



Office of the Auditor General Western Australia

Transparency Report

Serving the Public Interest



Office of the Auditor General Western Australia

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The Auditor General's commitment to transparency

The position of Auditor General is a historic and trusted position under the Westminster system of Government and in Western Australia, it is a role traceable to the establishment of the colony in 1829.

Under the Westminster system, the Auditor General is an officer of Parliament. The role has variously been described as a 'watchdog of the Parliament' and an 'ally of the people and Parliament'.

The Auditor General's role is to audit the finances and activities of the Western Australian public sector. In undertaking this task, the Auditor General scrutinises the public sector for potential instances of wastage, inefficiency or ineffectiveness, and report his findings to Parliament.

Independence and freedom from influence or interference is the cornerstone of public sector audit. This is reflected by the fact that the Auditor General does not report to a Minister of the Government, but rather, reports directly to Parliament.

The Parliament and the people of Western Australia have trust in the credibility and integrity of the Auditor General and the Office that supports the position. We in turn are committed to demonstrating openness and transparency in the way we operate and in our communications with Parliament, agencies and the public.

Our Transparency Report is another way that we share our values, and explain how we set our strategy and manage our business to deliver consistently high quality and efficient audits. The report covers key processes that help give assurance about our commitment to quality. We update and review this report yearly/regularly.

Our other transparency related publications include our [Audit Practice Statement](#), [Auditing in the Public Interest](#) and our [annual reports](#).

If you have any questions or comments about this report, please contact us on 08 6557 7500, by email info@audit.wa.gov.au or via our web site www.audit.wa.gov.au/.

About the Office

The Office of the Auditor General is established to support the Auditor General. The Office is a department of the public service and the Auditor General is the CEO and employer of its staff.

The Office is one of the largest audit practices in Western Australia, undertaking financial audits of about 200 entities and over \$218 billion worth of assets each year.

Currently, the Office has just over 130 employees, about half of whom are financial auditors. Our annual financial audits are the largest activity undertaken in the Office.

Performance auditors and information systems auditors make up another 25% of total employees with the rest being business services and technical support.

See page 7 for a description of the Office structure.

What we do

The *Auditor General Act 2006* provides for the appointment of the Auditor General and the role and authority of the position.

The Auditor General is responsible for:

- auditing the Annual Report on State Finances
- conducting financial statement, KPI and control audits and issuing audit opinions for over 190 public sector agencies
- undertaking wide-ranging performance examinations to ensure there are adequate controls within agencies, compliance with the relevant legislation; and most importantly efficiency, effectiveness and economy of agency operations or programs
- reporting the results of audits to Parliament in an objective, competent, insightful and timely manner

Financial audits

Each year the Auditor General audits the state's departments, statutory authorities, corporatised entities, universities and state training providers (TAFE colleges) to provide opinions on their annual financial statements. As well, the majority of these entities receive audit opinions on their financial controls and key performance indicators. About 40% of the annual audits are outsourced to the private sector though the Auditor General issues the audit opinion. The cost of our financial audits are recovered from audit fees. Audit fees totalled \$18.310 million in 2015-16 (\$17.305 million in 2014-15).

Performance audits

Each year we also conduct performance audits on a range of topics. The performance audit cost per million dollars of gross government expenditure was \$143 (2015: \$125).

- **Broad scope performance audits** – These audits primarily focus on the effective management and operation of agency programs and activities. The Auditor General uses an exhaustive process involving risk, materiality and other criteria to select topics for audit. Particular regard is given to audits requested by Parliament, but topic ideas from individual MPs and the broader community are also considered.
- **Narrow scope performance audits** – The Auditor General also conducts narrow scope audits, which tend to focus on agency compliance with legislation, public sector policies and accepted good practice. These audits serve to highlight issues surrounding regulatory, financial and administrative processes within agencies. An exhaustive process is also used in the selection of these audits.

Information systems audits

Information systems audits focus on the general computer controls of agencies with significant computer environments to determine whether these effectively support the accuracy and integrity of agency financial statements, KPIs and controls. We also undertake audits each year of a sample of important non-financial computer applications.

Across government benchmarking audits

In addition to the annual financial audits, our financial auditors also conduct across government benchmarking audits. These audits focus on common business practices across the sector and provide an indication to Parliament and agencies of how different agencies are performing relative to each other. By reviewing the results and recommendations in these audits, agencies can improve their own performance.

Audit certifications

Audit work also includes the certification of financial and statistical information produced by departments and statutory authorities. These certification audits assist agencies to discharge conditions of Commonwealth funding, grants or legislation and to meet requirements of their funding agreements in a timely manner. In 2015-16, 234 of the 268 certifications were for Royalties for Regions projects. (2014-15: 190 of the 224 certifications.)

Opinions on ministerial notifications

Where a Minister decides not to provide certain information to Parliament concerning the conduct or operation of an agency (usually a decision taken in response to a parliamentary question), then certain requirements under the *Financial Management Act 2006* (FM Act) and the *Auditor General Act 2006* come into force. Essentially, the Minister is required to notify the Auditor General and the Auditor General is then required to form an opinion on the reasonableness and appropriateness of the Minister's decision. The opinion is then reported to Parliament.

Public interest disclosures

Under the *Public Interest Disclosure Act 2003*, the Auditor General investigates disclosures made to the Office that relate to substantial, unauthorised, irregular use or mismanagement of public resources. Results of such investigations if significant may lead to the Auditor General tabling a report in Parliament.

What we don't do

People often expect the Auditor General to have oversight, authority and responsibility covering all aspects of government operations. This is not the case. While the mandate provided by the Auditor General Act is considerable, it is not exhaustive.

Often, the oversight expected of the Auditor General has been legislated to other agencies. But aside from this, Auditors General operating under the Westminster system of government (dating back to the mid-1800s in WA) also operate in the context of established convention and accepted practice. Because these laws and conventions are not always well understood, expectation gaps can arise and people can be disappointed with decisions, judgements and reports of the Auditor General.

Don't assess government policy

A common misunderstanding is that the Auditor General can criticise government policy. This is not the case. By convention, the Auditor General will not comment on or criticise government policy as this risks politicising the position and diminishing its perceived independence. However, what the Auditor General can do is assess whether implementation of government policy was effective.

