

Western Australian Auditor General's Report



Audit Results Report – Annual 2020-21 Financial Audits of State Government Entities



**Report 10: 2020-21
24 November 2021**

**Office of the Auditor General
Western Australia**

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

We can deliver this report in an alternative format for those with visual impairment.

© 2021 Office of the Auditor General Western Australia.
All rights reserved. This material may be reproduced in whole or in part provided the source is acknowledged.

ISSN: 2200-1913 (print)
ISSN: 2200-1921 (online)

The Office of the Auditor General acknowledges the traditional custodians throughout Western Australia and their continuing connection to the land, waters and community. We pay our respects to all members of the Aboriginal communities and their cultures, and to Elders both past and present.

WESTERN AUSTRALIAN AUDITOR GENERAL'S REPORT

Audit Results Report – Annual 2020-21 Financial Audits of State Government Entities

Report 10: 2021-22
November 2021



**THE PRESIDENT
LEGISLATIVE COUNCIL**

**THE SPEAKER
LEGISLATIVE ASSEMBLY**

AUDIT RESULTS REPORT – ANNUAL 2020-21 FINANCIAL AUDITS OF STATE GOVERNMENT ENTITIES

This report under section 24 of the *Auditor General Act 2006* covers 2020-21 financial audit activity to 18 November 2021 and includes:

- opinions and results of audits on the financial statements, controls and key performance indicators of departments and statutory authorities with reporting dates primarily on 30 June 2021
- opinions and results of annual financial statement 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 Government funding, grants, Royalties for Regions funding agreements and other legislation
- recent changes to accounting and auditing standards that impact on government financial reporting and accountability.

A separate report on the insights gained during our financial audit season on the COVID-19 impacts on the sector (financial and performance) will be issued.

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

A handwritten signature in black ink, appearing to read 'Caroline Spencer'.

CAROLINE SPENCER
AUDITOR GENERAL
24 November 2021

Contents

Auditor General's overview.....	5
Executive summary	6
Key findings.....	6
Recommendations	9
Audit opinions	10
Introduction	10
Summary of audit opinions	10
Other audit services	11
Qualified opinions.....	11
Prior year qualified opinions removed in 2020-21	17
Matters of Significance in auditor's reports	17
Emphasis of Matter paragraphs in auditor's reports.....	19
Management issues	21
Control environment.....	21
Financial and management controls.....	22
Information systems controls.....	28
Key performance indicators.....	29
Financial reporting, accountability and audit matters.....	31
Special purpose accounts	32
Property valuation, transfer and management matters	33
Casual employees' entitlement to long service leave.....	35
Anti-money laundering and counter-terrorism financing compliance frameworks.....	36
Late tabling 2021-22 Statements of Corporate Intent	37
Accounting and auditing standards changes for 2020-21	41
Implementation and audit approach for Service Concession Grantors standard AASB 1059.....	41
Auditing accounting estimates and related disclosures under ASA 540.....	42
Audit of the Annual Report on State Finances.....	44
Introduction	44
WA's finances – selected key indicators.....	45

Further selected significant financial transactions and financial ratios.....	51
Introduction	51
Selected significant financial transactions	51
Key financial ratios of public sector entities	57
Liquidity (current) ratio for entities – 4 year trend.....	57
Financial result for entities – 4 year trend	57
Borrowings to assets ratio	58
Dividends paid by public corporations to general government	59
Quality and timeliness of reporting	61
Quality and accuracy.....	61
Timeliness.....	61
Best practice entities	62
Appendix 1: State government entities audited	63
Appendix 2: Audit certifications.....	69
Appendix 3: Royalties for Regions certifications.....	71
Appendix 4: Local government entities audited	74
Appendix 5: Specific purpose monies better practice principles	76
Appendix 6: Other OAG better practice guidance.....	79
Glossary and abbreviations	81

Auditor General's overview

The 2020-21 financial year was an extraordinary one for Western Australia. In the second year of the pandemic, COVID-19 continued to cause disruption for our community. State government entities continued to provide the usual wide range of public services, along with additional stimulus and recovery initiatives, while reconfiguring operating arrangements around lockdowns and social distancing measures, and implementing contingencies for business continuity. As in the community, a level of fatigue is evident in the public sector.



This report summarises the results of our annual audits of 147 State government entities for the year ended 30 June 2021, along with the results of a number of other audits and assurance activities.

Of great concern in this year's results is the number of entities with serious deficiencies requiring a qualified opinion on financial statements, controls or key performance indicators, increasing from 7 entities last year to 17 this year, with 31 separate qualification matters. This is the highest number of qualified audit opinions ever reported by my Office. Too many qualifications related to significant deficiencies in payroll and procurement controls, and information system security. Five entities received 3 or more qualifications. There has similarly been a notable increase over the last 2 years in the number of audit findings unresolved from prior years – an increase from 20% reported unresolved in 2019 to 28% in 2021. An effective control environment provides assurance that an entity is achieving its objectives and can help to prevent and detect fraud, error and service interruption. I urge all entities to urgently address significant audit findings and ensure they have robust control frameworks in place.

Perhaps what these results highlight most clearly to me is that government entities do not have unlimited capacity and capability. Strong foundations in financial management and governance are essential for supporting long-term confidence and capability in our public institutions, and are a fairly consistent area of focus for entities in more stable operating environments. However, this focus can inadvertently slip when entities take on additional functions and responsibilities over shortened timeframes. My observations from this year's audit cycle indicate such a scenario arising in affected entities. Senior leaders only have so much bandwidth, and available resources only go so far. Such consequences are relevant when weighing the impact of policy decisions in all operating environments.

I thank those public entities who demonstrated determination and goodwill in ensuring their financial statements and supporting information were ready for their audit within 20 days of year end. Placing importance on audit readiness ensures the timely and cost-effective delivery of an audit opinion.

This year's report also contains our reporting of important issues and trends identified from our audit of the Annual Report on State Finances, with the general government sector realising a record operating surplus of \$5.8 billion in 2020-21. However, entities must ensure the highest standard of financial management and public administration so that this money can deliver the best possible economic and social outcomes for our community.

Finally, and as always, I recognise and am thankful for the extreme professionalism and hard work of my staff and our contract audit firms, and their dedication delivering this year's audit program.

Executive summary

This Audit Results Report contains our findings primarily from the annual financial audits of State government entities with a 30 June 2021 reporting date.

At 18 November 2021, we had completed audits and issued audit opinions for 32 departments, 86 statutory authorities, 12 corporations and 17 other audits.

The *Auditor General Act 2006* requires the Auditor General to audit the financial statements, controls and key performance indicators (KPIs) of all State government entities annually. A clear (unqualified) audit opinion indicates satisfactory financial controls and KPIs, and that the financial statements are based on proper accounts, presented fairly, 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 10 and Appendix 1, page 63)

- We issued 147 audit opinions for State government entities by 18 November 2021 relating to the 2020-21 financial year, and 87 certification opinions.
- We issued qualified audit opinions to 17 entities for reasons of material inaccuracies or deficiencies in their financial statements or KPIs or due to control weaknesses, an increase from 7 in the prior year. A number of entities had more than 1 qualification within the audit report and overall, there were 31 discrete qualifications across these 17 entities.

These entities were:

- Building and Construction Industry Training Board (4 qualifications on controls)
- Corruption and Crime Commission (1 qualification on KPIs)
- Department of Communities (3 qualifications on controls)
- Department of Health (1 qualification on controls)
- Department of Local Government, Sports and Cultural Industries (1 qualification on financial statements and 4 on controls)
- Department of Primary Industries and Regional Development (1 qualification on financial statements and 3 on controls)
- Disability Services Commission (1 qualification on controls)
- East Metropolitan Health Service (1 qualification on controls)
- Gaming and Wagering Commission (1 qualification on controls)
- Housing Authority (1 qualification on controls)
- North Metropolitan Health Service (1 qualification on controls)
- PathWest Laboratory Medicine WA (1 qualification on controls)
- Public Transport Authority (1 qualification on controls)
- Quadriplegic Centre (3 qualification on controls)

- Racing and Wagering Western Australia (1 qualification on controls)
- Western Australian Greyhound Racing Association (1 qualification on financial statements)
- Western Australia Sports Centre Trust (1 qualification on controls). (page 11)
- This is a very concerning and significant upward trend in qualifications particularly in controls around expenditure, payroll and information systems, most likely reflecting a public sector that is resource constrained in some areas, and COVID-19 fatigued and diverted.
- Matter of Significance paragraphs were included with the audit opinions of 5 entities who received an exemption from the Under Treasurer for reporting certain KPIs. (page 17)
- Emphasis of Matter paragraphs were included in the audit opinions of 15 entities so as to draw attention to specific matters disclosed in the financial statements or KPIs.
- Details of 13 auditor's reports for local government entities for 2019-20 are noted in Appendix 4. Two local government entity audits for the 2019-20 financial year still remain outstanding due to the entities' inability to provide sufficient appropriate evidence for examination to support an audit opinion (Shire of Wiluna and Shire of Yalgoo). (page 74)

Management issues

(page 21)

- We identified and reported 427 financial management control weaknesses to entities in 2020-21, consistent with the 430 in the previous year but an increase on 2 years ago of 323. Although the number of matters rated as significant decreased from 95 to 85, the collective number of significant and moderate findings increased from 360 to 362. Most concerning though is the proportion of unresolved issues from the prior year increased from 26% to 28%, and an increase from 2 years ago when unresolved prior year issues was 20%. (page 22)
- We identified and reported 403 information system control weaknesses to entities in 2020-21 of which 49% were unresolved issues from the previous year. The majority of issues are simple to fix but if not resolved will leave entities vulnerable to security incidents and disruption to systems. As in previous years a more detailed report on the results of our information system audits is planned for the first quarter of 2022. (page 28)
- We reported 28 KPI weaknesses to 19 entities in 2020-21 and identified data integrity and collection processes as the main areas for improvement. This is a reduction from 44 weaknesses 2 years ago. (page 29)

Financial reporting, accountability and audit issues

(page 31)

The following were matters of particular focus or significance in this year's audit program:

- native title settlements
- special purpose accounts (restricted cash)
- casual employees' entitlement to long service leave
- property valuation, transfer and management matters

- anti-money laundering and counter-terrorism financing compliance frameworks
- 2021-22 Statements of Corporate Intent
- changes to the accounting standards for reporting of service concession agreements. Most entities that made the adjustments were required to ensure their financial statements for the 2020-21 year complied with the accounting standard. The timeliness of the completion of this analysis, in some instances, could have been improved. (page 37)

Annual Report on State Finances

(page 44)

- The Treasurer released the Annual Report on State Finances (ARSF) on 23 September 2021 with a record \$5.8 billion surplus, largely due to an increase of \$3.7 billion in mining royalties. In this Audit Results Report, we have supplemented the information contained in the ARSF with related information that we trust readers will find useful to understand trends in State finances. (page 45)

Selected significant financial transactions and financial ratios

- We have summarised significant financial transactions that we noted during our audits and key financial ratios and information that are commonly used for assessing financial performance. (page 51)

Quality and timeliness of reporting

- Most State government entities (78%) were ready for their audit within 20 days of year end compared with 65% last year and 72% in 2018-19. This was a commendable achievement in 2020-21 for most entities. Although the vast majority of financial statements were of a high standard, 16% of audits could not be completed within the 90-day *Financial Management Act 2006* tabling timeframe due to OAG or entity resourcing constraints, a number of significant audit findings in some of those entities, as well as the impact of rescheduling to accommodate an earlier than usual tabling deadline in an election year.
- This year, several opinions were not ready for tabling due the loss of 12 days preparation time as a result of the last sitting date of Parliament in September being 16 September. The State election also meant the 2021-22 Budget was handed down in September, affecting the tabling of many annual reports within the prescribed 90-day period after the end of the 2020-21 financial year. (page 61)
- Our engagement with audit clients and flexible audit plans enabled 84% of our financial statement and KPI audits to be completed within the 90-day *Financial Management Act 2006* tabling timeframe.
- We have acknowledged the top 40 best practice entities for timeliness in their financial reporting, good financial controls and reporting practices. (page 62)

Recommendations

1. 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 relevant 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 OAG audits. (page 27)
2. Entities should periodically review their KPIs to ensure that:
 - a. they are calculated from reliable and complete data
 - b. they remain relevant, appropriate and fairly present performance against realistic targets
 - c. the KPI instructions are periodically updated and approved so that KPIs are consistently reported and comparable
 - d. variance explanations between actual and target results are appropriately transparent and meaningful. (page 30)
3. Entities and Treasury should continue to facilitate timely tabling of Statements of Corporate Intent to ensure compliance with legislation. (page 40)
4. Treasury should continue to provide guidance to assist entities with the adoption of new accounting standards. Entities should continue to make timely preparations for implementation of these new standards. (page 43)
5. Entities should be ready for audit and recognise that if they are not audit ready when OAG audits are scheduled to conduct audit work, or there are significant control deficiencies and other issues requiring resolution beyond budgeted hours, that audit opinion delivery may be delayed and additional costs incurred.
6. Entities should consider where possible to undertaking certain accounting analysis which is not year end dependent (e.g. asset impairment assessment, valuations etc) so as to spread the work load. In addition, consideration of whether a hard close pre year end (e.g. 31 May) and a roll forward to year end with an aligned audit timing may be beneficial.

Audit opinions

Introduction

The *Financial Management Act 2006* governs financial accountability of most State government entities while the *Auditor General Act 2006* governs the activities and role of the Auditor General.

The Auditor General is required to issue an opinion to Parliament through the responsible Minister for each State government entity audited. Entities include the audit opinion in their annual report, which is tabled in Parliament by their Minister.

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 – reasonable assurance that the financial statements and supporting notes are based on proper accounts, presented fairly and comply with relevant legislation and applicable accounting standards
- controls – reasonable assurance that the internal control systems and procedures are adequate in regard to the receipt, expenditure and investment of money as well as the acquisition, disposal of property and the incurring of liabilities. The opinion ensures that financial transactions comply with legislative requirements
- KPIs – reasonable assurance that the KPIs are relevant, appropriate, 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 18 November 2021, we had issued audit opinions for 147 State government entities, primarily with financial periods ending on 30 June 2021. Appendix 1 (page 63) is a table of all the audit opinions issued since our last audit results report on 16 June 2021.

Audit opinion issued on	Type of entity	Number
Financial statements, controls and KPIs	Departments	32
	Statutory authorities	86
Financial statements only	Annual Report on State Finances	1
	Corporatised entities	12
	Subsidiary entities	14
	Request audits	2
Total number of audit opinions issued		147

Source: OAG

Table 1: Number and type of audit opinions issued between 28 February 2021 and 18 November 2021

Thirteen of the final 15 local government entity auditor's reports for the 2019-20 financial year were also completed. Two audit opinions remain outstanding. Delays for these audits were encountered because of the inability to provide sufficient appropriate audit evidence for examination to support an audit opinion. Appendix 4 (page 74) reports the dates and details the qualified opinions issued for these local government entities.

Other audit services

In addition to entity opinions, we also issued 87 financial certifications.

Appendix 2 (page 69) details the 33 certifications we issued on the financial and statistical information produced by entities to discharge reporting obligations for Commonwealth Government grants or under other legislation. The certifications for 54 Royalties for Regions program grants issued up to 18 November 2021 are listed in Appendix 3 (page 71).

An agreed upon procedures engagement for the regulatory financial statements of the Electricity Networks Corporation for the year ending 30 June 2020 was also completed. This report was prepared for submission to the Economic Regulation Authority. It is anticipated that the equivalent report for the year ending 30 June 2021 will be issued in December 2021.

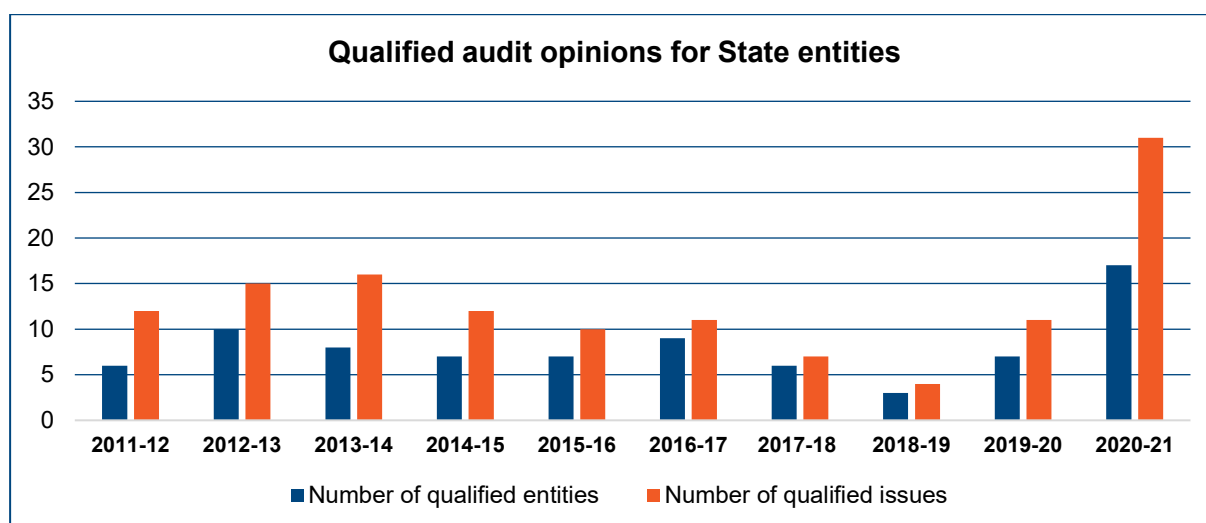
Qualified opinions

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 control deficiency makes the entity non-compliant with legislation. This deficiency could be in policies, procedures, operations and/or practices, and often contributes to a material risk of error, fraud, or service interruption.

A qualification is a serious audit matter and almost always requires additional audit effort.

Seventeen entities received qualified opinions in 2020-21 compared with 7 entities in 2019-20. A number of entities had more than one qualification within the audit report, and overall there were 31 discrete qualifications across these 17 entities, compared with 11 in the prior year. This is the highest number of audit qualifications ever issued by our Office. Qualified audit opinions matter in the public sector as they are integral to providing assurance that public funds and resources are being properly accounted for and well managed.

As set out in the table below, a number of entities had more than one issue giving rise to the qualifications and indicating there were multiple material deficiencies of relevance for that entity. Five entities received more than 3 qualifications. Too many qualifications related to significant deficiencies in payroll and procurement controls, and information system security. This is an indicator of significant shortcomings in these critical areas of financial management and business continuity, and a concerning trend.



Source: OAG

Figure 1: Entities with qualified opinions and number of qualified issues for last 10 years

	Entity	Details of qualification
1.	Building and Construction Industry Training Board	<p>Qualified opinion on controls</p> <p>We identified significant matters relating to weaknesses in the overall control environment were identified including:</p> <ul style="list-style-type: none"> • inappropriate IT systems configuration that reduces the ability to appropriately segregate duties for finance and payroll functions • the lack of adequate operational processes and policies relating to key processes • no independent reviews of general journals and monthly bank reconciliations • no approved purchase orders for purchases, and instances where the receiving and incurring officer are the same person. <p>These weaknesses could result in inaccurate financial information as errors and/or fraud may not be detected.</p>
2.	Corruption and Crime Commission	<p>Qualified opinion on KPIs</p> <p>We identified significant deficiencies in controls which have resulted in errors in the recording of key information used to calculate the key efficiency indicator 'Percentage of assessments completed within 28 days'. We were therefore unable to obtain sufficient appropriate evidence that this measure is fairly represented.</p>
3.	Department of Communities	<p>Qualified opinion on controls</p> <p>In 2019-20 the audit opinion was qualified as there were significant weaknesses in the payroll controls implemented by the Department. These weaknesses could result in salary errors such as overpayments or payments to individuals who are not entitled to receive payment. Consequently, controls to prevent invalid and inaccurate payroll payments were inadequate.</p> <p>The Department has implemented controls to address some of the weaknesses identified in 2019-20. However, significant weaknesses remain in relation to the payroll system, processes and leave management controls. The payroll controls were therefore still not adequate throughout 2020-21.</p> <p>Qualified opinion on controls</p> <p>In 2019-20 the audit opinion was qualified as there were significant weaknesses in the procurement controls implemented by the Department. Our testing for the current period identified controls were inadequate to demonstrate that the ordering of goods or services were approved prior to ordering, for the period 1 July to 31 December 2020.</p> <p>Qualified opinion on controls</p> <p>We also noted the Department could not provide evidence that goods or services were received by someone independent of the incurring officer. This is inadequate segregation of duties and contrary to the requirements of Treasurer's Instruction 304 <i>Authorisation of Payments</i>. This increases the risk of erroneous or fraudulent payments and ordering of inappropriate or unnecessary goods or services.</p> <p>The Department implemented a new finance system in January 2021 which mandated the use of purchase orders for transactions within eligible expenditure categories. In addition, the Department implemented a number of improvements to processes to substantially address the control deficiencies previously identified.</p>

