

Western Australian Auditor General's Report



Audit Results Report - Annual 2017-18 Financial Audits of State Government Entities



Report 7: November 2018

Office of the Auditor General Western Australia

7th Floor Albert Facey House
469 Wellington Street, Perth

Mail to:

Perth BC, PO Box 8489
PERTH WA 6849

T: 08 6557 7500

E: info@audit.wa.gov.au

W: www.audit.wa.gov.au

National Relay Service TTY: 13 36 77
(to assist people with hearing and voice impairment)

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WESTERN AUSTRALIAN AUDITOR GENERAL'S REPORT

Audit Results Report - Annual 2017-18 Financial Audits of State Government Entities

Report 7
November 2018



**THE PRESIDENT
LEGISLATIVE COUNCIL**

**THE SPEAKER
LEGISLATIVE ASSEMBLY**

AUDIT RESULTS REPORT – ANNUAL 2017-18 FINANCIAL AUDITS OF STATE GOVERNMENT ENTITIES

This report under section 24 of the *Auditor General Act 2006* (AG Act) covers 2017-18 financial audit activity to 31 October 2018 and includes:

- opinions and results of audits on the controls, financial statements and key performance indicators of departments and statutory authorities with reporting dates primarily on 30 June 2018
- opinions and results of audits of corporatised bodies reporting under their enabling legislation, subsidiary bodies and other entities audited as requested by the Treasurer
- audit certifications of financial and statistical information produced by entities to discharge conditions of Commonwealth funding, grants, royalties for regions funding agreements and other legislation
- other matters identified during the 2017-18 audits which are significant enough to bring to the attention of the Parliament relating to the Annual Report on State Finances and operations of individual entities
- recent and upcoming changes to accounting and auditing standards that impact on government financial reporting and accountability.

I wish to acknowledge the assistance provided by the boards of accountable authorities, directors general, chief executive officers, chief finance officers and others during the conduct of the annual financial audit program and in finalising this report.

CAROLINE SPENCER
AUDITOR GENERAL
8 November 2018

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Auditor General's overview

There is no doubt that we are in a period of extensive public sector reform. Machinery of Government (MoG) changes have touched many entities, and with that comes increased risk around governance and controls as people, systems and responsibilities move, merge and evolve.

This report summarises the results of our annual audits of 146 state government entities for the year ended 30 June 2018.

As a result of the MoG changes, the audit effort of my Office increased to evaluate the controls and key performance indicators of the new entities and to verify the transfer of asset and liability account balances.



State entities are adapting quite well. While fewer entities were audit-ready within 20 days of year end (63% compared to 70% last year), the vast majority received clear audit opinions and just 6 received a qualified opinion, down from 9 last year. The number of findings reported in our management letters to entities also declined.

Consistent with my predecessor's view, I strongly believe that ultimately we need to reduce the financial reporting burden on small entities without compromising their accountability.

Since my appointment as Auditor General, I have examined the approaches adopted for financial reporting in the Western Australian public sector. I have identified aspects of financial reporting that are very time consuming for report preparers and auditors. This level of reporting does not appear to provide any additional value to Parliament and other users for decision making purposes. To enable the sector to draw on the knowledge of my Office, I have asked my technical and financial audit teams to identify areas where reporting could be more efficient at an entity level:

- without compromising accountability
- while remaining compliant with Australian Accounting Standards, which is vital at a whole-of-government level.

I anticipate my Office's findings may contribute to the Department of Treasury's work in potentially streamlining the ongoing financial reporting requirements of state government entities.

My audit reports, including this one, provide insight to good practice and common issues. I encourage audit committees and management to capitalise on the work of my Office – as audits conducted at another entity can alert your internal audit to potential issues you should be considering in your own entity. In doing so, risks that have not yet been addressed will be addressed more efficiently and new opportunities will be identified to stimulate continuous improvement and informed decision making for your organisation.

I wish to thank my staff and the staff in the audited entities who contributed to the audit process.

Executive summary

This Audit Results Report contains the findings primarily from the annual financial audits of state government entities with a 30 June 2018 reporting date.

At 31 October 2018, we had completed audits and issued audit opinions for 34 departments, 84 statutory authorities, 14 corporations and 15 other audits.

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

Key findings

Audit opinions

(Page 9 and Appendix 1, page 50)

- We issued 146 audit opinions for state government entities by 31 October 2018 relating to the 2017-18 financial year, and 136 certification opinions.
- We issued qualified audit opinions to 6 entities for reasons of inaccuracies or deficiencies in their financial statements or KPIs or due to control weaknesses. These entities were: (Page 9)
 - Commissioner for Children and Young People
 - Department of Justice
 - Department of Local Government, Sport and Cultural Industries
 - Department of Water and Environmental Regulation
 - Rottnest Island Authority
 - Western Australian Greyhound Racing Association.
- Matter of Significance paragraphs were included with the audit opinions of the Department of Primary Industries and Regional Development, the 4 metropolitan health services and the WA Country Health Service. Although qualified opinions were not warranted, these paragraphs drew users' attention to significant matters in relation to the financial statements or KPIs. (Page 10)

Financial reporting, accountability and audit issues

(Page 22)

- Amalgamation of entities – We successfully completed the audits of entities amalgamated under the Machinery of Government changes, and have included in this report some of the problems and issues that impacted the audits and continue to be issues for the entities. (Page 22)
- Our audits of the notes to the financial statements of some entities were delayed while Ministers' declarations of related party disclosures were finalised. (Page 23)
- We found that projects funded under the Local Projects, Local Jobs program were generally satisfactorily acquitted, but there were a few control weaknesses, particularly related to approval for changes in application of funds. (Page 23)

- Tabling of annual Statements of Corporate Intent (SCI) long after the commencement of the financial year to which they relate continues. At 31 October 2018, one SCI for 2018-19 is yet to be tabled and 3 SCIs for 2017-18 remain outstanding and therefore not available for scrutiny by the Parliament. (Page 27)
- We continue to support reduced financial reporting requirements for over 60 small entities that together spend just 1% of State funds. (Page 29)

Annual Report on State Finances (Page 32)

- The Treasurer released the Annual Report on State Finances (ARSF) on 26 September 2018. In this Audit Results Report, we have supplemented the information contained in the ARSF with related information that some readers may find useful.
- Our auditor's report included an Emphasis of Matter paragraph to alert readers to a correction of overstated land valuations in previous years that is disclosed in ARSF. (Page 33)
- Public sector annual and long service leave liability increased this year. (Page 36)

Selected significant financial transactions and financial ratios (Page 38)

- We have summarised significant financial transactions of entities that we noted during our audits and key financial ratios and information that are commonly used for assessing financial performance.
- Dividends paid by public corporations to General Government were significantly higher in 2017-18 compared to the previous year, but comparable to 2015-16 levels. (Page 44)

Management issues (Page 15)

- We identified 300 financial management control weaknesses and reported them to entities in 2017-18, down from 453 in the previous year. The number of significant issues decreased by 1 to 35, while the proportion of unresolved issues increased slightly from 29% to 30%. (Page 16)
- 438 information system control weaknesses were identified and reported to entities in 2017-18 of which 40% were unresolved issues from the previous year. The majority of issues are simple to fix but if not resolved they will leave entities vulnerable to security incidents and disruption to systems. (Page 19)
- We reported 44 KPI weaknesses to entities in 2017-18, 1 more than last year. Data collection processes and data integrity were the main areas for improvement identified during our KPI audits. (Page 20)

Quality and timeliness of reporting (Page 46)

- Most entities prepared satisfactory quality financial statements and KPIs for 2017-18, however some still need to improve their quality review processes. (Page 46)
- Sixty-three percent of state government entities were ready for their audit within 20 days of year end. Last year this result was 70%. (Page 47)
- We have acknowledged the top 40 'best practice' entities for timeliness in their financial reporting, good financial controls and reporting practices. (Page 47)

Other audit outcomes

(Page 49)

- A narrow scope performance audit into Serious Incidents Involving People with Disability started at the Department of Communities in 2017-18, but did not proceed to a full audit. A number of recommendations were made to the Department on closure of our preliminary investigation.

Recommendations

1. All entities should maintain the integrity of their financial control environment by:

- a. periodically reviewing and updating all financial, asset, human resources, governance, information systems and other management policies and procedures and communicating these to staff
- b. conducting ongoing reviews and improvement of internal control systems in response to regular risk assessments
- c. regularly monitoring compliance with relevant legislation
- d. promptly addressing control weaknesses brought to their attention by our audits.

(Page 19)

2. Entities should periodically review their KPIs to ensure that:

- a. indicators remain relevant, appropriate and fairly present performance against realistic targets
- b. the KPI manual is periodically reviewed and approved so that KPIs are consistently reported over time and comparable
- c. results are calculated from reliable and complete data.

(Page 21)

3. For future entity amalgamations, consideration be given to retaining one of the amalgamated entities as an ongoing entity to counter any impact of accounting for the assets being revalued when transferred.

(Page 23)

4. Amalgamated entities expedite the merging of systems and development of their OBM structures and KPIs.

(Page 23)

5. Treasury should liaise with the Department of the Premier and Cabinet to leverage existing processes relating to disclosure of interests of Members of Parliament.

(Page 24)

6. Treasury should consider an appropriate level of adoption of AASB 124, Related Party Disclosures, for whole of government reporting and entity level reporting which:

- a. meets the intended purpose of the standard
- b. is fit for purpose in the Western Australian public sector context, and
- c. avoids duplication and time consuming processes that do not demonstrably enhance governance.

(Page 24)

7. If an entity, or a section of an entity, wishes to change the purpose of project funding received under the Local Projects, Local Jobs program, then approval should be obtained from the relevant Minister or delegate in the funding department.

(Page 26)

8. Treasury should facilitate timely tabling of Statements of Corporate Intent to ensure entities comply with their legislation. (Page 30)
9. Treasury should continue to identify and implement suitable options that simplify financial reporting requirements, particularly those that reduce the reporting burden on small entities. (Page 29)
10. Treasury should consider appropriate levels of adoption of accounting standards for whole of government reporting and for entity level reporting that are fit for purpose in the Western Australian public sector context. (Page 31)
11. Entities should continue to make timely preparations for implementation of the accounting standards changes. (Page 31)
12. Management should continue to closely monitor leave plans to ensure that staff schedule and take leave each year and, where appropriate, allow staff to receive a cash payout for part of their leave, rather than accumulating large leave balances. (Page 37)

Audit opinions

- We issued audit opinions for 146 state government entities by 31 October 2018 relating to the 2017-18 financial year, and 136 certification opinions.
- Six entities received qualified audit opinions and 6 entities had Matter of Significance paragraphs included in their audit opinions.

Introduction

The *Financial Management Act 2006* (FM Act) governs financial accountability of most state government entities while the *Auditor General Act 2006* (AG Act) governs the activities and role of the Auditor General.

The Auditor General is required to issue an opinion to the responsible Minister for each state government entity audited. Entities include the audit opinion in their annual report.

The opinion relates to the financial statements and, depending on each entity's enabling legislation, may also relate to controls and key performance indicators (KPIs):

- financial statements – assurance that the financial statements and supporting notes are materially complete, accurate, reliable and comply with relevant legislation and applicable accounting standards
- controls – assurance that the internal control systems and procedures are adequate, and ensure that financial transactions comply with legislative requirements
- KPIs – assurance that the KPIs are relevant, appropriate, based on reliable data, and fairly present the performance of the entity in achieving its desired outcomes.

It should be noted that the audit opinions relate to historical information reported in the financial statements and KPIs and are not predictive of future expectations.

Summary of audit opinions

At 31 October 2018, we had issued audit opinions for 146 state government entities, primarily with financial periods ending on 30 June 2018. Appendix 1, commencing on page 50, is a table of all the audit opinions issued since 1 May 2018.

Audit opinion issued on	Type of entity	Number
Financial statements, controls and KPIs	Departments	34
	Statutory authorities	84
Financial statements only	Annual Report on State Finances	1
	Corporatised entities	13
	Subsidiary entities	10
	Cemetery boards	1
	Request audits	3
TOTAL NUMBER OF AUDIT OPINIONS ISSUED		146

Table 1: Number and type of audit opinions issued between 1 May 2018 and 31 October 2018

Entities subject to the FM Act are required to table their annual reports, including our audit opinions, within 90 days of financial year end. For most entities this is by 28 September each year. This year however, annual reports needed to be tabled by 19 September, the last tabling date before an earlier than usual parliamentary recess. Working with entities, we

issued 108 audit opinions for FM Act entities (93%) by 19 September, compared to 110 (85%) by the same date last year, thereby helping them to meet the tighter tabling deadline.

For entities unable to achieve the earlier tabling deadline, their Ministers informed Parliament that the FM Act did not accommodate tabling of annual reports during parliamentary recess, and that those annual reports would be tabled after Parliament resumed in October. To minimise similar tabling delays in future, Treasury is considering recommending an amendment of the FM Act to enable deemed tabling of annual reports when Parliament is not sitting.

Other audit services

In addition to entity opinions, we also issued 136 certifications.

Appendix 2 (page 55) details the 17 certifications we issued on the financial and statistical information produced by entities to discharge reporting obligations for Commonwealth grants or under other legislation. The certifications for 119 Royalties for Regions program grants issued up to 31 October 2018 are listed in Appendix 3 (page 57).

Qualified opinions

We issue a qualified opinion on an entity's audited financial statements or KPIs if we consider it is necessary to alert readers to inaccuracies or limitations. If we issue a qualified opinion on controls, it is because we consider a financial control deficiency makes the entity non-compliant with legislation.

Six entities received qualified opinions:

Commissioner for Children and Young People Qualified opinion on KPIs

We issued a qualified audit opinion for the key effectiveness indicator 'Number of people attending events'. During 2017-18 the numbers were mainly based on observations by management attending events and could not be verified. We were therefore unable to obtain sufficient appropriate audit evidence about whether this measure was fairly presented.

Department of Justice Qualified opinion on KPIs

We issued a qualified opinion on the key effectiveness indicator 'Average Out of Cell Hours – Adult'. For the period July 2017 to February 2018, the Department did not consistently, across all correctional facilities, adjust default or standard out of cell hours to recognise actual time spent by prisoners outside their cell. We were therefore unable to obtain sufficient appropriate audit evidence to support the hours used to calculate the KPI. From March 2018 however, necessary adjustments were made to out of cell hours at all relevant correctional facilities.

Department of Local Government, Sport and Cultural Industries Qualified opinion on KPIs

We qualified our opinion on KPIs as the Department did not comply with the requirement to report results for all KPIs approved by the Under Treasurer.

The Department was not able to reliably measure a key efficiency indicator for the State Information Management and Archival Service, Cost Per Access Service, and elected not to report it.

Department of Water and Environmental Regulation

Qualified opinion on controls

We identified significant weaknesses in general computer controls, which could result in inappropriate and unauthorised access to the Department's financial system. The Department was created on 1 July 2017 as a merger of smaller entities to now be larger in size and complexity. We were unable to assess if users' system access was consistent with management approved delegations or with their duties. The access could potentially be used to override management controls that prevent errors or fraudulent transactions.

Rottneest Island Authority

Qualified opinion on controls

We qualified our opinion on controls as the Authority's information technology and financial controls for the systems used to record accommodation, bike and equipment hire and other miscellaneous revenue were inadequate. These weaknesses could result in inappropriate changes to prices, and in some cases, invalid refunds. Our sample testing did not identify any inappropriate changes to prices.

Western Australian Greyhound Racing Association

Qualified opinions on financial statements and KPIs

The Association's grants from Racing and Wagering Western Australia in prior years to fund construction costs of the new Cannington track were not recognised as revenue when received. These grants were recorded as 'Non-Current Liabilities – Payables', with the Association recording the revenue progressively over the period the new track is operational. However, this is inconsistent with the requirements of Australian Accounting Standard AASB 1004 'Contributions' which requires public sector entities to recognise grant revenue on receipt.

As a result, for the year ended 31 July 2018, 'Non-Current Liabilities – Payables' are overstated by \$15,356,037 in 2018, \$16,027,348 in 2017 and \$15,143,290 in 2016. Retained Earnings are understated by the same amount for each respective year. We therefore issued a qualified opinion on the financial statements.

In addition, the Association did not report the key effectiveness indicator 'Attendance at Race Meetings'. We therefore issued a qualified opinion as the Association did not report results for all KPIs approved by the Under Treasurer.

Matters of Significance in auditor's reports

Where a matter in relation to the financial statements or KPIs is undisclosed or not apparent in the financial statements or KPIs, we may include a Matter of Significance paragraph in our auditor's report.

Entity	Details of Matter of Significance
Child and Adolescent Health Service, East Metropolitan Health Service, North Metropolitan Health Service, South Metropolitan Health Service WA Country Health Service	<p>Our audit reports highlighted that the 4 metropolitan health services and WA Country Health Service have approval to not report emergency waiting times as an audited KPI.</p> <p>The Under Treasurer granted approval to not report as an audited KPI 'Percentage of Emergency Department patients seen within recommended time'. The approval was conditional on unaudited KPIs being included in annual reports until implementation of a new Emergency Department data collection system. A new system is still to be developed.</p> <p>The existing systems are designed to assist with prompt and effective treatment of patients, but not necessarily for accurate recording of waiting time data.</p>

Entity	Details of Matter of Significance
Department of Primary Industries and Regional Development	<p>The <i>Biosecurity and Agriculture Management Act 2007</i> requires the Western Australian Agriculture Authority's (WAAA) activities to be regarded as services under the control of the Department. Consequently, the Department has included WAAA's income, expenses, assets and liabilities in its financial statements.</p> <p>We have highlighted this in the auditor's report so that readers are aware of this arrangement, as the Department's financial statements do not separately identify WAAA's transactions.</p>

Table 2: Matter of Significance comments included in auditor's reports

Prior year qualified opinions removed in 2017-18

The following qualifications were removed:

Animal Resources Authority – qualified opinion on controls

In 2016-17, we issued the Authority with a qualified opinion on controls over employee salary payments, because supervisors approving timesheets could modify the employee's pay by changing the hours worked, or the rates that applied. In addition, there was no independent review of these changes and no other monitoring procedures were performed by the Authority's management.

