

**Report on**

# **MINISTERIAL PORTFOLIOS**

**Report No 1 – April 1998**



**AUDITOR GENERAL**

**Western Australia**



A U D I T O R   G E N E R A L

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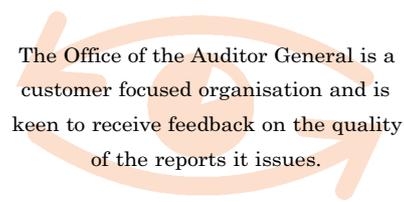
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Report on

# MINISTERIAL PORTFOLIOS

Report No 1 – 1998



AUDITOR GENERAL

*Western Australia*



## AUDITOR GENERAL

*Western Australia*

THE SPEAKER  
LEGISLATIVE ASSEMBLY

THE PRESIDENT  
LEGISLATIVE COUNCIL

### REPORT ON MINISTERIAL PORTFOLIOS

I submit to Parliament the Portfolio Report for 1998 pursuant to section 95 of the *Financial Administration and Audit Act 1985*. This Report primarily covers the financial statement and performance indicator audits of the departments, statutory authorities and subsidiary bodies under that Act which have balance dates between June 30, 1997 and October 31, 1997.

It also includes the results of the audits of the three corporatised bodies who report under *Corporations Law*, Cemetery Boards reporting under the *Cemeteries Act* and audits requested by the Treasurer.

This report excludes all agencies in the health portfolio, as well as agencies with a December 31, 1997 balance date, which are to be reported separately.

#### Reporting Approach

This Report is structured as follows:

- **Audit Results**  
An overview of the results of financial statement and performance indicator audits is included in this section, along with substantive and government wide issues arising from the audit cycle.
- **Consolidated Financial Statements of the State of Western Australia**  
This section contains the results of the initial audit of these statements and a commentary on key financial results
- **Summary of the Results of Agency Audits**  
Details of individual agency's financial statement and performance indicator audits, as well as associated issues, are reported on a Ministerial Portfolio basis. Audits of agencies not subject to Ministers are reported separately under The Legislature and Request Audits sections.

#### Acknowledgment

This opportunity is again taken to acknowledge the professionalism and continued efforts of my staff in their commitment to public sector audit which results in this Report.

A handwritten signature in blue ink, appearing to read 'DDR Pearson'.

DDR PEARSON  
AUDITOR GENERAL

April 8, 1998

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# Audit Results

This section summarises the results of 199 financial statement and 167 performance indicator audits completed as part of the 1997 audit cycle. It excludes all agencies in the health portfolio as well as tertiary institutions with December 31, 1997 balance dates which are to be reported upon separately.

Entities included in this report can be categorised into two broad reporting categories:

- Financial Administration and Audit Act 1985 (FAAA) – Financial Statement and Performance Indicator Reports
  - 51 Departments
  - 116 Statutory Authorities
- Other – Financial Statement Reports
  - Treasurer’s Annual Statements
  - 3 Corporatised Bodies
  - 15 Subsidiary Entities
  - 6 Cemetery Boards
  - 7 Request Audits

Results and outcomes from the audits of these entities are reported as follows:

## **FINANCIAL AND PERFORMANCE ISSUES**

Summaries of financial statement and performance indicator audit opinion qualifications are outlined in this section.

## **SIGNIFICANT ISSUES**

This section reports on matters regarded of sufficient significance for reporting to Parliament:

- Timeliness and Quality of Reporting
- Recognition of Revenue and Qualification of Departmental Audit Opinions
- Recognition and Valuation of the State’s Assets
- Implementation of Information Technology Systems

## Results of Financial Statement Audits

### *Audit Qualifications*

Twenty four agencies received a qualified opinion on their financial statements. This includes 14 departments whose audit opinions were qualified for non-compliance with Australian Accounting Standard AAS 29 'Financial Reporting by Government Departments'. Further details on this qualification are explained on page 9 of this Report.

The nature of the 24 qualified audit opinions are set out in Table 1 and further explained in the Summary of the Results of Agency Audits section of this Report.

Nature of Qualification	Number of Qualifications
Disclaimer of opinion on financial statements	2
Adverse opinion on controls	2
Non-compliance with legislation	4
Deficiencies in controls and recording of assets	1
Deficiencies in controls over grant expenditures	1
Board not properly constituted	1
Non-compliance with State Supply Commission requirements	1
Operating unauthorised bank accounts	1
Comparative figures	1
Non-compliance with AAS 29	14
	28*

Table 1: Qualified Financial Statement Audit Opinions

\* Totals more than 24 as four agencies received qualified audit opinions for more than one reason

### *Other Audit Findings*

As part of the audit cycle, my Office also raised around 360 issues with Boards and/or Chief Executive Officers, aimed at improving public administration and reporting. These addressed means of overcoming financial reporting difficulties, control weaknesses over accounting records and systems and ensuring compliance with statutory and good practice requirements.

The more significant of the deficiencies disclosed were:

- inadequate controls over computer operations such as poor security and access controls, data integrity issues and a lack of computer backup arrangements;
- lack of regular and timely reconciliations of key accounting records;

- asset and property control weaknesses, including deficient stocktake procedures and updating of asset records;
- inadequacies in controls over revenue and expenditure; and
- financial statement accounting and presentation issues.

These findings range from major control weaknesses which may represent significant risks to the agency, through to matters of a procedural or continuous improvement nature. The more significant of these findings are detailed in the Summary of the Results of Agency Audits section of this Report.

### Results of Performance Indicator Audits

#### *Audit Qualifications*

Continuing improvement is being made by agencies in the development of performance indicators. Of the 167 agencies required to submit indicators, 129 received unqualified opinions, with many of the 24 qualified opinions issued only relating to some of the performance indicators reported. In addition to the 24 qualifications, 14 agencies did not submit indicators.

A summary of the results of the audits of performance indicators is shown in Figure 1 for the two years in which the Office has been issuing performance indicator opinions for all audits. Details of agencies qualifications and those that did not submit indicators are detailed in the Summary of Audit Results section of this Report.

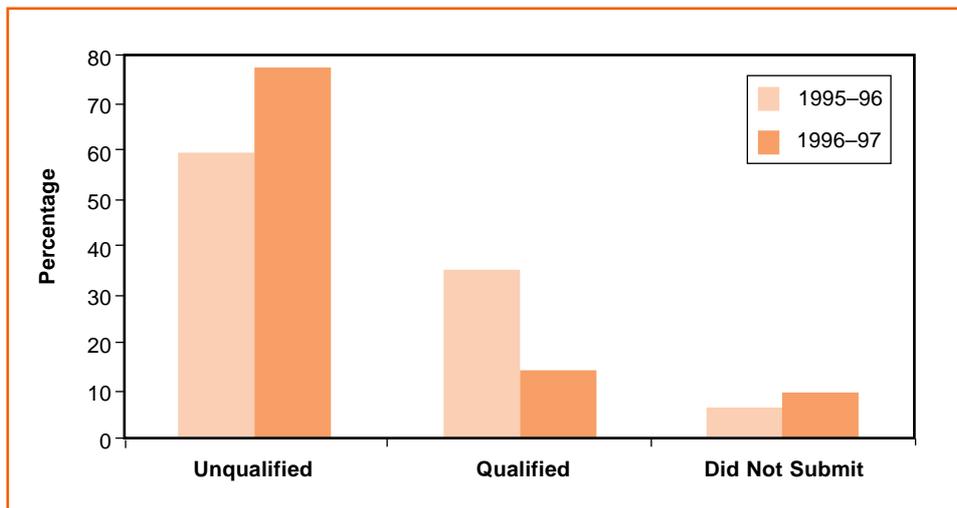


Figure 1 : Results of Performance Indicator Audits in 1995-96 and 1996-97

Reasons for the 24 qualified audit opinions, which covered 26 issues, were:

- measures not being reported or quantified due to reasons such as information systems still being developed (ten agencies);
- the indicators reported were activities or strategies and were not key indicators of the effectiveness and/or efficiency of the agency (seven agencies);
- the indicators did not fairly represent reported performance or an opinion could not be formed on fair representation. This occurred due to reasons such as inaccurate or incomplete data and the methodology and response rates to surveys (seven agencies); and
- the reported indicators were not relevant or appropriate (two agencies).

## Timeliness and Quality of Reporting

### Key Findings

- *Some agencies, mainly departments, continue to experience difficulties with financial reporting which contributed to the submission of late and poor quality financial statements.*
- *Although agencies have made significant improvements in reporting performance indicators, they need to finalise the development of key indicators and ensure indicators are reliably and accurately reported.*

### Findings

#### Reporting Delays

The *FAAA* sets the following timelines for agencies to submit certified financial statements and performance indicators to the Auditor General:

	Balance Dates	Statutory Reporting Deadlines
Departments*	June 30	August 15 (or August 31 for certain scheduled departments)
Statutory Authorities*	June 30	August 31
	December 31	February 28
	Other dates	Within two months of balance date

Table 2: Reporting Timelines

\* Agencies can apply to their Minister for an extension of time to submit statements and performance indicators.

Corporatised bodies must report to Parliament by September 30, while cemetery boards and request audits do not have reporting deadlines imposed by legislation.

Table 3 shows agencies performance against these deadlines and a comparison with 1996 results. Details of individual agencies who did not meet statutory deadlines are outlined in Appendix 1 (page 70).

	1996		1997	
	Departments*	Statutory Authorities*	Departments*	Statutory Authorities*
Statements not received by the statutory date	15	27	10	6
Expressed as a percentage of all agencies in that category	31%	22%	20%	5%

Table 3: Performance against reporting deadlines

\* excludes hospitals, other agencies in the Health Portfolio and agencies with December 31 balance dates.

As shown in Table 3, there has been an improvement by agencies, mainly statutory authorities, in meeting reporting deadlines. However it is of concern that many large departments, such as Agriculture Western Australia, Education Department of Western Australia, Department of Transport, Ministry of Justice and Western Australian Department of Training, which have combined assets and expenditures of \$4.3 billion and \$2.5 billion respectively, submitted statements outside statutory deadlines.

Submission dates for these larger departments ranged from two weeks and up to two months outside statutory dates. Steps clearly need to be taken to improve the timeliness of reporting by such significant operations.

While some large departments had difficulty in meeting deadlines, an increasing number of statutory authorities and other entities finalised their statements in July and August, enabling more timely opinions to be issued. This resulted in nine audit opinions being issued by August 31 for major agencies and corporatised bodies, while a further 20 opinions were issued for smaller agencies. This compares with a total of 19 in 1996.

The late submission of financial statements and performance indicators results in external accountability obligations being diminished through lack of timely reporting and may indicate poor management information and control over operations. In addition, the need for timely reporting, especially by larger agencies, is becoming increasingly important in view of developments in whole of government reporting. At present, the Consolidated Financial Statements are not available until December. Reducing statement preparation and audit times is largely dependent on agencies having reliable management systems capable of supplying accurate data for the completion of individual agency financial statement audits on a timely basis. This matter is commented on further in the Section 'Consolidated Financial Statements of the State of Western Australia' (page 17).

## Preparation of Financial Statements

In previous reports, comment has been made about problems associated with the move to accrual reporting (mainly for departments) and the quality of financial statement preparation.

Although a number of agencies have made significant progress in the quality and timeliness of their financial statements, many departments and smaller statutory authorities continue to experience delays and difficulties in preparing financial statements.

Around 90 agencies' statements required significant adjustments in consequence of audit findings ranging from the correction and inclusion of amounts, to reclassifications and presentation issues. Major adjustments totalling over \$550 million (gross) out of audited assets of \$54 billion and expenditures of \$13.5 billion were identified.

Examples of adjustments identified included:

- inclusion of an abnormal expense of \$8.3 million relating to additional costs which also resulted in a write down of amounts due to the agency;
- reclassification of amounts totalling \$83.2 million from non-current to current assets to reflect amounts due within the next 12 month period;
- reducing revenue by \$228 000 due to the identification of irrecoverable debtors and increasing expenses by \$438 000 resulting from the inclusion of costs incurred prior to balance date; and
- understatement of superannuation liabilities (\$951 000), leave liabilities (\$237 000) and depreciation (\$372 000) arising from miscalculations and errors in accounting records.

Common problems identified in the preparation of financial statements which contributed to these types of adjustments included:

- lack of understanding of accounting standards and concepts;
- inadequate financial and accounting systems for the production of accrual information;
- incomplete or no working papers to support financial information;
- lack of quality control over financial statement preparation; and
- financial statements prepared by contractors who had a poor understanding of the government reporting framework.

These issues resulted in audit staff and contracted audit firms again spending considerable time correcting errors and advising on financial statement presentation and accounting matters, responsibility for which properly rests with the agency. This also resulted in delays in finalising audit opinions and agencies reporting to Parliament.

### Verification of Performance Indicators

Although agencies have made significant progress in developing indicators, difficulties were often experienced in verifying the reported measures. Common problems encountered were:

- poor quality supports, including working papers not being retained;
- inadequate records maintained;
- controls over computer systems not being adequate; and
- costing methodologies used in calculating efficiency indicators not being appropriate.

### Recommendations

Agencies should:

- make an adequate and timely commitment to planning for the preparation of financial statements and performance indicators and involve appropriate staff;
- ensure suitably trained and experienced staff are involved in the preparation of financial statements and provide appropriate guidance and training; and
- ensure adequate quality control is exercised over the collection of information for financial statement and performance indicator reporting, including sign off by responsible staff, internal checking and preparation of reliable working papers.