Don't investigate fraud, other criminal matters or misconduct

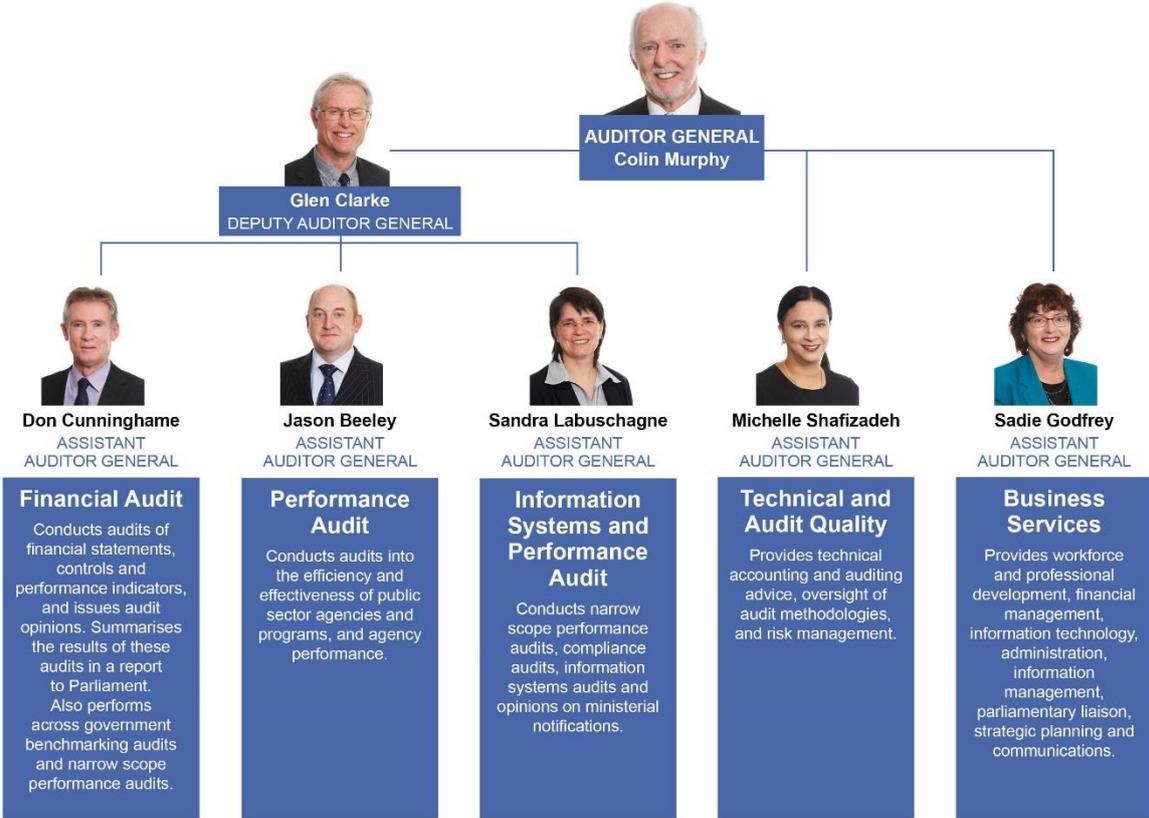
The Auditor General cannot investigate criminal matters or misconduct. If such a matter is brought to our attention or we become aware of it through our work, then it is automatically passed to the police or the Corruption and Crime Commission or if it likely entails 'minor misconduct' then to the Public Sector Commission.

Don't investigate complaints relating to individuals

The Auditor General does not investigate administrative malpractice by government agencies that affect an individual. Such matters are the mandate of the Ombudsman. The Auditor General can however investigate administrative matters if they are systemic and significant in value or impact.

Governance

The Office is made up of five business units, as outlined below:



The three audit business units report to the Deputy Auditor General with the support business units reporting directly to the Auditor General.

The seven members of the Executive Management Group set the strategic direction and organisational values that define the activities of the Office.

The remuneration of our Executive is set independently and does not have a performance element. Audit quality is part of the review of the performance of the Executive on an annual basis.

Strategic planning

Strategic planning meetings generally occur 2-3 times per year where we address strategic and tactical matters. We monitor the implementation of our strategies and measure performance against targets.

We have recently refreshed the [strategic plan](#) after significant consultation with staff and are confident that the new plan provides clear direction to Executive and staff.

Committees

Operational and administrative support to the Executive is provided by a number of committees made up of Executive, senior and other employees as well as independent people where appropriate.

The committees have a multiple role of governance, inter-office engagement and employee development. They include:

- an Audit and Risk Management Committee (ARMC)
- three audit methodology committees to support the development of our financial, KPI and performance audit methodologies
- an Information, Communication and Technology Committee
- a Professional Development Committee
- an Innovation Committee.

The committees have clearly defined role and responsibilities and provide recommendations to the Executive about Office activities and programs in accordance with their terms of reference.

Audit and Risk Management Committee

We consider risk management to be a fundamental component of our work. A comprehensive risk management practice framework forms an integral part of our strategic planning processes. The framework outlines the policies and processes relating to the management of risk and preventative measures to ensure that our risk is within acceptable levels.

The ARMC proactively manages the risks facing the Office. An important component of this is setting and managing our annual internal audit program and overseeing the external audit process.

In early 2016, an Independent Chair was appointed to the ARMC to enhance transparency and accountability. The Independent Chair provides an external perspective to our risk management approach. The Chair reports directly to the Auditor General.

Our clients

The Parliament (as the representative of the people of Western Australia) is our principal client though we also regard Western Australian public sector agencies as clients.

Parliament

The Auditor General as an independent officer of Parliament works closely with Parliament and its committees and in particular, with our oversight committees:

- Public Accounts Committee (PAC)
- Estimates and Financial Operations Committee (EFOC)
- Joint Standing Committee on Audit (JSCA).

The Auditor General meets regularly with PAC and EFOC to discuss matters such as emerging audit issues, our forward audit program and the budget of the Office. PAC also supports the Office by following up with agencies the actions taken in response to our performance audit reports.

The JSCA, which comprises the members of PAC and EFOC, can make a recommendation to the Treasurer on our budget and is responsible for performance reviews of the Office and our legislation.

