

Financial statements, key performance indicators, disclosures and other legal requirements, and appendices

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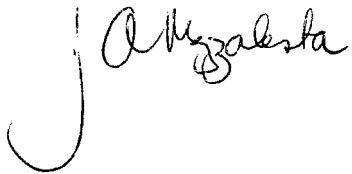
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Certification of financial statements

For the reporting period ended 30 June 2018

The accompanying financial statements of the Office of the Auditor General have been prepared in compliance with the provisions of the *Financial Management Act 2006* from proper accounts and records to present fairly the financial transactions for the financial year ended 30 June 2018 and the financial position as at 30 June 2018.

At the date of signing we are not aware of any circumstances which would render the particulars included in the financial statements misleading or inaccurate.



JUSTINE MEZZATESTA
CHIEF FINANCE OFFICER
9 August 2018



CAROLINE SPENCER
ACCOUNTABLE AUTHORITY
9 August 2018

Independent Auditor's opinion

Independent Auditor's Report

To the Parliament of Western Australia

Office of the Auditor General

Report on the Financial Statements

Opinion

We have audited the financial report of the Office of the Auditor General ("the Office"), which comprises the Statement of Financial Position as at 30 June 2018, the Statement of Comprehensive Income, Statement of Changes in Equity, Statement of Cash Flows, and the Summary of Consolidated Account Appropriations and Income Estimates for the year then ended, a summary of significant accounting policies and other explanatory notes.

In our opinion, the financial statements are based on proper accounts and present fairly, in all material respects, the operating results and cash flows of the Office of the Auditor General for the year ended 30 June 2018 and the financial position at the end of that period. They are in accordance with Australian Accounting Standards, the *Financial Management Act 2006* and relevant Treasurer's Instructions.

Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Office in accordance with the auditor independence requirements of the *Auditor General Act 2006* and the ethical requirements of the Accounting Professional and Ethical Standards Board's *APES 110 Code of Ethics for Professional Accountants* ("the Code") that are relevant to our audit of the financial report. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.



Bentleys Audit & Corporate
(WA) Pty Ltd

London House

Level 3,

216 St Georges Terrace

Perth WA 6000

PO Box 7775

Cloisters Square WA 6850

ABN 33 121 222 802

T +61 8 9225 4500

F +61 8 9225 4300

bentleys.com.au



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Independent Auditor's opinion

Independent Auditor's Report

To the Parliament of Western Australia
Office of the Auditor General (Continued)



Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report of the current period. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key Audit Matter	How The Key Audit Matter Was Addressed
<p>Revenue Recognition – Accrued Revenue</p> <p>The Office recognises audit fee revenue based on the percentage of completion of audit engagements. For the year ended 30 June 2018, the Office recorded audit fee revenue of \$18.984 million, of which accrued revenue relating to engagements in progress of \$8.310 million was recorded in the Statement of Financial Position as at balance date.</p> <p>The determination of the percentage of completion for audit engagements in progress requires significant estimation and judgement from management, in particular the assessment of the recoverability of work in progress balances recorded at year end.</p> <p>Work in progress is considered to be a key audit matter due to the significance of the asset to the Office's financial position, and the estimation uncertainty inherent in the nature of the asset.</p>	<p>Our procedures amongst others included:</p> <ul style="list-style-type: none">Assessing the appropriateness of the Office's revenue recognition accounting policies;Obtaining an understanding of management's processes and controls surrounding revenue recognition, billing and work in progress;Testing the design, implementation and effectiveness of the key processes and controls relating to revenue;Critically evaluating and analysing management's assessment and basis for determining the percentage of completion;Identifying any engagements with unusual percentages of completion and assess for reasonableness;Testing of the model's inputs to supporting contracts and documentation for a sample of engagements;Checking the mathematical accuracy of the model used to calculate the accrued revenue balance; andAssessing the appropriateness of the disclosures included in Notes 4 and 6.

Independent Auditor's opinion

Independent Auditor's Report

To the Parliament of Western Australia
Office of the Auditor General (Continued)



Key Audit Matter

How The Key Audit Matter Was Addressed

Provisions – Employee Entitlements

Included in the Statement of Financial Position are provisions of \$3.898 million, of which \$3.126 million is current and \$0.772 million is non-current. The provisions consist of employee benefits, including annual and long service leave.

The nature of the operations of the Office require a significant amount of human resources. Therefore, these provisions were identified as a risk due to the quantitative significance of the balance, and the calculations required in estimating the balance.

Our procedures amongst others included:

- ▶ Obtaining the client schedules for each class of provision and agreed the amounts to the general ledger;
- ▶ Testing of the design, implementation and effectiveness of the key processes and controls relating to payroll;
- ▶ Checking arithmetic calculations within each of these schedules;
- ▶ Testing a sample of employees' movements in entitlements to supporting documentation;
- ▶ Reviewing the actuarial assessment of annual and long service leave;
- ▶ Testing the provisions for completeness by comparing the listing to payroll records; and
- ▶ Assessing the appropriateness of the disclosures included in Note 3.1(b).

Independent Auditor's opinion

Key Audit Matter

How The Key Audit Matter Was Addressed

Intangible Assets

During the year the Office continued to develop a human resources management information system. Components of this system became operational during the year, with other components remaining in development. The Office has recognised directly attributable costs to this asset, for which the assumptions utilised in making this assessment requires judgements to be made.

Our procedures amongst others included:

- Obtaining schedules supporting the amounts recognised as intangible assets;
- Critical assessment of the judgements of what costs were considered directly attributable in accordance with AASB 138 Intangible Assets;
- Testing of a sample of the additions of intangibles during the year;
- Consideration of the status of intangibles in development, and the useful life of the phases that were completed during the year and amortised; and
- Assessing the appropriateness of the disclosures included in Note 5.2.

Other information

The Auditor General is responsible for the other information. The other information comprises the information included in the Office's annual report for the year ended 30 June 2018, but does not include the financial statements, the audited key performance indicators and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and accordingly we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Independent Auditor's opinion

Independent Auditor's Report To the Parliament of Western Australia Office of the Auditor General (Continued)



Responsibilities of the Auditor General for the Financial Statements

The Auditor General is responsible for keeping proper accounts, and the preparation and fair presentation of the financial statements in accordance with Australian Accounting Standards, the *Financial Management Act 2006* and the relevant Treasurer's Instructions, and for such internal control as the Auditor General determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial report, the Auditor General is responsible for assessing the Office's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting.

Auditor's Responsibilities for the Audit of the Financial Statements

As required by the *Auditor General Act 2006*, our responsibility is to express an opinion on the financial statements based on our audit. The objectives of our audit are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but it is not a guarantee that an audit conducted in accordance with Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- ▶ Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- ▶ Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but unless otherwise stated not for the purpose of expressing an opinion on the effectiveness of the Office's internal control.
- ▶ Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Auditor General.

Independent Auditor's opinion

Independent Auditor's Report

To the Parliament of Western Australia
Office of the Auditor General (Continued)



- Conclude on the appropriateness of the Auditor General's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Office's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Office to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

From the matters communicated with the Auditor General, we determine those matters that were of most significance in the audit of the financial report of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Controls

Opinion

We have undertaken a reasonable assurance engagement on the design and implementation of controls exercised by the Office of the Auditor General. The Controls exercised by the Office of the Auditor General are those policies and procedures established by the Auditor General to ensure that the receipt, expenditure and investment of money, the acquisition and disposal of property, and the incurring of liabilities have been in accordance with legislative provisions (the overall control objectives).

Our opinion has been formed on the basis of the matters outlined in this report.

In our opinion, in all material respects, the controls exercised by the Office of the Auditor General are sufficiently adequate to provide reasonable assurance that the receipt, expenditure and investment of money, the acquisition and disposal of property, and the incurring of liabilities have been in accordance with legislative provisions during the year ended 30 June 2018.

Independent Auditor's opinion

Independent Auditor's Report

To the Parliament of Western Australia
Office of the Auditor General (Continued)



Responsibilities of the Auditor General

The Auditor General is responsible for designing, implementing and maintaining controls to ensure that the receipt, expenditure and investment of money, the acquisition and disposal of public and other property, and the incurring of liabilities are in accordance with the *Financial Management Act 2006*, relevant Treasurer's Instructions and other relevant written law.