In 2017-18, management improved controls so that supervisors could not modify timesheets, and we therefore issued an unqualified opinion.

Child and Adolescent Health Service (CAHS) – qualified opinion on controls

In 2016-17, controls over billing for medical practitioners' treatment of private and overseas patients were deficient. This meant that CAHS could not be assured that all revenue from medical practitioners' treatment of private and overseas patients was billed and brought to account.

In 2017-18, we found these controls had improved so that uncollected revenue was minimised. These improvements enabled the issuing of an unqualified opinion for 2017-18.

Department of Environment Regulation – qualified opinion on KPIs

The opinion on KPIs for 2016-17 was qualified, as effectiveness measures for the outcome 'Emissions, discharges and clearing of native vegetation are effectively regulated to avoid unacceptable risks to public health and the environment' did not adequately measure the extent to which the outcome was achieved. On 1 July 2017, the department was amalgamated into the Department of Water and Environmental Regulation (DWER) and these inadequate effectiveness measures are no longer reported under the new Outcomes Based Management framework of DWER.

Department of Fire and Emergency Services – qualified opinion on KPIs

In 2016-17 the Department received a qualified opinion on its KPIs as it was still developing a system to capture data for one of its key efficiency indicators and did not report this KPI as required.

In January 2018 the Under Treasurer approved the Department's revised outcome based management framework and the Department has reported all required KPIs, which we consider fairly present performance. We therefore issued an unqualified opinion for 2017-18.

Department of Lands – qualified opinions on controls and KPIs

In 2016-17, we issued a qualified opinion because controls over expenditure payments were inadequate. Payee and payment details could be modified without detection, there was no segregation of duties between officers processing and approving payments, and changes to supplier details in the finance system were not monitored. On 1 July 2017, the department was amalgamated into the Department of Planning, Lands and Heritage (DPLH) and during 2017-18, management improved these controls.

The 2016-17 KPI opinion was qualified because a key effectiveness indicator was not relevant, and an approved key efficiency indicator 'State-owned Land Sold Against the Cost of Sale Preparation' was not reported. Following implementation of a new Output Based Management framework for DPLH, these KPIs are no longer reported.

Fire and Emergency Services Superannuation Board – compliance with relevant legislation

In 2016-17, we issued a qualified opinion on the Fire and Emergency Services Superannuation Fund's compliance with the *Corporations Act 2001* and Corporations Regulations 2001 because the Fund did not comply with the requirement to disclose the following information to members annually:

- a description of the Fund's reserves management strategy
- details of movements in the Fund's reserves for the past 3 years.

These requirements were appropriately addressed during 2017-18 and we have removed this qualified opinion.

Health Support Services (HSS) – qualified opinion on controls

In 2016-17, we issued a qualified opinion because there were weaknesses in the general computer controls which could result in inappropriate and unauthorised access to HSS's financial systems. These control weaknesses were adequately addressed by HSS in 2017-18 and we removed the qualification.

2017-18 financial statement audits of inactive entities

In the previous 2 years we dispensed with the audits of entities whose operations had ceased or there was insufficient activity to justify the undertaking of an audit.

However, we performed audits of 3 entities for 2017-18 as section 14 of the AG Act requires audits of the financial statements of such entities to occur at least once every 3 years, even though there are minimal or no operations. KPIs were not prepared as there was no activity during the financial year.

Entity	Reason why entities are inactive
1. Landcare Trust (inactive since 2004)	The Trust ceased to operate in 2004 and holds no funds. Legislation to repeal Part VA of the <i>Soil and Land Conservation Act 1945</i> , which created the Trust, is required. The Department of Primary Industries and Regional Development now administers this legislation.
2. State Supply Commission (inactive since 2009)	The Commission's functions and records were transferred in June 2009 to the Department of Finance. The <i>State Supply Commission Act 1991</i> has not been repealed.

Entity	Reason why entities are inactive
3. Western Australian Building Management Authority (inactive since 2009)	The Authority ceased to operate in 2009 and is awaiting repeal of its legislation, Part 1A of the <i>Public Works Act 1902</i> . The Department of Finance holds its records.

Table 3: 2017-18 audits dispensed in prior years under section 14 of the AG Act

We will perform a final audit of these entities as and when they are abolished. If they are still in existence in 2020-21, then an audit will again be required in that year.

Management issues

- **We identified 300 financial management control weaknesses and reported them to entities in 2017-18, down from 453 in the previous year. The number of significant issues decreased by 1 to 35, while the proportion of unresolved issues increased slightly from 29% to 30%.**
- **438 information system control weaknesses were identified and reported to entities in 2017-18 of which 40% were unresolved issues from the previous year. The majority of issues are simple to fix but if not resolved they will leave entities vulnerable to security incidents and disruption to systems.**
- **We reported 44 KPI weaknesses to entities in 2017-18, 1 more than last year. Data collection processes and data integrity were the main areas for improvement identified during our KPI audits.**

Control environment

Responsibility for developing and maintaining adequate systems of internal control rests with entity management. These control systems reduce the risk of error and fraud, and provide assurance to management and auditors that management reports and financial statements are materially correct. Maintaining adequate internal control ensures:

- financial information and other records, including data for key performance indicators, are accurately maintained
- assets are appropriately safeguarded
- errors and other irregularities are prevented or detected
- compliance with legislation and policy guidelines
- internal and external financial and non-financial performance reporting is reliable and timely.

The AG Act requires the Auditor General to audit entity accounts and, in the case of entities operating under the FM Act, to also form an opinion on their financial controls. This involves, as a minimum, an assessment of the design and implementation of relevant financial management and reporting controls.

Details of our control findings are included in management letters to the Accountable Authority. We rate control weaknesses according to their potential impact and base our ratings on the audit team's assessment of risks and concerns about the probability and/or consequence of adverse outcomes if action is not taken. We consider the:

- quantitative impact – for example, financial loss
- qualitative impact – for example, inefficiency, non-compliance, poor service to the public or loss of public confidence.

Risk category	Audit impact	Management action required
Significant	Control weaknesses that potentially present a significant financial or business risk to the entity if not addressed promptly. These significant risk findings impact: <ul style="list-style-type: none"> likelihood of material misstatement in the financial report ability to achieve objectives or comply with legislation. 	Priority or urgent action by management to correct the material misstatement in the financial report to avoid a qualified opinion or for control risks, implement a detailed action plan as soon as possible, within 1-2 months.
Moderate	Normally matters requiring system or procedural improvements or low risk matters from previous audits that have not been satisfactorily resolved. These moderate risk findings include: misstatement in the financial report that has occurred, although not material ongoing system control weakness which could or is having a moderate adverse effect of achieving objectives or legislative compliance.	Control weaknesses of sufficient concern to warrant action being taken as soon as practicable, within 3 to 6 months. If not addressed promptly, they may escalate to significant or high risk.
Minor	Isolated occurrences, non-systemic or procedural control weaknesses that are administrative shortcomings. Minor weaknesses which are not of primary concern but still warrant action being taken.	Management to implement an action plan within 6 to 12 months to improve existing process or internal control.

Table 4: Risk categories for control weaknesses reported to management

We give entity management the opportunity to review our audit findings and provide comments prior to completion of the audit. Often management improves policies, procedures or practices after we raise them and before the audit is completed. At the completion of each audit, we send a copy of our management letter to the responsible Minister along with the audit opinion.

When management responds to control weaknesses we report to them, we request them to set a time frame for remedial action to be completed. Most entities set themselves challenging timeframes for remedial action, and generally meet those timeframes. It is however disappointing that some entities do not remedy control weaknesses in a timely manner – this year, 30% of our financial control findings and 40% of information system control findings were unresolved findings from the previous year.

While our management letters relate specifically to an individual entity, the weaknesses are often common to other government entities. The following is a summary of control weaknesses identified during 2017-18.

Financial and management controls

During 2017-18, we alerted 59 entities to control weaknesses that needed their attention. At the conclusion of our audits, responsible Ministers received advice of these deficiencies.

In total, we reported 300 control weaknesses to management at entities. This was lower than the 453 reported in the previous year. The number of issues we rated as significant also decreased, from 36 to 35. (Figure 1).

However, it was disappointing to note that 90 control weaknesses (30%) at 28 entities were unresolved from the prior year.

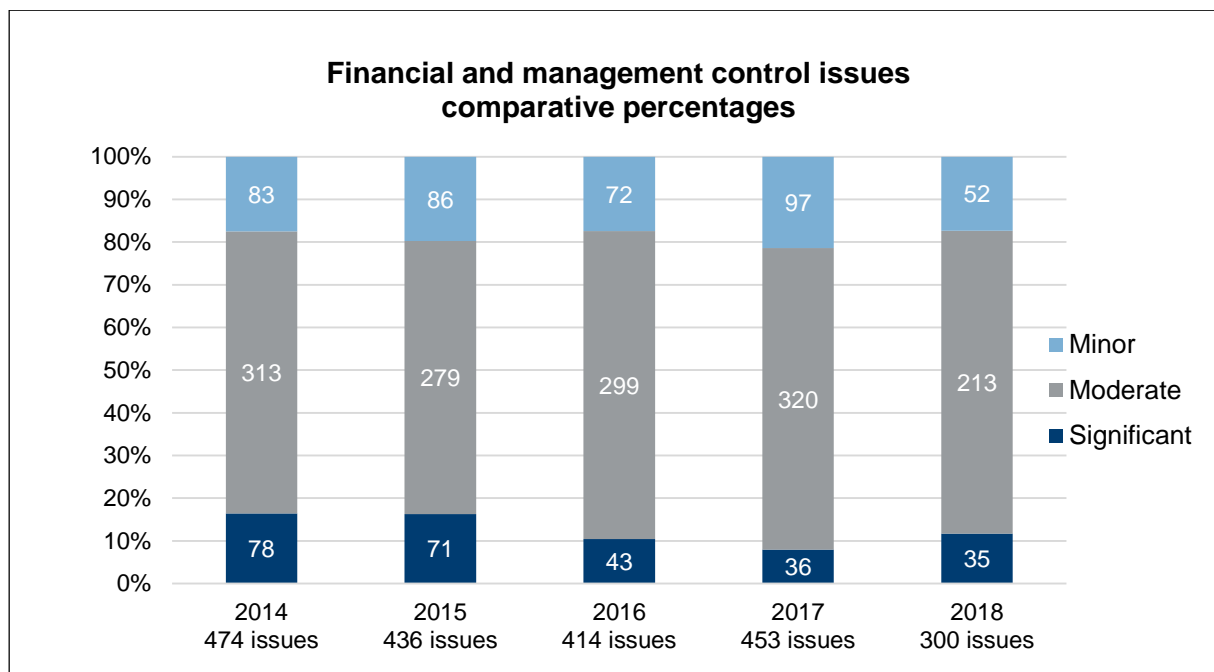


Figure 1: Ratings of financial and management control weaknesses reported to entities – by number and percentage

Figure 2 shows a breakdown of the categories of control weaknesses identified for the last 4 years. Expenditure control weaknesses again represented the highest proportion, followed by weaknesses in payroll and human resource management and asset management.

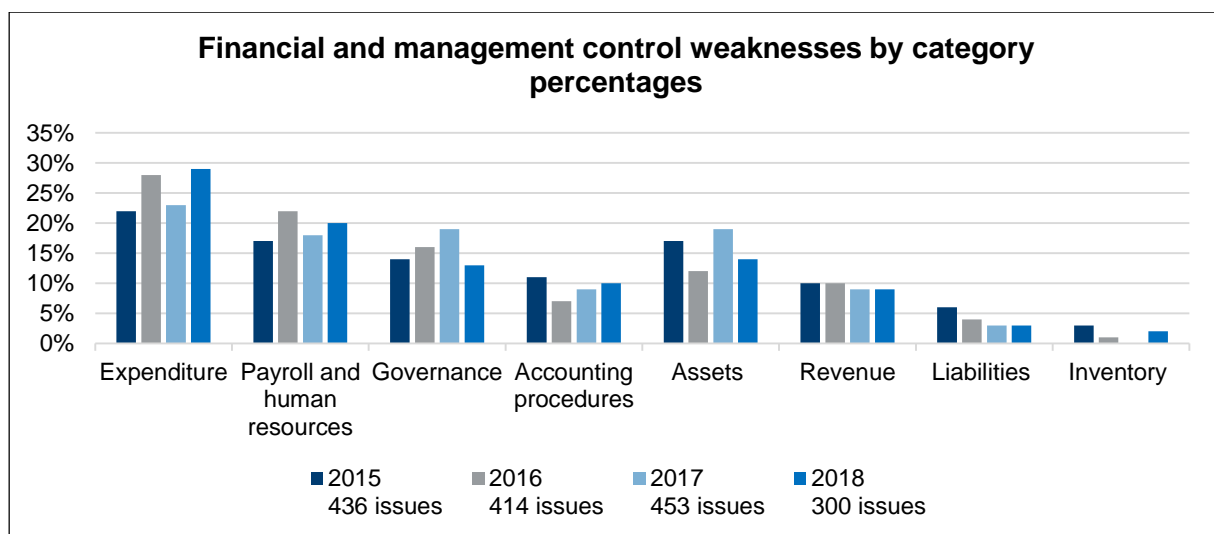


Figure 2: Financial and management control weaknesses for last 4 years

The four main areas of control weaknesses are expenditure, payroll and human resources, assets and governance.

Following are examples of control weaknesses:

Expenditure

We reported 88 expenditure control weaknesses to 25 entities in 2017-18. Five were rated as significant and 21 weaknesses were unresolved from the prior year.

The expenditure control weaknesses related to payments made through accounts payable systems, with 32% relating to use of purchasing cards. Issues included:

- Procurement procedures, such as getting quotes (where required) and completing purchase orders to start the ordering process and accountability trail, were not routinely practiced. In some instances evidence of quotes received had not been retained. At 3 entities we reported that purchase orders were prepared after the suppliers' invoices and goods had been received.
- Transactions were being authorised, incurred or certified by officers outside their approved limits or expenditure categories.
- Cardholders were not submitting their transaction supporting documents in sufficient time for checking before the payment due date. This required additional tracking and administration by management after the bank had been paid.
- Use of the purchasing cards contrary to the entity's policies and procedures, such as allowing another staff member to use the purchasing card while the cardholder was absent or on leave. At 8 entities purchasing cards were not cancelled promptly when the cardholder ceased employment.

Payroll and Human Resources

Sixty payroll and human resource control weaknesses were reported to 31 entities. Four rated as significant and 18 were unresolved from the previous year. As employee benefits expense is a major cost for public sector entities, it is essential that the human resource management and payroll functions are managed effectively. During our payroll controls audits the weakness we identified included the following:

- Commencement and termination procedures at 14 entities were not completed appropriately, including:
 - new employee induction or processing procedures were not fully completed to ensure that Police clearances and authority to work documents were checked, and that contracts were signed and copies retained to confirm the conditions of employment and accountability for entity property.
 - there were delays in communicating the start and termination dates of employees to the payroll section, resulting in delays in processing these changes. Controls to ensure that outgoing employees return all entity property, attractive assets, purchasing cards and security passes, were also lacking in some instances.
- The accuracy of employee leave records at 3 entities was potentially compromised by leave forms not being submitted promptly. For financial reporting purposes, accurate leave records are required to calculate the entity's leave liability and also for an employee's final leave entitlement payment when their employment ceases.
- Business unit or cost centre payroll reports were not being promptly reviewed and returned by the responsible managers. These managers are better placed to identify payments to their staff on leave, leave without pay, acting on higher pay, no longer employed or employees who are unknown to them or not employed in their business unit. Early notice of any errors can be actioned promptly to avoid making invalid salary payments.

Assets

We reported 41 asset management weaknesses to 19 entities. Eleven rated as significant and 11 were unresolved from the previous year.

At 14 entities the fixed asset or portable and attractive asset registers did not contain complete and accurate information of all assets currently held. Identifying assets was more difficult where unique identification tags were not secured to the assets or there were insufficient descriptions or model and serial numbers recorded to identify individual asset items.

Issues relating to the timing of capitalising completed works in progress or valuation in the asset register were also identified at 5 entities. This then impacted on the depreciation expense of the entities.

Governance

During our audits we reported 39 governance and legal compliance issues to 26 entities. Fifteen were unresolved from the previous year.

Seven entities did not have up to date policies and procedures relating to entity operations. Documentation of the entity's current policies, processes and procedures provides guidance to management and staff of business risks and priorities, and their related responsibilities.

A recurring issue reported to management at 5 entities was the lack of a formal agreement (Service Level Agreement or Memorandum of Understanding) with another entity for support services, ICT services or tenancy of premises. In most cases, service charges in these inter-entity relationships have been settled without issue, but formal agreements are essential for defining service requirements and accountability for the provision of services.

Recommendations

All entities should ensure they maintain the integrity of their financial control environment by:

- a. periodically reviewing and updating all financial, asset, human resources, governance, information systems and other management policies and procedures and communicating these to staff
- b. conducting ongoing reviews and improvement of internal control systems in response to regular risk assessments
- c. regularly monitoring compliance with relevant legislation
- d. promptly addressing control weaknesses brought to their attention by our audits.

Information systems controls

Information systems underpin most aspects of entity and government operations and services. It is therefore vital that entities implement appropriate controls to maintain reliable, secure and resilient information systems.

Audits of general computer controls are a major part of the information systems work we undertake. Well implemented general computer controls ensure reliable and secure processing of financial and key performance information. We focus our information systems audit capacity on those entities with significant computer environments to determine whether their controls are appropriately designed and operating effectively.

In 2017-18, 438 weaknesses across 33 entities were identified. Last year, we reported 425 findings at 37 entities. Five percent of the issues were rated as significant and 64% were rated as moderate requiring action as soon as possible. The other 31% were rated as minor.

Forty percent of the issues were unresolved from the previous year, and included those carried over from entities that merged after the 2017 Machinery of Government changes.

Figure 3 shows the percentage of total findings made against our six categories of control risk. Eighty-three percent of weaknesses we identified this year related to IT operations (50%) and information security (33%). These two categories accounted for 81% of the findings last year. IT operations findings decreased this year by 2% while there was a 1% reduction in Business Continuity and Physical Security findings. Information Security findings increased by 4%. The distribution of findings in the Change Management and IT Risk Management category were similar to last year. We continue to find that many of these weaknesses are relatively simple to fix, and if not resolved they leave entities potentially vulnerable to significant disruption and costs.