Review of the performance of our Office and the operation and effectiveness of the Auditor General Act

Section 48 of the Auditor General Act requires the JSCA to carry out a review of the operation and effectiveness of the Act and the performance of the Office of the Auditor General – on five yearly intervals. The first such review commenced in mid-2015. The Committee's terms of reference are:

to inquire into the budget, organisational structure and resourcing needs of the Office of the Auditor General and any matters incidental thereto to conduct a review of the Auditor General Act 2006 pursuant to section 48 of that Act and inquire into any other matters incidental thereto.

Two stages of the review have been conducted. Stage one, in mid to late 2015 assessed the performance of the Office. Stage 2 in early 2016 assessed the operation and effectiveness of the Auditor General Act. The Joint Audit Committee tabled the review in Parliament on Thursday 25 August 2016.

The review concluded the Auditor General effectively performed his duties and that 'the Office is a well-functioning audit office with no fundamental failings'. We accepted the 15 recommendations concerning the operation of the Office and have commenced implementation, including publishing our forward audit program on our website, appointment of an independent chair to our Audit and Risk Management Committee and reporting cost of audits in our reports. The review provides us with opportunities for continuous improvement, better practice and cost effective outcomes.

Agencies

We report audit issues we identify during our financial and performance audits to agency management. Where applicable, we also include relevant recommendations. We ask agencies to advise us whether they agree with our findings and accept our recommendations. The Auditor General does not have executive authority to force agencies to implement our recommendations but we do monitor whether improvements are made.

Our performance audits generally result in a report to Parliament. The focus of these reports is to highlight matters of significance, which can be either positive assurance or opportunities for improvement. These independent reports assist parliamentarians and the public to have a better understanding of the performance of public sector agencies. Before tabling a performance report, we provide agencies with the opportunity to view the draft and to provide comment for inclusion in the report.

Public

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 Parliament.

Our people

The single most important aspect of our Office is our people. We have invested substantially in the critical thinking and technical capabilities of our people so that they will deliver insightful questioning founded on technical excellence to provide the highest quality audit.

We have just over 130 employees, supplemented by individual contractors during our busier cycles.

A large number of employees working in financial audit have or are working towards a CPA or ICAANZ qualification. This is an essential requirement for attaining certain levels within the Office. Our performance audit employees come from a wide variety of fields such as economics, social sciences, statistics and the legal profession, which assists them to perform their audits.

60 staff have CPA, CAANZ or IPA membership

19 staff enrolled in CAANZ and CA programs

Continuing professional development

All of our people are required to maintain their technical competence and comply with relevant regulatory and professional development requirements. Line managers monitor this requirement as part of the appraisal process, in conjunction with an individual's personal development plan.

We continually review the skills and competence of our employees to ensure they meet the needs of our clients. We support people's development, not only through structured learning programs, but also through a variety of tools including 360-degree feedback, mentoring, on-the-job coaching and a wide range of secondment opportunities.

Further education is encouraged by the Office with support provided on a case-by-case basis.

We aim to create an environment where our people are passionate about what they do, feel able to challenge the status quo, perform to their best ability, and have the opportunities and support to continually develop their knowledge and skills.

We actively promote technical excellence, audit quality, critical thinking and ethical behaviours to everyone involved in audit during their induction and throughout subsequent learning programs.

Supervision, consultation and review

We have a strong culture of consultation, supervision and support embedded throughout the audit methodology. The use of engagement quality control reviewers, technical specialists such as valuations and IS audit, industry specialists as well our Technical and Audit Quality business unit provides quality control as well as support for audit staff.

Technical determination and qualification committees

Additional support is available at short notice by a technical determination or qualification committee.

A technical determination committee can provide advice on specific technical accounting or audit matters while a qualifications committee will discuss a proposed modification or the removal of a modification to an audit opinion.

Both of these committees comprise the relevant Financial Audit Engagement Leader, Assistant Auditor General – Financial Audit and a Director from the Technical and Audit Quality business unit.

This mixture of experience and technical ability within a culture which encourages the challenging of views helps ensure quality throughout the audit process.

Engagement quality control review

We use engagement quality control review (EQCR) to strengthen the audit process of our high risk audits. The use of EQCR is specified in the Auditing Standard ASQC 1 – *Quality Control for Firms that Perform Audits and Reviews of Financial Reports and Other Financial Information, Other Assurance Engagements and Related Services Engagements*.

The audits subject to EQCR in each audit cycle are determined against our criteria and approved by the Auditor General on recommendation of the Assistant Auditor General – Financial Audit and the Assistant Auditor General – Technical and Audit Quality.

The implementation and effectiveness of the EQCR is subject to review by the Technical and Audit Quality business unit.

Professional development plan

Our Professional Development Committee focuses on delivering a well-structured program to meet both the needs of the Office and individuals. It has representatives from each business unit who liaise with the Assistant Auditors General and business unit employees to ensure that it meets the needs of individuals and the business units. Additional input for topics and training areas is obtained from the performance development and review process and through feedback portals on the intranet.

Professional development program

The professional development program has a whole-of-office component as well as targeted sessions reflecting specific employee training needs, delivered across relevant business units. Our whole-of-office training includes both technical and non-technical learning. Attendees are encouraged to provide comments and suggestions to help improve the program.

Some sessions are led by specialist guest speakers or external subject experts, but we also recognise the importance of fostering the presentation skills of our own employees. Giving our people the opportunity to present on topics within their expertise and providing constructive feed-back contributes noticeably to improved presentation skills and general confidence.

Blended learning solutions

We supplement our formal training program by using blended learning solutions, incorporating a broad range of traditional methodologies. Our use of technologies such as online courses and webcasts of national speakers continues to grow in line with increasing compliance requirements. In 2015 we extended our online training suite to include accountable and ethical decision-making.

Targeted training programs

We have three levels of targeted training for employees. These include a financial audit graduate induction program, a recognised employer program status with specific training for the duration of their study and a leadership and management training for senior employees.

Financial audit graduate induction

Our financial audit graduates receive an intensive three-week induction program upon their commencement supported by a further monthly training program over the next three years.

The program requires the graduates to participate in workshops and attend internal and external presentations to provide them with the foundation that they need before they visit client premises and join an audit engagement team.

Recognised employer programs

The Office has Recognised Knowledge Partner Status with CPA Australia and is a Recognised Training Employer with the CAANZ.

Throughout the year, our employees continue to receive a number of benefits, most notably automatic continuing professional development recognition for CPA auditors and reduced record keeping for those that are studying towards their membership. We believe that this demonstrates our commitment of ensuring that our employees have technical currency. We believe that it provides a unique advantage in our attraction, recruitment and retention of staff.