Auditor's Responsibilities

As required by the *Auditor General Act 2006*, our responsibility is to express an opinion on the suitability of the design of the controls to achieve the overall control objectives and the implementation of the controls as designed. We conducted our engagement in accordance with Standard on Assurance Engagements ASAE 3150 *Assurance Engagements on Controls* issued by the Australian Auditing and Assurance Standards Board. That Standard requires that we comply with relevant ethical requirements and plan and perform our procedures to obtain reasonable assurance about whether, in all material respects, the controls are suitably designed to achieve the overall control objectives and the controls, necessary to achieve the overall control objectives, were implemented as designed.

An assurance engagement to report on the design and implementation of controls involves performing procedures to obtain evidence about the suitability of the design of controls to achieve the overall control objectives and the implementation of those controls. The procedures selected depend on our judgement, including the assessment of the risk that controls are not suitably designed or implemented as designed. Our procedures included testing the implementation of those controls that we consider necessary to achieve the overall control objectives.

We believe that the evidence obtained is sufficient and appropriate to provide a basis for our audit opinion.

Limitations of Controls

Because of the inherent limitations of any internal control structure it is possible that, even if the controls are suitably designed and implemented as designed, once the controls are in operation, the overall control objectives may not be achieved so that fraud, error, or noncompliance with laws and regulations may occur and not be detected. Any projection of the outcome of the evaluation of the suitability of the design of controls to future periods is subject to the risk that the controls may be unsuitable because of changes in conditions.

Independent Auditor's opinion

Independent Auditor's Report

To the Parliament of Western Australia
Office of the Auditor General (Continued)



Report on the Key Performance Indicators

Opinion

We have undertaken a reasonable assurance engagement on the key performance indicators of the Office of the Auditor General for the year ended 30 June 2018. The key performance indicators are the key effectiveness indicators and the key efficiency indicators that provide performance information about achieving outcomes and delivering services.

In our opinion, in all material respects, the key performance indicators of the Office of the Auditor General are relevant and appropriate to assist users to assess the Office's performance and fairly represent indicated performance for the year ended 30 June 2018.

Auditor General's Responsibility for the Key Performance Indicators

The Auditor General is responsible for the preparation and fair presentation of the key performance indicators in accordance with the *Financial Management Act 2006* and the Treasurer's Instructions and for such internal controls as the Auditor General determines necessary to enable the preparation of key performance indicators that are free from material misstatement, whether due to fraud or error.

In preparing the key performance indicators, the Auditor General is responsible for identifying key performance indicators that are relevant and appropriate having regard to their purpose in accordance with Treasurer's Instruction 904 Key Performance Indicators.

Auditor's Responsibility

As required by the *Auditor General Act 2006*, our responsibility is to express an opinion on the key performance indicators. The objectives of the engagement are to obtain reasonable assurance about whether the key performance indicators are relevant and appropriate to assist users to assess the Office's performance and whether the key performance indicators are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We conducted our engagement in accordance with the Standard on Assurance Engagements ASAE 3000 *Assurance Engagements Other than Audits or Reviews of Historical Financial Information* issued by the Australian Auditing and Assurance Standards Board. That standard requires that we comply with relevant ethical requirements relating to assurance engagements.

Independent Auditor's opinion

Independent Auditor's Report

To the Parliament of Western Australia
Office of the Auditor General (Continued)



An assurance engagement involves performing procedures to obtain evidence about the amounts and disclosures in the key performance indicators. It also involves evaluating the relevance and appropriateness of the key performance indicators against the criteria and guidance in Treasurer's Instruction 904 for measuring the extent of outcome achievement and the efficiency of service delivery. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the key performance indicators. In making these risk assessments we obtain an understanding of the internal control relevant to the engagement in order to design procedures that are appropriate in the circumstances.

We believe that the audit evidence obtained is sufficient and appropriate to provide a basis for our opinion.

Independence and Quality Control Relating to the Reports on Financial Statements, Controls and Key Performance Indicators

We have complied with the independence requirements of the *Auditor General Act 2006* and the relevant ethical requirements relating to assurance engagements. In accordance with ASQC 1 *Quality Control for Firms that Perform Audits and Reviews of Financial Reports and Other Financial Information, Other Assurance Engagements and Related Services Engagements*, we maintain a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Matters Relating to the Electronic Publication of the Audited Financial Statements and Key Performance Indicators

This auditor's report relates to the financial statements and key performance indicators of the Office of the Auditor General for the year ended 30 June 2018 included on the Office's website. The Auditor General is responsible for the integrity of the Office's website. This audit does not provide assurance on the integrity of the Office's website. The auditor's report refers only to the financial statements and key performance indicators described above. It does not provide an opinion on any other information which may have been hyperlinked to/from these financial statements or key performance indicators. If users of the financial statements and key performance indicators are concerned with the inherent risks arising from publication on a website, they are advised to refer to the hard copy of the audited financial statements and key performance indicators to confirm the information contained in this website version of the financial statements and key performance indicators.

The logo for Bentleys Chartered Accountants, featuring a stylized blue and grey signature-like font for the word "Bentleys".

BENTLEYS
Chartered Accountants

A handwritten signature in blue ink that reads "Doug Bell".

DOUG BELL
Partner

Dated at Perth this 9th day of August 2018

Statement of comprehensive income

For the year ended 30 June 2018

	Note	2018 \$'000	2017 \$'000
COST OF SERVICES			
Expenses			
Employee benefits expenses	3.1	16,446	15,397
Supplies and services	3.2	6,904	6,102
Depreciation and amortisation expense	5.3	417	331
Impairment expense	5.4	78	–
Accommodation expenses	3.2	2,180	2,242
Other expenses	3.2	67	74
Total cost of services		26,092	24,146
Income			
<i>Revenue</i>			
User charges and fees	4.2	18,984	16,945
Other revenue	4.3	113	33
Total revenue		19,097	16,978
<i>Gains</i>			
Gain on disposal of non-current assets	4.4	13	–
Total gains		13	–
Total income other than income from State Government		19,110	16,978
NET COST OF SERVICES		6,982	7,168
Income from State Government			
Service appropriation	4.1	7,584	7,181
Services received free of charge		408	474
Total income from State Government		7,992	7,655
SURPLUS FOR THE PERIOD		1,010	487
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		1,010	487

The Statement of comprehensive income should be read in conjunction with the accompanying notes.

Statement of financial position

As at 30 June 2018

	Note	2018 \$'000	2017 \$'000
ASSETS			
Current Assets			
Cash and cash equivalents	7.1	5,126	5,039
Receivables	6.1	8,568	7,008
Amounts receivable for services	6.2	240	330
Other current assets	6.3	474	477
Total Current Assets		14,408	12,854
Non-Current Assets			
Restricted cash and cash equivalents	7.1	114	53
Amounts receivable for services	6.2	3,431	2,810
Property, plant and equipment	5.1	575	559
Intangible assets	5.2	340	469
Total Non-Current Assets		4,460	3,891
TOTAL ASSETS		18,868	16,745
LIABILITIES			
Current Liabilities			
Payables	6.4	1,180	540
Provisions	3.1	3,126	2,784
Total Current Liabilities		4,306	3,324
Non-Current Liabilities			
Provisions	3.1	772	941
Total Non-Current Liabilities		772	941
TOTAL LIABILITIES		5,078	4,265
NET ASSETS		13,790	12,480
EQUITY			
Contributed equity	9.3	8,631	8,331
Accumulated surplus		5,159	4,149
TOTAL EQUITY		13,790	12,480

The Statement of financial position should be read in conjunction with the accompanying notes.