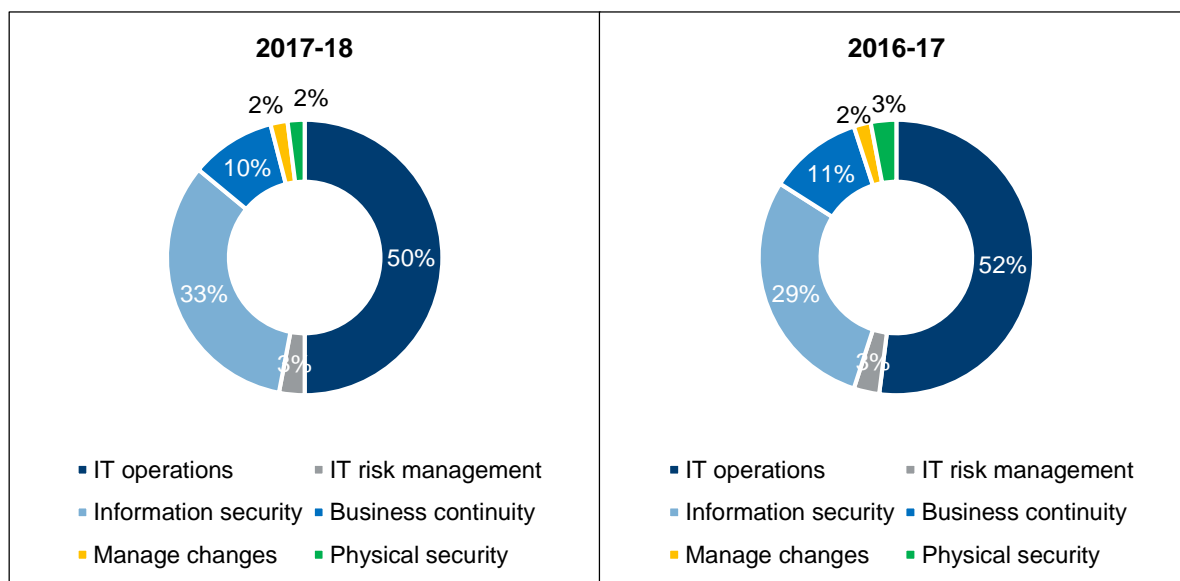


Figure 3: IS control issues by category

A more detailed report on the results of our information system audits is planned for the first quarter of 2019. The report will consolidate the results of audits of entities with a 30 June 2018 reporting date and upcoming work on entities with a 31 December 2018 reporting date.

Key performance indicators

As shown in Table 5, in 2017-18 we reported 44 KPI weaknesses to management at entities, 1 more than last year. The number of qualified KPI audit opinions decreased from 5 to 4.

Almost all of the 44 weaknesses needed prompt or urgent attention by entities.

KPI shortcomings and qualifications	2014-15	2015-16	2016-17	2017-18
Number of entities with KPI weaknesses	24	20	20	13
Number of KPI weaknesses reported	32	31	43	44
Number of KPI weaknesses rated as significant	12	15	20	16
Number of entities with qualified KPI opinions	1	2	5	4

Table 5: Summary of KPI weaknesses reported to entities

Figure 4 shows that data collection and integrity are the key areas needing improvement.

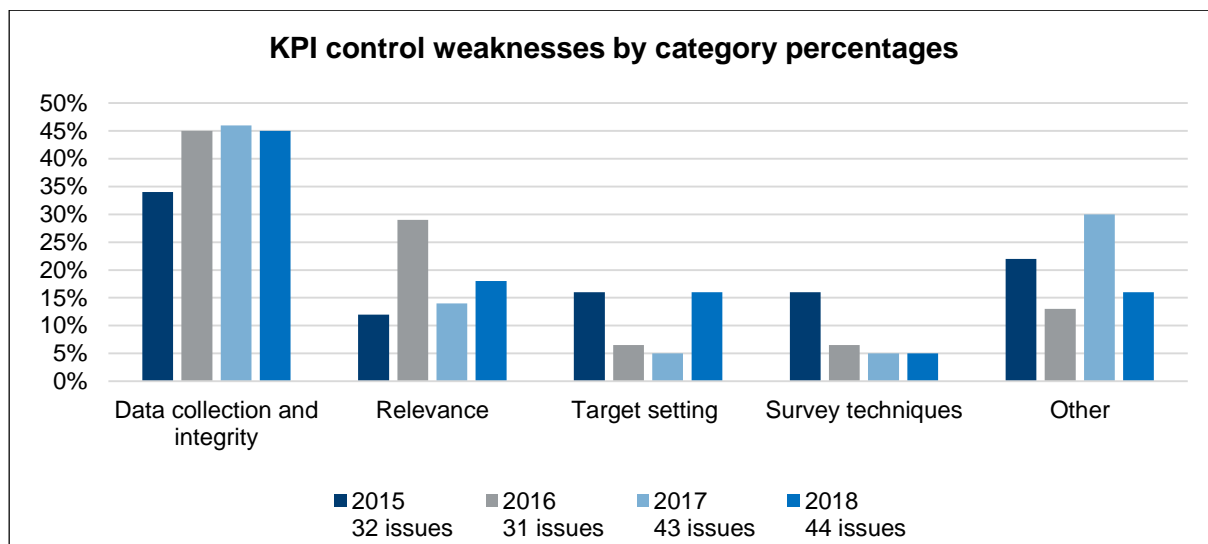


Figure 4: KPI control weaknesses for last 4 years

We reported 20 control weaknesses relating to data collection and integrity to 12 entities. Nine rated as significant. The weaknesses included:

- dates and/or times were not accurately entered at source or from source documents. This resulted in the KPIs being calculated from data that was not consistent with the supporting records.
- some data was not accurate or not easily auditable, especially where collected by third parties.

All data recorded by entities needs to be accurate, reliable and verifiable in order to measure and report the entity's achievement of their outcomes.

Seven entities need to re-assess the appropriateness of their KPI targets. Management needs to critically review whether the targets are challenging, realistic and encourage improved performance. Targets that are repeatedly achieved without resetting or review, are especially in need of management attention.

At 4 entities, documentation setting out the KPI methodology, sources of data, procedures and calculation of each indicator, was incomplete. As a result, entity staff had difficulty explaining to audit staff how the KPIs were calculated. A management approved KPI manual should be prepared to guide entity staff who prepare KPIs.

Recommendation

Entities should periodically review their KPIs to ensure that:

- they are calculated from reliable and complete data
- they remain relevant, appropriate and fairly present performance against realistic targets
- the KPI manual is periodically reviewed and approved so that KPIs are consistently reported and comparable.

Other financial reporting, accountability and audit matters

This part of the report details matters of current significance and legislative compliance:

- amalgamation of entities
- related party disclosures
- use and acquittal of funds from the Local Projects, Local Jobs program
- continued late tabling of Statements of Corporate Intent
- reducing the cost of financial reporting for small entities
- future impact of changes to accounting standards.

Amalgamation of entities

Numerous entities were amalgamated on 1 July 2017, following the 2017 Machinery of Government changes gazetted in June 2017. As a result, some departments were abolished and their staff resources, and those of several statutory authorities, were transferred to 11 newly created departments.

Names of departments created 1 July 2017
Department of Biodiversity, Conservation and Attractions
Department of Communities
Department of Education
Department of Jobs, Tourism, Science and Innovation
Department of Justice
Department of Local Government, Sport and Cultural Industries
Department of Mines, Industry Regulation and Safety
Department of Primary Industries and Regional Development
Department of Planning, Lands and Heritage
Department of Water and Environmental Regulation
Police Service

Table 6: 2017 Machinery of Government – new departments created on 1 July 2017

For 2017-18, we audited the financial statements, KPIs and financial controls of the new departments, as well as the 16 statutory authorities that are proposed to be amalgamated as part of the restructuring. At November 2018, although staff of the statutory authorities have been transferred to the new departments, the statutory authorities continue as separate entities under their existing legislation and as reporting entities under the FM Act. Annual audits for these statutory authorities will be required until legislative changes are made.

Our 2017-18 audits of the new departments included:

- testing of the complete and accurate transfer of assets, liabilities and contracts to the new departments
- review of the new financial control processes and delegations
- assessment of the relevance of KPIs, some of which were revised as part of the amalgamation process

- in some instances, the new departments are providing information system and other corporate services support to the statutory authorities. We therefore undertook procedural fairness for our audit findings with management of the new departments, and the boards of related statutory authorities.

An important financial reporting issue faced by 9 of the new departments in their first year of operation, has been a decrease in the value of land and buildings. This followed a revaluation by the Valuer General, and was mainly due to the current economic environment. Because the new departments did not have any asset revaluation reserve¹ they were required to treat the revaluation decrements as expenses in the statement of comprehensive income. This contributed, in some instances significantly, to financial results with lower surpluses or, in some instances deficits, for their first reporting period.

However, at a whole of government level, the impact is not recorded in the operating statement. In these reports the revaluations from the operating statement are transferred to the balance sheet where the decrements are offset against whole of government reserves.

Audit Findings and significant issues considered during our audits

A number of significant issues were identified in relation to the restructuring, including:

- we qualified the audit opinion of the Department of Water and Environmental Regulation. Details on page 11.
- progress with amalgamating systems of the various constituent entities is slow, with most departments continuing to operate on several financial, human resource and administrative systems. This is impacting the realisation of cost savings that can be achieved by rationalising systems.
- Some entities are still in the process of determining their appropriate OBM structures and appropriate KPIs that will best represent their performance.

Recommendations

1. For future entity amalgamations, consideration be given to retaining one of the amalgamated entities as an ongoing entity to counter any impact of accounting for the assets being revalued when transferred.
2. Amalgamated entities expedite the merging of systems and development of their OBM structures and KPIs.

Related party disclosures

Measures to ensure that the entities we audited in 2018 complied with Australian Accounting Standard AASB 124 *Related Party Disclosures* created a lot of additional work for Ministers, Treasury and entities, and generally did not add value to end of year reporting. We consider that AASB 124 is directed primarily at disclosures by key management personnel (including directors) in private sector businesses and its application to the Western Australian public sector, where established probity and disclosure arrangements already exist, needs review.

¹ Australian Accounting Standards do not allow the reserves of amalgamated organisations to carry over to the new entity.

Our State's existing disclosure requirements include:

- annual returns from parliamentarians required under the *Members of Parliament (Financial Interests) Act 1992*
- annual declarations by senior officers of entities, pursuant to Treasurer's Instruction 924 *Related Party Disclosures*, and reported under the FM Act in each entity's annual report
- preparation of consolidated accounts for whole of government, which eliminate but disclose inter-entity transactions.

Furthermore, public sector probity mechanisms include:

- Public Sector Commission's Code of Ethics and Commissioner's Instruction No. 7 detailing minimum standards of conduct and integrity for all public sector entities
- Each entity's own Code of Conduct required under the *Public Sector Management Act 1994*
- *Financial Management Act 2006* and Treasurer's Instructions' requirements for purchasing, contracting and disclosure of interests
- Department of Finance/State Supply Commission published Procurement Practice Guide (latest October 2018) which is a framework for goods and services contracting and procurement that reflects best practice principles and arrangements that public sector entities must comply with.

The information Treasury sought in 2018 from Ministers, in conjunction with the Department of Premier and Cabinet, was used to inform the relevant Chief Finance Officers of any material related party transactions for their consideration for disclosure. In most instances, however, this occurred towards the end of the audit process. Due to this late timing, the process of reviewing and amending the notes to the financial statements created inefficiencies and took significant additional entity time and audit effort. The revised notes, prepared and approved within the entity, then had to be submitted (or in some instances resubmitted) to Treasury, the Board/Accountable Authority and the Minister before finalisation. This resulted in further time delay before the financial statements could be signed by the Accountable Authority.

Recommendations

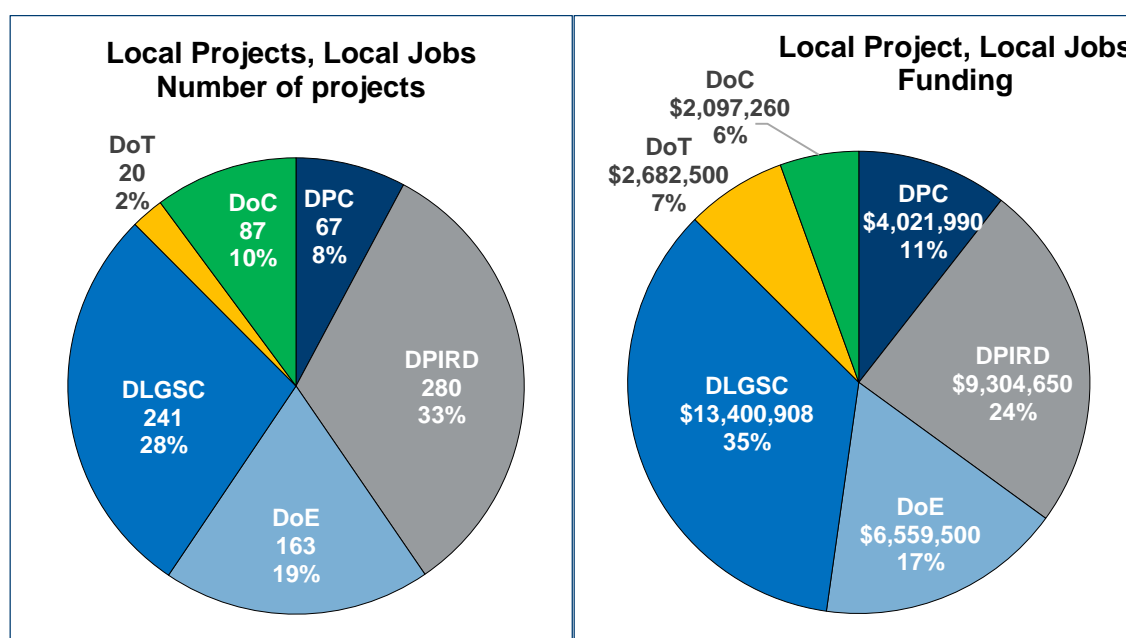
1. Treasury should liaise with the Department of the Premier and Cabinet to leverage existing processes relating to disclosure of interests of Members of Parliament.
2. Treasury should consider an appropriate level of adoption of AASB 124, *Related Party Disclosures*, for whole of government reporting and entity level reporting which:
 - a. meets the intended purpose of the standard
 - b. is fit for purpose in the Western Australian public sector context, and
 - c. avoids duplication and time consuming processes that do not demonstrably enhance governance.

Local Projects, Local Jobs program – accountability and acquittal of projects

Following the 2017 State election, funding for commitments made by elected local candidates for local projects was approved through the budget process and provided using grant agreements under the Local Projects, Local Jobs program. There is no formal State policy on how election commitments should be administered. The budget process and grant agreements provided a level of governance and transparency in funding these projects.

The funding estimates are identified in the 2017-18 Budget Papers as ‘spending changes – election commitments – local projects, local jobs’. Funding amounts ranged from \$300 to \$750,000. Actual funding totalling \$38.1 million was provided to fund 858 projects across 2017-18 and 2018-19.

The Department of the Premier and Cabinet administered the allocation of funding, and along with several other entities, are managing the grant agreements. Figures 5 and 6 show the proportion of projects and funding, by entity.



Source: Department of the Premier and Cabinet

Figure 5: Number of projects by entity

Source: Department of the Premier and Cabinet

Figure 6: Money allocated by entity

At 30 June 2018, 354 of the 858 projects under the Local Projects Local Jobs program, worth \$10.1 million, had been fully acquitted.

Table 7 shows the departments managing the program and examples of the projects funded.

Abbrev.	Department name	Examples of projects funded
DPC	Department of the Premier and Cabinet	Volunteer fire brigade facilities, community parks and reserves projects and street lighting
DPIRD	Department of Primary Industries and Regional Development	Community safety initiatives (e.g. CCTV equipment), redevelopment of town centres, building community infrastructure in regional areas such as swimming pools and skate parks, and enhancing school IT in regional schools
DoE	Department of Education	School playground equipment, shaded areas, IT equipment and various other upgrades

Abbrev.	Department name	Examples of projects funded
DLGSC	Department of Local Government, Sport and Cultural Industries	Sporting club upgrades and equipment purchases
DoT	Department of Transport	Bus shelters and remediation of beach access to Two Rocks beach
DoC	Department of Communities	Facility improvements for community groups

Source: Department of the Premier and Cabinet

Table 7: Departments distributing local project funds and examples of projects funded

Audit testing performed

Our audit testing covered the payment of project funding to recipients and acquittal of the projects. Of the projects acquitted at the time of our audit, we tested a sample of 40 projects across the 6 entities, to confirm that the funds were applied in accordance with the agreements, and that the projects were adequately acquitted. We found the following shortcomings:

- At Department of Education, we noted 3 instances where schools used the funds for a purpose that differed from the agreement. For 1 of these, there was no documented approval of the change.

For the other 2 instances, the change in scope was approved by the local member of Parliament for the area in which the schools were located. However, for one of these there was no documented evidence of endorsement of the change by the relevant Minister or authorised delegate within the entity. DPC informed us that ‘agencies were advised to undertake liaison with their relevant Minister’s Office and the local Members to ensure the details of the grant agreements met expectations and were agreed by all parties involved. Local Members were required to be made aware of suggested changes to scope and agree but not provide the approval. In this case it appears there may have been some confusion around this liaison being interpreted as “approval” from Members at the time, as it was early in the transition of projects being managed by the agencies.’

The Department of Education also advised that the school had determined that it was in the best interests of its students to change the scope of the project and sought support from the local member who had instigated the original grant, and they considered there was minimal risk that the change in scope was not in the best interests of the students.

However, if local Members of Parliament, who do not have responsibility for a department, determine the use for project funding by the department, there is a risk that the funds may not be used for the best purpose.

We were advised that DPC subsequently modified this change of scope approval process, and that the Department currently adheres to a process where the school requests central office to seek approval from the Minister for Education and Training.