Leadership training

In 2012, we commenced a leadership and management training course for all mid-level employees and above. This is a core program designed to establish a common understanding about expectations and values within the Office and to enhance the leadership qualities and opportunities for these employees.

We have had a significant increase in skills as a result of this program, positive feedback from attendees and it has also delivered a significant number of change projects that are required to

be completed as part of the program. The program has represented a significant investment but the benefits attained far outweigh the financial investment.

When new staff join the Office they also attend the leadership and management course.

Secondments and traineeships

Secondments between the Office and other public sector agencies are a cost effective and efficient way of allowing employees the opportunity to broaden their experience, improve their expertise and skill set, and to bring different ideas and suggestions back to our workplace.

In addition to secondments across the Western Australian public sector we have an ongoing relationship with audit offices within Australia and around the world. In 2014, we were happy to support a six-month secondment of an employee to the British Columbia Audit Office.

Performance measurement and remuneration

We regularly assess the performance of employees against audit quality as well as other performance measures such as cost and timing of audits, communication, interpersonal skills and leadership. These assessments contribute to development and influence promotions. While the Auditor General is the employer of all Office staff and authorises all promotions, public sector awards determine remuneration.

Competency and learning and development framework

The Office is developing a Competency and Learning and Development Framework for financial audit staff that will outline the competencies required at each cohort level and the training and professional development that the staff member can expect. It is expected to be completed in the first half of 2017.

Qualification and membership register

The Office maintains a qualifications register and a membership register which are available to all staff. These registers capture the qualifications of each staff member and the memberships that they hold. This information assists us when allocating staff to audits and when assessing if we need to seek external specialist assistance.

60% of full time staff have post graduate or professional qualifications to support their current role

Ethical standards

Codes of ethics and conduct

We expect and require employees to adhere to the relevant external and internal quality standards and policies.

External standards include the APES 110 Code of Ethics for Professional Accountants and the Public Sector Code of Ethics. Our internal policies provide the framework to ensure independence and include a Code of Conduct, a Receipt of Gifts, Benefits and Hospitality policy, Conflict of Interest policy and Rotation policy.

The Office has published a Code of Conduct, which all employees are required to comply. The Code of Conduct reinforces the importance of independence and objectivity to our work.

Independence practices

Unlike most other public sector entities, the Office and the Auditor General do not report to any government minister but report directly to Parliament and ultimately the people of Western Australia. This independence and freedom from influence or interference that may erode independence is the cornerstone of public sector audit.

Topic selection

The interest in our reports to Parliament, and their impact, mean that selecting the right topics for performance audits is extremely important. Deciding what to audit is a key part of the Auditor General's independence as the position is not subject to direction from Parliament or government, though the Auditor General does have regard for the priorities of Parliament. The Auditor General ensures that this independence is exercised responsibly by having topic selection processes that are objective, robust and transparent.

Topic ideas come from a range of sources including enquiries, expressions of concern and requests for audits and investigations from members of Parliament and the community. Our topic selection process allows us to balance these demands and to choose audits based on full consideration of their relative merits.

We collate potential topics for performance audits and select priority projects to establish a draft 12 month forward program. We aim for a program with broad coverage, containing topics that matter to Parliament and the community, and reflecting how and where the state is spending taxpayer's money.

The Auditor General provides a copy of the draft program to the Public Accounts Committee (PAC) and the Estimates and Financial Operations Committee (EFOC) for their information and feedback. We also provide PAC and EFOC with other potential topics to ascertain their interest and invite them to provide other topic ideas.

Once the forward audit program is established, we publish it on our [website](#).

When we begin an audit, we make its objective, focus and timeframes public via the work in progress section on our [website](#).

Policies

Our Conflict of Interest policy requires employees to submit an annual declaration of independence and to declare any potential or perceived conflict of interest. The annual declaration also requires employees to declare their compliance with the Code of Conduct and all Office policies. The Office maintains two conflict of interest registers - Potential Conflict of Interest Register and Conflict of Interest Register.

A Potential Conflict of Interest Register records all 'potential' matters either raised through our annual process or identified during the year. It also records the safeguards to mitigate the perceived conflicts. Such safeguards may include placing restrictions on audits that employees can work on, restricting the type of audit work, increased supervision or less decision-making on the audit.

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

A Conflict of Interest Register is maintained, which records perceived or actual conflict of interest matters and identifies employees that are prohibited from working on specific audits. Staff are expected to refer to this register when allocating staff to audits.

Our Receipt of Gifts, Benefits and Hospitality policy sets the criteria for employees accepting gifts, benefits or hospitality and requires Executive approval for acceptance of all gifts other than of nominal value. A Gifts Decision Register records the decision to either accept or decline the gifts. Our Technical and Audit Quality business unit reviews this register every six months to ensure compliance with the policy and to identify themes or any areas of concern.

All of the reviews performed of the gift decision register have not identified any gifts, benefits or hospitality that were not in accordance with the policy or any themes that required reporting

A Rotation policy is used to ensure that audit employees do not remain on the same audit for an extended period of time and thereby risk losing their independence or objectivity. Our policy complies with the Auditing and Assurance Standards. Our policy sets out expectations and requirements in the context of how long senior members of staff can be involved with an audit engagement.

Discretionary audits

The majority of the work we undertake is statutory in nature and there is no discretion as to whether the Auditor General can accept or decline an engagement. The decisions that are made regarding independence are therefore made on the basis of a continual client relationship.

Opportunities arise where the Auditor General is asked to perform engagements of a discretionary nature, that is, discretionary audits. The Office has policies and practices to ensure our resources are used efficiently and effectively and that the Auditor General's independence and objectivity are maintained. Our policy, Acceptance of Discretionary Audits is used to guide practice.

Contract audit firms

We also manage potential conflicts of interest of private firms who we contract to undertake audit work. Our contracts restrict the work firms can undertake in any agency they audit on behalf of the Auditor General so that their independence and objectivity is not in question. We also require ongoing assurance from the firms that they are meeting our requirements.

Maintaining independence between our contract firms and the agencies they audit is critical for us. Audit independence can be threatened or, at least perceived to be at risk if our audit contractors provide other services to the agency. Our policy and our contractual arrangements with the firms imposes constraints on non-audit engagements. The firms must seek the Auditor General's approval before entering into any other service arrangement with the agency, whereupon we assess the request against our independence tests. The firms for commercial reasons may prefer to undertake the other work. In this event, the audit engagement is removed from that private firm.