	Entity	Details of qualification
4.	Department of Health	<p>Qualified opinion on controls</p> <p>We identified significant weaknesses in network security controls and the use of unauthorised devices at the Department of Health. These weaknesses could result in a potential security exposure such as unauthorised access to sensitive information and an increased risk of information loss. The weaknesses exposed the network to increased vulnerabilities which could undermine the integrity of data across all systems, including the financial system.</p>
5.	Department of Local Government, Sport and Cultural Industries	<p>Qualified opinion on financial statements</p> <p>We were unable to determine whether Taxation – Casino Tax, forming part of Administered Revenue and related disclosures, is fairly stated. Due to the control limitation arising from matters outlined below, it is not possible to form a view on the completeness and accuracy of Taxation – Casino Tax reported within Note 10.1 Disclosure of Administered Income and Expenses by Service, Note 10.2 Explanatory Statement for Administered Income and Expense of the financial statements, and the associated Receivable reported within Note 10.3 Administered Assets and Liabilities.</p>
		<p>Qualified opinion on controls</p> <p>In the validation of the completeness of revenue, specific to the administered revenue Taxation – Casino Tax, the Department does not have adequate procedures in place to ensure that all Taxation – Casino Tax due and entitled to be collected on behalf of the State has been received.</p>
		<p>Qualified opinion on controls</p> <p>In 2019-20, the audit opinion on controls was qualified as there were significant weaknesses in the procurement controls implemented by the Department. Our 2020-21 testing also showed that controls were inadequate to demonstrate that the ordering of goods or services was approved prior to ordering, and these weaknesses continue in 2020-21, with purchase orders being raised subsequent to the receipt of an invoice. This increases the risk of erroneous or fraudulent payments and ordering of inappropriate or unnecessary goods or services.</p>
		<p>Qualified opinion on controls</p> <p>In 2019-20, the audit opinion on controls was qualified as there were significant weaknesses in the payroll system, processes and leave management controls implemented by the Department. These weaknesses could result in unauthorised access to the Department's payroll system. Salary errors such as overpayments, payments to individuals who are not entitled to receive payment and overstated leave balances could occur. Consequently, controls to prevent invalid and inaccurate payroll payments were inadequate. The Department has implemented controls to address some of the weaknesses identified in 2019-20. However, significant weaknesses remain outstanding in relation to the payroll system, processes and leave management controls. The payroll controls were therefore not adequate throughout 2020-21.</p>
		<p>Qualified opinion on controls</p> <p>In 2018-19, the audit opinion on controls was qualified as there were significant weaknesses in general computer controls implemented by the Department concerning authentication controls and privileged access rights. In 2019-20, these significant weaknesses remained outstanding. The Department has implemented controls to address some of the weaknesses however, significant weaknesses remain, and</p>

Entity	Details of qualification
	the general computer controls were therefore not adequate throughout 2020-21.
6.	<p data-bbox="261 322 501 445">Department of Primary Industries and Regional Development</p> <p data-bbox="564 322 1091 356">Qualified opinion on financial statements</p> <p data-bbox="564 360 1394 512">While the total cash and cash equivalents of \$115,618,000 at the end of the reporting period is fairly stated, I am unable to determine whether the allocation between cash and cash equivalents (of \$2,164,000) (i.e. non-restricted) in Note 7.4.1 and restricted cash and cash equivalents of \$113,454,000) in Note 7.4.2 is fairly stated.</p> <p data-bbox="564 517 1394 607">The Department uses a system to control, monitor, and allocate funds between the cash and cash equivalent categories of restricted and nonrestricted.</p> <p data-bbox="564 611 1410 831">There were deficiencies in controls over restricted cash, which included weaknesses in this cash monitoring system. In addition, it was not possible to obtain sufficient and appropriate audit evidence to substantiate that the cash monitoring system was accurately reporting the allocation between the restricted and non-restricted categories of cash and cash equivalents. Consequently, it is not possible determine whether any adjustments to these amounts were necessary.</p> <p data-bbox="564 846 940 880">Qualified opinion on controls</p> <p data-bbox="564 884 1355 1010">The audit identified there were deficiencies in the Department's controls over restricted cash. This resulted in restricted cash being used inappropriately throughout the year to fund shortfalls in operational cash.</p> <p data-bbox="564 1025 940 1059">Qualified opinion on controls</p> <p data-bbox="564 1064 1394 1216">The audit identified significant weaknesses in the payroll controls implemented by the Department. These weaknesses could result in salary errors such as overpayments and payments to individuals who are not entitled to receive payment. Consequently, controls to prevent invalid and inaccurate payroll payments were inadequate.</p> <p data-bbox="564 1232 940 1265">Qualified opinion on controls</p> <p data-bbox="564 1270 1410 1576">In 2019-20, the audit opinion on controls was qualified because there were significant weaknesses in general computer controls implemented by the Department. These weaknesses could result in unauthorised access to sensitive information and increased risk of information loss. The combined weaknesses expose the Department to vulnerabilities which can undermine the integrity of information in the Department's finance, human resources and other business systems. The Department has made insufficient progress to address these weaknesses in 2020-21. Therefore, general computer controls were not adequate throughout 2020-21.</p>
7.	<p data-bbox="261 1599 501 1655">Disability Services Commission</p> <p data-bbox="564 1599 940 1632">Qualified opinion on controls</p> <p data-bbox="564 1637 1410 1789">We identified significant weaknesses in the payroll controls implemented by the Commission. These weaknesses could result in salary errors such as overpayments or payments to individuals who are not entitled to receive payment. Consequently, controls to prevent invalid and inaccurate payroll payments were inadequate.</p>
8.	<p data-bbox="261 1812 485 1868">East Metropolitan Health Service</p> <p data-bbox="564 1812 940 1845">Qualified opinion on controls</p> <p data-bbox="564 1850 1410 2002">Significant weaknesses were identified in remote access and network security controls implemented at East Metropolitan Health Service. These weaknesses could result in a potential security exposure such as unauthorised access to sensitive information and an increased risk of information loss. The weaknesses exposed the network to increased</p>

Entity		Details of qualification
		vulnerabilities which could undermine the integrity of data across all systems, including the financial system.
9.	Gaming and Wagering Commission	<p>Qualified opinion on controls</p> <p>Controls established by the Commission over the Racing Bets Levy receipts were inadequate to ensure the requirements of Regulation 110 of the Betting Controls Regulations 1978 have been complied with. Controls were not adequate to ensure timely receipt of monthly returns nor annual Audited Returns from betting operators, or the information included in these Returns.</p> <p>Without effective controls there is an increased risk of material misstatement of Racing Bets Levy due to fraud or error, although our substantive procedures did not identify any.</p>
10.	Housing Authority	<p>Qualified opinion on controls</p> <p>Significant weaknesses were identified in the payroll controls implemented by the Housing Authority. These weaknesses could result in salary errors such as overpayments or payments to individuals who are not entitled to receive payments. Consequently, controls to prevent invalid and inaccurate payroll payments were inadequate.</p>
11.	North Metropolitan Health Service	<p>Qualified opinion on controls</p> <p>Significant weaknesses were identified in remote access and network security controls implemented at North Metropolitan Health Service. These weaknesses could result in a potential security exposure such as unauthorised access to sensitive information and an increased risk of information loss. The weaknesses exposed the network to increased vulnerabilities which could undermine the integrity of data across all systems, including the financial system.</p>
12.	PathWest Laboratory Medicine	<p>Qualified opinion on controls</p> <p>Testing showed there are no adequate controls in place to detect or prevent unauthorised devices connecting to the PathWest network.. These network security weaknesses could result in a potential security exposure such as unauthorised access to sensitive information and an increased risk of information loss. The weaknesses exposed the network to increased vulnerabilities which could undermine the integrity of data across all systems, including the financial system.</p>
13.	Public Transport Authority	<p>Qualified opinion on controls</p> <p>Controls over purchases for capital and operating expenditure were inadequate to ensure conflict of interest declarations were made and disclosed prior to contracts being awarded to service providers. Furthermore, controls were also inadequate to prevent invoice splitting and to ensure purchase orders were prepared and approved before goods or services had been received.</p> <p>These weaknesses could result in the biased selection of contractors and unauthorised or inappropriate procurement occurring. Additionally, the Authority is not complying with the requirements of its own purchasing and procurement policies.</p>
14.	Quadriplegic Centre	<p>Qualified opinion on controls</p> <p>Testing showed non-compliance with Treasurer's Instruction 304 due to purchase orders and invoices not always signed by incurring and certifying officers. In addition, there was no evidence of the goods being received as part of the overall process.</p>

Entity		Details of qualification
		Qualified opinion on controls Journal entries were processed with no evidence of independent review and approval by a senior staff member and adequate supporting documentation not retained.
		Qualified opinion on controls User access controls in both the financial and payroll system were not monitored and adequate password controls were not implemented leading to an increased risk of unauthorised access to sensitive information.
15.	Racing and Wagering Western Australia	Qualified opinion on controls Controls over procurement were inadequate to ensure, in all instances, that sufficient quotes were obtained prior to the purchase of goods and services and that purchase orders were prepared and approved before goods and services were received. Furthermore, there were a number of instances where the requirements of Treasurer's Instruction 323 <i>Timely Payment of Accounts</i> were not complied with and where a review of a supplier's performance was not undertaken and documented prior to the extension of a contract. Although there have and continue to be improvements in the overall control framework over procurement during the year and since these matters were identified, weaknesses continue to exist and could result in the biased selection of contractors and unauthorised or inappropriate procurement occurring. Additionally, Racing and Wagering Western Australia is not, in all instances, complying with the requirements of its own purchasing and procurement policies.
16.	Western Australian Greyhound Racing Association	Qualified opinion on financial statements In prior years, grants received from Racing and Wagering Western Australia to fund construction costs for the new Cannington track were not recognised as income in accordance with Australian Accounting Standard AASB 1004 <i>Contributions</i> . Instead, these grants were recorded as Non-Current Liabilities – Payables, with income being recorded progressively over the life of the asset. This accounting treatment has continued in the current year. As a result, for the year ended 31 July 2021, 'Non-Current Liabilities – Payables' are overstated by \$13,862,509 in 2021 and \$14,359,772 in 2020. Retained Earnings are understated by the same amount for each respective year. In addition, 'Grants and subsidies received from State Government' in the Statement of Comprehensive Income is overstated by \$497,263 (2019: \$497,263).
17.	Western Australian Sports Centre Trust	Qualified opinion on controls Testing identified significant weaknesses in the general computer controls implemented by the Western Australian Sports Centre Trust. These weaknesses could result in inappropriate or unauthorised access to the Trust's financial system and sensitive information and increase the risk of information loss. The access could also be used to override management controls preventing fictitious or fraudulent transactions that could undermine the integrity of the data.

Source: OAG

Table 2: State entities receiving qualified opinions in 2020-21, and details of separate issues forming the basis of the qualifications

Prior year qualified opinions removed in 2020-21

Health Support Services – qualified opinion on controls removed

In 2019-20, Health Support Services (HSS) received a qualified opinion relating to remote access and network security issues. We reviewed these weaknesses and found that HSS has implemented appropriate controls to address potential unauthorised access to sensitive information and thereby sufficiently reduced the risk of information loss.

Housing Authority – qualified opinion on procurement controls removed

Significant weaknesses in procurement controls were identified in 2019-20. We reviewed the action taken by the Authority to resolve these issues and found sufficient controls in place to address the requirements of TI 304. As a result, the qualification from 2019-20 has been removed.

Parliamentary Inspector of the Corruption and Crime Commission – qualified opinion on KPIs removed

During 2020-21, the office of the Parliamentary Inspector of the Corruption and Crime Commission has maintained appropriate and adequate records to support accurate reporting of their KPIs 'average cost per investigation/case' and 'cost of the audit function as a percentage of total cost of operations'. Consequently, the qualification from 2019-20 has been removed.

Matters of Significance in auditor's reports

We may include a Matter of Significance paragraph in our auditor's report to bring a specific matter to the attention of readers for the following reasons:

- where a matter in relation to the financial statements or KPIs is undisclosed or not apparent
- where the Under Treasurer has approved an exemption not to report.

Entity	Details of Matters of Significance
Aboriginal Affairs Planning Authority	<p>The Authority received an exemption from the Under Treasurer from reporting the following KPI for the year ended 30 June 2021: 'Percentage of stakeholders which found the Authority's management of the land on behalf of the Aboriginal people satisfactory'.</p> <p>The exemption was approved due to low interaction with key stakeholders for the majority of the year due to COVID-19 pandemic restrictions. Consequently, this indicator has not been reported.</p>
Department of the Premier and Cabinet	<p>Our audit report highlighted that the Department of the Premier and Cabinet received an exemption from the Under Treasurer from reporting an audited KPI: 'Average cost to support the Royal Commission to report into the Crown's suitability to operate its Burswood Casino per applicable Full Time Equivalent'. The purpose of this indicator is to report on the Crown Casino Perth Royal Commission.</p> <p>The exemption was approved in recognition of the short-term nature and discrete scope of work associated with the Royal Commission which made it not feasible to report performance indicators linked to the Commission.</p>

Entity	Details of Matters of Significance
Department of Finance¹	<p>The Department received an exemption from the Under Treasurer from reporting the following outcome for the year ended 30 June 2021: 'efficient and effective corporate services to client agencies'.</p> <p>The exemption was approved because it relates to the corporate services provided directly by the Department to support the outcomes and activities of the Department of Treasury, Energy Policy WA and the Government Employees Superannuation Board.</p>
Disability Services Commission	<p>The Commission received an exemption from the Under Treasurer from reporting the following KPIs for the year ended 30 June 2021:</p> <ul style="list-style-type: none"> • average cost per service activity for community participation for people with disability • average cost per service activity for community living support for people with disability • average cost per service activity for independent living support for people with disability • average cost per service activity for therapy and specialised care for people with disability • average cost per service activity for residential services for people with disability. <p>The 2020-2021 actual results have not been presented for these indicators.</p>
Western Australian Land Information Authority (Landgate)	<p>The Authority received an exemption from the Under Treasurer from reporting the 2 KPIs:</p> <ul style="list-style-type: none"> • Benchmark against international standards for accuracy using Median Ratio Test – Gross Rental Value (GRV) • Coefficient of dispersion to check uniformity of values – GRV. <p>The exemption was approved because the regional Gross Rental Value revaluation program was not undertaken due to the travel restrictions imposed as a result of COVID-19. Consequently, the indicators have not been reported.</p>

Source: OAG

Table 3: Matters of Significance comments included in auditor's reports

¹ Department of Finance's auditor report did not include this Matter of Significance paragraph. However, it is included in this report for completeness

Emphasis of Matter paragraphs in auditor's reports

If a matter is appropriately presented or disclosed in the financial report but, in our judgement, is of such importance that it should be drawn to the attention of Parliament and other interested stakeholders, we may include an Emphasis of Matter paragraph in our auditor's report. The following list describes the matters that we highlighted through Emphasis of Matter paragraphs.

Entity	Description of Emphasis of Matter paragraphs
Annual Report on State Finances	Unquantified contingent liability relating to a claim of \$28 billion made against the State in respect of a legal dispute between the parties to a state agreement and the Western Australian Government. This is recognised in the financial report of the Department of Jobs, Tourism, Science and Innovation.
Department of Jobs, Tourism, Science and Innovation	Unquantified contingent liability disclosed in note 7.2 of the financial report recognises a claim of \$28 billion made against the State in respect of a legal dispute between the parties to a state agreement and the Western Australian Government. The claim was current at date of signing but may be impacted by a High Court decision in the State's favour since that date.
Department of Planning, Lands and Heritage	Note 9.5 to the financial statements states that the amounts reported in the previously issued 30 June 2020 Annual Financial Report have been restated and disclosed as comparatives in the Annual Financial Report.
Department of Primary Industries and Regional Development	Note 1 of the financial statements explains the following: <ul style="list-style-type: none"> the amounts reported in the previously issued 30 June 2020 Annual Financial Report have been restated and disclosed as comparatives in the Annual Financial Report transactions associated with the Western Australian Agricultural Authority have not been separately disclosed in the financial statements as the <i>Biosecurity and Agriculture Management Act 2007</i> does not require the Department to do so.
Department of Primary Industries and Regional Development	As reported by the Department of Primary Industries and Regional Development in its report on KPIs, the effectiveness indicator 'Percentage of Clients Satisfied with the Department's Technology Initiatives' is based on a client survey taken at a 95% confidence level with a sampling error of 11%. The Department expressed confidence that the result remains reliable.
Chemistry Centre (WA)	In the report on KPIs, the 'Client Satisfaction' effectiveness indicators for the desired outcomes 'Quality Research and Development' and 'Quality Scientific Advice' are based on client surveys taken at 95% confidence level and sampling errors of $\pm 9.59\%$ and $\pm 11.62\%$ respectively. Chemistry Centre expressed confidence that the results remain reliable.
Department of the Registrar, Western Australian Industrial Relations Commission	The Department has not reported key efficiency indicators for Service 2 'Conciliation and Arbitration by the Western Australian Industrial Relations Commission'. Service 2 relates to the Commission which was established under the <i>Industrial Relations Act 1979</i> . As the Commission is an affiliate body and not subject to the operational control of the Department, key efficiency indicators are not reported for the Commission by the Department.
Electricity Generation and Retail Corporation (Synergy)	The contingent liability note in the financial report describes the status of the investigation by the Economic Regulation Authority into the Corporation's pricing in balancing submissions made in the Western Australian Wholesale Electricity Market.

Entity	Description of Emphasis of Matter paragraphs
Forest Products Commission	Note 5.4.1 of the financial report has not presented the cost of inventories sold separately from the gain/(loss) on valuation of biological assets in the Statement of Comprehensive Income as required by AASB 102 <i>Inventories</i> . This presentation issue has no impact on the net result reported by the Commission and is not considered material to the users of the financial statements.
Gaming and Wagering Commission	I draw attention to Note 7.1 to the financial statements which states that the amounts reported in the previously issued 30 June 2020 financial report have been restated and disclosed as comparatives in this financial report.
Legal Contribution Trust	Note 5.6 to the financial statements, which describes the Legal Contribution Trust's (LCT) non-compliance with the requirements of Treasurer's Instruction 953 <i>Publication and Presentation of Annual Estimates</i> . Treasurer's Instruction 953 requires entities to submit their annual estimates for approval by the Minister and publish their annual estimates on the entity's website. However, LCT obtained an exemption from the Treasurer regarding publishing the LCT annual estimates on the LCT website.
South West Solar Development Holdings Pty Ltd	Note 2(a) to the financial report describes the basis of accounting. The report has been prepared for the purpose of fulfilling the director's financial reporting responsibilities under the <i>Electricity Corporations Act 2005</i> . As a result, the report may not be suitable for another purpose.
Synergy Renewable Energy Developments Pty Ltd	Note 2(a) to the financial report describes the basis of accounting. The report has been prepared for the purpose of fulfilling the director's financial reporting responsibilities under the <i>Electricity Corporations Act 2005</i> . As a result, the report may not be suitable for another purpose.
Western Australian Land Information Authority (Landgate)	Income Tax Expense Note 5.6 of the financial statements, which discloses \$418 million of deferred tax assets that have not been recognised at 30 June 2021 as it is not probable that future taxable profit will be available against which the Authority can utilise the benefits.
Western Australian Planning Commission	Note 8.12 to the financial statements states that the amounts reported in the previously issued 30 June 2020 Annual Financial Report have been restated and disclosed as comparatives due to errors in the 30 June 2021 Annual Financial Report.

Source: OAG

Table 4: Selected Emphasis of Matter paragraphs in auditor's reports

Management issues

Control environment

Entity management is responsible for developing and maintaining adequate systems of internal control to ensure legislative compliance, as well as accurate recording and reporting of financial information and KPIs. 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 KPIs, are reliably 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 *Auditor General Act 2006* requires the Auditor General to audit entity accounts and, in the case of entities operating under the *Financial Management Act 2006*, 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.

We report our control findings in management letters to the Accountable Authority. Control weaknesses are rated according to their potential impact and we 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 to 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: <ul style="list-style-type: none">• misstatement in the financial report that has occurred, although not material• ongoing system control weakness which could or is having a moderate	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.

Risk category	Audit impact	Management action required
	adverse effect of achieving objectives or legislative compliance.	
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.

Source: OAG

Table 5: Risk categories for control weaknesses reported to management

We give management the opportunity to review our audit findings and provide comments prior to completion of the audit. Each control finding is documented in a management letter which identifies weakness, implications for the entity, risk category and a recommended improvement action.

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.

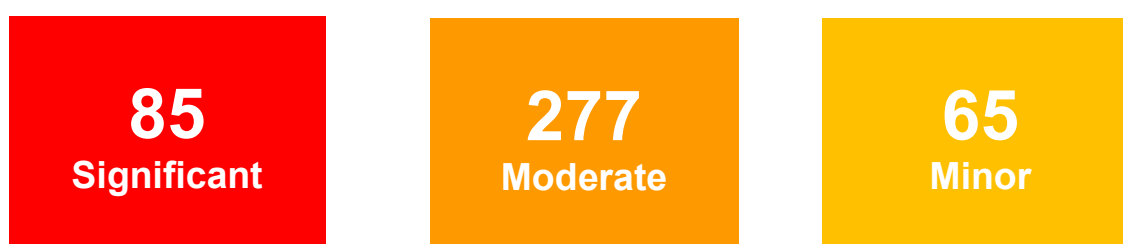
When management responds to control weaknesses identified in the management letters, we request that they set a timeframe for remedial action to be completed. Most entities set themselves challenging timeframes for remedial action, and generally meet those timeframes. It is, however, disappointing that some entities do not remedy control weaknesses in a timely manner.

While our management letters relate specifically to an individual entity, the weaknesses are often common to other government entities.

Financial and management controls

During 2020-21, we alerted 85 entities to control weaknesses that needed their attention. At the conclusion of our audits, responsible Ministers received advice of these deficiencies.

