



OAG

Office of the Auditor General for Western Australia

ANNUAL REPORT 2009-2010



Office of the Auditor General Western Australia

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Our Year by Numbers

\$173.4 billion is the value of assets covered by our financial audits page 14

207 opinions issued on financial statements page 15

5 qualified opinions page 21 & 22

20 compliance, performance and assurance audit reports tabled in Parliament page 20

95 per cent of MPs surveyed said our reports are useful to Parliament page 18

49,000 students found to not attend school regularly page 20

\$25 million is the cost of energy that could have been saved under the Energy Smart Government program ... page 23

350 000 tonnes is the amount of greenhouse gases that could have been avoided if government had reduced its energy consumption page 23

\$2.2 billion is the estimated capital cost of the two major building projects covered by our performance audits page 21 & 22

\$308 million covered by our preliminary examination of Royalties for Regions page 21

74 per cent of staff said they were satisfied at work page 30

This report

This annual report describes the functions and operations of the Office of the Auditor General and presents the audited financial statements and performance indicators for the Office for the year ended 30 June 2010. It is not a report on the results of audits conducted as this information is tabled in Parliament separately.

When reading this report readers should be aware that the desired outcome the Office seeks is an informed Parliament on public sector accountability and performance.

This and earlier annual reports are available on our website at www.audit.wa.gov.au.



THE PRESIDENT
LEGISLATIVE COUNCIL

THE SPEAKER
LEGISLATIVE ASSEMBLY

ANNUAL REPORT OF THE OFFICE OF THE AUDITOR GENERAL FOR THE YEAR ENDED 30 JUNE 2010

In accordance with section 63, as modified by Schedule 3, of the *Financial Management Act 2006*, I hereby submit to Parliament for its information the Annual Report of the Office of the Auditor General for the year ended 30 June 2010.

The annual report has been prepared in accordance with the provisions of the *Financial Management Act 2006* and the *Auditor General Act 2006*.

COLIN MURPHY
AUDITOR GENERAL
12 August 2010

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Auditor General's Overview



The 2009-10 year was a particularly interesting and challenging year for my Office. We experienced new complexities in our work as a result of the Federal Government's economic stimulus and social housing packages and we also began audit work on the state-wide [Royalties for Regions](#) program.

Importantly, this year we used 'follow the dollar' powers provided under the *Auditor General Act 2006* to examine [how 15 non-government organisations](#) expended and managed grant funds. This is powerful legislation that other Australian governments are only now advancing for their own audit offices. This same legislation is being used in our [Royalties for Regions](#) audit program where we will track how the funding is being managed by organisations, including local governments, across Western Australia.

An ongoing challenge this year was the impact of the global financial crisis, which affected the 30 June 2010 balance sheets of some agencies. As a result, we had to pay attention to a whole range of potential issues, including the heightened risk of fraud, the value of government property and the recoverability of debtors.

We also saw a number of agency restructures, resulting in several new agencies and the abolishment of others. This required significant adjustment to our audit work on financial statements, key performance indicators and controls of those agencies.

A significant achievement this year was the implementation of our new financial audit methodology, the Integrated Public Sector Audit Methodology (IPSAM). The audit methodology used by our auditors drives our core business and the introduction of IPSAM, which is specific to the public sector, will help ensure we operate as efficiently and effectively as possible.

One of the clear highlights for our Office over 2009-10 was the completion of the first stage of an office-wide peer review. This first stage was of our governance and annual assurance audit processes. The reviewers from Queensland and New South Wales found a number of areas they considered best practice as well as some valuable opportunities for improvement.

The second stage of the peer review covering our performance audit function will be conducted in late 2010. Peer reviews provide us with assurance that our processes are effective, efficient and evolving but they are just one part of our ongoing commitment to continuous improvement.

As an independent watchdog agency for this State, my Office faces a range of new and interesting challenges each year. Our capacity to critically review our processes, improve efficiency and maintain quality in serving the public interest is paramount. In a year of varied challenges our ability to adapt and evolve has enabled us to again achieve credible results.

Financial audits

The Office achieved an excellent 99.4 per cent success rate in completing the audits of agency financial statements and performance indicators in time for Ministers to meet the legislated deadline for tabling of annual reports. In total, 207 audit opinions were issued. Five agencies received a qualified opinion.

This year we saw a 64 per cent increase in the total number of financial and system control weaknesses that we rated as 'significant' within agencies. Significant issues are matters we consider require urgent action. Equally concerning was that the number of agencies with significant issues increased nearly 90 per cent, from 18 to 34 agencies. These issues will continue to be a major focus area for our audit teams.

Performance audits

Our focus continues to be delivering reports to Parliament that are useful, relevant and timely in addressing issues critical to the sector and the wider community. Our performance audits provide comprehensive assessment of government activities to ensure they are efficient and effective. Each year we conduct a thorough topic selection process, as outlined in Appendix 2 of this report, to determine our performance audit topics.

In 2009-10 we conducted [18 comprehensive compliance and performance audits](#) of government activities across the four categories of service delivery, economic development, social and environment and governance. These reports identified matters of significance and made recommendations that aim to improve public sector

performance in areas such as cost effectiveness, efficiency, legislative compliance and the responsiveness of their services.

In our annual survey of Members of Parliament, 95 per cent of those surveyed said they found the services and reports of my Office useful to Parliament, and they all agreed that our reports provide valuable information on public sector performance.

Ministerial notifications

Over the year I issued four opinions regarding a decision by two Ministers to not provide information to Parliament for reasons of the information being confidential. In all four cases I found the Minister's decision was not reasonable and was therefore inappropriate.

Importantly, I also found in all four instances that the agencies provided their Minister with flawed and inadequate advice relating to the confidentiality of the information. Agencies across the public sector need to understand the importance of the public sector being open and transparent and of the need to provide reliable advice to their Minister.

Managing the Office

Throughout the year the Office conducted a significant strategic planning exercise that resulted in the development of our Strategic Plan 2011-16. The strength of this plan lies in the fact that the whole Office continues to be involved in the entire process, from creation to implementation and evaluation. This is a comprehensive

plan that will guide us in delivering effective and efficient work that matters to Parliament, the public sector and the Western Australian community.

The fluctuating state of Western Australia's economy over the last few years had a significant impact on attraction and retention of staff for this Office. Pleasingly, in 2009-10 we experienced an increase in the number and quality of applicants for positions with the Office and our attrition rate remained manageable. We recognise the ongoing and varying challenges in attracting the right people for the right positions. To address these challenges we are in the final stages of developing a workforce management plan that will guide us in our recruitment, development and retention of a quality workforce.

Professional development continues to be a priority for my Office. Its importance to skill development, career development, morale and retention particularly in an Office such as mine where 91.5 per cent of staff are professionally qualified, is undeniable. During the year we conducted an evaluation of our professional development program, which has been in place now for 12 months. The review which included staff feedback will be used over the next year to enhance the targeting and timeliness of our development program.

Resourcing the Office

The *Auditor General Act 2006* makes provision for a Joint Standing Committee on Audit to make recommendations to the Treasurer regarding our budget, organisational structure and resources. The committee is yet to be established, so discussions relating to our budget and the efficiency dividend were held with the [Public Accounts](#)

[Committee](#) in the Legislative Assembly and the [Estimates and Financial Operations Committee](#) in the Legislative Council. I appreciate the support of these committees and their willingness to discuss this issue and its implications for the Office.

Growing demands on my Office are a challenge that must be managed. My Office is committed to efficiency in the use of public funds and to pursuing initiatives in all aspects of our operations that will reduce the cost of public sector audit.

Acknowledgements

I would like to acknowledge the quality of work and ongoing dedication of the staff and the executive team throughout 2009-10. Their desire to produce important work that matters to Parliament, the public sector and the community is respected and appreciated.

I also recognise and value the strong working relationship I share with the Integrity Coordinating Group – comprising the [Public Sector Standards Commissioner](#), the Ombudsman and the [Corruption and Crime Commissioner](#).

Finally, I thank our key clients – the [Parliament of Western Australia](#) and within it the Public Accounts Committee and the Estimates and Financial Operations Committee – for their continued support and cooperation throughout the year.



COLIN MURPHY
AUDITOR GENERAL

Peer review – continuous improvement

In May, senior staff from the Queensland and New South Wales Audit Offices conducted a peer review of our Office based on the [Australasian Council of Auditors General \(ACAG\) Governance and Audit Framework](#). The Framework was developed within ACAG to enable member offices to conduct internal and external reviews of all audit and corporate functions. Satisfactory assessment enables an audit office to demonstrate that it is meeting a high standard of practice and has adequate systems of quality control.

The three reviewers conducted a week of extensive meetings, questions, reviews and general exploration across key areas of our Office. The final report identified several areas of best practice in place, as well as many valuable opportunities for positive and constructive improvement. Importantly, many of the issues raised as a result of the peer review had already been identified within our own internal self-assessment processes and actions were commenced to rectify them. This is a good reflection of our Office governance and continuous improvement activity.

A further peer review will be conducted in late 2010 of our performance audit function.

Audit methodology

Following extensive research, preparation and testing over the last two years, we are now in the final stages of implementing our new financial audit methodology – IPSAM. This audit methodology is used by the Auditors General of Victoria, Queensland, Tasmania and the ACT. It is a public sector specific audit methodology that provides opportunities for long-term efficiency gains while retaining our compliance with auditing standards. The methodology used by our auditors drives our core business and the introduction of IPSAM to our Office will help ensure we operate as efficiently and effectively as possible.

Strategic Plan 2011-16

This year we finalised our new Strategic Plan for 2011-2016 (see page 12). Most of our staff members were involved in developing the plan through workshops, planning sessions and whole of office forums. The final plan has six key strategic themes with measurable and accountable actions. Our Office strives to deliver work that has a significant impact on public sector performance and accountability, which ultimately benefits the Western Australian community. This new plan gives us the key objectives, initiatives and the direction we need to achieve this goal.

International office relations

Knowledge, experience and information sharing with our peers are important components of our continuous improvement and professional development programs. We have had a particularly beneficial year in terms of international involvement with our peers.

Two auditors from the [British Columbia Audit Office](#) joined our Office for 12 and 18 month secondments and in September one of our senior performance audit officers returned from a 12 month secondment with the British Columbia Office. Two audit officers from the Maldives worked with us for a four week period and our Assistant Auditor General, Standards and Quality Division, went to the Republic of the Maldives to assist the local audit office to strengthen its assurance audit function.

