. Annual and long service leave expected to be settled more than 12 months after the end of the reporting date is measured at the present value of amounts expected to be paid when the liabilities are settled. Leave liabilities are in respect of services provided by employees up to the reporting date.

When assessing expected future payments consideration is given to expected future wage and salary levels including non-salary components such as employer superannuation contributions. In addition, the long service leave liability also considers the experience of employee departures and periods of service.

The expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity that match, as closely as possible, the estimated future cash outflows.

All annual leave and unconditional long service leave provisions are classified as current liabilities as the Office does not have an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.

Superannuation

The Government Employees Superannuation Board (GESB) administers the following superannuation schemes:

Employees may contribute to the Pension Scheme, a defined benefits pension scheme now closed to new members, or the Gold State Superannuation Scheme (GSS), a defined benefit lump sum scheme also closed to new members. The Office has no liabilities for superannuation charges under the Pension or the GSS Schemes as the liability has been assumed by the Treasurer.

Employees who are not members of either the Pension or GSS Schemes become non contributory members of the West State Superannuation Scheme (WSS), an accumulation fund. The Office makes concurrent contributions to GESB on behalf of employees in compliance with the Commonwealth Government's Superannuation Guarantee (Administration) Act 1992. These contributions extinguish the liability for superannuation charges in respect of the WSS Scheme.

The GESB makes all benefit payments in respect of the Pension and GSS Schemes, and is recouped by the Treasurer for the employer's share.

See also note 3(q) 'Superannuation expense'.

(ii) Provisions – Other

Employment On-Costs

Employment on-costs, including workers' compensation insurance, are not employee benefits and are recognised separately as liabilities and expenses when the employment to which they relate has occurred. Employment on-costs are included as part of 'Other expenses' and are not included as part of the Office's 'Employee benefits expense'. The related liability is included in 'Employment on-costs provision'. See note 22 'Provisions'.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES contd

(q) Superannuation Expense

The following elements are included in calculating the superannuation expense in the Income Statement:

- (a) Defined benefit plans – Change in the unfunded employer's liability (i.e. current service cost and, actuarial gains and losses) assumed by the Treasurer in respect of current employees who are members of the Pension Scheme and current employees who accrue a benefit on transfer from that Scheme to the Gold State Superannuation Scheme (GSS); and
- (b) Defined contribution plans – Employer contributions paid to the West State Superannuation Scheme (WSS), and the equivalent of employer contributions to the GSS.

Defined benefit plans – in order to reflect the true cost of services, the movements (i.e. current service cost and, actuarial gains and losses) in the liabilities in respect of the Pension Scheme and the GSS Scheme transfer benefits are recognised as expenses directly in the Income Statement. As these liabilities are assumed by the Treasurer [refer note 3(p)(i)], a revenue titled 'Liabilities assumed by the Treasurer' equivalent to the expense is recognised under Income from State Government in the Income Statement. See note 14 'Income from State Government'.

Defined contribution plans – in order to reflect the true cost of services of the Office, the Office is funded for the equivalent of employer contributions in respect of the GSS Scheme (excluding transfer benefits). These contributions were paid to the GESB during the year and placed in a trust account administered by the GESB on behalf of the Treasurer. The GESB subsequently paid these employer contributions in respect of the GSS Scheme to the Consolidated Fund.

(r) Resources Received Free of Charge or For Nominal Cost

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

(s) Comparative Figures

Comparative figures have been restated on the AIFRS basis except for financial instruments information, which has been prepared under previous AGAAP Australian Accounting Standard AAS 33 'Presentation and Disclosure of Financial Instruments'. The transition date to AIFRS for financial instruments is 1 July 2005 in accordance with the exemption allowed under AASB 1, paragraph 36A and Treasurer's Instruction 1101.

4 JUDGEMENTS MADE BY MANAGEMENT IN APPLYING ACCOUNTING POLICIES

There have been no judgements made in the process of applying accounting policies that have had a significant effect on the amounts recognised in the financial statements.

5 KEY SOURCES OF ESTIMATION UNCERTAINTY

The key assumptions made concerning the future, and other key sources of estimation uncertainty at the reporting date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year include:

Discount rates used in estimating provisions.

Estimating useful life of key assets.

6 DISCLOSURE OF CHANGES IN ACCOUNTING POLICY AND ESTIMATES

Future impact of Australian Accounting Standards not yet operative

The Office cannot early adopt an Australian Accounting Standard or UIG Interpretation unless specifically permitted by TI 1101 'Application of Australian Accounting Standards and Other Pronouncements'. As referred to in Note 2, TI1101 has only mandated the early adoption of revised AASB 119, AASB 2004-3, AASB 2005-3, AASB 2005-4 and AASB 2005-6. Consequently, the Office has not applied the following Australian Accounting Standards and UIG Interpretations that have been issued but are not yet effective. These will be applied from their application date:

1. AASB 7 'financial Instruments: Disclosures' (including consequential amendments in AASB 2005-10 'Amendments to Australian Accounting Standards [AASB 132, AASB 101, AASB 114, AASB 117, AASB 133, AASB 139, AASB 1, AASB 4, AASB 1023 and AASB 1038]'). This standard requires new disclosures in relation to financial instruments. The Standard is required to be applied to annual reporting periods beginning on or after 1 January 2007. The Standard is considered to result in increased disclosures of an entity's risks, enhanced disclosure about components of financial position and performance, and changes to the way of presenting financial statements, but otherwise there is no financial impact.
2. AASB 2005-9 'Amendments to Australian Accounting Standards [AASB 4, AASB 1023, AASB 139 & AASB 132]' (Financial guarantee contracts). The amendment deals with the treatment of financial guarantee contracts, credit insurance contracts, letters of credit or credit derivative default contracts as either an "insurance contract" under AASB 4 'Insurance Contracts' or as a "financial guarantee contract" under AASB 139 'Financial Instruments: Recognition and Measurement'. The Office does not undertake these types of transactions resulting in no financial impact when the Standard is first applied. The Standard is required to be applied to annual reporting periods beginning on or after 1 January 2006.
3. UIG Interpretation 4 'Determining whether an Arrangement contains a Lease'. This interpretation deals with arrangements that comprise a transaction or a series of linked transactions that may not involve a legal form of a lease but by their nature are deemed to be leases for the purposes of applying AASB 117 'Leases'. At reporting date, the Office has not entered into any arrangements as specified in the Interpretation resulting in no impact when the Interpretation is first applied. The interpretation is required to be applied to annual reporting periods beginning on or after 1 January 2006.

The following amendments are not applicable to the Office as they will have no impact:

<u>AASB Amendment</u>	<u>Affected Standards</u>
2005-1	AASB 139 (Cash flow hedge accounting of forecast intragroup transactions)
2005-5	'Amendments to Australian Accounting Standards [AASB 1 & AASB 139]'
2006-1	AASB 121 (Net investment in foreign operations)
UIG 5	'Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds'.
UIG 6	'Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment'.
UIG 7	'Applying the Restatement Approach under AASB 129 Financial Reporting in Hyperinflationary Economies'.

