



Office of the Auditor General Western Australia
Transparency Report



Serving the Public Interest





Office of the Auditor General
Western Australia

7th Floor Albert Facey House
469 Wellington Street
Perth

Mailing Address

Perth BC
PO Box 8489
Perth WA 6849

Telephone

(08) 6557 7500

Fax

(08) 6557 7600

Email

info@audit.wa.gov.au

Website

www.audit.wa.gov.au

Twitter

[@OAG_WA](https://twitter.com/OAG_WA)

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The Auditor General's commitment to transparency

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

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

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

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

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

This Transparency Report is another way that we share our values, and explain how we set our strategy and manage our business to deliver consistently high quality audits. The report covers key processes that help give assurance about our commitment to quality.

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

About the office

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

The Office is one of the largest audit practices in Western Australia, undertaking financial audits of about 200 entities and over \$208 billion worth of assets each year.

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

Performance auditors and information systems auditors make up another 25 per cent of total employees with the rest being corporate and technical support.

See page 7 for a description of the Office structure.

What we do

The *Auditor General Act 2006* provides for the appointment of the Auditor General and the role and authority of the position. Broadly, the role is to audit the finances and activities of the Western Australian public sector. In undertaking this task, the Auditor General will scrutinise the public sector for potential instances of wastage, inefficiency or ineffectiveness, and report his findings to Parliament.

The Auditor General is responsible for:

- auditing the Annual Report on State Finances
- conducting financial statement, KPI and control audits and issuing audit opinions for over 200 public sector agencies
- undertaking wide-ranging performance examinations to ensure there are adequate controls within agencies, compliance with the relevant legislation; and most importantly efficiency, effectiveness and economy of agency operations or programs
- reporting the results of audits to Parliament in an objective, competent, insightful and timely manner

Financial audits

Each year the Auditor General audits the state's departments, statutory authorities, corporatised entities, universities and state training providers (TAFE colleges) to provide opinions on their annual financial statements. As well, the majority of these entities receive audit opinions on their financial controls and key performance indicators. About 40 per cent of the annual audits are outsourced to the private sector though the Auditor General issues the audit opinion. The cost of our financial audits are recovered from audit fees. Audit fees totalled \$17 305 million in 2014-15.

Performance audits

Each year we also conduct performance audits on a range of topics. The average cost of our performance audits in 2014-15, which is met by parliamentary appropriation, was \$266 511.41.

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

Information systems audits

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

Across government benchmarking audits

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

Audit certifications

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

Opinions on ministerial notifications

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

Public interest disclosures

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

What we don't do

People often expect the Auditor General to have oversight authority and responsibility covering all aspects of government operations. This is not the case. While the mandate provided by the *Auditor General Act 2006* is considerable, it is not exhaustive.