External working groups

Agencies often ask us to nominate experienced audit employees to be members of external working groups and committees. We recognise that our employees can provide valuable input but the risk to our perceived independence from such involvement leads us to refuse these requests. However, if justified, we will give permission for our employees to sit as observers. In this role, they can provide advice on audit matters that may arise and they can gather important information that may assist the audit.

We consider each request on its merit and real and/or perceived impact to the Office. If accepted, safeguards are put in place to limit our involvement to a non decision-making advisory or challenge role. Approval of an Executive Member is required to represent the Office on such working groups.

Training and quality assurance

Our culture places importance on independence, integrity and ethical behaviour. Its importance is reflected in our regular training and in the quality assurance procedures we perform to ensure that employees are fully aware of their responsibilities.

Training is conducted for all new employees as well as regular training on changes to policies and procedures including ethical standards. Staff receive emails reminding them of their responsibilities and reminders are posted on our intranet site.

Quality review of independence practices

a) Internal

During the year the Technical and Audit Quality business unit reviewed the audit engagement independence practices as well as the rotation of engagement leaders within the financial audit business unit. Positive observations and some areas for improvement were identified. The Conflict of Interest policy and independence forms have recently been revised to incorporate recommendations from the review.

b) Independent review

The independence practices of the Office were reviewed during the Joint Standing Committee on Audit performance review of the Office in 2015 with a term of reference addressing independence. The Joint Audit Committee tabled the review in Parliament on Thursday 25

August 2016 and concluded 'the Office is a well-functioning audit office with no fundamental failings'. We have accepted and commenced implementation of the 15 recommendations.

Our internal audit for 2015 also had a scope area within the plan. The external provider who undertook the internal audit reported that:

'Conflict of interest is well managed with the OAG. There are policy and process frameworks that are consistent with better practice. Some improvements in policy wording are required to better reflect current practice. Amendments to the format of the Conflict of Interest Register recommended during the audit have already been embraced and actioned by management. There is potential to better link the Conflict of Interest Policy to the whistle blower section of the Fraud and Corruption Control Plan.'

Commitment to audit quality

Quality is fundamentally important to everything we do. The Office has a framework that establishes and maintains quality over the work we perform. This framework is instilled throughout our workforce, sending a strong message that audit quality is more than meeting professional standards. In the words of Henry Ford 'Quality means doing it right when no one is looking'.

System of quality control

Assistant Auditors General are responsible for ensuring that staff within their business unit comply with policies, procedures and audit methodologies while engagement leaders are responsible for quality control on an audit engagement.

Our system of internal control complies with ASQC1 – *Quality Control for Firms that Perform Audits and Reviews of Financial Reports and Other Financial Information, and Other Assurance Engagements*.

This standard establishes requirements and provides application and other explanatory material regarding systems of quality control. Accordingly:

- we have an Executive that lead by example by giving consistent messages on the importance of quality assurance and control
- we have documented quality assurance and control systems in place
- everyone working for the Auditor General is required to act ethically and in accordance with relevant standards
- we recruit, develop and support capable and competent employees making sure human resources policies and procedures are aligned with this requirement
- our audits are delivered to a high quality that complies with law, regulations and standards, including consulting when needed and meeting requirements for engagement quality control review
- we monitor, inspect and continuously improve our work

- we review and evaluate our system of quality control at least annually.

In 2014, the Office performed a self-review of the system of internal control for compliance with ASQC1. This review informed the Office of improvement opportunities in advance of the commencement of the ACAG External Quality Review. The internal ASQC1 review involved using the Chartered Accountants Australia and New Zealand program to examine Office documentation such as policies and procedures, to discuss with relevant employees their understanding of our Office and to select a sample of audit files to review documentation.

A report was prepared detailing the results of the evaluation against each of the applicable paragraphs of ASQC1.

We were found to be meeting the requirements of ASQC1, however, improvement opportunities were noted. All recommendations have been implemented. The next review is planned for 2017.

Effectiveness of the system of quality control

The Office has designed and implemented an effective system of quality control during the period 1 July 2015 to 30 June 2016.

The results of our internal and external audit as well as internal and external quality assurance reviews has provided us comfort and assurance over the system of quality control. It has highlighted areas where we may benefit from improvement. These are consistent with the themes from other Audit offices and the private sector.

Internal audit

The Office appointed 2020 Global as our internal auditor. The current contract is for the three year period to October 2017 with two, one-year extensions.

The internal audit for the year ended 30 June 2016 has been finalised. The audit identified 11 areas for improvement, all were rated as minor and will be addressed by 31 December 2016.

External audit

The Department of Treasury appoint our external auditors. Our current external auditor is Bentleys Chartered Accountants.

The external audit for the year ended 30 June 2016 has been finalised. The audit identified three minor areas for improvement. We expect to have the audit recommendations implemented by 31 December 2016.

Monitoring audit quality

A rigorous system of monitoring audit quality is key to our quality assurance and control arrangements.

Our key policy titled *Monitoring Audit Engagement Quality* complies with Auditing Standard ASQC 1. Our policy and approach does not just cover audits conducted in-house but also extends to the firms contracted by the Auditor General.

Quality Assurance Plan

Our annual Quality Assurance Plan (QA Plan) evaluates the appropriateness of our system of quality control as well as aspects of the contracted firms to ensure that system of quality control is operating as planned.

The QA Plan is an important strategy of our Strategic Plan. It is vital to our internal control, risk management, corporate governance and compliance monitoring.

The QA Plan outlines the role and importance of audit quality and quality assurance in achieving the strategic objectives of the Office. It also includes the scope, objectives, time and cost budget for each project to be performed as well as responsibilities for facilitation and reporting the outcomes.

Our approach

Our Technical and Audit Quality business unit is responsible for the development and facilitation of the QA Plan and for regular reporting of its progress to the Executive. The QA Plan is approved by our Executive on an annual basis.

The results of each project within the QA Plan are presented to the individual team and then the relevant Assistant Auditor General by the Technical and Audit Quality business unit to provide feedback and improve performance.

Assistant Auditors General are responsible for the timely resolution of improvements identified by the projects within the QA Plan. The Assistant Auditors General report to the Deputy Auditor General on the close out of these.