## Recognition of Revenue and Qualification of Departmental Audit Opinions

### Key Findings

- *Fourteen departments received qualified audit opinions because they prepared their financial statements in accordance with a Treasurer's Instruction which modified the Accounting Standard applying to financial reporting by departments.*
- *Modifying the application of Accounting Standards affects the objectivity and comparability of financial reports which may result in users making incorrect conclusions and comparisons.*

### Findings

The primary reason for the issue of Accounting Standards is to improve the quality and comparability of financial reporting by both private and government entities. In Western Australia, Accounting Standards are applied to government agencies through Treasurer's Instructions, which prescribe matters relating to financial administration and reporting, and must be followed by agencies.

In applying Australian Accounting Standard AAS 29, the Treasurer's Instruction modified part of the Standard covering the recognition of certain types of revenue. Under this Standard, revenues such as fines and fees should only be included in a department's Operating Statement if the department controls, or is able to use these funds in achieving its objectives. Control can occur through arrangements such as net appropriation agreements where the Treasurer can approve the retention of certain revenues by departments.

This control principle was modified by the Treasurer's Instruction which requires the disclosure of revenues, such as fines, in the operating statement even where these moneys are paid to the Consolidated Fund and not controlled by the department. It is the Treasurer's view that the inclusion of these amounts discloses a more accurate net cost of the services provided by departments.

The Auditor General, as a statutory office holder, is not subject to the direction or control of external bodies, such as those who issue Accounting and Auditing Standards. However, in considering the impact of these differences in reporting requirements, in particular the fair presentation of financial performance, the following issues arise:

- the basic principle of comparability between different jurisdictions is precluded if commonly accepted Standards are changed or not used; and

## Recognition of Revenue and Qualification of Departmental Audit Opinions (continued)

- the objectivity of financial reporting could be affected if governments, who are themselves the primary reporting entity, do not follow Standards.

In view of the importance of these issues, the audit opinions on the financial statements for the following departments were qualified as material revenues were recognised contrary to the requirements of the control concept outlined in AAS 29.

Department	Revenues Not Controlled (\$'000)	% of Total Operating Revenues
Commissioner for Equal Opportunity	259	75%
Department of Contract and Management Services	8 248	55%
Department for Family and Children's Services	13 372	100%
Department of Land Administration	43 379	98%
Department of Resources Development	1 692	100%
Department of Transport	118 324	100%
Ministry of Fair Trading	2 323	70%
Ministry of Justice	28 623	89%
Ministry of the Premier and Cabinet	13 677	100%
Treasury Department	1 131	100%
Valuer General's Office	3 230	89%
Western Australian Electoral Commission	517	100%
Western Australian State Emergency Service	360	100%
WorkSafe	1 254	100%

Table 4: Departments Qualified for Recognition of Revenue Contrary to AAS 29

## Recommendations

To overcome issues associated with the modification of this Standard, Treasury should:

- consider the impact of the differing reporting requirements and either amend the Treasurer's Instruction to accord with AAS 29 or consider an alternative form of presentation/disclosure, including showing the reporting approach of the Treasurer's Instruction by note rather than on the face of the Operating Statements; and
- encourage agencies to enter into net appropriation agreements.

## Recognition and Valuation of the State's Assets

### Key Findings

*Significant improvements have been made by agencies in recognising and reporting their assets, however, further issues needing to be addressed to improve financial reporting and management are:*

- *land and buildings controlled by some departments and statutory authorities have still not been included in their financial statements or recorded in Asset Registers.*
- *heritage and cultural assets have not always been appropriately valued and recognised in agencies financial statements.*
- *land and buildings valuation methods used by some agencies are not appropriate for financial reporting purposes.*

### Findings

#### Recognition of Land and Buildings

During the audit cycle, inconsistencies were noted between agencies in recognising land and buildings which have the potential to reduce the usefulness of financial reporting, especially in assessing financial performance and asset management practices.

#### *Departments*

In recognition of the difficulties to be faced by departments in identifying and valuing land and buildings when introducing accrual reporting, Accounting Standards and Treasurer's Instructions included transitional provisions. These provisions allowed departments to exclude such assets from financial statements until the 1997–98 year.

Most departments have included all assets they control in their statements although residual matters requiring attention include:

- Parliament House and other parliamentary buildings which have not been valued and/or for which control has not been established; and
- The process of identification and recognition of Crown land where no agency controls the land has not yet been completed. Any Crown land not controlled by an agency must be identified and recognised by the Department of Land Administration in its Statement of Financial Position for the year ended June 30, 1998. It has been indicated by the Department that this could result in the additional recognition of up to 67 000 parcels of land valued at approximately \$2 billion. The Department has a project in place to resolve this matter by June 30, 1998.

These issues will need to be carefully managed to an acceptable conclusion by departments to avoid a potential audit opinion qualification on their financial statements for 1997–98.

### *Statutory Authorities*

Statutory authorities have reported on an accrual basis for many years and a large number of authorities continue to recognise land and buildings at historical cost. This has resulted in authorities' financial statements not always including values for land and buildings due to instances of:

- assets having been acquired at no cost and in consequence not being recognised when statements are prepared on a historical cost basis; and
- an authority may use (control) an asset, however "ownership" may be vested in a Minister or recorded in another agency's name.

These issues are illustrated by the following examples:

- Western Australian Government Railways Commission: Crown land with a value of approximately \$108 million has not been recognised. The Commission has advised that its asset ledger does not include any record of, or value for Crown land because it has not purchased this land and any sales of Crown land are credited directly to the State Consolidated Fund.
- Western Australian Fire Brigades Board: The Board has similarly not recognised land of \$7.77 million as these assets have not been acquired by the Board and are subject to conditions imposed externally upon disposal.

### Valuation of Land and Buildings

With the application of AAS 29, many departments needed to obtain valuations of land and buildings. During the 1996–97 audit cycle, it was identified that most land and buildings had been valued at kerbside valuation which is based on external inspections. However, some land and buildings were valued at a lower level desktop valuation, which is based on records only. These valuations need to be upgraded to ensure properties are accurately reported.

### Heritage and Cultural Assets

Assets of a heritage or cultural nature, such as museum and art collections, are one of the most difficult types of assets to value and traditionally these assets have not been recognised in financial statements. To assist agencies, the Valuer General's Office has issued guidelines for the valuation of such assets which have been endorsed by Treasury and are consistent with accounting standards.

*Recognition and Valuation of the State's Assets (continued)*

Examples of agencies where steps need to be taken to value heritage and cultural assets are:

- The National Trust of Australia (W.A.) discloses property donated to and vested in the Trust, at nil value. Heritage artefacts, such as antique furniture, are also not recognised in the financial statements.
- The Parliamentary library collection.

These issues have been raised with relevant agencies concerned and action is being taken to resolve them.

### Recommendations

Departments and statutory authorities should:

- apply consistent criteria to recognise all controlled assets in their financial statements;
- ensure appropriate valuations are obtained for all assets; and
- ensure all controlled assets are recorded in asset records to improve asset management and enable reliable financial and economic decisions.

## Implementation of Information Technology Systems

### Key Findings

- *Increased risk of incorrect financial reporting, unauthorised transactions and system failure remains as many agencies continue to experience difficulties in implementing Financial Management Information Systems.*
- *Numerous audit adjustments and delays in financial reporting occurred as the functionality and features provided by Financial Management Information Systems were not always used to improve the efficiency and effectiveness of agencies' financial management and reporting processes.*

### Findings

Many agencies have been implementing Financial Management Information Systems (FMIS) as a result of the decision to move to accrual accounting and to cease operations of the Treasury Department operated Government Accounting System and Cheque Production Facility on July 1, 1997.

### Information System Controls

Reviews of the FMIS implementation process in 19 agencies finalised in 1996–97 resulted in around 130 issues and recommendations being raised with these agencies. It is of concern that these information technology control weaknesses remain in a significant number of agencies despite regular comment in previous management letters to agencies and reports to Parliament.

## Implementation of Information Technology Systems (continued)

A summary of the more significant findings are outlined in the table below:

Control Weaknesses Identified	Number of Agencies
<i>Security Issues</i>	
Inadequate password and user access controls	17
No monitoring of system access or detecting unauthorised access	9
No security policies, standards and procedures	10
<i>Data Integrity</i>	
No regular reviews to confirm the accuracy of key data files	11
Inadequate recording and review of financial transaction audit trails	7
Inadequate procedures to detect errors in processing or reconcile differences between key financial systems	10
Poor input controls over the completeness and accuracy of critical data	9
<i>Other</i>	
Insufficient documentation of user procedures	15
No arrangements to use suitable equipment in the event of the loss or destruction of computer facilities	8

Table 5: Instances of Control Weaknesses in Financial Management Information Systems

These weaknesses can have a major impact on the operations and financial reporting by agencies as outlined in the following case:

#### Agriculture Western Australia

Agriculture Western Australia implemented a new financial management information system effective from July 1, 1996. An audit of this system found that automated and manual controls in place were inadequate. As a consequence, the integrity of the database and information processed through the system could not be assured and the Department was not able to produce reliable and accurate financial statements.

Due to the significance of these issues, the Department received an adverse audit opinion on controls and it was not possible to form an opinion on the financial statements. In consequence, a disclaimer of opinion was issued.

Specific IT related control weaknesses included:

- data transferred to the new FMIS did not agree with the data from the previous system;

- controls over the creation and authorisation of new creditors were inadequate and resulted in duplicate vendors being created. As a result overpayments of \$564 235 were refunded to the Department for the six months to December 31, 1996 and a review initiated by the agency identified further overpayments totalling \$73 486;
- inadequate security, user access controls and monitoring procedures resulted in the Department not being able to monitor system security or track user access;
- system reporting did not meet the needs of users. System reports requested for audit purposes were either inaccurate, inconsistent, or in some cases, could not be produced by Departmental staff; and
- computer response times were slow, up to 45 minutes per transaction, resulting in inefficient processing of transactions.

### Functionality and Use of FMIS

Around 45 per cent of the agencies reviewed were using their FMIS to record and report on a cash basis as they had only implemented the general ledger and accounts payment modules of their FMIS. In some cases, this was done to meet timeframes for the closure of the Government Accounting System. Modules for areas such as journals, assets and purchasing which would assist in improving the accuracy and timeliness of financial reporting were not in place. This resulted in:

- accrual figures being produced via manual records and spreadsheets which resulted in errors and substantial effort to produce accrual information; and
- supplementary accounting records such as asset and debtor records being maintained, which often resulted in reconciliation problems and inadequate records.

### Recommendations

Agencies should:

- ensure their financial management information systems have effective controls in place to assure complete and accurate processing of transactions and financial reporting; and
- progress the implementation and functionality of financial management information systems to improve the timeliness and reliability of periodic and annual financial reporting.

# Consolidated Financial Statements

## of the State of Western Australia

### Key Findings

- *The preparation of, and request for an audit to be undertaken on the Consolidated Financial Statements is a significant development to improve accountability for the State's financial operations and complements recent initiatives such as accrual reporting by departments.*
- *An unqualified opinion was issued on the Consolidated Financial Statements for 1996–97 following the first audit undertaken on these statements.*
- *The statements show an operating surplus, before abnormal and extraordinary items, of \$458 million compared with \$760 million for 1995–96. The State's net assets were \$33 762 comprising total assets of \$54 363 million and liabilities of \$20 601 million.*
- *Unfunded superannuation liabilities of \$4 970 million, which represent a significant portion of total liabilities, are projected to increase as the overall liability is not being concurrently funded.*

### Background

The 1996–97 statements, which are a consolidation of all agencies controlled by the Government with adjustments made to cover matters such as double recording of intra agency transactions and different accounting policies, were subject to audit for the first time. Treasury have prepared consolidated statements for the past four years and the 1995–96 statements were subject to a limited scope audit review as a developmental approach.

The statements are prepared in accordance with a new Australian Accounting Standard (AAS 31) 'Financial Reporting by Governments' which is to come into force in mid 1999. There is no legal requirement under the *FAAA* for these statements to be prepared and the audit was conducted at the request of the Treasurer.

### Commentary

#### Results of the Audit

The Consolidated Financial Statements received an unqualified audit opinion. Comparative figures for 1995–96 have been included, however these figures were not audited although a comprehensive review of the 1995–96 statements was undertaken which provided assurance as to the accuracy of the opening balances at July 1, 1996.

The 1995–96 comparative figures vary from the published 1995–96 statements as a result of a number of changes in accounting policy and treatment. The more significant of these were the increases in building and infrastructure assets (\$6.5 billion) to recognise revaluations, and the inclusion of land under roads at the valuation recorded by Main Roads Western Australia (\$3.4 billion).

## Summary of Key Financial Results

### *Consolidated Operating Statement*

The operating surplus, before abnormal and extraordinary items, was \$458 million (1996: \$760 million). After abnormal items, the 1996–97 surplus was \$393 million compared with \$1 343 million for 1995–96 which included an extraordinary, or one off gain of \$606 million relating to the sale of BankWest.