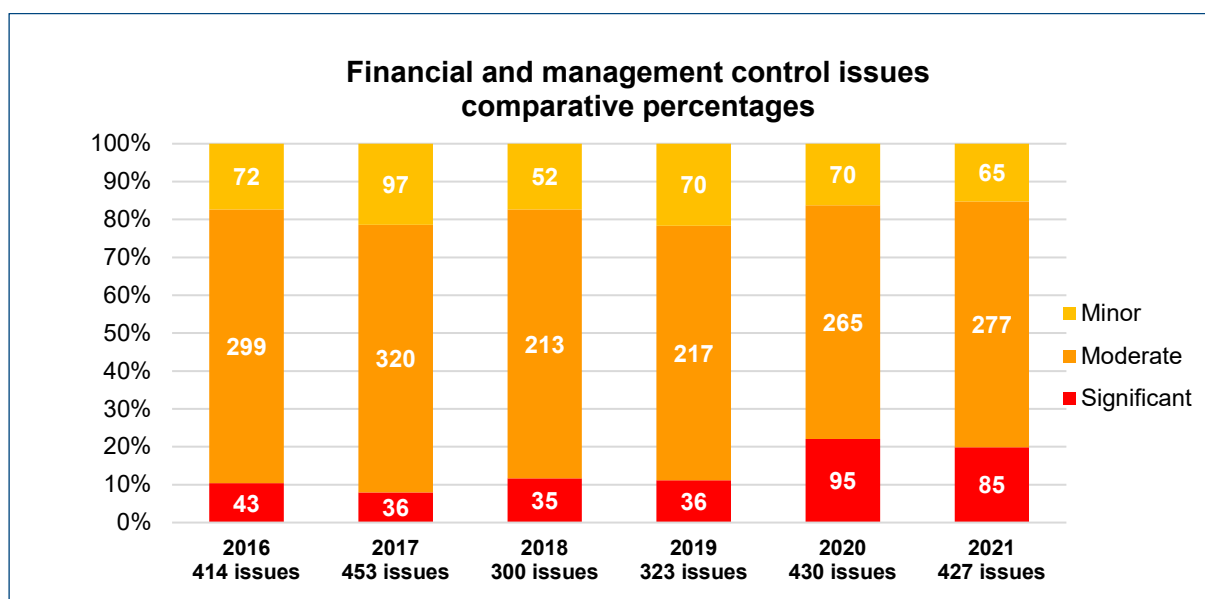
In total, we reported 427 control weaknesses across the above referred 3 risk categories:



Source: OAG

Figure 2: Number of financial and management control findings by risk category for 2020-21

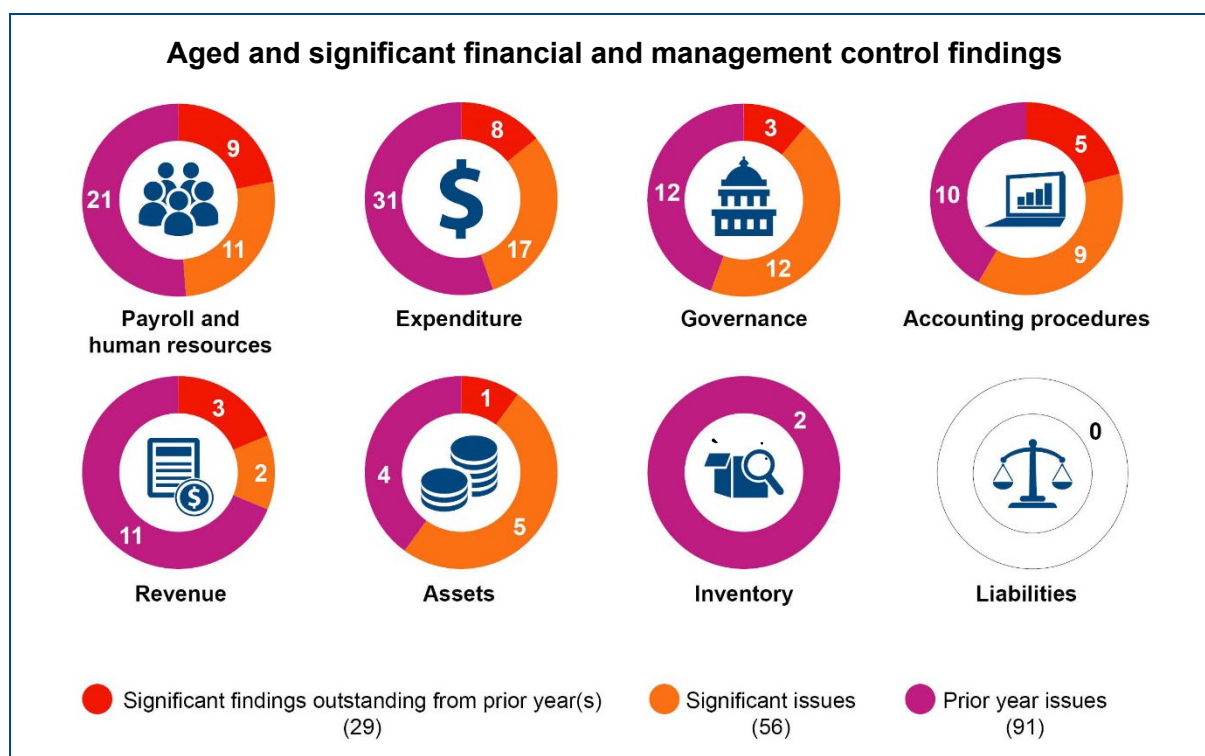
This was slightly lower than the 430 reported in the previous year. Although the number of issues we rated as significant also decreased, from 95 to 85, the number of significant and moderate findings increased marginally from 360 to 362. However, it was disappointing to note that 120 control weaknesses (28%) at 41 entities were unresolved from the prior year. This proportion continues to steadily climb as we reported 26% as unresolved in 2019-20 and 20% in 2018-19.



Source: OAG

Figure 3: Ratings of financial and management control weaknesses reported to entities by number and percentage

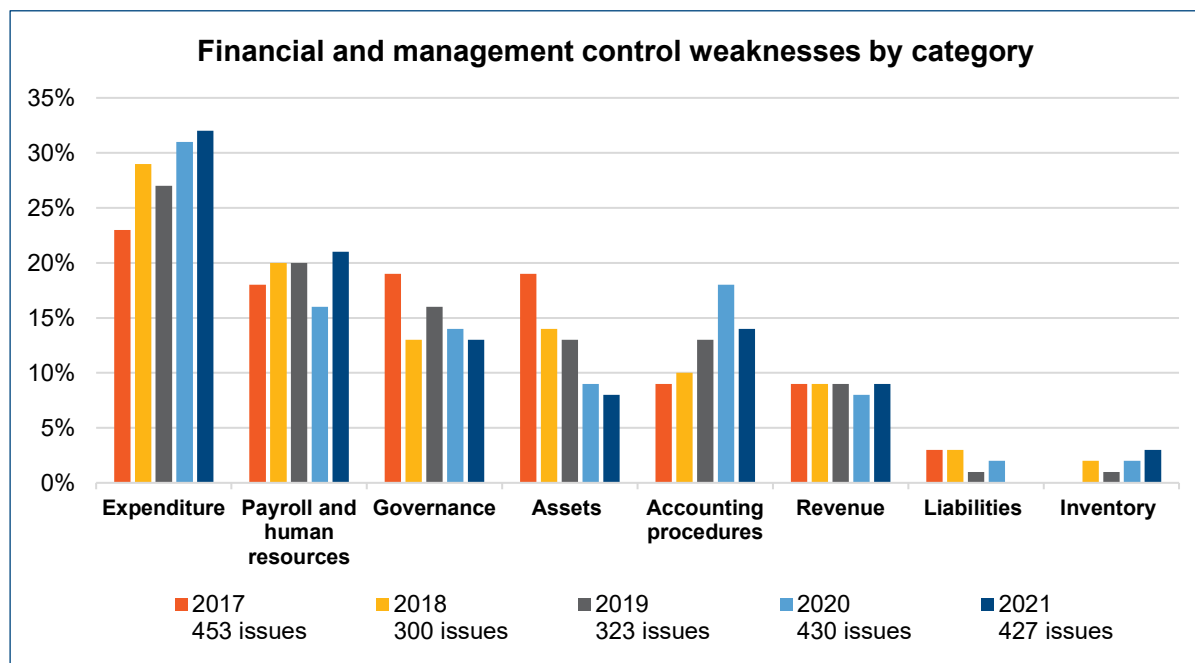
Figure 4 shows that of the 85 significant issues reported this year, 29 relate to prior year audit findings, 56 are new this year. Ninety-one minor and moderately rated prior year issues were also unresolved in 2021. These issues are mostly related to expenditure and payroll and human resources. It is important that these issues are addressed promptly.



Source: OAG

Figure 4: Aged and significant financial and management control findings

Figure 5 shows a breakdown of the categories of control weaknesses identified for the last 5 years. Expenditure control weaknesses again represented the highest proportion, followed by weaknesses in accounting procedures, payroll and human resource management, and governance controls.



Source: OAG

Figure 5: Financial and management control weaknesses for last 5 years

Following are examples of control weaknesses in the major categories.

Expenditure

We reported 135 expenditure control weaknesses to 57 entities in 2020-21. Seventeen were rated as significant and 31 weaknesses were unresolved from the prior year. Importantly, 8 were rated as both significant and unresolved from the prior year.

The most significant expenditure control weakness in 2020-21, which was unresolved from the prior year, was using unrestricted cash for operating purposes. This resulted in a controls and financial statement qualification for the entity (DPIRD).

Of the 135 expenditure control weaknesses, 29 related to use of purchasing cards contrary to the policies and procedures at 24 entities. Our testing found instances where:

- staff exceeded their approved limits or expenditure categories
- untimely acquittal of purchasing card transactions
- a staff member did not hand in their purchasing card while on extended leave.

Other expenditure control weaknesses included:

- non-compliance with Treasurer's Instruction 323 *Timely Payment of Accounts*
- non-compliance with Treasurer's Instruction 304 *Authorisation of Payments*. In 1 entity there were over 1,000 transactions where the approval for the purchase orders were after the suppliers' invoices and goods had been received. Sometimes there was no

evidence that segregation of duties was in place for the ordering and receipting function

- no review on changes made to the vendor masterfile. At 1 entity we found instances where amendments had been made to bank account details without independent review prior to being processed. This increases the risk that unauthorised changes may be made to the supplier master file without detection and may result in a financial loss to the entity due to fraud or error
- payments to suppliers with a de-registered Australian Business Number
- at 1 entity, we found 56 instances of an individual officer manually incurring advertising and marketing invoices, for which they had no authority to do so. We also found another 3 instances of purchases approved and incurred by the same officer.

Accounting procedures

During our audits we identified 59 accounting procedure issues at 36 entities. Three findings rated as significant and 11 were unresolved from the previous year. Two findings were rated as both significant findings were unresolved from the previous year. The major control weaknesses included:

- journal entries could be posted with no prior authorisation, without segregation of duties or without appropriate supporting documentation. Accounting journals can represent significant adjustments to previously approved accounting transactions and can also be used to hide fraud. They should therefore be appropriately reviewed and approved
- bank account signatories were not updated in a timely manner to remove terminating employees or to reflect changes in employees' responsibilities. This exposes the entity to potentially fraudulent activity over its cash balances
- registers of contracts and leases were not maintained or kept up-to-date. Lack of complete and accurate information on all contracts, and any variations, could potentially limit the entity's ability to effectively monitor and manage contractual obligations
- review of the application of new or revised accounting standards was not conducted in a timely manner to ensure that management reporting was compliant with the current accounting standards at year end
- at 1 entity, we found instances where monthly reconciliations between the funded expenditure system and the general ledger were not reviewed or not prepared. In the absence of timely completion of reconciliations, variances between the general ledger and underlying subsystems may occur and result in errors going undetected. Adequate review also ensures that errors, complacency, non-compliance with legislative requirements and potential fraud are identified.

Payroll and human resources

We reported 91 payroll and human resource control weaknesses to 37 entities. Eleven rated as significant and 21 were unresolved from the previous year. Nine findings are rated as both significant and still outstanding from the prior year. Our payroll controls audits identified the following weaknesses:

- at 12 entities there were weaknesses in payroll certification reports. We found payroll certification reports without evidence of approval by responsible line managers. Without effective monitoring and review of payroll certification reports, there is an increased risk

of payroll errors or fraud occurring without being detected. This is particularly important when other payroll preventative controls are not operating effectively

- at 15 entities we found weaknesses in commencement and termination procedures, including delays in communicating the start and termination information of employees to the payroll section which meant delays in processing these changes. This requires subsequent adjustments to pays. At one entity we found instances where termination checklists were completed after the employee's cessation. Non-completion of termination checklists increases the risk of attractive assets/credit cards not being collected from terminated employees and IT access not being promptly removed
- instances of leave submitted and approved after the employee returned to work
- 1 entity advised that in October 2020 they had implemented our prior year recommendation to approve timesheets in a timely manner. However, we found 833 timesheets for the period 8 November to 27 March 2021 which remained unapproved at 13 April 2021.

Governance

During our audits we identified 55 governance and legal compliance issues at 32 entities. Twelve rated as significant and 12 were unresolved from the previous year.

Major control weaknesses included:

- at 10 entities we found issues with risk management. This included risk management policies not updated, risk registers incomplete, no business continuity plan or the plan not tested to assess their effectiveness. In 1 entity the risk management policy was last reviewed in 2013
- financial management manuals were not updated to reflect changes in accounting standards or reviewed periodically
- non-compliance with Treasurer's Instruction 953 *Publication and Presentation of Annual Estimates*
- we found instances in 3 entities where a declaration of interest and confidentiality were not prepared and signed by the purchasing officer or evaluation panel. In 1 entity the instances related to suppliers listed on the Common User Agreement
- 1 entity did not have an internal audit function or audit committee during the 2020-21 financial year. The internal audit function and audit and risk committee are important mechanisms for good governance and entity performance. They evaluate and contribute to risk management, internal controls and compliance. In their absence, entities are exposed to additional risks and knowing whether or not there is compliance with Treasury Instruction requirements, policies, procedures and other legislative requirements.

Assets

We found 34 assets issues at 29 entities. Five of these were rated as significant and 5 were unresolved from the previous year.

In addition to the property related matters reported on page 33, other major control weaknesses included:

- the accuracy of fixed asset records. At 1 entity this included differences between the Department's asset records and the Valuer General Office's records. This results in

incorrect information being reported in the Department's financial report and diminishes the effectiveness of control over fixed assets

- recognition of asset transfers. At 1 entity we were unable to determine whether control of relevant land and associated assets had been appropriately transferred prior to processing the accounting entries
- asset verification. Incomplete and inaccurate records which do not support effective monitoring and management of assets. Assets which are unable to be identified in fixed asset registers are at risk of theft or loss passing undetected
- management of asset additions and disposals. At 1 entity we found that there was no requirement to complete an asset addition forms as well as instances where there were no supporting documents to substantiate asset cost. We also found instances where asset disposal forms were not completed or approved prior to disposal. Entities should ensure that processes surrounding asset additions and disposal are robust to avoid misstatements to the financial statements.

Revenue

We found 40 revenue control weaknesses across 26 entities. While only 2 of these were rated as significant this year, 11 (27%) of these issues were unresolved from the prior year. Three of the findings were rated as both significant and unresolved from the prior year.

These control weaknesses included:

- revenue not recognised in accordance with AASB 15
- lack of segregation of duties within the revenue cycle
- long outstanding debtor balances with limited or no payment activity
- untimely monthly reconciliation between the sales register and the general ledger
- we found 1 entity had incorrectly published fees that were not in line with the booking system and not in accordance with the Minister's approved fee
- 1 entity did not adopt the correct accounting treatment for non-reciprocal grants funding received, therefore not complying with accounting standards.

Recommendations

1. 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 relevant 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 OAG audits.

Information systems controls

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

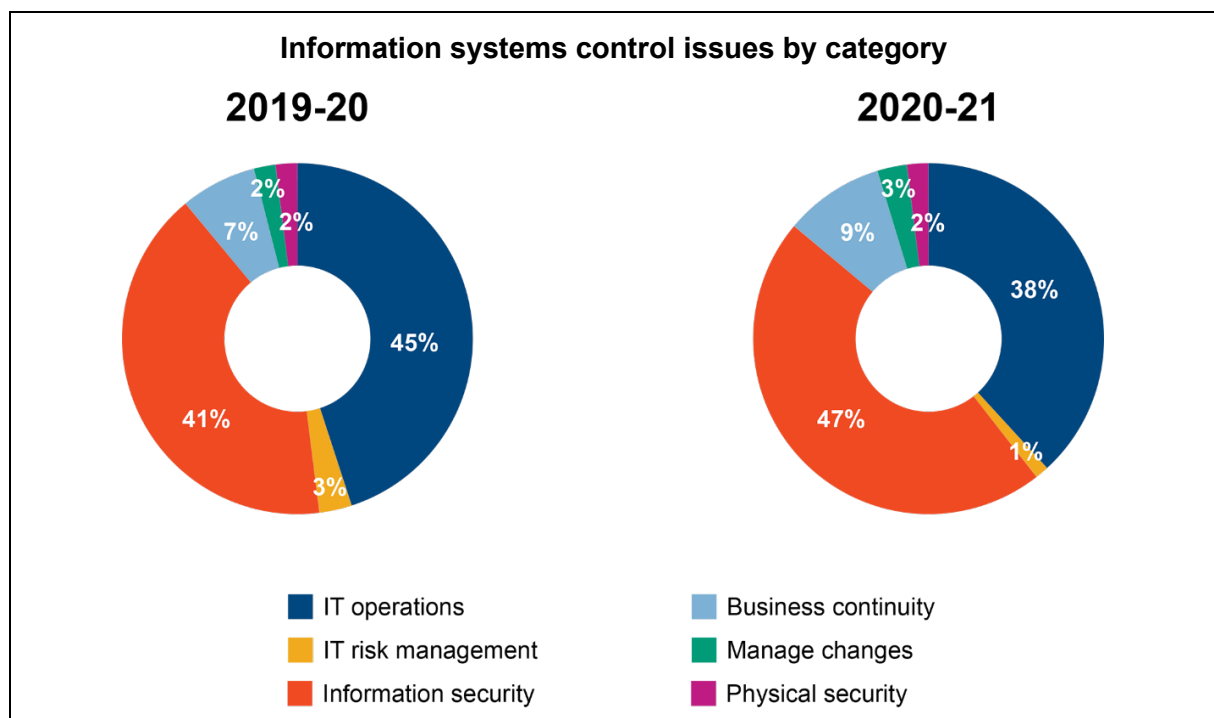
Audits of general computer controls are a major part of the work we undertake to assess the effectiveness of information system controls. Well implemented and managed general computer controls ensure reliable and secure processing of financial and key performance information. We focus our information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

In 2020-21, we identified 403 weaknesses across 45 entities. Forty-nine percent of these were unresolved issued from the previous year. This is an increase from 41% reported as unresolved in 2019-20. In 2019-20 we reported 423 findings at 49 entities. Seven percent of the issues were rated as significant and 67% were rated as moderate requiring action as soon as possible. The other 26% were rated as minor.

Of the weaknesses identified:

- 47% related to information security issues. These included system vulnerabilities, poor remote access controls, and unauthorised and inappropriate access
- 38% related to operations issues. These included the processing and handling of information, monitoring user activity, and review of access privileges.

Figure 3 shows the percentage of total findings made against our 6 categories of control risk. Information security findings increased by 6%, business continuity and change management findings increased by 1%. IT operations weaknesses decreased by 7%, and IT risk management findings decreased by 1%. Findings in the area of physical security remained the same as last year. The majority of issues are simple to fix, but if not resolved these leave entities potentially vulnerable to security incidents and disruption.



Source: OAG

Figure 6: Information systems control issues by category

A more detailed report on the results of our information system audits is planned for the first quarter of 2022. The report will consolidate the results of audits of State entities with a 30 June 2021 reporting date and upcoming work on entities with a 31 December 2021 reporting date (universities and TAFEs).

Key performance indicators

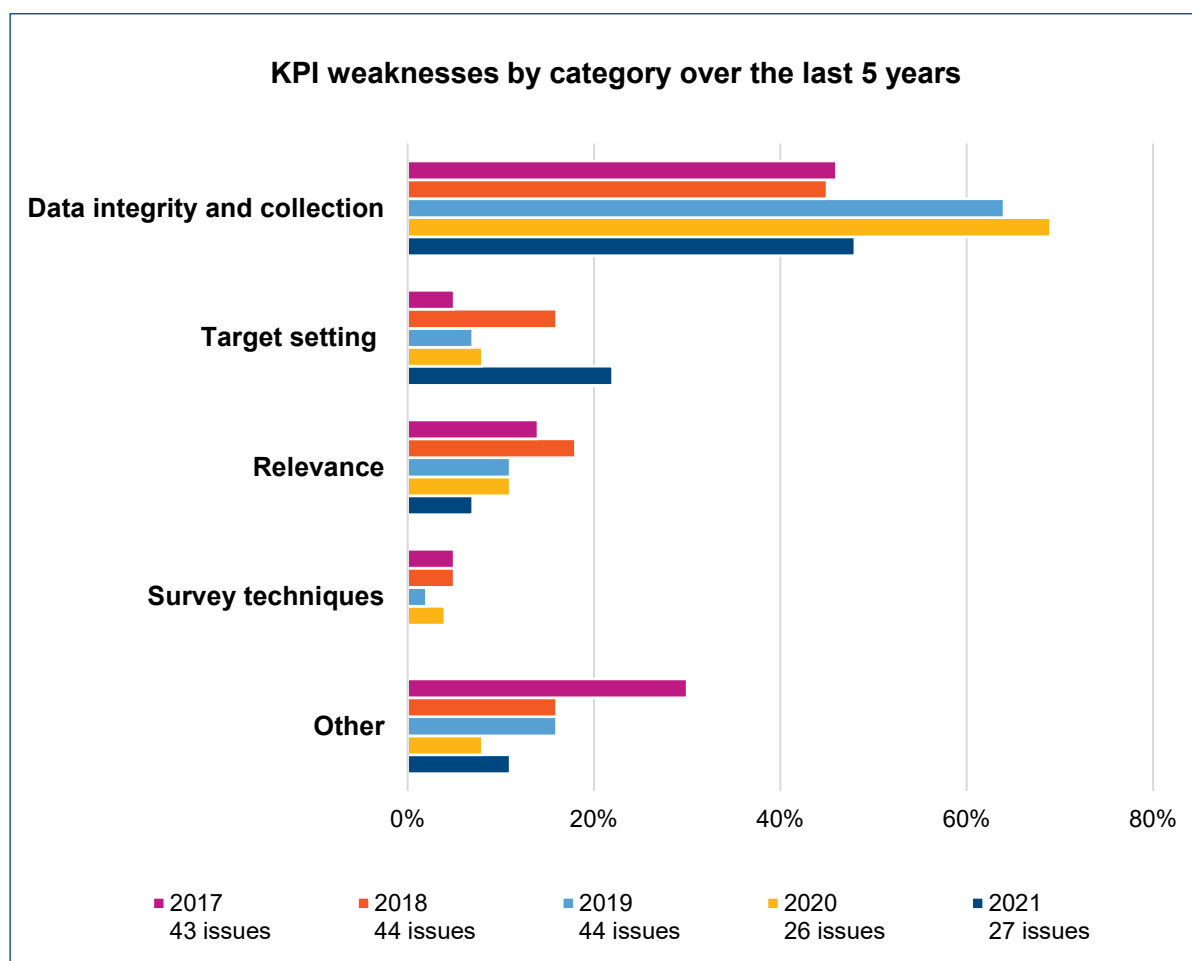
In 2020-21 we reported 28 KPI weaknesses to 19 entities. Almost all the weaknesses need prompt or urgent attention by entities.