7 EMPLOYEE BENEFITS EXPENSE

	2006	2005
	\$'000	\$'000
Salaries	6 113	5 637
Superannuation - defined contribution plans (West State)	415	369
Superannuation - defined benefit plans (Gold State)	320	371
Annual leave ^(a)	619	575
Long Service Leave ^(a)	129	368
	<u>7 596</u>	<u>7 320</u>

(a) Includes a superannuation contribution component.

8 SUPPLIES AND SERVICES

	2006	2005
	\$'000	\$'000
Contracted audit work	4 129	2 642
Other services and contracts	300	247
Communications	64	65
Consumables	200	191
Repairs and maintenance	215	182
Administration	329	420
Other staffing costs	288	342
Advertising	30	23
Lease expenses	94	96
Other	8	12
	<u>5 657</u>	<u>4 220</u>

9 DEPRECIATION AND AMORTISATION EXPENSE

	2006	2005
	\$'000	\$'000
Depreciation		
Office and computer equipment	314	376
Furniture and Fittings	23	22
Total Depreciation	<u>337</u>	<u>398</u>
Amortisation		
Intangible assets	<u>1</u>	<u>0</u>
Total depreciation and amortisation	<u>338</u>	<u>398</u>

10 ACCOMMODATION EXPENSES

	2006	2005
	\$'000	\$'000
Office rent	383	383
Office parking	65	59
Monthly Outgoings	161	174
	<u>609</u>	<u>616</u>

11 CAPITAL USER CHARGE

	2006 \$'000	2005 \$'000
Capital user charge	49	114

The Government applies a levy for the use of its capital for the delivery of services. It is applied at 8 per cent per annum on the net assets of the Office, excluding exempt assets and is paid to the Department of Treasury and Finance quarterly.

12 NET GAIN/(LOSS) ON DISPOSAL OF NON-CURRENT ASSETS

	2006 \$'000	2005 \$'000
<u>Costs of Disposal of Non-Current Assets</u>		
Office and Computer Equipment	0	111
<u>Proceeds from Disposal of Non-Current Assets</u>		
Office and Computer Equipment	0	85
Net Gain/(Loss)	0	(26)

13 OTHER REVENUE

	2006 \$'000	2005 \$'000
Contributions for the use of motor vehicles	14	14
Miscellaneous	86	53
	100	67

14 INCOME FROM STATE GOVERNMENT

	2006 \$'000	2005 \$'000
Appropriation received during the year:		
Service appropriations ^(a)	14 535	12 405
The following liabilities have been assumed by the Treasurer during the financial year:		
- Superannuation ^(b)	<u>84</u>	<u>110</u>
Total liabilities assumed by the Treasurer	84	110
Resources received free of charge ^(c)		
Determined on the basis of the following estimates provided by agencies:		
Crown Solicitor's Office	<u>12</u>	<u>37</u>
Total resources received free of charge	12	37
Total income from State Government	<u>14 631</u>	<u>12 552</u>

- a) 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.
- b) The assumption of the superannuation liability by the Treasurer is a notional income to match 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. The notional superannuation expense is disclosed at note 7 'Employee Benefits Expense'.
- c) Where assets or services have been received free of charge or for nominal cost, 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.

15 RESTRICTED CASH AND CASH EQUIVALENTS

	2006 \$'000	2005 \$'000
<u>Non-current</u>		
Accrued salaries suspense account ^(a)	<u>25</u>	<u>0</u>

(a) 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.

16 RECEIVABLES

	2006 \$'000	2005 \$'000
<u>Current</u>		
Receivables	61	76
Other Receivables	33	0
Allowance for doubtful debts	0	0
GST Receivable	<u>208</u>	<u>140</u>
	302	216
 Prepayments	 196	 107
Total Current	<u>498</u>	<u>323</u>

See also note 3(n) 'Receivables' and note 34 'Financial Instruments'.

17 AMOUNTS RECEIVABLE FOR SERVICES

	2006 \$'000	2005 \$'000
Current	<u>446</u>	<u>419</u>

Represents the non-cash component of service appropriations. See note 3(m) 'Amounts receivable for services (Holding Account)'. It is restricted in that it can only be used for asset replacement or payment of leave liability.

18 PROPERTY, PLANT AND EQUIPMENT

	2006 \$'000	2005 \$'000
FURNITURE & FITTINGS		
At Cost	307	248
Accumulated depreciation	(80)	(57)
	<u>227</u>	<u>191</u>
OFFICE & COMPUTER EQUIPMENT		
At Cost	1 842	1 602
Accumulated depreciation	(1 225)	(917)
	<u>617</u>	<u>685</u>
	<u>844</u>	<u>876</u>

Reconciliations of the carrying amounts of office and computer equipment and furniture and fittings at the beginning and end of the reporting period are set out below:

	Furniture and Fittings	Office and Computer Equipment	Total
2006	\$'000	\$'000	\$'000
Carrying amount at start of year	191	685	876
Additions	60	245	305
Disposals	0	0	0
Depreciation	(23)	(314)	(337)
Carrying amount at end of year	<u>228</u>	<u>616</u>	<u>844</u>

	Furniture and Fittings	Office and Computer Equipment	Total
2005	\$'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>

19 INTANGIBLE ASSETS

	2006	2005
	\$'000	\$'000
Computer software		
At Cost	63	0
Accumulated amortisation	<u>(1)</u>	<u>0</u>
	<u>62</u>	<u>0</u>
	2006	2005
	\$'000	\$'000
Reconciliations:		
Software		
Carrying amount at start of year	0	0
Additions	63	0
Amortisation expense	<u>(1)</u>	<u>0</u>
Carrying amount at end of year	<u>62</u>	<u>0</u>

20 IMPAIRMENT OF ASSETS

There were no indications of impairment of office and computer equipment and furniture and fittings at 30 June 2006.

21 PAYABLES

	2006	2005
	\$'000	\$'000
Accounts Payable	<u>51</u>	<u>113</u>

See also note 3(o) 'Payables' and note 34 'Financial instruments'.

22 PROVISIONS

	2006 \$'000	2005 \$'000
<u>Current</u>		
Employee benefits provision		
Annual leave ^(a)	513	495
Long service leave ^(b)	795	741
	<u>1 308</u>	<u>1 236</u>
<u>Non-Current</u>		
Employee benefits provision		
Long service leave ^(b)	332	387
	<u>332</u>	<u>387</u>

(a) Annual leave liabilities have been classified as current as there is no unconditional right to defer settlement for at least 12 months after reporting date. Assessments indicate that actual settlement of the liabilities will occur as follows:

	2006 \$'000	2005 \$'000
Within 12 months of reporting date	513	495
More than 12 months from reporting date	0	0
	<u>513</u>	<u>495</u>

(b) Long service leave liabilities have been classified as current where there is no unconditional right to defer settlement for at least 12 months after reporting date. Assessments indicate that actual settlement of the liabilities will occur as follows:

	2006 \$'000	2005 \$'000
Within 12 months of reporting date	162	187
More than 12 months from reporting date	965	941
	<u>1 127</u>	<u>1 128</u>

23 OTHER LIABILITIES

	2006 \$'000	2005 \$'000
Work in Progress - Contractor payments	1 083	289
Accrued Salaries	110	0
	<u>1 193</u>	<u>289</u>

24 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.