- At the Department of Communities, the acquittal process did not require visual evidence of the completed project. In instances where physical inspection by the department is not feasible, photographs can be a practical alternative way of confirming the project was completed according to requirements.

Recommendation

If an entity, or a section of an entity, wishes to change the purpose of project funding received under the Local Projects, Local Jobs program, then approval should be obtained from the relevant Minister or delegate in the funding department.

Continued late tabling of Statements of Corporate Intent

Relevant entities are continuing to have their annual Statements of Corporate Intent (SCI) tabled after the beginning of the financial year to which they relate and outside the legislated timeframe. For example, the SCIs of 4 entities for 2017-18 were not tabled before or during that year.

There are 21 state entities that operate at arm's length from Government and prepare an SCI which must be tabled by their Minister at the beginning of the financial year. For 2018-19, 3 were tabled before 1 July 2018, 2 in July, 7 in August, 5 in September and 3 in October 2018. At 31 October, one SCI for 2018-19 was still not tabled.

Why are SCIs important?

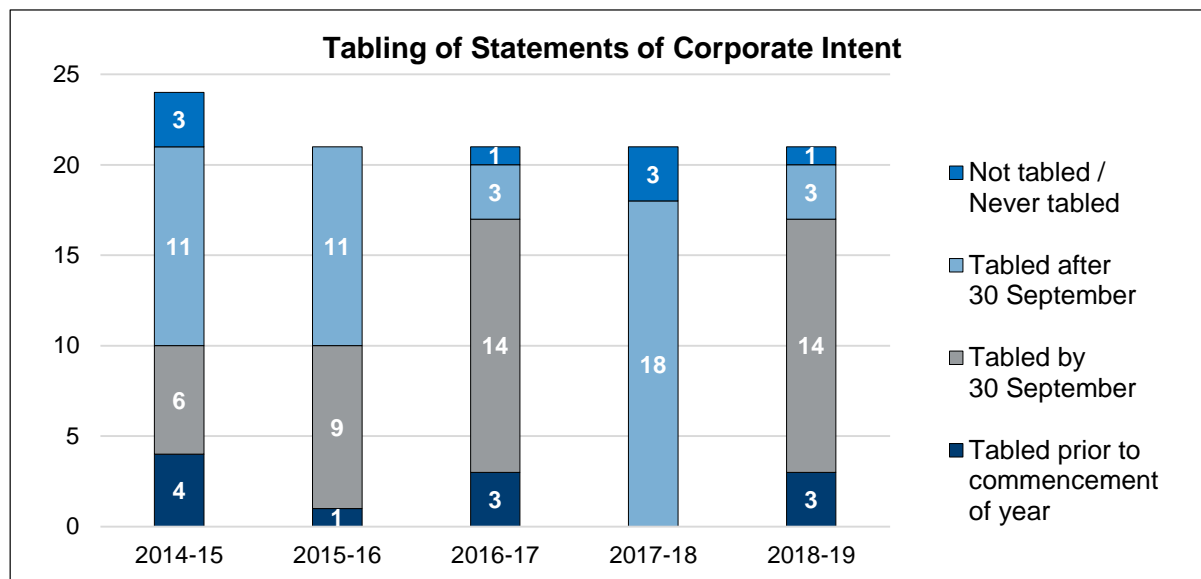
SCIs are a form of annual agreement between the entities listed in Table 8 below and the Government, and are therefore an important governance and accountability mechanism. These 'self-funded' entities operate outside of the budget process and at arm's length from Government. Until their SCIs are tabled, key information about their future budgets, planning and direction is not available for parliamentary or public scrutiny.

SCI information varies with entity legislation, but generally includes:

- an outline of objectives and major planned achievements for the next financial year
- nature and scope of functions proposed to be performed during that year
- performance targets and other measures by which performance may be judged
- an outline of capital expenditure, proposed borrowings, pricing arrangements and dividend policy
- accounting policies that apply to the preparation of financial statements
- types of information to be given to their Minister, including periodic and annual reporting
- nature and extent of community service obligations to be performed, costing and funding of these activities and any compensation arrangements
- other matters agreed on by the Minister and the Board.

SCIs have been tabled late for many years

We have reported to Parliament on the late or non-tabling of SCIs for the past 19 years. Figure 7 shows the tabling achievements for the last 5 years.



Source: Data collated from Parliament – Tabled Papers

Figure 7: Five year history of the tabling of Statements of Corporate Intent

Table 8 shows the SCI tabling dates for the various entities for the last 2 years.

	2017-18 SCI tabled	2018-19 SCI tabled
Corporatised entities		
Bunbury Water Corporation	11/12/2017 *	28/08/2018
Busselton Water Corporation	11/12/2017 *	28/08/2018
Horizon Power – Regional Power Corporation	21/11/2017	20/09/2018
Synergy – Electricity Generation and Retail Corporation	10/04/2018	24/07/2018 *
Water Corporation	11/12/2017 *	28/08/2018
Western Australian Land Authority (Landcorp)	Not tabled	Not tabled
Western Power – Electricity Networks Corporation	28/11/2017	20/07/2018 *
Statutory authorities		
Chemistry Centre (WA)	11/01/2018 *	11/09/2018
Forest Products Commission	11/12/2017 *	11/09/2018
Gold Corporation	19/10/2017	26/10/2018 *
Government Employees Superannuation Board	21/11/2017	28/06/2018
Insurance Commission of Western Australia	21/11/2017	28/06/2018
Lotteries Commission	31/10/2017	19/06/2018
Racing and Wagering Western Australia	Not tabled	30/10/2018
Western Australian Land Information Authority (Landgate)	08/11/2017	12/09/2018
Western Australian Treasury Corporation	Not tabled	09/10/2018

	2017-18 SCI tabled	2018-19 SCI tabled
Port authorities		
Fremantle Port Authority	12/09/2018	21/08/2018
Kimberley Ports Authority	26/06/2018	21/08/2018
Mid West Ports Authority	26/06/2018	21/08/2018
Pilbara Ports Authority	26/06/2018	12/09/2018
Southern Ports Authority	26/06/2018	21/08/2018

* Deemed tabled – Date the SCI was received by the Clerk of the Parliament when Parliament was not sitting. Highlighting represents SCIs that were tabled before commencement of the year.

Source: Parliament – Tabled Papers

Table 8: Statements of Corporate Intent tabled in Parliament

Note: Late State Budget on 7 September 2017 impacted on tabling of 2017-18 SCIs.

What are the requirements?

Entities are required by their Act or regulations to draft the annual SCI, which is consistent with their Strategic Development Plan (SDP), for agreement with their Minister and, in most instances, with concurrence of the Treasurer. The agreement process can include negotiations between the entity, the Minister and the Treasurer, with the Minister responsible for tabling the SCI in Parliament within 14 days of it being agreed.

Tabling requirements vary slightly between entities but generally SCIs are either required or expected to be tabled before the commencement of the financial year or early in the financial year to which they relate. Where the Minister has not agreed or the Treasurer has not concurred, then the latest draft SCI takes effect. However, tabling of the SCI does not take place until full agreement is reached.

Reforms in 2016

Treasury advised of reforms in 2016 which included:

- government trading enterprises (GTE) submitting ministerially endorsed pre-budget SCIs and SDPs with their budget submissions
- requirement that the pre-budget SCI and SDP reflect the GTE's strategic direction and the content of their budget submission
- GTEs updating their SCI and SDP post-budget to reflect the outcome of the budget process as well as detail any risks of budget decisions.

Treasury noted the improvement for 2016-17 SCIs but acknowledged that the majority of SCIs were still not tabled within the prescribed legislative timeframe. Treasury advised that in the medium to longer term, they continue to seek a more seamless approval process through implementation of overarching governance legislation for GTEs.

Service priorities of new government in 2017

The Service Priority Review (October 2017) noted that 'There is an opportunity to introduce external perspectives, including advice from portfolio departments, and a higher degree of consistency and rigour around statement of corporate intent and strategic development plan approvals to protect the Government's policy goals and financial interests.'

Recommendation 9 of the Review proposed that Treasury 'Prepare 'umbrella' legislation to reform governance, accountability and oversight of GTEs in light of key organisational principles.'

In addition, the Special Inquiry into Government Programs and Projects (February 2018) reported ‘the ineffectiveness of the Statement of Corporate Intent and the Strategic Development Plan process for some Government Trading Enterprises.’ The Special Inquirer went on to recommend that the requirement to produce SCIs and SDPs, and their content, needs review.

Current Treasury activity

Treasury advised in September 2018 that it is continuing to seek improvement in the timely tabling of SCIs, although some tabling delays occur for reasons outside of their direct influence. One being that ‘it is the responsibility of the portfolio Minister to ensure that each SCI addresses matters of importance to the Treasurer in order to facilitate timely concurrence’. Others factors are timing of the State Budget (typically May, but September in 2017), Government policy decisions and ministerial availability.

Treasury also noted that ‘the requirement to table SCIs before the end of the financial year needs to be weighed against the importance of ensuring the documents meet their intended purpose and are of sufficient quality.’

In response to the recommendations of the Service Priority Review and the Special Inquiry, Treasury advised that it has

‘established the GTE Reform Program to develop a framework which provides greater clarity on the purpose of SCIs and will review the effectiveness of the current legislative requirements in delivering on the purpose of the SCIs. In the interim, the Treasurer has recently written to all Ministers responsible for GTEs with his expectations from the forthcoming planning processes of GTEs. This should facilitate earlier engagement and concurrence of the 2019-20 SCIs.’

Recommendation

Treasury should facilitate timely tabling of Statements of Corporate Intent to ensure entities comply with their legislation.

Reducing the cost of financial reporting for small entities

The requirement for all entities to prepare a general purpose financial report complying with Australian Accounting Standards, including all disclosure requirements, places an avoidable reporting burden on small to medium sized entities.

Most of the State’s public sector entities are small to medium in size – over 60 entities account for only 1% of total government operating expenditure. Yet they are required to prepare a general purpose financial report complying with International Financial Reporting Standards (IFRS), with the same voluminous disclosure requirements as Australia’s largest not-for-profit government entities and listed companies.

We continue to champion changes to small entity reporting and the AASB initiating reform in the financial reporting framework for public sector entities. We recommend that Treasury continue to provide input and take up opportunities to reduce the financial reporting burden in the Western Australian public sector where it does not demonstrably add value for users of financial statements.

Recommendation

Treasury should continue to identify and implement suitable options that simplify financial reporting requirements, particularly those that reduce the reporting burden on small entities.

Future impact of changes to accounting standards

The following new and revised standards issued by the Australian Accounting Standards Board (AASB) are expected to require close attention by entity CFOs and our audit staff:

- **AASB 9 – *Financial Instruments*** – This standard changed the classification and measurement of financial assets from 1 January 2018. Another change is earlier recognition of provisions for bad/doubtful debts based on expected credit losses.
- **AASB 15 – *Revenue from Contracts with Customers*** – This standard requires revenue to be recognised by entities on the fulfilment of the performance obligations of an enforceable contract at a point in time or over time, as applicable. An example for government entities is receiving grant moneys. Entities need to allocate the grant amount to each performance obligation in the contract and recognise the revenue only when the related performance obligations are satisfied. Also, authoritative implementation guidance has been issued for not-for-profit public sector licensors reporting transactions involving the issue of licences. This standard applied from 1 January 2018 reporting for for-profit entities, and from 1 January 2019 reporting for not-for-profit entities.
- **AASB 1058 – *Income of Not-for-profit Entities*** – This standard, in combination with AASB 15, establishes new principles for income recognition for not-for-profit entities from 1 January 2019 reporting. AASB 1058 applies to transactions where assets are acquired at significantly less than fair value, including peppercorn leases. It is anticipated that the implementation of these two standards will result in more delayed income recognition.
- **AASB 16 – *Leases*** – For lessees, this standard removes the distinction between operating leases and finance leases, and requires all leases (except short-term leases and leases of low-value assets) to be recognised as lease assets and lease liabilities on the balance sheet. This will result in the grossing-up of the balance sheet and higher expense in the early years of the lease term. This standard applies from 1 January 2019.
- **AASB 1059 – *Service Concession Arrangements: Grantors*** – This standard is applicable to public sector entities (grantors) that enter into service concession arrangements with private sector operators. It requires grantors to recognise a service concession asset and, where applicable, a service concession liability on the balance sheet. The initial balance sheet accounting, as well as the ongoing income statement impacts, will have implications for grantors and for whole-of-government reporting. AASB 1059 will apply for years beginning on or after 1 January 2019, although the AASB is known to be considering a 12-month delay in implementing this standard.

We acknowledge that there are varying degrees of readiness and preparation for these new accounting standards. We are preparing and training financial audit staff in the new and revised requirements and updating relevant audit policies and procedures.

Recommendations

1. Treasury should consider appropriate levels of adoption of accounting standards for whole of government reporting and for entity level reporting that are fit for purpose in the Western Australian public sector context.
2. Entities should continue to make timely preparations for implementation of the accounting standards changes.

Audit of the Annual Report on State Finances

Introduction

The Annual Report on State Finances (ARSF) reports on the State's annual financial results and financial position and explains significant variations from the prior year and from the annual budget estimates. The Department of Treasury prepares the ARSF and we audit key aspects under the *Government Financial Responsibility Act 2000*.

The ARSF brings together key financial information for the 3 sectors of government as shown in Figure 8. In addition to this consolidated financial reporting, each entity also prepares and tables its own annual report that provides detail of its individual finances.

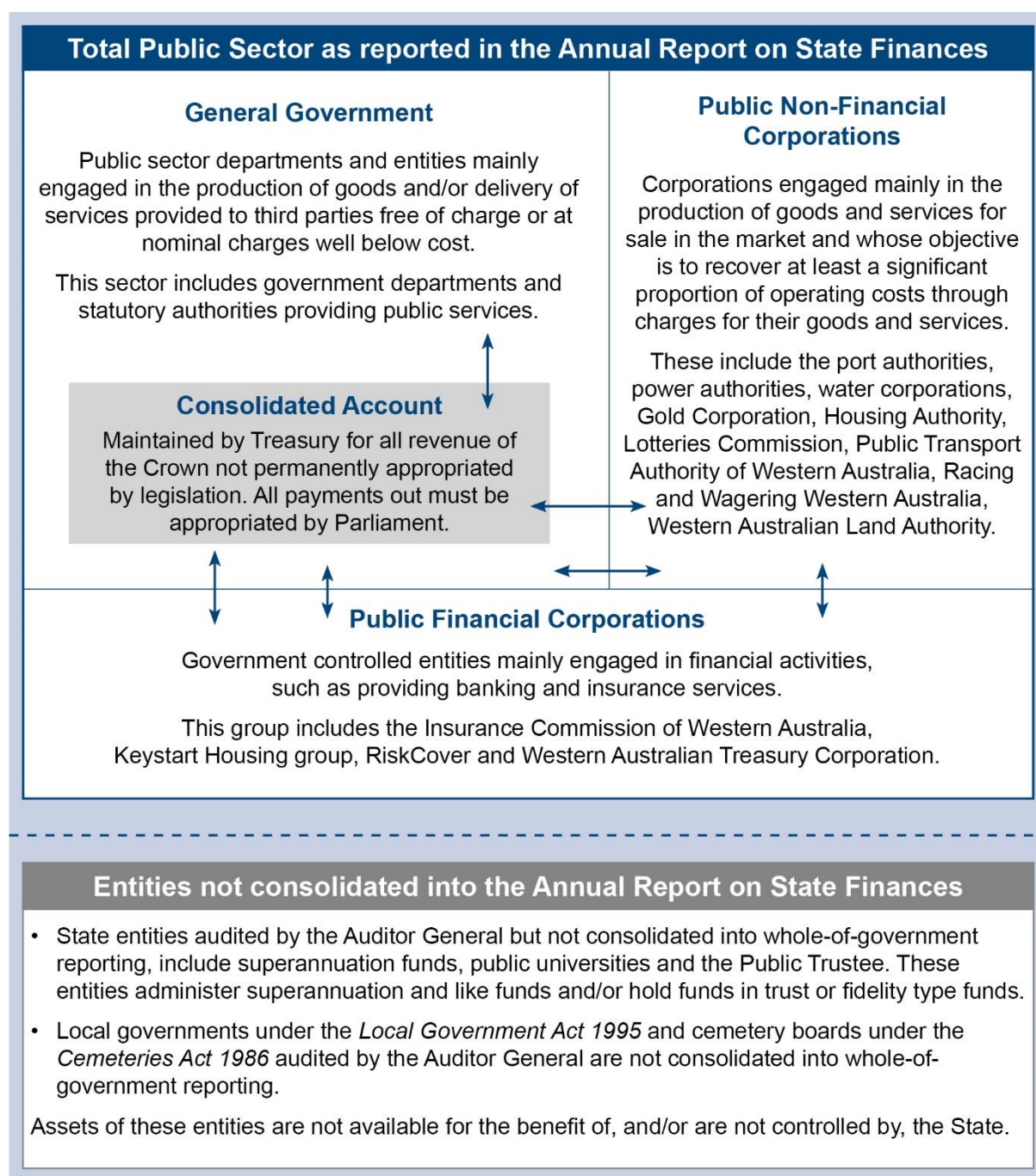


Figure 8: Financial relationships between sectors of Western Australian government

Audit Opinion

We issued a clear (unqualified) audit opinion to the Treasurer on 25 September 2018. The audited ARSF was released by the Treasurer on 26 September 2018, meeting the statutory reporting deadline of 28 September 2018, or 90 days after the end of the financial year.

Included in our auditor's report was an Emphasis of Matter (EoM) paragraph to alert readers to a correction of overstated land valuations in previous years that is disclosed in the ARSF. Our EoM advised that Appendix 1, Note 3(y) of the financial statements explains an overstatement of \$3.9 billion in total public sector land values and the related revaluation reserve.

Timeliness

Timely and efficient preparation of the ARSF by Treasury and its audit by us is dependent on entities submitting accurate year end financial balances to Treasury on time.

It was a concern that 36 entities submitted June actual financial data to Treasury after the deadline of 24 July, compared to 26 late submitters last year. Late submissions reduce the time for Treasury to review entities' balances and increases the risk of undetected errors.