In August, we hosted a workshop for 12 members from the Internal Audit Foundation in Indonesia and we also assisted in hosting a delegation from the Sabah Public Accounts Committee, regarding public sector audit in Western Australia.

These relationships are important to us as they offer opportunities for development and continuous improvement both for the individuals involved and for the Office. We will continue to build and strengthen our international relationships throughout 2010-11.

Members of Parliament survey

The Office received positive feedback in its recent survey of Members of Parliament with 96 per cent agreement that our reports communicate issues clearly and 100 per cent agreement that our reports provide valuable information on public sector performance (further details on page 18). Members of Parliament are the primary stakeholder group for our Office and we are continuing to work closely with them to further enhance the quality and effectiveness of our reports.

Australasian Reporting Awards 2009 and IPAA Lonnie Awards

Reporting, and the annual report especially, is an essential mechanism of accountability and a vital element in communicating our performance for the year. The [Australasian Reporting Awards](#) (ARA) provide an opportunity for private and public sector organisations to benchmark their annual reports against world's best practice criteria. Similarly, the annual [WS Lonnie Awards](#) supported by the Institute of Public Administration Australia (WA Division), recognise 'excellence in Annual Reporting'. This year we were pleased to receive a bronze ARA award and a silver Lonnie Award for our 2008-09 annual report.

Report successes

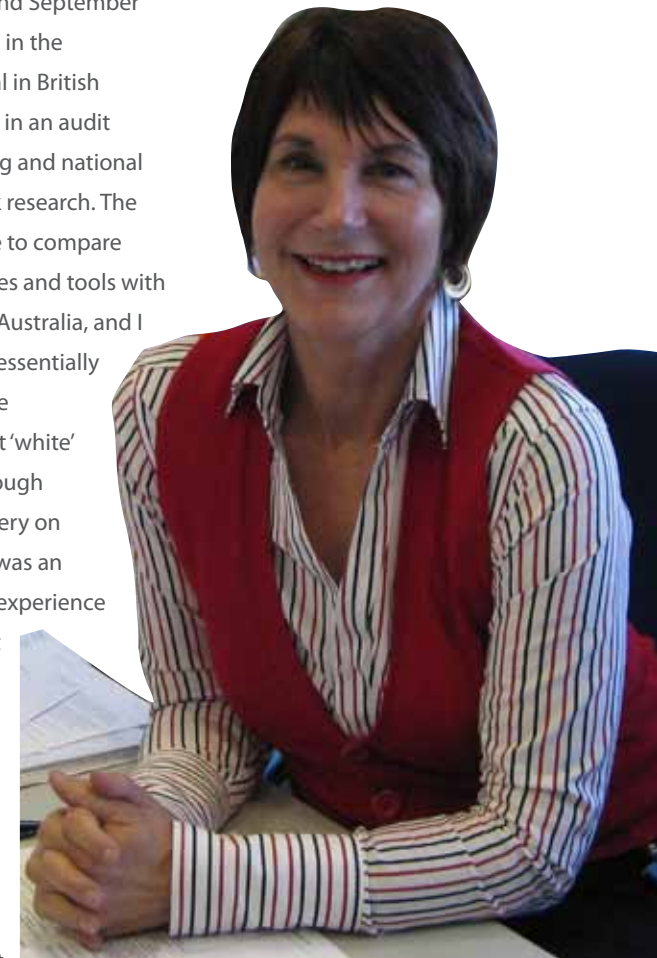
Our audit reports continue to provide public sector agencies with recommendations and opportunities for greater accountability and performance.

Three examples where our work has recently influenced the public sector are:

- Our Information Systems Audit Report was used by the WA Public Sector Commission to develop the Government's new *Good governance guidelines for securing the Western Australian Public Sector's electronic information*.
- The Government's *Better Attendance: Brighter Futures* strategy was launched in May 2010 and aims to improve student attendance in Western Australian public schools. It was developed in direct response to recommendations by our Office in the 2009 report on student attendance.
- On 14 April 2010 the [Commissioner for Children and Young People WA](#) released an issues paper concerning youth justice in Western Australia, which utilised information we provided in our 2008 report on the juvenile justice system.

Between September 2008 and September 2009, I worked on exchange in the Office of the Auditor General in British Columbia, Canada. I worked in an audit team, participated in training and national conferences, and undertook research. The exchange gave me a chance to compare Canadian standards, practices and tools with those used here in Western Australia, and I discovered that our work is essentially the same, but we do it a little differently. I also had my first 'white' Christmas and travelled through some truly spectacular scenery on my holidays. The exchange was an exceptional opportunity to experience firsthand how another audit office works, enhance my working knowledge and to extend professional networks. I owe a big thank you to the Office for making it happen.

– Linda Barker
Director, Performance Audit



Our Office

Who we are

The Auditor General for Western Australia, Mr Colin Murphy, is a statutory officer with responsibility for auditing the state public sector. The [Governor](#) appoints the Auditor General for a non-renewable term of 10 years.

The Auditor General reports directly to [Parliament](#) and ultimately the people of Western Australia. This independence is the cornerstone of public sector audit and the Auditor General must be free from pressure, influence or interference from any source that may erode that independence.

Mr Murphy is the Accountable Authority and Chief Executive Officer of the Office of the Auditor General, which is a public sector department established to support the Auditor General. Subject to the [Auditor General Act 2006](#) and other written laws, Mr Murphy has complete discretion in the performance of his functions.

What we do

The Auditor General is responsible for:

- auditing the Annual Report on State Finances
- conducting audits of financial statements, controls and key performance indicators for departments, statutory authorities, tertiary institutions and corporatised public sector entities

- conducting performance audits and compliance, controls and information system audits to ensure there are adequate controls within agencies; compliance with relevant legislation; and, most importantly, efficiency, effectiveness and economy of agency operations or programs
- reporting the results of audits to Parliament in an objective, competent, insightful and timely manner.

The Office of the Auditor General's corporate focus continued to be driven by the public sector environment in which we operate. In 2009–10 we conducted annual financial statement audits of:

- 39 government departments
- 103 statutory authorities
- 15 corporate bodies
- four universities, their 11 subsidiaries and 10 TAFE colleges
- nine entities as requested by the Treasurer, seven agency subsidiaries and eight cemetery boards
- the Annual Report on State Finances for whole-of-government.

Detailed information in respect of our tabled reports is available at pages [20](#) to [23](#) of this report.

Our purpose

Serving the Public Interest.

Our mission

To serve the public interest by providing Parliament with independent and impartial information regarding public sector accountability and performance.

Our values

Our operations and professional relationships are built on the foundation of independence exercised with integrity and objectivity. In achieving our purpose of 'serving the public interest', we will act in regard to the following values:

- Integrity – we conduct our business in an independent, professional and ethical manner and take an open, honest and fair approach to our stakeholders
- Quality – we improve the performance of the Office and the public sector by working together to manage our resources, our people and our relationships
- People – we respect and value the contribution of our people and encourage a cooperative approach to how things get done

Enabling legislation

The Auditor General is appointed by the Governor under the *Auditor General Act 2006*.

The Office of the Auditor General is established as a department of the public service under the *Public Sector Management Act 1994*.

As the Accountable Authority, the Auditor General must discharge responsibilities under the *Financial Management Act 2006*.

Key legislation affecting the Office's activities

In performing its functions, the Office complies with the following relevant laws:

- *Auditor General Act 2006*
- *Contaminated Sites Act 2003*
- *Corporations Act 2001*
- *Corporations (Western Australia) Act 1990*
- *Corruption and Crime Commission Act 2003*
- *Disability Services Act 1993*
- *Electoral Act 1907*
- *Electronic Transactions Act 2003*

- *Equal Opportunity Act 1984*
- *Financial Management Act 2006*
- *Industrial Relations Act 1979*
- *Minimum Conditions of Employment Act 1993*
- *Occupational Safety and Health Act 1984*
- *Public Interest Disclosure Act 2003*
- *Public Sector Management Act 1994*
- *Salaries and Allowances Act 1975*
- *State Records Act 2000*
- *State Supply Commission Act 1991*

The following laws have some impact on the Office's activities:

- *Constitution Act 1889 and Constitution Acts Amendment Act 1899*
- *Treasurer's Advance Authorisation, Loan and Appropriation Acts and Financial Agreement Acts*
- *Interpretation Act 1984*
- Laws affecting agencies and activities subject to audit by the Auditor General.

Performance management framework

The Office of the Auditor General is an independent watchdog agency of government and is primarily responsible to Parliament. Notwithstanding, we seek to implement sector wide initiatives where we believe our independence is not compromised and it will enhance outcomes associated with our activities.

The Office of the Auditor General's outcome based management framework is consistent with the government goal for financial and economic responsibilities as below:

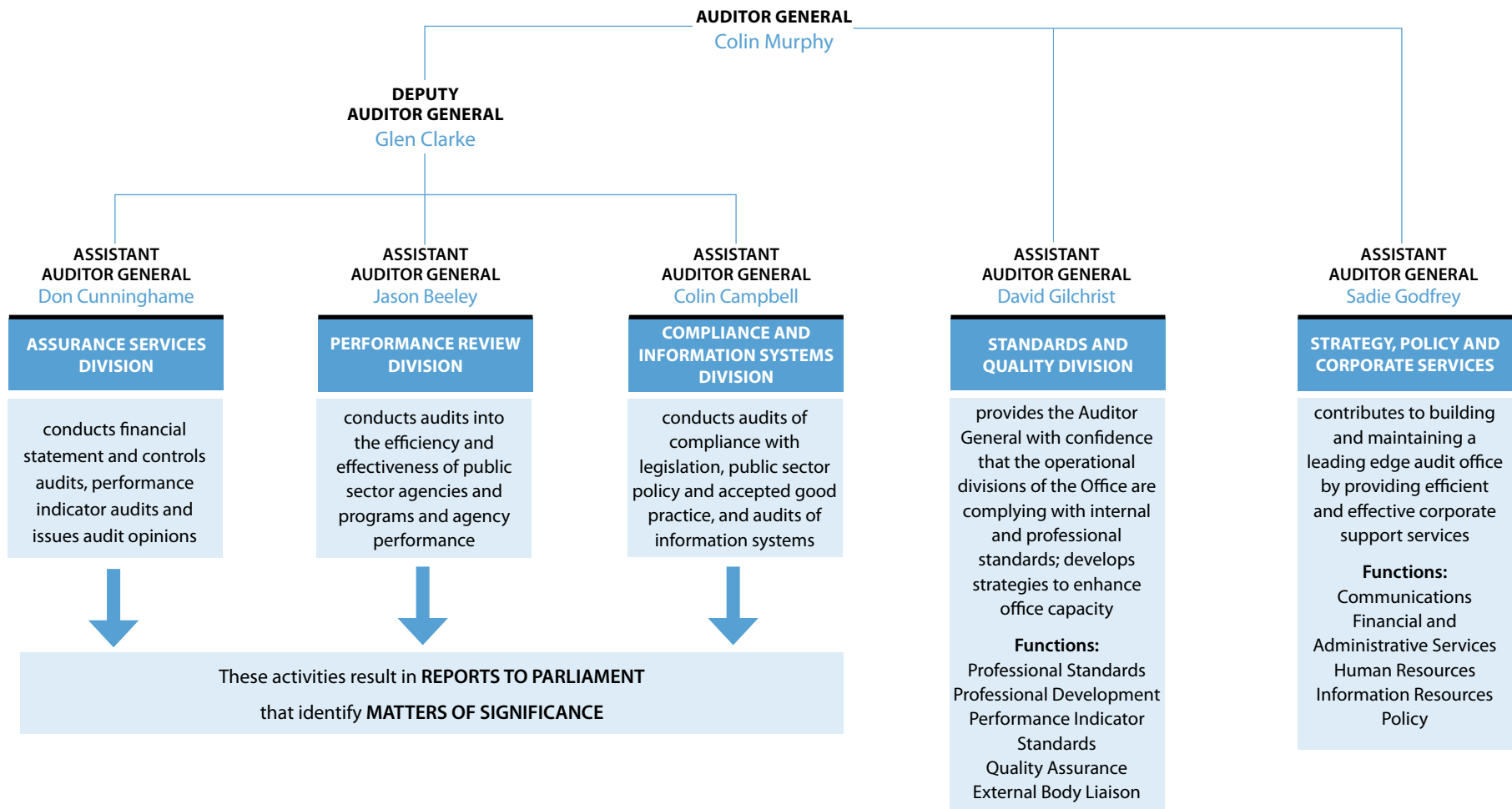
Government Goal	Outcome	Service
Financial and Economic Responsibility	An informed Parliament on public sector accountability and performance	Performance auditing
'Responsibly managing the state's finances through the efficient and effective delivery of services, encouraging economic activity and reducing regulatory burdens on the private sector'.		

Table 1

In performing its stated service (performance auditing), the Office tabled in Parliament:

- two financial audit results reports
- nine compliance and controls audits
- one information systems audit report containing the results of three audits
- five performance audit reports
- two reports containing opinions on four ministerial notifications.

Organisational and divisional activities chart



Senior officers



COLIN MURPHY – BCom, FCPA, PSM.

Colin Murphy was appointed as Auditor General for Western Australia in June 2007. Colin has extensive experience in finance and administration in both State and Commonwealth Government roles. He has held senior positions

within the State Government in the Departments of Justice, Treasury and Finance, Land Administration and the Building Management Authority. He has also worked for the Commonwealth Department of Finance in Perth and Washington DC and as Business Manager for Murdoch University. Colin is a member of the Australian Auditing and Assurance Standards Board. He holds a Bachelor of Commerce degree from the University of Western Australia. He is a Fellow, former Board member and Past State President of CPA Australia and a Fellow of Chartered Secretaries Australia and the Institute of Chartered Accountants in Australia. Colin was awarded the Public Service Medal in the 2010 Australia Day Honours.



DON CUNNINGHAME – BCom, FCPA, CISA.

Don joined the Office in 1992 and is a Fellow of CPA Australia and a Certified Information Systems Auditor. He has experience in finance, internal and external audit and information systems auditing in the public and private sectors.



JASON BEELEY – BA Hons (Oxon), Dip Strategic Studies.

Jason joined the Office in 2006, following five years as a commercial and general manager in the defence and technology sectors. He previously worked for eight years with the UK National Audit Office

in London, conducting and managing value for money studies, mainly of the Ministry of Defence.



DAVID GILCHRIST – BA, BBus, FCA, FCPA, FAICD.

David has held CEO, CFO and board roles in government, commerce and the not-for-profit sector. He is a Chartered Accountant, CPA and Fellow of the Australian Institute of Company

Directors. Prior to joining the Office in 2008, David was Associate Dean of the School of Business at the University of Notre Dame Australia where he taught after returning from a teaching role at the London School of Economics. He is currently an adjunct professor at the School of Business at the University of Notre Dame.



GLEN CLARKE – BBus, FCPA.

As Deputy Auditor General, Glen is responsible for the three operational audit divisions of the Office and has worked extensively in all three. He has previously held a senior position in the Commonwealth Department of Veteran's Affairs and is currently the Deputy

Chairman of Bizlink, a not-for-profit organisation that assists people with disabilities to obtain open employment.



COLIN CAMPBELL – BSc Ag Econs, MSc, NRM.

Colin has a Bachelor of Science in Agricultural Economics and a Masters Degree in Natural Resource Management. He worked as a Natural Resource Economist before joining the Office in 2002. Colin completed a year long work

exchange with the Commissioner for Environment and Sustainable Development within the Canadian Office of the Auditor General in 2006.



SADIE GODFREY – MBA (Curtin), Assoc Dip Bus (Accounting).

Sadie has diverse and extensive experience in corporate management, working in the areas of education and industrial relations. She was previously Director of Corporate Services at the

Department of the Registrar, Western Australian Industrial Relations Commission before joining the Office in 2008.

Organisational strategies – Strategic Plan 2011-2016

This year we finalised our Strategic Plan for 2011-2016. We began from a whole of office perspective and then drilled down to address the specific goals of each area. The final plan includes six key strategic themes that have measurable and accountable actions. Regular progress reports will be submitted on each of these actions.

Staff ownership and buy-in for the Strategic Plan 2011-2016 has been encouraged through participation in developing divisional plans, publication on our intranet and through regular discussions at office forums and professional development sessions. All of our key activities are aligned with one of the six strategic themes, which are:

Building Capacity

Investing in our people, their abilities and the knowledge they hold is vital to the success of our Office. We will build on the experience and further develop the skills of the people in our workforce. Leadership, mentoring and coaching is an important focus. We aim to develop a supportive Office that minimises reliance on individuals.

Protecting the Auditor General's independence and credibility

We know that in order to add value we need to ensure that our work is accepted as both credible and free from influence. We are prepared to stand up to external scrutiny and we will always be looking for opportunities to achieve better practice standards. Demonstrating professionalism in our work with agencies, we will continue to uphold the Auditor General's independence and credibility.

Meeting the standards we expect of others (internal and external)

Mediocrity is not something we will accept. We are using taxpayer dollars and we aim to give value for money, ensuring cost effectiveness at every step. We not only want to meet the standards we expect of others, but we want to exceed those standards.

Shifting effort to things that matter

We are focused on the big issues that really matter to Parliament and the community. We will have the courage to deal with the difficult issues. At every stage of our work we will ask ourselves if we have missed anything and if this is the most efficient and effective way of operating. We will put our time and effort into the things that add value.

Adding value to Parliament and client agencies

Our relationships with our stakeholders are paramount to us succeeding. We need Parliament and our client agencies to work with us and to recognise the value our work holds for them. Our work will aim to identify better practice for agencies and will challenge the norm, constantly asking if there is a better way.

Taking opportunities for improvement

Recognising and acting on opportunities to improve and enhance the efficiency of our work is important to us. We seek feedback from our peers, clients, staff and Parliament and we actively use it. Taking responsibility is a key element to finishing the job and finishing it to the best of our ability.

Significant Issues and Trends

Ongoing impact of the global financial crisis

The global financial crisis affected the value of investments in the 30 June 2009 balance sheets of many government agencies. These agencies' audits were completed by our Office in early 2009-10 and required significant attention in several areas. This included the extent to which investment values had been impaired, the value of government property, recoverability of debtors, a heightened risk of fraud, and the net realisable value of inventories. Our audit teams will continue their vigilance as agencies recover from the effects of the global financial crisis.

New stimulus spending programs

Over the past two years we have seen a number of Commonwealth stimulus programs roll out in an attempt to mitigate the impact of the global financial crisis. The most significant of these programs are the *Building the Education Revolution* and the *Social Housing Revolution*. The Commonwealth Minister responsible for these programs requested our Office undertake audit responsibilities in relation to moneys spent in Western Australia. Due to the speed with which the stimulus package roll outs occurred, only limited consideration was given to audit requirements at the Commonwealth level, thereby contributing to resourcing difficulties for audit offices. Our Office is continuing to work with the [Australian National Audit Office](#) to monitor the significant levels of stimulus funding that continue to be disbursed.

'Following the dollar'

The *Auditor General Act 2006* allows the Auditor General for Western Australia to 'carry out an examination or investigation... investigating any matter relating to public money' (s.18(2)(c)). In essence, this allows us to look at how government grants are being spent by receiving organisations. This is important legislation that other Australian governments are only just now considering for their own audit offices. We are keen to make use of the provisions in our legislation and in 2009 our audit on Accountability for Government Grants included an examination of how 15 non-government organisations expended and managed grant funds. Our use of this authority has continued into 2010-11, particularly in relation to the [Royalties for Regions](#) program.

Royalties for Regions

We are currently undertaking an examination into [Royalties for Regions](#), a major program that includes the distribution of significant funding by State government agencies to regional local governments and community groups. The size of this program will require the Office to monitor the transparency and governance arrangements supporting this strategy, in addition to testing of additional transactions. The Office audit will use the 'follow the dollar' powers described above to examine local government's role in this program.

Changes to number of agencies

The creation of several new agencies and the abolishment of several others added to the audit workload in 2009-10. In the year that restructuring occurs (for example, when agencies split or functions are transferred to other agencies), there is significantly more audit work involved to adjust for all financial and performance measurement changes.

Opinions on ministerial notifications

The Auditor General has now tabled in Parliament his opinion on four decisions by Ministers not to provide requested information to Parliament by reason of confidentiality. In each case, the Auditor General's opinion was that the decision was not reasonable. Further, in each case it was found the advice provided to the Minister by their agency was flawed and inadequate (refer page 20).

Weaknesses in agency management controls

As a result of the 2009-10 audit program the Office identified a large increase in the total number of financial and information system control weaknesses that we rated as significant. While the number of weaknesses remained constant, the fact that the number of 'significant' weaknesses increased by 64 per cent reinforced our commitment to maintaining our vigilance.