Abnormal items for 1996–97 were due to the recognition of unbilled water revenue for the first time by the Water Corporation (\$25 million) and the recognition of a 10 per cent prudential margin by the Insurance Commission of Western Australia (formerly the State Government Insurance Commission) to give greater certainty as to the adequacy of the provision for claims expenses (\$64 million). Other abnormal items included the transfer of roads from Local Government (\$22 million) and the vesting of land and associated improvements held by the East Perth Redevelopment Authority to the City of Perth (\$48 million).

A summary of operating results for the past two years is shown below:

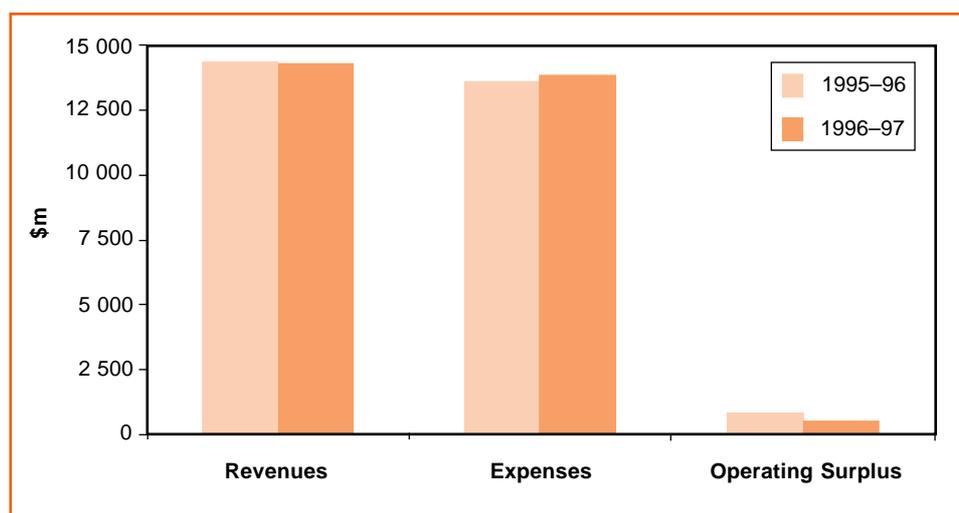


Figure 2: Consolidated Operating Results for the financial years 1995–96 and 1996–97

Note: The 1995–96 figures are not audited

Total revenues (excluding abnormal items) were \$68 million less than 1995–96 mainly due to a decrease in interest revenue which was only partially offset by increases in State taxation revenues. Expenses increased by \$234 million mainly due to an increase in superannuation expenses.

*Consolidated Statement of Financial Position*

At June 30, 1997 the State’s net assets were \$33 762 million with reported assets of \$54 363 million (1996: \$50 412 million) and liabilities of \$20 601 million (1996: \$19 725 million). This is outlined in the following figure:

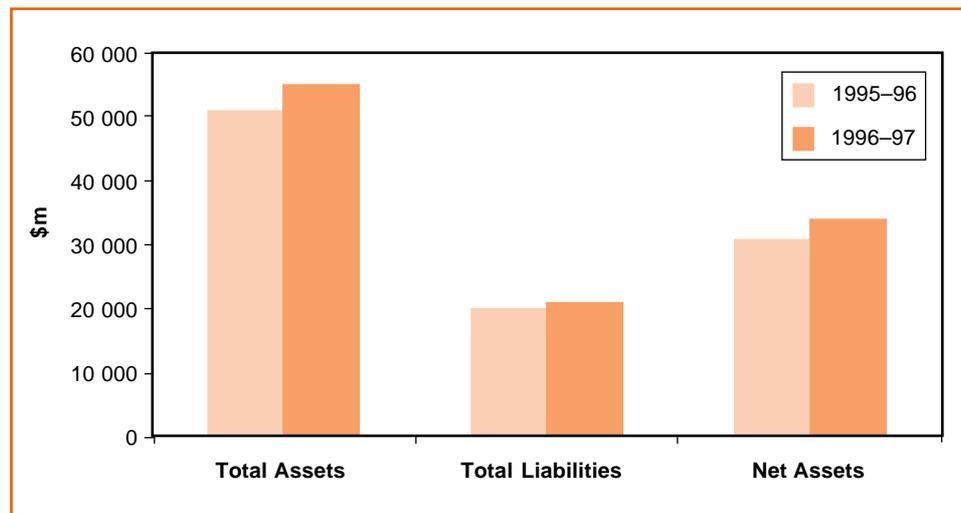


Figure 3: Financial Position of the State of Western Australia at June 30, 1996 and 1997  
 Note: The 1996 figures are not audited

Non-current asset holdings such as land, buildings and infrastructure assets made up 78 per cent of the State’s total asset holdings of \$54 363 million.

Land, buildings and infrastructure assets increased by \$3 489 million, mainly due to refinements in the valuations of land and buildings and an increase in infrastructure assets and assets under construction. Most of the State’s physical assets are now valued and recognised. Exceptions are:

- plantations and forests for which no valuation has been made pending the development of an appropriate accounting standard; and
- certain heritage and cultural assets such as museum collections.

Total liabilities of \$20 601 million are made up primarily of borrowings (60 per cent) and employee entitlements (30 per cent) which largely comprise superannuation liabilities of \$4 970 million (1996: \$4 769 million). The increase in liabilities of \$876 million was mainly due to:

- increases in gross borrowings by \$603 million to \$12 377 million. After allowing for financial assets such as cash and deposits, net debt at June 30, 1997 was reported at \$6 991 million (1996: \$6 758 million) (*Source: Analytical Information in Support of The Treasurer's Annual Statements 1996-97*); and
- an increase in superannuation liabilities of \$201 million. A summary of the unfunded superannuation liabilities over the past five years is shown in the following figure.

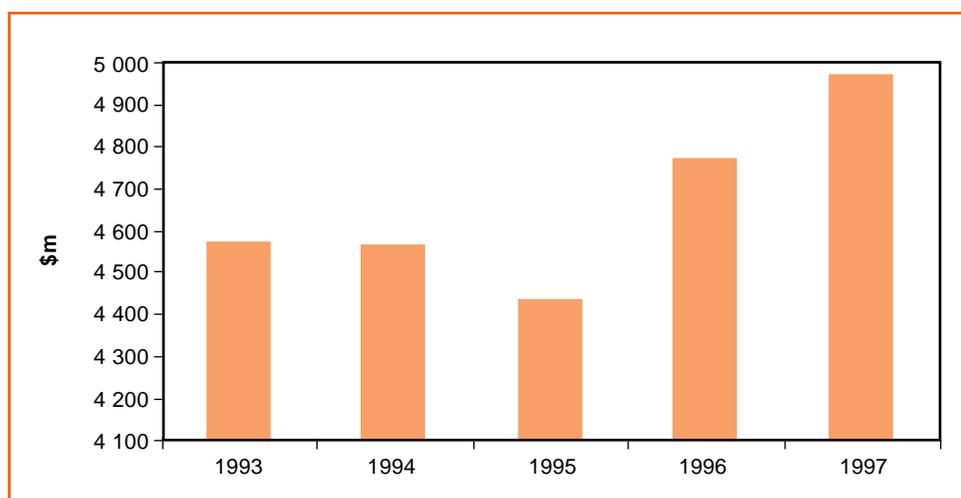


Figure 4: Total Unfunded Superannuation liabilities as published in the Analytical Information in Support of the Treasurer's Annual Statements 1996-97

Source: Treasury Department November 1997

As shown above, the total unfunded superannuation liability has increased from \$4 571 million in 1993 to \$4 970 million. The Government has commenced funding this liability and provided a sum of \$20 million in the 1997-98 budget. Treasury have projected that amounts building up to \$10 million per annum in excess of amounts required to concurrently fund the scheme, are required on an ongoing basis, to extinguish this liability by about the year 2024.

## Future Developments and Issues

### Basis of Consolidation

Australian Accounting Standard 31 'Financial Reporting by Governments' includes the criteria by which Governments control agencies and should be included in the Consolidated Financial Statements. These criteria include:

- the entity is accountable to Parliament, or to the Executive or to a particular Minister; and
- the Government has a residual interest in the net assets of the entity.

As is detailed in the statements, ten agencies which hold funds that cannot be used by the Government (such as superannuation agencies which collect and invest members contributions) are not consolidated. Local Government agencies are also not consolidated.

These principles of control raise a number of issues which need to be considered, including inconsistencies between different States as to which types of agencies are consolidated. As an example, the Universities are consolidated in Western Australia whereas they are not included in Victoria and New South Wales. As other States and the Commonwealth adopt this Standard, the control criteria will need to be revisited to ensure consistency in reporting.

### Preparing and Auditing the Consolidated Financial Statements

A number of issues were identified during the audit which impacted on the preparation and timeliness of these statements. With Treasury moving towards preparing consolidated statements on a quarterly, and monthly basis, agencies and Treasury will need to address the following matters to ensure timely and reliable reporting.

#### *Accuracy of Reporting by Agencies*

To prepare the consolidated statements, Treasury require information returns by August 31. These returns are in addition to the annual financial statements of agencies required by the *FAAA* which are audited separately.

The accuracy of the consolidation returns used as the basis for the preparation of the consolidated statements needs to be improved. Around 44 per cent of these returns differed from the final audited figures. Other problems identified during the audit included:

- difficulties experienced in isolating inter agency transactions, such as vehicle licensing, water and power costs which need to be eliminated for consolidation purposes. The accounting systems in place did not easily identify these type of transactions;

- an absence of and/or poor quality of agency working papers which did not provide a sufficient audit trail to verify the figures provided to Treasury; and
- agencies' charts of accounts not being established to allow Treasury requirements to be readily obtained. With the move towards more regular reporting, this issue will need to be overcome to allow for more efficient and timely reporting.

*Timeliness of Reporting*

Agencies are not meeting the timeframes for the completion of the consolidated returns as outlined in the following figure.

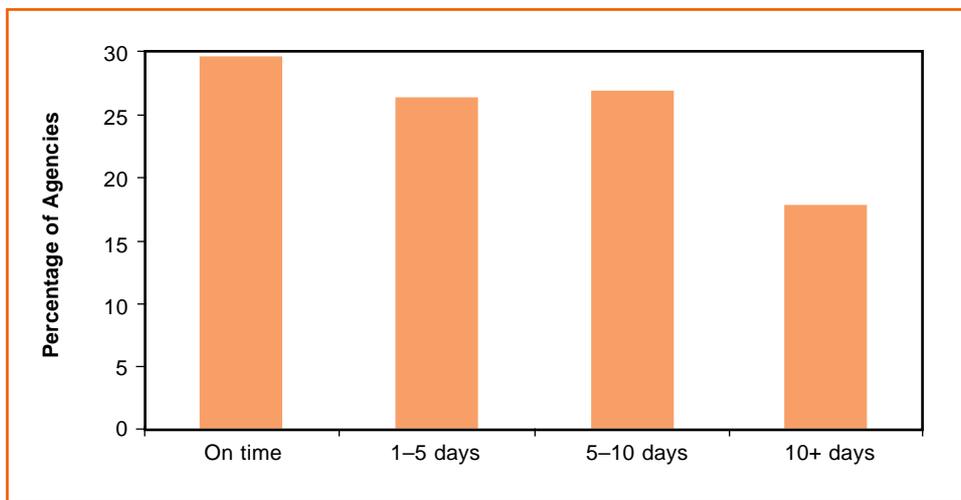


Figure 5: Timeliness of Consolidation Returns

In addition, many large agencies are not submitting annual financial statements for audit on a timely basis as outlined in the Timeliness and Quality of Reporting section of this Report (page 5). This delays the completion of those annual audits and consequently the verification of figures submitted in the consolidation returns.

Reductions in the time taken to prepare the consolidated statements and subsequent issue of the audit opinion will require agencies to improve both the accuracy and timeliness of their financial reporting.

**Recommendation**

Treasury and agencies work together to identify means of improving the timeliness and quality of financial information.

## Summary of the

# Results of Agency Audits

This section outlines the results of routine audits of government agencies and other entities which are reported under the following categories:

### THE LEGISLATURE

The five parliamentary departments comprising the Legislature are included in this section.

### MINISTERIAL PORTFOLIOS

The ongoing operations of the public sector are administered by the Government of the day by assigning responsibility for the control of government agencies to individual Ministers. Consistent with this structure, the results of audits are reported on a Ministerial Portfolio basis.

Audits of the 107 agencies in the Health Sector are to be reported separately in a forthcoming report.

Audits of subsidiary bodies conducted under Corporations Law are listed with the related agency, while audits conducted under the Cemeteries Act are reported to the Minister for Local Government and are listed with that portfolio.

### REQUEST AUDITS

This section contains the results of audits requested by the Treasurer under section 78 of the *FAAA*.

#### *Reporting Structure*

Audit results are reported as follows:

- A table indicating for each agency audited the type of opinion issued (qualified or unqualified) for both its financial statements and controls and performance indicators and the issue date.\*

*\* Unless otherwise noted, audit opinions issued relate to the audit period July 1, 1996 to June 30, 1997. Where relevant, performance indicator audit opinions are issued on the same date as the financial statement audit opinions. Performance indicators are only required for agencies reporting under the *FAAA*. In the table a ✓ denotes an unqualified opinion, while N/A means that performance indicators are not required to be submitted.*

- Reasons for Qualified Audit Opinions
- Other Significant Issues which includes a commentary on any major financial issues which occurred during the year as well as significant control and accountability issues which warrant reporting to Parliament. Matters reported in previous Reports to Parliament which are still outstanding are also commented on in this section.