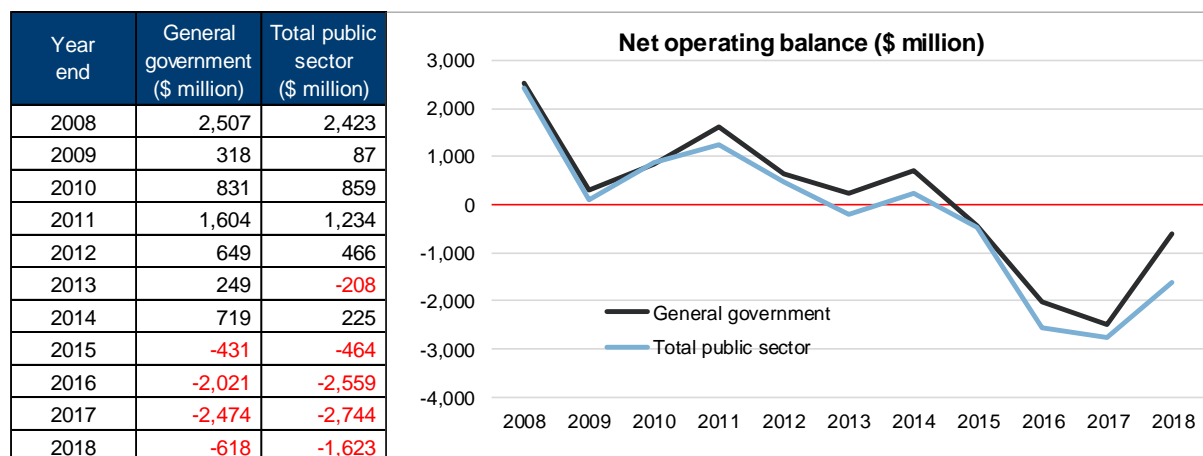
Western Australia's finances – selected key indicators

This section of our report provides information that supplements information contained in the ARSF that Parliament and other readers might find useful:

- net operating balance for General Government and for the Total Public Sector
- infrastructure renewal ratio
- borrowings and unfunded superannuation
- debt sustainability
- total borrowings and expense commitments
- current trend in leave liability balances.

Net operating balance

Figure 9 shows the net operating balance for the General Government Sector and the Total Public Sector. A large number of factors affect the result, including economic circumstances, the performance of the State's main industries, interest rates, Commonwealth funding and legislation. However, a surplus is generally an indicator of sound financial management and/or good budgeting.



Source: Tabled Annual Reports on State Finances

Figure 9: Net operating balance from 2007-08 to 2017-18

Infrastructure renewal

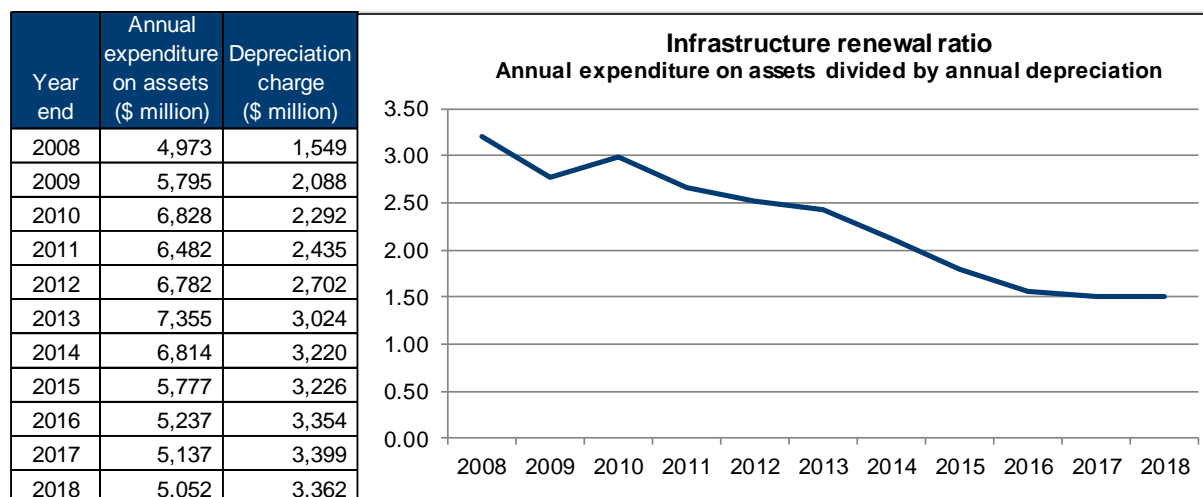
Governments face an ongoing challenge to maintain existing infrastructure and also develop and provide new assets to achieve desired social, economic and environmental outcomes.

The infrastructure renewal ratio is an indicator of the rate at which existing infrastructure is being replaced and increased compared with the rate at which it is being used up. The ratio compares the annual expenditure on assets with the annual depreciation charge on assets. A ratio higher than 1.00 indicates that overall the State's infrastructure is increasing.

Infrastructure assets mainly include land, roads, ports, water and electricity assets and networks, hospitals and schools. These represent almost the entire balance of non-financial assets. In 2017-18 the value of non-financial assets for the Total Public Sector decreased slightly, from \$154.2 billion to \$153.5 billion. The 2017 balance was restated following correction of overstated land valuations in previous years.

Figure 10 indicates that although infrastructure renewal is slowing, it remains above the ratio of 1.00.

The infrastructure renewal rate is a high level indicator and caution is needed when interpreting the results. For example, this indicator does not inform on the extent to which maintenance of existing assets is prolonging their useful life.

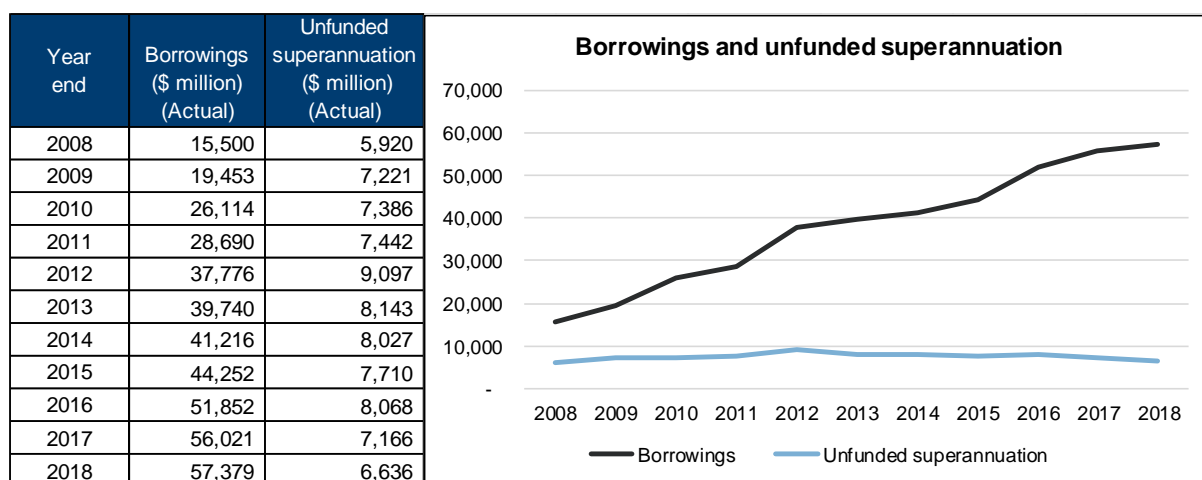


Source: Tabled Annual Reports on State Finances

Figure 10: Infrastructure renewal ratios from 2007-08 to 2017-18

Borrowings and unfunded superannuation

Information on the State's debt is contained in the ARSF. Borrowings and the State's unfunded superannuation are significant components of this debt. While the superannuation liability decreased in 2017-18, borrowings continued to increase.



Source: Tabled Annual Reports on State Finances and Australian Bureau of Statistics

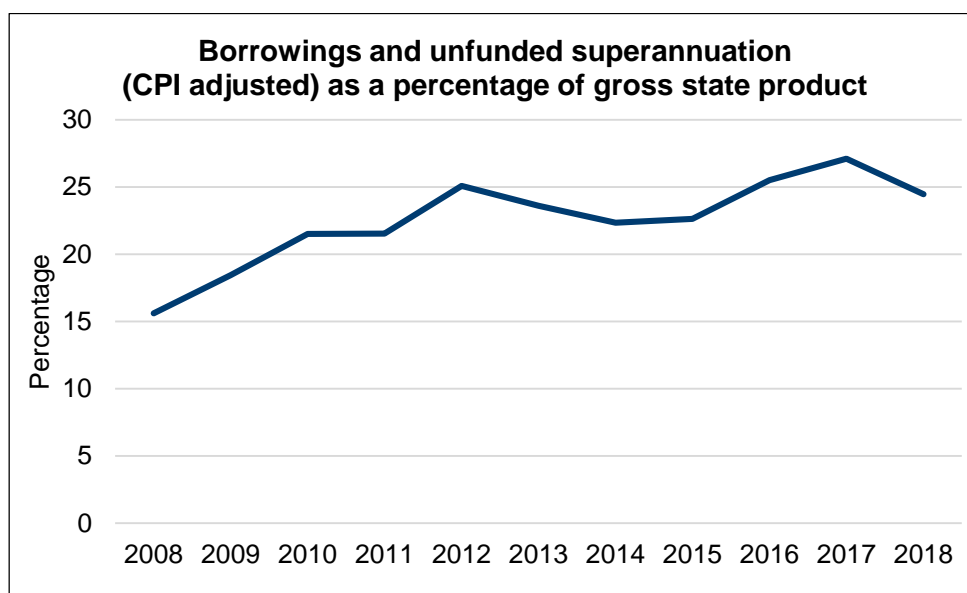
Figure 11: Borrowings and unfunded superannuation from 2007-08 to 2017-18

Debt sustainability

The ARSF contains important information on the State's net debt. In Figure 12, we have reported another commonly used high level indicator relating to debt, the 'Debt Sustainability' ratio. In this graph, the debt sustainability ratio is the value of borrowings and unfunded superannuation liability of the Total Public Sector as a percentage of gross state product (GSP).

It should be noted that measuring sustainable debt is difficult as the ability to pay debts involves factors such as economic growth, interest rates and the capacity of the State to generate surpluses in the future. As debt is repaid over a long period, these factors cannot be forecast reliably.

Based on this indicator, the State's ability to meet its debt obligations improved this year.



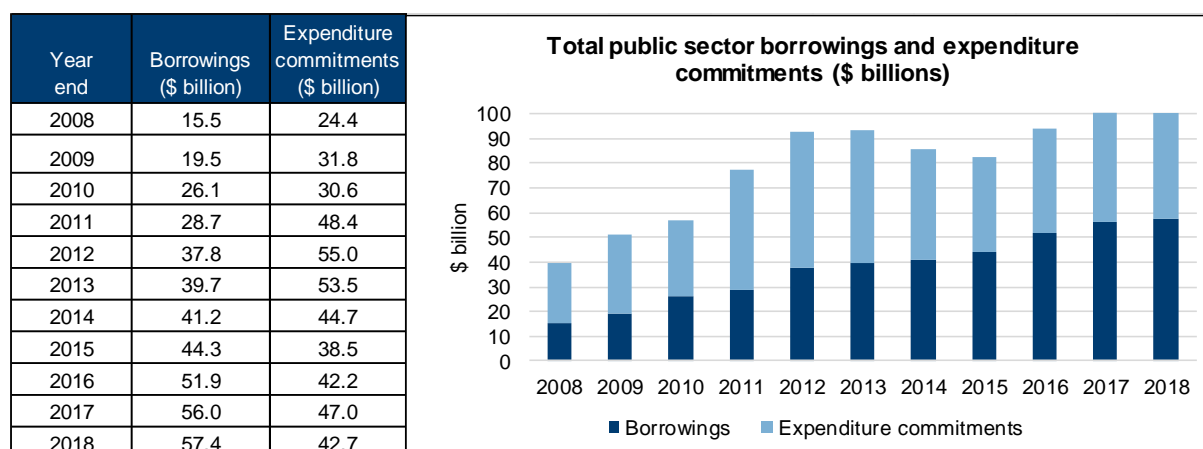
Source: Tabled Annual Reports on State Finances and Australian Bureau of Statistics

Figure 12: Borrowings and unfunded superannuation as a percentage of GSP

Note: As ABS data for 2017-18 is not yet available, 2017-18 is based on a Treasury estimate of GSP.

Total borrowings and expense commitments

Figure 13 shows the trend in the State's borrowings and commitment to future expenditure. Overall this year, Total Public Sector borrowing increased by \$1.4 billion while expenditure commitments reduced by \$4.3 billion, resulting in a combined total reduction of \$2.9 billion.



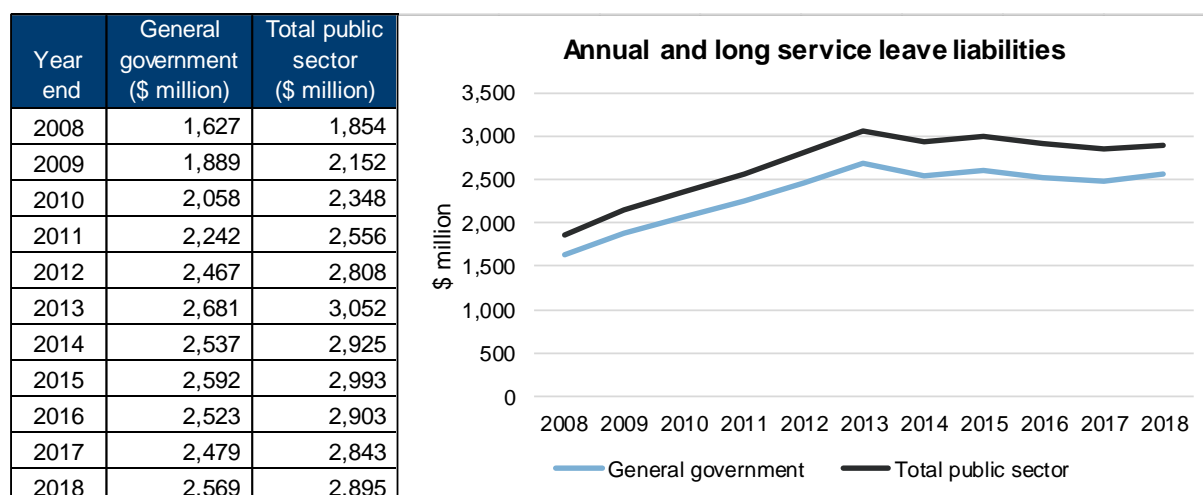
Source: Tabled Annual Reports on State Finances

Figure 13: Total Public Sector borrowings and commitments 2007-08 to 2017-18

Expenditure commitments at 30 June 2018 include \$37.2 billion for private sector contractors for long term contracts providing health services, and rail and bus operations. Capital expenditure commitments account for \$3.4 billion including road infrastructure, health campuses, schools, housing, land development, waste and waste water projects as well as information technology.

Current trend in leave liability balances

The total public sector annual and long service leave liability owing to employees increased by \$52 million to \$2.9 billion during 2017-18. This is a reversal of the recent slightly declining trend which was largely driven by voluntary severance schemes being taken up by public sector employees, many of whom had been long serving staff.



Source: Tabled Annual Report on State Finances

Figure 14: WA public sector annual and long service leave liabilities 2007-08 to 2017-18

Management at entities need to proactively manage their leave liabilities. It is important for staff to take regular leave for their health and wellbeing, and for the entity to develop staff to perform the tasks of others. It should also be noted that fraud can be more easily concealed by staff who do not take leave.

Recommendation

Management should continue to closely monitor leave plans to ensure that staff schedule and take leave each year and, where appropriate, allow staff to receive a cash payout for part of their leave, rather than accumulating large leave balances.

Selected significant financial transactions and financial ratios

Introduction

This section of the report provides information on selected significant financial transactions made in 2017-18 that we noted during our audits. It also includes selected key financial ratios and information commonly used for assessing financial performance or analysing the financial health of entities. We report this information to provide insight to important issues considered during the audits.

Some of the information below may also be reported in each entity's tabled annual report but we have summarised it here for the convenience of Parliament. By including these items in this report, we are not implying that we have a residual audit-related concern with these transactions.

Selected significant financial transactions

Assets

- In 2017-18 the **Child and Adolescent Health Service** took over operational responsibility for the new Perth Children's Hospital and capitalised building, furniture, fittings and equipment, and intangibles, totalling \$1.23 billion. Princess Margaret Hospital assets, valued at \$59.5 million, were transferred back to the **Department of Health**.
- Optus Stadium opened in January 2018 resulting in a \$1.1 billion increase in property, plant and equipment for **Western Australian Sport Centre Trust** (VenuesWest). The stadium was funded under a public private partnership between the State Government and ProjectCo (the private provider). VenuesWest received an equity contribution of \$656.8 million being the State's contribution, with the remainder being received under a finance lease with ProjectCo.
- **Western Power's** information technology related assets were increased this year by \$49 million when 3 IT management systems covering assets, customers and workflow became operational. The **Department of Fire and Emergency Services** also reported a \$9.9 million (314%) increase in its intangible assets due to the continued development of the Computer Aided Despatch (CAD) incident management platform. This has since become operational, from August 2018.
- Land and buildings at the **Department of Education** were revalued down by \$390.4 million. Included in this was a \$29.7 million write down in the valuation of school buildings under the public private partnership arrangement.
- At 30 June 2018, the **Department of Transport** reported \$8 million non-current assets classified as held for sale, being the Welshpool Vehicle Examination Centre property. This property became surplus during 2017-18.
- **Perth Theatre Trust** added to its assets when it received land valued at \$1.7 million from the City of Albany for the Albany Entertainment Centre and \$21 million from the transfer of the Goldfields Arts Centre building and land from the **Department of Training and Workforce Development**.
- **South West Development Commission's** property, plant and equipment increased by 23.3%, \$2.4 million, to \$12.5 million, mainly attributed to undertaking the Transforming Bunbury's Waterfront (Stage 1) Dolphin Discovery Centre capital works project.

- The **Western Australian Greyhound Racing Association** transferred the Mandurah racetrack to **Racing and Wagering Western Australia** in July 2018. The racetrack was valued at \$8.2 million.
- **WA Country Health Services** assets under construction totalled \$319 million, including \$147 million for the Karratha Health Campus development and \$105 million for major upgrades at 6 district hospitals under the Southern Inland Health Initiative programme.