	2006 \$'000	2005 \$'000
CONTRIBUTED EQUITY		
Balance at the start of the year	602	530
Contributions by owners		
Capital contribution ^(a)	27	72
Total contributions by owners	<u>27</u>	<u>72</u>
Balance at the end of the year	<u>629</u>	<u>602</u>

- a) Capital Contributions (appropriations) and non-discretionary (non-reciprocal) transfers of net assets from other State Government agencies have been designated as contributions by owners in Treasurer's Instruction TI 955 'Contributions by Owners Made to Wholly Owned Public Sector Entities' and are credited directly to equity.

	2006 \$'000	2005 \$'000
ACCUMULATED SURPLUS/(DEFICIENCY)		
Balance at the start of the year	(27)	48
Result for the period	482	(75)
Balance at the end of the year	<u>455</u>	<u>(27)</u>
TOTAL EQUITY	<u>1 084</u>	<u>575</u>

25 NOTES TO THE CASH FLOW STATEMENT

Reconciliation of cash

Cash at the end of the financial year as shown in the Cash Flow Statement is reconciled to the related items in the Balance Sheet as follows:

	2006	2005
	\$'000	\$'000
Cash and cash equivalents	2 091	979
Cash advances	3	3
Restricted cash and cash equivalents (refer to note 14)	25	0
	<u>2 119</u>	<u>982</u>

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

	2006	2005
	\$'000	\$'000
Net cost of services	(14 149)	(12 627)
Non-cash items:		
Depreciation and amortisation expense	338	398
Liabilities assumed by the Treasurer	84	110
Resources received free of charge	12	37
Net (gain)/loss on sale of non-current assets	0	26
<u>(Increase)/decrease in assets:</u>		
Current receivables ^(c)	(107)	125
<u>Increase/(decrease) in liabilities:</u>		
Current payables ^(c)	(62)	48
Current provisions	72	26
Other non-current liabilities		
Other current liabilities	904	(98)
Non-current provisions	(55)	129
Net GST receipts/(payments) ^(a)	1	3
Change in GST in receivables/payables ^(b)	(68)	(57)
Net cash provided by/(used in) operating activities	<u>(13 029)</u>	<u>(11 880)</u>

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

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

(c) Note that the Australian Taxation Office (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 do not form part of the reconciling items.

26 COMMITMENTS

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

	2006	2005
	\$'000	\$'000
Private Sector Contracts		
These commitments are due for payment:		
Within one year	4 715	2 241
Later than one year but not later than five years	2 875	1 473
Later than five years	0	0
	<u>7 590</u>	<u>3 714</u>
Operating Lease Commitments *		
These commitments are due for payment:		
Within one year	586	508
Later than one year but not later than five years	1 992	1 875
Later than five years	540	1 004
	<u>3 118</u>	<u>3 387</u>

* The Office has been advised by The Department of Housing and Works that from 1 July 2006 there will be a probable rental increase of office accommodation amounting to 35%+ per annum. The amounts under 'Operating Lease Commitments' does not include for the increase as an assessment from the Valuer General's Office is not yet available.

These commitments are all inclusive of GST.

27 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, non-monetary benefits and other benefits for the financial year, fall within the following bands are:

	2006		2005
\$30 001 - 40 000	1	a	0
\$60 001 - 70 000	1	b	0
\$90 001 - 100 000	1	a	0
\$120 001 - 130 000	0		3
\$130 001 - 140 000	3		0
\$140 001 - 150 000	1		2
\$270 001 - 280 000	0		0
\$280 001 - 290 000	1		0
\$320 001 - 330 000	0		1 *
	2006		2005
	\$'000		\$'000
The total remuneration of senior officers is:	<u>1 025</u>		<u>996</u>

* Includes leave payout

During the 2005-06 financial year, the Office experienced a number of changes in the composition of senior officers. This resulted in an increase in the total numbers disclosed:

- a) Includes two senior officers who have shared an Assistant Auditor General position for the full financial year.
- b) Includes one senior officer who commenced with the Office part way through the year.

The total remuneration includes the superannuation expense incurred by the Office in respect of senior officers.

No senior officers are members of the Pension Scheme.

Service Agreements

D D R Pearson, *Auditor General*

- Terms of Agreement – The Auditor General is appointed under the FAAA (1985). Sections 71-77 of the Act govern the employment and tenure of the Auditor General.

J Doyle, *Deputy Auditor General*

- Terms of Agreement – SAT Contract five years commencing 6 March 2006 and concluding 5 March 2011.

27 REMUNERATION OF SENIOR OFFICERS Cont...

P Wilkins, *Executive Director, Performance Review Division*

- Term of Agreement – SES Contract five years commencing 15 February 2006 and concluding 14 February 2011.

P Jost, *A/Assistant Auditor General, Standards and Quality Division*

- Term of Agreement - Permanent employee with employment conditions subject to the PSMA Regs (1994).

S Thomson, *Assistant Auditor General, Strategy, Policy and Innovation*

- Term of Agreement – SES Contract five years commencing 13 March 2006 and concluding 12 March 2011.

S Howell, *Executive Director, Assurance Services Division*

- Term of Agreement – SES Contract five years commencing 14 January 2002 and concluding 13 January 2007.

G Clarke, *Executive Director, Compliance and IS Audits Division*

- Term of Agreement – SES Contract five years commencing 11 June 2005 and concluding 10 June 2010.

Apart from the Auditor General, and the A/Assistant Auditor General Standards and Quality the following employment conditions apply:

- Period of Notice - at least nine months prior to the end of the contract, discussions will take place to determine if the contract will be extended. At least three months prior to the end of the contract, the final decision on reappointment will be made.
- Where contract is terminated before the term of the appointment expires, the senior executive officer is entitled to no less than four weeks notice. Alternatively the employing authority may give up to 12 weeks pay in lieu of notice or the parties may agree to a shorter period of notice.
- Severance – three weeks for each year of service up to a maximum of 52 weeks (in accordance with PSMA Regs. (1994))

28 REMUNERATION OF AUDITOR

An independent auditor is appointed by the Governor under section 81 (2) of the *FAAA (1985)* to audit the accounts of the Office with the fee being paid by this Office

2006	2005
\$'000	\$'000
11	10

The expense is included at note (8) 'Supplies and services'.