Our Performance

Financial Performance

	2009-10 Target \$000	2009-10 Actual \$000	Variation \$000
Total cost of services (expense limit) (sourced from Statement of Comprehensive Income)	17 079	19 094	2 015
Total income other than income from State Government (sourced from Statement of Comprehensive Income)	20	14 621	14 601
Net cost of services (sourced from Statement of Comprehensive Income)	17 059	4 473	(12 586)
Total equity (sourced from Statement of Financial Position)	2 018	6 682	4 664
Net increase in cash held (sourced from Statement of Cash Flows)	259	1 045	786
	Number	Number	Number
Approved full-time equivalent (FTE) staff level	109	108	(1)

Table 2

The budget for the Office is largely comprised of accommodation costs, salaries and audit contractor expenses.

The increase in total cost of services was as a result of increased employee benefit costs associated with the whole-of-government redundancy program, the recognition of greater long service leave liabilities and additional audit fees to private sector audit contractors. Net cost of services declined as a result of the move to net appropriation. Under this arrangement audit fees previously paid into the Consolidated Account are retained by the Office. As a result the amount of parliamentary appropriation is reduced accordingly.

Additionally the move to net appropriation in 2009-10 required net administered assets to be transferred to the Office as a contribution by owner, resulting in a significant increase in total equity.

The increase in cash is due to invoices for capital works being accrued but unpaid at the end of the reporting period.

Further explanations are contained in note 28 'Explanatory Statement' to the financial statements on page 53 to 54 of this report.

Financial auditing

Introduction

Agencies that operate under the *Financial Management Act 2006* (the majority of public sector agencies) receive three opinions from the Auditor General:

- an opinion with regard to the financial statements of the agency
- an opinion regarding the effectiveness of the controls in the agency
- an opinion regarding the key performance indicators of the agency and whether they are fairly presented and relevant and appropriate.

Entities operating under other legislation receive an opinion on their financial statements with a small number receiving an opinion on controls.

Audit work is also undertaken throughout the year to certify financial and statistical information produced by departments and statutory authorities. This assists agencies to discharge conditions of Commonwealth funding, grants or legislation and ensures that they meet conditions of their funding agreements in a timely manner.

Results for 2009-10

Output

Output – financial audits	What we achieved
Table audit reports in Parliament	2
Audit opinions issued to Ministers/agencies	207
Audit certifications issued	29

Table 3

Timeliness

What we set out to do	What we achieved
Issue 207 audit opinions in time for agencies' annual report to be tabled within 90 days	99.4% of 2009 opinions were issued in time*

Table 4

* The audit of one agency was delayed because they had not completed all requirements to enable their opinion to be issued within 90 days.

Audit Opinions

Audit opinions issued 2009-10	
Annual Report on State Finances	1
Parliamentary departments	3
Government departments	36
Statutory authorities	100
Universities and TAFE colleges (statutory authorities)	14
Superannuation funds (statutory authorities)	3
Corporatised entities	15
Cemetery boards	8
Subsidiary entities	18
Request audits	9
Total number of audit opinions issued	207

Table 5

A complete list of agencies subject to audit is at Appendix 1 on pages 68 to 69 of this report.

Performance auditing

Introduction

The Auditor General tables in Parliament a range of reports addressing issues of parliamentary and community interest. These include two types of performance audit reports:

- Performance Audits – These provide Parliament with information and analyses of public sector programs and operational performance. Performance audits do not focus on government objectives but rather on whether the objectives have been met with efficiency and effectiveness.
- Compliance Audits – These provide information about government agency compliance with legislation, public sector policies and good practice.

Our reports do not just illustrate areas where performance can improve. They also identify and highlight examples of good practice. This is important as it provides guidance for other public sector agencies about improvement opportunities and better practice.

Output

The indicators set out in the table below are not audited, however they are included in this annual report because they are considered important in understanding the Office's operational performance.

Target – parliamentary reports	What we achieved	Comments
Report 100 matters of significance to Parliament	118	Target exceeded
Table 6 to 8 stand-alone and follow-up performance audit reports in Parliament during the year	5	Target not met
Table 10 to 12 compliance audits in Parliament during the year	13	Target exceeded
Table 2 reports to Parliament on the results of financial statements and controls and performance indicator audit	2	Target met

Table 6

We did not meet our target for stand-alone performance audit reports tabled in Parliament, although at 30 June 2010, the report on one audit project was in draft form and two others were substantially complete.

Key effectiveness performance indicators

A new effectiveness performance indicator has been introduced for 2009-10, which shows the extent to which Parliament has been informed about public sector accountability and performance against four specified categories.

To enable our performance to be assessed, we have established a three-year rolling target for each of the four categories of reports and a total for all reports tabled. Our three-year target for the period commencing 2009-10 is 54 reports.

Table 7 shows our three-year target from 2009-10 to 2011-12 and our actual performance for 2009-10.

Report Type	2007-08 Actual	2008-09 Actual	2009-10 Actual	2009-10 Target	Target over 3 years
Service delivery	3	2	3	4	12
Economic development	1	4	2	3	9
Social and environment	5	3	1	3	11
Governance	7	8	14	8	22
Year total	16	17	20	18	54

Table 7

For further information and details about reports tabled this year refer to pages 20 to 23.

Key efficiency performance indicators

Our new key efficiency performance indicators measure the cost of our audits relative to government expenditure.

These new indicators replace our former indicators, 'cost per matter of significance' and 'cost per major/other audit', because they contain less potential for bias.

Table 8 shows the increase in government expenditure in 2009-10 was not matched by increased expenditure of the Office. This resulted in lower total audit costs per million dollars of gross government expenditure.

Efficiency indicator	2008-09 Actual	2009-10 Actual	2009-10 Target
Total audit cost per \$m of gross government expenditure*	\$579	\$519	\$563
Attest (annual assurance) audit cost per \$m of gross government expenditure	\$434	\$389	\$422
Performance examination cost per \$m of gross government expenditure	\$145	\$130	\$141

Table 8

* The gross government expenditure value incorporates total public sector expenditure together with expenditure by universities, superannuation boards and other entities whose expenditure is not reported within government expenditure in the annual Budget Statements.

Expressions of concern, special investigations and public interest disclosures

Introduction

Each year we receive many enquiries, expressions of concern and requests for special investigations from Members of Parliament and the public, primarily in relation to the actions of a public sector agency or management of public resources.

In keeping with the Auditor General’s independence, we have systems in place to ensure that a decision to investigate a matter is made with proper consideration of the relative merits of an investigation.

Our investigations are conducted in an objective and ethical manner, with full regard to confidentiality and in accordance with our audit practice requirements.

Importantly, all the information received through requests for special investigations, expressions of concern and public interest disclosures is used to assist us in identifying topics for future audits.

Enquiries and expressions of concern about the public sector

The Office has a comprehensive management system to ensure those contacting us to request an audit or to raise a concern about the public sector receive a considered and prompt response. In 2009-10, the average number of days taken to respond was 6.6 working days, with 82.7 per cent of all enquiries and expressions of concern responded to within our target of 10 working days. Both these indicators are an improvement on the previous year.

Table 9 shows the trend in the number of enquiries and expressions of concern received. In 2009-10 we received more concerns from members of the public and from Members of Parliament. The matters received from Members of Parliament related to eight public sector agencies and three whole-of-government programs.

Enquiries/expressions of concern received	2007-08	2008-09	2009-10
Members of the public	77	58	68
Members of Parliament and parliamentary committees	10	11	13
Total	87	69	81

Table 9

Issues raised through enquiries and expressions of concern that can be examined by the Office, under the *Auditor General Act 2006*, are considered during our audit topic selection process (refer to page 70).

The *Auditor General Act 2006* provides for the Office to undertake audits into the efficiency and effectiveness of agencies and programs. Our focus is on systemic weaknesses rather than a one-off issue affecting an individual. We refer one-off issues to other sources of potential assistance, such as the Ombudsman who has a mandate to consider administrative issues affecting individuals. Importantly, we do record all individual concerns as they can provide an indication of wider issues across government.

This year, no specific agency or issue was repeatedly raised although the majority (62 per cent) of concerns were classed as governance matters. The remainder were evenly distributed across the categories of service delivery, economic development and social and environmental matters.

Special investigations

We define a special investigation as work that arises outside our normal topic identification and selection processes. Special investigations typically relate to possible mismanagement of public resources and are often referred to us from one of the other integrity agencies, including the Corruption and Crime Commission, the State Ombudsman and the Commissioner for Public Sector Standards. This work can take priority depending on the nature of the matter requiring investigation.

The Office conducted one special investigation during 2009-10 that arose from an expression of concern raised from the private sector. The investigation did not result in any findings of significance and as a result no report was tabled in Parliament.

Public interest disclosures

The Office is one of a number of accountability agencies under the *Public Interest Disclosure Act 2003* to which people can make public interest disclosures (PIDs). Key executive members are authorised PID Officers and have received appropriate training to effectively manage disclosures.

The Office received no new PIDs during 2009-10. One PID that was received in 2008-09 was finalised in 2009-10.

PIDs Registered	2007-08	2008-09	2009-10
By year	1	2	0
Total to 30 June 2010	11	13	13

Table 10

To date, no PID investigation has resulted in a report to Parliament. Nevertheless, our PID investigations generally lead to some recommendations being made to agencies to improve their procedures or controls. There have been no discernible trends or themes identified from registered PIDs.

Members of Parliament survey

Each year an independent consultant administers a survey of the Members of Parliament to measure the extent to which they agree that the Office's services and reports contribute to improved public sector accountability and performance.

In 2010, ninety-four Members of Parliament were invited to participate in the survey and 57 per cent participated, which was a marked improvement on the previous year's rate of 44 per cent.

Table 11 shows the percentage of respondents to the survey who 'agreed' or 'strongly agreed' with the statement indicated.