Liabilities

- **Western Australian Treasury Corporation** increased its borrowings by \$3.4 billion (6.6%) to \$54.7 billion.

Expenditure

- The **Public Transport Authority of Western Australia** reported spending \$222 million of Commonwealth government funding on the ongoing Forrestfield-Airport Link project from the Specific Purpose Account. A capital commitment for the main contract of \$618 million was reported at 30 June 2018 in the **Annual Report on State Finances**.
- The METRONET project also commenced during 2017-18, with \$20.2 million of the initial \$30.2 million contributed by State and Commonwealth governments, spent at 30 June 2018. Payments of \$19.1 million were for infrastructure planning such as the Yanchep Rail Extension and Thornlie-Cockburn Link and \$0.8 million for METRONET office operating expenses. A further \$18.9 million was drawn from the Metropolitan Regional Improvement Fund for land purchased for the METRONET rail project and park and recreation. The **Annual Report on State Finances** also reports an additional grant of \$513 million for METRONET projects, following successful negotiation announced in the 2018-19 Commonwealth Budget.
- During 2017-18, \$871.2 million was disbursed from the **Royalties for Regions Fund**. This was \$192 million or 28% more than the previous year. Projects funded were for infrastructure, business and economic development and other regional initiatives. At 30 June 2018 the balance of the Fund was at the maximum, \$1 billion, as set out in the Royalties for Regions Act 2009.
- During 2017-18 the **Department of Justice** paid \$26.7 million to 228 employees who accepted voluntary severance as part of the Government's Voluntary Targeted Separation Scheme.
- Total superannuation benefits paid to members and beneficiaries by the **Government Employees Superannuation Board** (GESB) was \$417.7 million (11%) lower than budget. GESB attributes this mainly to member uncertainties about possible redundancies due to Machinery of Government and budget changes that impact on member decisions about accessing their benefits.
- **Mental Health Commission** paid \$702.2 million, \$31.9 million or 4.8% more than the previous year, for its WA Health service agreement, reflecting an activity and cost growth for public mental health services. Commonwealth grants provided to the Commission for National Health Reform Funding of specialised mental health services increased by \$29.9 million or 18.3% to \$193.2 million in 2017/18.
- **Disability Services Commission** expenditure on services provided by funded entities increased by \$91.2 million or 13.1%, due to additional participants when Western Australia joined the National Disability Insurance Scheme (NDIS) from 1 July 2017. In December 2017, the State Government's decision to join the nationally delivered NDIS resulted in a \$70.8 million increase in Commonwealth funding for the transition. From

1 July 2018 participants commenced being phased into the Commonwealth National Disability Insurance Agency which now delivers the NDIS in Western Australia.

- The **Legal Aid Commission of Western Australia**'s legal services expenses increased by 14% or \$3.3 million to \$26.6 million. The Commission attributes this largely due to higher than expected expensive case costs for both State and Commonwealth criminal matters, higher levels of court applications and the steady increase in the complexity of matters requiring legal representation.
- Supplies and services expenses of the **Botanic Gardens and Parks Authority** increased by 26%, \$1.4 million, to \$6.7 million. This increase was attributed to completion of the Rio Tinto Naturescape Stage II project.

Revenue

- **Main Roads'** Commonwealth grants increased by \$509.2 million (193%) to a total of \$772.6 million. Infrastructure projects including the Murdoch Drive extension, Reid Highway (Altone Road to West Swan Road) and Roe Highway/Wanneroo Road interchanges received a one off payment of \$226 million under the National Partnership Agreement. A further \$274 million was also received for ongoing projects that met their milestones, including the Great Northern Highway and Northlink WA.
- Regulatory fines of \$101.2 million from photographic traffic infringements were collected by the **Police Service** in 2017-18, compared to \$102 and \$109.6 million in the previous 2 years by the Road Safety Commission. The Police Service also collected \$19.2 million in towage and storage recoups, an increase of 45.5% on the \$13.2 million collected the previous year.
- Developer contributions to the **Water Corporation** decreased by \$21 million (10.4%) mainly due to a decline in construction activity levels in Perth, South West and North West. **Bunbury Water Corporation** also reported a 66% reduction in similar revenue. In contrast, the **Busselton Water Corporation** reported a 59.3%, \$1.2 million, increase in developers' headworks and mains contributions relating to the City of Busselton airport and other local developments during 2017-18.
- **Western Power** reported a 20.7%, \$37.1 million, reduction in developer and customer contributions. However, in regional Western Australia **Horizon Power** reported increases of \$104.7 million for developer and customer contributions. Overall, Horizon Power's revenue increased by 40.4% to \$479.7 million in 2017-18.
- **Western Australian Land Authority's** land sales totalled \$194.6 million, an 18.1% or \$29.9 million increase on the previous year. Landcorp recorded these land sales mainly in the metropolitan areas of Jolimont and Alkimos, industrial areas of Kwinana and Baldivis and regional areas of Broome.
- The **Department of Fire and Emergency Services** collected \$356 million from the emergency services levy, up \$15.1 million or 4.4% on the previous year. Its user charges for Direct Brigade Alarm monitored premises increased by 13.2% to \$12.1 million in 2017-18.
- Grants and Contributions revenue of the **Department of Transport** increased by \$12.8 million (185%) primarily due to \$6.0 million for funding Bike Boulevard (Safe Active Streets) and the Public Transport Authority providing a further \$4.5 million for the Burswood Jetty and \$0.8 million for the METRONET Project office.
- **Forest Products Commission** received a \$4.5 million grant allocation from the Royalties for Regions Fund for the purchase of land in Myalup.

- Investment revenue of the **Government Employees Superannuation Board (GESB)** was \$465.5 million (27%) higher than budget mainly due to higher than expected investment performance. The full year investment performance was 8.5% compared to a budget of 6.5% which was provided by GESB's asset consultant.
- The **Insurance Commission of Western Australia's** investment income of \$446.7 million was \$139.5 million or 45.4%, better than budget, although 4.6% lower than last year. This compared to investment income of \$468.4 million last year. This resulted largely from higher than expected returns in Australian and global equities, and property investments. At year end, the Commission's investment assets totalled \$5.3 billion.
- **Building and Construction Industry Training Board** levy receipts were \$6.1 million (19.7%) lower than the previous year, reflecting the slowing down of residential housing construction and less commercial projects compared to the higher activity level in 2016-17. Grants and subsidies to programs and training also reduced (by 22%, \$5.2 million), reflecting the decline in apprentices and students training in the construction industry.
- **Gaming and Wagering Commission** collected an additional \$4.4 million in racing bet levy, increasing the total by 8.3% to \$57.9 million.
- **Metropolitan Redevelopment Authority** recorded \$46 million in sales revenue compared to \$106 million, the previous year's very high result. The 2017-18 sales included two lots within their Central Redevelopment Area and others in the Midland Redevelopment Area.
- Total revenue of the **Zoological Parks Authority** increased by 4.4% for 2017-18 to \$14.7 million with admissions 1.8% and memberships 3.6% higher. A \$326,000 increase (38.5%) in grants, sponsorships and fundraising also added to the total. These included new corporate sponsorship from BHP, renewal of a City of South Perth partnership agreement, and a Commonwealth Grant to support the Western Ground Parrot.
- User charges and fees of the **Western Australian Museum** increased by 71.7% to \$2.86 million, attributed to their Dinosaur Discovery and the Escape from Pompeii exhibitions. Similarly, user charges and fees of the **Art Gallery of Western Australia** increased by 71.6% to \$983,000, mainly due to increased ticket sales and functions revenue from their exhibition of the Corsini Collection: Masterpieces from Florence.
- The **Department of Health** collected an additional \$108.4 million in Commonwealth grants and contributions. Of this increase, \$52.7 million was due to additional activity based funding for 2015-16 and 2016-17 that was adjusted and received in 2017-18.
- Royalties for regions funding received by the **Department of Primary Industries and Regional Development** of \$137.3 million was \$51.9 million or 37.8% below the budgeted funding. The lower amount of funding received reflects underspends across a number of royalties for regions projects and deferral of funding to future years.

Key financial ratios of public sector entities



In this section we present selected key financial ratios and information commonly used for assessing financial performance or analysing the financial health of entities:

- **liquidity (current) ratio**
- **summarised financial result for all entities**
- **borrowings to assets ratio.**

Liquidity (current) ratio for all entities – 4 year trend

The liquidity or current ratio is a traditional method of assessing an entity's ability to meet its debts as and when they fall due. It is calculated by dividing current assets by current liabilities. A ratio of more than one is generally accepted to show a low risk.

Eighty-two percent of entities at 30 June 2018 had a current ratio below 1.0, a slightly higher result to the previous years.

Liquidity ratio	Percentage of agencies	Percentage of agencies	Percentage of agencies	Percentage of agencies	Trendline
	30-Jun-15	30-Jun-16	30-Jun-17	30-Jun-18	
Greater than or equal to 1 (Low Risk)	81	82	81	82	
Less than 1	19	18	19	18	



Source: Audited financial statements in tabled annual reports

Table 9: Liquidity ratios of entities – 4 year trend

Financial result for all entities – 4 year trend

A number of factors can determine whether an entity achieves a surplus financial result. However, a surplus is generally an indicator that an entity is adequately funded and/or has sound financial management including good budgeting.

Ninety entities (70%) reported a surplus for 2017-18. The following table is a summary of the financial results of entities over the past 4 years.

Financial result	Percentage of agencies 2014-15	Percentage of agencies 2015-16	Percentage of agencies 2016-17	Percentage of agencies 2017-18	Trendline
Surplus	65	60	72	70	
Deficit	35	40	28	30	

Source: Audited financial statements in tabled annual reports

Table 10: Financial results of entities – 4 year trend

Borrowings to assets ratio

While a relatively small number of entities have a borrowings liability, their borrowings are significant in value. The borrowings to assets ratio is an indicator of the extent to which an entity's borrowings are covered by assets.

However, caution is needed when interpreting the results as the indicator does not differentiate between current and non-current assets and borrowings. It is a high level indicator of the extent that an entity has debt obligations.

Entity name	Borrowings to Assets Ratio				Trendline
	2014-15	2015-16	2016-17	2017-18	
Corporatised entities					
Fremantle Port Authority	41%	38%	34%	33%	
Horizon Power (Regional Power Corporation)	44%	43%	43%	37%	
Kimberley Ports Authority	29%	21%	23%	21%	
Mid West Ports Authority	51%	10%	8%	7%	
Pilbara Ports Authority	27%	24%	9%	8%	
Southern Ports Authority	19%	15%	12%	10%	
Synergy (Electricity Generation and Retail Corporation)	10%	9%	7%	6%	
Water Corporation	34%	34%	34%	35%	
Western Australian Land Authority	10%	12%	15%	18%	
Western Power (Electricity Networks Corporation)	74%	72%	69%	67%	
Statutory authorities					
Country High School Hostels Authority	14%	12%	12%		
Country Housing Authority	65%	63%	59%	53%	
Gold Corporation	21%	23%	18%	23%	
Housing Authority	25%	27%	25%	28%	
Metropolitan Redevelopment Authority	45%	50%	54%	69%	
Public Transport Authority of Western Australia	25%	26%	25%	26%	
South Metropolitan Health Service			8%	6%	
Western Australian Sports Centre Trust				19%	
Western Australian Treasury Corporation	92%	93%	93%	98%	
Departments					
Department of Corrective Services #	0.1%	0.0%	11%		
Department of Education Services *	107%	107%	105%		
Department of Finance	9%	8%	7%	5.4%	
Department of Fire and Emergency Services	14%	11%	10%	8%	
Department of Fisheries	24%	21%	19%		
Department of Justice #				15%	
Department of Regional Development	16%	12%	10%		
Department of the Attorney General #	25%	24%	24%		

Source: Audited financial statements in tabled annual reports

Table 11: Borrowings to Assets ratio of entities – 4 year trend

Note: Entities with a low percentage borrowing (ratio below 5%) have been omitted.

#The Departments of the Attorney General and Corrective Services amalgamated from 1 July 2017 to become the Department of Justice.

** Department of Education Services' borrowings were transferred to the Department of Education from 1 July 2017. This loan funding to schools at a lower (subsidised) interest rate than the rate applied to borrowing from the Western Australian Treasury Corporation continues through this larger department, with the ratio being 3% and not reported above.*

Dividends paid by Public Corporations to General Government

Dividends paid by public corporations increased significantly, contributing \$1,718 million to the General Government Sector financial results in 2017-18, compared to \$837 million in 2016-17. The 2017-18 dividends represent payout and surplus levels similar to 2015-16.

These dividends provide an additional funding source for distribution to budget funded entities for the delivery of government services. Despite these benefits, sustained high dividends can impact corporations' ability to retain enough of their surplus to meet asset maintenance and infrastructure renewal requirements.

Each corporation operates under its own enabling legislation with each having differing requirements and processes for the payment of dividends to Government. Treasury has advised that, in general terms, the dividend payout ratios are determined each year through a combination of SCIs and the annual Budget process. The dividends are generally calculated as a percentage of Net Profit After Tax².

The timing of dividend payments and the required approval processes are also prescribed in each corporations' legislation. Broadly, however, the Board makes a recommendation to the Minister, who consults with the Treasurer before determining the amount of the dividend. The process of seeking the Treasurer's concurrence includes Treasury review of the actual and budget financial statements of the corporation. Once the dividend amount has been agreed, the corporation pays the dividend to the Treasurer (the Consolidated Account), in accordance with their legislation. If the Minister directs a different dividend amount, then this direction is required to be tabled in Parliament.

The following table shows the dividends paid by the entities for the last 2 years and their trading surpluses for those 2 years.

Entity name	DIVIDENDS PAID 2017-18 (\$000)	2017-18 Surplus (\$000)	DIVIDENDS PAID 2016-17 (\$000)	2016-17 Surplus (\$000)	DIVIDENDS PAID 2015-16 (\$000)	2015-16 Surplus (\$000)
Bunbury Water Corporation	1,898	2,591	1,983	2,929	1,218	3,140
Busselton Water Corporation	1,409	3,431	1,464	2,093	1,435	3,100
Electricity Generation and Retail Corporation (Synergy)	148,000	-45,664	0	14,138	70,331	16,236
Electricity Networks Corporation (Western Power)	419,000	351,000	102,000	327,000	400,988	353,872
Forest Products Commission	3,617	7,998	2,530	3,964	562	20,779
Fremantle Port Authority	64,987	58,043	12,362	47,555	29,431	52,324
Gold Corporation	12,754	6,652	22,154	17,003	10,544	29,540
Insurance Commission of Western Australia	149,263	277,689	116,943	193,135	131,821	11,826
Kimberley Ports Authority	394	95	2,561	-2,980	449	3,940
Mid West Ports Authority	18,116	10,189	5,293	9,941	11,485	20,693

² Public Corporation Dividend Payout Ratios - refer 2018-19 Economic and Fiscal Outlook paper of the State Budget.

Entity name	DIVIDENDS PAID 2017-18 (\$000)	2017-18 Surplus (\$000)	DIVIDENDS PAID 2016-17 (\$000)	2016-17 Surplus (\$000)	DIVIDENDS PAID 2015-16 (\$000)	2015-16 Surplus (\$000)
Pilbara Ports Authority	220,685	187,452	13,085	151,687	100,464	119,726
Regional Power Corporation (Horizon Power)	43,802	111,859	16,389	35,436	32,159	36,677
Southern Ports Authority	43,190	24,563	6,279	28,429	15,661	26,571
Water Corporation	528,000	650,000	483,000	645,000	567,000	737,000
Western Australian Land Authority (Landcorp)	53,779	6,774	43,219	17,913	31,653	32,716
Western Australian Treasury Corporation	9,249	24,364	7,298	12,326	10,496	11,208
TOTAL DIVIDENDS PAID (\$000s)	1,718,143		836,560		1,415,697	
TOTAL SURPLUSES (\$000s)		1,677,036		1,505,569		1,479,348

Source: Audited annual financial statements of entities

Table 12: Dividends paid by entities to General Government Sector

Quality and timeliness of reporting

- **Most state government entities prepared satisfactory quality financial statements and KPIs for 2017-18, however some still need to improve their quality review processes.**
- **Sixty-three percent of state government entities were ready for their audit within 20 days of year end. Last year this result was 70%.**
- **We have acknowledged the top 40 'Best Practice' entities across 2 categories for timeliness in their financial reporting, good financial controls and reporting practices.**

Quality and accuracy

As reported on page 22, the new departments established under the Machinery of Government changes experienced challenges with amalgamating systems of the various constituent entities, with most departments continuing to operate on several financial, human resource and administrative systems. This generally had an effect on the quality of financial reporting.

Overall for all entities, the number of errors identified and corrected during the 2017-18 audit process was similar to the previous year. We again found that many entities continue to make key decisions about their financial reporting late in the financial year, or after year end, resulting in rushed transactions and adjustments and consequent errors. In some entities a more robust quality review process needs to be implemented to ensure that their financial statements are complete and accurate and the working papers adequately support the reporting figures in their financial reports.

To ensure timely and accurate financial reports it is important that management in each reporting entity keeps proper accounts and records. Management should undertake various best practice initiatives throughout the financial year and after year end to improve the quality of their financial reporting.

At the beginning of the financial year, entities should confirm the accounting policies to be applied for the ensuing year.

Before year end, entities need to:

- prepare a project plan of human and financial resources, assign responsibilities for tasks and set time frames for financial reporting
- avoid receiving asset valuations late in the financial year or after year end and ensure that management reviews the valuations before they are included in the financial statements
- identify and review changes to accounting standards and reporting requirements and confirm the approach to any changes with the auditors
- determine the form and content of their KPIs and obtain necessary approvals from Treasury
- prepare pro-forma financial reports, including all comparative information that can be reviewed by the auditors well in advance of the final audit visit.

After year end:

- analyse variations between actual and budget as well as previous year results to identify and correct omissions and/or errors

- ensure managers with sign-off responsibility for components of the financial report do so in line with the established timetable
- ensure the draft financial report has received an internal quality assurance review, preferably by internal audit or other suitably qualified professionals.