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

Don't assess government policy

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

Don't investigate fraud, other criminal matters or misconduct

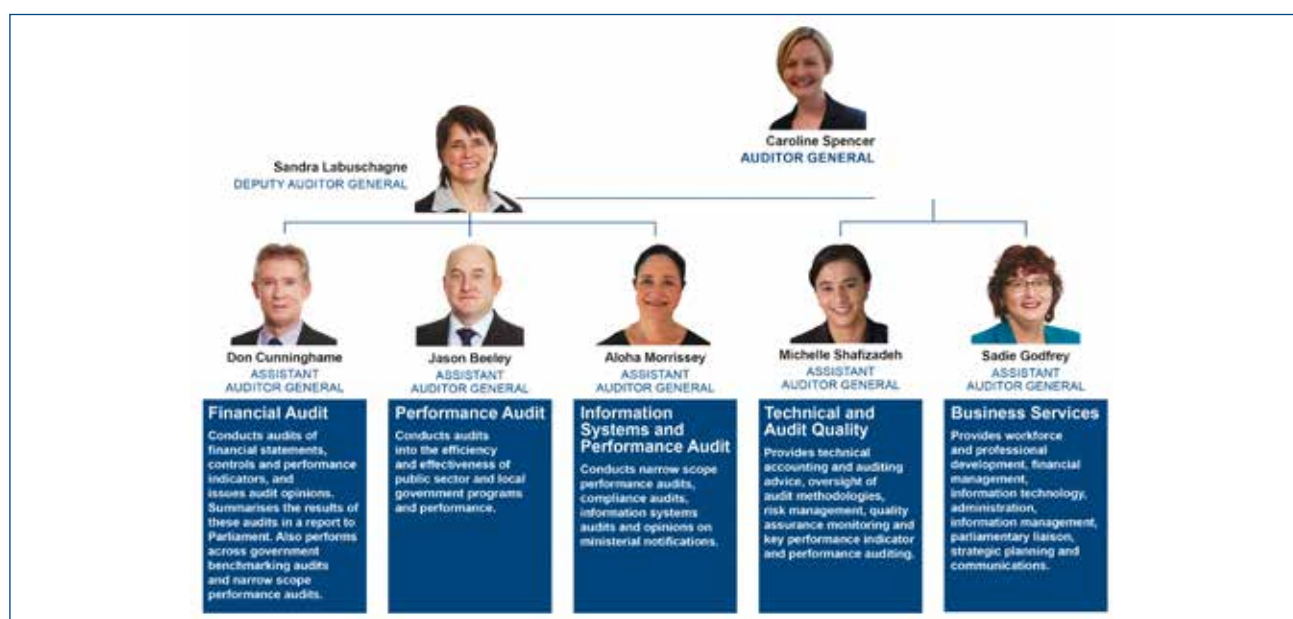
The Auditor General cannot investigate criminal matters or misconduct. If such a matter is brought to our attention or we become aware of it through our work, then it is automatically passed to the police or the Corruption and Crime Commission or if it likely entails 'minor misconduct' then to the Public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

Don't investigate complaints relating to individuals

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

Governance

The Office is made up of 5 business units, as outlined below*:



The 3 audit business units report to the Deputy Auditor General with the support business units reporting directly to the Auditor General.

* Updated 28 May 2018

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

Operational and administrative support to the Executive is provided by a number of committees made up of Executive, senior and other employees. The committees have a multiple role of governance, inter-office engagement and employee development. They include:

- an Audit and Risk Management Committee
- three audit methodology committees to support the development of our financial, KPI and performance audit methodologies
- an IT Committee
- a Professional Development Committee.

Our clients

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

Parliament

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

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

The Auditor General meets regularly with both PAC and EFOC to discuss matters such as emerging audit issues, our forward performance audit program and the budget of the Office.

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

Section 48 of the *Auditor General Act 2006* requires the JSCA to carry out a review of the operation and effectiveness of the Act and the performance of the Office of the Auditor General – on five yearly intervals. The first such review commenced in mid-2015. The Committee's terms of reference are:

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

Agencies

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

Our performance audits generally result in a report to Parliament. The focus of these reports is to highlight matters of significance, which can be either positive assurance or opportunities for improvement. These independent reports assist parliamentarians and the public to have a better

understanding of the performance of public sector agencies. Before a performance report is tabled, agencies are provided with the opportunity to view a summary of findings and to provide comment for inclusion in the report.

Public

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

Our people

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

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

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

Continuing professional development

All of our people are required to maintain their technical competence and comply with relevant regulatory and professional development requirements. This is reviewed by line managers as part of the appraisal process, in conjunction with an individual's personal development plan.

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

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

Supervision, consultation and review

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

Additional supplementary support is available at short notice. A Technical Determination Committee can provide advice on specific technical matters while a Qualifications Committee will discuss a proposed modification or the removal of a modification to an audit opinion.

This mixture of experience and technical ability, within a culture where we are able to challenge each other, ensures quality is driven throughout the audit process.

Where the Auditor General determines it appropriate, significant audits are subject to Engagement Quality Control Review as specified in the Auditing Standard on Quality Control (ASQC1).