Indicator	2006-07 Actual %	2007-08 Actual %	2008-09 Actual %	2009-10 Actual %
The Office of the Auditor General is effective in achieving its desired outcome of informing Parliament on public sector accountability and performance of the public sector	78	90	91	84
Reports dealt with matters of significance to Parliament	89	94	93	90
Services and reports of the Office of the Auditor General are useful to Parliament	89	90	91	95

Table 11

These results demonstrate that the work of this Office is valued by Members of Parliament and continues to contribute to public sector accountability and performance.

community mental health
government energy consumption
school attendance
WA's largest ever government building project
Royalties for Regions
Perth's new stadium
firearms licensing
managing attractive assets
loss and theft of laptops and portable storage devices
commercial and recreational fishing
IT security in government
registration of medical practitioners
use of purchasing cards
staff attendance in government agencies

Reports tabled in 2009-10



Opinion on Ministerial Notification: Ministerial Decision not to provide information to Parliament – Country Age Pension Fuel Card

(Report 8, 19 August 2009)

The Auditor General is required under legislation to express an opinion as to whether it is reasonable and appropriate for a Minister not to provide requested information to Parliament. In this instance the Auditor General found the Minister's decision to not provide information for reason of commercial confidentiality was 'not reasonable and therefore was inappropriate' and that the relevant agency had provided deficient advice to the Minister.



Every Day Counts: Managing Student Attendance in Western Australian Public Schools

(Report 9, 19 August 2009)

This report found that of the more than 177 000 students in Years 1 to 10 in Western Australia's public schools in 2008, almost 49 000 (28 per cent) were at educational risk because they were not attending school regularly. We found that the then Department of Education and Training did not have a timely and comprehensive understanding of attendance in schools and had not been successful in addressing the growing number of students not attending school regularly.



Adult Community Mental Health Teams: Availability, Accessibility and Effectiveness of Services

(Report 10, 14 October 2009)

We found that although general mental health services are available locally in most communities through Adult Community Mental Health Teams (CMHTs), WA Health did not have the planning and resourcing mechanisms in place to ensure that the mix of services provided consistently reflects consumer needs. Access to services can depend more on where someone lives than their needs. We found that WA Health did not have consistent overall objectives for CMHTs or a framework for evaluating CMHT service delivery. It was not clear that increased investment in community mental health was being targeted to the most efficient and effective services.



Third Public Sector Performance Report 2009

(Report 11, 21 October 2009)

Regulation of Firearms – Follow-up

This report concluded that the Western Australian Police (WAP) was not adequately regulating and overseeing the possession, use, dealing and manufacture of firearms. We found that WAP had sound procedures for assessing applications for firearm

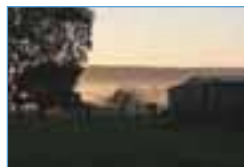
licences, however there were serious weaknesses in how these were carried out, in how information was handled, and in how WAP monitored whether licence-holders had met their obligations. These weaknesses increased the risk that inappropriate people may have access to firearms. Notwithstanding this, our testing found no instances where firearm licences had been issued to people who were clearly not eligible.

Managing Staff Attendance in the Public Sector

Most of the agencies in our sample did not manage staff attendance well in our audit period. Their policies and procedures were generally sound, but there were numerous weaknesses in how they applied them. Monitoring was also generally inadequate. The weaknesses in implementing arrangements and in monitoring meant four of the seven agencies in our sample could not show they were accurately and reliably tracking if staff were present or absent during working hours. However, our testing did not find any significant cases where absences could not be accounted for.

Evaluation in Government

While individual project or program evaluations were generally done well by four of the five agencies we sampled, all the agencies lacked a strategic approach to their evaluations. This has resulted in an ad hoc approach which provides no assurance to government or the community that key programs, projects or services will be evaluated.



Fourth Public Sector Performance Report 2009

(Report 12, 11 November 2009)

Preliminary examination of the Royalties for Regions program

Between May and July 2009,

three hundred and eight million dollars had been distributed under the Royalties for Regions program. Money was distributed in accordance with the high level objectives and eligibility criteria for the funds and projects we reviewed.

We found that the development and implementation of an appropriate accountability and governance framework for the Royalties for Regions program had lagged behind the initial disbursement of funds. However, good progress had been made in developing the framework since October 2008. Once fully implemented, the framework should provide appropriate accountability for the funds and ensure that processes are in place for the communication, implementation, monitoring and evaluation of the program.

Accountability for government grants

We found that Healthway and the Department for Sport and Recreation generally administered their grants appropriately, but there were some opportunities for improvement. The then Department for Education and Training (DET) did not have appropriate accountability arrangements. DET assigned responsibility for grants to

individual managers without addressing the risks involved in this devolved approach. Subsequently, DET has adopted new procedures to manage these risks.

Management of government purchasing cards

Controls over the management of purchasing cards were generally adequate in the 25 agencies that we examined. Although we found instances of non compliance with required procedures and areas for improvement in controls at 22 agencies, we found no evidence of purchasing cards being misused. The most common areas of non compliance with required procedures were in providing evidence to support transactions, and in acquitting and certifying purchases.



Audit Results Report 2008-09 Assurance Audits

(Report 13, 11 November 2009)

Three agencies received qualified audit opinions and three had Matters of

Significance reported with their audit opinions. The number of financial and information system control weaknesses reported to management in 2008-09 was similar to the previous year. However the number of issues that we rated as significant increased by 69 per cent.

Although several agencies were adversely affected by the global financial crisis, no instances were found of the threat being poorly managed.

We noted an increase in the number of agencies demonstrating better practice in financial reporting. However almost 60 per cent of agencies did not achieve better practice primarily because of errors in financial statements submitted for audit, and the timeliness of their preparation. Just 17 per cent of agencies prepared their financial statements for audit within three weeks of year end.



The Planning and Management of Perth Arena

(Report 1, 10 March 2010)

In this report we examined the planning and management of the Perth Arena project

between March 2004 and December 2009. We found the estimated cost of the Arena was \$323 million more than originally budgeted and would be finished three years later than planned. We found that there was insufficient scoping and planning; little evidence that appropriate planning, monitoring and reporting processes were established or followed; and a lack of adequate project management and governance arrangements. Recordkeeping was poor which undermined accountability for key decisions. Changes to governance and project management had improved transparency and strengthened project oversight, but the project remained at risk of further cost increases and delays. Several recommendations were made for agencies involved in the procurement and delivery of capital projects.



Information Systems Audit Report

(Report 2, 24 March 2010)

This report summarised the results of our Information Systems audit work for 2009.

Findings included that the agencies examined lacked comprehensive management, technical and physical controls over their laptops and portable storage devices to minimise the risk of them being lost, stolen or inappropriate data accessed; agencies had security and control weaknesses in their applications; and some improvement in general computer controls but many areas still requiring attention.



Public Sector Performance Report:

(Report 3, 5 May 2010)

Registration of Medical Practitioners

This examination found the Medical Board of Western Australia is satisfactorily managing its operations in compliance with the *Medical Practitioners Act 2008*, although some areas could be improved.

Opinions on three Ministerial Notifications

Found the three decisions by the Minister to not provide information to Parliament based on commercial sensitivity were not reasonable and therefore inappropriate.



Audit Results Report – Annual Assurance Audits completed since 2 November 2009, including universities and public colleges, and Compliance Audits: Managing Attractive Assets – Managing Salary Payment Errors

Assets – Managing Salary Payment Errors

(Report 4, 5 May 2010)

Annual Assurance Audits

In this annual report we noted a reduction in the number and significance of financial and information system control weaknesses at universities and colleges compared to the previous year. There was also a general improvement in the timeliness and quality of the financial statements and supporting evidence provided to audit. Four public colleges and one university achieved better practice status for their financial management practices and 2009 reporting, also an improvement on the previous year. Of concern, however, were the two qualified opinions and one matter of significance included in this report.

Managing Attractive Assets

The agencies in our sample generally had suitable registers and procedures for recording and tracking their attractive assets. However there were weaknesses in practice. These included: registers that were incomplete or out of date, inaccurate records, inadequate checking of physical assets against records, and inadequate monitoring of losses and discrepancies. As a result, not all assets had been registered and not all could be located.

Managing Salary Payment Errors

All agencies conducted reasonable tests to identify potential errors before employees were paid and 11 of the 12 agencies satisfactorily resolved errors when they occurred. Identified overpayments amounted to zero point one per cent of salaries. However, no agency in our sample kept comprehensive records of salary payment errors with only one of the 12 agencies keeping a record of underpayments.



Fiona Stanley Hospital Project

(Report 5, 23 June 2010)

This report found that the estimated capital costs of the Fiona Stanley Hospital

(FSH) had increased by \$1.3 billion from the original estimate and the opening date was between three and a half and four years later than originally planned. The planning phase for FSH was neither efficient nor effective. Significant risks remained on the project and, while they had been identified, the strategies to manage them were not all well advanced. The examination recommended that WA Health should ensure that all future health infrastructure projects conform to the Strategic Asset Management (SAM) framework; Department of Treasury and Finance should reinforce the SAM framework with more rigorous staged project approval processes and WA Health should progress its mitigation strategies for the remaining risks to ensure the hospital is fully operational on opening.



Energy Smart Government

(Report 6, 30 June 2010)

The Energy Smart Government program was designed to achieve a 12 per cent reduction in government's energy