Statement of changes in equity

For the year ended 30 June 2018

	Note	Contributed equity \$'000	Accumulated surplus \$'000	Total equity \$'000
Balance at 1 July 2016	9.3	8,081	3,662	11,743
Surplus		–	487	487
Total comprehensive income for the period		–	487	487
Transactions with owners in their capacity as owners:				
Capital appropriations		250	–	250
Total		250	–	250
Balance at 30 June 2017		8,331	4,149	12,480
Balance at 1 July 2017		8,331	4,149	12,480
Surplus		–	1,010	1,010
Total comprehensive income for the period		–	1,010	1,010
Transactions with owners in their capacity as owners:				
Capital appropriations		300	–	300
Total		300	–	300
Balance at 30 June 2018		8,631	5,159	13,790

The Statement of changes in equity should be read in conjunction with the accompanying notes.

Statement of cash flows

For the year ended 30 June 2018

	Note	2018 \$'000	2017 \$'000
CASH FLOWS FROM STATE GOVERNMENT			
Service appropriation		6,863	6,460
Capital appropriations		300	250
Holding Account drawdown		190	390
Net cash provided by State Government		7,353	7,100
Utilised as follows:			
CASH FLOWS FROM OPERATING ACTIVITIES			
Payments			
Employee benefits		(16,317)	(15,296)
Supplies and services		(6,197)	(6,678)
Accommodation		(1,772)	(1,768)
GST payments on purchases		(823)	(908)
GST payments to taxation authority		(1,196)	(1,243)
Other payments		(66)	(74)
Receipts			
User charges and fees		17,523	17,854
GST receipts on sales		1,815	1,942
GST receipts from taxation authority		141	208
Other receipts		38	33
Net cash used in operating activities	7.1.2	(6,854)	(5,930)
CASH FLOWS FROM INVESTING ACTIVITIES			
Payments			
Purchase of non-current assets		(351)	(964)
Receipts			
Proceeds from sale of non-current assets		-	-
Net cash used in investing activities		(351)	(964)
Net increase/(decrease) in cash and cash equivalents		148	206
Cash and cash equivalents at the beginning of the period		5,092	4,886
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	7.1.1	5,240	5,092

The Statement of cash flows should be read in conjunction with the accompanying notes.

Summary of consolidated account appropriations and income estimates

For the year ended 30 June 2018

	2018 Estimate \$'000	2018 Actual \$'000	Variance \$'000	2018 Actual \$'000	2017 Actual \$'000	Variance \$'000
DELIVERY OF SERVICES						
Item 72 Net amount appropriated to deliver services	6,886	6,831	(55)	6,831	6,428	403
Amount Authorised by Other Statutes						
– <i>Salaries and Allowances Act 1975</i>	753	753	–	753	753	–
Total appropriations provided to deliver services	7,639	7,584	(55)	7,584	7,181	403
CAPITAL						
Item 122 Capital appropriations	300	300	–	300	250	50
GRAND TOTAL	7,939	7,884	(55)	7,884	7,431	453
DETAILS OF EXPENSES BY SERVICE						
Public Sector Auditing	26,105	26,092	(13)	26,092	24,146	1,946
Total Cost of Services	26,105	26,092	(13)	26,092	24,146	1,946
Less Total Income	(18,031)	(19,110)	(1,079)	(19,110)	(16,978)	(2,132)
Net Cost of Services	8,074	6,982	(1,092)	6,982	7,168	(186)
Adjustments	(435)	602	1,037	602	13	589
Total appropriations provided to deliver services	7,639	7,584	(55)	7,584	7,181	403
CAPITAL EXPENDITURE						
Purchase of non-current physical assets	490	351	(139)	351	964	(613)
Adjustments for other funding sources	(190)	(51)	139	(51)	(714)	663
Capital appropriations	300	300	–	300	250	50

Adjustments comprise movements in cash balances and other accrual items such as receivables, payables and superannuation.

Note 9.8 'Explanatory statement' provides details of any significant variations between estimates and actual results for 2018 and between the actual results for 2018 and 2017.

Notes to the financial statements

1: Basis of preparation

The Office of the Auditor General (the Office) is a WA Government entity and is controlled by the State of Western Australia, which is the ultimate parent. The Office is a not-for-profit reporting entity.

A description of the nature of our operations and principal activities has been included in the 'Overview' which does not form part of these financial statements.

These annual financial statements were authorised for issue by the Accountable Authority on 9 August 2018.

Statement of compliance

These general purpose financial statements have been prepared in accordance with:

- *Financial Management Act 2006* (FMA)
- The Treasurer's Instructions (the Instructions or TI)
- Australian Accounting Standards (AAS) including applicable interpretations
- Where appropriate, those AAS paragraphs applicable to not-for-profit entities have been applied.

The *Financial Management Act 2006* and Treasurer's Instructions take precedence over AAS. Several AAS are modified by the Instructions to vary application, disclosure format and wording. Where modification is required and has had a material or significant financial effect upon the reported results, details of that modification and the resulting financial effect are disclosed in the notes to the financial statements.

Basis of preparation

These financial statements are presented in Australian dollars applying the accrual basis of accounting and using the historical cost convention. All values are rounded to the nearest thousand dollars (\$'000).

Judgements and estimates

Judgements, estimates and assumptions are required to be made about financial information being presented. The significant judgements and estimates made in the preparation of these financial statements are disclosed in the notes where amounts affected by those judgements and/or estimates are disclosed. Estimates and associated assumptions are based on professional judgements derived from historical experience and various other factors that are believed to be reasonable under the circumstances.

2: Office outputs

How the Office operates

This section includes information regarding the nature of funding the Office receives and how this funding is utilised to achieve the Office's objectives.

2.1 Office objectives

Mission

The Office's mission is to help improve public sector performance and accountability by reporting independently to Parliament.

The Office is partly funded by Parliamentary appropriation. It also charges for certain audit services to agencies and fees are based on full cost recovery. The financial statements encompass all funds through which the Office controls resources to carry out its functions.

Services

The Office is responsible for the delivery of one service: Public Sector Auditing.

This comprises the external audit of the Western Australian public sector through audits of financial statements, controls and key performance indicators and audits of efficiency and effectiveness of public sector operations.

All income, expenditure, assets and liabilities are in relation to the delivery of this service.

2018
\$'000

2017
\$'000

3: Use of our funding

Expenses incurred in the delivery of services

This section provides additional information about how the Office's funding is applied and the accounting policies that are relevant for an understanding of the items recognised in the financial statements. The primary expenses incurred by the Office in achieving its objectives and relevant notes are:

	Notes	2018 \$'000	2017 \$'000
Employee benefits expenses	3.1(a)	16,446	15,397
Employee related provisions	3.1(b)	3,898	3,725
Other expenditure	3.2	9,150	8,418

3.1(a) Employee benefits expenses

Financial disclosure

Wages and salaries	15,024	14,026
Superannuation – defined contribution plans ^(a)	1,422	1,371
	16,446	15,397

(a) Defined contribution plans include West State Superannuation Scheme (WSS), Gold State Superannuation Scheme (GSS), Government Employees Superannuation Board Schemes (GESBs) and other eligible funds.

Accounting Policy

Wages and salaries: Employee expenses include all costs related to employment including wages and salaries, fringe benefits tax, leave entitlements.

Superannuation: The amount recognised in profit or loss in the Statement of comprehensive income comprises employer contributions paid to the GSS (concurrent contributions), the WSS, the GESBs, or other superannuation funds. The employer contribution paid to the Government Employees Superannuation Board (GESB) in respect of the GSS is paid back into the Consolidated Account by the GESB.

2018
\$'000

2017
\$'000

3.1(a) Employee benefits expenses (continued)

GSS (concurrent contributions) is a defined benefit scheme for the purposes of employees and whole-of-government reporting. It is however a defined contribution plan for Office purposes because the concurrent contributions (defined contributions) made by the Office to GESB extinguishes the Office's obligations to the related superannuation liability.

The Office has no liabilities under the Pension Scheme (a defined benefit pension scheme closed to new members since 1987) or the GSS. The liabilities for the unfunded Pension Scheme and the unfunded GSS transfer benefits attributable to members who transferred from the Pension Scheme, are assumed by the Treasurer. All other GSS obligations are funded by concurrent contributions made by the Office to the GESB.