KPI shortcomings and qualifications	2016-17	2017-18	2018-19	2019-20	2020-21
Number of entities with KPI weaknesses	20	13	26	19	19
Number of KPI weaknesses rated as significant	20	16	18	9	5
Number of entities with qualified KPI opinions	5	4	1	1	1
Number of KPI weaknesses reported	43	44	44	26	28

Source: OAG

Table 6: Summary of KPI weaknesses reported to entities

Figure 7 shows that data integrity and collection is the key area needing improvement.



Source: OAG

Figure 7: KPI control weaknesses for last 5 years

We reported 13 control weaknesses relating to data integrity and collection to 9 entities. Three rated as significant and 2 remain unresolved from the previous year. The weaknesses included:

- inaccurate data
- inappropriate measurement and issues with the underlying methodology
- lack of review of the appropriateness of whether the reported indicators are an accurate representation of the entity's performance.

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.

We also observed significant variation in the extent and usefulness of narrative explaining the variations of substance between actual and target KPI results. We encourage all entities to be sufficiently transparent in this process.

Recommendations

2. Entities should periodically review their KPIs to ensure that:
 - a. they are calculated from reliable and complete data
 - b. they remain relevant, appropriate and fairly present performance against realistic targets
 - c. the KPI instructions are periodically updated and approved so that KPIs are consistently reported and comparable
 - d. variance explanations between actual and target results are appropriately transparent and meaningful.

Financial reporting, accountability and audit matters

Native title settlement

Western Australia is exposed to the responsibilities of native title more than any other state or territory. Approximately 85% of WA is subject to either a native title claim or has already received a Federal Court of Australia determination that recognises the existence of native title rights and interests. The WA Government takes a state agreement approach to the resolution of native title matters, relying on negotiation and agreement making where possible.

There were 2 native title settlements which were finalised in 2020-21. These were the South West Native Title Settlement and the Yamatji Nation Indigenous Land Use Agreement.

These agreements are intended to deliver benefit to their communities and will generate improved social and economic outcomes for traditional owners.

These agreements have resulted in State entities recognising over \$1 billion of liabilities and expenses and contingent liability disclosures for land/asset transfers which are yet to occur. Some obligations have been recorded as a contingent liability because while there is a present obligation, the amounts involved cannot be readily measured until a future event, such as the identification of land to transfer, has occurred.

Our audit work involved assessing the obligations of each of these agreements, reviewing the treatment and calculation of liabilities and confirming transactions to presentation in the financial statements of the responsible entity.

Department of the Premier and Cabinet

The Department has recognised administered liabilities of \$942 million and expenses of \$1 million for the South West Native Title Settlement and Yamatji Nation Indigenous Land Use Agreement respectively.

- The South West Native Title Settlement, comprising 6 land use agreements and covering approximately 200,000 km², formally commenced in February 2021. The first payment to the Noongar Boodja Trust was released on the 22 April 2021. The settlement also includes annual funding instalments of \$50 million per year for 12 years into the Noongar Boodja Future Fund.
- The Yamatji Nation Indigenous Land Use Agreement covers 48,000km² of land and water in the Geraldton region. The mining revenue stream is estimated to be \$8.64 million over a period of 10 years. The first annual payment of \$10 million was made to the Yamatji Nation Trust in 2020-21.

The administered figures relate solely to amounts paid or payable for the South West Native Title Settlement and the Yamatji Nations Indigenous Land Use Agreement which were entered into during the year ended 30 June 2021. This mostly represented cash payable under the agreements which the WA Government determined would be paid by the Department. Accordingly, there were no comparative figures for the year ended 30 June 2020.

Department of Planning, Lands and Heritage

The Department is responsible for transferring certain land to various Aboriginal bodies under the South West Native Title Settlement South West and Yamatji Nation Indigenous Land Use Agreement native title settlement Agreement. The Department reported a provision of \$4 million and \$3.1 million for Yamatji and \$4 million for South West native title settlements

respectively. These provisions relate to the obligation to transfer land under these 2 settlement agreements and relates to the land that has been identified so far.

The Department also disclosed a contingent liability in respect of the land still to be transferred that has not yet been identified, and which is not able to be quantified in terms of the amount to be paid.

Department of Finance

The Department has recognised a grant expense in the current year of \$6.7 million in relation to the South West Native Title Settlement with the corresponding entry largely being recorded as a provision at year end. The amount is not material to the Department and the amounts are consistent with the whole of government external accounting advice received by the Under Treasurer in relation to the South West Native Title Settlement.

Housing Authority

The Housing Authority reported a provision of \$59.3 million to recognise the Housing Authority's share of both the South West Native Title Settlement and the Yamatji Nation Indigenous Land Use Agreement. The entity's other expenses were higher than prior year by \$159.3 million (131.4%) primarily due to assets transfers from the South West Native Title Settlement.

Native title has prompted our office to examine the ongoing obligations of the State under these agreements. Our audit approach is to ensure they are completely and accurately recorded in the Annual Report on State Finances and the financial statements of respective entities.

Special purpose accounts

State government entities are often required to hold monies used for specific purposes. These are held in special purpose accounts and also referred to as restricted cash. Common examples are government and private sector grants, industry levies, donations and funding specified by legislation.

The *Financial Management Act 2006* and Treasurer's Instructions specify requirements for the administration, accounting, and disclosure of special purpose accounts. Accounts are also supported by either a special purpose trust statement approved by the Treasurer, or an agreement or legislation which specifies how these funds are to be used, conditions and restrictions, as well as administration, accounting and reporting requirements.

These accounts hold considerable amounts of money and are similar in nature to trust monies. Therefore, effective management and processes are required to ensure that the funds are used for their intended purposes.

Our audit work involved examining these special purpose accounts to ensure that the funds are recorded within the terms and conditions of the legal instrument, spent appropriately, and that adequate controls were in place to support the control of monies.

Department of Primary Industries and Regional Development

The Department uses a system to control, monitor and allocate funds between the cash and cash equivalent categories of restricted and non-restricted. There were significant deficiencies in the Department's controls over restricted cash in the current and prior years. In the current year, this resulted in restricted cash being used inappropriately throughout the year to fund shortfalls in operational cash. Our office was unable to obtain sufficient and appropriate evidence to substantiate that the cash monitoring system was accurately

reporting the allocation between the restricted and non-restricted categories of cash and cash equivalents. Consequently, we were unable to determine whether any adjustments to these amounts were necessary. These weaknesses resulted in 2 qualifications in the financial statements and controls audit opinions in 2021.

Comprehensive, overarching policies and procedures in this area ultimately help to ensure that funds in special purpose accounts are being identified, managed and reported appropriately and, more specifically, spent for the purpose intended.

Our office recommends that entities adopt the better practice principles and controls related to the management of special purpose accounts as outlined in Appendix 5.

New special purpose accounts from 1 July 2021

There were 6 new special purpose accounts with a combined value of \$4.55 billion in the 2021-22 budget papers:

- Climate Action Fund (\$750 million over 4 years)
- Digital Capability Fund (\$500 million over 4 years)
- Social Housing Investment Fund (\$750 million over 4 years)
- Softwood Plantation Expansion Fund (\$350 million over 4 years)
- Westport Account (\$400 million over 4 years)
- Women and Newborn Health Service Relocation Account (\$1.8 billion over 4 years).

Property valuation, transfer and management matters

The financial statements of several entities required adjusting during the audit process due to a number of property related matters. Such significant transactions and matters surrounding valuation means that our Office pays close attention to these matters and their application to other public sector entities. Below are some examples.

Housing Authority

On 22 November 2019, Cabinet enacted a change to the Housing Authority's core functions through a Machinery of Government (MOG) restructure. The restructure aimed to separate functions which support social policy objectives from the commercial activities that provide a return to government. The commercial activities, including land development activities, were transferred to a new non-statutory State authority, Development WA.

The terms of the arrangement required that the transfer would be executed via an equity transfer. The earmarked land and building assets were grouped into 2 tranches, with an impairment expense recognised, and the transfers taking place sequentially as follows:

- Tranche 1 Assets: On 30 June 2021 the \$135 million transfer to Development WA, excluding 1 project with a carrying value of \$55 million, was executed and recognised accordingly in the financial statements.
- Tranche 2 Assets: The transfer to Development WA was executed subsequent to 30 June 2021. The equity transfer of \$420 million (assets) and associated liabilities of \$83 million with regards to Tranche 2 Assets was effective 1 July 2021, with formal registrations to be finalised in the 2022 financial year.

Such significant transactions means that our Office pays close attention to these matters and their application to other public sector entities.

Department of Planning, Lands and Heritage

There were significant issues identified with the asset management and valuation processes at the Department of Planning, Lands and Heritage that led to the discovery of a \$402 million restatement of the prior year administered land balance.

We identified several errors in records relating to the management of administered land assets. These included:

- duplicating records, and as a result the valuation arrived at by the Valuer-General's Office was recorded multiple times instead of the total value being divided between the individual land parcels
- not recording unmanaged Crown land it controlled that should have formed part of administered land assets
- incorrectly recording land assets that were on management orders to other entities, and therefore under the control of those respective entities.

The net impact of all of the above items resulted in a material net overstatement of the 30 June 2020 administered land balance amounting to \$402 million which required a restatement in the 2021 financial statements.

We also identified several issues at the Western Australian Planning Commission with respect to the accounting for land and building transactions resulting in a prior year error with an impact on total assets at 30 June 2021 of \$11.5 million.

These prior year errors reflect that information previously presented in financial statements had material errors. We encourage entities to examine their processes to ensure what is presented in their financial statements is accurate and fairly represented, particularly as it pertains to property records.

The Western Australian Museum – Boola Bardip

Western Australia's new museum, Boola Bardip, opened to the public in November 2020. The construction of the museum was managed by the Department of Local Government, Sport and Cultural Industries (DLGSC) at a value of approximately \$400 million.

The completed building was transferred from DLGSC to the Western Australian Museum (WAM) in 2020-21 under a 50-year concessionary lease which was granted to operate the Boola Bardip premises as a museum in accordance with the *Museum Act 1969*. This peppercorn lease arrangement had the effect of writing down the asset in DLGSC's financial statements to zero and not recognising it in WAM's assets as there was no cost to WAM.

While this apparent anomaly in the building not being reported in either entity's financial statements is in accordance with accounting standards, the asset was recognised at a whole-of-government level in the Annual Report of State Finances.

Upon completion of the museum, as agreed under the new museum project plan, the exhibition contents and digital infrastructure to enable access to the museum's content and the totalling \$78 million were transferred from the DLGSC to WAM as other contributions by owners.



Source: Adwo/ Shutterstock.com

Figure 8: Skeleton of a blue whale at the Western Australian Boola Bardip museum

This building and its exhibition contents have an important value to the State, both financially and socially.

Casual employees' entitlement to long service leave

Under the *Long Service Leave Act 1958* (WA), casual employees who have been employed for more than 10 years and meet continuous service requirements may be entitled to long service leave.

In September 2019, the Public Sector Labour Relations division of the Department of Mines, Industry Regulation and Safety updated earlier advice to State government entities about the entitlement of casual public sector employees to long service leave (LSL). The corrected position is that casual employees may be eligible for LSL under the *Long Service Leave Act 1958* (WA), even if they are paid a casual loading that is stated to be in lieu of LSL or other types of leave such as personal leave, annual leave and public holidays. On 19 February 2021, Public Sector Labour Relations issued a guidance note on the transitional and ongoing arrangements for casual employees.

Where entities have been able to reliably measure obligations for long service leave for casual employees, these liabilities have been recognised. However, many entities have not been able to reliably measure long service leave obligations for current or former casual employees at the reporting date and have reported the following factors in a note to the accounts:

- difficulties in obtaining relevant underlying data for affected casual employees, particularly for those periods of service where the LSL applied
- determining continuous employment for casual employees under the *Long Service Leave Act 1958* (WA) is unclear particularly in identifying breaks in service for individual casual employees and whether any interruption in service impacts entitlement to long service leave.

It is imperative that entities properly assess their obligations for current casual and former employees as soon as possible, as the State has an obligation to them and to reflect this appropriately in their financial statements.

Anti-money laundering and counter-terrorism financing compliance frameworks

The Commonwealth *Anti-Money Laundering and Counter-Terrorism Financing Act 2006* (AML/CTF Act) requires certain businesses in the financial (including superannuation), gambling, and bullion sectors to deter and disrupt money laundering, the financing of terrorism and other serious crimes.

Recent high-profile matters exposing significant control deficiencies in anti-money laundering and counter-terrorism financing (AML/CTF) risk management have led our Office to consider the potential exposure of State government entities regulated under the AML/CTF Act.

There are several State entities that operate in industries susceptible to facilitating money laundering and terrorism financing. These reporting entities are required to comply with certain obligations under the AML/CTF Act and rules, including to

- enrol with AUSTRAC²
- register with AUSTRAC if they provide remittance or digital currency exchange services
- undertake an assessment to identify their money laundering and terrorism financing risks
- develop and maintain an AML/CTF program to identify, mitigate and manage risks associated with their customers, products and services
- have the AML/CTF program subject to regular independent review
- undertake employee due diligence and employee risk awareness training
- perform initial and ongoing customer due diligence
- lodge reports of suspicious matters, cash transactions of \$10,000 and more, international transfers and compliance reports with AUSTRAC
- comply with various AML/CTF related record-keeping obligations.

AUSTRAC have found, through their regulatory and enforcement activities, that non-compliance has commonly resulted from entities' poor or insufficient governance practices and a lack of understanding of their risk. AUSTRAC's website provides a summary of the various obligations and industry specific guidance.³

Our early enquires and examinations of this maturing area of compliance risk identified that State entities are well aware of their obligations and have established frameworks. However, we found several control deficiencies in a number of relevant State entities. We are pleased that they recognise the importance of this legislation and are taking action to further enhance the robustness of control environments relating to these legislative compliance and reputational risks. Our Forensic and Financial Audit business units have undertaken procedures with respect to a number of these entities to understand their AML/CTF

² AUSTRAC for the Commonwealth of Australia 2021 [Check if you need to enrol or register](#)

³ AUSTRAC for the Commonwealth of Australia 2021 [How to comply and report: guidance and resources | AUSTRAC](#)

obligations and corresponding control frameworks and may conduct additional procedures in the future.

While this is Commonwealth legislation, failing to adequately mitigate the risk of laundered criminal proceeds or facilitating the movement of funds financing terrorism could have material consequences for entities and the State. Shortcomings in controls elevate the risk of storing or laundering the proceeds of crime or facilitating the financing of terrorism going undetected. Non-compliance with AML/CTF legislation could also result in significant reputational damage and financial consequences for the State.

Late tabling 2021-22 Statements of Corporate Intent

Twenty-one entities are required to have their annual Statements of Corporate Intent (SCI) tabled in Parliament. This year, due to the State election, the 2021-22 Budget was handed down in September. As a result, it was considered appropriate to delay tabling of SCIs for 2021-22 to ensure their content reflected relevant Government decisions during the budget process. In August 2021, Treasury advised Government Trading Enterprises (GTEs) that with the later release of the 2021-22 Budget the process and timing for finalising 2021-22 SCIs needed to be revised to ensure the SCIs alignment with relevant Government decisions. Treasury confirmed the final SCIs for GTEs should be submitted to the Minister for agreement and the Treasurer's concurrence with sufficient time to enable tabling on or before 30 September 2021.

Why SCIs are important

The 21 State entities operating outside the Government's budget process prepare an SCI which is required to be tabled by their Minister before or early in the financial year.

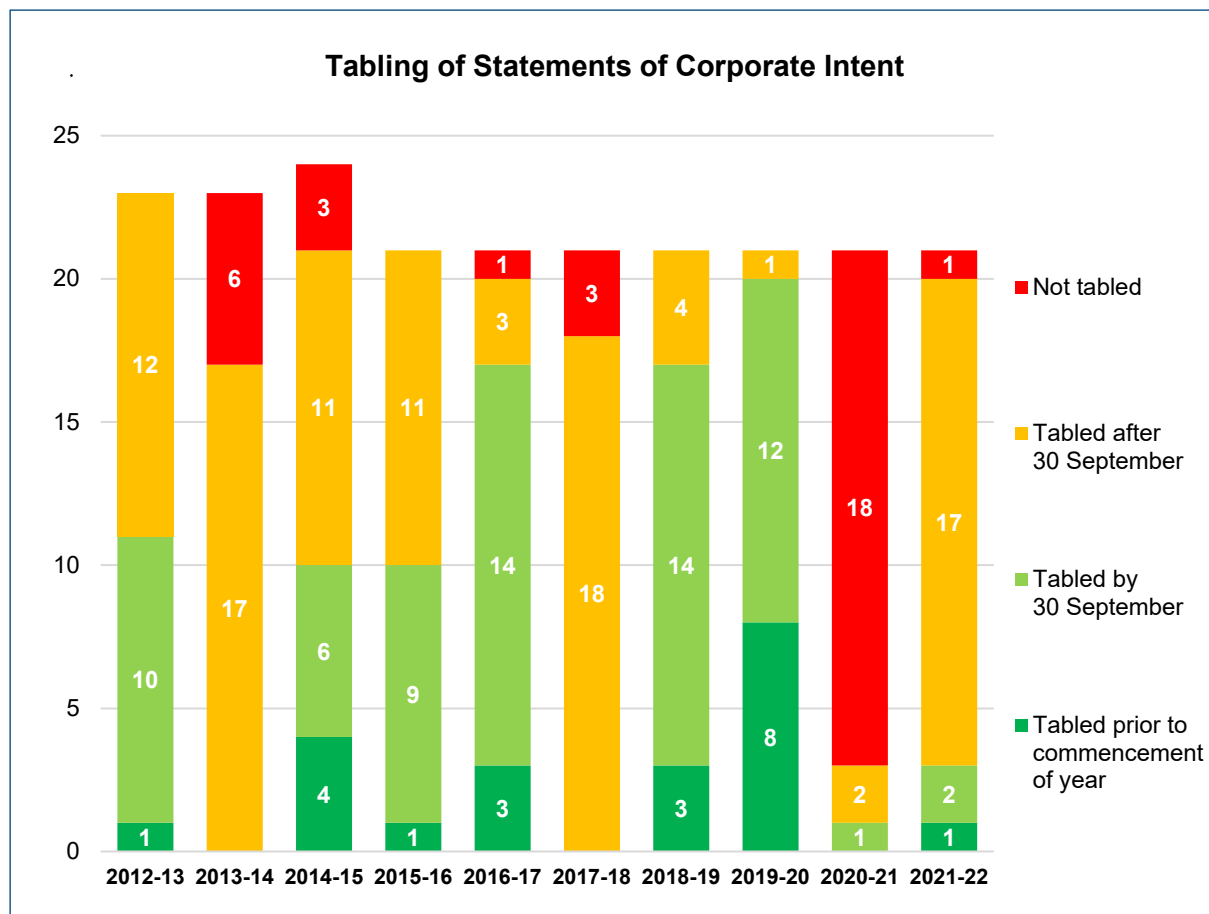
SCIs are an annual agreement between the entities listed in Table 7 and the State Government and are an important governance and accountability mechanism. These commercially based entities undertake revenue generating activities under specific legislation passed by Parliament. Until their SCIs are tabled, key information about their future budgets, planning and direction is not available for parliamentary or public scrutiny.

SCI information varies with each entity's 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.

2021-22 SCIs tabled

We have reported to Parliament on the tabling of SCIs for over 20 years. Figure 9 shows the mixed tabling achievements for the last 10 years.



Source: OAG based on Parliament's tabled papers

Figure 9: Ten year history of the tabling of SCIs at 18 November 2021

Entity	2019-20 SCI tabled	2020-21 SCI tabled	2021-22 SCI tabled
Corporatised entities			
Bunbury Water Corporation	27/06/2019	11/11/2020	9/11/2021
Busselton Water Corporation	27/06/2019	11/11/2020	9/11/2021
Horizon Power – Regional Power Corporation	01/08/2019 *	24/11/2020	1/10/2021
Synergy – Electricity Generation and Retail Corporation	15/08/2019	17/11/2020	1/10/2021
Water Corporation	19/07/2019 *	11/11/2020	9/11/2021
Western Australian Land Authority (Landcorp)	08/08/2019	24/11/2020	
Western Power – Electricity Networks Corporation	14/08/2019	17/11/2020	5/10/2021
Statutory authorities			
Chemistry Centre (WA)	18/07/2019 *	04/11/2020	28/09/2021
Forest Products Commission	23/07/2019 *	11/11/2020	26/10/2021
Gold Corporation	28/06/2019 *	19/11/2020	6/10/2021
Government Employees Superannuation Board	18/06/2019	11/08/2020	17/06/2021
Insurance Commission of Western Australia	28/06/2019 *	19/11/2020	13/10/2021
Lotteries Commission	20/06/2019 *	03/11/2020	16/09/2021
Racing and Wagering Western Australia	19/11/2019	19/11/2020	27/10/2021
Western Australian Land Information Authority (Landgate)	25/06/2019	24/11/2020	12/10/2021
Western Australian Treasury Corporation	25/06/2019	19/11/2020	12/10/2021
Port authorities			
Fremantle Port Authority	21/08/2019	19/11/2020	20/10/2021
Kimberley Ports Authority	21/08/2019	24/11/2020	20/10/2021
Mid West Ports Authority	21/08/2019	24/11/2020	12/10/2021
Pilbara Ports Authority	21/08/2019	19/11/2020	20/10/2021
Southern Ports Authority	21/08/2019	19/11/2020	20/10/2021

Source: OAG based on Parliament's tabled papers

* Deemed tabled – Date the SCI was received by the Clerk of the Parliament when Parliament was not sitting.