Timeliness

Sixty-three percent of the entities were 'Audit Ready' within 20 days of their financial year end. This result reverses the recent trend of improved timeliness. We saw this partly resulted from reporting challenges from the Machinery of Government changes.

Being ready for audit as soon as possible after year end enables entities to release resources for other important financial management tasks, thereby improving the overall efficiency and financial management of the public sector.

The date when each entity was 'Audit Ready' is reported in Appendix 1 (commencing on page 50) while Figure 15 summarises timeliness over the last 10 years.

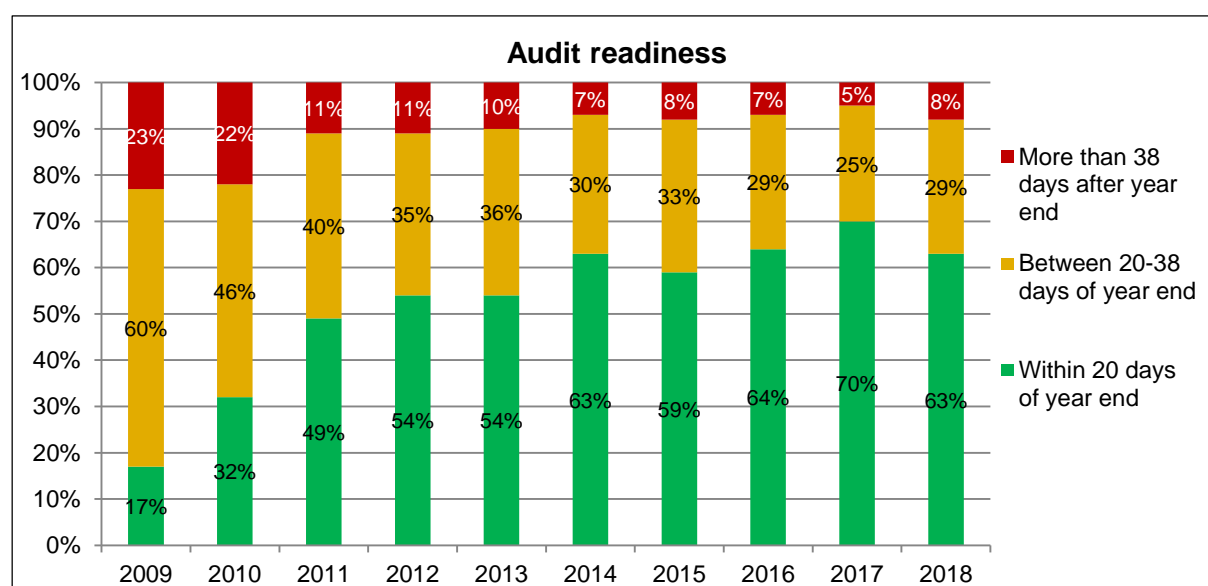


Figure 15: Percentage of entities 'Audit Ready' within 3 time brackets for last 10 years

Best practice entities

Each year we rate entities on their financial reporting and financial controls and recognise the top 20 large and top 20 small 'best practice' entities (Table 13). We congratulate the entities we rated as the top achievers for 2017-18.

Our assessment criteria include:

- clear opinion on financial statements, controls and key performance indicators
- the number and significance of control weaknesses raised in management letters
- audit ready early, ideally no later than 20 days after financial year end
- good quality financial statements and key performance indicators, supported by reliable working papers and submitted for audit within the agreed timeframe
- management resolution of accounting standards and presentation issues
- key staff available during the audit process.

Best Practice Top 20 Large Entities	Best Practice Top 20 Small Entities
<p>Commissioner of Main Roads</p> <p>Construction Industry Long Service Leave Payments Board</p> <p>Department of Finance</p> <p>Department of Jobs, Tourism, Science and Innovation</p> <p>Department of Training and Workforce Development</p> <p>Department of Transport</p> <p>Department of Treasury</p> <p>Electricity Generation and Retail Corporation (Synergy)</p> <p>Electricity Networks Corporation - Western Power</p> <p>Fremantle Port Authority</p> <p>Gold Corporation</p> <p>Government Employees Superannuation Board</p> <p>Insurance Commission of Western Australia</p> <p>Legal Aid Commission of Western Australia</p> <p>Lotteries Commission</p> <p>Metropolitan Redevelopment Authority</p> <p>Mid West Ports Authority</p> <p>Southern Ports Authority</p> <p>Water Corporation</p> <p>Western Australian Tourism Commission</p>	<p>Art Gallery of Western Australia, The Board of the</p> <p>Botanic Gardens and Parks Authority</p> <p>Chemistry Centre (WA)</p> <p>Country Housing Authority</p> <p>Department of the Registrar, Western Australian Industrial Relations Commission</p> <p>Economic Regulation Authority</p> <p>Kimberley Ports Authority</p> <p>Metropolitan Cemeteries Board</p> <p>National Trust of Australia (W.A.), The</p> <p>Office of Emergency Management</p> <p>Office of the Information Commissioner</p> <p>Parliamentary Commissioner for Administrative Investigations</p> <p>Public Sector Commission</p> <p>Quadriplegic Centre</p> <p>Regional Development Commissions</p> <p>Small Business Development Corporation</p> <p>Western Australian Electoral Commission</p> <p>Western Australian Museum, The</p> <p>WorkCover Western Australia Authority</p> <p>Zoological Parks Authority</p>

Table 13: Top 20 best practice entities in 2 expenditure categories for 2017-18

Other audit outcomes

Deciding what to audit is a key part of the Auditor General's independence. We have objective, robust and transparent processes in place to help us select the right topics. However, in some instances, the Auditor General may start an audit and then decide not to proceed to a full audit. This can happen for reasons including when the State decides to significantly change the delivery of a program or service, or when another entity reviews the same area, and the Auditor General decides there is limited value in completing an audit and separately reporting findings to Parliament.

A narrow scope performance audit into Serious Incidents Involving People with Disability was started at the Department of Communities (Department) in 2017-18, but not progressed. The audit was ceased in February 2018, primarily as a result of the State's decision to roll out the National Disability Insurance Scheme (NDIS).

Our early engagement with the Department and stakeholders raised some preliminary concerns which we reported to the Department. These included:

- there may be inconsistency in what incidents are, and are not, reported to the Department
- limited guidance on how to define and classify the severity of incidents that occur
- limited compliance checks to ensure all serious incidents are reported to the Department by service providers. Rather, the Department's oversight is focused on ensuring the completeness of serious incident reports that are lodged and it follows up to ensure appropriate action is taken to address the incident
- service provider contracts may be renewed by the Department without full consideration of past performance.

We made a number of preliminary recommendations to the Department which we believe could improve serious incident reporting and assist the Department. These focused on the review of contract management processes and strategies. The Department advised that its established contract management procedures and processes address these preliminary recommendations.

Appendix 1: Entities audited

Audit opinions issued to 146 state government entities completed between 1 May 2018 and 31 October 2018 are listed below. Qualified opinions and other notes appear against the entity's name.

The entities primarily had reporting dates of 30 June or 31 July 2018. The audit opinion is issued to the responsible Minister for each government entity and is printed in full in the entity's annual report. The annual report is tabled in Parliament by the Minister and also normally posted on the entity's website.

The table lists each entity audited and the 'Audit Ready' date when their financial statements were submitted for the audit to commence.

Rating codes for timeliness / audit readiness used in Appendix 1		
Entity's submission date	Rating	Colour coding
On or before Thursday 19 July 2018	Good	Green
By 5 August 2018	Satisfactory	Yellow
After 5 August 2018	Needs improvement	Red

Ratings are not reported for the Annual Report on State Finances, subsidiaries, request audits, cemetery boards and final audits of abolished entities. These are marked as 'n/a' in the 'Audit Ready' column.

In the following table the names of entities are as audited for 2017-18.

Entities' names are listed alphabetically without 'The' in their statutory names.

Audit Ready	Entity	Opinion issued
02/09/2018	Aboriginal Affairs Planning Authority, The	14/09/2018
18/07/2018	Agricultural Produce Commission	14/08/2018
12/07/2018	Animal Resources Authority	31/07/2018
n/a	Annual Report on State Finances	25/09/2018
16/07/2018	Board of the Art Gallery of Western Australia, The	29/08/2018
16/07/2018	Botanic Gardens and Parks Authority	05/09/2018
23/07/2018	Building and Construction Industry Training Board	23/08/2018
03/08/2018	Bunbury Water Corporation	21/08/2018
17/07/2018	Burswood Park Board, The	23/08/2018
16/07/2018	Busselton Water Corporation	30/08/2018
16/07/2018	Chemistry Centre (WA)	30/08/2018
19/07/2018	Child and Adolescent Health Service	18/09/2018
22/07/2018	Coal Miners' Welfare Board of Western Australia, The	13/09/2018
01/08/2018	Combat Sports Commission	31/08/2018
13/07/2018	Commissioner for Children and Young People (Qualified opinion on KPIs. Details on page 10.)	21/08/2018
13/08/2018	Commissioner for Equal Opportunity	07/09/2018
16/07/2018	Commissioner of Main Roads	28/08/2018
16/07/2018	Construction Industry Long Service Leave Payments Board	17/08/2018

Audit Ready	Entity	Opinion issued
11/07/2018	Corruption and Crime Commission	18/09/2018
16/07/2018	Country Housing Authority	29/08/2018
19/07/2018	Department of Biodiversity, Conservation and Attractions	17/09/2018
06/08/2018	Department of Communities	19/09/2018
16/07/2018	Department of Education	12/09/2018
16/07/2018	Department of Finance	20/08/2018
16/07/2018	Department of Fire and Emergency Services	31/08/2018
06/08/2018	Department of Health	02/10/2018
13/07/2018	Department of Jobs, Tourism, Science and Innovation	03/09/2018
18/07/2018	Department of Justice (Qualified opinion on KPIs. Details on page 10.)	17/09/2018
29/08/2018	Department of Local Government, Sport and Cultural Industries (Qualified opinion on KPIs. Details on page 10.)	02/10/2018
16/07/2018	Department of Mines, Industry Regulation and Safety	31/08/2018
01/08/2018	Department of Planning, Lands and Heritage	14/09/2018
03/08/2018	Department of Primary Industries and Regional Development	20/09/2018
27/07/2018	Department of the Legislative Assembly	12/09/2018
27/07/2018	Department of the Legislative Council	12/09/2018
03/08/2018	Department of the Premier and Cabinet	12/09/2018
09/07/2018	Department of the Registrar, Western Australian Industrial Relations Commission	31/07/2018
16/07/2018	Department of Training and Workforce Development	24/08/2018
16/07/2018	Department of Transport	03/09/2018
16/07/2018	Department of Treasury	13/09/2018
27/07/2018	Department of Water and Environment Regulation (Qualified opinion on controls. Details on page 11.)	27/08/2018
19/07/2018	Disability Services Commission	27/08/2018
19/07/2018	East Metropolitan Health Service	12/09/2018
16/07/2018	Economic Regulation Authority	02/08/2018
16/07/2018	Electricity Generation and Retail Corporation – Synergy	31/08/2018
n/a	Subsidiaries: South West Solar Development Holdings Pty Ltd	21/09/2018
n/a	Vinalco Energy Trust	20/09/2018
n/a	Vinalco Energy Pty Ltd	20/09/2018
13/07/2018	Electricity Networks Corporation	09/08/2018
05/08/2018	Fire and Emergency Services Superannuation Board	21/09/2018
02/08/2018	Forest Products Commission	17/09/2018
12/07/2018	Fremantle Port Authority	31/08/2018
13/07/2018	Gaming and Wagering Commission of Western Australia	24/08/2018
17/07/2018	Gascoyne Development Commission	10/09/2018
16/07/2018	Gold Corporation	13/09/2018

Audit Ready	Entity	Opinion issued
17/07/2018	Goldfields-Esperance Development Commission	30/08/2018
25/07/2018	Government Employees Superannuation Board	07/09/2018
20/07/2018	Governor's Establishment	24/08/2018
17/07/2018	Great Southern Development Commission	31/08/2018
03/08/2018	Health and Disability Services Complaints Office	31/08/2018
20/07/2018	Health Support Services	17/09/2018
21/08/2018	Heritage Council of Western Australia	18/09/2018
01/08/2018	Housing Authority	25/09/2018
n/a	Subsidiaries: Goldmaster Enterprises Pty Ltd	31/08/2018
	Homeswest Loan Scheme Trust	31/08/2018
	Keystart Bonds Limited	31/08/2018
	Keystart Housing Scheme Trust	31/08/2018
	Keystart Loans Limited	31/08/2018
	Keystart Support Trust	31/08/2018
n/a	Independent Market Operator – Final audit 01/07/2017 – 27/04/2018	15/08/2018
16/07/2018	Insurance Commission of Western Australia	11/09/2018
27/07/2018	Keep Australia Beautiful Council (W.A.)	31/08/2018
17/07/2018	Kimberley Development Commission	31/08/2018
16/07/2018	Kimberley Ports Authority	07/09/2018
05/07/2018	Landcare Trust	07/09/2018
03/08/2018	Law Reform Commission of Western Australia	03/09/2018
13/07/2018	Legal Aid Commission of Western Australia	29/08/2018
27/07/2018	Legal Contribution Trust (01/01/2018 – 30/06/2018)	17/09/2018
31/07/2018	Legal Costs Committee	06/09/2018
17/07/2018	Library Board of Western Australia, The	13/09/2018
26/07/2018	Local Health Authorities Analytical Committee	18/09/2018
16/07/2018	Lotteries Commission	28/08/2018
13/07/2018	Mental Health Commission	20/08/2018
11/07/2018	Metropolitan Cemeteries Board	10/08/2018
15/07/2018	Metropolitan Redevelopment Authority	28/08/2018
16/07/2018	Mid West Development Commission	06/09/2018
16/07/2018	Mid West Ports Authority	20/08/2018
09/07/2018	Minerals Research Institute of Western Australia	17/08/2018
01/08/2018	National Trust of Australia (W.A.), The	03/09/2018
01/08/2018	North Metropolitan Health Service	18/09/2018
20/07/2018	Office of Emergency Management (Final report)	05/09/2018
28/08/2018	Office of the Director of Public Prosecutions	14/09/2018
16/07/2018	Office of the Government Chief Information Officer	30/08/2018
13/07/2018	Office of the Information Commissioner	31/08/2018

Audit Ready	Entity	Opinion issued
31/07/2018	Office of the Inspector of Custodial Services	30/08/2018
16/07/2018	Parliamentary Commissioner for Administrative Investigations	22/08/2018
16/08/2018	Parliamentary Inspector of the Corruption and Crime Commission	13/09/2018
27/07/2018	Parliamentary Services Department	10/09/2018
17/07/2018	Peel Development Commission	30/08/2018
16/07/2018	Perth Theatre Trust	30/08/2018
17/07/2018	Pilbara Development Commission	06/09/2018
16/07/2018	Pilbara Ports Authority	13/09/2018
23/07/2018	Police Service	22/08/2018
09/08/2018	Professional Standards Council	31/08/2018
16/07/2018	Public Sector Commission	14/08/2018
03/08/2018	Public Transport Authority of Western Australia	06/09/2018
03/08/2018	Public Trustee	06/09/2018
15/07/2018	Quadriplegic Centre	12/09/2018
03/08/2018	Queen Elizabeth II Medical Centre Trust, The	05/09/2018
16/08/2018	Racing and Wagering Western Australia (01/08/2017 – 31/07/2018)	15/10/2018
13/07/2018	Racing Penalties Appeal Tribunal of Western Australia	20/08/2018
02/08/2018	Regional Power Corporation – Horizon Power	06/09/2018
16/07/2018	Rottneet Island Authority (Qualified opinion on controls – Details on page 11.)	17/09/2018
25/07/2018	Rural Business Development Corporation	13/09/2018
16/07/2018	School Curriculum and Standards Authority	11/09/2018
26/07/2018	Small Business Development Corporation	31/08/2018
16/07/2018	Southern Ports Authority	28/08/2018
19/07/2018	South Metropolitan Health Service	25/09/2018
17/07/2018	South West Development Commission	05/09/2018
13/07/2018	State Supply Commission	03/08/2018
17/07/2018	Swan Bells Foundation Incorporated	06/09/2018
18/07/2018	Trustees of Public Education Endowment	17/09/2018
30/07/2018	WA Country Health Service	20/09/2018
12/07/2018	Water Corporation	22/08/2018
13/07/2018	Western Australian Building Management Authority	03/08/2018
19/07/2018	Western Australian Coastal Shipping Commission	13/09/2018
10/07/2018	Western Australian Electoral Commission	31/07/2018
15/07/2018	Western Australian Energy Disputes Arbitrator	02/08/2018
10/09/2018	Western Australian Greyhound Racing Association (01/08/2017 - 31/07/2018) (Qualified opinion on financial statements and KPIs. Details on page 11.)	22/10/2018

Audit Ready	Entity	Opinion issued
17/07/2018	Western Australian Health Promotion Foundation	03/08/2018
30/07/2018	Western Australian Institute of Sport	10/09/2018
13/07/2018	Western Australian Land Authority	31/08/2018
n/a	Subsidiary: Advara Ltd	25/09/2018
17/08/2018	Western Australian Land Information Authority	28/09/2018
24/07/2018	Western Australian Meat Industry Authority	17/09/2018
16/07/2018	Western Australian Museum, The	30/08/2018
31/07/2018	Western Australian Planning Commission	10/09/2018
25/07/2018	Western Australian Sports Centre Trust	18/09/2018
16/07/2018	Western Australian Tourism Commission	31/08/2018
13/07/2018	Western Australian Treasury Corporation	21/08/2018
17/07/2018	Wheatbelt Development Commission	06/09/2018
13/07/2018	WorkCover Western Australia Authority	31/08/2018
16/07/2018	Zoological Parks Authority	29/08/2018

Request Audit – Audits requested by the Treasurer under the <i>Auditor General Act 2006</i> do not have a statutory date for submitted financial statements		
n/a	The Delegate of the Queen Elizabeth II Medical Centre Trust	05/09/2018
n/a	Tertiary Institutions Service Centre (Inc) Final audit 01/07/2017 – 31/01/2018	29/10/2018
n/a	Tertiary Institutions Service Centre Ltd 01/02/2018 – 30/06/2018	29/10/2018
Cemetery Board Audits – Cemetery Boards audited under the <i>Cemeteries Act 1986</i> do not have a statutory date for submitting financial statements		
n/a	Albany Cemetery Board	18/10/2018

Appendix 2: Audit certifications

Audit work is also undertaken throughout the year to certify financial and statistical information produced by departments and statutory authorities. This assists entities to discharge conditions of Commonwealth funding, grants or other legislation. This service to entities ensures that they meet conditions of their funding agreements in a timely manner and are in a position to receive ongoing funding or apply for future funding under existing or new agreements.