The GESB and other fund providers administer public sector superannuation arrangements in Western Australia in accordance with legislative requirements. The Office makes contributions to GESB or other fund providers on behalf of employees in compliance with the *Commonwealth Government's Superannuation Guarantee (Administration) Act 1992*. All the superannuation schemes are defined contribution plans. Eligibility criteria for membership in particular schemes for public sector employees vary according to commencement and implementation dates.

2018
\$'000

2017
\$'000

3.1(b) Employee related provisions

Financial disclosure

Current

Employee benefits provision

Annual leave ^(a)	1,324	1,023
Long service leave ^(b)	1,785	1,720
Purchased leave	3	28
	3,112	2,771

Other provisions

Employment on-costs	14	13
	14	13

Total **3,126** **2,784**

Non-Current

Employee benefits provision

Long service leave ^(b)	769	937
	769	937

Other provisions

Employment on-costs	3	4
	3	4

Total **772** **941**

Total employee related provisions **3,898** **3,725**

(a) Annual leave liabilities – assessments indicate that actual settlement of the liabilities is expected to occur as follows:

Within 12 months of the end of the reporting period	987	744
More than 12 months after the end of the reporting period	337	279
	1,324	1,023

2018
\$'000

2017
\$'000

3.1(b) Employee related provisions (continued)

(b) Long service leave liabilities – assessments indicate that actual settlement of the liabilities is expected to occur as follows:

Within 12 months of the end of the reporting period	655	545
More than 12 months after the end of the reporting period	1,899	2,112
	2,554	2,657

Accounting policy

Provisions are made for benefits accruing to employees in respect of wages and salaries, annual leave and long service leave for services rendered up to the reporting date and recorded as an expense during the period the services are delivered. Provisions are liabilities of uncertain timing or amount and are recognised where there is a present legal or constructive obligation as a result of a past event and when the outflow of resources embodying economic benefits is probable and a reliable estimate can be made of the amount of the obligation. Provisions are reviewed at the end of each reporting period.

Annual leave

Annual leave is not expected to be settled wholly within 12 months after the end of the reporting period and is therefore considered to be 'other long-term employee benefits'. The annual leave liability is based on remuneration rates current as at the end of the reporting period. An actuarial assessment of annual leave undertaken by PricewaterhouseCoopers Actuaries at 30 June 2018 determined that the liability using the short-hand measurement technique above was not materially different from the liability using the present value of expected future payments. The provision for annual leave is classified as a current liability as the Office does not have an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

2018
\$'000

2017
\$'000

3.1(b) Employee related provisions (continued)

Long service leave

A liability for long service leave is recognised after an employee has completed 4 years (2017: 4 years) of service based on remuneration rates current as at the end of the reporting period. An actuarial assessment of long service leave undertaken by PricewaterhouseCoopers Actuaries at 30 June 2018 determined that the liability measured using the short-hand measurement technique above was not materially different from the liability determined using the present value of expected future payments. This calculation is consistent with the Office's experience of employee retention and leave taken. Unconditional long service leave provisions are classified as current liabilities as the Office does not have an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period. Pre-conditional and conditional long service leave provisions are classified as non-current liabilities because the Office has an unconditional right to defer settlement of the liability until the employee has completed the requisite years of service.

Several estimations and assumptions used in calculating the Office's annual leave and long service leave provisions include expected future salary rates, discount rates, employee retention rates and timing of expected future payments. Changes in these estimations and assumptions may impact on the suitability of the short-hand measurement techniques and the carrying amounts of the annual leave and long service leave provisions.

Purchased leave

The provision for purchased leave relates to public service employees who have entered into an agreement to self-fund up to an additional 10 weeks leave per calendar year. The provision recognises the value of salary set aside for employees and is measured at the undiscounted amounts expected to be paid when the liabilities are settled.

Employment on-costs

Employment on-costs, including workers' compensation insurance, are not employee benefits and are recognised separately as liabilities and expenses when employment to which they relate has occurred. Employment on-costs are included as part of 'Note 3.2 Other expenditure'. The related liability is included in 'Employment on-costs provision'.

2018
\$'000

2017
\$'000

3.2. Other expenditure

Financial disclosure

Supplies and services

Contracted audit work	4,528	3,983
Other services and contracts	621	502
Other staffing costs	193	192
Repairs and maintenance	637	730
Travel and accommodation	234	199
Administration	272	201
Consumables	66	82
Motor vehicle lease expenses	89	112
Artwork leases	2	2
Communications	159	96
Advertising	1	1
Other	102	2
Total supplies and services expenses	6,904	6,102

Accommodation expenses

Office lease rentals	1,610	1,656
Office parking	97	102
Monthly outgoings	473	484
Total accommodation expenses	2,180	2,242

Other expenses

Employment on-costs	42	33
Other expenses	25	41
Total other expenses	67	74
Total other expenditure	9,150	8,418

2018
\$'000

2017
\$'000

4: Our funding sources

How we obtain our funding

This section provides additional information about how the Office obtains its funding and the relevant accounting policy notes that govern the recognition and measurement of this funding. The primary income received by the Office and relevant notes are:

	Notes	2018 \$'000	2017 \$'000
Income from State Government	4.1	7,992	7,655
User charges and fees	4.2	18,984	16,945
Other revenue	4.3	113	33
Gains	4.4	13	–

4.1 Income from State Government

Financial disclosure

Appropriation received during the period:

Service appropriation ^(a)	7,584	7,181
	7,584	7,181

Services received free of charge from other State Government agencies during the period:

State Solicitor's Office	1	17
Department of Finance	407	457
	408	474
Total income from State Government	7,992	7,655

(a) Service appropriations fund the net cost of services delivered. Appropriation revenue comprises a cash component and a receivable (asset). The receivable (Holding Account) comprises the budgeted depreciation expense for the year and any agreed increase in leave liabilities during the year.

2018
\$'000

2017
\$'000

4.1 Income from State Government (continued)

Accounting policy

Service appropriations are recognised as revenues in the period in which the Office gains control of the appropriated funds. The Office gains control of appropriated funds at the time those funds are deposited into the bank account or credited to the 'Amounts receivable for services (Holding Account)' held at Treasury.

Assets or services received free of charge or for nominal cost that the Office would otherwise purchase if not donated, are recognised as income at the fair value of the assets or services where they can be reliably measured. A corresponding expense is recognised for services received. Receipts of assets are recognised in the Statement of Financial Position.

4.2 User charges and fees

Financial disclosure

Audit fees	18,984	16,945
	18,984	16,945

Accounting policy

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

Sale of goods – Revenue is recognised when the significant risks and rewards of ownership transfer to the purchaser and can be measured reliably.

Provision of services – Revenue is recognised by reference to the stage of completion of the transaction. For audits conducted in-house, the percentage completed is estimated from the percentage of budget hours completed.

For contract audits, the percentage completed is estimated on the basis of actual invoices received from contract audit firms, supplemented by their estimate of subsequent work completed but not yet billed.

2018
\$'000

2017
\$'000

4.2 User charges and fees (continued)

Net appropriation determination – The Treasurer may make a determination providing for prescribed receipts to be retained for services under the control of the Office. The Office retained \$19.0 million in 2018 (\$17.0m in 2017) from the following:

Assurance and audit fees
Government vehicle scheme
Other Office revenue

4.3 Other revenue

Financial disclosure

Contributions for the use of motor vehicle	35	31
Miscellaneous	78	2
	113	33

4.4 Gains

Proceeds from disposal of non-current assets		
– Office and computer equipment	13	–
Carrying amount of non-current assets disposed of		
– Office and computer equipment	–	–
Net gain	13	–

2018
\$'000

2017
\$'000

5: Key assets

Assets the Office utilises for economic benefit or service potential

This section includes information regarding the key assets the Office utilises to gain economic benefits or provide service potential. The section sets out both the key accounting policies and financial information about the performance of these assets.