The implementation of the EQCR is then subject to quality assurance review by the Technical and Audit Quality business unit to assess their effectiveness on an annual basis. The results are reported to the Executive Management Group. The Technical and Audit Quality business unit do not perform any EQCR role to maintain independent of this process.

Professional Development Plan

Our Professional Development Plan, which is aligned to our strategic Workforce Development Plan, guides our professional development requirements, strategies and goals for the current and future years.

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

The monthly professional development program has a whole-of-office component as well as targeted sessions reflecting specific employee training needs, delivered across relevant business units. Our whole-of-office training includes technical and non-technical learning.

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

Targeted training programs

We have 3 levels of targeted training for employees, which are:

- an intensive graduate induction program
- recognised employer program status with specific training for the duration of their study
- leadership and management training for senior employees.

Financial Audit graduate induction

Our new financial audit graduates receive an intensive 3-week training and induction program upon their commencement supported by a further monthly training program over the next 3 years.

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

Recognised employer programs

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

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

Leadership training

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

We have had a significant increase in skills as a result of this program, positive feedback from attendees and it has also delivered a significant number of change projects that are required to be completed as part of the program. The program has represented a significant investment but the benefits attained far outweigh the financial investment.

Performance measurement and remuneration

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

Ethical standards

Codes of ethics and conduct

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

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

The Office has published a Code of Conduct, which all employees are required to comply.

Independence practices

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

Topic selection

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

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

Twice a year, we collate all our potential topics for audit from which we select priority projects for our forward program. We aim to have a program that is balanced in its coverage, contains topics that matter to Parliament and the community, and that reflects how and where the state is spending taxpayer's money. The Auditor General provides a copy of the draft program to the Public Accounts Committee and the Estimates and Financial Operations Committee for their information and feedback.

Once an audit has begun, we make its objective, focus and timeframes public via the work in progress section of our website.

Policies

Our Conflict of Interest Policy requires employees to submit an annual declaration of independence and to declare any potential or perceived conflict of interest. The annual declaration process is also a mechanism by which all employees declare their compliance with the Code of Conduct and all Office policies.

A Potential Conflicts of Interest Register records all 'potential' matters either raised through our annual process or identified during the year. It also records the solutions to mitigate the perceived conflicts. Such solutions may include placing restrictions on employees in terms of what work they can become involved with, or provide more supervision or less decision-making on the audit.

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

A Conflict of Interest Register is maintained, which records perceived or actual conflict of interest matters and identifies employees that are prohibited from working on specific agency audit engagements.

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

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

Our Receipt of Gifts, Benefits and Hospitality policy sets the criteria for employees accepting gifts and requires Executive approval for acceptance of all gifts. A Gifts Decision Register records the decision to either accept or decline the gifts. Our Technical and Audit Quality team review this register every 6 months to ensure compliance with the policy and to identify any issues of concern.

A 'Rotation Policy' is used to ensure that audit employees do not remain on the same audit for an extended period of time and thereby risk losing their independence or objectivity. Our policy complies with the Auditing Standards.

External working groups

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

Training and quality assurance

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

Commitment to audit quality

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

System of quality control

We have a system of internal control that complies with the Australian Auditing Standards Board's standard, ASQC1 – *Quality Control for Firms that Perform Audits and Reviews of Financial Reports and Other Financial Information, and Other Assurance Engagements*.

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

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

In 2014, the Office performed a review of the system of internal control for compliance with ASQC1. This review informed the Office of improvement opportunities in advance of the commencement of the ACAG External Quality Review Program. The internal ASQC1 review involved using the ICAA program to:

- examine the Office documentation such as policies and procedures
- discuss with relevant employees
- select a sample of audit files, cold review documentation and compliance documentation.

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

We were found to be meeting the requirements of ASQC1. However, improvement opportunities were noted. An action plan was produced setting out the steps needed to address the areas where compliance with ASQC1 could be improved or could be better evidenced. All recommendations have been implemented. The next review is planned for 2016.