## Parliamentary Departments

### Audit Opinions

	Financial Statements and Controls	Performance Indicators	Date Opinion Issued
Administration of the Joint House Committee	✓	Not Submitted	30/10/97
Administration of the Joint Library Committee	✓	Not Submitted	30/10/97
Administration of the Joint Printing Committee	✓	Not Submitted	30/10/97
Administration of the Legislative Assembly	✓	Not Submitted	30/10/97
Administration of the Legislative Council	✓	Not Submitted	30/10/97

### Other Significant Issues

#### Performance Indicators

As in previous years, the five Parliamentary Departments did not submit performance indicators.

#### Recognition of Assets

Parliament House, other buildings used for parliamentary purposes and the Parliamentary library have not been recognised in the financial statements as issues associated with control over these assets and/or valuations have not been resolved. These assets will need to be valued and recorded in the 1997–98 financial statements to comply with accounting standards.

## Premier; Treasurer; Minister for Public Sector Management; Federal Affairs

### Audit Opinions

	Financial Statements and Controls	Performance Indicators	Date Opinion Issued
Anti Corruption Commission	✓	✓	30/10/97
Gold Corporation	✓	✓	06/11/97
Subsidiaries:			
Gold Corporation (Lanka) Pty Ltd	✓	N/A	06/11/97
WA Mint Pty Ltd	✓	N/A	06/11/97
Governor's Establishment	✓	✓	15/10/97
Ministry of the Premier and Cabinet	Qualification	✓	15/10/97
Office of the Public Sector Standards Commissioner	✓	✓	29/08/97
Parliamentary Commissioner for Administrative Investigations	✓	✓	31/10/97
Parliamentary Superannuation Board	✓	✓	15/10/97
R&I Holdings (1/10/96-30/9/97)	✓	✓	27/02/98
Treasurer's Annual Statements	✓	N/A	17/10/97
Treasury Department	Qualification	✓	10/10/97
Western Australian Treasury Corporation	✓	✓	09/09/97

### Reasons for Qualified Audit Opinions

#### Ministry of the Premier and Cabinet and Treasury Department

##### *Recognition of Revenue*

The audit opinions were qualified for the recognition of revenue in the Operating Statement in accordance with a Treasurer's Instruction which modified AAS 29 'Financial Reporting by Government Departments':

- Ministry of the Premier and Cabinet (\$13.677 million or 100 per cent of operating revenues); and
- Treasury Department (\$1.131 million or 100 per cent of operating revenues).

## Other Significant Issues

### Treasurer's Annual Statements

#### *Key Results*

These statements report the transactions and balances of the Consolidated Fund, Treasurer's Advance Account and the Trust Fund on a -predominantly cash basis and are designed to report actuals against budgets and balances for these funds. In general, these statements only include information for agencies operating on the Public Bank Account. Key results are:

- the Consolidated Fund operations for 1996–97 resulted in a cash financing surplus of \$0.2 million (1995–96: \$1.2 million) on expenditure transactions of \$6 987.4 million against revenue of \$6 987.6 million. This surplus is not directly comparable with the previous year due to new arrangements which commenced in 1996–97. Departments can now transfer unexpended appropriations to operating trust (bank) accounts whereas previously such amounts were recorded as unexpended and were reflected in the surplus or deficit. For 1996–97, an amount of \$35.6 million was transferred to these accounts which reduced the surplus from \$35.8 million on a comparable basis to \$0.2 million.
- the balance of the Trust Fund, which is primarily made up of operating (bank) accounts of agencies and private and Commonwealth moneys held for specific purposes, was \$939.64 million (1995-96: \$1 013.88 million), and
- the Gross Loan Liability (at face value) increased by \$281.3 million to \$1 107.3 million at June 30, 1997. Net debt after allowing for financial assets such as investments is reported at \$6 991 million (1996: \$6 758 million).  
*(Source: Analytical Information in Support of The Treasurer's Annual Statements 1996–97)*

### Gold Corporation

#### *Forward Contracts*

The Corporation has entered into significant forward contracts to hedge:

- the exchange rate between the United States and Australian dollar to cover anticipated US dollar income from both the Olympic Coin Program and the sale of its proprietary products;
- the Corporation's share of estimated gold production for the next two financial years arising from its 10 per cent interest in the Kaltails Joint Venture; and

Premier; Treasurer; Minister for Public Sector  
Management; Federal Affairs (continued)

- the cost of acquiring gold and silver in relation to its involvement in the Olympic Coin Program.

At June 30, 1997, the Corporation had an unrealised loss of \$570 000 on forward foreign exchange contracts and an unrealised gain of \$840 000 on forward metal sales contracts. In addition, the Corporation had forward metal purchase contracts in place for the purchase of 45 000 ounces of gold and 775 000 ounces of silver.

### *Gold Surplus*

At June 30, 1997 the Corporation had a theoretical gold surplus of approximately 2 841 ounces (June 30, 1997 value \$1.282 million) after physical holdings had been compared to amounts recorded in the accounts. The surplus was not brought to account at balance date due to uncertainties regarding the size of the surplus.

The uncertainty arises because 1 061 ounces of the surplus relates to assays of sweeps in the Refinery and these assays are subject to some variability. The reason for the remaining surplus of 1 780 ounces could not be determined at the time of the stocktake, but the Corporation believes it was probably the result of timing differences.

Management has indicated that future quarterly stocktakes and reconciliations will be monitored and confirmed surpluses will be brought to account in accordance with normal practice. This is considered an appropriate approach to resolving this anomaly.

### *Gold Loan*

At balance date there was a shortfall of approximately \$3 million in security over a gold loan to an overseas entity. The entity had been meeting its obligations in respect to the loan and the Corporation was in ongoing negotiations to obtain additional security over the loan or reach a commercial settlement. The shortfall has now been fully reimbursed by the Corporation's insurers.

## Deputy Premier; Minister for Commerce and Trade; Regional Development; Small Business

### Audit Opinions

	Financial Statements and Controls	Performance Indicators	Date Opinion Issued
Department of Commerce and Trade	✓	✓	15/10/97
Gascoyne Development Commission	✓	✓	26/11/97
Goldfields Esperance Development Commission	✓	Qualification	31/10/97
Great Southern Development Commission	Qualification	Qualification	28/11/97
Kimberley Development Commission	✓	✓	28/11/97
Mid West Development Commission	✓	✓	10/10/97
Peel Development Commission	✓	✓	31/10/97
Perth International Centre for Application of Solar Energy	✓	✓	28/11/97
Pilbara Development Commission	✓	✓	31/10/97
Small Business Development Corporation	✓	✓	26/09/97
South West Development Commission	✓	✓	26/11/97
Wheatbelt Development Commission	✓	Qualification	31/10/97

### Reason for Qualified Audit Opinions

#### Great Southern Development Commission

##### *Operation of Bank Account*

The Commission's audit opinion was qualified as bank accounts opened by Commission staff in 1993 and 1994 did not have the approval of the Treasurer as required by the *FAAA*. Transactions made through these bank accounts, which were not in the name of the Commission, were not recorded in the accounts of the Commission and were not subject to its internal control systems.

As disclosed in the Commission's statements, funds totalling \$138 793 were misappropriated from these accounts. Amounts totalling \$42 310 were recovered.

Deputy Premier; Minister for Commerce and Trade;  
Regional Development; Small Business (continued)

## Goldfields Esperance and Great Southern Development Commissions

### *Performance Indicators*

Measures for the effectiveness indicator showing how the Commissions contributed to economic and social development in the region were not reported. The Commissions propose to conduct a client survey in 1997–98 to enable appropriate measures to be reported.

## Wheatbelt Development Commission

### *Performance Indicators*

Efficiency indicator measures were not reported as systems had not been in place for a sufficient period to allow for complete data to be reported.

## Minister for Resources Development; Energy; Education; Leader of the House in the Legislative Assembly

### Audit Opinions

	Financial Statements and Controls	Performance Indicators	Date Opinion Issued
Country High School Hostels Authority	✓	✓	29/10/97
Department of Education Services	✓	Qualification	02/09/97
Department of Resources Development	Qualification	✓	15/10/97
Department of the Curriculum Council of Western Australia	✓	✓	25/09/97
Education Department of Western Australia	✓	✓	28/11/97
Electricity Corporation	✓	N/A	23/07/97
Gas Corporation	✓	N/A	25/07/97
Office of Energy	✓	Qualification	30/09/97
Secondary Education Authority	✓	✓	29/10/97
Trustees of the Public Education Endowment	✓	✓	15/08/97

### Reason for Qualified Audit Opinions

#### Department of Education Services

##### *Performance Indicators*

An efficiency indicator for the provision of policy advice to the Minister was not reported as the necessary information system was still under development during 1996–97. This was the first year of operations for the Department.

#### Department of Resources Development

##### *Recognition of Revenue*

The audit opinion was qualified for the recognition of revenues totalling \$1.692 million (100 per cent of operating revenues) in the Operating Statement in accordance with a Treasurer's Instruction which modified AAS 29 'Financial Reporting by Government Departments'.

Minister for Resources Development; Energy; Education;  
Leader of the House in the Legislative Assembly (continued)

## Office of Energy

### *Performance Indicators*

The measures reported for the effectiveness indicators 'Electricity Generated and Gas Transported by Private Participants' are strategies employed by the Office rather than measures relating to the achievement of the Office's objective.

## Other Significant Issues

### Education Department of Western Australia

#### *Schools Rationalisation Trust Account*

A review of the operation of the Schools Rationalisation Trust Account was conducted in 1997. This account is used to hold funds generated from the sale (excision) of surplus land and from the amalgamation of schools. The Department of Land Administration (DOLA) undertakes sales of land on behalf of the Education Department. The Trust provisions specify the types of expenditure which may be funded from the Trust Account, which includes expenses associated with land sales and school amalgamations. In 1996–97, revenue totalling \$7 million was credited to the account, while payments totalled \$4.9 million.

The review identified a number of errors totalling approximately \$187 000 where sale proceeds were not credited to the Trust Account. This occurred due to proceeds being credited to incorrect accounts and differences between DOLA's and Education Department's records. In addition, a number of payments examined were contrary to the trust provisions, including expenses not associated with rationalisation activities.

Recommendations were made covering the accounting for sale proceeds and amendments to the Trust provisions. The Department has advised these matters have been addressed.

#### *Asset Register*

The asset register for Central and District Offices was not updated to record asset disposals in a timely manner, with many disposals only being updated at the time of the annual stocktake. Of disposals totalling \$2 million (original cost), only \$468 000 was recorded in the register at the time of disposal. In addition, the 1996–97 stocktake had not been finalised at October 31, 1997.

Consequently, the asset register did not accurately reflect asset holdings and the Department was exposed to potential misappropriation of assets. Recommendations made regarding the prompt updating of the asset register and timely completion of the annual stocktake have been accepted by the Department.

## Minister for Primary Industry; Fisheries

### Audit Opinions

	Financial Statements and Controls	Performance Indicators	Date Opinion Issued
Agricultural Practices Board of Western Australia	Not submitted	Not submitted	11/11/97
Agriculture Western Australia	Qualification	✓	28/10/97
Dairy Industry Authority of Western Australia	✓	✓	10/10/97
Dried Fruits Board	✓	Qualification	18/11/97
Fisheries Department	✓	✓	30/10/97
Herd Improvement Service of Western Australia	✓	✓	14/10/97
Horticultural Produce Commission	✓	Qualification	30/10/97
Landcare Trust	✓	Not submitted	31/10/97
Perth Market Authority	✓	✓	19/09/97
Potato Marketing Corporation of Western Australia	✓	✓	04/11/97
Rural Adjustment and Finance Corporation of Western Australia	✓	✓	24/11/97
The Agriculture Protection Board of Western Australia	Qualification	Qualification	16/12/97
The Carnarvon Banana Industry Compensation Committee	✓	Qualification	17/10/97
The Fruit Growing Industry Trust Fund Committee (1/7/96 to 1/9/96: Final Audit)	✓	Not submitted	15/10/97
The Grain Pool of W.A. (1/11/96 to 31/10/97)	✓	✓	19/12/97
<i>Subsidiary:</i> AgraCorp Pty Ltd (1/10/96 to 31/10/97)	✓	N/A	19/12/97
The Potato Growing Industry Trust Fund Advisory Committee	✓	Qualification	29/10/97
The Poultry Industry Trust Fund Committee (1/8/96 to 31/7/97)	✓	✓	17/10/97
The Western Australian Egg Marketing Board	✓	✓	30/09/97
Western Australian Meat Commission (4/3/95 to 30/7/97: Final Audit)	✓	✓	29/08/97
Western Australian Meat Industry Authority	✓	✓	17/10/97
Western Australian Meat Marketing Corporation	✓	✓	17/10/97

Minister for Primary Industry; Fisheries  
(continued)

## Reasons for Qualified Audit Opinions

### Agriculture Western Australia

#### *Disclaimer of Opinion on Financial Statements and Adverse Opinion on Controls*

An opinion could not be formed on the financial statements and an adverse opinion was issued on controls as the audit identified significant control weaknesses over Agriculture Western Australia's financial management information system, fixed assets, receipting and banking, accounts receivable, expenditure/payroll and trust accounts. These weaknesses resulted in the accounting records and financial statements being incomplete and inaccurate.