	Notes		
Property, plant and equipment	5.1	575	559
Intangibles	5.2	340	469
Depreciation and amortisation expense	5.3		
Impairment of assets	5.4		

5.1 Property, plant and equipment

Financial disclosure

Office and Computer Equipment

At cost	2,217	2,255
Accumulated depreciation	(1,642)	(1,696)
	575	559

Reconciliations of the carrying amounts of property, plant, and equipment at the beginning and end of the reporting period are set out in the table below:

2017

Carrying amount at start of period	191
Additions	554
Depreciation	(186)
Carrying amount at end of period	559

2018

Carrying amount at start of period	559
Additions	278
Depreciation	(262)
Carrying amount at end of period	575

2018
\$'000

2017
\$'000

5.1 Property, plant and equipment (continued)

Accounting policy

Items of property, plant and equipment costing \$5,000 or more are recognised as assets and the cost is depreciated over their useful lives. Items of property, plant and equipment costing less than \$5,000 are immediately expensed direct to the Statement of Comprehensive Income other than where they form part of a group of similar items which are significant in total.

Property, plant and equipment are initially recognised at cost. For items of property, plant and equipment acquired at no cost or for nominal cost, the cost is the fair value at the date of acquisition.

All items of property, plant and equipment are stated at historical cost less accumulated depreciation and accumulated impairment losses.

5.2 Intangible assets

Financial disclosure

Computer software

At cost	1,589	1,537
Accumulated amortisation	(1,400)	(1,244)
Carrying amount at the end of the period	189	293
Computer software in development – at cost	151	176
Total	340	469

2018
\$'000

2017
\$'000

5.2 Intangible assets (continued)

Reconciliations of the carrying amounts of intangible assets at the beginning and end of the reporting period are set out in the table below:

	Computer Software \$'000	Computer Software in Development \$'000	Total \$'000
2017			
Carrying amount at start of period	114	49	193
Additions	39	382	421
Transfers	255	(255)	–
Amortisation expense	(145)	–	(145)
Carrying amount at end of period	293	176	469
2018			
Carrying amount at start of period	293	176	469
Additions	–	104	104
Transfers	51	(51)	–
Impairment loss (Note 5.4)	–	(78)	(78)
Amortisation expense	(155)	–	(155)
Carrying amount at end of period	189	151	340

Accounting policy

Acquisitions of intangible assets costing \$5,000 or more and internally generated intangible assets costing \$50,000 or more are capitalised. The cost is amortised over their useful lives. Costs incurred below these thresholds are immediately expensed to the Statement of Comprehensive Income. Intangible assets are initially recognised at cost. For assets acquired at no cost or for nominal cost, the cost is their fair value at the date of acquisition.

Expenditure relating to the development of computer software is capitalised when it meets the criteria outlined in the relevant Australian Accounting Standards. Management has exercised judgement in determining the costs that are directly attributable to the development of computer software and require capitalisation. Key estimates and assumptions concerning the future are based on historical experience and various other factors that have a significant risk of causing a material adjustment to the carrying amount of the assets within the next financial year.

2018
\$'000

2017
\$'000

5.3 Depreciation and amortisation expense

Accounting policy

Depreciation for property, plant and equipment is calculated using the straight line method, using rates which are reviewed annually. Estimated useful lives for each class of depreciable asset are: Office and computer equipment – 2 to 10 years.

Amortisation for intangible assets with finite useful lives is calculated for the period of the expected benefit (estimated useful life which is reviewed annually) on the straight line basis. All intangible assets have a finite useful life and zero residual value. The expected useful lives for intangible assets are:
Software – 3 years.

Financial disclosure

Depreciation – office and computer equipment	262	186
Amortisation – intangible assets	155	145
	417	331

5.4 Impairment of assets

Accounting policy

Property, plant and equipment and intangible assets are tested for any indication of impairment at the end of each reporting period.

Financial disclosure

During the financial year, the decision was made to discontinue work on the timekeeper element of the People Practice and Management Project. As the economic benefits of this component of the project will not be realised, an impairment loss has been recognised.

An amount of \$77,885 in computer software in development has been written down.

There were no indications of impairment to property, plant and equipment or intangible assets at 30 June 2018. (\$Nil as at 30 June 2017).

2018
\$'000

2017
\$'000

6: Other assets and liabilities

This section sets out those assets and liabilities that arose from the operations of the Office and includes other assets utilised for economic benefits and liabilities incurred during normal operations:

	Notes	2018 \$'000	2017 \$'000
Receivables	6.1	8,568	7,008
Amounts receivable for services (Holding Account)	6.2	3,671	3,140
Other assets	6.3	474	477
Payables	6.4	1,180	540

6.1 Receivables

Financial disclosure

Current

Accrued revenue	8,310	6,810
GST receivables	204	141
Amounts receivable for employees seconded	54	52
Salary over-payments	–	5
Total	8,568	7,008

Accounting policy

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

Accrued revenue includes amounts receivable for work-in-progress. For audits conducted in-house, the percentage completed is estimated from the percentage of budget hours completed. For contract audits, the percentage completed is estimated on the basis of actual invoices received from contract audit firms, supplemented by their estimate of subsequent work completed but not yet billed.

2018 2017
\$'000 \$'000

6.2. Amounts receivable for services (Holding Account)

Financial disclosure

Current	240	330
Non-current	3,431	2,810
Total	3,671	3,140

Accounting policy

The Office receives funding on an accrual basis. The appropriations are paid partly in cash and partly as an asset (Holding Account receivable) held by Treasury. The accrued amount receivable is restricted as it is only accessible on the emergence of the cash funding requirement to cover leave entitlements and asset replacement.

6.3. Other assets

Current

Prepayments	474	477
Total	474	477

6.4 Payables

Financial disclosure

Current

Accrued expenses	607	12
Accrued salaries	64	56
Paid parental leave	–	3
Amounts payable for employees seconded	–	71
Work in progress contractor audit work	509	398
Total	1,180	540

Accounting policy

Accrued salaries represent the amount due to staff but unpaid at the end of the financial year. Accrued salaries are settled within a fortnight of the financial year end. The Office considers the carrying amount of accrued salaries to be equivalent to its fair value.

Payables are recognised at the amounts payable when the Office becomes obliged to make future payments as a result of a purchase of assets or services. The carrying amount is equivalent to fair value, as settlement is generally within 30 days.

2018 2017
\$'000 \$'000

7: Financing

This section sets out the material balances and disclosures associated with the financing and cash flows of the Office.

	<i>Notes</i>
Cash and cash equivalents	7.1
Reconciliation of cash and cash equivalents	7.1.1
Reconciliation of net cost of services to net cash used in operating activities	7.1.2
Commitments	7.2

7.1 Cash and cash equivalents

For the purpose of the Statement of cash flows, cash and cash equivalent (and restricted cash and cash equivalent) assets comprise cash on hand and short-term deposits with original maturities of 3 months or less that are readily convertible to a known amount of cash and which are subject to insignificant risk of changes in value.

7.1.1 Reconciliation of cash and cash equivalents

Reconciliation of cash and cash equivalents

Cash and cash equivalents at the end of the financial year as shown in the Statement of cash flows is reconciled to the related items in the Statement of financial position as follows:

Cash and cash equivalents	5,126	5,039
Restricted cash and cash equivalents	114	53
	5,240	5,092

Restricted cash and cash equivalents

Financial disclosure

Non-current	114	53
	114	53

Accounting policy

The accrued salaries suspense account consists of amounts paid annually into a suspense account over a period of 10 financial years to largely meet the additional cash outflow in each eleventh year when 27 pay days occur instead of the normal 26. No interest is received on this account.

	2018 \$'000	2017 \$'000
7.1.2 Reconciliation of net cost of services to net cash used in operating activities		
Net cost of services	(6,982)	(7,168)
Non-cash items		
Depreciation and amortisation expense	417	331
Services received free of charge	408	474
Impairment expense	78	–
Net gain on disposal of non-current assets	(13)	–
(Increase)/decrease in assets		
Current receivables	(1,494)	1,007
Increase/(decrease) in liabilities		
Current payables	622	(433)
Current provisions	342	(39)
Non-current provisions	(169)	(23)
Change in GST in receivables/payables	(63)	(79)
Net cash used in operating activities	(6,854)	(5,930)

7.2 Commitments

Accounting policy

The Office holds operating leases for office accommodation, certain equipment and motor vehicles. Lease payments are expensed on a straight line basis over the lease term as this represents the pattern of benefits derived from the leased items.