Status reports are provided to Executive twice a year to provide acquittal of planned work.

Training needs are incorporated into our professional development plan in a timely basis.

Quality assurance activities

The QA Plan has a significant number of projects. Some of the significant projects that we perform include:

- **Training on audit quality** – to ensure that employees know ‘what is audit quality?’, ‘the importance of audit quality’, ‘the role and responsibility for audit quality’ and ‘results of the monitoring program’.
- **Review of audit methodologies** – to ensure that they continue to comply with the Auditing and Assurance Standards.
- **Engagement quality control reviews (EQCR)** – to evaluate and report on the implementation of the EQCR process in the Office.
- **Independence** – to evaluate and report on the implementation of the Conflict of Interest, Receipt of Gifts, Benefits and Hospitality and Rotation policies.
- **Compliance with ASQC1** – to ensure that our system of internal control complies with ASQC1 we perform a self-review on a biannual basis.

The OAG self-assessment performed every two years provides assurance that we comply with ASQC1

- **Internal inspection of engagement files** – to ensure a quality audit is performed for in-house and contracted audits and to identify improvement opportunities and good practice.
- **Disclosure review of financial statements** – to ensure that financial statements comply with Australian Accounting Standards, FM Act and Treasurers Instructions.
- **Review of policies and guidance** – to ensure that these are current and compliant with Accounting, Auditing and Assurance Standards
- **Internal independent review of the OAG financial statements** – to ensure that the financial statements and KPIs comply with Australian Accounting Standards, FM Act and Treasurers Instructions.
- **External peer review program** – we use the Australasian Council of Auditors-General (ACAG) to provide reviewers for an independent opinion as to the quality of our audits. ACAG audit offices include all Australian and the New Zealand audit office.
- **Parliamentary performance and legislative review** – independent external parliamentary review of the Auditor General Act and performance of our Office performed by the JSCA.

Contract audit firms

Background

We outsource about 40% of our financial audit work to private sector firms, though the Auditor General or his delegate within the Office signs the audit opinion and is accountable for their work. We also outsource a small portion of our information systems audit work.

In 2015-16 and 2014-15 we partnered with the following firms; BDO Audit, Crowe Horwath, Deloitte, Ernst & Young, Grant Thornton, KPMG, PricewaterhouseCoopers, RSM Bird Cameron and William Buck.

Our approach

Our contract audit firms are required to perform their audits to a high quality. We have robust contract management arrangements in place for these audits with each having an internal contract manager. These contract managers have a strong relationship with the audit partners and employees at the firm and the audit is performed seamlessly.

The contract managers are the engagement leaders for the audit and have responsibility for audit quality. We are actively involved in the audit and review their work to a high standard.

We also include the contract audit firm in the QA Plan. Our assurance process for contract firms includes:

- **Pre-assessment** – to assess the quality of contract audit firms that are invited to tender for audits we may decide to contract out.
- **Briefing to contractors** – to ensure that the OAG requirements are understood and that a consistent approach is adopted.

Nine firms have been pre-approved to perform audits

- **Review of audit engagement files** – to ensure the quality of contract audit firms who perform audit work on our behalf.
- **Review of published information** – to ensure that the results of public information including quality assurance reviews performed by regulatory bodies and membership organisations are known by our Office.
- **Writing to seek knowledge** – to seek information about the firms on aspects of their business that may be topical or may represent a particular risk for the current year.
- **Access to files** – to ensure that they are retaining the audit software required to read the audit files for the required retention period, which for our Office is seven years.
- **Contract management by our technical team** – our Technical and Audit Quality business unit contract manage a sample of audit engagements to assess and measure the quality of these firms and to provide input into future decisions about these firms within the Office.

Access to contract audit firms audit engagement files from seven years ago has provided assurance that we can access them, if required

Pre-approval of contract audit firms

The Office maintains a register of audit firms that have been pre-approved to perform financial audits on our behalf based on the size of the audit engagements.

During 2015-16, we advertised publicly for audit firms not already engaged with us to seek pre-approval as a contract audit firm. We received nine applications. The Assistant Auditor General – Technical and Audit Quality performed an assessment of the firms in accordance with agreed criteria. The recommendation was endorsed by the Assistant Auditor General – Financial Audit and approved by the Deputy Auditor General.

Six firms met our criteria for pre-approval with the unsuccessful firms provided with detailed feedback to help them meet the criteria. In our view, it is in the public interest if more firms meet our quality requirements for pre-approval.

It is the intention of the Office to publically invite audit firms to seek pre-approval in 2016. With the local government mandate being considered by Government for the Office, it will be necessary for our Office to rely on contract audit firms to perform many of the local government audits for our Office.

Contract auditors

The Office also uses individual contract audit staff to complement internal resources when required. These staff are briefed in our audit methodologies, policies and procedures to ensure their work is performed to a high quality. Their work, like that of our permanent staff, is subject to quality assurance review by our Technical and Audit Quality business unit and external reviewers.

Internal quality assurance review of audit engagement files

Our Technical and Audit Quality business unit reviews a sample of audit engagement files throughout the year as part of the QA Plan. The review aims to assess:

- the audit's compliance with professional standards and our audit policy
- the quality of evidence the team collected to support the audit opinion
- opportunities to improve documentation and make efficiencies in the audit approach
- the consistency of message and appearance of client communication.

No material deficiencies found on internal or external quality assurance reviews where an incorrect audit opinion was issued

As a minimum, we cover each engagement leader every three years as required by the Auditing and Assurance Standards, but we have performed more than this over the years. We maintain a register of the engagement leaders that have been quality assurance reviewed to demonstrate that we have met these requirements.

External quality assurance review program

In addition to our own internal quality assurance reviews, we also engage external reviewers to provide assurance that we perform quality audits.

a) ACAG external peer review

The Australasian Council of Auditors General (ACAG) has developed a review framework to help individual member Offices obtain assurance that they meet relevant legal and professional standards. It reflects the requirements of APES 320 *Quality Control for Firms* and ASQC 1.

The framework comprises four sections including Office Governance, Audit Practice Management, Financial Audit Assessment and Performance Audit Assessment. The framework enables self-assessment but is most effective when undertaken by senior employees from other audit offices.

We were last reviewed against the framework in October 2014. The review covered all four sections and was undertaken by five senior auditors from four ACAG audit offices.

