

Mike Blake

By email [REDACTED]

Ms Caroline Spencer

Auditor-General of Western Australia

By email [REDACTED]

Dear Ms Spencer,

ACAG Peer and Self-Assessment Review

In accordance with my letter of engagement dated 21 November 2021 I have pleasure in attaching my completed assessment of Sections 1 and 2 of the ACAG Governance and Audit Framework for Self Assessment and External Review 2014 (ACAG Framework). My assessment comprises two separate reports, one for Section 1, *Office Governance*, and one for Section 2, *Audit Practice Management*. My reports include your Office's Self Assessments. When reading each assessment note that:

- matters for consideration are the ACAG Framework unchanged;
- comments are those provided by WA OAG;
- WP references are support documents provided/developed by WA OAG in support of their assessments which I have studied where relevant;
- my assessments are recorded in each Conclusion section;
- where my conclusions include an observation or recommendation, these are outlined in this letter below; and
- included at the end of this letter are more general observations.

Where this letter is silent on any criterion within Sections 1 and 2, it means I concur with OAG assessment or my assessment was stronger but without making any recommendation/observation. The rating scale used is that included in the ACAG Framework, and ranges from 1 being the least mature through to 4 where mature policies, associated procedures and evaluation systems are in place which support a culture of continuous improvement.

Section 1 Office Governance

Overall comments

Based on my assessment against the criterion outlined in the ACAG Framework, I concluded that WA OAG's Governance arrangements are very suitable for an office of its size. WA OAG engages with its clients working collaboratively with them to identify their needs and expectations.

The table below summarises my ratings comparing these with the previous assessment and WA OAG's self-assessment.

Framework Criterion	Aggregate Ratings		
	Last Assessment 2017	2022 Self-Assessment	2022 Mike Blake Assessment
Criterion 1.1 Corporate Relationships	3.5	3	3.5
Criterion 1.2 Governance (Leadership and Management)	3.67	3.11	3.55
Criterion 1.3 Resource Management (Workforce Management and Development)	3.93	3.71	3.71
Criterion 1.4 Information Management (Records Management)	3	3	3
Criterion 1.5 Information Systems Management	4	4	3
Criterion 1.6 Work Environment	3	3	3

Insights and recommendations:

Corporate relationships

1. The local government mandate and forensic audit work will enhance the Office's reports and services to the Parliament facilitating a move to Level 4 in due course.
2. The ACAG assessment suggests that a L4 rating requires "information systems are reviewed / benchmarked against other Firms/Offices". While I have seen no evidence of such formal benchmarking, it is evident to me from what I have read that information is readily available for agencies so that they are aware of their rights and responsibilities and this is done in multiple formats. WA OAG may wish to address rights (and or roles) and responsibilities at the annual information session for Chairs of Audit Committees, information sessions for audit service providers and at inductions for new members of Parliament.

Governance (leadership and management)

3. Formal governance structures exist and are transparent and visible to staff, although I am less certain how visible the Executive structure and organisation chart are to Parliament and public sector agencies. The Executive structure appears on page 16 of the annual report but with no reference to committee structures. My other reservation is the need to consider applying principles outlined in independently prepared governance framework such as those in the ASX Governance Principles or the AICD Not-for-Profit Governance Principles. In suggesting this, I acknowledge the WA OAG's governance arrangements address all elements I would expect to find in place.
4. The annual sign-off in about June to the A-G via the ARMC by the CFO confirm assessment of on-going relevance of key accounting judgements (depreciation rate for fixed assets and amortisation rate for intangible assets, revenue recognition policy for example) and confirmation and evidence, also to the A-G via the ARMC and also in about June, that key financial reporting controls have operated effectively throughout the financial year.
5. Benchmarking systems of delegation of authority (financial, non-financial, audit) against another ACAG Office may be suitable but not necessarily add value.
6. The OAG may wish to initiate contract evaluations for selected material contracts and/or subsequent benefits tests for material projects taken on for example, implementation of new information systems or audit methodologies.
7. Clarity is needed about which Committee takes responsibility for risk. This must be the A-G supported by EMG with advice and recommendations from ARMC and AQMC. I also noted that the AQMC reports risk related matters to the ARMC. It is unusual for a governance committee to report to another governance committee rather than to EMG.
8. To achieve a Level 4 in support and commitment to continuous improvement across all aspects of its business, WA OAG could track recommendations and/or improvement initiatives, in particular from staff, and consider introducing incentives for this.

Resource management (workforce management and development)

9. If ever there was an area where benchmarking practices across audit offices might be helpful, resource allocation is the one and I encourage WA OAG to so benchmark with other public sector audit offices and, where relevant, subject to the financial audit methodology decision and implementation, with a private firm.
10. Continue with the PD sessions about which information was provided but consider targeting explicit training for financial and other auditors based on their existing level and training needed to progress to the next level. Such training is common in Big 4 firms and may be useful to benchmark.

11. My understanding of training in FA and PA, post induction, is that it may be too generic whereas, if I understood this correctly, training in information systems auditing was very targeted.

Work environment

12. My understanding of training in FA and PA, post induction, is that it may be too generic whereas, if I understood this correctly, training in information systems auditing was very targeted.
13. While I acknowledge WA OAG is a low-risk OSH environment, the frequency and type (information reported) of reporting to the ARMC and through it to EMG, is too infrequent. Any changes to frequency and types of reporting should be addressed in the first instance by the Office Consultative Committee and perhaps informed by national workplace safety legislation understood to be effective from 1 July 2022.

Section 2 Audit Practice Management

Overall comments

Based on my assessment against the criterion outlined in the ACAG Framework, I concluded that WA OAG's Audit Practice management arrangements are of a high standard.