	SCIs that were tabled before commencement of the financial year
	SCIs that were tabled after publication of the 2019-20 Audit Results Report

Note: Late State Budget on 9 September 2021 impacted on tabling of 2021-22 SCIs.

Table 7: Dates SCIs tabled in Parliament in last 3 years at 18 November 2021

Entity requirements

Entities are required by their Act or regulations to draft the annual SCI, which is consistent with their strategic development plan, for agreement with their Minister. 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. 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.

Current status of Treasury's reform program

The introduction of full Budget papers for GTEs is one of the key elements of the new GTE Governance framework and an initiative of GTE Reform.

In 2021-22, 16 GTEs are providing full Budget statements as part of the 2021-22 Budget for the first time. These statements are included in Budget Paper No.2 and align, as much as possible, the reporting of GTE finances with the reporting for general government entities.

The inclusion of GTE budget statements enhances transparency and makes clear the relationship between the Government's goals, and the GTEs' strategic objectives and desired outcomes. There is now greater visibility as to how all government entities and GTEs contribute to the State's overall financial position and significant issues that GTEs are managing are now articulated.

These 16 GTEs are:

- Horizon Power – Regional Power Corporation
- Synergy – Electricity Generation and Retail Corporation
- Western Power – Electricity Networks Corporation
- Gold Corporation
- Bunbury Water Corporation (Aqwest)
- Busselton Water Corporation
- Water Corporation
- Forest Products Commission
- Western Australian Treasury Corporation
- Insurance Commission of Western Australia
- Western Australian Land Authority (DevelopmentWA and formerly Landcorp)
- Fremantle Port Authority
- Kimberley Ports Authority
- Mid West Ports Authority
- Pilbara Ports Authority
- Southern Ports Authority.

Drafting of the legislative element of the GTE Governance framework is ongoing.

Recommendation

3. **Entities and Treasury should continue to facilitate timely tabling of SCIs to ensure compliance with legislation.**

Accounting and auditing standards changes for 2020-21

Public sector entities applied the following new accounting standard of the Australian Accounting Standards Board (AASB) from 29 June 2021.

Implementation and audit approach for Service Concession Grantors standard AASB 1059

The new standard, AASB 1059 *Service Concession Arrangements: Grantors*, was applied for the 2020-21 reporting year.

This standard is applicable to public sector entities (grantors) that enter into service concession arrangements with, generally, 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, has implications for grantors and for whole-of-government reporting.

An arrangement within the scope of this standard typically involves an operator constructing the assets used to provide the public service or upgrading the assets (for example, by increasing their capacity) and operating and maintaining the assets for a specified period. In WA, such arrangements are often referred to as public-private partnerships. Major service concession arrangements for the State include the Queen Elizabeth II Medical Centre Multi-Deck Car Park, the Peel and Joondalup Health Campuses and the St John of God Midland Public Hospital.

Determining if an arrangement is a service concession requires significant judgement and should be assessed on an asset-by-asset basis. There is no one size fits all approach, and the characteristics of each potential service concession arrangement should be considered.

Case study 1 – Application of AASB 1059 by Housing Authority

On initial adoption of AASB 1059, the Housing Authority recognised service concession assets of \$1.8 billion where \$1.2 billion relates to reclassification of existing land and buildings to service concession assets at the current replacement cost and \$622 million as a result of recognition of properties owned and provided by the Community Housing Organisations. There was also \$120 million of service concession liabilities recognised that related to the assets owned by Community Housing Organisations.

Case study 2 – Application of AASB 1059 by East Metropolitan Health Service

In 2012, St John of God Health Care signed a 20-year public-private partnerships agreement with the State to operate a hospital for public patients in Midland, St John of God Midland Public Hospital.

The assets related to the hospital were recorded as part of property, plant and equipment in the East Metropolitan Health Service's financial statements published in prior years. Following the implementation of the new accounting standard AASB 1059, these assets have been reclassified and recognised at fair value as Service Concession Assets at an approximate value of \$303 million.

Case study 3 – Camp Schools and Landsdale Farm

The Department of Education has leased 6 camp schools to Fairbridge Western Australia Incorporated for a period of 15 years, and Landsdale farm to Family Support WA Incorporated for 5 years at an annual rental amount. The initial application of AASB 1059 by the Department resulted in these assets totalling \$29.2 million at 30 June 2021 being reclassified from land, buildings and infrastructure to be reported as Service Concession Assets.

Case study 4 – Mundaring Water Treatment Plant

In 2012, the Water Corporation entered into a public-private partnerships with Helena Water Pty Ltd (Helena Water) to privately finance, design, construct, own and operate the Mundaring Water Treatment Plant under a 35-year operating concession. It was previously accounted for as a lease per AASB 117 Leases based on the terms and conditions of the arrangement.

The Corporation supplies raw water to Helena Water and purchases the treated product water that is pumped to Sawyer's Valley tank at the flow rate specified by the Corporation's Operation Centre.

The agreement between the Corporation and Helena Water requires Helena Water to use reasonable endeavours to obtain the most favourable terms from existing or potential financiers when refinancing. Gains or losses will be allocated to each party on ratios determined by the agreement with the next refinancing event scheduled for 2027.

This arrangement has significant service concession asset values for the total public sector as it allows for the review of goods and services costs at set intervals across the term of the contract and this review has the potential to impact the monthly service charge.

The Corporation has determined that this is a service concession arrangement under AASB 1059 and was treated as a service concession asset from 1 July 2020. We understand that the Water Corporation adopted the full retrospective transition approach and provided the necessary adjustments to the Department of Treasury for the purposes of preparing the State Government's Annual Report on State Finances to be consistent with the modified retrospective transition approach adopted for whole-of-government financial reporting purposes.

No accounting adjustment has arisen on transition on account of adopting the fully retrospective approach, however additional disclosure is required in the financial report to reflect this change in accounting standard.

Auditing accounting estimates and related disclosures under ASA 540

For reporting periods beginning on or after 15 December 2019, the ASA 540 *Auditing Accounting Estimates and Related Disclosures* (Revised) standard has implications for those responsible for financial statement preparation and the determination of accounting estimates. The revision responds to the rapidly evolving business environment, keeps pace with the increased complexity of reporting, and increases audit quality.

It requires a separate assessment of inherent risk relating to accounting estimates and introduces inherent risk factors to assist auditors assessing the risks arising from estimates. There are also further requirements including increased scrutiny addressing disclosure of accounting estimates in financial statements.

The revised Standard has provisions that are designed to enhance the use of professional scepticism by auditors and of particular significance when there are accounting estimates that require substantial judgement to address subjectivity or are complex to make or involve significant assumptions

Changes in circumstances that may give rise to the need for, or changes in accounting estimates may include, for example, whether:

- the entity has engaged in new types of transactions
- terms of transactions have changes
- new events or conditions have occurred.

The implication of this standard for the public sector entities was an increased need for audit evidence, increasing in the amount of information requested from management.

Future impact of changes to accounting standards

The new standard, AASB 1060 – *General Purpose Financial Statements – Simplified Disclosures for For-Profit and Not-for-Profit Tier 2 Entities*, sets out a new, separate disclosure Standard to be applied by all entities (including public sector entities) that are reporting under Tier 2 of the Differential Reporting Framework in AASB 1053. This Standard has been developed based on a new methodology and principles to be used in determining the Tier 2 disclosures that are necessary for meeting user needs, to replace the current Reduced Disclosure Requirements (RDR) framework.

The reporting of revenue and income by not-for-profit entities under AASB 15 and AASB 1058, which were applied from 1 July 2019, has brought challenges in interpretation and implementation. It is expected that the AASB will propose further guidance and examples in January 2022 that have the potential to change current accounting practice.

Recommendation

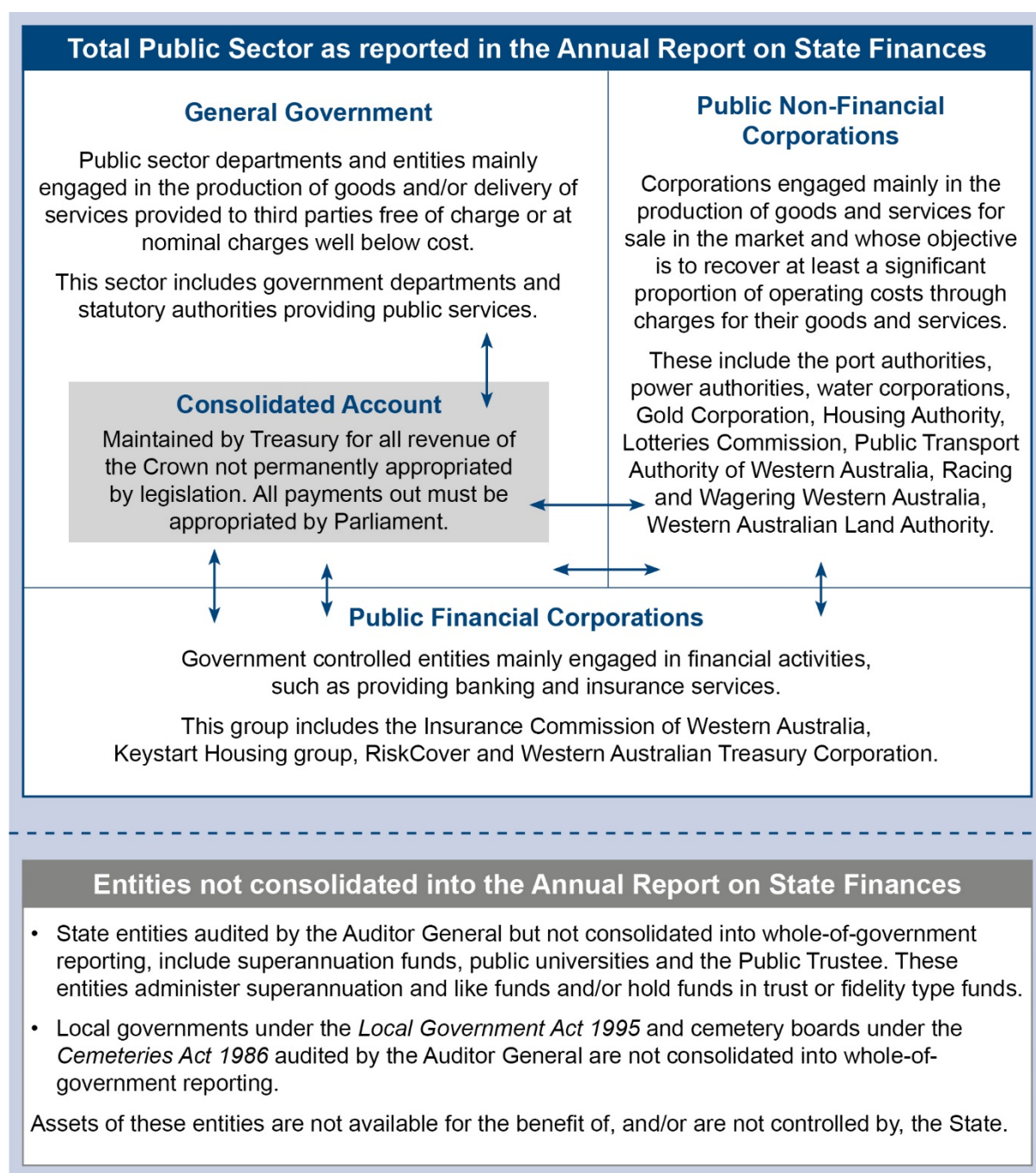
4. Treasury should continue to provide practical support to assist entities with the adoption of new accounting standards including guidance, training and templates to WA public sector. Entities should continue to make timely preparations for implementation of these new standards.

Audit of the Annual Report on State Finances

Introduction

The Annual Report on State Finances (ARSF) reports on the State's annual financial results, financial position and explains significant variations from the prior year the annual budget estimates. 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 10. In addition to this consolidated financial reporting, each entity also prepares and tables its own annual report that provides detail of its individual finances.



Source: OAG based on ARSF

Figure 10: Financial relationships between sectors of Western Australian WA government

Audit opinion

We issued a clear (unqualified) audit opinion and the Treasurer released the ARSF on 23 September 2021, meeting the statutory reporting deadline of 90 days after the end of the financial year, being 28 September 2021.

The ARSF opinion contained an Emphasis of Matter paragraph for a contingent liability of the State. This related to a claim of \$28 billion made against the State in respect to a legal dispute between the parties of a state agreement and the State Government. This is recognised in the financial report of the Department of Jobs, Tourism, Science and Innovation. Since signing, the High Court of Australia has decided the matter, finding in favour of the State of Western Australia.

Highlights:

- The general government sector realised a record operating surplus of \$5.8 billion in 2020-21 (Figure 11).
- Total public sector net debt at 30 June 2020-21 was \$33.5 billion and is \$2 billion lower than last year, representing a declining net debt. Total State borrowings have declined by \$3 billion.

WA's finances – selected key indicators

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

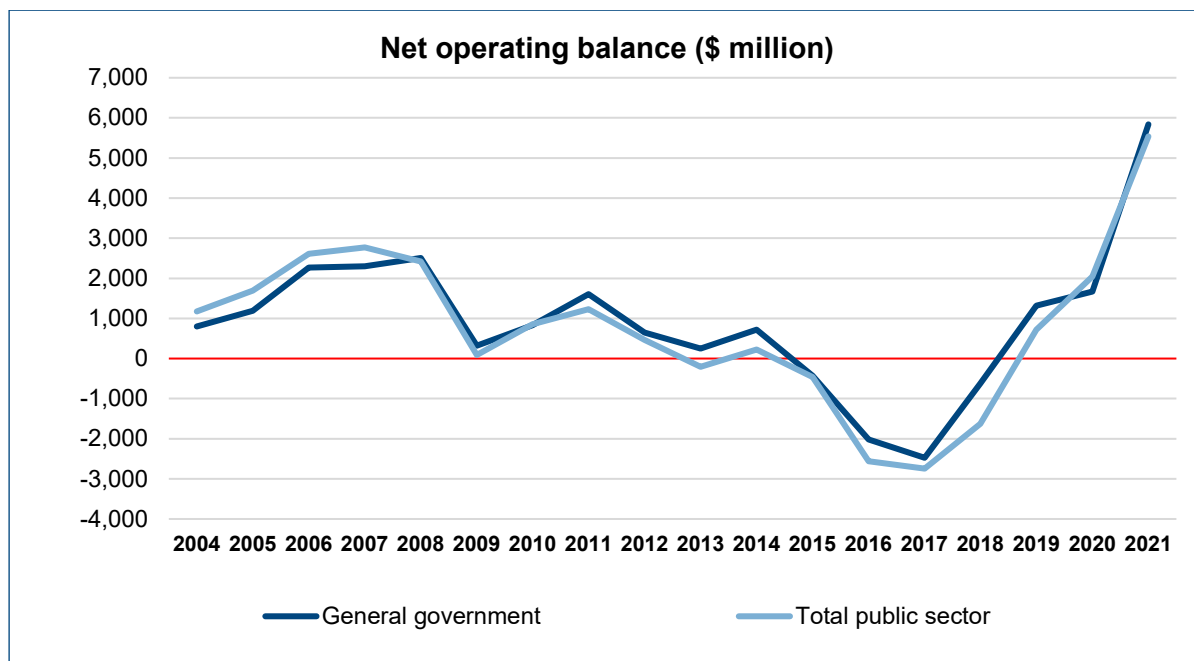
- net operating balance for general government and for the total public sector
- infrastructure renewal ratio
- borrowings and unfunded superannuation
- debt sustainability
- total borrowings and expense commitments
- current trend in leave liability balances.

Net operating balance

Figure 11 shows the net operating balance for the general government sector and the total public sector. An operating surplus indicates that the Government can deliver day-to-day services sustainably, financing them using revenue generated in that financial year.

A record general government operating surplus of \$5.8 billion was recorded in 2020-21 which flowed through to the total public sector, which recorded a \$5.5 billion operating surplus.

This result is even more impressive given the additional stimulus and other expenditure incurred in responding to COVID-19.



Source: OAG based on ARSF

Figure 11: Net operating balance from 2003-04 to 2020-21

Infrastructure renewal

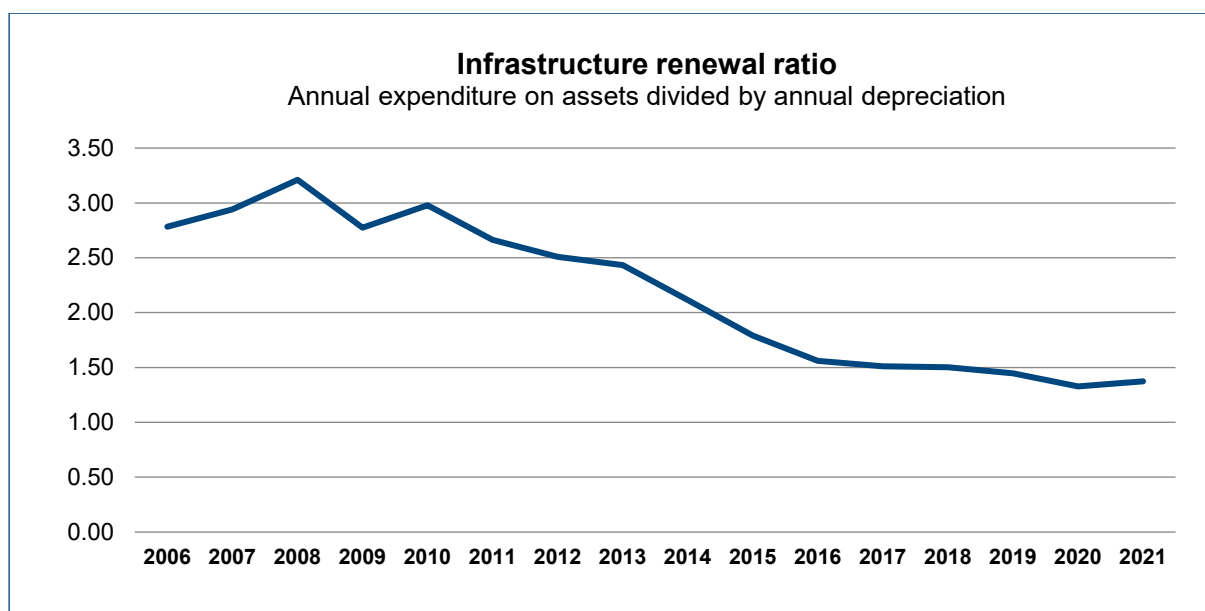
Governments face an ongoing challenge to maintain existing infrastructure and also develop and provide new assets to achieve desired social, economic and environmental outcomes.

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, electricity networks, hospitals and schools. These represent almost the entire balance of non-financial assets. In 2020-21 the value of non-financial assets for the total public sector increased from \$159.3 billion to \$165 million.

Figure 12 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 and whether expenditure on maintenance is more cost effective than replacement in the longer term.



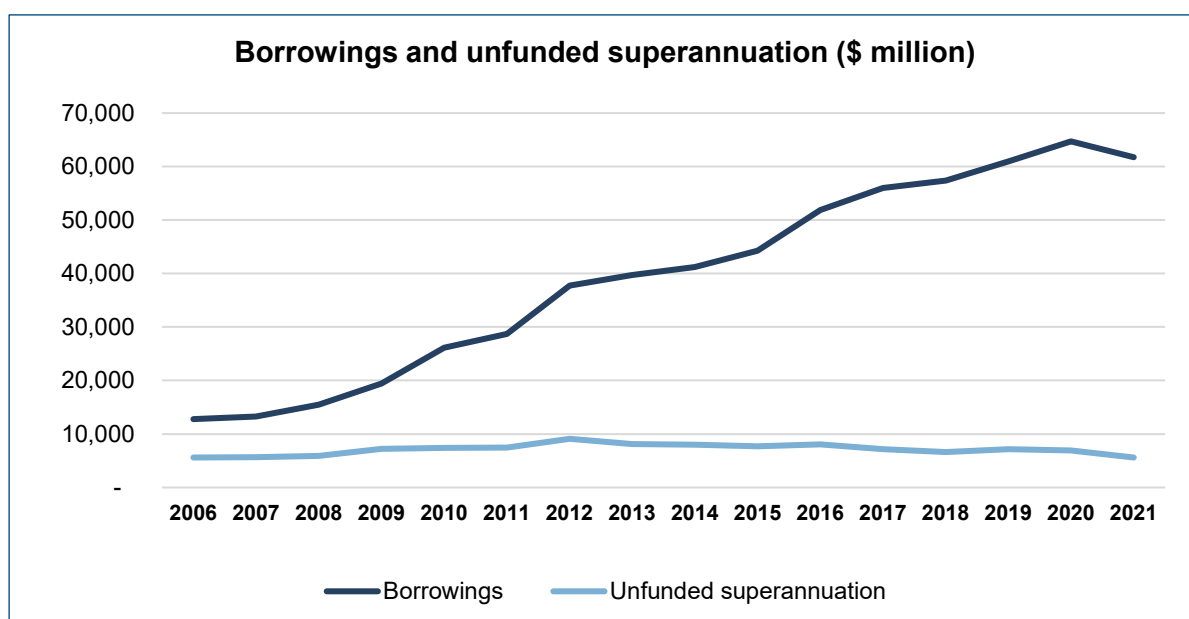
Source: OAG based on ARSF

Figure 12: Infrastructure renewal ratios from 2005-06 to 2020-21

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. The decrease in 2020-21 was mainly due to a \$3 billion decrease in borrowings.