The review included interviews with key internal stakeholders, a review of organisational policies and guidance materials, review of a sample of financial and performance audit engagement files and the preparation of a report on the review findings.

The review team's report concluded that the Office '*...provides an important service efficiently and effectively to the Parliament and people of Western Australia*'.

The report recognised the significant developments we have made and provided a range of recommendations, many of which we are happy to accept because we believe they will improve our processes. Importantly, many of the issues raised had already been identified within our own internal self-assessment processes. The recommendations are being worked through in a timely basis with the status of the close out being reported six monthly to the Executive.

The current status of consideration of the recommendations from this review is outlined below:

Status	Number	Percentage
Not to be implemented	1	1%
Not started	0	0%
In progress	10	15%
Completed	56	84%
Total	67	100%

Table 1

Our next ACAG review will be in two parts. Part 1 in 2017 will address Office Governance and Audit Practice Management, then part 2 in 2018 will address Financial Audit Assessment and Performance Audit Assessment.

b) Independent quality assurance review

Information systems financial audit work

During the year we engaged the services of a private sector firm to assess the quality of the work performed by our Information Systems Audit Branch for six financial audit engagements. The review included four 30 June 2015 and two 31 December 2015 financial audits.

The review provided positive observations about our audit practice and enhancements to improve audit quality. Implementation of the recommendations has begun.

Financial and performance audits

The last quality assurance review (other than by ACAG) of our financial and performance audits was in 2013. The recommendations from this review have been implemented.

c) Independent review panel

We periodically seek assurance about the quality of our performance reports from an ACAG appointed panel of independent reviewers. The reviewers, who are from the eastern states comprise a former politician, a journalist, and a senior public servant. They assessed the reports against a range of criteria:

1. scope and potential impact
2. focus on efficiency, effect, economy
3. persuasiveness of conclusions
4. communication – printed report
5. communication – online report
6. usefulness to the customer.

In 2015 the panel reviewed four performance audits. The high level results are outlined below with each reviewer providing a rating out of five for each of the criteria. We were proud of the positive comments and ratings and have taken on board the comments to improve the work of the Office and the user experience.

Some quotes from the reports on the individual reports are provided below:

Asbestos Management in Public Sector Agencies

'Given that a single agency no longer manages the asbestos risk in WA, it really was a task to collect all the information from the various government agencies and distil it down to key findings which can be used as a blueprint to bring asbestos management in all seven agencies up to scratch, not just the three that manage the risk well.'

Delivery of Essential Services to Remote Aboriginal Communities

'The narrative produced a straightforward and informative report which flowed in an easy to read fashion. Coloured photographs lifted the quality of the audit, graphs were simple and effective. Use of a coloured photograph in online report added a degree of professionalism. Also "read more" attachments will be welcomed by those readers (in the main MPs) who work with time constraints.'

Main Roads Projects to Address Traffic Congestion

'The outcome of this performance audit is a fine example of the benefits that can accrue from performance auditing. This is so, if the government entity audited takes a cooperative and professional approach to the report as was the case with this audit.'

Our Heritage and Our Future. The Health of the Swan Canning River System

'The quality of this report is outstanding. It flows well, is constructive and fair, and easily readable.'

d) Plain English Foundation

We also work closely with the Sydney based Plain English Foundation to help ensure that our report structure and syntax is of high standard. The Foundation provides annual report writing training to employees and assesses the quality of reports prepared by individual report writers.

Audit methodology

Our financial and the performance audit business units have a methodology and guidance to ensure that their audits are compliant with the Auditing and Assurance Standards and performed to a consistently high quality.

The audit methodologies are the responsibilities of the Assistant Auditor General of the relevant business unit. Audit methodology user groups provide advice on the development of the methodology and on focus areas for employee training.

Our Technical and Audit Quality business unit provides technical advice regarding the compliance of the methodologies with the Auditing and Assurance Standards.

Our financial audits use a methodology specifically written for public sector audit. The Integrated Public Sector Audit Methodology (IPSAM) is used by the majority of Australian audit offices but tailored by each jurisdiction to suit the local environment and mandate.

Our performance audit methodology was developed internally though its genesis lies in methodology initially sourced from the Australian National Audit Office in the mid-1980s.

Continually improving

Post project learning

Our continuous improvement approach is embedded in policy and practice.

Activities which contribute to our continuous improvement process include:

- post project reviews are conducted after the tabling of each audit report and include what worked well, what could have been improved, evidence of impact
- audit methodology user groups meet regularly to ensure that the methodologies are compliant with Auditing Standards and to identify best practice or continuous improvement opportunities
- many of our performance audits have relevance to our own operations and where relevant, we assess ourselves against the same criteria we use on these audits.

Stakeholder satisfaction including complaints and concerns from interested parties

What our clients and stakeholders think about our work and its contribution to improving public sector performance is an important aspect of assessing the quality and impact of what we do.

What our employees think about our organisational strengths and weaknesses is also important to improve culture, efficiency and effectiveness.

We obtain feedback on our work in a number of ways which include parliamentary survey and liaison program, agency survey and complaints.

Parliamentary survey and liaison program

Every year we conduct a survey of members of Parliament to get an indication of our performance in meeting our outcome of an informed parliament on public sector accountability and performance. An independent company conducts the survey on our behalf and we publish the results in our annual report. The results of this survey are not part of our key performance indicators but are very important to us in understanding how we are performing.

The survey provides the opportunity for members of Parliament to express their views in areas such as their satisfaction with our services and the effectiveness and usefulness of our products. The survey includes a commentary section to make suggestions on ways we can better meet needs and expectations. We find this aspect of the survey particularly useful for improving our services and products.

The table below shows the results received against four key areas. Although results declined in all areas we continue to perform well and score highly in dealing with matters of significance to Parliament (94%); and satisfaction with our reports and services (92%).

Consistent with previous years, members were very positive about the Auditor General's reports and services, with the majority perceiving them as:

- helping to improve, and providing valuable information on, public sector administration
- communicating the issues clearly.

Just under half of respondents indicated that a report tabled in the last 12 months was helpful to them. Members most commonly cited that this was due to the relevance of the content to their electorate and/or portfolio.