The table below summarises my ratings comparing these with the previous assessment and WA OAG's self-assessment.

Framework Criterion	Aggregate Ratings		
	Last Assessment	2022 Self-Assessment	2022 Mike Blake Assessment
<i>Criterion 2.1 Elements of a System of Quality Control</i>	3	4	4
<i>Criterion 2.2 Leadership Responsibilities</i>	3.5	3.5	4
<i>Criterion 2.3 Ethical Requirements - Independence</i>	4	3.5	3.67
<i>Criterion 2.4 Acceptance and Continuance of Client Relationships and Specific Engagements</i>	3	3	4
<i>Criterion 2.5 Human Resources</i>	4	3	3.5
<i>Criterion 2.6 Use of Contracted Firm (specific to Audit Offices)</i>	4	4	4
<i>Criterion 2.7 Assignment of Engagement Teams</i>	3	3	3.5
<i>Criterion 2.8 Engagement Performance</i>	3	3	3
<i>Criterion 2.9 Consultation</i>	3	3	4
<i>Criterion 2.10 Engagement Quality Control Review</i>	3	3	3.63
<i>Criterion 2.11 Differences of Opinion</i>	4	3	4
<i>Criterion 2.12 Engagement Documentation</i>	3	3	3
<i>Criterion 2.13 Monitoring</i>	3.16	3.16	3.33
<i>Criterion 2.14 Complaints and Allegations</i>	3	3	4

Insights and recommendations:

Elements of a system of quality control

1. Consider the suitability of required systems of quality control to WA OAG's Section 82 responsibilities where ASQC1/APES 320 simply have less relevance. Based on management responses to my questions, interviews held and papers I have read, I am satisfied that WA OAG applies very suitable QA processes in all business units and I concluded that, to the

extent relevant, such QA processes are likely to be applied as this relates to Section 82 work. It would be helpful for WA OAG to make a clear statement of the extent to which ASQC1 / APES QA frameworks are, or are not, relevant to Section 82 work and, if not relevant, what QA framework is relevant and applied.

Ethical requirements - independence

2. WA OAG may want to consider, to the extent relevant bearing in mind independence requirements for an Auditor-General are more stringent than in the private sector, benchmarking practices at contracted firms.
3. To advance to Level 4 I believe requires:
 - clarity around what the WA OAG regards as a significant entity;
 - why seven years rotation is regarded as relevant to public sector audit (noting my view that Auditors-General should rotate (or not) on or off audits, at their discretion not because ASQC1 or APES require this); and, to the extent relevant,
 - benchmarking with another ACAG office.

However, my discussions with the Auditor-General indicated clarity in her mind as to what is, or is not, a significant entity. Perhaps document this and then apply it in practice.

Assignment of engagement teams

4. This is an area where I consider benchmarking suitable audit allocation models with another ACAG office might prove useful, subject to finalising WA OAG's thinking on significant entity and any resulting implications.

Engagement performance

5. WA OAG assessment indicated a need for, with which I agree, more systematic and regular assessment and confirmation that WA OAG is compliant with the standards. The AQMC needs to develop a plan leading WA OAG to L4.

Consultation

6. Review of WA OAG documentation and interviews conducted indicated a sound approach to dealing with difficult or contentious matters, both before and after the event. This applies to financial and performance audits. One of the criteria for being in L4 is inclusion on your Technical Issues Committee or equivalent an external expert or access to one. I have not found this helpful in a public sector audit context. However, WA OAG may wish to consider inclusion of an independent external expert on a performance audit advisory panel especially when planning potentially contentious or complex service delivery audits of the public service such as in health or education.
7. In response to WA OAG's self-assessment comment in 2.10 above that "No policy for determining 'significant' entities (akin to PIEs) for purposes of EQCR" currently exists, I was advised that:

"We have determined what the significant entities are for the annual report and state finances (ARSF) and we ensure that the audit work there is completed so that we can meet the reporting deadline for the ARSF. The EQCR policy sets out the various factors (size, complexity, entity risk, probability of a modified audit opinion, parliamentary and media interest) that are applied across all of our in-house audits and although not specifically defined these are de facto PIEs."

This, along with views expressed to me by the Auditor-General (outlined in 2.3.3), provide an appropriate starting point for finalising a policy on this matter.

Engagement Documentation

8. Benchmarking would, for this criterion, be helpful although existing policies and procedures appear suitable.

Monitoring

9. Level 4 is achievable following completion of the root cause analysis proposed by WA OAG and benchmarking which I consider suitable for this criterion.

General Reviewer observations beyond ACAG Framework Assessment

Section 82

When assessing criterions 2.1 and 2.13.5 I noted the likelihood that the ACAG Framework may not suitably apply to WA OAG's Section 82 responsibilities and I made recommendations about this. In any event, I encourage WA OAG to consider the relevance of the ACAG Framework to Section 82 type work and develop its own framework for use in future independent assessments.

ACAG Framework

As I worked my way through the ACAG Framework when assessing WA OAG's performance, I made a number of changes to the introductory text and in some areas questioned how up to date the Framework is. I concluded that the ACAG Framework continues to be an effective tool for carrying out self or peer assessments but that it requires review and updating.

Thank you for providing me with the opportunity to participate in this assessment of your Office's performance against the ACAG 2014 framework.

OAG overall response to recommendations

We thank you and greatly appreciate your work and insights on our approach to corporate governance and audit practice management. It is pleasing that your assessment provided assurance of our self-assessment, and in some cases highlighted where in your experience we have satisfied the requirements for a higher level. Your recommendations are welcomed, and we will continue to refine and improve our governance and practice management arrangements as prioritisation permits. The AQMC or the ARMC will monitor our progress and report through to the EMG.

Yours sincerely,



Mike Bake

15 February 2022