Borrowings data in the following tables and charts recognises service concession liabilities according to the new accounting standard, AASB 1059 *Service Concession Arrangements: Grantors*. We reviewed additional note disclosures relating to service concession assets, service concession liabilities and other liabilities. The financial statements now reflect that service concession liabilities under the financial liability model are being recorded as a borrowing, and those under the 'Grant of a Right to the Operator' model are being recorded as an 'other liability'.

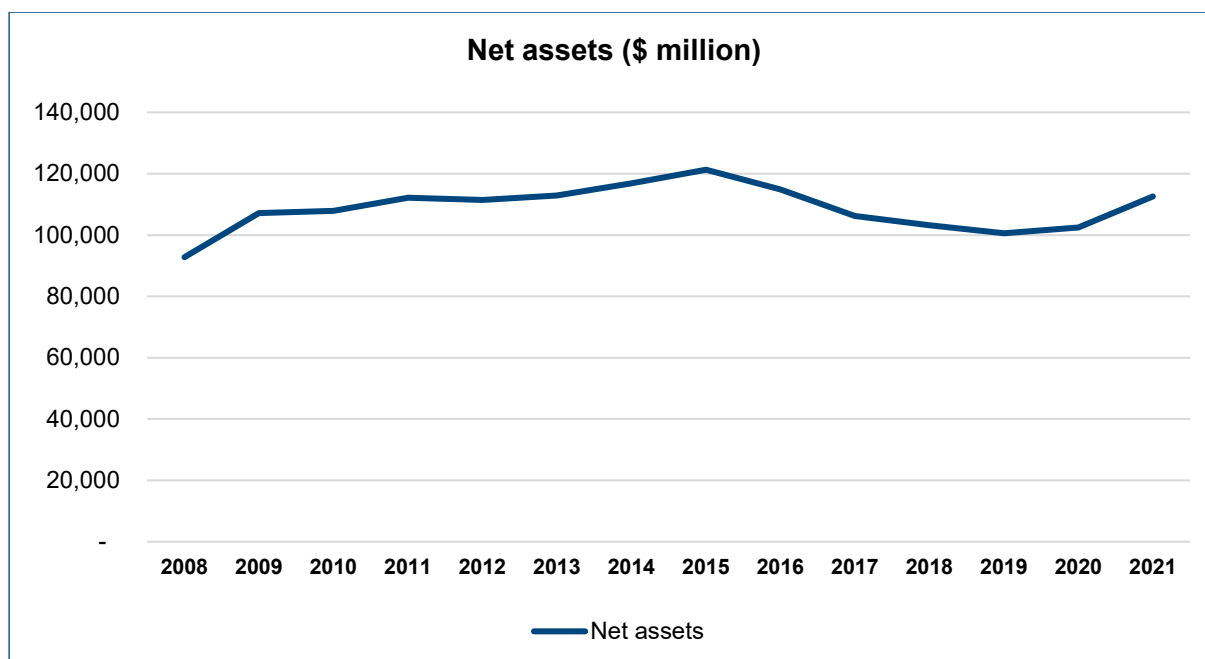


Source: OAG based on ARSF

Figure 13: Borrowings and unfunded superannuation from 2005-06 to 2020-21

Net assets

Net assets represent the total net worth (equity) of the State, total assets minus total liabilities. The total public sector net assets increased by \$10 billion in 2020-21. Figure 14 shows the movement in the State's net assets position. This was driven mostly by an approximate \$6 billion increase to total non-financial assets including the increasing value of land, property, plant and equipment as well as a decrease in other borrowings by approximately \$3 billion.



Source: OAG based on ARSF

Figure 14: Net assets from 2007-08 to 2020-21

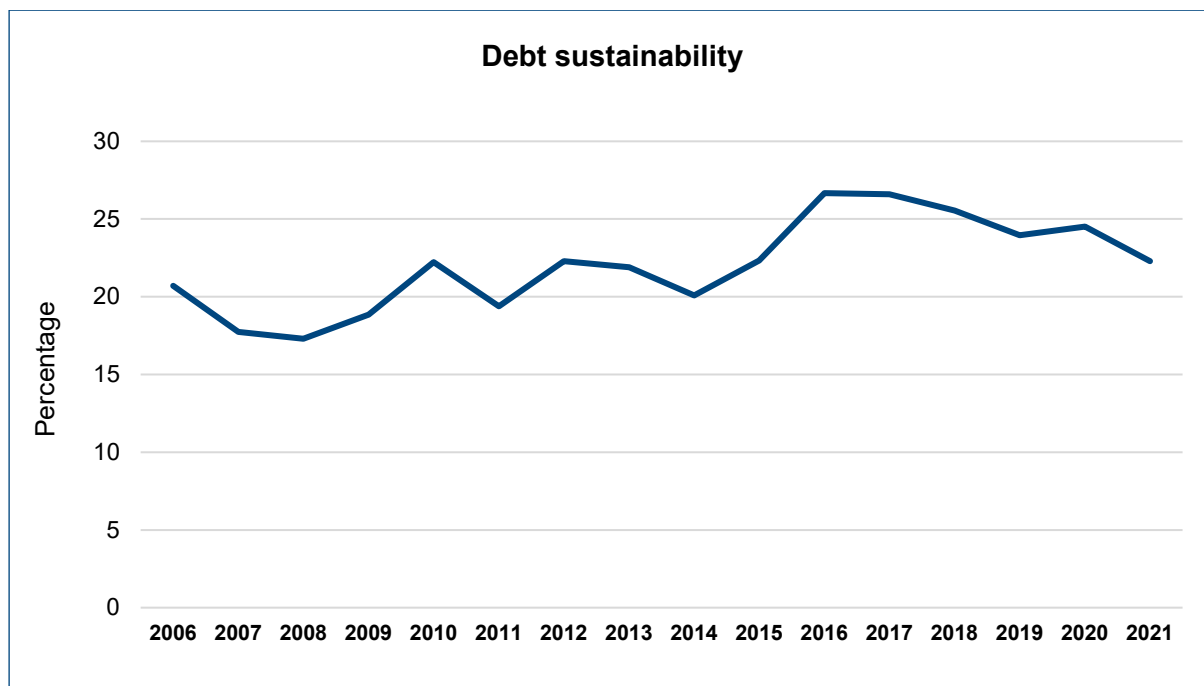
Debt sustainability

The ARSF contains important information on the State's net debt. Figure 15 reports another commonly used high level indicator relating to debt, the 'debt sustainability' ratio.

The State's public debt is considered sustainable if the Government is able to meet all its current and future payments obligations without any exceptional financial assistance or going into default. Public debt becomes unstable when it continues to increase as a proportion of that jurisdiction's production, or Gross State Product (GSP).

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 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.



Source: OAG based on ARSF and Australian Bureau of Statistics

Note: As ABS data for 2020-21 is not yet available, 2020-21 is based on a Treasury estimate of GSP.

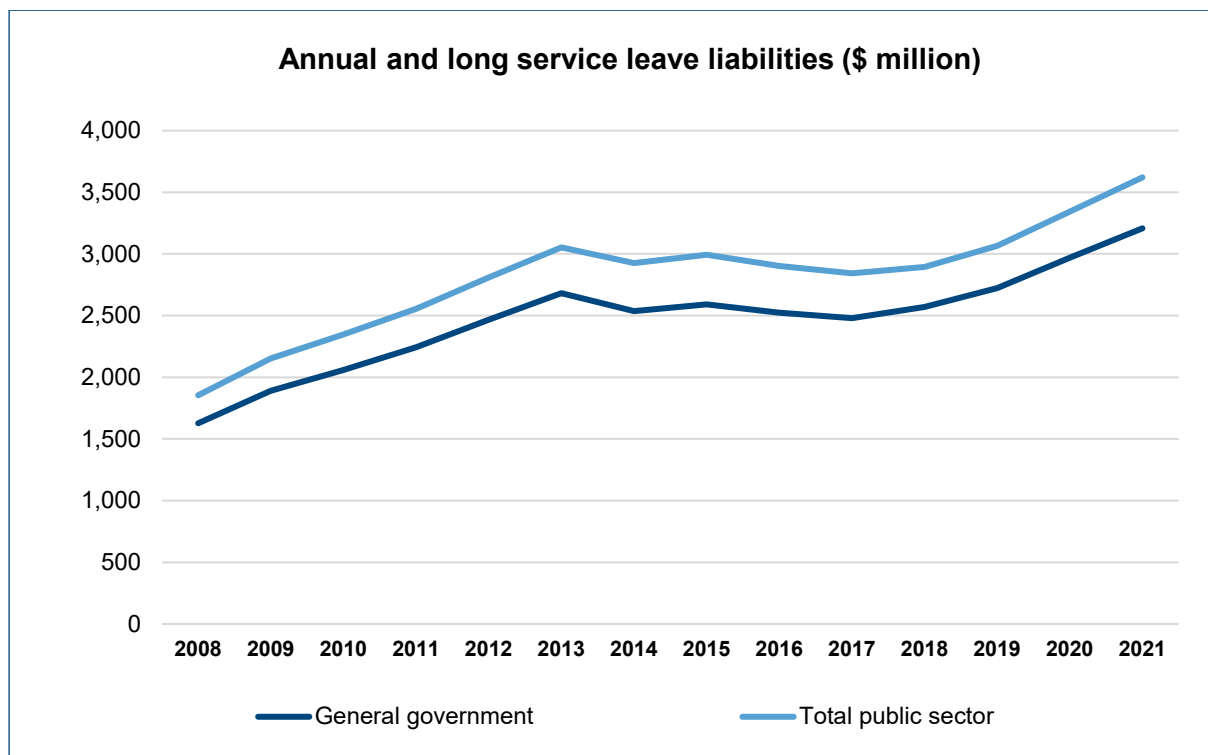
Figure 15: Debt sustainability - Borrowings and unfunded superannuation as a percentage of GSP from 2005-06 to 2020-21

Current trend in leave liability balances

The total public sector annual and long service leave liability owing to employees increased by \$277 million, taking the balance to \$3.3 billion at year end.

This increase is mainly due to employees not taking long service leave largely due to imposed travel restrictions arising from the COVID-19 pandemic. In front-line entities especially, staff had to postpone their leave in order to continue to provide essential services to the public. In some entities additional staff were engaged to ensure that an increased volume of services could be provided to meet demand and deliver the new services required. As the pandemic conditions ease, and the ability to recruit staff both, domestically and internationally improves, management at entities will need to review their leave practices and proactively manage their leave liabilities. Staff will be more in need of leave for their health and well-being. It is important for staff to take regular leave 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.

The increase is also partly due to casual employees' entitlement to long service leave. Under the *Long Service Act 1958*, casual employees who have been employed for more than 10 years and meet continuous service requirements may be entitled to long service leave. Where entities have been able to reliably measure obligations for long service leave for casual employees, these liabilities have been recognised for the first time. However, many entities have not been able to reliably measure long service leave obligations for current or former casual employees at the reporting date. A contingent liability for this issue was recognised in the 2020-21 ARSF.



Source: OAG based on ARSF

Figure 16: WA public sector annual and long service leave liabilities 2007-08 to 2020-21

Further selected significant financial transactions and financial ratios

Introduction

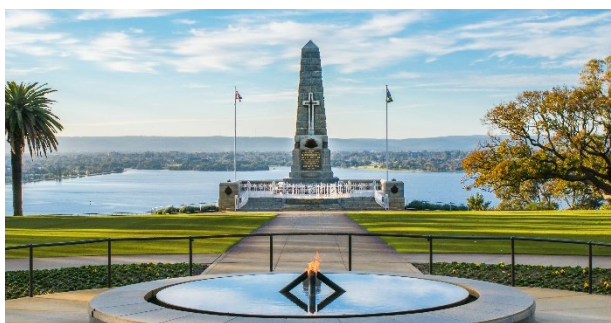
This section of the report provides information on selected significant financial transactions made in 2020-21 that we noted during our audits. Selected significant financial transactions pertaining to COVID-19 are not included in this report and we intend to include those in a subsequent report to Parliament. 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 a number of 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

- The **Annual Report on State Finances** reported a total of \$145.2 billion in total public sector assets measured at fair value at the end of 30 June 2021.
- The **Art Gallery of Western Australia** is in the process of developing its unused rooftop into the largest commercially available rooftop venue in Perth. The Elevate Project will feature an open-air sculpture walk, a new internal gallery space for exhibitions and events and 2 outdoor multi-purpose spaces. Additional work is also being performed on the ground floor foyer of the main gallery building. Capital works-in-progress costs incurred up to 30 June 2021 was \$9.6 million with commitment for a further \$2.3 million. Subsequent to 30 June 2021, an additional \$2.1 million was sought in October 2021 via a Treasurer's delegated authority in order to fund overruns on the rooftop as a result of latent conditions with the building and prolonged construction time as a result of the effects of the COVID-19 pandemic. This will bring expected total cost of the project to an approved capital budget of \$13.9 million. The projects are expected to be completed in 2021-22.
- Monuments at the **Botanic Gardens and Parks Authority** were revalued by Western Australian Land Information Authority and the Parks Authority recorded a revaluation increment of \$1.16 million in revaluation reserve at 30 June 2021.



Source: ThePonAek/ Shutterstock.com

Figure 17: Kings Park

- **Department of Biodiversity, Conservation and Attractions** administered Biological Assets, which includes native forest and sandalwood, decreased by \$56.1 million (54%) in 2020-21. This was due to lower than projected production volumes and a reduction of projected earnings before interest, tax, depreciation and amortisation.
- **Department of Water and Environmental Regulation's** current receivables increased by \$16 million (70%) in 2020-21 from the prior year primarily due to an increased loan receivable from WA Return Recycle Renew Ltd. On 1 October 2020, Containers for Change commenced in WA. As part of the container deposit scheme, the Department, acting for the Waste Authority, entered into a loan agreement with WA Return Recycle Renew Ltd to fund the initial cash flows needs of the container deposit scheme. The Department provided the loan of \$16 million to establish the collection network and manage operations. The funds for the loan were paid out of the Waste Avoidance and Resource Recovery Account.
- **Gold Corporation** recognised a fair value loss on financial assets at fair value through profit or loss of \$39.32 million compared to a gain of \$26.93 million in the prior year. This was entirely attributable to non-controlling interests in the Perth Mint Physical Gold Exchange-traded Fund. The movement from prior year represented a decrease in the Australian dollar gold price during the year up until 13 December 2020 when the Exchange-traded Fund was deconsolidated.
- **Health Support Services** disclosed the value of inventory held at year end was \$54.5 million, which is an increase of \$22.8 million (42%) from the previous year. The State Distribution Centre increased the level of consumable equipment at 30 June 2021 as a result of consumable items, including vaccine related inventory, in line with the COVID-19 response.
- **Library Board of Western Australia** engaged the services of independent valuers to perform a valuation of the full Library Collections and Works of Art portfolio for the year ended 30 June 2021. This resulted in a \$31 million (44%) increase in the value of the portfolio.
- The **Public Trustee** Common Account owns an investment property, comprising of land and office building, which is held for long term rental yields. The Fair Value Assessment has increased from \$36.2 million to \$42.3 million (17%). The increase of \$6.1 million is due to the continued contraction in capitalisation rates and the expected renewal of the Public Trustee's lease for a term of 10 years to commence from March 2022.

Liabilities and Contingent Liabilities

- The **Commissioner for Main Roads** received claims lodged by owners of property acquired for road construction purposes and services provided under roadwork contracts. A contingent liability of \$218 million (2020: \$231 million) at 30 June 2021 reflects the difference between the owners' claims and estimated settlement prices determined by Main Roads in accordance with independent valuations, and also includes claims that have been submitted by contractors in relation to services provided under roadwork contracts.
- **Department of Jobs, Tourism, Science and Innovation** disclosed a contingent liability of \$28 billion in the 2019-20 financial statements, relating to a legal dispute between Mineralogy Pty Ltd and International Minerals Pty Ltd, and the State Government. The Department's 2020-21 financial statements reflect developments during the year and the status of the legal dispute at the date of signing.

- **Department of Training and Workforce Development** is subject to 7 native title claims lodged with the National Native Title Tribunal that have been accepted for registration in the Federal Court. The financial effect of these claims cannot be reliably measured at this time. This is disclosed as a contingent liability in the financial statements at 30 June 2021.
- The **Insurance Commission of Western Australia's** Government Insurance Fund (GIF) saw an increase in \$190 million (30%) in outstanding claim liabilities from the prior year. This variation was mainly due to the inclusion of an allowance for historical child sexual abuse claim liability which was reliably determined for the first time.
- **Western Australian Treasury Corporation's** overall payables and other financial liabilities have decreased by \$894.3 million or 22% compared to 2019-20. This balance varies based on the value of trades entered into and client requirements. Payables and other financial liabilities are made up of accrued interest, foreign currency payables and other payables, such as forward money market investments outstanding.

Expenditure

- Other expenses for the **Aboriginal Affairs Planning Authority** increased by \$6.7 million due to provisions raised relating to the South West Native Title Settlement of \$5.6 million.
- An additional \$5.4 million was spent by the **Western Australian Electoral Commission** in 2020-21 to conduct the State election, mainly reflecting costs associated with the implementation of COVID-19 pandemic safety measures. This included additional casual staff in polling places, early voting and processing centres, increased use of postal voting and additional leasing costs for early voting centres.
- The revision of Treasurer's Instruction 1102 had a material impact on the **Department of Finance** during 2020-21, causing the net cost of services to increase by around \$1 billion. This was due to the reclassification of income from State government entities which was previously recorded as user fees and charges being amended to Income from State Government.
- **Department of Jobs, Tourism, Science and Innovation** increased its expenditure compared to the prior year due to a \$100 million grant to Edith Cowan University for relocation of campuses under the Perth City Deal.
- **Department of the Premier and Cabinet** is supporting and incurring expenditure on behalf of the Perth Casino Royal Commission. The Department received a total of \$3.69 million as appropriation and incurred \$3.76 million in expenditure to support the Perth Casino Royal Commission.
- **East Metropolitan Health Service's** patient support costs increased by \$22 million due to an upsurge in operating capacity at Armadale, Royal Perth and Bentley hospitals. There was also increased expenditure due to more activity on medical day unit procedures. Expenditure on pharmaceuticals, personal protective equipment, and increased pathology services also increased due to COVID-19.
- **Zoological Parks Authority** received a one-off Commonwealth restricted grant of \$1.77 million through Austrade. The grant provided financial support to the Zoo due to the loss of tourism revenue from the impacts of COVID-19. The Commonwealth has extended the grant program and the Zoo has received further funds in the 2021-22 year.



Source: EQRoy/ Shutterstock.com

Figure 18: Perth Zoo

Revenue

- The **Annual Report on State Finances** reported that royalty revenue increased by \$3.7 billion in 2021. This increase is largely due to higher mining royalties associated with a greater than expected iron ore price compared with the same period last year.
- **Bunbury Water Corporation** (Aqwest) received an amount of \$11.9 million from the State Government for construction of the Bunbury Water Resource Recovery Scheme. This includes a pipeline and water recycling facility to alleviate demand on the city's groundwater supplies.
- Developer contributions to **Busselton Water Corporation** increased by 72% during 2020-21. This increase was a result of the property development boom in the region, accelerated by government stimulus measures.
- **Commissioner of Main Roads** reported an increase of \$1.4 billion in grants from local government entities and other bodies compared to last year due to transfer of infrastructure assets. Revenue is recognised at fair value when the entity obtains control over the assets. Transferred assets from local government entities include:
 - Marmion Avenue (City of Wanneroo and City of Joondalup) – \$610.6 million
 - Ocean Reef and Gnaragara Roads Transfer - \$363.2 million
 - Curtin Avenue (City of Cottesloe) - \$309.6 million
 - Broome Cape Leveque Road (Shire of Broome) – \$148.5 million.
- **Construction Industry Long Service Leave Payments Board** reported an investment revenue increase of \$9.8 million (37%) and a net remeasurement change in fair value increase by \$100 million (234%) due to favourable recovery of underlying portfolio performance following the initial impacts of the COVID-19 pandemic.

- Commonwealth Government grants and contributions to **Department of Education** increased by \$95 million, due to Quality Schools funding under the National School Reform Agreement.
- **Department of Education** reinstated \$797.7 million in professional and project management fees charged by Department of Finance for construction projects previously written off through the revaluation process as Landgate does not include these fees in their valuations. The reinstatement resulted in a \$481.7 million gain and \$315.6 million increase in asset revaluation surplus.
- **Department of Water and Environmental Regulation** had a service appropriation increase of \$22 million (or 27.6%) from the prior year. This was mainly due to an increase in funding for Western Australia Recovery Plan programs, in response to the economic and social impacts of the COVID-19 pandemic, to support projects that protect the environment and create more than 1,000 conservation jobs across the State. Rural Water Deficiency and Community Water Supply funding also contributed to the increase.
- **Gold Corporation's** total revenue increased to \$26.3 billion (10%) from the prior year which was driven by increased demand and higher precious metal prices.
- In August 2020, the Bell case settlement was finalised and the **Insurance Commission of Western Australia** received a settlement of \$666.5 million in September 2020. Subsequent to the year end, a further \$37.1 million was received from the Bell case settlement which was unexpected.
- **Keystart Housing Scheme Trust** cash flows from loan repayments increased for the year ended 30 June 2021, as compared to 30 June 2020, increasing from \$639 million to \$1 billion (up 68%). This increase is due to the increased size of the loan book for the year, resulting in higher inflows of mortgage repayments, and an increase in the number of customers discharging their loans supported by improving property prices across the state.
- User fees and charges were lower for the **Public Transport Authority** than the previous year by \$29.0 million (17%) due to a decrease in the use of public transport largely as a consequence of COVID-19. Furthermore, other income decreased from the previous year by \$5.1 million (15%) mainly due to free parking provided to passengers at train stations.
- **Racing and Wagering Western Australia** recorded a 20% increase in the WA TAB (Totaliser Agency Board) margin during the year to \$373.7 million.
- Accommodation revenue for the **Rottnest Island Authority** increased by \$6.7 million (30%) to \$21.7 million in 2020-21 due to more accommodation bookings. This was due to the closure of the island for 3 months in 2019-20 while it was being funded to operate as a quarantine facility and was also due to an increase in WA residents holidaying within the State while WA borders were closed during 2020-21.