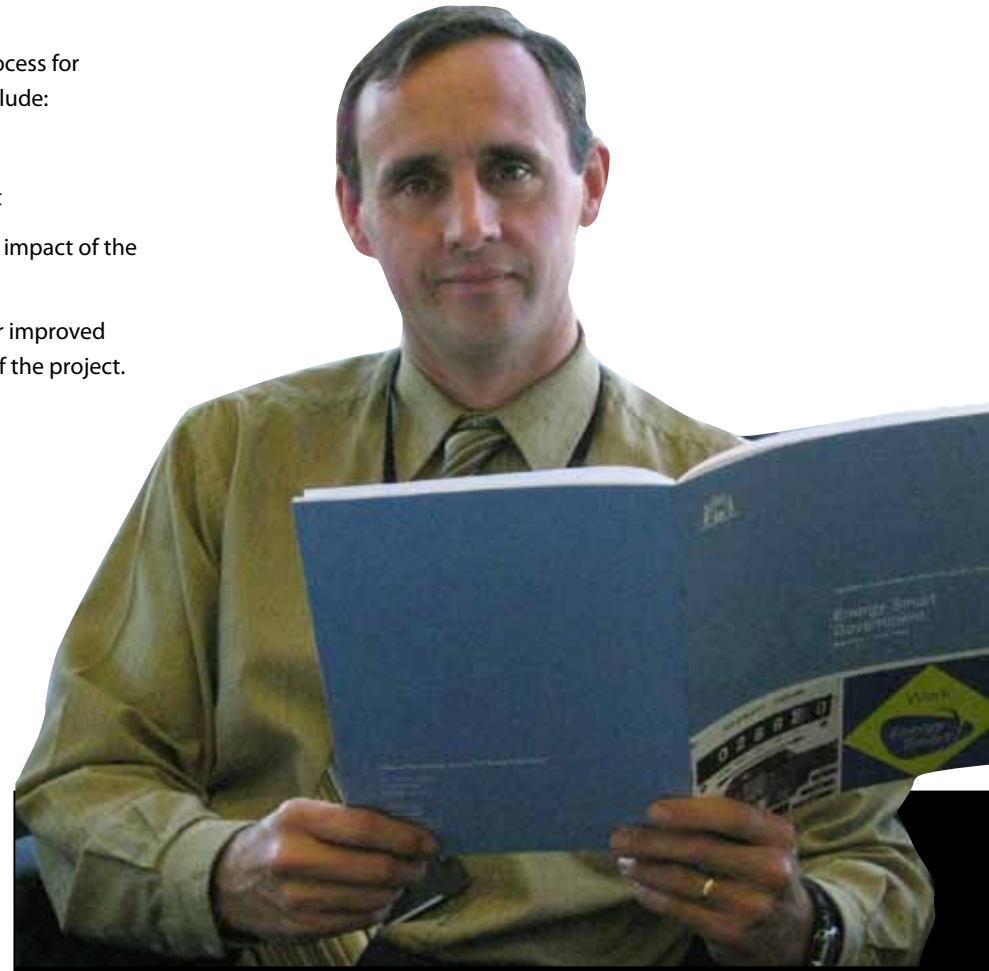
consumption by 2006-07. While government reduced its consumption by 0.1 per cent during a period of significant growth, it fell short of its overall target. Achieving targeted reductions in energy consumption would have saved government up to \$25 million in energy costs and reduced greenhouse gas emissions.

A lack of effective strategic management and accountability contributed to the failure to achieve overall program goals. A range of energy saving opportunities was identified by agencies but very few were implemented. Changes for the second phase of the program did not address the shortcomings of the first and it is unlikely to realise new or existing opportunities.

Topic selection

Appendix 2 outlines the topic selection process for performance audits, elements of which include:

- regard for requests from Parliament
- the economic materiality of the project
- the potential social and environmental impact of the project
- any potential risks and the potential for improved public sector performance as a result of the project.



Michael McStravick, Director, Performance Audit – On secondment from the British Columbia Audit Office. Mike was the director of the Energy Smart Government audit.

Public interest in reports

Website download statistics provide an indication of the degree of public interest in our reports. Table 12 shows the number of downloads for each report tabled during 2009-10, from the date of tabling to the year end.

Tabling Date	Report	Number of Downloads
19/08/2009	Opinion on Ministerial Notification: Ministerial Decision not to provide information to Parliament – Country Age Pension Fuel Card	476
19/08/2009	Every Day Counts: Managing Student Attendance in Western Australian Public Schools	1 389
14/10/2009	Adult Community Mental Health Teams: Availability, Accessibility and Effectiveness of Services	913
21/10/2009	Third Public Sector Performance Report 2009: <ul style="list-style-type: none"> • Regulation of Firearms – Follow-up • Managing Staff Attendance in the Public Sector • Evaluation in Government 	1 314
11/11/2009	Fourth Public Sector Performance Report 2009: <ul style="list-style-type: none"> • Preliminary Examination of the Royalties for Regions Program • Accountability for Government Grants • Management of Government Purchasing Cards 	3 492
11/11/2009	Audit Results Report 2008-09 Assurance Audits	4 561
10/03/2010	The Planning and Management of Perth Arena	2 256
24/03/2010	Information Systems Audit Report	12 777
05/05/2010	Public Sector Performance Report: <ul style="list-style-type: none"> • Registration of Medical Practitioners • Opinions on three Ministerial Notifications 	643
05/05/2010	Audit Results Report – Annual Assurance Audits completed since 2 November 2009, including universities and public colleges, and Compliance Audits: Managing Attractive Assets; Managing Salary Payment Errors	3 213
23/06/2010	Fiona Stanley Hospital Project	3 347
30/06/2010	Energy Smart Government	295

Table 12

Media interest in reports

While we do not seek media attention, media interest in our reports helps to raise awareness of our role and our work. It also helps us to understand whether the issues we choose are of interest to the public. To assist in accurate and complete reporting, the Office issues a media statement in conjunction with the tabling of a report.

Tabling Date	Report	Media Coverage
19/08/2009	Opinion on Ministerial Notification: Ministerial Decision not to provide information to Parliament	abc.net.au, ABC TV.
19/08/2009	Every Day Counts: Managing Student Attendance in Western Australian Public Schools	ABC Geraldton, ABC 720 Perth, 6PR, Triple J, Curtin FM, ABC Goldfields, Ch 10, Ch 7, Ch 9, ABC1, WIN, GWN, The West Australian, psnews.com.au.
14/10/2009	Adult Community Mental Health Teams: Availability, Accessibility and Effectiveness of Services	Canning Melville Times, South Western Times, Sound Telegraph, ABC news, AM radio, The West Australian, psnews.com.au.
21/10/2009	Third Public Sector Performance Report 2009: (Regulation of Firearms – Follow-up; Managing Staff Attendance in the Public Sector and Evaluation in Government)	Firearms: ABC 720, Mix 94.5, perthnow.com.au, The West Australian, The Australian, psnews.com.au (all)
11/11/2009	Fourth Public Sector Performance Report 2009: (Preliminary Examination of the Royalties for Regions Program; Accountability for Government Grants; and Management of Government Purchasing Cards)	Royalties for Regions: ABC TV News, watoday.com.au, abc.net.au, psnews.com.au (all)
11/11/2009	Audit Results Report 2008-09 Assurance Audits	The West Australian, WA Business News, Ch 7, Ch 10, ABC TV, ABC 720, MIX 94.5, 96.1fm, 6PR, 98.5 FM, abc.net.au, perthnow.com.au, watoday.com.au, thewest.com.au, psnews.com.au
10/03/2010	The Planning and Management of Perth Arena	6PR, MIX 94.5, 96.1FM, 98.5 FM, ABC 720, Curtin FM, ABC TV, Ch 10, Ch 9, Ch 7, Financial Review, The Australian, The West Australian, WA Business News, thewest.com.au, watoday.com.au, abc.net.au.
24/03/2010	Information Systems Audit Report	6PR, abc.net.au, ABC 720, itwire.com, perthnow.com.au, thewest.com.au, watoday.com.au.
05/05/2010	Public Sector Performance Report 2010: (Registration of Medical Practitioners and Opinions on three Ministerial Notifications)	Opinions on three Ministerial Notifications: ABC 720, ABC TV News, watoday.com.au, psnews.com.au (both)
05/05/2010	Audit Results Report – Annual Assurance Audits completed since 2 November 2009, including universities and public colleges, and Compliance Audits: Managing Attractive Assets; Managing Salary Payment Errors	Managing Attractive Assets: itnews.com.au, psnews.com.au (all)
23/06/2010	Fiona Stanley Hospital Project	6PR, MIX 94.5, 96.1FM, 98.5 FM, ABC 720, ABC North West, ABC TV, Ch 10, WA Business News, Melville Times, abc.net.au, constructionindustrynews.net, itnews.com.au, perthnow.com.au, psnews.com.au, thewest.com.au, watoday.com.au.
30/06/2010	Energy Smart Government	98.5 FM, ABC 720, psnews.com.au, thewest.com.au, watoday.com.au, abc.net.au.

Table 13

Managing Our Office

Our core business is reporting on how effectively and efficiently the public sector uses the resources entrusted to it. Therefore, it is imperative that we ensure our own activities are conducted with optimum efficiency and effectiveness. In order to achieve this, we rely on the competence, dedication and enthusiasm of our workforce. We aim to be exemplary in the management of our people and their working conditions. We strive to provide an environment that supports our staff and encourages them in their role of meeting the desired outcomes of this Office.

Our people

In 2009-10 we experienced a steady increase in the applicant pool for positions at our Office. We recognise the ongoing challenges in attracting the right people for the right positions and we are in the final stages of developing a workforce management plan that will guide us in our recruitment, development and retention of a quality workforce.

Personal and professional development remain high priorities for this Office and we have comprehensive programs in place to ensure our employees receive targeted and effective training and growth opportunities. The continuing development and application of these tools is discussed later in this section.

We pride ourselves on offering a flexible and family-friendly workplace and we continually seek opportunities to enhance our working environment.

Employees by division at June 2010

	2008	2009	2010
Auditor General Unit	6	7	5
Assurance Services	40	48.2	54.4
Compliance and Information Systems	14	14.5	11.3
Performance Review	17	13.1	12.3
Standards and Quality	4	6.9	6.3
Strategy, Policy and Corporate Services	25	18.3	18.3
Total	106	108	107.6

Table 14

Table 14 indicates a steady increase in staffing in Assurance Services. This is a positive indication of our ability to retain and attract staff, and in particular graduate auditors. This allows us to continue to develop younger entrants to our Office and benefit over the longer-term from the training invested in these staff members.

Staff attrition

Our attrition rate, at almost 17 per cent, is an increase from last year's 12 per cent but still well below the 33 per cent attrition rate experienced in 2008. The slight increase from last year reinforces the need for us to continue with our workforce strategies and as such, we are in the final stages of developing a new workforce management plan that we will implement throughout 2010-11.

New agency specific agreement

During peak audit periods, our officers need to meet tight reporting deadlines but can accrue a substantial number of 'flexi' hours for time worked beyond the standard hours per week. This year with assistance from the Department of Commerce we reviewed our agency specific agreement and took the opportunity to introduce a number of important changes:

- The maximum hours employees can accrue within a 12 month period was increased from 150 hours to 180 hours.
- The settlement period was amended from 1 April – 31 March to 1 February – 31 January to give staff greater opportunity to clear their accrued hours.
- The maximum number of consecutive days to be cleared at one time was increased from 15 to 20 days.

The new agreement was registered in August 2009 and has been successful in promoting and encouraging flexible working hours for our employees.

Code of conduct

The Office of the Auditor General's Code of Conduct for employees was reviewed during the year. All employees are provided with a copy of the Code annually and are required to sign a statement that they had read it, understood it and would comply with it. The Code of Conduct was further reinforced and explained in the Office forum and is available on the Office intranet.