	2018 \$'000	2017 \$'000
7.2 Commitments (continued)		
<i>Financial disclosure</i>		
Non-cancellable operating lease commitments		
Commitments for minimum lease payments are payable as follows:		
Within 1 year	2,111	2,315
Later than 1 year and not later than 5 years	8,680	15
Later than 5 years	11	–
	10,802	2,330

The Office has entered into a Memorandum of Understanding (MoU) with the Department of Finance's Building Management and Works division for leasing floor space at Albert Facey House. The MoU is not a legally binding agreement, however, it has been agreed that all parties will comply with the terms and conditions as if they were legally enforceable obligations. It covers a 5-year occupancy period from 1 July 2018. Rent is payable monthly in arrears. Contingent rent provisions within the MoU require that the minimum lease payments shall be increased by any increase in market indices from 1 July 2019 and bi-annually thereafter.

The commitments below are inclusive of GST where relevant:

Capital expenditure commitments

Capital expenditure commitments for development of a new human resources management information system additional to the amounts reported in the financial statements, are payable as follows:

Within 1 year	34	91
Later than 1 year and not later than 5 years	–	–
Later than 5 years	–	–
	34	91

Other expenditure commitments

Audit services contracted through private sector audit firms at the end of the reporting period but not recognised as liabilities, are payable as follows:

Within 1 year	4,230	2,519
Later than 1 year and not later than 5 years	2,445	987
Later than 5 years	–	–
	6,675	3,506

2018 2017
\$'000 \$'000

7.2 Commitments (continued)

Recurrent expenditure commitments for contracted fortnightly payroll processing at the end of the reporting period but not recognised as liabilities, are payable as follows:

Within 1 year	44	48
Later than 1 year and not later than 5 years	–	48
Later than 5 years	–	–
	44	96

8: Risks and contingencies

This note sets out the key risk management policies and measurement techniques of the Office

Financial risk management

Notes

8.1

8.1. Financial risk management

Accounting policy

In addition to cash and cash equivalents, the Office has 2 categories of financial instruments: Loans and receivables; and Financial liabilities measured at amortised cost.

Initial recognition and measurement of financial instruments is at fair value which normally equates to the transaction cost or the face value. Subsequent measurement is at amortised cost using the effective interest method. The fair value of short-term receivables and payables is the transaction cost or the face value because there is no interest rate applicable and subsequent remeasurement is not required as the effect of discounting is not material.

2018 2017
\$'000 \$'000

8.1. Financial risk management (continued)

(a) Financial risk management objectives and policies

The Office has limited exposure to financial risks. The Office's overall risk management program focuses on managing the risks identified below.

Credit risk arises when there is the possibility of the Office's receivables defaulting on their contractual obligations resulting in financial loss to the Office. The maximum exposure to credit risk at the end of the reporting period in relation to each class of recognised financial assets is the gross carrying amount of those assets inclusive of any allowance for impairment as shown in the table at Note 8.1(b) 'Financial instrument disclosures' and Note 6.1 'Receivables'.

Credit risk associated with the Office's financial assets is minimal because the main receivables are the amounts receivable for services (Holding Account) and audit receivables. The Office does not have any significant credit risk as services are provided only to government agencies. In addition, receivable balances are monitored on an ongoing basis with the result that the Office's exposure to bad debts is minimal. At the end of the reporting period there were no significant concentrations of credit risk, other than in respect of government agencies.

Liquidity risk arises when the Office is unable to meet its financial obligations as they fall due. The Office is exposed to liquidity risk through its trading in the normal course of business.

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

Market risk is the risk that changes in market prices such as foreign exchange rates and interest rates will affect the Office's income or the value of its holdings of financial instruments. The Office does not trade in foreign currency and is not materially exposed to other price risks. The Office is not exposed to interest rate risk because all cash and cash equivalents are non-interest bearing and the Office has no borrowings.

8.1. Financial risk management (continued)

(b) Financial instrument disclosures

Credit risk

The following table discloses the Office's maximum exposure to credit risk and the ageing analysis of financial assets. The Office's maximum exposure to credit risk at the end of the reporting period is the carrying amount of financial assets as shown below. The table discloses the ageing of financial assets that are past due but not impaired and impaired financial assets (if any). The table is based on information provided to senior management of the Office.

The Office does not hold any collateral as security or other credit enhancement relating to the financial assets it holds.

Ageing analysis of financial assets

	Carrying amount \$'000	Not past due and not impaired \$'000	Past due but not impaired					Impaired financial assets \$'000
			Up to 1 month \$'000	1-3 months \$'000	3 months to 1 year \$'000	1-5 years \$'000	More than 5 years \$'000	
2018								
Cash and cash equivalents	5,126	5,126	–	–	–	–	–	–
Restricted cash and cash equivalents	114	114	–	–	–	–	–	–
Receivables ^(a)	8,364	8,364	–	–	–	–	–	–
Amounts receivable for services	3,671	3,671	–	–	–	–	–	–
	17,275	17,275	–	–	–	–	–	–
2017								
Cash and cash equivalents	5,039	5,039	–	–	–	–	–	–
Restricted cash and cash equivalents	53	53	–	–	–	–	–	–
Receivables ^(a)	6,867	6,867	–	–	–	–	–	–
Amounts receivable for services	3,140	3,140	–	–	–	–	–	–
	15,099	15,099	–	–	–	–	–	–

(a) The amount of receivables excludes the GST recoverable from the ATO (statutory receivable).

8.1. Financial risk management (continued)

Liquidity risk and interest rate exposure

The following table details the Office's interest rate exposure and the maturity analysis of financial assets and financial liabilities. The maturity analysis section includes interest and principal cash flows. The interest rate exposure section analyses only the carrying amounts of each item.

Interest rate exposure and maturity analysis of financial assets and financial liabilities

	Weighted average effective interest rate %	Carrying amount \$'000	Interest rate exposure			Nominal amount \$'000	Maturity dates					
			Fixed interest rate \$'000	Variable interest rate \$'000	Non-interest bearing \$'000		Up to 1 month \$'000	1-3 months \$'000	3 months to 1 year \$'000	1-5 years \$'000	More than 5 years \$'000	
2018												
Financial Assets												
Cash and cash equivalents	–	5,126	–	–	5,126	5,126	5,126	–	–	–	–	–
Restricted cash and cash equivalents	–	114	–	–	114	114	–	–	–	–	–	114
Receivables ^(a)	–	8,364	–	–	8,364	8,364	8,364	–	–	–	–	–
Amounts receivable for services	–	3,671	–	–	3,671	3,671	–	240	–	–	3,431	–
		17,275	–	–	17,275	17,275	13,490	240	–	–	3,431	114
Financial Liabilities												
Payables	–	1,180	–	–	1,180	1,180	1,180	–	–	–	–	–
		1,180	–	–	1,180	1,180	1,180	–	–	–	–	–

(a) The amount of receivables excludes the GST recoverable from the ATO (statutory receivable).

8.1 Financial risk management (continued)

Interest rate exposure and maturity analysis of financial assets and financial liabilities

	Weighted average effective interest rate %	Interest rate exposure				Nominal amount \$'000	Maturity dates				
		Carrying amount \$'000	Fixed interest rate \$'000	Variable interest rate \$'000	Non-interest bearing \$'000		Up to 1 month \$'000	1-3 months \$'000	3 months to 1 year \$'000	1-5 years \$'000	More than 5 years \$'000
2017											
Financial Assets											
Cash and cash equivalents	–	5,039	–	–	5,039	5,039	5,039	–	–	–	–
Restricted cash and cash equivalents	–	53	–	–	53	53	–	–	–	–	53
Receivables ^(a)	–	6,867	–	–	6,867	6,867	6,867	–	–	–	–
Amounts receivable for services	–	3,140	–	–	3,140	3,140	–	330	–	2,810	–
		15,099	–	–	15,099	15,099	11,906	330	–	2,810	53
Financial Liabilities											
Payables	–	540	–	–	540	540	540	–	–	–	–
		540	–	–	540	540	540	–	–	–	–

(a) The amount of receivables excludes the GST recoverable from the ATO (statutory receivable).