29 RESOURCES PROVIDED FREE OF CHARGE

	2006 \$'000	2005 \$'000
During the year, audit services were provided free of charge to a number of Departments, Authorities and for Request audits.	<u>55</u>	<u>223</u>

30 EVENTS OCCURING AFTER THE BALANCE SHEET DATE

Nil

31 RELATED BODIES

Nil

32 AFFILIATED BODIES

Nil

33 EXPLANATORY STATEMENT

Significant variations between estimates and actual results for income and expense as presented in the financial statement titled 'Summary of Consolidated Fund Appropriations and Income Estimates' are shown below.

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

(i) Significant variances between estimate and actual for 2006 – Total appropriation to deliver services.

	2006 Estimate \$'000	2006 Actual \$'000	Variation \$'000
Item 35 Net amount appropriated to deliver services	12 826	14 204	1 378

The net amount appropriated to deliver services was adjusted primarily due to extra funding in relation to the Disaggregation of Western Power, New Auditing Standards, New Executive Structure, additional audit fees and an adjustment to capital user charge.

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.

	2006 \$'000	2005 \$'000	Variation \$'000
Item 35 Net amount appropriated to deliver services	14 204	12 183	2 021
Total cost service 'Performance Auditing'	14 209	12 694	
Revenues from ordinary activities	33	67	

The increase in the net amount appropriated to deliver services was mainly due extra funding in relation to the Disaggregation of Western Power, New Auditing Standards, New Executive Structure, additional audit fees and an adjustment to capital user charge.

The total cost of 'Performance Auditing' increased in line with an increase in expenditure of contracting out of an extra 64 new audits to meet the 90 day reporting deadline of financial statements and the additional costs in relation to auditing Agencies and Departments Australian Equivalent International Financial Reporting Standards opening balance sheet.

iii) Significant variances between estimate and actual for 2006 – Capital Contribution.

	2006 Estimate \$'000	2006 Actual \$'000
Purchase of non-current physical assets	446	369

Actual capital expenditure was lower than the estimate which is mainly due to the deferment of new management systems to 2006-07 to enable (a) organisation to focus on revised system requirements for early reporting and audit methodology and whole-of-office electronic document management project and (b) investigation of applications to provide data warehousing and analysis and improved integration of corporate information systems.

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

	2006	2005
	\$'000	\$'000
Purchase of non-current physical assets	369	540

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

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

	2006	2006
	Estimate	Actual
	\$'000	\$'000
Revenues disclosed as Administered Revenues	9 584	11 143

Administered revenue was higher than the estimate due to the additional costs relating to the transitional requirements in 2005-06 to review agencies opening balance sheets as part of the adoption of International Financial Reporting Standards which came into effect for accounting periods commencing on or after 1 January 2005.

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

	2006	2005
	\$'000	\$'000
Revenues disclosed as Administered Revenues	11 143	13 157

Administered revenue in 2005 was significantly higher than 2006 mainly due to the changed arrangements from 1 July 2004 whereby all audit fees collected by the Office are paid directly into the Consolidated Fund. This involved the recognition of work in progress for the first time (\$4 043 461).

34 FINANCIAL INSTRUMENTS

CASH FLOW INTEREST RATE RISK

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

CREDIT RISK

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:

	2006	2005
	\$'000	\$'000
Western Australian Government agencies	61	76
Government agencies of other jurisdictions	0	0
	<u>61</u>	<u>76</u>

LIQUIDITY RISK

The Office has appropriate procedures to manage cash flows including drawdowns of appropriations by monitoring forecast cash flows to ensure that sufficient funds are available to meet its commitments.

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.

35 SUPPLEMENTARY FINANCIAL INFORMATION

Write-Offs

During the financial year \$0 (2005:\$2 539) was written off the Office's asset register under the authority or:

	2006 \$'000	2005 \$'000
The Accountable Officer	0	3
The Minister	0	0
Executive Council	0	0

Losses Through Theft, Defaults And Other Causes

	2006 \$'000	2005 \$'000
Losses of public moneys and public or other property through theft or default	0	0
Amount Recovered	0	0

Gifts of Public Property

	2006 \$'000	2005 \$'000
Gifts of Public Property	0	0

36 ADMINISTERED TRANSACTIONS

Administered Expenses and Income

	2006 \$'000	2005 \$'000
Expenses		
Receipts paid into Consolidated Fund	10 177	8 924
Total administered expenses	<u>10 177</u>	<u>8 924</u>
Income		
Fees for Audit Services ^(a)	11 143	13 157
Total administered income	<u>11 143</u>	<u>13 157</u>

Administered Assets and Liabilities

	2006 \$'000	2005 \$'000
Current Assets		
Cash and cash equivalents	147	107
Receivables ^(a)	5 197	4 252
Total Administered Current Assets	<u>5 344</u>	<u>4 359</u>
Current Liabilities		
GST Payable	145	126
Total Administered Current Liabilities	<u>145</u>	<u>126</u>

Notes to Administered Items

- a) Fees for Audit Services and Receivables in 2006 includes Work in Progress valued at \$4 735 786. Work in Progress is being recognised as an Administered transaction 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.

37 RECONCILIATIONS EXPLAINING THE TRANSITION TO AUSTRALIAN EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (AIFRS)

RECONCILIATION OF EQUITY AT THE DATE OF TRANSITION TO AIFRS: 1 JULY 2004 (AASB 1.39(a)(i))

Note	Previous GAAP 1 July 2004		Adjustments		Total Adjustments	AIFRS 1 July 2004
			Reclassification Prepayments AASB 101 34.3	Employee Benefits AASB 101 34.1		
ASSETS		\$000	\$000	\$000	\$000	\$000
Current Assets						
(1) Cash and cash equivalents		653				653
(2) Restricted cash and cash equivalents		256				256
Receivables		177	215		215	392
(3) Amounts receivable for services		350				350
(4) Other current assets		215	(215)		(215)	0
Total Current Assets		<u>1 651</u>	<u>0</u>		<u>0</u>	<u>1 651</u>
Non-Current Assets						
Furniture and equipment		847				847
Total Non-Current Assets		<u>847</u>				<u>847</u>
TOTAL ASSETS		<u>2 498</u>	<u>0</u>		<u>0</u>	<u>2 498</u>
LIABILITIES						
Current Liabilities						
Payables		65				65
Provisions		656		459	459	1 115
(5) Other current liabilities		387				387
Total Current Liabilities		<u>1 108</u>		<u>459</u>	<u>459</u>	<u>1 567</u>
Non-Current Liabilities						
Provisions		812		(459)	(459)	353
Total Non-Current Liabilities		<u>812</u>		<u>(459)</u>	<u>(459)</u>	<u>353</u>
TOTAL LIABILITIES		<u>1 920</u>		<u>0</u>	<u>0</u>	<u>1 920</u>
NET ASSETS		<u>578</u>				<u>578</u>
EQUITY						
Contributed equity		530				530
Accumulated surplus/deficiency		48				48
TOTAL EQUITY		<u>578</u>				<u>578</u>