The agency recognised these system deficiencies and internal control problems and the certification signed by the Chief Executive Officer and Principal Accounting Officer was qualified for any financial effects on the statements and internal controls.

### Dried Fruits Board

#### *Performance Indicators*

The effectiveness indicators reported by the Board were workload and lists of activities and not key indicators of effectiveness.

### Horticultural Produce Commission

#### *Performance Indicators*

The performance indicators of the Commission were qualified as they related to workload matters and were not indicators of the efficiency and effectiveness of the Commission.

### The Agriculture Protection Board of Western Australia

#### *Disclaimer of Opinion on Financial Statements and Adverse Opinion on Controls*

Agriculture Western Australia provides the accounting function and prepares the financial statements for the Board under a bureau service arrangement. As a result of the weaknesses outlined under Agriculture Western Australia, the audit opinion on the Board's financial statements and controls was also qualified.

In the statement of certification attached to the financial statements, the Board stated it was unable to certify that the financial statements had been prepared in compliance with the *FAAA*.

*Performance Indicators*

An opinion could not be formed on one of the Board's efficiency indicators as the financial data used could not be relied upon due to system deficiencies.

*The Carnarvon Banana Industry Compensation Committee**Performance Indicators*

The Committee's effectiveness indicators were not quantified while the efficiency indicators reported were lists of activities rather than key indicators of efficiency.

*The Potato Growing Industry Trust Fund Advisory Committee**Performance Indicators*

The measure reported for the Committee's effectiveness indicator showing the benefits generated to the potato growing industry is not appropriate as the benefits were not quantified.

**Other Significant Issues***Agricultural Practices Board of Western Australia**Financial Statements and Performance Indicators*

Financial statements and performance indicators were not submitted as the Board did not conduct any operations for the year.

*Agriculture Western Australia*

As outlined previously, an opinion could not be formed on the financial statements and an adverse opinion was issued on controls due to significant control weaknesses. The original statements submitted for audit were not supported by adequate working papers and the supporting trial balance did not reconcile by \$34.3 million. Four different versions were subsequently submitted, with substantial changes of \$29.7 million being made to the reported figures in the Operating Statement and Statement of Financial Position.

A summary of significant weaknesses identified in Agriculture Western Australia's internal control structure, primarily resulting from the implementation of a financial management information system, is outlined over:

Minister for Primary Industry; Fisheries  
(continued)

### *Financial Management Information System*

The audit of this system found that manual and automated controls were inadequate and compromised the validity, completeness and accuracy of data. As a result, no assurance could be placed on the integrity of the information processed through the system or on the database. The following critical weaknesses were identified:

#### ■ Computer Security and Access Controls

A number of security issues were identified which resulted in concerns over the integrity of transactions. These included:

- staff having both data input and approval access which allows them to approve their own input;
- an audit trail feature of the system which assists in ensuring only authorised transactions are processed had not been implemented;
- lack of system reports to monitor security and user access;
- the system defaulting to approve payments in some circumstances without requiring approval by an authorising officer; and
- a security policy had not been issued and supporting security standards and procedures had not been established.

#### ■ Data Take-up

Information and balances transferred to the new system did not always agree with the previous system.

#### ■ Creditors: Vendor File Maintenance

Duplicate vendors were created as authorisation to create new vendors is not required, while all staff with access to the accounts payable module could also create new vendors. This, and other control weaknesses, resulted in overpayments being made. For the six months to December 31, 1996, overpayments totalling \$564 235 were refunded to Agriculture Western Australia and a review initiated by the agency identified further overpayments totalling \$73 486.

These weaknesses over the accounts payable system also resulted in uncertainty over the reported balance of \$3.56 million for accounts payable at June 30.

#### ■ System Reporting

Reports available from the system are limited while other reports showed inconsistent results. In addition, aged debtor reports were not produced during the year resulting in outstanding debts (reported as \$2.5 million at June 30) not being followed up.

*Other System Issues and Control Weaknesses*

Revenue collections and invoice (debtor) details were not processed for several months due to delays in implementing the accounts receivable module. During this period all revenues collected were posted to a suspense account. At June 30, 1997, unidentified collections in this account totalled \$913 309.

**■ Reconciliations**

Key reconciliations to ensure financial data is completely and accurately processed were not undertaken on a regular basis and resulted in uncertainty as to whether figures reported in the financial statements were correct. These included:

- reconciliations not being completed on a monthly basis between expenditure recorded in Agriculture Western Australia's system and Treasury's system. At June 30, 1997 there was an unreconciled variance of \$2.004 million;
- reconciliations of cash balances (reported as \$21.635 million at June 30) between Agriculture Western Australia's system and Treasury records were not completed at year end. Adjustments were made, without supports, to balance to Treasury figures; and
- reconciliations between the accounts receivable system and the general ledger not being undertaken.

**■ Fixed Assets**

The audit opinion on financial statements was qualified in the previous year due to problems associated with controls over assets and the maintenance of records. Weaknesses identified during the current audit included:

- lack of an appropriate asset register;
- inadequate procedures to record asset purchases and disposals and reconcile to the general ledger;
- stocktakes not being completed; and
- land valued at cost which may not represent the current value.

As a result, it could not be determined if the reported balance of \$21.966 million at June 30 for fixed assets was fairly presented.

**■ Other Matters**

Various other weaknesses were also identified including:

- the payroll not being certified during the year and leave records not being properly maintained; and
- stocktake procedures for inventories not being adequate.

Minister for Primary Industry; Fisheries  
(continued)

### *Management Action*

Agriculture Western Australia identified a number of deficiencies with the financial management information system and has implemented plans to address these, as well as the additional weaknesses identified during the audit. The agency has advised that substantial progress has been made to resolve these matters and urgent effort is continuing to address the outstanding tasks.

### Landcare Trust

#### *Performance Indicators*

As in 1995–96, the Trust did not submit performance indicators.

### The Agriculture Protection Board of Western Australia

The system weaknesses identified for Agriculture Western Australia also affected the accounts and records of the Board as that agency provides the accounting function. In addition, an agreement was made with Agriculture Western Australia to provide an internal audit function for the Board in 1996–97. It was noted that the Board's internal audit committee did not meet regularly during the year and although no specific internal audit work was undertaken, the Board's transactions were reviewed during the internal audit of Agriculture Western Australia's systems and procedures.

### The Fruit Growing Industry Trust Fund Committee

#### *Performance Indicators*

The Committee did not submit performance indicators due to the repeal of The Fruit Growing Industry (Trust Fund) Act on September 1, 1996.

## Minister for Mines; Tourism; Sport and Recreation; Leader of the Government in the Legislative Council

### Audit Opinions

	Financial Statements and Controls	Performance Indicators	Date Opinion Issued
Chemistry Centre (WA)	✓	✓	15/08/97
Coal Industry Superannuation Board	✓	✓	14/11/97
Coal Mines Accident Relief Trust Fund	✓	Qualification	29/08/97
Department of Minerals and Energy	✓	✓	19/09/97
Minerals and Energy Research Institute of Western Australia	✓	✓	25/11/97
Ministry of Sport and Recreation	✓	✓	15/09/97
Recreation Camps and Reserve Board	✓	✓	15/09/97
Rottneest Island Authority	✓	Qualification	28/11/97
The Coal Miner's Welfare Board of Western Australia	✓	✓	28/10/97
Western Australian Boxing Commission	✓	✓	15/09/97
Western Australian Institute of Sport	✓	✓	15/09/97
Western Australian Sports Centre Trust	✓	✓	15/10/97
Western Australian Tourism Commission	✓	✓	28/11/97
<i>Subsidiary:</i> Rally Australia Management Limited	✓	N/A	08/01/98

### Reason for Qualified Audit Opinions

#### Coal Mines Accident Relief Trust Fund

##### *Performance Indicators*

The indicators reported were mainly internal workload or operational matters which do not show the efficiency and effectiveness of the Trust.

Minister for Mines; Tourism; Sport and Recreation; Leader of the Government in the Legislative Council (continued)

## Rottnest Island Authority

### *Performance Indicators*

Effectiveness indicator measures for the 'Conservation of the Natural Environment' objective are still being developed while an efficiency indicator for the objective of 'Preservation of the Island's Heritage' has not been reported.

Further development and measurement of these indicators is being undertaken in 1997–98.

## Other Significant Issues

### Western Australian Tourism Commission

#### *Abnormal Expense*

The Commission's Operating Statement includes an abnormal expense of \$1.7 million for a provision against a loan for this amount to the Hotham Valley Tourist Railway (HVTR). At June 30, 1996 the borrowings totalled \$1.2 million and during the year a further \$250 000 was advanced by the Commission and a further \$244 000 was paid by the Commission to a third party on behalf of HVTR in accordance with a guarantee.

Although HVTR met its repayment obligations during the year, the Commission considered it prudent to make full provision for the loan.

#### *Events Projects*

In the Second General Report for 1996, findings and recommendations resulting from a review of the Commission's Events Projects were reported. Follow up work done on these recommendations confirmed the following:

- feasibility studies were conducted on all projects commenced in 1996–97;
- the Commission has been in consultation with the Crown Solicitor's Office to ensure contracts protect the interests of the Commission. All new contracts are reviewed by the Crown Solicitor prior to the execution of the contract;
- the Commission is currently in consultation with the State Supply Commission in relation to the formalisation of its policies with regard to sponsorships; and
- all purchasing transactions in excess of \$50 000 will be referred to the State Supply Commission in future.

## Minister for Transport

### Audit Opinions

	Financial Statements and Controls	Performance Indicators	Date Opinion Issued
Albany Port Authority	✓	✓	15/09/97
Bunbury Port Authority	✓	✓	08/08/97
Commissioner of Main Roads	✓	✓	03/10/97
<i>Subsidiaries:</i>			
Tarolinta Pty Ltd	✓	N/A	13/08/97
The Aberdeen Unit Trust	✓	N/A	13/08/97
Dampier Port Authority	✓	✓	30/09/97
Department of Transport	Qualification	✓	14/11/97
Esperance Port Authority	✓	✓	03/10/97
Fremantle Port Authority	✓	✓	19/09/97
Geraldton Port Authority	✓	✓	02/10/97
Metropolitan (Perth) Passenger Transport Trust	✓	✓	29/08/97
Port Hedland Port Authority	✓	✓	15/09/97
The Eastern Goldfields Transport Board	✓	Qualification	07/11/97
The Western Australian Government Railways Commission	✓	✓	15/08/97
Western Australian Coastal Shipping Commission	✓	Not Submitted	28/10/97

### Reason for Qualified Audit Opinions

#### Department of Transport

The audit opinion on the Department's financial statements was qualified for the following reasons:

##### *Recognition of Revenue*

The audit opinion was qualified for the recognition of revenue totalling \$118.324 million (100 per cent of operating revenues) in the Operating Statement in accordance with a Treasurer's Instruction which modified AAS 29 "Financial Reporting by Government Departments".

### *Collection of Penalties*

A total of \$2 210 748 was written off as no action was taken to recover licence registration plates or collect penalty fees when motor vehicle licences were not renewed, as required by the *Road Traffic Act 1974*. This matter has been reported since 1993.

### The Eastern Goldfields Transport Board

#### *Performance Indicators*

The effectiveness indicators were not relevant and appropriate as they did not directly relate to the Board's primary objective of satisfying reasonable community needs.

### Other Significant Issues

#### Department of Transport

##### *Licensing System*

A review of the Department's Licensing System, which processes motor vehicle and drivers licence transactions, identified the following security issues where improvement is required to minimise data integrity risks:

- policies, standards and procedures to ensure effective controls over system and data integrity have not been established;
- effective procedures to ensure the removal of access rights for staff who have left the Department were not in place;
- personal computers connected to the system have not been configured to require a password to enter the system;
- audit log reports, which record changes and transactions processed, have not been developed to enable checks to be undertaken to ensure only authorised changes have been made; and
- monitoring of staff access levels is not undertaken.

Other matters raised in respect to this System included the lack of a detailed project plan to address the Year 2000 issue.

##### *Receipts in Suspense Trust Account*

Monitoring and reconciliation procedures for this Trust Account need improvement. At June 30, 1997, the Trust Account had a balance of \$414 688, \$59 000 of which had been held in the account for more than six months with the oldest balance dated March 1995. A similar situation existed at June 30, 1996 with a balance of \$545 000.

Management is now taking action to address these issues.

### Fremantle Port Authority and The Western Australian Government Railways Commission (Westrail)

#### *Assumption of Superannuation Liabilities*

Following restructures of these agencies, the Treasurer took over the superannuation liability for past employees of these agencies. This reduced the reported liability in these individual agencies with the amounts assumed being shown as equity contributions. Details of amounts assumed are as follows:

- Fremantle Port Authority: During the year, \$25.9 million was taken over which brought the total amount assumed to \$32 million.
- Westrail: A total of \$725.5 million was taken over which contributed to Westrail's financial position returning to a positive equity of \$131.3 million compared to an overall deficiency of \$637 million last year.

### Western Australian Coastal Shipping Commission

#### *Performance Indicators*

The Commission did not submit performance indicators for the 1996–97 year as it has been winding down its operations since 1995.