Source: bumphotographer/ Shutterstock.com

Figure 19: Rottnest Island

- **Water Corporation's** dividend paid to the Western Australian Treasury Corporation for 2020-21 was \$642 million, reflecting the previous year's deferred dividend, which had not been declared and had therefore been postponed as a COVID-19 relief to Water Corporation in 2019-20.

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 entities⁴.

Liquidity (current) ratio for 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 1 is generally accepted to show a low risk.

At 30 June 2021, 80% of entities had a current ratio above 1, similar to previous years.

Liquidity ratio	Percentage of entities			
	30/6/18	30/6/19	30/6/20	30/6/21
Greater than or equal to 1 (low risk)	82	83	81	84
Less than 1	18	17	19	16

Source: OAG based on audited financial statements in tabled annual reports

Table 8: Liquidity ratios of entities – 4 year trend

Financial result for 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 sound budgeting.

74 entities (58%) reported a surplus for 2020-21. The following table is a summary of the financial results of entities over the past 4 years.

Financial result	Percentage of entities			
	2017-18	2018-19	2019-20	2020-21
Surplus	70	59	54	58
Deficit	30	41	46	42

Source: OAG based on audited financial statements in tabled annual reports

Table 9: Financial results of entities – 4 year trend

⁴ Excluding subsidiaries and entities audited by special request.

Borrowings to assets ratio

While a relatively small number of entities have borrowings, 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	2017-18	2018-19	2019-20	2020-21	Trendlines
Corporatised entities					
Bunbury Water Corporation	0.3%	0.2%	6%	5%	
Fremantle Port Authority	33%	31%	29%	27%	
Horizon Power (Regional Power Corporation)	37%	39%	38%	41%	
Kimberley Ports Authority	21%	16%	15%	13%	
Mid West Ports Authority	7%	6%	5%	4%	
Pilbara Ports Authority	8%	5%	4%	3%	
Southern Ports Authority	10%	7%	4%	3%	
Synergy (Electricity Generation and Retail Corporation)	6%	2%	11%	11%	
Water Corporation	35%	35%	33%	32%	
Western Australian Land Authority	18%	19%	18%	15%	
Western Power (Electricity Networks Corporation)	67%	65%	64%	63%	
Statutory authorities					
Country Housing Authority	53%	51%	42%	31%	
Gold Corporation	23%	26%	24%	11%	
Housing Authority	28%	29%	32%	31%	
Metropolitan Redevelopment Authority	69%	47%	59%	0%	
Public Transport Authority of Western Australia	26%	24%	23%	25%	
South Metropolitan Health Service	6%	4%	0%	0%	
Western Australian Sports Centre Trust	19%	18%	17%	0%	
Western Australian Treasury Corporation	98%	97%	94%	95%	
Departments					
Department of Education	3%	4%	2%	2%	
Department of Finance	5%	4%	2%	2%	
Department of Fire and Emergency Services	8%	7%	7%	6%	
Department of Justice	15%	15%	0%	0%	

Source: OAG based on audited financial statements in tabled annual reports

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

Table 10: Borrowings to assets ratio of entities – 4 year trend

Dividends paid by public corporations to general government

Dividends paid by public corporations contributed \$1.3 billion to the general government sector financial results in 2020-21, compared to \$392 million in 2019-20.

Dividends paid in 2020-21 largely reflect dividends from the 2019-20 surpluses from those entities. Certain entities were requested not to declare any dividends at year end pertaining to the 2020-21 surpluses. One such entity disclosed this in a note to the accounts. It is anticipated such dividends will be declared and paid later in the 2021-22 financial year.

Each corporation operates under their own enabling legislation with 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 tax.⁵

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.

Dividends paid during a financial year generally include an interim dividend for that year and the final dividend from the preceding financial year. Therefore, dividends paid during a financial year do not wholly relate to the trading surplus of that year.

⁵ Public Corporation Dividend Payout Ratios - refer to page 240, 2020-21 Economic and Fiscal Outlook paper of the State Budget.

Entity name	2017-18		2018-19		2019-20		2020-21	
	Dividends paid (\$ m)	Surplus /deficit (\$ m)	Dividends paid (\$ m)	Surplus /deficit (\$ m)	Dividends paid (\$ m)	Surplus /deficit (\$ m)	Dividends paid (\$ m)	Surplus /deficit (\$ m)
Bunbury Water Corporation	1.9	2.6	1.9	3.1	2.6	2.5	2.1	1.4
Busselton Water Corporation	1.4	3.4	1.5	2.7	1.0	0.9	0.7	2.6
Forest Products Commission	3.6	23.2	1.0	1.4	0.0	-2.6	0.0	-7.9
Fremantle Port Authority	65.0	58.0	34.8	49.4	12.8	46.2	34.7	54.5
Gold Corporation *	12.8	6.7	5.0	7.9 *	6.0	31.3 *	23.5	39.2
Horizon Power	43.8	111.9	36.6	35.9	2.4	8.9	6.7	17
Insurance Commission of Western Australia	149.3	277.7	102.6	203.8	207.5	-2.9	0.0	1,127.6
Kimberley Ports Authority	0.4	0.1	0.0	-1.7	0.0	-6.8	0.0	-3.8
Mid West Ports Authority	18.1	10.2	12.4	14.7	4.1	11.8	0.0	16.3
Pilbara Ports Authority	220.7	180.6	150.9	126.3	31.7	131.7	111.9	160
Southern Ports Authority	43.2	24.6	26.2	22.9	6.4	39.0	39.0	45.4
Synergy	148.0	-45.7	18.2	-656.3	2.8	-26.7	0.0	-260.8
Water Corporation #	528	651	605	787	4	808	642	879
Western Australian Land Authority	53.8	6.8	37.9	6.8	8.4	2.3	168.6	8.8
Western Australian Treasury Corporation	9.2	24.4	18.2	29.2	21.9	28.5	21.4	22.2
Western Power #	419	351	298	366	80	391	300	391
TOTAL DIVIDENDS PAID	1,718.2		1,350.2		391.6		1,350.6	

Source: OAG based on audited annual financial statements of entities

* Owner of Gold Corporation surpluses – excludes surplus attributable to non-controlling interests

financial reports present whole numbers only

Table 11: Dividends paid by public corporations to general government

Quality and timeliness of reporting

Quality and accuracy

It was pleasing to see that the vast majority of financial statements and KPIs prepared for audit were generally of a satisfactory standard.

In our view this was mainly because this year, more entities' financial statements were reviewed by their audit committee or executive before being released for audit. Having established quality control practices which include review of the financial statements by an audit committee will greatly enhance the standard of financial report preparation.

The *Financial Management Act 2016* requires the tabling of annual reports within 90 days of the end of financial year. Entities must also table their reports while Parliament is sitting. Due to this year's last sitting date being 16 September, entities lost 2 days of preparation time and many annual reports were not ready for tabling.

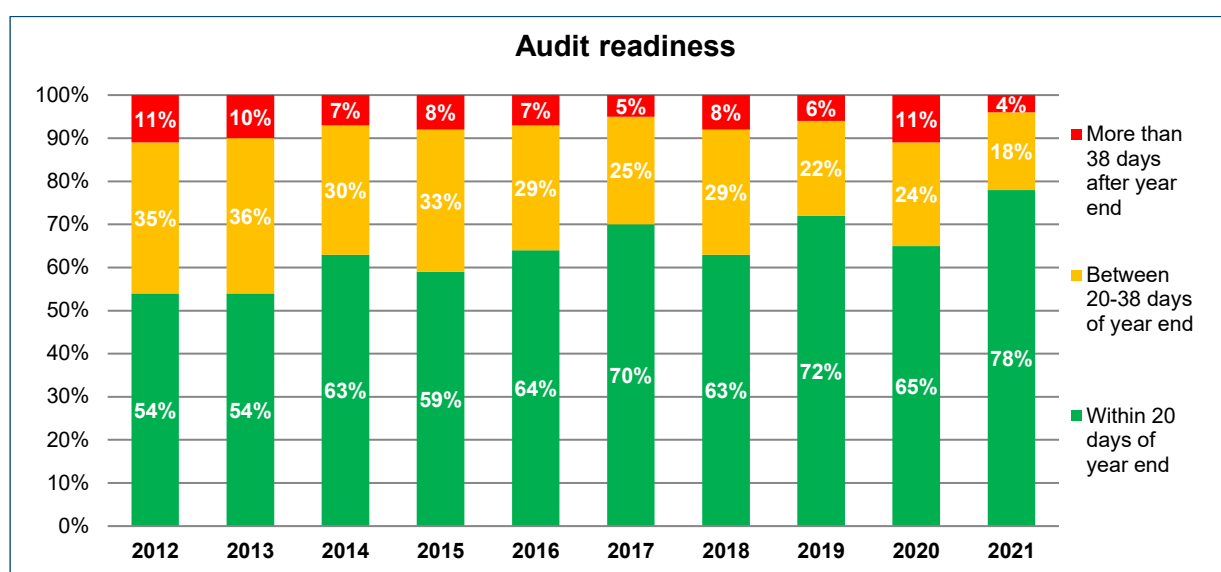
Ministers for 37 entities advised the Treasurer of the delay in a series of brief ministerial statements tabled in both Houses of Parliament.

Timeliness

Seventy-eight percent of entities were audit ready within 20 days of their financial year end. This is the highest reported by our Office for the last 10 years and represents a great achievement, given the challenges posed for many entities approaching year end, and given the overall impact of COVID-19. It reflects well on the dedication across the sector to accountability and transparency through prompt financial reporting. However, a not insignificant number of quality issues were evident in some of the submitted statements, including complex accounting matters not fully resolved.

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 (page 63) while Figure 20 summarises timeliness over the last 10 years.



Source: OAG

Figure 20: 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 12). Our definition of small is entities with total expenditure below \$41 million.

We congratulate the entities we rated as the top achievers for 2020-21.

Our assessment criteria include:

- clear opinion on financial statements, controls and KPIs
- 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 KPIs, 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
Child and Adolescent Health Service Commissioner of Main Roads Department of Mines, Industry Regulation and Safety Department of Finance Department of the Premier and Cabinet Department of Training and Workforce Development Department of Treasury Department of Water and Environmental Regulation Electricity Networks Corporation – Western Power Electricity Generation and Retail Corporation (Synergy) Government Employees Superannuation Board Insurance Commission of Western Australia Legal Aid Commission of Western Australia Mental Health Commission Mid West Ports Authority Office of the Director of Public Prosecutions South Metropolitan Health Service Southern Ports Authority Water Corporation Western Australian Treasury Corporation	Art Gallery of Western Australia, The Board of the Chemistry Centre (WA) Construction Industry Long Service Leave Payments Board Country Housing Authority Department of the Registrar, Western Australian Industrial Relations Commission Economic Regulation Authority Health and Disability Services Complaints Office Infrastructure WA Keep Australia Beautiful Council Law Reform Commission of Western Australia Legal Costs Committee Metropolitan Cemeteries Board Parliamentary Commissioner for Administrative Investigations Perth Theatre Trust Public Sector Commission Trustees of Public Education Endowment Western Australian Electoral Commission Western Australian Health Promotion Foundation Workcover Western Australia Authority Zoological Parks Authority

Source: OAG

Table 12: Top 20 best practice entities in 2 expenditure categories for 2020-21, listed in alphabetical order

Appendix 1: State government entities audited

Audit opinions issued to 147 State government entities between 31 May 2021 and 18 November 2021 are listed below. Qualified opinions and other notes appear after the entity's name.

The entities primarily had reporting dates of 30 June or 31 July 2021. 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 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		
Entity's submission date	Rating	Colour coding
On or before 19 July 2021	Good	Green
On or before 5 August 2021	Satisfactory	Yellow
After 5 August 2021	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 2020-21. Entities' names are listed alphabetically without 'The' in their statutory names.

Audit ready	Entity	Opinion issued
16/07/2021	Aboriginal Affairs Planning Authority, The	1/10/2021
8/07/2021	Agricultural Produce Commission	7/09/2021
12/07/2021	Animal Resources Authority	14/09/2021
n/a	Annual Report on State Finances	23/09/2021
16/07/2021	Board of the Art Gallery of Western Australia, The	13/09/2021
16/07/2021	Botanic Gardens and Parks Authority	3/09/2021
28/07/2021	Building and Construction Industry Training Board (Qualified opinion on controls. Details on page 12)	11/11/2021
30/07/2021	Bunbury Water Corporation	28/09/2021
19/07/2021	Burswood Park Board, The	31/08/2021
23/07/2021	Busselton Water Corporation	28/09/2021
16/07/2021	Chemistry Centre (WA)	27/08/2021
16/07/2021	Child and Adolescent Health Service	3/09/2021
27/07/2021	Coal Miners' Welfare Board of Western Australia, The	13/09/2021
27/07/2021	Combat Sports Commission	17/09/2021
19/07/2021	Commissioner for Children and Young People	6/09/2021
n/a	Commissioner for Equal Opportunity (1/07/2020 to 30/11/2020)	23/02/2021
16/07/2021	Commissioner of Main Roads	6/09/2021
16/07/2021	Construction Industry Long Service Leave Payments Board	30/08/2021

Audit ready	Entity	Opinion issued
16/07/2021	Corruption and Crime Commission (Qualified opinion on KPIs. Details on page 12)	21/10/2021
16/07/2021	Country Housing Authority	1/09/2021
16/07/2021	Department of Biodiversity, Conservation and Attractions	7/09/2021
27/07/2021	Department of Communities (Qualified opinion on controls. Details on page 12)	7/10/2021
16/07/2021	Department of Education	10/09/2021
16/07/2021	Department of Finance	31/08/2021
19/07/2021	Department of Fire and Emergency Services	2/09/2021
21/07/2021	Department of Health (Qualified opinion on controls. Details on page 13)	14/09/2021
23/08/2021	Department of Jobs, Tourism, Science and Innovation	1/10/2021
19/07/2021	Department of Justice	10/09/2021
30/07/2021	Department of the Legislative Assembly	6/09/2021
30/07/2021	Department of the Legislative Council	6/09/2021
20/07/2021	Department of Local Government, Sport and Cultural Industries (Qualified opinion on financial statements and controls. Details on page 13)	18/10/2021
20/07/2021	Department of Mines, Industry Regulation and Safety	1/09/2021
16/07/2021	Department of Planning, Lands and Heritage	1/10/2021
16/07/2021	Department of the Premier and Cabinet	3/09/2021
19/07/2021	Department of Primary Industries and Regional Development (Qualified opinion on financial statements and controls. Details on page 14)	4/11/2021
9/07/2021	Department of the Registrar, Western Australian Industrial Relations Commission	13/08/2021
16/07/2021	Department of Training and Workforce Development	31/08/2021
16/07/2021	Department of Transport	15/09/2021
16/07/2021	Department of Treasury	21/09/2021
15/07/2021	Department of Water and Environment Regulation	23/09/2021
13/07/2021	Disability Services Commission (Qualified opinion on controls. Details on page 14)	7/09/2021
16/07/2021	East Metropolitan Health Service (Qualified opinion on controls. Details on page 14)	28/09/2021
15/07/2021	Economic Regulation Authority	26/08/2021
n/a	Edith Cowan University Subsidiaries: Australian Pathway Education Group Edith Cowan Accommodation Holdings Pty Ltd Edith Cowan University Hold Trust	18/11/2021 19/10/2021 19/10/2021
16/07/2021	Electricity Generation and Retail Corporation – Synergy	27/08/2021

Audit ready	Entity	Opinion issued
n/a	Subsidiaries:	
n/a	South West Solar Development Holdings Pty Ltd	27/08/2021
	Synergy Renewable Energy Development Pty Ltd	27/08/2021
16/07/2021	Electricity Networks Corporation – Western Power	2/09/2021
16/07/2021	Energy Policy WA	28/09/2021
16/08/2021	Fire and Emergency Services Superannuation Board	22/09/2021
29/07/2021	Forest Products Commission	8/09/2021
15/07/2021	Fremantle Port Authority	1/09/2021
10/08/2021	Gaming and Wagering Commission of Western Australia (Qualified opinion on controls. Details on page 15)	18/11/2021
16/07/2021	Gascoyne Development Commission	6/09/2021
22/07/2021	Gold Corporation	13/09/2021
16/07/2021	Goldfields-Esperance Development Commission	6/09/2021
28/07/2021	Government Employees Superannuation Board	3/09/2021
19/07/2021	Governor's Establishment	15/09/2021
16/07/2021	Great Southern Development Commission	6/09/2021
11/07/2021	Health and Disability Services Complaints Office	12/08/2021
16/07/2021	Health Support Services	3/09/2021
16/07/2021	Heritage Council of Western Australia	24/07/2021
31/08/2021	Housing Authority (Qualified opinion on controls. Details on page 15)	12/11/2021
n/a	Subsidiaries: Goldmaster Enterprises Pty Ltd	3/11/2021
n/a	Homeswest Loan Scheme Trust	5/10/2021
n/a	Keystart Bonds Limited	5/10/2021
n/a	Keystart Housing Scheme Trust	5/10/2021
n/a	Keystart Loans Limited	5/10/2021
n/a	Keystart Support Trust	5/10/2021
16/07/2021	Infrastructure WA	24/08/2021
16/07/2021	Insurance Commission of Western Australia	13/09/2021
13/07/2021	Keep Australia Beautiful Council (W.A.)	22/09/2021
16/07/2021	Kimberley Development Commission	7/09/2021
17/08/2021	Kimberley Ports Authority	9/09/2021
1/07/2021	Landcare Trust	19/08/2021
16/07/2021	Law Reform Commission of Western Australia	10/09/2021
15/07/2021	Legal Aid Commission of Western Australia	31/08/2021
30/07/2021	Legal Contribution Trust (01/01/2021 – 30/06/2021)	16/09/2021
16/07/2021	Legal Costs Committee	10/09/2021
19/07/2021	Library Board of Western Australia, The	14/09/2021
26/07/2021	Local Health Authorities Analytical Committee	15/09/2021
16/07/2021	Lotteries Commission	1/09/2021

Audit ready	Entity	Opinion issued
19/07/2021	Mental Health Commission	1/10/2021
9/07/2021	Metropolitan Cemeteries Board	12/08/2021
16/07/2021	Metropolitan Redevelopment Authority	1/09/2021
16/07/2021	Mid West Development Commission	8/09/2021
16/07/2021	Mid West Ports Authority	26/08/2021
14/07/2021	Minerals Research Institute of Western Australia	9/08/2021
19/07/2021	National Trust of Australia (W.A.), The	1/09/2021
28/07/2021	North Metropolitan Health Service (Qualified opinion on controls. Details on page 15)	24/09/2021
19/07/2021	Office of the Director of Public Prosecutions	10/09/2021
13/07/2021	Office of the Information Commissioner	14/09/2021
1/09/2021	Office of the Inspector of Custodial Services	28/09/2021
16/07/2021	Parliamentary Commissioner for Administrative Investigations	24/09/2021
12/07/2021	Parliamentary Inspector of the Corruption and Crime Commission	30/08/2021
3/08/2021	Parliamentary Services Department	6/09/2021
23/07/2021	PathWest Laboratory Medicine WA (Qualified opinion on controls. Details on page 15)	21/09/2021
16/07/2021	Peel Development Commission	6/09/2021
16/07/2021	Perth Theatre Trust	17/09/2021
16/07/2021	Pilbara Development Commission	2/09/2021
19/07/2021	Pilbara Ports Authority Subsidiary: Hedland Maritime Initiative Pty Ltd	31/08/2021 19/10/2021
16/07/2021	Police Service	3/09/2021
10/09/2021	Professional Standards Council	4/10/2021
16/07/2021	Public Sector Commission	27/08/2021
5/08/2021	Public Transport Authority of Western Australia (Qualified opinion on controls. Details on page 15)	13/09/2021
5/08/2021	Public Trustee	9/09/2021
16/07/2021	Quadriplegic Centre (Qualified opinion on controls. Details on page 15)	13/08/2021
31/07/2021	Queen Elizabeth II Medical Centre Trust, The	3/09/2021
20/09/2021	Racing and Wagering Western Australia (01/08/2020 – 31/07/2021) (Qualified opinion on controls. Details on page 16)	19/10/2021
23/08/2021	Racing Penalties Appeal Tribunal of Western Australia	4/11/2021
29/07/2021	Regional Power Corporation – Horizon Power	8/09/2021
19/07/2021	Rottnest Island Authority	14/09/2021
19/07/2021	Rural Business Development Corporation	10/09/2021
23/07/2021	School Curriculum and Standards Authority	23/09/2021

Audit ready	Entity	Opinion issued
22/07/2021	Small Business Development Corporation	27/08/2021
16/07/2021	Southern Ports Authority	8/09/2021
16/07/2021	South Metropolitan Health Service	8/09/2021
16/07/2021	South West Development Commission	2/09/2021
18/06/2021	State Supply Commission	10/08/2021
23/07/2021	Swan Bells Foundation Incorporated	7/10/2021
12/07/2021	Trustees of Public Education Endowment	31/08/2021
n/a	University of Western Australia, The Subsidiaries: Perth International Arts Festival Limited Subsidiaries' financial statements for year ended 31/12/2020: UWA Accommodation Services Pty Ltd	6/10/2021 9/06/2021
23/07/2021	WA Country Health Service	14/09/2021
15/07/2021	Water Corporation	27/08/2021
8/07/2021	Western Australian Building Management Authority	23/08/2021
16/07/2021	Western Australian Coastal Shipping Commission	13/09/2021
16/07/2021	Western Australian Electoral Commission	16/08/2021
16/07/2021	Western Australian Energy Disputes Arbitrator	16/08/2021
25/08/2021	Western Australian Greyhound Racing Association (01/08/2020 - 31/07/2021) (Qualified opinion on financial statements. Details on page 16)	22/10/2021
16/07/2021	Western Australian Health Promotion Foundation	1/09/2021
16/07/2021	Western Australian Land Authority	3/09/2021
19/08/2021	Western Australian Land Information Authority	29/09/2021
16/07/2021	Western Australian Meat Industry Authority	27/08/2021
16/07/2021	Western Australian Museum, The	13/09/2021
16/07/2021	Western Australian Planning Commission	1/10/2021
3/08/2021	Western Australian Sports Centre Trust (Qualified opinion on controls. Details on page 16)	29/09/2021
16/07/2021	Western Australian Tourism Commission	3/09/2021
14/07/2021	Western Australian Treasury Corporation	30/08/2021
16/07/2021	Wheatbelt Development Commission	6/09/2021
15/07/2021	WorkCover Western Australia Authority	3/09/2021
16/07/2021	Zoological Parks Authority	8/09/2021

Source: OAG

Request audits – audits requested by the Treasurer under the *Auditor General Act 2006* do not have a statutory date for submitted financial statements

The Delegate of the Queen Elizabeth II Medical Centre Trust	3/09/2021
Tertiary Institutions Service Centre Ltd	2/11/2021

Source: OAG

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 Government funding, grants or other legislation. This service to entities ensures that they meet conditions of their funding agreements in a timely manner and are able to receive ongoing funding or apply for future funding under existing or new agreements.