- (1) Equivalent AGAAP line item 'Cash Assets'
(2) Equivalent AGAAP line item 'Restricted Cash Assets'
(3) Equivalent AGAAP line item 'Amounts Receivable for Outputs'
(4) Equivalent AGAAP line item 'Other Assets'
(5) Equivalent AGAAP line item 'Other Liabilities'

37 RECONCILIATIONS EXPLAINING THE TRANSITION TO AUSTRALIAN EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (AIFRS) Contd

RECONCILIATION OF EQUITY AT THE DATE OF TRANSITION TO AIFRS: 30 JUNE 2005 (AASB 1.39(a)(ii))

Note	Previous GAAP 30 June 2005	Adjustments		Total Adjustments	AIFRS 30 June 2005
		Reclassification Prepayments AASB 101 34.3	Employee Benefits AASB 101 34.1		
ASSETS	\$000	\$000	\$000	\$000	\$000
Current Assets					
(1) Cash and cash equivalents	982				982
(2) Restricted cash and cash equivalents	0				0
Receivables	216	107		107	323
Amounts receivable for services	419				419
(3) Other current assets	107	(107)		(107)	0
Total Current Assets	<u>1 724</u>	<u>0</u>		<u>0</u>	<u>1 724</u>
Non-Current Assets					
Furniture and equipment	876				876
Total Non-Current Assets	<u>876</u>				<u>876</u>
TOTAL ASSETS	<u>2 600</u>	<u>0</u>		<u>0</u>	<u>2 600</u>
LIABILITIES					
Current Liabilities					
Payables	113				113
Provisions	682		554	554	1 236
(4) Other current liabilities	289				289
Total Current Liabilities	<u>1 084</u>		<u>554</u>	<u>554</u>	<u>1 638</u>
Non-Current Liabilities					
Provisions	941		(554)	(554)	387
Total Non-Current Liabilities	<u>941</u>		<u>(554)</u>	<u>(554)</u>	<u>387</u>
TOTAL LIABILITIES	<u>2 025</u>		<u>0</u>	<u>0</u>	<u>2 025</u>
NET ASSETS	<u>575</u>				<u>575</u>
EQUITY					
Contributed equity	602				602
Accumulated surplus/deficiency	(27)				(27)
TOTAL EQUITY	<u>575</u>				<u>575</u>

(1) Equivalent AGAAP line item 'Cash Assets'

(2) Equivalent AGAAP line item 'Restricted Cash Assets'

(3) Equivalent AGAAP line item 'Other Assets'

(4) Equivalent AGAAP line item 'Other Liabilities'

37 RECONCILIATIONS EXPLAINING THE TRANSITION TO AUSTRALIAN EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (AIFRS) Contd

RECONCILIATION OF INCOME STATEMENT FOR THE YEAR ENDED 30 JUNE 2005 (AASB 1.39(b))

Note	Previous GAAP 30 June 2005	Adjustments Net gains on Disposal AASB 116 34.2	Total Adjustments	AIFRS 30 June 2005
	\$000	\$000	\$000	\$000
COST OF SERVICES				
Expenses				
(1) Employee benefits expense	7 320			7 320
Supplies and services	4 220			4 220
Depreciation expense	398			398
Accommodation expenses	616			616
Capital user charge	114			114
(2) Loss on disposal of non-current assets		26	26	26
(2) Costs of disposal of non-current assets	111	(111)	(111)	0
Total Cost of Services	12 779	(85)	(85)	12 694
Income				
Revenue				
(3) Other revenue	67			67
(2) Proceeds from disposal of non-current assets	85	(85)	(85)	0
Total income other than income from State Government	152	(85)	(85)	67
NET COST OF SERVICES	12 627	0	0	12 627
INCOME FROM STATE GOVERNMENT				
Service appropriation	12 405			12 405
Liabilities assumed by Treasurer	110			110
Resources received free of charge	37			37
Total Income from State Government	12 552	0	0	12 552
(4) SURPLUS/DEFICIT FOR THE PERIOD	(75)			(75)
(1) Equivalent AGAAP line item 'Employee Expenses' (2) Disposals are treated on a net basis under AIFRS (3) Equivalent AGAAP line item 'Other Revenues from Ordinary Activities' (4) Equivalent AGAAP line item 'Change in Net Assets'				

RECONCILIATION OF CASH FLOW STATEMENT FOR THE YEAR ENDED 30 JUNE 2005 (AASB 1.40)

There were no material adjustments with respect to the Cash Flow Statement as presented under the previous AGAAP to that under AIFRS.

37 RECONCILIATIONS EXPLAINING THE TRANSITION TO AUSTRALIAN EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (AIFRS) Contd

Notes to the Reconciliations

Note 34.1 Employee benefits (AASB 101)

AASB 101 requires that a liability must be classified as current where the entity does not have an unconditional right to defer settlement of the liability for at least twelve months beyond the reporting date. Consequently, all annual leave and long service leave entitlements (unconditional long service leave) must now be classified as current. Non-vested long service leave will be non-current to the extent that it does not become unconditional within 12 months from reporting date.

34.1a Adjustments to opening Balance Sheet (1 July 2004)

All unconditional long service leave previously reported as non-current liability has been reclassified to current liability (\$459 000).

34.1b Adjustments to opening Balance Sheet (30 June 2005)

All unconditional long service leave previously reported as non-current liability has been reclassified to current liability (\$554 000).

Note 34.2 Net loss on disposal of non-current assets (AASB 116)

Under AGAAP the disposal of non-current assets is disclosed on the gross basis. That is, the proceeds of disposal are revenue and the carrying amounts of assets disposed of are expense. The disposal of non-current assets is disclosed on the net basis (gains or losses) under AIFRS.

Adjustments to the Income Statement for the period ended 30 June 2005

The carrying amounts of assets disposed of were previously recognised as an expense. This has been derecognised (\$111 000).

The proceeds of disposal of non-current assets were previously recognised as income. This has been derecognised (\$85 000).

A loss on the disposal of non-current assets of \$26 000 has been recognised as an expense. There has been no change to the deficit for the period.

Note 34.3 Prepayments (AASB 101)

AASB 101.75(b) requires receivables to be disaggregated into amounts receivable from trade customers, receivables from related parties, prepayments and other amounts either on the face of the Balance Sheet or in the Notes. Prepayments were previously reported as Other Assets under AGAAP.

34.3a Adjustments to opening Balance Sheet (1 July 2004)

Prepayments previously reported as Other Assets has been reclassified to Receivables (\$215 000).

34.3b Adjustments to opening Balance Sheet (30 June 2005)

Prepayments previously reported as Other Assets has been reclassified to Receivables (\$107 000).

CERTIFICATION OF PERFORMANCE INDICATORS FOR THE YEAR ENDED 30 JUNE 2006

I hereby 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 performance of the Office for the financial year ended 30 June 2006.