In addition to the 17 certifications listed below, we also issued 119 certifications for projects funded under the Royalties for Regions program. They are listed in Appendix 3, commencing on page 57.

The following certifications were completed between 1 May 2018 and 31 October 2018. Unless stated, the certifications were for the year ended 30 June 2018.

Entity	Certification relates to	Date Issued
Curtin University	Higher Education Funding Act 1988: Higher Education Research Data Collection for year ended 31/12/2017.	25/06/2018
Department of Fire and Emergency Services	Western Australian Natural Disaster Relief Arrangements (NDRRA) for the year ended 30 June 2017	28/09/2018
Department of Health	National Health Funding Pool Act 2012 (WA): Western Australian State Pool Account	19/09/2018
Department of Local Government, Sport and Cultural Industries	Local Government (Financial Assistance) Act 1995: Commonwealth funding to local government authorities	10/10/2018
Department of Training and Workforce Development	Australian Vocational Education and Training Management Information Statistical Standard (AVETMISS) for year ended 31/12/2017.	26/06/2018
Department of Transport	Alcohol Interlocks Implementation Program	26/10/2018
	Enhanced Speed Enforcement Administration Costs	26/10/2018
Edith Cowan University	Higher Education Funding Act 1988: Higher Education Research Data Collection for year ended 31/12/2017.	25/06/2018
Fire and Emergency Services Superannuation Board	Australian Prudential Regulation Authority (APRA): Reasonable assurance opinion on APRA reporting forms and compliance with various legislative requirements.	21/09/2018
	APRA: Limited assurance conclusion on APRA reporting forms; design of systems, procedures and controls to ensure compliance with prudential requirements and provision of reliable data to APRA; and compliance with the Risk Management Framework and the Operational Risk Financial Requirement strategy.	21/09/2018
	Australian Securities and Investments Commission: Auditor's report on Australian Financial Services licensee (Form FS71) under the <i>Corporations Act 2001</i> .	21/09/2018
	Trustee entity's financial statements	21/09/2018
Metropolitan Redevelopment Authority	Scarborough Project Shared Development: Statement of Contributions and Expenditure for Scarborough Redevelopment Funding Agreement with the City of Stirling	31/08/2018

Entity	Certification relates to	Date Issued
Murdoch University	Higher Education Funding Act 1988: Higher Education Research Data Collection for year ended 31/12/2017.	28/06/2018
Pilbara Development Commission	Special Project Funding: Pilbara Cattle Holding Yard and Truck Wash Facility Studies	25/06/2018
Quadriplegic Centre	Home Visiting Service acquittal to Department of Health	27/09/2018
The University of Western Australia	Higher Education Funding Act 1988: Higher Education Research Data Collection for year ended 31/12/2017.	27/06/2018

Appendix 3: Royalties for Regions certifications

Clear certification opinions were issued for the annual Statements of Receipts and Payments of 121 approved projects funded under the *Royalties for Regions Act 2009*.

During 2017 governance of Royalties for Regions funding was reviewed. Project reporting requirements and approval processes for new projects funded through the 2017-18 State Budget were revised. The previous Memorandum of Understanding (MOU) for each project have ceased. The Department of Primary Industries and Regional Development (DPIRD) is responsible for the new, simplified governance processes for Royalties for Regions funded projects with state government entities.

The requirement to submit quarterly financial reports to DPIRD has been replaced with a cumulative expenditure report in March each year from each entity, detailing expenditure to date for the current year for all the projects of that entity. Submitting an audited annual report for each project and a final report on completion of the project to DPIRD are still requirements for every Royalties for Regions project.

The audit opinions for each recipient entity reported that the Statement of Receipts and Payments of the Royalties for Regions Funding was prepared, in all material respects, in accordance with the existing MOU or new terms and conditions agreed when the funding was approved.

Certification opinions, primarily for the 2017-18 financial year, were issued on the Statements of Receipts and Payments for 119 approved projects at the following entities. These Royalties for Regions program payments totalled \$658.7 million.

Delivering Entity	Royalties for Regions approved projects	Date Certification Issued
Country Local Government Fund		
Western Australian Land Authority	Regional Centres Development Plan – Phase 2 (Regional Cities) Stage 1 Delivery	31/10/2018
Regional Community Services Fund		
Commissioner of Main Roads	Bidyadanga Road (Kimberley)	28/09/2018
	Caravan and Camping – Main Roads Western Australia	28/09/2018
Department of Jobs, Tourism, Science and Innovation	Science and Agribusiness Connect (SAC) Program	02/10/2018
Department of Justice	Enhanced Driver Training and Education for Regional and Remote Communities, Aboriginal Justice Program	28/09/2018
	Enhanced Driver Training and Education for Regional and Remote Communities 2017-18	28/09/2018
	Regional Youth Justice Strategy – Kimberley and Pilbara Regions	28/09/2018
Department of Local Government, Sport and Cultural Industries	Beach Emergency Numbering Systems Project (BENS)	09/10/2018
	Bunbury Bowling Club – Disability Access	09/10/2018
	Centennial Park Sporting and Event Precinct Stage 2	09/10/2018
	Collie Mineworkers Memorial Pool	09/10/2018
	Community Pool Revitalisation	09/10/2018
	Creative Regions Program	09/10/2018
	Eaton Bowling Club Expansion Planning	09/10/2018

	Hay Park Bunbury Upgrades – Planning	09/10/2018
	Performing Arts Regional Tours Boost	09/10/2018
	Regional Athlete Support Program	09/10/2018
	Regional Exhibition Touring Boost Program	09/10/2018
Department of Training and Workforce Development	Muresk Institute Agricultural Degree (2017-18 to 2019-20)	02/10/2018
	Muresk Institute Agriculture Skills Development Pathway	02/10/2018
Department of Transport	Broome Boat Harbour Planning	28/09/2018
	Country Age Pension Fuel Card Scheme 2013-14 to 2016-17 – Final Report	23/10/2018
	Country Age Pension Fuel Card Scheme 2017-18	23/10/2018
	Geraldton Airport Runway Pavement Renewal	28/09/2018
Department of Water and Environmental Regulation	Regional Estuaries Initiative	28/09/2018
	Revitalising the Waterways of Geographe Bay	28/09/2018
	Watering Western Australia (Watering WA)	28/09/2018
Library Board of Western Australia	Better Beginnings Family Literacy 2014-2017	04/10/2018
	Better Beginnings Family Literacy 2014-2017 (01/07/2018 – 03/10/2018)	04/10/2018
	Better Family Literacy 20017-18 to 2019-20	04/10/2018
Mental Health Commission	Community Subacute and Non-acute Mental Health Services in Karratha and Bunbury	30/10/2018
	Ice Breakers Program – Albany	30/10/2018
	Methamphetamine Action Place – Kimberley Alcohol and Other Drug Residential Rehabilitation and Treatment Service	30/10/2018
	North West Drug and Alcohol Support Program – Carnarvon Dual Purpose Centre 2011-12 to 2016-17	30/10/2018
	North West Drug and Alcohol Support Program – Expansion of Alcohol and other Drug Support Services in the Kimberley and Pilbara 2011-012 to 2016-17	30/10/2018
	North West Drug and Alcohol Support Program 2017-18 to 2019-20	30/10/2018
	3 Tier Youth Mental Health Program – GP Down South	30/10/2018
Perth Theatre Trust	Albany Entertainment Centre	02/10/2018
Police Service	Community Safety Network/Regional Radio Network 2017-17 – WA Police	08/10/2018
	Regional Traffic Enforcement Unit	08/10/2018
	WA Police Regional Incentive Scheme 2017-18	08/10/2018
Public Transport Authority of Western Australia	Rail Future Fund – Upgrade to Cookernup and North Dandalup stations and completion of Yarloop	02/10/2018
Racing and Wagering Western Australia	Support for Racecourse Infrastructure Grants Program	27/09/2018
Small Business Development Corporation	Western Australian Regional Small Business Awards	20/09/2018

WA Country Health Service	Expand the Ear Bus Project	28/09/2018
	Improving Ear, Eye and Oral Health of Children in Aboriginal Rural and Remote Communities	28/09/2018
	Meet and Greet Service	28/09/2018
	Patient Assisted Travel Scheme 2015-16 – 2017-18	28/09/2018
	Remote Indigenous Health Clinics	17/10/2018
	Royal Flying Doctor Service (Western Operations) Expansion of Capacity	28/09/2018
	Rural Palliative Care Program	17/10/2018
	Wheatbelt Renal Dialysis	28/09/2018
Western Australian Land Authority	Transforming Bunbury Waterfront Stage 3 – Business Case Development	05/10/2018
Western Australian Tourism Commission	Aboriginal Tourism Development Program	28/09/2018
	Caravan and Camping – Tourism Western Australia	28/09/2018
	Regional Events Program 2015-16 to 2017-18	28/09/2018
	Regional Tourism Marketing Program 2015-16 and 2016-17 – Final acquittal 01/07/2015 – 16/11/2017	27/08/2018
	Regional Visitor Centre Grant Program	28/09/2018
Regional Infrastructure and Headworks		
Commissioner of Main Roads	Albany Ring Road, Design, Preconstruction, Construction Activities	28/09/2018
	Broome Cape Leveque Road	28/09/2018
	Bunbury Outer Ring Road Design and Technical Assessment	28/09/2018
	Coolgardie-Esperance Highway (Goldfields) – Widen, Overlay and Reconstruction	28/09/2018
	Great Eastern Highway – Dual Anzac Road to Gatacre, Kalgoorlie	28/09/2018
	Great Eastern Highway Passing Lanes Project	28/09/2018
	Great Northern Highway – Bow River Bridge	28/09/2018
	Great Northern Highway – Gibb River Road	28/09/2018
	Great Northern Highway - Maggie's Jump Up	28/09/2018
	Great Northern Highway – Muchea to Wubin	28/09/2018
	Great Northern Highway – Wyndham Spur Stage 2	28/09/2018
	Karratha – Tom Price – Sealing of 50km to Millstream	28/09/2018
	Marble Bar Road – Coongan Gorge	28/09/2018
	Margaret River Perimeter Road	28/09/2018
	New Road Alignment Study Dongara to Northampton	28/09/2018
	South Coast Highway – Widening Pfeiffer Road Manypeaks to Jerramungup Road	28/09/2018
	Square Kilometre Array Roads	28/09/2018
Department of Justice	Community Safety Network – Regional Radio Network	28/09/2018
	Community Safety Network – WAPOL	28/09/2018
	Kununurra Courthouse	28/09/2018

Department of Finance	Karratha Government Office Co-location Project (The Quarter)	20/08/2018
Department of Local Government, Sport and Cultural Industries	Goldfields Arts Centre Maintenance 217-18 to 2021-22	09/10/2018
Department of Training and Workforce Development	Health and Allied Services Training Centre	02/10/2018
	Peel Workforce Development Centre	02/10/2018
	Pilbara Institute – Electrical/Instrumentation Centre of Specialisation	02/10/2018
	Pilbara Institute – Electrical/Instrumentation Centre of Specialisation – 01/07/2018 to 24/08/2018	02/10/2018
Department of Training and Workforce Development - Skills Training Initiatives	Aboriginal Youth Transitions Program	02/10/2018
	Muresk Institute Revitalisation – Stage One: Establishing the Muresk Institute	02/10/2018
	Pilbara Institute – South Hedland and Karratha Campuses Refurbishment	02/10/2018
Department of Transport	Exmouth Boat Harbour Upgrade – Final Report	23/10/2018
	Recreational Boating Facilities Scheme – Rounds 16-20	28/09/2018
	Regional Airports Development Scheme – Final Report	23/10/2018
	Transforming Bunbury's Waterfront – Stage (Jetty Road)	28/09/2018
Department of Water and Environmental Regulation	Regional Water Availability, Planning and Investigation	28/09/2018
	Water for Pilbara Cities – West Canning Basin	28/09/2018
Police Service	Community Safety Network – WAPOL	08/10/2018
	Police Radio Network – Commonwealth Legislated Radio Frequency Change	08/10/2018
Public Transport Authority of Western Australia	Replacement of TransWA Road Coach Fleet – Final Acquittal 01/11/2014 – 30/06/2018	19/07/2018
Regional Power Corporation (Horizon Power)	Pilbara Underground Power Project Phase 2	28/09/2018
WA Country Health Service	Busselton Hospital Redevelopment Project Information and Communications Technology Package	28/09/2018
	Derby Community Health Service	17/10/2018
	Karratha Health Campus	28/09/2018
	Newman Health Service Redevelopment	17/10/2018
	Onslow Health Service Redevelopment Project	28/09/2018
	Pilbara Health Initiative Phase 2	28/09/2018
	Renal Dialysis Service Expansion	28/09/2018
	Southern Inland Health Initiative Capital Works Program (Streams 2A, 3 and 4)	28/09/2018
	Southern Inland Health Initiative – Streams 1, 2B, 5 and 6	17/10/2018
	Southern Inland Health initiative 2 – District Medical Workforce Investment Proposal	17/10/2018

Western Australian Land Authority	Albany Middleton Beach Site Acquisition	05/10/2018
	Batavia Coast Marina Stage 2 Remediation	05/10/2018
	Karratha City Centre Infrastructure Works Project Stage 1	05/10/2018
	Karratha City Centre Infrastructure Works Project Stage 2A & 2B	05/10/2018
	Karratha City of the North Project	05/10/2018
	Newman Town Centre Revitalisation – Stage 3	05/10/2018
	Port Hedland Hospital Demolition and Site Remediation	05/10/2018
	Port Hedland Waterfront Revitalisation – Spoilbank Marina Concept Design and Estimates	05/10/2018
	South Hedland Town Centre Revitalisation Stage 2	05/10/2018
	Transforming Bunbury Waterfront Stage 2 – Casuarina Drive Redevelopment	05/10/2018
	Transform Peel Phase 1: Peel Business Park, Nambeelup	05/10/2018
	Administration of the Royalties for Regions Fund	
Department of Treasury	Governance for Royalties for Regions Program	31/10/2018

Glossary and abbreviations

AASB	Australian Accounting Standards Board
AG Act	<i>Auditor General Act 2006</i>
ARSF	Annual Report on State Finances
Clear opinion (or unqualified opinion)	Auditor General's opinion expressed when an audit concludes that in all material respects the financial statements, controls and KPIs are presented fairly in accordance with the enabling legislation of the entity, Australian Accounting Standards (including Australian Accounting Interpretations) and the Treasurer's Instructions.
Contract audit	Audit of an entity undertaken by an appropriately qualified individual or firm, on behalf of the Auditor General, appointed under a contract.
Entity	Term used to describe entities audited by the Auditor General, including departments, statutory authorities, corporations, subsidiaries, request audits and cemetery boards.
Financial audit	Work performed to enable an opinion to be expressed regarding a report about financial or performance matters prepared by the party who is accountable for the financial transactions or the performance summary.
FM Act	<i>Financial Management Act 2006</i>
IS	Information systems, primarily computerised systems
KPI	Key performance indicator – information about critical or material aspects of service performance or outcome achievement.
Management letter	Letter to entity management that conveys significant audit findings and results of the audit. A copy is also sent to the responsible Minister.
Materiality	The characteristic based on the size and/or nature of an omission or misstatement of accounting, performance or compliance information that, in the light of context or circumstances, has the potential to adversely affect the economic decisions of users of the information or the discharge of accountability by senior management.
Matter of Significance	An item of concern in relation to an entity's financial statements, key performance indicators or controls which does not warrant a qualified opinion.
Qualified opinion	Auditor General's opinion expressed when an audit identifies that the financial statements or KPIs are likely to be misleading to users, controls were inadequate, there was material conflict with applicable financial reporting frameworks or a limitation of scope on audit work.
SCI	Statement of Corporate Intent
Significance	Relative importance in the circumstances, in relation to audit objectives, of an item, event or information, or problem the auditor identifies.
TI	Treasurer's Instructions – prescribed requirements for financial administration at a minimum level that have the force of law and must be observed by public sector entities under the FM Act.
Treasury	Department of Treasury

Auditor General's reports

Report number	2018-19 reports	Date tabled
6	Opinion on Ministerial Notification	31 October 2018
5	Local Government Procurement	11 October 2018
4	Opinions on Ministerial Notifications	30 August 2018
3	Implementation of the GovNext-ICT Program	30 August 2018
2	Young People Leaving Care	22 August 2018
1	Information Systems Audit Report 2018	21 August 2018
Report number	2018 reports	Date tabled
13	Management of Crown Land Site Contamination	27 June 2018
12	Timely Payment of Suppliers	13 June 2018
11	WA Schools Public Private Partnership Project	13 June 2018
10	Opinions on Ministerial Notifications	24 May 2018
9	Management of the State Art Collection	17 May 2018
8	Management of Salinity	16 May 2018
7	Controls Over Corporate Credit Cards	8 May 2018
6	Audit Results Report – Annual 2017 Financial Audits and Management of Contract Extensions and Variations	8 May 2018
5	Confiscation of the Proceeds of Crime	3 May 2018
4	Opinions on Ministerial Notifications	11 April 2018
3	Opinion on Ministerial Notification	21 March 2018
2	Agency Gift Registers	15 March 2018
1	Opinions on Ministerial Notifications	22 February 2018

Office of the Auditor General Western Australia

7th Floor Albert Facey House
469 Wellington Street, Perth

Mail to:
Perth BC, PO Box 8489
PERTH WA 6849

T: 08 6557 7500

F: 08 6557 7600

E: info@audit.wa.gov.au

W: www.audit.wa.gov.au



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