Fair values

All financial assets and liabilities recognised in the Statement of financial position are recognised at amounts that represent a reasonable approximation of fair value unless otherwise stated in the applicable notes.

	2018	2017
	\$'000	\$'000

9.2 Related party transactions

The Office is a wholly-owned public sector entity that is controlled by the State of Western Australia.

Related parties of the Office include:

- all Ministers and their close family members, and their controlled or jointly controlled entities;
- all senior officers and their close family members, and their controlled or jointly controlled entities;
- other departments and statutory authorities, including their related bodies, that are included in the whole of government consolidated financial statements;
- associates and joint ventures that are included in the whole of Government consolidated financial statements; and
- the Government Employees Superannuation Board (GESB).

Significant transactions with Government-related entities:

- service appropriation (Note 4.1);
- capital appropriation (Note 9.3);
- audit fee income (Note 4.2);
- office lease rentals and monthly outgoings (Notes 3.2 and 7.2);
- motor vehicle lease expenses (Notes 3.2 and 7.2);
- services received free of charge (Note 4.1).

Significant balances with Government-related entities at year end include:

- Amounts receivable for services (Holding Account) (Note 6.2); and
- accrued revenue receivable (Note 6.1).

Material transactions with other related parties:

- superannuation payments to GESB (Note 3.1a).

The Office had no material related party transactions with Ministers, Senior Officers or their close family members or their controlled or jointly controlled entities. Refer to Note 9.1 for disclosure of compensation of key management personnel.

9: Other disclosures

This section includes additional material disclosures required by accounting standards or other pronouncements, for the understanding of this financial report.

Notes

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9.1 Key management personnel

The Office has determined that key management personnel include the senior officers of the Office. Total compensation for senior officers for the reporting period are presented within the following bands:

Compensation Band (\$)	2018	2017
20,001 – 30,000	1	–
40,001 – 50,000	1	–
170,001 – 180,000	1	–
200,001 – 210,000	–	1
210,001 – 220,000	1	–
220,001 – 230,000	1	2
240,001 – 250,000	–	1
250,001 – 260,001	2	–
260,001 – 270,000	–	1
270,001 – 280,000	1	–
300,001 – 310,000	–	1
440,001 – 450,000	1	1
	\$'000	\$'000
Short-term employment benefits	1,535	1,559
Post-employment benefits	192	173
Other long-term benefits	186	188
Total compensation of senior officers	1,913	1,920

	2018 \$'000	2017 \$'000
9.3. Equity		
<i>Financial disclosure</i>		
Contributed equity		
Balance at start of period	8,331	8,081
Contributions by owners		
Capital appropriation	300	250
Total contributions by owners	300	250
Balance at end of period	8,631	8,331
Accumulated surplus		
Balance at start of period	4,149	3,662
Result for the period	1,010	487
Balance at end of period	5,159	4,149
Total Equity at end of period	13,790	12,480

Accounting policy

The Western Australian Government holds the equity interest in the Office on behalf of the community. Equity represents the residual interest in the net assets of the Office.

AASB Interpretation 1038 *Contributions by Owners Made to Wholly-Owned Public Sector Entities* requires transfers in the nature of equity contributions, other than as a result of a restructure of administrative arrangements, to be designated by the Government (the owner) as contributions by owners (at the time of, or prior to transfer) before such transfers can be recognised as equity contributions.

Capital appropriations have been designated as contributions by owners by TI 955 *Contributions by Owners made to Wholly Owned Public Sector Entities* and have been credited directly to Contributed Equity.

	2018 \$'000	2017 \$'000
9.4 Services provided free of charge		
During the year no audit services were provided by the Office free of charge to departments, statutory authorities and request audits:		
Chowerup Cemetery Board	–	3
Dwellingup Cemetery Board	–	3
	–	6

9.5 Remuneration of auditor

An independent auditor is appointed by the Governor under section 38(2) of the *Auditor General Act 2006* to audit the accounts, financial statements, controls and performance indicators of the Office with the fee being paid by this Office. Remuneration in respect of the audit for the current financial year is as follows:

Auditing the accounts, financial statements, controls and key performance indicators	39	41
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9.6 Events occurring after the end of the reporting period

There were no events occurring after the end of the reporting period that warrant disclosure.

9.7 Supplementary financial information

During the current and previous financial years, there were no:

- write-offs by the Office;
- losses through theft, defaults and other causes; and
- gifts of public property provided by the Office.

9.8 Explanatory statement

All variances between estimates (original budget) and actual results for 2018, and between the actual results for 2018 and 2017 are shown below. Narratives are provided for major variances, which are greater than:

- 5% and \$483,000 for the Statements of Comprehensive Income and Cash Flows
- 5% and \$335,000 for the Statement of Financial Position.

	Variance Note	Estimate 2018 \$'000	Actual 2018 \$'000	Actual 2017 \$'000	Variance between estimate and actual \$'000	Variance between actual results for 2018 and 2017 \$'000
Statement of Comprehensive Income						
Expenses						
Employee benefits expense	1,a	15,429	16,446	15,397	1,017	1,049
Supplies and services	2,b	7,542	6,904	6,102	(638)	802
Depreciation and amortisation expense		721	417	331	(304)	86
Impairment expense		–	78	–	78	78
Accommodation expenses		2,339	2,180	2,242	(159)	(62)
Other expenses		74	67	74	(7)	(7)
Total cost of services		26,105	26,092	24,146	(13)	1,946
Income						
<i>Revenue</i>						
User charges and fees	3,c	18,031	18,984	16,945	953	2,039
Other revenue		–	113	33	113	80
Total Revenue		18,031	19,097	16,978	1,066	2,119
<i>Gains</i>						
Gains on disposal of non-current assets		–	13	–	13	13
Total Gains		–	13	–	13	13
Total income other than income from State Government		18,031	19,110	16,978	1,079	2,132
NET COST OF SERVICES		8,074	6,982	7,168	(1,092)	(186)
Income from State Government						
Service appropriation		7,639	7,584	7,181	(55)	403
Services received free of charge		467	408	474	(59)	(66)
Total income from State Government		8,106	7,992	7,655	(114)	337
SURPLUS FOR THE PERIOD		32	1,010	487	978	523
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		32	1,010	487	978	523

9.8 Explanatory statement (continued)

	Variance Note	Estimate 2018 \$'000	Actual 2018 \$'000	Actual 2017 \$'000	Variance between estimate and actual \$'000	Variance between actual results for 2018 and 2017 \$'000
Statement of Financial Position						
ASSETS						
Current Assets						
Cash and cash equivalents		3,061	5,126	5,039	2,065	87
Receivables		9,479	8,568	7,008	(911)	1,560
Amounts receivable for services		240	240	330	–	(90)
Other current assets		422	474	477	52	(3)
Total Current Assets		13,202	14,408	12,854	1,206	1,554
Non-Current Assets						
Restricted cash and cash equivalents		114	114	53	–	61
Amounts receivable for services		3,431	3,431	2,810	–	621
Property, plant and equipment	4	194	575	559	381	16
Intangible assets		617	340	469	(277)	(129)
Total Non-Current Assets		4,356	4,460	3,891	104	569
TOTAL ASSETS		17,558	18,868	16,745	1,310	2,123
LIABILITIES						
Current Liabilities						
Payables		1,411	1,180	540	(231)	640
Provisions	d	2,823	3,126	2,784	303	342
Total Current Liabilities		4,234	4,306	3,324	72	982
Non-Current Liabilities						
Provisions		964	772	941	(192)	(169)
Total Non-Current Liabilities		964	772	941	(192)	(169)
TOTAL LIABILITIES		5,198	5,078	4,265	(120)	813
NET ASSETS		12,360	13,790	12,480	1,430	1,310
EQUITY						
Contributed equity		8,631	8,631	8,331	–	300
Accumulated surplus		3,729	5,159	4,149	1,430	1,010
TOTAL EQUITY		12,360	13,790	12,480	1,430	1,310