Employee relations

The Office continued to operate over the course of the year in a cooperative industrial climate, supported by the Office Consultative Committee. We also provide a confidential and independent Employee Assistance Program which can be accessed by employees and immediate family members. De-identified data and reports on usage are received, enabling the Office to detect trends in employee issues.

Graduate development program

The Office has an ongoing commitment to our graduate program that has enabled us to develop young people within the public sector.

This year we used the CPA Australia website together with the university hubs to advertise our graduate program. We were also represented at graduate recruitment events held by CPA Australia and the Institute of Chartered Accountants in Australia (ICAA).

As a result of our recruitment efforts we experienced a significant increase in application numbers, with many candidates attaining above average marks for their qualifications.

Seven graduates commenced with the Office in February 2010 and participated in an intensive program which included technical training from senior staff from Assurance Services. With their current auditing experience, this specialist group could offer meaningful and relevant insights on the realities and challenges of today's public sector environment in readiness for the graduates' role in the Office.

Planning for our graduate recruitment process for 2011 is advanced and we are actively seeking new and innovative approaches to ensure we attract the best candidates for this Office and for the public sector.

Gaining a graduate position with the Office of the Auditor General was in itself an immediate reward. I found it prestigious being part of the team that represents the leading public sector watchdog in the whole of Western Australia. As a new member of the audit team I was well received and provided with both theoretical and practical training which prepared me for the daily duties as an auditor. As a graduate I was not restricted to working in the Office within the metropolitan area – I had an opportunity to travel by air to other regions within the state. Above all, I have significantly benefited from the flexible working time arrangements which made it possible for me to keep a balance between work commitments and family demands.

– Levy Mpofu, Auditor



Employee performance review and development program

We have continued to use the GROWTH performance management program to assist employees to reach their full potential, maximise job satisfaction and identify career development opportunities.

The purpose of GROWTH is to:

- provide a framework for reviewing performance against objectives and Office goals
- provide clarity and direction to staff to contribute to a productive work environment
- provide employees with the opportunity to identify any required areas of support
- provide a framework for feedback between managers and staff
- identify immediate learning needs and longer-term career development.

Employees in Assurance Services took part in a more specialised performance management program linked to a skills acquisition matrix. The process is part of a career progression path based on acquisition of identified skill sets.

Our Office actively supports performance review and development as a means for employees to receive meaningful, constructive and objective feedback and identify opportunities for specific professional and personal development.

As part of our continuous improvement commitment, we are currently reviewing the GROWTH program to identify any potential enhancements and to ensure it is aligned with our new Strategic Plan 2011-2016.

Learning and development

Throughout 2009-10 the Office established and implemented an ambitious new Professional Development Program, which has been designed to make the most of our own employee expertise. The program aims to deliver targeted, high quality professional development to enhance and build internal capability.

Professional development sessions are held each month and comprise a mix of technical and general subjects, to meet our diverse operational and corporate governance requirements. The sessions are held on site, allowing us to save on cost and minimise operational down-time.

The 2009-10 sessions included:

- assurance and other audit methodologies
- forensic accounting techniques
- public interest disclosures
- information systems security
- accountable and ethical decision-making
- carbon credits
- policies.

Following its 12 month introduction, the Professional Development program is now under review. Some of the initiatives likely to be introduced to further enhance the program include the use of external professional experts and training sessions that will target specific groups within the Office.

We have also begun to utilise online training modules that allow employees to complete self-paced training. In 2009-10, online compliance training was implemented for Record Awareness Training and Electronic Documents and Records Management System (EDRMS) training for TRIM.

Internships, traineeships and work experience programs

Our Office continues to support school-based trainees, internships and work experience programs as a way of developing and nurturing emerging talent in the audit and corporate services areas.

We actively support the [Public Sector Internship Program](#), nominating each year for placements. Through partnerships with universities, we offer opportunities to undergraduates to gain experience in our various audit divisions.

We have also embarked on a strategy to enhance the Office's stature as a research and learning organisation. The Standards and Quality Division is investigating opportunities for research partnerships, and we anticipate that a number of innovative programs will be established in the coming year.

Equity and diversity

The Office values diversity and fosters an environment that is inclusive and free from bias. The Office employs a diverse workforce with over 40 per cent of staff from culturally and linguistically diverse and non-English speaking backgrounds.

Table 15 shows the representation of each diversity group as a percentage of our workforce at 30 June 2010.

	2008 (%)	2009 (%)	2010 (%)
Women	57	59	58.5
Indigenous Australians	0.8	0.8	0
People from culturally diverse backgrounds	50	53	40.6
People with disabilities	4.3	4.1	3.3
Youth	9.6	11.3	13

Table 15

Equal Employment Opportunity training is provided to graduates and new staff as part of their induction program, and as a refresher to all staff every two years. In 2009-10 we engaged the services of a speech therapist to assist some employees to refine their English pronunciation skills.

This year we have had three of our female staff members successfully apply for prestigious leadership programs. These were the [Australian and New Zealand School of Government Executive Leadership program](#), and the WA

[Public Sector Pathway to Leadership and Foundations of Leadership programs](#). These high-level programs encourage staff in leadership roles across the Office to expand their skills and to further enhance their leadership capabilities.

Grievance resolution

The Office of the Auditor General is committed to providing an inclusive work environment for all staff that is free of discrimination and bias. We currently have six employees across the various work areas of our Office trained in grievance resolution in the workplace. In 2009-10 no grievances or breach claims were received.

Office consultative committee

The Office operates an Office Consultative Committee that meets quarterly to discuss issues affecting staff. The committee provides the executive with comments on staff-related policies and procedures, and provides an important avenue for internal communication.

During my time at the Office of the Auditor General, I have worked on many different projects including an extensive upgrade and replacement program of laptops, printers, monitors and software.

The best part in undertaking a School Based Traineeship in the WA State Government is that it is a stable working environment. I have gained on the job training from experienced people in a professional environment.

An achievement I am particularly proud of was my nomination as the School Based Trainee of the Year. I was also proud to have presented an Induction Session to the Trainees of 2010-11 and an information session at a School's Expo Conference in May 2010.

I have enjoyed working at the Office of the Auditor General and I am gaining invaluable skills that will benefit me long into the future. It is a friendly work environment and I am treated like a member of the team and not just a student on work experience.

– Michelle Jillard,
IT Support Trainee



Risk and business continuity

During the year, we reviewed our risk framework, established clear guidelines for managing, reporting and monitoring all risks and updated our Business Continuity Plan. This Plan is monitored by our Risk Management Committee and is under continual review to ensure we are prepared to continue critical business operations should an adverse event occur.

The Information Resources Branch factors a number of business continuity features into the design of critical systems and network services.

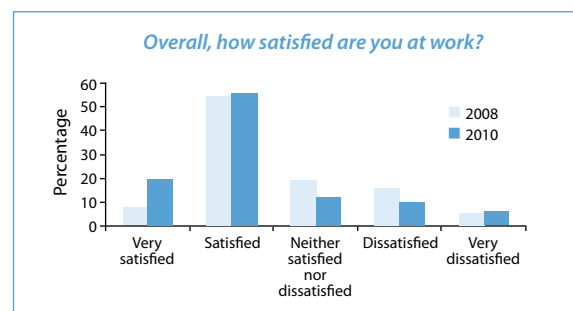
These features include:

- hardware and/or software redundancy is factored into critical systems
- critical computer systems operate in a mirrored 'fail-over' environment allowing rapid activation of a backup system in the event of a primary system failure
- critical internal components, network switches and disk drives are replicated, removing single points of failure
- an automated tape backup system is in place with backup tapes moved offsite for safe storage
- automated real-time monitoring and reporting of environmental and system conditions provide early warning of potential issues
- automated security management software products minimise the risk of adverse security events impacting on critical system operation.

Staff survey

In March we conducted a voluntary staff survey that gave all our employees the opportunity to provide feedback on their experience, thoughts, opinions and issues related to their employment with the Office. We last conducted this survey in 2008 when 58 per cent of staff participated. This year the participation rate increased significantly with 78 per cent of available staff participating.

The clear majority of responses were overwhelmingly positive, with 74 per cent of staff saying they were either very satisfied or satisfied at work. This is up from 61 per cent in 2008.



Some areas of concern were identified including communication, the work environment and professional development programs. These areas had already been identified as opportunities for improvement and the Office has a number of strategies in place to address these, primarily through the new Strategic Plan 2011-2016.

Social club

We have an active social club that encourages staff to socialise both within the workplace and outside business hours away from the workplace. The club also makes arrangements for staff to participate in fundraising for charities.

Parliamentary liaison program

The Office continues to provide information to Parliament as one of its core functions. A calendar of planned regular contacts, including meetings, hearings, briefings and presentations, is in place and supports the Office communication strategy. During the year we conducted a client survey with Members of Parliament. Further information on this survey can be found on page 18.

Communications

The work of the Auditor General attracts wide interest from Parliament, the media and the public. In January 2010 a Manager Communications was appointed to manage the publishing process and the communication and media liaison activities associated with it. The role also carries responsibility for internal communications with staff, electronic and print communications and strategic communication planning.

Wellness committee

In November 2009 the Office formed a Wellness Committee to further promote the health and wellbeing of our staff.

Events and initiatives organised by the Committee are aimed to develop a wellness culture within the Office to foster a positive, uplifting workplace that encourages and supports a healthy work-life balance amongst our staff.

This year we engaged an external provider to conduct a Healthy Heart check program for all staff which assessed the risk factor of an individual developing a cardiovascular disease in the next five years. Advice was provided to each participating staff member on any lifestyle changes that were needed based on the outcome of their healthy heart check.

Wellness tips and information are also provided on the Office intranet and a Wednesday walking group was coordinated throughout summer.

Information management

In 2008-09 the State Records Commission approved the five-year Recordkeeping Plan for this Office and this year we introduced the latest version of the TRIM Electronic Documents and Records System. To support the introduction of this new program we provided online records awareness training and online TRIM training for all staff, with ongoing training provided.

This year we also created and filled the new position of Coordinator Information Management Systems. The primary purpose of this role has been to develop and enhance the integration of various information management functions (including TRIM and intranet).

Information technology

In October 2009 our new [website](#) was officially launched. The new design reflects our current branding and the format makes it easier for the user to move around the site and to access the information they need. Interactive features such as hyperlinks and bookmarks allow for easier access and manoeuvrability within our reports.