Effectiveness of the system of quality control

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

The results of our internal and external audit as well as internal and external quality assurance reviews has provided us comfort and assurance over the system of quality control.

It has also highlighted areas where we may benefit from improvement. These are consistent with the themes from other audit offices and the private sector.

Monitoring audit quality

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

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

Oversight of this policy rests with our Technical and Audit Quality business unit.

Quality Assurance Plan

Framework

Our quality monitoring system includes a Quality Assurance Plan (QA Plan). This is an annual program of quality monitoring to evaluate the appropriateness of our system of quality control and the system within the contracted firms to ensure that control arrangements operated as planned. The QA Plan is an important strategy of our Strategic Plan.

The QA Plan is vital to our internal control, risk management, corporate governance and compliance monitoring. The QA Plan outlines the role and importance of audit quality and quality assurance in achieving the strategic objectives of the Office. It also includes the scope, objectives, time and cost budget for each project to be performed as well as responsibilities for facilitation and reporting the outcomes.

Our Technical and Audit Quality business unit is responsible for the facilitation of the QA Plan and for regular reporting of its progress to the Executive Management Group.

Our approach

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

Assistant Auditors General are responsible for the timely resolution of quality control deficiencies referred to them by the Technical and Audit Quality business unit for close out with the Deputy Auditor General.

Summary reports are provided to the Executive Management Group and the Audit and Risk Management committee. Status reports provide periodic acquittal of planned work.

Training needs identified by the quality assurance work is incorporated into our professional development plan.

Quality Assurance Plan activities

The Quality Assurance Plan for the year ended 31 December 2015 has a significant number of projects, which are separately identified and monitored throughout the year and outcomes reported to the Executive Management Group.

Some of the significant projects that we perform include:

- **Training on Audit Quality** – to ensure that employees know ‘what is audit quality?’, ‘the importance of audit quality’ and ‘the role and responsibility for audit quality’
- **Review of audit methodologies** – to ensure that they continue to comply with the auditing standards
- **Engagement Quality Control Reviews (EQCR)** – to evaluate and report on the implementation of the EQCR process in the Office

- **Independence** – to evaluate and report on the implementation of the Conflict of Interest policy, Receipt of Gifts, Benefits and Hospitality policy and 'Rotation policy'
- **Compliance with ASQC 1** – to ensure that our system of internal control complies with ASQC 1
- **Internal inspection of engagement files** – to ensure a quality audit is performed for in house and contracted audits and to identify continuous improvement opportunities and good practice
- **Disclosure review of financial statements** – to assess a sample of financial statements for compliance with accounting standards
- **Review of policies and guidance** – to ensure that these are current and compliant with the accounting and auditing standards
- **Review of the OAG financial statements** – to ensure that an independent review of these has been done internally before the external audit
- **External Peer Review Program** – we utilise the Australasian Council of Auditors-General (ACAG) to provide reviewers for an independent opinion as to the quality of our audits. ACAG audit offices include all Australian offices and the New Zealand Audit office
- **Parliamentary Performance and Legislative Review** – independent external parliamentary review of the *Auditor General Act 2006* and of the performance of our Office performed by the JSCA.

Contract audit firms

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

In 2014-15 we partnered with the following firms:

- BDO Audit
- Crowe Horwath
- Deloitte
- Ernst & Young
- Grant Thornton
- KPMG
- PricewaterhouseCoopers
- RSM Bird Cameron
- William Buck

The amount paid to private sector firms in 2014-15 for outsourced audit work was \$4,352,493.