In addition to the 33 certifications listed below, we also issued 54 certifications for projects funded under the Royalties for Regions program. They are listed in Appendix 3, commencing on page 71.

The following certifications were completed between 31 May 2021 and 18 November 2021. Unless stated, the certifications were for the year ended 30 June 2021.

Entity	Certification relates to	Date issued
Curtin University	Higher Education Funding Act 1988: Higher Education Research Data Collection for year ended 31/12/2020	2/07/2021
Department of Health	National Health Funding Pool Act 2012 (WA): Western Australian State Pool Account	8/09/2021
East Metropolitan Health Service	Road Trauma Trust Account funding: <ul style="list-style-type: none"> WA Injury Prevention – State Trauma Registry PARTY Program 	17/11/2021
Edith Cowan University	Higher Education Funding Act 1988: Higher Education Research Data Collection for year ended 31/12/2020	7/07/2021
Electricity Generation and Retail Corporation	Compliance with Part 2, Divisions 1 and 2 of the Electricity Corporations (Electricity Generation and Retail Corporation) Regulations 2013 and with the Segregation and Transfer Pricing Guidelines 2020 throughout the year ended 30 June 2021	14/10/2021
	Compliance with Electricity Generation and Retail Corporation Regulatory Scheme as evaluated against the requirements of Part 3 Division 1 of the Electricity Corporations (Electricity Generation and Retail Corporation) Regulations 2013 and with the Electricity (Standard Products) Wholesale Arrangements 2014 throughout the year ended 30 June 2021	14/10/2021
Family Court of Western Australia	Family Court Act 1975: Statement of income and expenditure under the Commonwealth Government-state agreement for the year ended 30 June 2020	29/09/2021
Fire and Emergency Services Superannuation Board	Australian Prudential Regulation Authority (APRA): Independent Auditor's report on APRA reporting forms and Reasonable Assurance report on compliance	22/09/2021
	APRA: Limited assurance report on compliance by Independent Auditor	22/09/2021
	Australian Securities and Investments Commission: Auditor's report on Australian	22/09/2021

Entity	Certification relates to	Date issued
	Financial Services licensee (Form FS71) under the <i>Corporations Act 2001</i>	
	Trustee entity's financial statements	22/09/2021
Mental Health Commission	Road Trauma Trust Account funding: Alcohol Interlocks Assessment and Treatment Services	22/10/2021
Murdoch University	Higher Education Funding Act 1988: Higher Education Research Data Collection for year ended 31/12/2020	25/06/2021
Police Service	Road Trauma Trust Account funding: <ul style="list-style-type: none"> • Increase Breath and Drug Testing • Expansion of Drug Testing Capabilities • Roadside Alcohol and Drug Testing – Election Commitment • Breath and Drug Bus • Speed Camera Replacement Program • Expansion of Automated Traffic Enforcement Strategy • Infringement Management Operations (IMO) Administration Costs (Including Camera Maintenance) 	5/11/2021
Public Transport Authority	National Partnership Agreement on Land Transport Infrastructure Projects for the year ended 30 June 2020: <ul style="list-style-type: none"> • Metronet: Denny Avenue Level Crossing Removal Project • Metronet: Business Case Development Project • Metronet: Thornlie-Cockburn Link Project • Metronet: Yanchep Rail Extension • Mandurah Station Parking Bays Project • Bellevue Depot Relocation Project • Karel Avenue Bridge Over Rail Project • Lakelands Business Case Project • Lakelands Station Delivery Project • Nicholson Road Grade Separation Project 	9/06/2021
The University of Western Australia	Higher Education Funding Act 1988: Higher Education Research Data Collection for year ended 31/12/2020	30/07/2021
Western Australian Electoral Commission	Electoral Act 1907: Electoral Distribution Commissioners' Expenses for the period 01/07/2020 – 30/06/2021	7/09/2021

Source: OAG

Appendix 3: Royalties for Regions certifications

Clear certification opinions were issued for the annual 2020-21 Statements of Receipts and Payments of 54 approved projects funded under the *Royalties for Regions Act 2009*.

The Department of Primary Industries and Regional Development is responsible for the current governance processes for Royalties for Regions funded projects with State government entities. Entities are required to provide a cumulative expenditure report in March each year, detailing expenditure to date for the current year for all projects of that entity. Submitting an audited annual report for each project and a final report on completion of the project to the Department of Primary Industries and Regional Development are still requirements for every Royalties for Regions project.

We issued audit opinions on each Royalties for Regions project's Statement of Receipts and Payments listed below. The opinions were that, in all material respects, the funding was used as approved by the existing memorandum of understanding or in accordance with the new terms and conditions agreed when the funding was approved.

Delivering entity	Royalties for Regions approved projects	Date certification issued
Regional Community Services Fund		
Department of Justice	Bunbury Regional Prison	30/09/2021
	Community Safety Network – Regional Radio Network	30/09/2021
	Enhanced Driver Training and Education for Regional and Remote Communities	30/09/2021
	Kimberley Juvenile Justice Strategy	30/09/2021
	Regional Youth Justice Strategy Kimberley and Pilbara Expansion	30/09/2021
Department of Premier and Cabinet	Collie Delivery Unit	25/10/2021
	Dampier Peninsula Project	
	Fitzroy River Management Plan	
	Plan for Our Parks - Indigenous Land Use Agreements	
	Remote Aboriginal Communities COVID-19 Emergency Relief Fund	
	Wellington Dam Mural and Collie Art Trail	
	Yawuru Strategic Economic Development	
Department of Training and Workforce Development	South Regional TAFE Esperance New Replacement Campus	21/09/2021
	TAFE Regional Subsidies	21/09/2021
Department of Water and Environmental Regulation	Healthy Estuaries WA	30/09/2021
	Regional Estuaries Initiative	30/09/2021
	Revitalising Waterways of Geographe Bay #2	30/09/2021
	Watering WA	30/09/2021
Library Board of Western Australia	Better Beginnings – Family Literacy Program	12/11/2021

Delivering entity	Royalties for Regions approved projects	Date certification issued
Mental Health Commission	Alcohol and Drug Residential Rehabilitation and Low Medical Withdrawal Beds in the South West Region of Western Australia	13/10/2021
	Community Subacute and Non-acute Mental Health Services in Karratha and Bunbury	
	Geraldton Step Up/Step Down	
	Mental Health Step Up/Step Down Facilities - Kalgoorlie/Goldfields	
	Northwest Drug and Alcohol Support Program Kimberley	
	Sub-acute Mental Health Services in Karratha	
	Sub-acute Mental Health Services in Bunbury	
North Metropolitan Health Service	Find Cancer Early	30/09/2020
Perth Theatre Trust	Albany Entertainment Centre	8/11/2021
Police Service	Regional Traffic Enforcement Unit	6/10/2021
	WA Police Regional Incentive Scheme	6/10/2021
Small Business Development Corporation	Collie Tourism Readiness and Economic Stimulation	4/10/2021
Western Australian Land Authority (Development WA)	Albany Middleton Beach Stage 2	25/10/2021
	Batavia Coast Marina Stage 2 Remediation	
	South Hedland Town Centre Revitalisation Stage 2	
	Transform Peel Phase 1: Peel Business Park, Nambeelup	
	Transforming Bunbury's Waterfront – Stage 3 Business Case Development	
	Transforming Bunbury's Waterfront – Stage 2 (Casuarina Drive)	
	Collie Eco-Concrete Feasibility Study	
Western Australian Museum	Gwoonwardu Mia Cultural Centre Carnarvon	12/11/2021
	Regional Collections Development Program (Regional Museum Grants)	12/11/2021
Western Australian Tourism Commission	Brand WA – Destination Marketing	11/10/2021
	Brand WA – Event Tourism	11/10/2021
	Aboriginal Tourism Initiatives	11/10/2021
Regional Infrastructure and Headworks		
	Brand WA 2	11/10/2021
	Collie Futures Fund	11/10/2021

Delivering entity	Royalties for Regions approved projects	Date certification issued
Department of Jobs, Tourism, Science and Innovation	Science and Agribusiness Connect Program	11/10/2021
	Renewable Hydrogen Fund	11/10/2021
	Collie Emergency Services Vehicle Manufacturing	11/10/2021
Police Service	Air-conditioning at Five Multifunctional Remote Policing Facilities	6/10/2021
	Capel Police Station	6/10/2021
	Community Safety Network – Regional Radio Network Recurrent	6/10/2021
	Multi-functional Policing Facilities Air-conditioning System Replacement	6/10/2021
	Police Radio Network – Commonwealth Legislated Radio Frequency Change	6/10/2021
Racing and Wagering Western Australia	Support for Racecourse Infrastructure Grants Program	7/10/2021

Source: OAG

Appendix 4: Local government entities audited

For 2019-20 we were responsible for auditing the financial statements of 132 local government entities. The results of 117 entities were tabled in Parliament on 16 June 2021 in our report titled. Below are the results for 13 of the outstanding entities, with the remaining 2 (Shires of Wiluna and Yalgoo) still to be completed. Of the 132 local government audits we performed for 2019-20, the following 13 were part of a group of audits which were delayed while the entities provided required outstanding information.

Local government entities Auditor's report on 2019-20 financial reports completed since 31 May 2021	Opinion issued	Elapsed days since 30 June 2020
City of Nedlands – Clear opinion	17/06/2021	352
City of Subiaco – Clear opinion	13/07/2021	378
Pilbara Regional Council – Clear opinion	14/07/2021	379
Shire of Boddington – Clear opinion	1/10/2021	458
Shire of Kojonup – Clear opinion	19/08/2021	415
Shire of Laverton – Clear opinion	4/06/2021	339
Shire of Merredin – Clear opinion	22/06/2021	357
Shire of Murchison – Clear opinion	16/08/2021	412
Shire of Peppermint Grove – Clear opinion	4/06/2021	339
Shire of Perenjori – Clear opinion	8/07/2021	373
Shire of Boyup Brook - Qualified opinion As disclosed in note 25 to the financial statements, on 7 May 2020 the Shire acquired 100% control and conduct of the Rylington Park Agricultural Operations from the Rylington Park Management Committee Incorporated. As part of this transfer the Shire acquired \$480,894 of biological assets (sheep). It has not been possible to obtain sufficient and appropriate evidence about the carrying value of biological assets, other revenue, and the Current and Operating Surplus ratios reported in note 32, because we are unable to verify the existence and number of sheep at the date of transfer and at the end of the reporting period. Consequently, we are unable to determine whether any adjustments to these amounts and associated disclosures are necessary.	20/09/2021	447
Shire of Narrogin – Qualified opinion The Shire's municipal bank account reconciliations included unreconciled balances throughout the financial year, including an unreconciled balance of \$5,425 at year end 30 June 2020. As of the date of the report, management has continued to investigate but were not able to satisfactorily explain this unreconciled balance. The nature of the matter is considered qualitatively material, but not considered to be pervasive throughout the financial statements based on the audit evidence obtained to date and current information provided by management.	14/06/2021	349

Local government entities Auditor's report on 2019-20 financial reports completed since 31 May 2021	Opinion issued	Elapsed days since 30 June 2020
<p>Shire of Sandstone – Qualified opinion</p> <p>The Shire's roads and footpath's infrastructure reported at values of \$36,803,492 and \$75,711 respectively in Note 9 of the annual financial report, were last valued in June 2014. Because the assets have not been revalued with sufficient regularity or in accordance with Regulation 17(A)(b) of the Local Government (Financial Management) Regulations 1996, we are unable to determine whether these reported values represent fair value. Additionally, I am unable to determine whether there may be any consequential impact on the related balances and disclosures of Revaluation Surplus in the Statement of Financial Position and Statement of Changes in Equity and Note 11, Other Comprehensive Income in the Statement of Comprehensive Income and Note 16 Total Assets Classified by Function and Activity, or whether any adjustments to these amounts are necessary.</p>	15/07/2021	380

Source: OAG

Local government entities certifications completed since 31 May 2021	Date
Shire of Murchison – <i>National Land Transport Act 2014</i> : Roads to Recovery Funding for the year ended 30 June 2020	16/08/2021
Shire of Wagin – <i>National Land Transport Act 2014</i> : Roads to Recovery Funding for the year ended 30 June 2020	6/07/2021

Source: OAG

Appendix 5: Specific purpose monies better practice principles

The following table shows the control principles on which our audit focused. They cover a number of sound practices and controls related to the management of specific purpose monies and are not intended as an exhaustive list.⁶

Specific purpose monies	Focus area	What we expected to see
Policy and procedures	Identification and classification of funds	<ul style="list-style-type: none"> • An outline of how specific purpose monies and assets are identified, classified and accounted for in the financial system. • Requirements for establishing and closing accounts. • Documentation supporting the establishment, nature and categorisation of each account.
	Expenditure controls	<ul style="list-style-type: none"> • Controls established to ensure monies are appropriately spent and monitored. • Purpose of accounts are clearly defined to avoid potential misuse of monies.
	Recordkeeping	<ul style="list-style-type: none"> • Recordkeeping requirements are specified to ensure that adequate evidence is maintained to demonstrate that monies are spent in accordance with the intended purpose.
	Monitoring of fund balances	<ul style="list-style-type: none"> • Requirements for account receipts, payments and closing balances to be regularly reconciled and independently reviewed. • Regular reporting of account balances and reconciliations to those charged with governance. • An outline of how unspent and overspent accounts are to be dealt with.
	Roles and responsibilities	<ul style="list-style-type: none"> • Clearly defined roles and responsibilities for key processes.
	Compliance with policies and procedures	<ul style="list-style-type: none"> • Mechanisms in place to ensure policies and procedures are regularly and effectively communicated to staff. • Processes in place for non-compliance with policies and procedures.
	Relevant legislation	<ul style="list-style-type: none"> • References to appropriate sections in the <i>Financial Management Act 2006</i> and

⁶ Source: OAG, based on the *Financial Management Act 2006* (Divisions 3 and 4) and Treasurer's Instructions (801, 802, 805, 806, 950, 1103)

Specific purpose monies	Focus area	What we expected to see
		Treasurer's Instructions be included within entity policies and procedures.
	Review of policies and procedures	<ul style="list-style-type: none"> Regular review of policies and procedures for adequacy and appropriateness.
Establishment of specific purpose monies	Authorisation	<ul style="list-style-type: none"> Appropriate underlying records and authorisations have been obtained in line with the nature and categorisation of specific purpose monies. The purpose of the monies is clearly articulated including the purposes for which expenditure may be used from these monies.
	Recordkeeping	<ul style="list-style-type: none"> Adequate controls and processes are established to ensure that monies are received as appropriate and are accounted for correctly. Debts requiring write off should follow the same processes and authorisations as applicable to all entity debt. Adequate records should be maintained to evidence that terms and conditions applying to specific purpose monies has been complied with. Clear guidelines on how monies are to be dealt with on closure of a specific purpose account.
Expenditure of specific purpose monies	Authorisation	<ul style="list-style-type: none"> Expenses and cost allocation journals are independently, appropriately and timely reviewed to ensure transactions are compliant with intended purposes.
	Recordkeeping	<ul style="list-style-type: none"> Sufficient and appropriate evidence to support that the expense was compliant with the intended purpose.
		<ul style="list-style-type: none"> Appropriate documentation or frameworks are in place to support cost allocations.
	Reconciliation	<ul style="list-style-type: none"> Special purpose accounts should be regularly reconciled with reconciling items investigated and resolved in a timely manner.
	Reporting	<ul style="list-style-type: none"> Special purpose accounts should be regularly reported to those charged with governance for their review and scrutiny. This should extend beyond an annual review that is performed at financial year end as part of financial statement reporting processes.

Specific purpose monies	Focus area	What we expected to see
Financial reporting	Disclosure	<ul style="list-style-type: none"> Financial report disclosures are reviewed annually against the requirements of the <i>Financial Management Act 2006</i> and Treasurer's Instructions to ensure specific purpose monies are accurately and completely reported.

Source: OAG

Appendix 6: Other OAG better practice guidance

We continue to develop better practice guidance to help the Western Australian public sector perform efficiently and effectively. This includes:

- practical guidance in the application of standards
- case studies
- checklists to assess existing frameworks and processes
- information to help entities to better understand how to comply with legislation and standards.

Topic	Report	Date
Cyber security	<i>Cyber Security in Local Government</i>	24 November 2021
Western Australian Public Sector Financial Statements	<i>Western Australian Public Sector Financial Statements – Better Practice Guide</i>	14 June 2021
Western Australian Public Sector Audit Committees	<i>Western Australian Public Sector Audit Committees – Better Practice Guide</i>	25 June 2020
Managing technical vulnerabilities	<i>Information Systems Audit Report 2020 – Local Government Entities</i>	25 June 2020
Contract management – extensions and variations	<i>Local Government Contract Extensions and Variations</i>	4 May 2020
Controls for the management of monies held for specific purposes	<i>Control of Monies Held for Specific Purposes</i>	30 April 2020
COVID-19 financial and governance matters	<i>Stand alone guidance</i>	6 April 2020
Security considerations for remote working arrangements	<i>Information Systems Audit Report 2020 – State Government Entities</i>	6 April 2020
Purchasing cards	<i>Controls over Purchasing Cards</i>	25 March 2020
Effective fee-setting	<i>Fee-setting by the Department of Primary Industries and Regional Development and Western Australian Police Force</i>	4 December 2019
Fraud prevention	<i>Fraud Prevention in Local Government</i>	15 August 2019
Regulating building approvals	<i>Local Government Building Approvals</i>	26 June 2019
Project management	<i>PathWest Laboratory Information System Replacement Project</i>	19 June 2019
Verifying employee identity and credentials principles	<i>Verifying Employee Identity and Credentials</i>	19 June 2019
Engaging consultants for strategic advice	<i>Engaging Consultants to Provide Strategic Advice</i>	5 June 2019
Cloud application (software as service agreement)	<i>Information Systems Audit Report 2019</i>	15 May 2019
Records management	<i>Records Management in Local Government</i>	9 April 2019

Topic	Report	Date
Management of supplier master files	<i>Management of Supplier Master Files</i>	7 March 2019
Procurement	<i>Local Government Procurement</i>	11 October 2018
Online services	<i>Delivering Services Online</i>	25 May 2016
Contract management	<i>Health Department's Procurement and Management of its Centralised Computing Services Contract</i>	17 February 2016

Source: OAG

Glossary and abbreviations

AASB	Australian Accounting Standards Board
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.
General government sector	Defined in Government Finance Statistics as an entity or group of entities which are mainly engaged in the productions of goods and/or services outside the normal market mechanism. Government departments are usually recognised as general government sector agencies.
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.
OAG	Office of the Auditor General, Western Australia
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 <i>Financial Management Act 2006</i> .
Treasury	Department of Treasury

This page intentionally left blank

This page intentionally left blank

This page intentionally left blank

Auditor General's 2021-22 reports

Number	Title	Date tabled
9	Cyber Security in Local Government	24 November 2021
8	WA's COVID-19 Vaccine Roll-out	18 November 2021
7	Water Corporation: Management of Water Pipes – Follow-Up	17 November 2021
6	Roll-out of State COVID-19 Stimulus Initiatives: July 2020 – March 2021	20 October 2021
5	Local Government COVID-19 Financial Hardship Support	15 October 2021
4	Public Building Maintenance	24 August 2021
3	Staff Exit Controls	5 August 2021
2	SafeWA – Application Audit	2 August 2021
1	Opinion on Ministerial Notification – FPC Arbitration Outcome	29 July 2021

**Office of the Auditor General
Western Australia**

7th Floor Albert Facey House
469 Wellington Street, Perth

Perth BC, PO Box 8489
PERTH WA 6849

T: 08 6557 7500
E: info@audit.wa.gov.au
W: www.audit.wa.gov.au



@OAG_WA



Office of the Auditor General for
Western Australia