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

Executive Summary

Report 7: November 2018-19

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

- 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:
    - 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.

Financial reporting, accountability and audit issues

- 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.
- Our audits of the notes to the financial statements of some entities were delayed while Ministers' declarations of related party disclosures were finalised.
- 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.

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.

- We continue to support reduced financial reporting requirements for over 60 small entities that together spend just 1% of State funds.

Annual Report on State Finances

- 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.
- Public sector annual and long service leave liability increased this year.

Selected significant financial transactions and financial ratios

- 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.

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.

Quality and timeliness of reporting

- Most 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 for timeliness in their financial reporting, good financial controls and reporting practices.

Other audit outcomes

- 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.**

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

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

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.

11. Entities should continue to make timely preparations for implementation of the accounting standards changes.

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.