## Minister for the Environment, Employment and Training

### Audit Opinions

	Financial Statements and Controls	Performance Indicators	Date Opinion Issued
Building and Construction Industry Training Board	✓	✓	25/11/97
Department of Conservation and Land Management	✓	✓	27/08/97
Department of Environmental Protection	Qualification	✓	28/10/97
The Kings Park Board	✓	✓	23/09/97
Western Australian Department of Training	Qualification	Qualification	16/12/97
Zoological Gardens Board	✓	✓	08/10/97

### Reason for Qualified Audit Opinions

#### Department of Environmental Protection

##### *Non-Current Assets*

It could not be determined if non-current assets (\$2.6 million) and related depreciation expense (\$772 000) were fairly presented in the financial statements due to inadequate controls over the recording of asset purchases and disposals (excluding land) in the asset register and unsatisfactory stocktake and reconciliation procedures.

#### Western Australian Department of Training

##### *Comparative Figures*

In 1995–96, the Department's financial statements were qualified as it could not be determined if employee entitlements, plant, equipment and vehicles, the related depreciation expense and loss on disposal of assets were fairly presented. As a result, the 1996–97 opinion was qualified on the fair presentation of these prior year comparative figures.

### *Performance Indicators*

The opinion was qualified as the effectiveness indicator measuring module completion rates of students assessed as passed is overstated. This is due to the exclusion from the calculation of students who would previously have been assessed as failed but are now recorded as 'No assessment – studies not yet completed'.

## Other Significant Issues

### *Western Australian Department of Training*

#### *Delivery and Performance Agreements with Training Providers*

The Department is increasingly out-sourcing training and has contracts with providers totalling around \$12.5 million. Due to problems with the agreements database system and inadequate enforcement of conditions, several training providers were overpaid. From a review of contracts totalling \$221 000, instances were identified where providers had been overpaid by amounts totalling \$54 000 (including one for \$43 000).

The Department has since modified the system and taken steps to recoup these funds.

#### *Control and Compliance Issues*

The following control and compliance issues were identified during the audit:

- shortcomings in the financial management system contributed to general journal entries being either duplicated or not entered at all;
- the Department was not reconciling its general ledger to supporting records of bank accounts and asset on a regular basis during the year. The audit identified numerous errors that arose from significant restructuring during the year including errors totalling over \$1 million in the ledger that overstated the Department's cash balance. Regular reconciliations would have detected these errors thus ensuring the completeness and accuracy of accounting records; and
- during 1996–97 the Department operated two bank accounts which were not approved by the Treasurer as required by the *FAAA*.

The Department has undertaken to address these issues.

## Minister for Labour Relations; Planning; Heritage

### Audit Opinions

	Financial Statements and Controls	Performance Indicators	Date Opinion Issued
Commissioner of Workplace Agreements	✓	✓	15/10/97
Construction Industry Long Service Leave Payments Board	✓	✓	10/10/97
Department of Productivity and Labour Relations	✓	✓	06/10/97
Department of the Registrar, Western Australian Industrial Relations Commission	✓	✓	15/09/97
East Perth Redevelopment Authority	✓	✓	25/11/97
Heritage Council of Western Australia	✓	✓	07/11/97
Ministry for Planning	✓	✓	15/09/97
Subiaco Redevelopment Authority	✓	✓	25/11/97
The National Trust of Australia (W.A.)	✓	Qualification	07/11/97
Western Australian Planning Commission	✓	✓	15/09/97
Workers' Compensation and Rehabilitation Commission	✓	✓	26/11/97
WorkSafe Western Australia	Qualification	✓	14/10/97

### Reason for Qualified Audit Opinions

#### The National Trust of Australia (W.A.)

##### *Performance Indicators*

The reported indicators related to workload or internal operational matters and were not key indicators of effectiveness or efficiency.

#### WorkSafe Western Australia

##### *Recognition of Revenue*

The audit opinion was qualified for the recognition of revenue totalling \$1.254 million (100 per cent of operating revenues) in the Operating Statement in accordance with a Treasurer's Instruction which modified AAS 29 'Financial Reporting by Government Departments'.

## Other Significant Issues

### Department of Productivity and Labour Relations

#### *Issue of Indemnity*

The following 'non-standard' indemnity was issued on April 29, 1997 by a senior Departmental officer to commercial television stations:

*"On behalf of the Western Australian Government this Department undertakes to indemnify all metropolitan and regional commercial television stations in respect of all legal action taken against such television stations in relation to or arising from the screening of the Western Australian Government's campaign concerning its industrial changes."*

This indemnity was provided following a request from an organisation on behalf of the television stations. The standard warranty and indemnity form which is required by media outlets when placing such advertisements had not been provided and consequently the 'non-standard' indemnity was provided. After the issue of the 'non-standard' indemnity, a standard indemnity was also provided.

The Department received legal advice prior to offering the 'non-standard' indemnity which could not identify any possibility of legal claims under this 'non-standard' indemnity.

However, this matter raises the following control and risk issues:

- the issue of 'non-standard' indemnities at the request of third parties;
- the authority to issue indemnities by departmental officers; and
- the procedures in place to approve such indemnities without requesting industry specialist advice.

It was recommended that:

- comprehensive advice be sought where 'non-standard' indemnities and other arrangements are provided, particularly when dealing with issues having particular sensitivities; and
- all indemnities which are abnormal or extraordinary in nature should be approved in advance by the Accountable Officer and the Treasurer.

### East Perth Redevelopment Authority

#### *Extraordinary Item*

The Authority's Operating Statement includes an extraordinary item of \$47.797 million which contributed to a loss after this amount of \$37.546 million for the year. This extraordinary item related to the transfer of eight reserves to the City of Perth. Costs associated with the development of the reserves had previously been capitalised and recognised as Capital Works in Progress.

Minister for Labour Relations; Planning; Heritage  
(continued)

## Subiaco Redevelopment Authority

### *Value of Inventories*

Inventories, which consist of land held for resale and associated development expenses, totalled \$35.794 million at June 30, 1997. Current forecasts prepared by the Authority indicate that over the life of the Authority, revenue from the sale of land will be exceeded by costs incurred in relation to procurement and development of land, including costs incurred in relation to the Authority's obligation to divert the railway line and construct a tunnel.

As a consequence a provision of \$13.455 million has been recognised to write inventory down to its estimated realisable value of \$22.339 million.

## The National Trust of Australia (W.A.)

### *Valuation and Recording of Heritage Assets*

The Trust's financial statements do not include values for all properties and other heritage assets controlled by the Trust:

- Properties: the statements only record properties purchased and restoration costs incurred by the Trust which totalled \$4.4 million at June 30, 1997. Properties donated or vested in the Trust are not recognised. The Trust is currently obtaining values for all properties and should ensure this matter is finalised to enable appropriate disclosures in the 1997–98 financial statements.
- Heritage Assets: assets such as artworks, furniture and artefacts, with an estimated value of \$2 million, are also not recorded in the statements.

### *Controls Over Heritage Assets*

Weaknesses were identified in relation to the control of Trust artworks, artefacts and antique furniture. These included inadequate procedures over the recording and movement of these assets and the lack of a comprehensive stocktake.

A curator has been appointed to oversee the overall management of heritage assets and the Trust plans to resolve these issues in 1997–98.

## Attorney General; Minister for Justice; The Arts

### Audit Opinions

	Financial Statements and Controls	Performance Indicators	Date Opinion Issued
Commissioner for Equal Opportunity	Qualification	✓	15/09/97
Department for the Arts (Final Audit)	✓	✓	18/09/97
Law Reform Commission of Western Australia	Qualification	✓	28/10/97
Legal Aid Commission of Western Australia	✓	Qualification	26/11/97
Legal Contribution Trust	✓	✓	15/09/97
Legal Costs Committee	✓	✓	15/10/97
Ministry for Culture and the Arts (May 20, 1997 to June 30, 1997)	Not submitted	Not submitted	14/08/97
Ministry of Justice	Qualification	Qualification	31/10/97
Office of the Director of Public Prosecutions	✓	✓	15/09/97
Office of the Information Commissioner	✓	✓	15/08/97
Perth Theatre Trust	✓	✓	23/12/97
Public Trustee	✓	✓	26/11/97
Screen West (Inc.)	✓	✓	28/10/97
The Board of the Art Gallery of Western Australia	✓	✓	26/11/97
The Library Board of Western Australia	✓	✓	10/10/97
The Western Australian Museum	✓	✓	15/12/97
Western Australian Financial Institutions Authority	✓	✓	25/09/97

### Interim Report

#### The Western Australian Museum

An interim report was issued on November 28, 1997 as the Museum had not provided responses to requests for further information to enable the verification of the financial statements and the performance indicators. The final audit opinion was issued on December 15, 1997.

## Reason for Qualified Audit Opinions

### Commissioner for Equal Opportunity and Ministry of Justice

#### *Recognition of Revenue*

The audit opinions were qualified for the recognition of revenue in the Operating Statement in accordance with a Treasurer's Instruction which modified AAS 29 'Financial Reporting by Government Departments':

- Commissioner for Equal Opportunity (\$259 445 or 75 per cent of operating revenues); and
- Ministry of Justice (\$28.623 million or 89 per cent of operating revenues).

### Law Reform Commission of Western Australia

#### *Appointment of the Commission*

For the period July 1, 1996 to October 21, 1996 operations continued to be conducted by the Commission despite there being only one appointed member, contrary to the *Law Reform Commission Act 1972* which requires the Commission to consist of three members to enable acts or proceedings to be valid.

This situation was rectified with the appointment of two members on October 22, 1996.

### Legal Aid Commission of Western Australia

#### *Performance Indicators*

The information reported for the 'Legislative Review and Policy Development' effectiveness indicator comprised activities undertaken rather than measures of effectiveness.

### Ministry of Justice

#### *Performance Indicators*

The Ministry has made substantial progress in the development of performance indicators for its eight programs. However, it was still necessary to qualify the opinion due to the problems experienced in verifying nine of the Ministry's 42 indicators. These shortcomings included the absence of data, inappropriate measurement methods and the lack of adequate documentation to support calculations for some indicators.

## Other Significant Issues

### Legal Aid Commission of Western Australia

#### *Implementation of Financial Management Information System*

In February 1997 the Commission commenced live operations of a new financial management information system (FMIS). The FMIS consisted of two integrated components covering financial and client management.

A number of control issues were not satisfactorily addressed prior to live operations of the systems. These mainly resulted from the absence of a formally designated system owner to take full responsibility for the implementation and ongoing maintenance of the system. Significant weaknesses included:

- the absence of a formal approved security policy for computer operations;
- the absence of a reconciliation of data transferred between the two system components;
- the absence of operational and user documentation for the financial system component;
- the lack of effective segregation of duties for payments which originate through the client management system; and
- the absence of a formal service level agreement for the client management system establishing support and maintenance services standards.

The Commission is currently addressing these control shortcomings.

### Ministry for Culture and the Arts

#### *Financial Statements and Performance Indicators*

The Ministry, which was established on May 30, 1997, did not conduct financial operations during 1996–97 and was not required to submit financial statements and performance indicators.

### Perth Theatre Trust

#### *Performing Arts Shows*

As part of its activities, the Trust promotes or purchases performing arts shows (ventures). A review of the assessment, approval and contractual arrangements for nine ventures undertaken in 1996–97 identified the following issues:

- due to a downturn in the performing arts industry, the seating for several shows assessed as feasible and purchased did not reach the Trust's benchmark of 60 per cent;

Attorney General; Minister for Justice; The Arts

- Trust approval of ventures was not always formally documented; and
- formal contracts with show producers were not always finalised.

The Trust has taken action to address these issues.

## Public Trustee

### *Disaster Recovery*

The Disaster Recovery Plan for the Trust Accounting System states that the maximum acceptable recovery time in the event that the system ceases to operate is one week without causing a major disruption to the Public Trustee's operations.

However, the plan has not been tested to assess the feasibility and reliability of system recovery procedures. Further, the Public Trustee does not have adequate alternative computer hardware, either inhouse or through arrangements with another provider, if the existing computer fails. This could result in major disruptions to client services.

The Public Trustee has indicated that arrangements are being made for the availability of alternative computer hardware.

## Minister for Finance; Racing and Gaming

### Audit Opinions

	Financial Statements and Controls	Performance Indicators	Date Opinion Issued
Betting Control Board (1/8/96–31/7/97)	✓	✓	24/11/97
Gaming Commission of Western Australia	✓	✓	26/09/97
Government Employees Superannuation Board	✓	✓	27/11/97
<i>Subsidiary:</i>			
SB Investment Trust	✓	N/A	27/11/97
Lotteries Commission	✓	✓	29/08/97
Office of Racing, Gaming and Liquor	✓	Qualification	30/09/97
Racecourse Development Trust (1/8/96–31/7/97)	✓	✓	31/10/97
Racing Penalties Appeal Tribunal of Western Australia (1/8/96–31/7/97)	✓	✓	18/11/97
State Government Insurance Commission	✓	✓	28/08/97
State Government Insurance Corporation	✓	✓	28/08/97
State Revenue Department	✓	✓	01/10/97
The Burswood Park Board	✓	✓	15/09/97
Totalisator Agency Board (1/8/96–31/7/97)	✓	✓	13/10/97
Valuer General's Office	Qualification	✓	29/08/97
Western Australian Development Corporation	✓	Not Submitted	30/09/97
Western Australian Exim Corporation	✓	Not Submitted	30/09/97
Western Australian Greyhound Racing Association (1/8/96–31/7/97)	✓	✓	28/11/97

### Reason for Qualified Audit Opinions

#### Office of Racing, Gaming and Liquor

##### *Performance Indicators*

The opinion was qualified as the effectiveness indicator for the 'Liquor Licensing Court Program' was not relevant, while the 'Liquor Regulation Program' effectiveness indicator was based on incomplete records and could not be verified.