A handwritten signature in black ink, appearing to read 'D D R Pearson', with a stylized, cursive script.

D D R PEARSON
ACCOUNTABLE OFFICER
24 August 2006

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 2006**

SCOPE

I have audited the key effectiveness and efficiency performance indicators of the Office of the Auditor General for the year ended 30 June 2006 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 2006.

RIX LEVY FOWLER
Chartered Business Advisors

DATED at PERTH this 24th day of August 2006.

PHILLIP RIX
Partner

Partners
Phillip Rix FCA
Jon Carcich CA
Ranko Matic CA
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PERFORMANCE INDICATORS

Government goal: To govern for all Western Australians in an open, effective and efficient manner that also ensures a sustainable future.

Desired outcome: An informed Parliament on public sector accountability and performance.

Service: Performance Auditing

KEY EFFECTIVENESS INDICATORS

All Members of Parliament are surveyed annually to determine the extent to which the Office's reports and service 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 (Parliamentary Census)	2001-02	2002-03	2003-04	2004-05	2005-06	2005-06 Target
The Office of the Auditor General is effective in achieving its desired outcome of informing Parliament on accountability and performance in the public sector	84%	66%	66%	80%	92%	85%
Reports dealt with matters of significance to Parliament	92%	83%	76%	90%	85%	85%
Services and reports of the Office of the Auditor General are useful to Parliament	94%	76%	83%	78%	89%	80%

KEY EFFICIENCY INDICATORS

The key efficiency indicators reported below incorporate the cost and quantity units 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 (adjusted) \$	2003-04 Actual (adjusted) \$	2004-05 Actual \$	2005-06 Actual \$	2005-06 Target \$
Cost per Matter of Significance (MoS)		23 267	30 494	50 781	29 600	43 726
Average cost per Audit Opinion	Cost per major audit	100 739	109 539	128 293	134 979	111 593
	Cost per other audit	13 197	17 101	17 265	23 192	19 220

OFFICE OF THE AUDITOR GENERAL

PERFORMANCE INDICATORS

Explanatory Notes for Performance Indicators

How were the performance indicators derived?

KEY EFFECTIVENESS INDICATORS

The key 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 2006 Parliamentary Census was sent to all 91 members of Parliament (for completion by 2 June 2006), with flexible options for respondents relating to the method of response. This year's response rate increased to 53 per cent (from 38 per cent in 2005). This can be attributed to the Office's commitment to the earlier commencement and flexible format of the Census, in an ongoing attempt to improve the reliability of Census data through higher return rates.

Three measures are used as indicators to 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.

Key Efficiency Indicators

Key efficiency indicators are formulated to measure the cost per quantity unit. The total cost for 2005-06 is derived from the Office's Cost Allocation Model in the Financial Management Information System. Projects are costed by the Cost Allocation Model using labour hours and direct costs, and allocating indirect costs. Quantity measures used to calculate key 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 s.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 Key Efficiency Indicator because of the variation in the size and complexity of the 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?

KEY EFFECTIVENESS INDICATORS

This year's Census data has not been weighted, as the response rates were adequate and were proportionally representative of Parliamentary political party membership. No other significant methodological variations occurred.

Key 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. In 2004-05, this was ameliorated by providing adjusted comparative key efficiency indicators from previous years, to enable direct comparison with the current year.

This practice has been continued for the 2005-06 Annual Report, and the indicators for 2003-04 included in Table 2 of these Statements have been adjusted to account for these changes in costing systems.

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

The Office's Desired Outcome for 2005-06 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 service that the Auditor General provides to Parliament, which in turn contributes to the Desired Outcome. Members' satisfaction with the Auditor General's reports, service and his contribution to public sector accountability and performance directly measures the effectiveness of informing Parliament.

Matters of Significance (MoS) are included in all reports tabled in Parliament under s.95 of the *Financial Administration and Audit Act 1985*.

The key 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 are they key indicators of performance?

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

How can the indicators assist the reader to assess performance?

The key effectiveness indicators inform the reader as to how well the service of performance auditing contributes to improved public sector accountability and performance as perceived by the Auditor General's principal major client, Parliament. Key efficiency indicators gauge the unit cost of each sub-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, with efficiency results prior to 2004-05 adjusted to ensure comparability.

It should be noted a proportion of the Matters of Significance, 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. This has an impact on the final cost per Matters of Significance, and is particularly evident in 2005-06.

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

KEY EFFECTIVENESS INDICATORS

Due to the improved participation rates and well-proportioned political representation of respondents, this year's Census data is considered to be more reliable. The year's improved access to qualitative information also allows us to more closely analyse perceived challenges and opportunities.

Once again the ratings for two out of the three indicators have significantly increased, with these two results now close to the Office's highest historical level. This is a significant achievement, and to reinforce the OAG's commitment to continuous improvement, we have further raised our 2006-07 targets.

92 per cent of respondents considered that the Auditor General was effective in achieving its desired outcome of informing Parliament on accountability and performance of the public sector, increasing by 12 per cent from 2005 (19 per cent of these indicating that the Auditor General was very effective in this area). 89 per cent of respondents indicated that the services and reports of the OAG are useful to Parliament, an increase of 11 per cent from the previous year. In these two indicators, the OAG has outperformed its targets by seven and nine per cent respectively.

Eighty five per cent of respondents agreed that the Auditor General's reports deal with matters of significance to Parliament. This result meets 2005-06 targets and although a slight decrease on last year's performance, remains a good outcome.

Overall, the feedback has been positive from the majority of Parliamentarians. Qualitative comments noted that the work of the Auditor General has been of high quality, insightful, comprehensive, impartial, analytical, provides valuable information on public sector performance, and is helpful in improving public sector administration. The OAG will continue to focus on improving its performance in all aspects, with particular attention to dealing with matters of significance to Parliament.

The OAG is committed to improving the reliability of our performance indicators and performance against these measures, and will continue to incorporate the views of Parliament in our efforts to improve our effectiveness and efficiency.

Key Efficiency Indicators

The average cost per Matter of Significance (MoS) at \$29,600 has decreased 42 per cent from the previous year and is 32 per cent below the target for 2005-06.

This is largely due to two factors.

Firstly, there has been a slight increase in the number of Reports to Parliament tabled during the year, with the Office tabling some delayed Reports from 2004-05, in addition to achieving estimated numbers of Reports for 2005-06. This has led to a corresponding increase in the total number of MoS, and decrease in Cost per MoS: the 2005-06 Cost per MoS target was developed on the basis of and estimated achievement of 100 MoS, whilst 106 have been identified across the 16 reports tabled in 2005-06.

Secondly, there has been a significant decrease in the total 2005-06 costs associated with the production of these MoS. This is largely due to the high number of MoS which were contained in Reports to Parliament tabled early in 2005-06, with the majority of their production costs borne by the Office in 2004-05. This is consistent with the Explanatory Notes for the 2004-05 Annual Report, where it was noted that there was a historically high level of work in progress MoS.