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

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

We also include the contract audit firm in the Quality Assurance Plan. Our assurance processes for contract firms include:

- **Pre-assessment** – to assess the quality of contract audit firms that are allowed to be invited to tender for our audits that we may decide to contract out
- **Review of audit engagement files** – to ensure the quality of contract audit firms who perform audit work on our behalf
- **Review of published information** – to ensure that the results of public information including quality assurance reviews performed by regulatory bodies and membership organisations are known by our Office
- **Writing to seek knowledge** – to seek information about the firms on aspects of their business that may be topical or may represent a particular risk for the current year
- **Access of files** – to ensure that they are retaining the audit software required to read the audit files for the required retention period, which for our Office is 7 years
- **Contract management by our technical team** – our Technical and Audit Quality business unit contract manage a sample of audit engagements to assess and measure the quality of these firms and to provide input into future decisions about these firms within the Office.

Internal quality assurance review of audit engagement files

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

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

As a minimum, we cover each engagement leader every 3 years as required by the Auditing Standards, but we have performed more than this over the years. We maintain a register of the engagement leaders that have been quality assurance reviewed to demonstrate that we have met these requirements.

External quality assurance review program

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

a) ACAG external peer review

The Australasian Council of Auditors-General (ACAG) has developed a review framework to help individual member Offices obtain assurance that they meet relevant legal and professional standards.

The framework was developed from comparative models used by the Australasian Business Excellence Framework, the Australian Stock Exchange Principals of Good Governance and the SAI-Global ISO program. It also reflects the requirements of APES 320 *Quality Control for Firms* and ASQC 1 *Quality Control for Firms* that perform audits and reviews of financial reports and financial information.

The framework comprises 4 sections. These are, Office Governance, Audit Practice Management, Financial Audit Assessment and Performance Audit Assessment.

The framework enables self-assessment but is most effective when undertaken by senior employees from other audit offices.

We were reviewed against the framework in 2011 and 2014. The October 2014 review covered all 4 sections of the framework and was undertaken by 5 senior auditors from 4 ACAG audit offices.

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

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

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

The Performance Audit business units were reviewed in 2010 by 2 ACAG audit offices. Four audits were reviewed – 2 broad scope and 2 narrow scope performance audits.

The reviews considered whether an appropriate audit report was issued and whether applicable auditing and ethical standards were followed. The application of the auditing and assurance standards to the smaller audits was highlighted as an area for improvement and enhancements have been made in this area to the performance and compliance audit methodology.

"Conclusion: The 4 audits examined complied in all material respects with the OAG WA methodology and align closely with the relevant assurance standards. The audit method used by the OAG WA is consistent with that of OAG NZ and VAGO for such engagements though the method used for the intended smaller, limited scope audits is less congruent, particularly in relation to the extent and timing of planning, and the role of an engagement quality control reviewer. The 4 audits looked at important issues and resulted in soundly evidenced, valuable, high quality reports with clear and useful recommendations. The reports are well written in plain English making them easy to understand and accessible."

b) Independent quality assurance review

In 2013, we engaged a well-regarded private sector consultant to assess aspects of audit quality.

The review covered a sample of financial audits, key performance indicator audits and performance audits.

The review provided positive observations about our audit practice and provided enhancements, which can be made to improve our audit quality. These recommendations were closed out on a timely basis.

The reviewer concluded; My overall conclusion in relation to this review is the policies, systems and procedures that the OAG uses to ensure their compliance with regulatory and professional requirements governing their audit and assurance engagements in the Western Australian public sector in relation to the areas of interest reviewed, appear to be sound and generally compliant with Australian Audit and Assurance Standards. However, enhancements can be made to improve the quality of audits conducted."

The reviewer's recommendations were closed out on a timely basis.

c) Independent review panel

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

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

The last review of 4 reports was performed in 2012 and was mostly positive with the reviewers giving scores for each report of between 68 and 71 out of a possible 90. We made a number of changes to report presentation in 2013 to address the reviewers' feedback.

d) Plan English Foundation

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

Audit methodology

Our Financial Audit business unit and the Performance Audit business units have their own audit methodology and guidance to ensure that our audits are compliant with the Auditing and Assurance Standards and performed to a consistently high quality.

The audit methodologies are the responsibilities of the Assistant Auditor General of the relevant business unit. Audit Methodology User Groups provide advice on the development of the methodology and on focus areas for employee training. Our Technical and Audit Quality business unit also provides advice as well as technical input regarding the compliance of the methodologies with the Auditing and Assurance Standards.