9.8 Explanatory statement (continued)

	Variance Note	Estimate 2018 \$'000	Actual 2018 \$'000	Actual 2017 \$'000	Variance between estimate and actual \$'000	Variance between actual results for 2018 and 2017 \$'000
Statement of Cash Flows						
CASH FLOWS FROM STATE GOVERNMENT						
Service appropriation		6,918	6,863	6,460	(55)	403
Capital appropriations		300	300	250	–	50
Holding Account drawdown		190	190	390	–	(200)
Net cash provided by State Government		7,408	7,353	7,100	(55)	253
Utilised as follows:						
CASH FLOWS FROM OPERATING ACTIVITIES						
Payments						
Employee benefits	5,e	(15,370)	(16,317)	(15,296)	(947)	(1,021)
Supplies and services	6,f	(7,190)	(6,197)	(6,678)	993	481
Accommodation		(1,888)	(1,772)	(1,768)	116	(4)
GST payments on purchases		(810)	(823)	(908)	(13)	85
GST payments to taxation authority		(990)	(1,196)	(1,243)	(206)	47
Other payments		(74)	(66)	(74)	8	8
Receipts						
User charges and fees		17,118	17,523	17,854	405	(331)
GST receipts on sales		1,630	1,815	1,942	185	(127)
GST receipts from taxation authority		170	141	208	(29)	(67)
Other receipts		–	38	33	38	5
Net cash used in operating activities		(7,404)	(6,854)	(5,930)	550	(924)
CASH FLOWS FROM INVESTING ACTIVITIES						
Payments						
Purchase of non-current assets	g	(490)	(351)	(964)	139	613
Receipts						
Proceeds from sale of non-current assets		–	–	–	–	–
Net cash used in investing activities		(490)	(351)	(964)	139	613
Net increase/(decrease) in cash and cash equivalents		(486)	148	206	634	(58)
Cash and cash equivalents at the beginning of the period		3,661	5,092	4,886	1,431	206
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD		3,175	5,240	5,092	2,065	148

9.8 Explanatory statement (continued)

Major estimate and actual variance narratives

Statement of comprehensive income

1. Employee benefits expense is greater than the estimate by \$1,017,000 (6.6%). During the year the Office commenced the financial audit of 46 local government entities. Additional staff resources were required to conduct 3 in-house audits and undertake contract management activities of 43 contracted out audits. The estimate has included a long standing understatement in employee benefits expense, which has been corrected in the 2018-19 budget and forward estimates through a once off adjustment of \$700,000 between employee benefits and supplies and services. The actual result is more closely aligned to the new revised employee benefits expense estimate.
2. Supplies and services expense is lower than the estimate by \$638,000 (8.5%) as a result of the following:
 - A long standing overstatement in contractor expenses in the estimates was addressed in the 2018-19 budget and forward estimates through a once off adjustment (\$700,000) between employee benefits and supplies and services.
 - Additional private sector audit contracts of \$470,000 to undertake the financial audits of local government entities.
 - Underspend in other contracts and services of \$408,000.
3. Revenue from user charges and fees is greater than the estimate by \$953,000 (5.3%) mainly due to the recognition of an additional \$704,000 of revenue relating to the financial auditing of local government entities.

Statement of financial position

4. The carrying amount of property, plant and equipment is over the estimate by \$381,000. This is the result of the estimate having a combination of a lower estimated opening carrying amount (\$369,000) and additional estimated depreciation (\$165,000), offset by higher estimated purchases of computer hardware of \$153,000.

Statement of cash flows

5. Payment of employee benefits is greater than the estimate by \$947,000 (6.2%). During the year the Office commenced the financial audit of 46 local government entities. Additional staff resources were required to conduct 3 in-house audits and undertake contract management activities of 43 contracted out audits. In addition, a long standing understatement in employee benefits expenses in the estimates has been addressed through a once off adjustment of \$700,000 between employee benefits and supplies and services.
6. Payments for supplies and services is lower than the estimate by \$993,000 (13.8%). A long standing overstatement in contractor expenses in the estimate

9.8 Explanatory statement (continued)

was addressed through a once off adjustment of \$700,000 between employee benefits and supplies and services. Increases in services and contracts include expenses incurred in undertaking financial audits of 43 local government entities contracted out to private sector audit firms. A portion of contracted work (\$435,000) is recognised as accrued expenses to be paid in the next financial year.

Major actual (2018) and comparative (2017) variance narratives

Statement of comprehensive income

- a. Employee benefits expense is greater than the prior year by \$1,049,000 (6.8%) as a result of additional resources required to undertake local government financial and performance auditing.
- b. Supplies and services expense is greater than the prior year by \$802,000 (13.1%) as a result of additional private sector audit contracts to undertake the financial audits of local government entities and State agency audits that were previously conducted in-house.
- c. User charges and fees is greater than the prior year by \$2,039,000 (12.0%). This is the result of the recognition of additional revenue of \$704,000 relating to financial auditing of local government entities, and increased value of activity for the period for existing financial audits reflected in work in progress at year end.

Statement of financial position

- d. The increase in current provisions of \$342,000 (12.3%) is due to a combination of a prior year understatement of annual leave liability (\$139,000) and an increase in leave entitlements (\$203,000).

Statement of cash flows

- e. Payments of employee benefits is greater than the prior year by \$1,021,000 (6.7%) reflecting an increase in resources required to undertake local government financial and performance auditing.
- f. Payments for supplies and services has reduced by \$481,000 (7.2%) as a result of an increase in contractor expenses recognised as accruals to be paid in the next financial year.
- g. Payments for the purchase of assets reduced by \$613,000. In 2017-18 the Office spent \$351,000 primarily on replacement laptops (\$102,000), audio visual devices (\$145,000) and software projects (\$86,000).

In the prior financial year, \$964,000 was spent on:

- software development (\$206,000 spent on the completion of the payroll component, and \$164,000 on the timekeeper, reporting and training and development components); and
- computer hardware with the upgrade of laptops, replacement of the firewall and the purchase of LED digital display screens (\$554,000).

9.9 Future impact of Australian Accounting Standards not yet operative

The Office cannot early adopt an Australian Accounting Standard unless specifically permitted by TI 1101 *Application of Australian Accounting Standards and Other Pronouncements* or by an exemption from TI 1101. Where applicable, the Office plans to apply the following Australian Accounting Standards from their application date.

Operative for reporting
periods beginning on/after

AASB 9	<p><i>Financial Instruments (and related revisions to other Standards)</i></p> <p>This Standard supersedes AASB 139 <i>Financial Instruments: Recognition and Measurement</i>, introducing a number of changes to accounting treatments.</p> <p>The Office has not yet determined the potential impact of the Standard.</p>	1 Jan 2018
AASB 15	<p><i>Revenue from Contracts with Customers</i></p> <p>This Standard establishes the principles that the Office shall apply to report useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from a contract with a customer. The Office's income is primarily derived from 'User charges and fees'. The Office has not yet determined the potential impact of the Standard on 'User charges and fees' and 'Other revenue'.</p>	1 Jan 2019
AASB 16	<p><i>Leases</i></p> <p>This Standard introduces a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value.</p> <p>Whilst the impact of AASB 16 has not yet been quantified, the Office currently has operating lease commitments for \$10.8m. The Office anticipates most of this amount will be brought onto the statement of financial position at their present value, excepting amounts relating to short-term or low-value leases. Interest and amortisation expense will increase and lease rental expense will decrease.</p>	1 Jan 2019
AASB 1058	<p><i>Income of Not-for-Profit Entities</i></p> <p>This Standard clarifies and simplifies the income recognition requirements that apply to not-for-profit (NFP) entities, more closely reflecting the economic reality of NFP entity transactions that are not contracts with customers. Timing of income recognition is dependent on whether such a transaction gives rise to a liability, a performance obligation (a promise to transfer a good or service), or an obligation to acquire an asset. Income derived from appropriations will be measured under AASB 1058. The Office has not yet determined the potential impact of the Standard.</p>	1 Jan 2019