The average cost of other audit was 21 per cent above target and 34 per cent higher than the previous year. The average cost of major audit was 21 per cent above target but not significantly higher than the previous year. The increases in average cost of audit since last year are the result of a range of cost pressures in the assurance services area. These include the shift to earlier reporting of audit opinions, additional costs associated with the transition of the public sector to the Australian equivalent of International Financial Reporting Standards and unanticipated significant increases in staff attrition. These changes required greater use of additional contractors, in many instances at significantly increased market rates. Whilst these factors had been anticipated to some extent in setting cost per audit targets for 2005-06, the full impact was under-estimated, resulting in significant variations to target for both of these key efficiency indicators.

The AUDITOR GENERAL

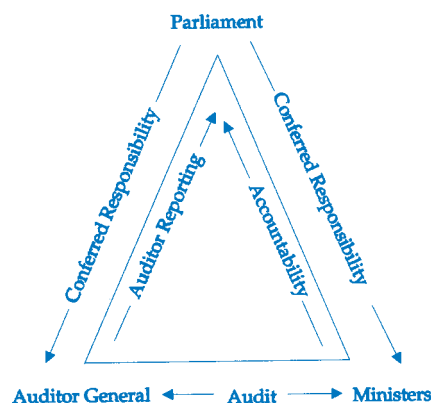
The Auditor General is an appropriately qualified independent statutory officer appointed by the Governor under the *Financial Administration and Audit Act 1985* (FAAA) and retains office until retirement, unless suspended by the Governor and removed from office by a resolution of both Houses of Parliament. 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' above.

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.

Summary of REPORTS TO PARLIAMENT

Protection of Critical Infrastructure Control Systems

(24 August 2005)

The examination identified opportunities to improve the security of a sample of critical infrastructure control systems such as through better risk management assessments, security management practices and by addressing system vulnerabilities



systems in place. However, the report highlights that the eventual outcome cannot be predicted and significant challenges lay ahead, which would put all parties under increasing pressure.

Second Public Sector Performance Report

(19 October 2005)

- **Production, Transport and Disposal of Controlled Waste**

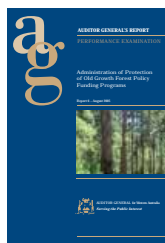
The Water Corporation's sewer network is vulnerable to illegal dumping of Controlled waste whilst the Department of the Environment's Controlled Waste Tracking System was found to be unable to provide reliable data about the quantities and movement of controlled waste.



Administration of Protection of Old Growth Forests Policy Funding Programs

(24 August 2005)

The Performance Examination found that overall the administration of the Workers Assistance Program was satisfactory. However, because of shortcomings in processes and documentation, reasonable assurance could not be given that Business Exit Assistance applications were assessed consistently with Program Guidelines and that they met an acceptable standard of evidence to support the validity of payments made.



- **Regulation of Child Care Services**

The Department for Community Development was adequately assessing applications for new and renewed child care licenses but other aspects of the regulation regime were not as well managed.

- **The Personnel and Payroll Processing Function at the Department of Education and Training**

Although the Department's personnel function is responsible for managing an annual payroll of nearly \$1.5b, it was undertaking little monitoring and measurement of the function. We estimated that 98 per cent of pays were correct and found that 89 per cent of new employees we sampled were put onto the payroll and paid promptly.

Contract Management of the City Rail Project

(31 August 2005)

Midway through the design and construction phase of this complex project, we found that the Public Transport Authority was competently managing the contract. Although this cannot guarantee a positive outcome, comfort can be taken from the robust processes and



Third Public Sector Performance Report

(16 November 2005)

- **Unauthorised Driving**
– **Unlicensed Drivers and Unregistered Vehicles in Western Australia**



There is no reliable data on the incidence of unauthorised driving. Based on studies done in other jurisdictions, we estimated that as many as 66 000 drivers and 70 000 vehicles are on WA roads without authorisation.

- **Management of the Light Vehicle Fleet**

We found that the Fleet Steering Committee was undertaking little whole of government monitoring of the more than 9 000 passenger and light commercial vehicles. However, fleet management services were satisfactory and provided at competitive rates.

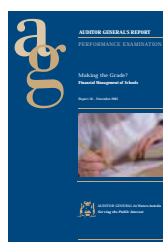
- **Redundancy and Redeployment**

Redundancy and redeployment is being adequately managed though opportunities exist to improve the management of the small number of long term redeployees.

Making the Grade? Financial management of Schools

(16 November 2005)

While schools have improved their financial management since this function was devolved to them in 1987, they are still not managing their finances adequately. There are ongoing problems with managing purchases,



payments and assets and ensuring they achieve value for money. The Department of Education and Training is aware of these problems and has taken action to improve financial management in schools but has not taken a co-ordinated approach with clear objectives, targets and timelines to resolve the problems.

Progress with Implementing the Response to the Gordon Inquiry

(23 November 2005)

The Performance Examination found inadequacies in the central reporting and monitoring of the progress of the Government's Action Plan and its initiatives to 'improve the capacity of government to protect children from abuse'. The Report provides guidance for improving effective oversight of the Action Plan and the lessons learned are relevant to the management of other Government Action Plans.



Audit Results Report by Ministerial Portfolios at 11 November 2005

(23 November 2005)

This Report provides a summary of the results of 175 financial statement and controls audits, 127 performance indicator audits and 24 audit certifications completed to 11 November 2005 and commentary on:

- ongoing information systems control weaknesses and other compliance and control issues



- timeliness of financial reporting and the future earlier reporting requirements commencing in 2005-06 under the *Financial Administration Legislation Amendment Act 2005* (FALAA) using the presentation required from adopting the Australian Equivalents of the International Financial Reporting Standards.

It also includes results of a review of key performance indicators and their use by agencies as an accountability and management tool.

Management of the TRELIS Project

(12 April 2006)

Many aspects of the project management of the Transport Executive and Licensing Information System (TRELIS) was found inadequate resulting in it being over budget and two years late in completion. However, the system was found to be reliable.



Audit Results Report on Universities and TAFE Colleges and other audits completed since 11 November 2005

(12 April 2006)

This Report summarises the results of 31 financial statement and controls audits and 21 performance indicator audits for four universities, three of their subsidiaries, 10 TAFE colleges and four other agencies with a 31 December 2005 reporting date, as well as eight agencies with a



30 June 2005 reporting date and two final audits. Eight certifications issued on agencies' financial and statistical data are also listed.

It also contains commentary on issues identified during the 2005 audits of universities and TAFE colleges, in particular the ongoing information technology system controls that require attention.

Public Sector Performance Report

(17 May 2006)

- Management of the WaterWise Rebate Program

The rebate program has saved water though the extent of the savings is difficult to estimate. Public statements about the amount of water saved have been based on an optimistic and undisclosed assumption that would have overstated the results of the program.