Indicator	% Agree or Strongly Agree					
	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16
The Office is effective in achieving its desired outcome	81	82	86	78	90	84
Reports dealt with matters of significance to Parliament	89	91	97	96	97	94
Services and reports of the Office are useful to Parliament	93	92	93	89	87	86
	% Satisfied or Very Satisfied					
Overall satisfaction with Auditor General reports and services	91	90	83	90	97	92

Table 2

The Office’s parliamentary liaison program aims to provide relevant and timely information to Parliament about current audit issues and our audit program. The program includes:

- briefings about our Office to all new members of Parliament
- briefings to members of Parliament when we table audit reports
- briefings to our parliamentary oversight committees with a focus on our operations and proposed forward audit program
- providing information to support inquiries by parliamentary committees
- annual briefings of the Premier, Treasurer and Leader of the Opposition
- briefings to new ministers on audit issues relating to agencies in their portfolio.

Agency surveys

Government agencies can provide valuable information about how well we conduct our financial and performance audits. We conduct surveys in relation to our financial and performance audits.

An independent research company administers the surveys. Similar surveys are conducted by other Australian audit offices under the auspices of ACAG using the same research company and the results are shared.

The survey analysis includes the calculation of aggregate performance indices across the four focus areas of audit process, audit reporting, audit value and our overall performance.

Tables 3 and 4 show the aggregate performance indices for our financial and performance auditing work for the past five years.

Financial Auditing							
Focus area	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	
Audit process	79.8	80.1	77.3	77.8	79.8	78.9	
Audit reporting	78.9	80.0	80.4	81.7	82.1	81.8	
Audit value	Financial statements	78.0	78.7	78.8	85.1	87.4	86.5
	Performance indicator	72.0	73.7	73.7	78.9	81.5	81.4
	Information systems	75.1	76.7	77.9	76.1	75.4	78.4
Overall performance	76.8	77.9	77.6	79.9	81.2	81.4	

Table 3

Performance Auditing						
Focus area	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16
Audit process	71.3	72.8	69.8	78.2	68.9	76.0
Audit reporting	66.6	72.7	68.8	78.0	73.3	74.8
Audit value	66.1	76.5	68.8	65.6	70.1	70.4
Overall performance	68.0	74.0	69.2	73.9	70.8	73.7

Table 4

Complaints

Our process for managing complaints about the Office is designed to ensure the complainant is satisfied that we will take appropriate action to rectify the matter. In this regard, we adhere to the Ombudsman's guiding principles for effective complaint management namely:

- **Enabling complaints** – arrangements for enabling people to make complaints are customer focused, visible, accessible and supported by management. Complaints can be made via our website, or by email, mail or telephoning the Office.
- **Responding to complaints** – our procedures for responding to complaints ensure they are handled objectively, fairly and confidentially. Timeframes are included for each step of the process.
- **Accountability and learning** – the reporting mechanisms for managing complaints help us work towards continuous improvement.

The Executive receives a report on all complaints received and identified risks are reported to the ARMC.

We received one complaint in 2015-16 which was resolved to the satisfaction of the complainant.

Data analytics

The Office has a strategy for using data analytics on our financial and performance audits. We use data analytics to provide the Auditor General with additional assurance and to also increase audit efficiency. We train our staff on the data analytics tools that we use and liaise with audit offices in other jurisdictions and the private sector to share their experiences in this area.

Improved efficiency

The requirement to have a quality audit is almost always synonymous with more audit work. This has to be balanced with identifying opportunities for audit efficiency.

In 2014 the Office implemented an Efficiency and Effectiveness Plan which is renewed annually and the status of work performed is reported to the Executive twice per year.

This plan identifies areas worthy of having a detailed review which we may benefit from improved audit efficiencies. We benchmark ourselves against better practice, the private sector and other audit offices.

Some of the projects within our current plan include consideration of new technology, reducing hard copy, audit strategy, application of audit techniques such as sampling, materiality, analytical review, data analytics, computer assisted audit techniques and integration of IS audit into the financial audit.

Working with others

Australasian Council of Auditors-General

The ACAG is an association established by Auditors General in 1993 to provide consultative and structured sharing of information and intelligence between Auditors General.

ACAG supports the development of effective and efficient auditing methods and practices by members, and represents externally, where applicable, the collective opinion of the Auditors General on financial accounting and auditing standards and related issues.

Our involvement with ACAG is extremely important in developing and sharing knowledge, information, experience and better practice examples in auditing.

We regularly work with our Australian and New Zealand colleagues on joint projects such as a collegiate response to exposure drafts issued by the Australian Accounting Standards Board and Australian Auditing Standards Board and their international equivalents. We have also established a strong working relationship with the Office of the Auditor General of British Columbia.

Integrity Coordinating Group

The Auditor General is a member of the Integrity Coordinating Group (ICG) together with the WA Ombudsman, Information Commissioner, Public Sector Commissioner and the Corruption and Crime Commissioner.

The ICG promotes policy coherence and operational coordination in the ongoing work of Western Australia's core public sector integrity institutions. It seeks to achieve operational cooperation and consistency through public awareness, workplace education, prevention, advice and investigation activities across a range of integrity themes.

The ICG enables the five independent officers to:

- coordinate the exchange of information, consistent with legislation governing each office
- share perspectives on integrity issues in which they have a common interest
- collaborate to assist Western Australian public authorities effectively deal with integrity issues. Good practice guidance can be found on the ICG website.

The ICG employ a graduate every two years to rotate through the ICG members. This program provides a unique opportunity for a high quality student to have insight into the working of the five integrity offices.

Auditing and Assurance Standards Board

The Australian Auditing and Assurance Standards Board (AUASB) is an independent, statutory agency of the Australian Government, responsible for developing, issuing and maintaining auditing and assurance standards. The Auditor General is a member of the AUASB and in November 2014 was appointed for a second four-year term.

Our relationship and interest in the work of the AUASB extends further than the Auditor General's membership. We are regular contributors to ACAG submissions on exposure drafts and to submissions to the International Auditing and Assurance Board (IAASB).

The Auditor General is the Chair of the AUASB Project Advisory Group for the revision of ASAE 3500 Performance Audit Engagements.

Universities

We have a strong belief that working with universities helps to improve the quality of graduates and strengthens our capacity to be seen as an employer of choice in Western Australia. Our involvement includes:

- intern placements in our Technical and Audit Quality business unit and Information Systems and Performance Audit business unit
- presentations to students on auditing and public sector related issues.
- Awarding small prizes to the outstanding auditing student at each of the four WA universities.

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