

Audit Results Report – Annual 2016-17 Financial Audits

Executive Summary

Report 21: November 2017

This Audit Results Report contains the findings primarily from the annual financial audits of agencies with a 30 June 2017 reporting date.

At 1 November 2017, we had completed audits and issued audit opinions for 49 departments, 83 statutory authorities, 13 corporations and 13 other audits.

The *Auditor General Act 2006* (AG Act) requires the Auditor General to audit the financial statements, controls and key performance indicators (KPIs) of all public sector agencies annually. A clear audit opinion indicates satisfactory controls and that the financial statements are materially complete, accurate, comply with relevant legislation and applicable accounting standards and fairly represent performance during the year and the financial position at year end.

Key findings

Audit opinions

- We issued audit opinions for 158 agencies by 1 November 2017 relating to the 2016-17 financial year, and 184 certification opinions.
- We issued qualified audit opinions to 9 agencies for reasons of inaccuracies or deficiencies in their financial statements or KPIs or due to control weaknesses. These agencies were:
 - Animal Resources Authority
 - Child and Adolescent Health Service (CAHS)
 - Department of Corrective Services
 - Department of Environment Regulation
 - Department of Fire and Emergency Services
 - Department of Lands
 - Fire and Emergency Services Superannuation Board
 - Health Support Services
 - Western Australian Greyhound Racing Association.
- Matter of Significance paragraphs were included with the audit opinions of the Department of Agriculture and Food, the 4 metropolitan health services and the WA Country Health Service. Although qualified opinions were not warranted, these paragraphs drew users' attention to significant matters in relation to the financial statements or KPIs.

Financial reporting, accountability and audit issues

- Processes for managing related party disclosures require improvement to reduce reporting and auditing costs.
- Our first annual audits of the new health section agencies found that key financial reporting and control aspects of the transition were satisfactorily implemented.

- Tabling of annual Statements of Corporate Intent (SCI) long after the commencement of the financial year to which they relate continues. Although the delay this year was due in part to a later State budget, it remains a concern that currently, nearly 2 months after the budget, 19 SCIs for 2017-18 are yet to be tabled and one SCI for 2016-17 remains outstanding and therefore not available for scrutiny by the Parliament.
- We continue to support reducing financial reporting requirements for over 60 small agencies that together spend just 1% of State funds.

Annual Report on State Finances

- The Treasurer released the Annual Report on State Finances (ARSF) on 22 September 2017. In this Audit Results Report, we have supplemented the information contained in the ARSF with related information that some readers may find useful.
- Public sector annual and long service leave liability decreased again this year.

Selected significant financial transactions and financial ratios

- We have summarised significant financial transactions of agencies that we noted during our audits and key financial ratios and information that are commonly used for assessing financial performance.

Management issues

- We identified 453 financial management control weaknesses and reported them to agencies in 2016-17, up from 414 in the previous year. The number of significant issues decreased from 43 to 36 and the proportion of unresolved issues also decreased slightly from 31% to 29%.
- We identified 425 information system control weaknesses and reported them to agencies in 2016-17, of which 35% were unresolved issues from the previous year. The majority are simple to fix but if not resolved they will leave agencies vulnerable to security incidents and disruptions to systems.
- We reported 43 KPI weaknesses to agencies in 2016-17, a higher number than last year. Data collection processes and data integrity were the main areas for improvement identified during our KPI audits.

Quality and timeliness of reporting

- Most agencies prepared satisfactory quality financial statements and KPIs for 2016-17, however some still need to significantly reduce the number of errors in their statements.
- We have acknowledged the top 40 'best practice' agencies for timeliness in their financial reporting, good financial controls and reporting practices.

Recommendations

1. All agencies should ensure they maintain the integrity of their financial control environment by:
 - a. periodically reviewing and updating all financial, asset, human resource and other management policies and communicating these to staff
 - b. ongoing review and improvement of internal control systems
 - c. regularly monitoring staff compliance with relevant legislation and instructions
 - d. promptly addressing control weaknesses brought to their attention by our audits.
2. All agencies should periodically review their KPIs to ensure they remain relevant, appropriate and fairly present performance against realistic targets.
3. To minimise the risks of non-disclosure and the costs of financial statement preparation and audit, Treasury should continue to assist agencies in identifying and disclosing related party transactions, including consideration of a process for Ministers' declarations.
4. Treasury should continue to its efforts to speed up the review process for, and timely tabling of Statements of Corporate Intent to improve accountability and Parliament's scrutiny of entities' budgets and planned achievements.
5. Treasury should continue to identify and implement suitable options that simplify financial reporting requirements, particularly those that reduce the reporting burden on small agencies.
6. Agencies should make timely preparations for implementation of the accounting standards changes announced by the Australian Accounting Standards Board.
7. Management should continue to closely monitor leave plans to ensure that staff schedule and take leave each year and, where appropriate, allow staff to receive a cash payout for part of their leave, rather than accumulating large leave balances.