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

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

Supplementing the methodologies is a range of key policies such as, Allocating Staff to Audits, Review of Attest Audit Working Papers, Engagement Quality Control Review, Delegating Signing of Audit Opinions, Rotation of Senior Staff in Assurance Services, Completion and Review of Attest Audit Working Papers. These policies are reviewed every 2 years.

Continually improving

Post project learning

Our continuous improvement approach is embedded in policy and in practice.

Activities which contribute to our continuous improvement process include:

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

Stakeholder satisfaction including complaints and concerns from interested parties

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

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

We obtain feedback on our work in a number of ways which include:

- parliamentary survey and liaison program
- agency survey
- complaints.

Parliamentary Survey and Liaison Program

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

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

As table 1 shows, the responses in 2014-15 were very encouraging with overall satisfaction with the Auditor General's reports and services increasing to 97% (90% in 2013-14). This is our highest satisfaction rating in over 10 years.

Indicator	% agree or strongly agree				
	2010-11	2011-12	2012-13	2013-14	2014-15
The Office of the Auditor General is effective in achieving its desired outcome of informing Parliament on public sector accountability and performance of the public sector	81	82	86	78	90
Reports dealt with matters of significance to Parliament	89	91	97	96	97
Services and reports of the Office of the Auditor General are useful to Parliament	93	92	93	89	87
	% satisfied or very satisfied				
Overall satisfaction with Auditor General reports and services	91	90	83	90	97

Table 1

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

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

Agency surveys

Government agencies can provide valuable information about how well we conduct our financial and performance audits. We conduct surveys in relation to both our financial and performance audits. In 2014-15, we surveyed 111 agencies about our financial audits and 41 agencies in regard to our performance audits. An independent research company administers the surveys. Similar surveys are conducted by other Australian audit offices under the auspices of ACAG using the same research company and the results are shared.

The survey analysis includes the calculation of aggregate performance indices across the 4 focus areas of audit process, audit reporting, audit value and our overall performance.

Tables 2 and 3 show the aggregate performance indices for our financial and performance auditing work for the past 5 years.

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

Table 2

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

Table 3

Complaints

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

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

The Executive Management Group receives a report on all complaints received and identified risks are reported to the Audit and Risk Management Committee.

No complaints were received in 2014-15.

Working with Others

Australasian Council of Auditors-General

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

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

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

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

In 2012, we undertook a concurrent audit with 7 other ACAG jurisdictions on the *Implementation of the National Partnership Agreement on Homelessness in Western Australia*. The audit objective and questions were broadly consistent between ACAG members but each Auditor General made independent decisions about the audit scope and methodology. The reports enabled a broad perspective about how well this national program was implemented across Australia. More concurrent audits are likely in the future.

Integrity Coordinating Group

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

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

The ICG enables the 5 independent officers to:

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

Auditing and Assurance Standards Board

The Australian Auditing and Assurance Standards Board (AUASB) is an independent, statutory agency of the Australian Government, responsible for developing, issuing and maintaining auditing and assurance standards. The Auditor General is a member of the AUASB and in November 2014 was appointed for a second 4-year term.

Our relationship and interest in the work of the Board extends further than the Auditor General's membership. We are regular contributors to ACAG submissions on exposure drafts and to submissions to the International Auditing and Assurance Board (IAASB). Recently, our Assistant Auditor General – Technical and Audit Quality was a member of the AUASB Project Advisory Group for the new standard, ASAE 3150 *Assurance Engagements on Controls* approved in December 2014.



Office of the Auditor General
Western Australia

7th Floor Albert Facey House
469 Wellington Street
Perth

Mailing Address

Perth BC, PO Box 8489
Perth WA 6849

Telephone

(08) 6557 7500

Fax

(08) 6557 7600

Email

info@audit.wa.gov.au

Website

www.audit.wa.gov.au



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