## Valuer General's Office

### *Recognition of Revenue*

The audit opinion was qualified for the recognition of revenue totalling \$3.23 million (89 per cent of operating revenues) in the Operating Statement in accordance with a Treasurer's Instruction which modified AAS 29 'Financial Reporting by Government Departments'.

## Other Significant Issues

### Government Employees Superannuation Board

#### *Reporting of Unfunded Superannuation Liabilities*

In the First General Report for 1997 (page 5), comment was made about the different amounts shown in the Consolidated Financial Statements of the State of Western Australia and the Board's financial statements for unfunded superannuation liabilities. The difference of \$449 million for the year ended June 30, 1995 was a consequence of the use of different actuarial assumptions by both the Board and the Treasury Department and reflect the different purpose of each valuation.

The Board's figure represents the Government Employees Superannuation Fund's present obligation to pay accrued member entitlements and is reported in accordance with Australian Accounting Standard AAS 25 'Financial Reporting by Superannuation Plans'. It has been determined by reference to expected future salary levels and the application of market-based, risk adjusted discount rates appropriate to the expected investment returns of the Fund and relevant actuarial assumptions.

The Treasury figure represents the net present value of the unfunded liability of Government. It has been determined by reference to suitable long term government security rates consistent with Australian Accounting Standard AAS 30 'Accounting for Employee Entitlements', expected future salary levels and other relevant actuarial assumptions.

To enhance reporting, the Board has disclosed both liability figures at June 30, 1996 in the 1996-97 statements as summarised below:

- liability for gross accrued benefits of the Fund (\$4 726 million) and the liability for accrued benefits related to contributions (\$883 million). This gives a net unfunded liability of \$3 843 million; and
- unfunded liability of the Government of \$4 607 million for Consolidated Financial Statement reporting purposes.

### *Contribution Reconciliations*

Reconciliations of employee contributions between the various superannuation systems and the general ledger were not completed on a timely basis due to delays in processing and reconciling fortnightly member contribution data.

At June 30, 1997 the fortnightly processing had only been completed to March 21, 1997 and the reconciliation of contribution postings had only been completed to January 7, 1997. Moneys received from agencies are held in a clearing account until reconciliations are finalised and only at that time can they be allocated against the appropriate superannuation scheme within the general ledger. At June 30, 1997 approximately \$37 million was in the clearing account awaiting allocation.

The matter is being addressed by the Board.

### *West State Super Scheme: Verification of Data*

The Board has been undertaking a large data verification project with agencies to confirm the data stored in the computer system in respect of the West State Super Scheme. It was originally envisaged that the project would be completed by March 1997. However, the Board is still waiting for responses from a number of agencies. This has been caused in part by the Board not having the capacity to compel agencies to respond to its request to verify data.

Responses to date have identified errors in the data held by the Board including incorrect salary amounts and member details. Such errors have an impact on the amount of contributions by agencies and members' benefits.

It is recommended that the Board endeavour to finalise the project as soon as possible. Alternative strategies may need to be developed for those agencies which do not respond.

### *Information Technology Controls* (First General Report 1997, p35)

The weaknesses in controls over computer systems previously reported have been addressed by the Board with the exception of controls over physical access to computer facilities and the absence of a formal contingency plan for recovery procedures in the event of computer disruption.

Both matters have again been reported to the Board and it has been indicated that immediate action is to be taken to address the weaknesses.

## Office of Racing, Gaming and Liquor

### *High Court Ruling (Liquor Licensing)*

Following the High Court of Australia's decision in August, 1997 regarding the State's right to collect certain fees, the Government ceased applying the ad valorem licence fee component of the liquor licence fee applied under the *Liquor Licensing Act 1988*.

As a consequence, \$19.838 million of the \$33.107 million reported as administered debtors in the 1996–97 financial statements will be recommended for write off under the *FAAA*, in 1997–98. A provision for this amount was included in the financial statements.

### State Government Insurance Commission (now Insurance Commission of Western Australia)

The Commission reported a consolidated profit of \$82.5 million, while the consolidated financial position returned to an overall fully funded position with total positive equity of \$47 million compared to an overall deficiency of \$36 million last year.

This profit was after allowing for an abnormal expense of \$64.3 million resulting from the inclusion of a prudential margin to the Commission's outstanding claims provisions. The addition of a prudential margin has the effect of increasing the probability that the estimate of the liability for outstanding claims will be sufficient to meet the Commission's outstanding claims liability.

Although the Commission has an overall positive equity of \$47 million, certain of the Commission's funds had an excess of liabilities over assets of \$43 million. As in previous years, the Commission has received advice from the Premier confirming that the Government will provide financial support to ensure the Commission is able to meet its financial obligations.

### State Government Insurance Corporation

The Corporation's statements, which show an excess of liabilities over assets of \$2.4 million, continue to be prepared on a going concern basis as a similar confirmation from the Government to that referred to above has been received.

Legislative amendments have been passed, but not yet proclaimed to allow the dissolution of the Corporation and for the assets, rights and liabilities to be vested with the Insurance Commission.

## State Revenue Department

### *Revenue Collection Information System (RCIS)*

The Department implemented the RCIS system in March 1997 to automate its tax assessing and collection activities. Collections of \$181 million were processed through the system during the financial year ended June 30, 1997. The Department did not reconcile the RCIS collections to the general ledger during 1996–97 and the reconciliation for the year ended June 30, 1997 was not completed until September 1997. Reconciliations are essential for assuring that collections are completely and accurately reported in the financial statements.

## Western Australian Development Corporation and Western Australian Exim Corporation

### *Performance Indicators*

The Corporations have not submitted performance indicators as they are no longer trading and are in the process of being wound up.

## Western Australian Greyhound Racing Association

### *Information Technology Controls*

In May 1997 the Association, as part of a strategy to become self sufficient in their information technology operations, began the replacement of their bureau service with the implementation of a new in-house accounting system. A review of this system and the associated information technology environment identified areas where improvements were necessary to reduce security and system failure risks. Control weaknesses identified included:

- disaster recovery procedures had not been formally documented and tested;
- backup and restoration procedures had not been documented and tested;
- remote dial-up access was not logged or reviewed;
- inadequate fire protection measures; and
- specific operating procedures had not been included in the user documentation.

The Association is addressing these control weaknesses.

## Minister for Lands; Fair Trading; Parliamentary and Electoral Affairs

### Audit Opinions

	Financial Statements and Controls	Performance Indicators	Date Opinion Issued
Department of Land Administration	Qualification	Qualification	15/10/97
Ministry of Fair Trading	Qualification	Qualification	12/11/97
Real Estate and Business Agents Supervisory Board	✓	✓	25/11/97
Settlement Agents Supervisory Board	✓	✓	25/11/97
Western Australian Electoral Commission	Qualification	✓	15/09/97
Western Australian Land Authority	✓	✓	29/08/97
<i>Subsidiary:</i> Enterprise Park Business Association	✓	N/A	22/12/97

### Reason for Qualified Audit Opinions

#### Department of Land Administration, Ministry of Fair Trading and Western Australian Electoral Commission

##### *Recognition of Revenue*

The audit opinions were qualified for the recognition of revenue in the Operating Statements in accordance with a Treasurer’s Instruction which modified AAS 29 ‘Financial Reporting by Government Departments’:

- Department of Land Administration (\$43.379 million or 98 per cent of operating revenues);
- Ministry of Fair Trading (\$2.323 million or 70 per cent of operating revenues); and
- Western Australian Electoral Commission (\$517 000 or 100 per cent of operating revenues).

#### Department of Land Administration

##### *Performance Indicators*

The response rate of 11.5 per cent to a customer satisfaction survey for one of the Department’s effectiveness indicators was insufficient to form an opinion whether the indicated level of satisfaction was fairly presented.

## Ministry of Fair Trading

### *Performance Indicators*

Appropriate measures, comparatives, trends and targets were not reported for the Ministry's effectiveness indicators.

## Other Significant Issues

### Department of Land Administration

#### *Abnormal Expense*

The Department's statements show an abnormal expense of \$8.3 million relating to additional contaminated site clean up costs for land in Mosman Park. This land was sold to LandCorp in 1995–96 at which time estimated clean up costs were \$4 million, however total costs are now expected to be around the original sale price of \$12.2 million. A contingent liability for other potential clean up costs was also included in the statements.

#### *Recognition of Crown Land*

The Department is the custodian of land where responsibility for a property does not rest with another agency. For 1996–97, the Department recorded leased land with a value of \$66 million in the financial statements. Other Crown land not subject to lease and buildings improvements have not been recognised in the Department's statements as these have not yet been measured reliably. This approach is in accordance with the transitional provisions of AAS 29 which requires these assets to be recognised by 1997–98.

The Department currently has a project in place to verify the information in the Government Property Register, which records all government owned property. This will enable relevant properties to be reported. It is estimated up to 67 000 parcels of land, valued at approximately \$2 billion will be identified and recorded in the Departments 1997–98 statements.

## Minister for Local Government; Disability Services

### Audit Opinions

	Financial Statements and Controls	Performance Indicators	Date Opinion Issued
Department of Local Government	✓	✓	04/09/97
Disability Services Commission	✓	✓	03/10/97
Fremantle Cemetery Board	✓	✓	27/11/97
Keep Australia Beautiful Council (W.A.)	✓	✓	24/11/97
Metropolitan Cemeteries Board	✓	✓	24/11/97
<i>Cemeteries Act Audits:</i>			
Albany Cemetery Board	✓	N/A	23/12/97
Bunbury Cemetery Board	✓	N/A	22/01/98
Dwellingup Cemetery Board	✓	N/A	10/10/97
Nabawa Cemetery Board	✓	N/A	23/12/97
South Caroling Cemetery Board	✓	N/A	18/11/97
Upper Preston-Lowden Cemetery Board (1/7/95–30/6/96)	✓	N/A	19/09/97

### Other Significant Issues

#### Disabilities Services Commission

##### *Leave Entitlements*

A review of the Commission’s employee entitlements found excessive levels of accrued annual leave for some employees. Forty one employees had accrued entitlements between 500 to 750 hours, nine employees between 750 to 1 000 hours while four employees had leave liabilities in excess of a thousand hours.

This exposes the Commission to the risk of operational and cash flow difficulties if these employees elect to terminate their employment or clear outstanding leave. Accrued leave balances should be monitored by the Commission to ensure the liabilities do not accrue to excessive levels.

## Minister for Family and Children's Services; Seniors; Women's Interests

### Audit Opinions

	Financial Statements and Controls	Performance Indicators	Date Opinion Issued
Department for Family and Children's Services	Qualification	✓	15/09/97
Office of Seniors Interests	✓	✓	09/09/97
Women's Policy Development Office	✓	✓	30/09/97

### Reason for Qualified Audit Opinion

#### Department for Family and Children's Services

##### *Recognition of Revenue*

The audit opinion was qualified for the recognition of revenue totalling \$13.372 million (100 per cent of operating revenues) in the Operating Statement in accordance with a Treasurer's Instruction which modified AAS 29 'Financial Reporting by Government Departments'.

### Other Significant Issues

#### Department for Family and Children's Services

##### *Asset Management*

Asset lists produced by the Fixed Asset System for stocktake purposes were incomplete as asset transfers and disposals which occurred during the year were not recorded. As a result of the Department's stocktake, the following adjustments were required:

- recording transfers of computer equipment from one location to another (including 300 new computers); and
- to record disposals of computer equipment made during the year.

Also, additions to buildings (\$204 000) and other assets (\$50 000) were identified as being incorrectly recorded as operating expenses.

Consequently, the asset register did not accurately reflect asset holdings and the Department was exposed to potential misappropriation of assets. Recommendations were made covering the prompt updating of the asset register, approval of all disposals and timely completion of the annual stocktake.

Minister for Family and Children's Services;  
Seniors; Women's Interests (continued)

### *Leave Entitlements*

At June 30, 1997, 23 employees had accumulated more than 26 weeks of leave entitlements which represented a liability of approximately \$800 000, or an average of \$35 000 per employee. This liability exposes the Department to the risk of cash flow and operational difficulties if employees terminate employment or clear outstanding leave.

The Department has advised these issues are being addressed.