- Regulation of Animal Feedstuffs, Hormonal Growth Promotants and Veterinary Chemicals

Feedstuffs and hormonal growth promotants are being regulated in accordance with legislation and national guidelines.



Behind the Evidence: Forensic Services

(31 May 2006)

Many aspects of State government forensic services are working well. However, agencies (including the WA Police, the Chemistry Centre, and PathWest) are not working successfully together to provide timely and effective services to meet the needs of the justice system. Agencies need to work together to reduce a backlog in DNA analyses, better allocate resources, develop capacity to meet future demand, improve forensic information systems, and have ongoing assessment and resolution of risks related to occupational safety and health, and exhibit storage.



Early Diagnosis: Management of the Health Reform Program

(14 June 2006)

This report was an early diagnosis of the significant reforms to the State's health system. It found that there have been some notable early achievements, but that the management of the health reform projects to date does not provide assurance that the Health Reform Implementation Taskforce (HRIT) can keep the reform programme on track over the coming years. The HRIT needs to take a more disciplined and rigorous approach to managing the health reform program.



Help Wanted: Public Service Workforce Management

(21 June 2006)

Public service agencies are struggling to attract and retain staff and this is contributing to delays in service delivery and the implementation of new government initiatives. Underlying problems include agencies' recruitment practices as well as restrictive central government controls. There needs to be a re-think of the approach to public service workforce management and a coordinated response to workforce issues.



Procurement Reform: Beyond Compliance to Customer-Focus

(28 June 2006)

This performance examination found that the Department of Treasury and Finance (DTF) and agencies have made reasonable progress in the first year of procurement reforms. Looking at the implementation process and savings achieved by DTF and agencies, we recommended that if the full benefits of the reforms are to be achieved all parties involved will need to continuously monitor their performance and change their current approaches to procurement to ensure value for money is maintained.



Audit Clients

Audits Under FAAA

Departments

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 and Food
 *Department of Attorney General
 *Department of Conservation and Land Management
 *Department of Consumer and Employment Protection
 *Department of Corrective Services
 *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 Land Information
 Department of Local Government and Regional Development
 Department of Parliamentary Services
 *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
 Department of Water
 Governor's Establishment
 Office of Energy
 Office of Shared Services
 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
 *Western Australian Police Service
 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 (Final Audit)
 Heritage Council of Western Australia
 Independent Market Operator
 *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 (Final Audit)
 *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 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 (Final Audit to 2/7/05)
 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 Meat Industry Authority
 *Western Australian Planning Commission
 Western Australian Sports Centre Trust
 *Western Australian Tourism Commission
 *Western Australian Treasury Corporation
 Wheatbelt Development Commission
 *Workcover Western Australia Authority
 Zoological Gardens Authority

Subsidiaries

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 University Foundation
 Murdoch University Veterinary Centre Trust
 Murdoch Ventures Pty Ltd
 Murdoch Retirement Services Ltd
 Tarolinta Pty Ltd
 The University Club Pty Ltd
 The University Company Pty Ltd (dormant)
 Uniservices Kalgoorlie Pty Ltd
 WA Mint Pty Ltd (dormant)
 WANMTC Pty Ltd (dormant)
 Wind Energy Corporation Pty Ltd

Request Audits

Aberdeen Unit Trust
 Annual Reports on State Finance
 Curtin University of Technology Superannuation Scheme
 Foundation for Advanced Medical Research Inc
 Friends of the WCHS Inc
 Government House Foundation of Western Australia (Inc)
 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
 Chowrup 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

*Horizon Power
 *Synergy
 *Verve Energy
 *Water Corporation
 *Western Australian Land Authority
 *Western Power – Networks
 *Western Power Corporation (Final Audit to 31/3/06)

* 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



S THOMSON
CHIEF FINANCE OFFICER
31 August 2006

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 a staff declaration 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. 'The documentation that was reviewed provided adequate evidence of compliance with Office policies and HR standards. In addition, the reviews of selection reports carried out by the HR Manager provided additional assurance of compliance with policies and standards.

The Office conducted 19 recruitment processes in 2005-06. There were no breach claims lodged.



D D R PEARSON
AUDITOR GENERAL
31 August 2006

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	\$54 624
• Advertising Agencies	\$30 199
– Marketforce	\$28 659
– CPA Australia	\$1 540
• Market Research Organisations	\$24 425
– Audit Office of NSW	\$24 425



D D R PEARSON
ACCOUNTABLE OFFICER
31 August 2006

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.

Annual Report on State Finances is a report prepared in accordance with the *Government Financial Responsibility Act 2000* that provides the State's public sector financial results for the budget year and outlines material differences between these results and the financial projections contained in the State Budget for that budget year.

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*.

Australian Equivalents to International Financial Reporting Standards (AIFRS) are Accounting Standards issued by the Australian Accounting Standards Board (AASB) that are equivalent to Accounting Standards issued by the International Accounting Standards Board (IASB).

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 analysis 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 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 2006

AUDITOR GENERAL'S OFFICE

Des Pearson	9222 7501
Auditor General	
Peta Mullane	9222 7502
Executive Officer	
John Doyle	9222 7544
Deputy Auditor General	
Molly Elympos	9222 7506
Executive Assistant	

ASSURANCE SERVICE DIVISION

Stephen Howell	9222 7507
Executive Director	
Peter Sparkes	9222 3906
Director, Contracts	
Don Cunninghame	9222 7526
Director	
Ian Goldsmith	9222 7559
Director	
Vince Turco	9222 7515
Director	
Glenn Joseph	9222 3959
Acting Director	

COMPLIANCE AND INFORMATION SYSTEMS AUDIT DIVISION

Glen Clarke	9222 7543
Executive Director	
Steve Mackessy	9222 7554
Manager, Information Systems Audit	
Peter Bouhlas	9222 7522
Principal Analyst, Information Systems	

PERFORMANCE REVIEW DIVISION

Peter Wilkins	9222 7588
Executive Director	
Karen Schmidt	9222 3925
Associate Director	
Kim Lazenby	9222 7595
Associate Director	
Jason Beeley	9222 7579
Acting Associate Director	

STANDARDS AND QUALITY DIVISION

Paul Jost	9222 7514
Acting Assistant Auditor General	
Barry Rowe	9222 7503
Director Standards	
Rod Berg	9222 7591
Principal Adviser Performance Indicator Standards	

STRATEGY, POLICY AND INNOVATION DIVISION

Sandy Thomson	9222 7557
Assistant Auditor General	
Thelma Fermo	9222 7504
Executive Assistant	
Peter Villiers	9222 7558
Manager, Communications	
Natalie Mar	9222 7510
Acting Manager, Finance and Administrative Resources	
Nigel Pay	9222 7572
Manager, Human Resources	
Vince Partridge	9222 7508
Manager, Information Resources	
Jacquie Stepanoff	9222 7571
Manager, Planning and Coordination	

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