## Minister for Housing; Aboriginal Affairs; Water Resources

### Audit Opinions

	Financial Statements and Controls	Performance Indicators	Date Opinion Issued
Aboriginal Affairs Department	Qualification	✓	17/10/97
Bunbury Water Board (1/10/96–30/9/97)	✓	✓	04/02/98
Busselton Water Board	✓	✓	13/11/97
Government Employees' Housing Authority	✓	✓	11/11/97
Industrial and Commercial Employees' Housing Authority	✓	Qualification	15/10/97
Office of Water Regulation	✓	Not submitted	15/08/97
Rural Housing Authority	✓	✓	15/10/97
Swan River Trust	✓	Qualification	24/11/97
The Aboriginal Affairs Planning Authority	Qualification	Not submitted	17/10/97
The State Housing Commission	✓	✓	25/09/97
<i>Subsidiaries:</i>			
Keystart Bonds Limited	✓	N/A	29/08/97
Keystart Housing Scheme Trust	✓	N/A	29/08/97
Keystart Loans Limited	✓	N/A	29/08/97
Keystart Support (Subsidiary) Pty Ltd	✓	N/A	29/08/97
Keystart Support Pty Ltd	✓	N/A	29/08/97
Keystart Support Trust	✓	N/A	29/08/97
Real Start Home Loan Scheme Trust	✓	N/A	29/08/97
Water and Rivers Commission	✓	✓	27/11/97
Water Corporation	✓	N/A	17/09/97

Minister for Housing; Aboriginal Affairs;  
Water Resources (continued)

## Reason for Qualified Audit Opinions

### Aboriginal Affairs Department

The Department's audit opinion on controls was qualified for the following two issues:

#### *Controls Over Grants*

Controls over grants were inadequate as the Department has been unable to obtain evidence from grantees at all times that moneys have been expended in accordance with grant conditions.

This qualification relates to grants made to Aboriginal organisations for a variety of purposes. In 1996–97, a total of \$3.5 million was provided (excluding essential service payments to Western Power and Water Corporation). Specific issues identified were:

- at June 30, 1997, confirmation that grant moneys had been used for approved purposes was overdue by up to six years on 142 grants totalling \$3.2 million. Of these, 81 per cent were allocated in 1995–96 and prior years; and
- from a sample of 29 acquitted grants tested, key grant conditions including the provision of bank statements and outcome reports had not been complied with by grant recipients in all cases.

As a result of these weaknesses it is also uncertain as to whether expected outputs and outcomes had been achieved.

#### *Compliance with State Supply Commission Policies*

The Department did not comply with the terms and conditions of the partial exemption from the *State Supply Commission Act 1991*. The required number of quotations were not obtained in all cases for the engagement of consultants, while a consultancy in excess of the delegated limit of \$50 000 was contracted without the approval of the State Supply Commission and the calling of public tenders.

Other issues identified were:

- contracts or letters of engagement were not always drawn up; and
- the Department had not determined whether outcomes had been achieved from all consultancies.

### Swan River Trust

#### *Performance Indicators*

The performance indicators of the Trust were qualified as two of the effectiveness indicators were based upon results obtained in 1993-94 which does not provide a current measure of performance.

Minister for Housing; Aboriginal Affairs;  
Water Resources (continued)

## The Aboriginal Affairs Planning Authority

### *Trust Account Approval*

The Aboriginal Lands Trust–Mining Rents and Royalties Trust Account, and its related bank account, continued to exist without Treasurer’s approval in contravention of the *FAAA*. This matter has been qualified for the past eight years and in that time the balance in the account has increased to \$714 000 at June 30, 1997.

## Other Significant Issues

### Aboriginal Affairs Department

#### *Controls over Corporate Credit Card Payments*

Documentation to support credit card payments was not always provided by cardholders. At August 1997, 183 transactions for the period January to June 1997 were unsupported, or supported by substitute vouchers which did not provide details of goods or services purchased. Consequently, uncertainty exists over the validity of many purchases made by Departmental staff.

### Industrial and Commercial Employees’ Housing Authority

#### *Performance Indicators*

No effectiveness indicators were submitted as the Authority’s focus has changed due to the decision to amalgamate the Authority with the Rural Housing Authority.

### Office of Water Regulation

#### *Performance Indicators*

Performance indicators were not submitted. Action has commenced to report indicators for 1997–98.

## The Aboriginal Affairs Planning Authority

### *Performance Indicators*

The Aboriginal Affairs Planning Authority did not submit performance indicators as functions and activities relevant to its charter were assumed by the Aboriginal Affairs Department.

## Minister for Police; Emergency Services

### Audit Opinions

	Financial Statements and Controls	Performance Indicators	Date Opinion Issued
Bush Fires Board	✓	✓	17/10/97
Police Service	✓	Qualification	13/10/97
Western Australian Fire Brigades Board	✓	✓	17/11/97
Western Australian Fire Brigades Superannuation Board	✓	✓	17/10/97
Western Australian State Emergency Service	Qualification	Qualification	31/10/97

### Reason for Qualified Audit Opinions

#### Police Service

##### *Performance Indicators*

The controls over the information system providing the information for the effectiveness indicators 'Offences Reported and Detected' and 'Clearance Rates for Offences' were not adequate. As a result it could not be determined whether these indicators fairly represent the indicated performance.

#### Western Australian State Emergency Service

##### *Recognition of Revenue*

The audit opinion was qualified for the recognition of revenues totalling \$360 000 (100 per cent of operating revenues) in the Operating Statement in accordance with a Treasurer's Instruction which modified AAS 29 'Financial Reporting by Government Departments'.

##### *Performance Indicators*

The Department reported qualitative data relating to operations undertaken for the effectiveness indicator "Community Disruption" rather than measuring the extent to which community disruption was minimised.

## Minister for Works; Services; Multicultural and Ethnic Affairs; Youth

### Audit Opinions

	Financial Statements and Controls	Performance Indicators	Date Opinion Issued
Department of Contract and Management Services	Qualification	✓	15/10/97
Office of Multicultural Interests	✓	✓	29/08/97
State Supply Commission	✓	✓	28/11/97
Western Australian Building Management Authority	✓	✓	15/10/97

### Reason for Qualified Audit Opinion

#### Department of Contract and Management Services

##### *Recognition of Revenues*

The audit opinion was qualified for the recognition of revenue totalling \$8.248 million (55 per cent of operating revenues) in the Operating Statement in accordance with a Treasurer's Instruction which modified AAS 29 'Financial Reporting by Government Departments'.

### Other Significant Issues

#### State Supply Commission

##### *Motor Vehicle Leasing*

The Commission entered into a Vehicle Fleet Lease Agreement on June 27, 1996 at the requirement of the Minister pursuant to Section 5A of the *State Supply Commission Act 1991* and commenced the sale and lease back of motor vehicles from July 15, 1996. Vehicle sales proceeds for the year were \$106 million and these proceeds have been distributed to the Consolidated Fund (\$84.4 million) and various government agencies (\$21.5 million).

Motor vehicle lease payments for the year totalled \$12.281 million. The Commission recoups this amount through sub hiring the motor vehicles to government agencies.

Minister for Works; Services; Multicultural and Ethnic  
Affairs; Youth (continued)

### *Verification of Motor Vehicle Lease Payments*

Payments totalling approximately \$12 million were made during the year for the lease of motor vehicles under the above contract. Verification procedures by the Commission and its contract manager (Department of Contract and Management Services [CAMS]) were not sufficient to provide assurance that monthly payments were accurate and in accordance with the contract. The absence of adequate verification procedures can be attributed to a number of factors including the complexity of the contract, the short timeframe with which the contract was implemented, the strict payment provisions and the unavailability of motor vehicle leasing data. Although significant action was commenced in the latter part of the financial year to improve the verification procedures, it is considered that more timely implementation of verification procedures was warranted particularly given the complexity of the arrangements.

Notwithstanding the above shortcomings, subsequent review of payments during the financial year by CAMS and the actuary has not identified any significant inaccuracies in the monthly payments.

### Department of Contract and Management Services (Previously Department of State Services)

The Department of State Services was amalgamated with the Building Management Authority of Western Australia on July 1, 1996 to form the Department of Contract and Management Services. The following issues, which were reported for the Department of State Services, are being finalised:

#### *Controls over Public Property* (Second General Report 1996, p102)

At June 30, 1996 the Department of State Services was unable to reconcile its property records to property on hand and a significant number of items had not been located. During the year the Department of Contract and Management Services endeavoured to locate and obtain acquittances for the items. Particular attention was given to locating items valued at more than \$1 000.

Approval to write off all items not accounted for, which have a written down value of \$345 000, is to be obtained.

#### *Warehouse Treasurer's Advance Reconciliation* (Second General Report 1996, p103)

The June 30, 1997 reconciliation of the Warehouse Treasurer's Advance to the Distrib Inventory System showed an unidentified discrepancy of \$467 000 and other deficiencies totalling \$86 000. These items built up over a number of years when the account was administered by the Department of State Services.

Minister for Works; Services; Multicultural and Ethnic  
Affairs; Youth (continued)

Although the Department undertook considerable work during the year to identify and adjust items in the reconciliation an irreconcilable deficiency of \$553 000 has been written off.

## Audit Opinions

	Financial Statements	Date Opinion Issued
Consolidated Financial Statements for the State of Western Australia	✓	10/12/97
Tertiary Institutions Service Centre (Inc)	✓	29/08/97
The Director of Legal Aid and Others In Trust	✓	08/01/98
The University of Western Australia Invalid Pension Scheme 1963–1979 (1/1/95–31/12/95)	✓	05/09/97
The University of Western Australia Invalid Pension Scheme 1963–1979 (1/1/96–31/12/96)	✓	10/03/98
The University of Western Australia Superannuation Scheme 1979 (1/7/94–30/6/95: Final Audit)	Qualification	05/09/97
The University of Western Australia Superannuation Scheme 1983 (1/7/94–30/6/95: Final Audit)	Qualification	05/09/97

## Reason for Qualified Audit Opinions

The University of Western Australia Superannuation Scheme 1979;  
and  
The University of Western Australia Superannuation Scheme 1983

### *Compliance with Legislation*

The audit reports for the above superannuation schemes were qualified as the income tax expenses for the 1994–95 year were calculated at concessional rates applicable to funds which are regulated under the Superannuation Industry (Supervision) Act 1993 or where complying status has been granted by the Insurance and Superannuation Commissioner.

The Schemes were not complying funds for the year ended June 30, 1995 as the Trustee had not elected for them to become regulated under the Act and had not sought an exercise of discretion from the Insurance and Superannuation Commissioner to be recognised as complying funds. Consequently the taxation expenses recognised in the accounts of the Schemes may have been understated. The Schemes were closed at June 12, 1995 and members were transferred to the Superannuation Scheme for Australian Universities.

# Appendix 1

Agencies who submitted financial statements and/or performance indicators outside the *FAAA* timelines of August 15 (departments) and August 31 (statutory authorities).

## Departments

Aboriginal Affairs Department

Agriculture Western Australia

Department of Environmental Protection

Department of Transport

Education Department of Western Australia

Fisheries Department

Ministry of Fair Trading

Ministry of Justice

Western Australian Department of Training

Western Australian State Emergency Service

## Statutory Authorities

Building and Construction Industry Training Board

Dried Fruits Board

Perth Theatre Trust

Public Trustee

Screen West (Inc.)

The Agriculture Protection Board of Western Australia

# Glossary of Audit 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 actual cash transactions. It also involves accounting for the portion of assets consumed and liabilities incurred during the period and provides a summary of the net worth of the entity at the end of the accounting period.

## Attest Audit

is work performed to enable an opinion to be expressed regarding a report about financial or performance matters prepared by the party who is accountable for the financial transactions or the performance summary.

## Auditor General's Report

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

## Corporatised Entities

operate under its enabling legislation in a similar manner to companies under the Corporations Law.

## Department

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

## Financial Statements

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

## General Report

is the vehicle used to report to the Parliament on matters arising from the powers, duties and functions of the Auditor General that in his opinion are of such significance as to require reporting.

## Interim Report

is 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

conveys in writing the significant audit findings and result of an audit to senior management.

## Performance Auditing

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

**Performance Indicators (PIs)**

are guides to an understanding of the performance which has been achieved.

**Performance Indicator Audit**

is work performed to enable an opinion to be expressed regarding written assertions 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 results in a significant disagreement with management, a material conflict between applicable financial reporting frameworks or an unavoidable limitation on audit work.

**Significance**

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

**Statutory Authority**

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

**Treasurer's Annual Statements**

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

**Treasurer's Instructions**

are prescribed requirements at a minimum level with respect to financial administration which have 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 that 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 reporting requirements.

**Working Papers**

are documents gathered by the auditor during the audit to support the auditor's findings, judgements, conclusions and opinions.

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First General Report 1996	May 8, 1996
The Internet and Public Sector Agencies	June 19, 1996
Under Wraps! – Performance Indicators of Western Australian Hospitals	August 28, 1996
Guarding the Gate – Physical Access Security Management within the Western Australian Public Sector	September 24, 1996
For the Public Record – Managing the Public Sector’s Records	October 16, 1996
Learning the Lessons – Financial Management in Government Schools	October 30, 1996
Order in the Court – Management of the Magistrates’ Court	November 12, 1996
Second General Report 1996	November 20, 1996

## 1997

On Display –Public Exhibitions at: The Perth Zoo, The WA Museum and the Art Gallery of WA	April 9, 1997
The Western Australian Public Health Sector	June 11, 1997
Bus Reform – Competition Reform of Transperth Bus Services	June 25, 1997
Waiting for Justice – Bail and Prisoners in Remand	October 15, 1997
Controls, Compliance and Accountability Audits	November 12, 1997
Public Sector Performance Report 1997	November 13, 1997
Private Care for Public Patients – The Joondalup Health Campus	November 25, 1997

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