Our new intranet, which was introduced in March 2009, has been continually developed over the last year to further enhance the content management and collaboration activities for the whole Office. This site is successfully providing our staff with rapid access to corporate information and resources. It has also enhanced office communication, through contemporary communication techniques including an 'Auditor General's Blog' and discussion forums. We will continue to develop this technology to further enhance its potential.

This year we have also replaced our old information systems storage network with a new state of the art storage network. Older storage network solutions are renowned for their excessive energy requirements and our new storage network has significantly lower energy

consumption requirements. We have not only established a more effective and efficient storage network, we have also reduced our carbon footprint.

Green team

The Office runs a 'Green Team' program to increase awareness of sustainable development issues and to assist employees in making choices that respect the environment. This program also reinforces the Office's efforts to economise on the use of resources and to minimise waste.

In addition, our Energy Management Plan contains initiatives and targets aimed at reducing our energy use and the associated greenhouse gases.



In 2009, a number of staff travelled to a farm in Beverley to participate in a 'Green Team' planting program.

Disclosures and Legal Compliance

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Certification of Financial Statements

For the year ended 30 June 2010

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The accompanying financial statements of the Office of the Auditor General have been prepared in compliance with the provisions of the *Financial Management Act 2006* from proper accounts and records to present fairly the financial transactions for the financial year ended 30 June 2010 and the financial position as at 30 June 2010.

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



DAVID PARRICK
CHIEF FINANCE OFFICER
29 July 2010



COLIN MURPHY
ACCOUNTABLE AUTHORITY
29 July 2010

Independent Auditor's Opinion

Financial Statements for the year ended 30 June 2010

CONTENTS

**INDEPENDENT AUDIT REPORT
TO THE PARLIAMENT OF WESTERN AUSTRALIA**

**OFFICE OF THE AUDITOR GENERAL
FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010**

SCOPE

I have audited the accounts, financial statements and controls of the Office of the Auditor General. The financial statements comprise the Statement of Financial Position as at 30 June 2010, Statement of Comprehensive Income, Statement of Changes in Equity, Statement of Cash Flows and Summary of Consolidated Account Appropriations and Income Estimates for the year ended 30 June 2010, a summary of significant accounting policies and other explanatory notes under the provisions of the Financial Management Act 2006 and Auditor General Act 2006.

The Accountable Authority is responsible for keeping proper accounts and maintaining adequate system of internal control, preparing and presenting the financial statements, and complying with the Act and other relevant written law. The primary responsibility for the detection, investigation and prevention of irregularities rests with the Accountable Officer.

My audit was performed in accordance with section 40 of the Auditor General Act 2006 to express an opinion on the financial statements and controls based on a reasonable level of assurance. The audit procedures included examining, on a test basis, the controls exercised by the Office of the Auditor General to ensure financial regularity in accordance with legislative provisions, evidence to provide reasonable assurance that the amounts and other disclosures in the financial statements are free of material misstatement and the evaluation of accounting policies and significant accounting estimates. These procedures have been undertaken to form an opinion as to whether, in all material respects, the financial statements are presented fairly in accordance with Accounting Standards and other mandatory professional reporting requirements in Australia and the Treasurer's Instructions, so as to present a view which is consistent with our understanding of the Office of the Auditor General's financial position, the results of its operations and its cash flows.

The audit opinion expressed below has been formed on the above basis.

AUDIT OPINION

In my opinion:

- (i) The financial statements of the Office of the Auditor General are based on proper accounts and present fairly, in accordance with Accounting Standards (including the Australian Accounting Interpretations) and the Treasurer's Instructions, the financial position of the Office of the Auditor General as at 30 June 2010 and operating results and cash flows ended on that date; and
- (ii) The controls exercised by the Office of the Auditor General provide reasonable assurance that the receipt, expenditure and investment of moneys, the acquisition and disposal of property and the incurring of liabilities have been in accordance with legislative provisions.



Bentleys
Thinking ahead

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BENTLEYS
Chartered Accountants



CHRIS WATTS
Director

DATED at PERTH this 29th day of July 2010



Chartered Accountants
NUMBER ONE IN AUSTRALIA

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INDEPENDENT FIRMS

Statement of Comprehensive Income

For the year ended 30 June 2010

CONTENTS

	Note	2010 \$000	2009 \$000
COST OF SERVICES			
Expenses			
Employee benefits expense	6	10 254	9 163
Supplies and services	7	7 167	7 114
Depreciation and amortisation expense	8	411	323
Accommodation expenses	9	1 231	1 210
Other expenses	10	31	22
Total Cost of Services		19 094	17 832
Income			
<i>Revenue</i>			
User charges and fees	11	14 562	0
Other revenue	12	26	73
Total Revenue		14 588	73
<i>Gains</i>			
Gain on disposal of non-current assets	13	33	0
Total Gains		33	0
Total income other than income from State Government		14 621	73
NET COST OF SERVICES		4 473	17 759
INCOME FROM STATE GOVERNMENT			
Service appropriation	14	4 793	17 907
Resources received free of charge		20	10
Total income from State Government		4 813	17 917
SURPLUS FOR THE PERIOD		340	158
Other comprehensive income		0	0
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		340	158

The Statement of Comprehensive Income should be read in conjunction with the accompanying notes.

Statement of Financial Position

As at 30 June 2010

CONTENTS

	Note	2010 \$000	2009 \$000
ASSETS			
Current Assets			
Cash and cash equivalents	24	2 361	1 359
Receivables	16	5 445	478
Amounts receivable for services	17	200	293
Total Current Assets		8 006	2 130
Non-Current Assets			
Restricted cash and cash equivalents	15, 24	175	132
Property, plant and equipment	18	520	560
Intangible assets	19	270	453
Amounts receivable for services	17	914	714
Total Non-Current Assets		1 879	1 859
TOTAL ASSETS		9 885	3 989
LIABILITIES			
Current Liabilities			
Payables	21	732	652
Provisions	22	1 685	1 826
Total Current Liabilities		2 417	2 478
Non-Current Liabilities			
Provisions	22	786	189
Total Non-Current Liabilities		786	189
TOTAL LIABILITIES		3 203	2 667
NET ASSETS		6 682	1 322
EQUITY			
Contributed equity	23	5 902	882
Accumulated surplus		780	440
TOTAL EQUITY		6 682	1 322

The Statement of Financial Position should be read in conjunction with the accompanying notes.

Statement of Changes in Equity

For the year ended 30 June 2010

CONTENTS

	Note	Contributed equity \$000	Accumulated surplus \$000	Total equity \$000
Balance at 1 July 2008	23	737	282	1 019
Total comprehensive income for the year			158	158
Transactions with owners in their capacity as owners:				
Capital appropriations		145		145
Total		145		145
Balance at 30 June 2009		882	440	1 322
Balance at 1 July 2009		882	440	1 322
Total comprehensive income for the year			340	340
Transactions with owners in their capacity as owners:				
Capital appropriations		255		255
Other contributions by owners ^(a)		4 765	0	4 765
Total		5 020	0	5 020
Balance at 30 June 2010		5 902	780	6 682

The Statement of Changes in Equity should be read in conjunction with the accompanying notes.

- (a) In 2009-10 the Office became subject to a net appropriation determination. Previously audit fees were paid into the Consolidated Account and disclosed as administered transactions. Under the net appropriation determination these fees are retained by the Office and the amount of the parliamentary appropriation reduced accordingly. The net administered assets were transferred to the Office as a contribution by owner in accordance with Treasurer's instruction 955 *Contributions by Owners Made to Wholly-Owned Public Sector Entities*. Refer also to note 2(c), 2(d), note 2(e) and note 37.

Statement of Cash Flows

For the year ended 30 June 2010

[CONTENTS](#)

	Note	2010 \$000	2009 \$000
CASH FLOWS FROM STATE GOVERNMENT			
Service appropriation		4 393	17 333
Capital appropriations		255	145
Holding account drawdowns		293	302
Administered cash contributed by owner		85	0
Net cash provided by State Government		5 026	17 780
Utilised as follows:			
CASH FLOWS FROM OPERATING ACTIVITIES			
Payments			
Employee benefits		(9 745)	(8 959)
Supplies and services		(7 179)	(7 536)
Accommodation		(1 231)	(1 210)
GST payments on purchases		(1 618)	(1 566)
Other payments		(31)	(22)
Receipts			
User charges and fees		14 314	0
GST receipts on sales		1 398	1 395
GST receipts from taxation authority		233	173
Other receipts		25	275
Net cash used in operating activities	24	(3 834)	(17 450)
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from sale of non-current physical assets		33	0
Purchase of non-current physical assets		(180)	(580)
Net cash used in investing activities		(147)	(580)
Net increase/(decrease) in cash and cash equivalents		1 045	(250)
Cash and cash equivalents at the beginning of period		1 491	1 741
CASH AND CASH EQUIVALENTS AT THE END OF PERIOD	24	2 536	1 491

The Statement of Cash Flows should be read in conjunction with the accompanying notes.

Summary of Consolidated Account Appropriations and Income Estimates

For the year ended 30 June 2010

[CONTENTS](#)

	2010 Estimate \$000	2010 Actual \$000	Variance \$000	2010 Actual \$000	2009 Actual \$000	Variance \$000
DELIVERY OF SERVICES						
Item 69 Net amount appropriated to deliver services	16 764	4 276	(12 488)	4 276	17 406	(13 130)
Amount Authorised by Other Statutes						
– <i>Salaries and Allowances Act 1975</i>	517	517	0	517	501	16
Total appropriations provided to deliver services	17 281	4 793	(12 488)	4 793	17 907	(13 114)
CAPITAL						
Item 148 Capital appropriations	255	255	0	255	145	110
GRAND TOTAL	17 536	5 048	(12 488)	5 048	18 052	(13 004)
DETAILS OF EXPENSES BY SERVICE						
Performance Auditing	17 079	19 094	2 015	19 094	17 832	1 262
Total Cost of Services	17 079	19 094	2 015	19 094	17 832	1 262
Less total income	(20)	(14 621)	(14 601)	(14 621)	(73)	(14 548)
Net Cost of Services	17 059	4 473	(12 586)	4 473	17 759	(13 286)
Adjustments	222	320	98	320	148	172
Total appropriations provided to deliver services	17 281	4 793	(12 488)	4 793	17 907	(13 114)
CAPITAL EXPENDITURE						
Purchase of non-current physical assets	548	180	368	180	580	(400)
Adjustments for other funding sources	(293)	75	(368)	75	(435)	510
Capital appropriations	255	255	0	255	145	110
DETAILS OF INCOME ESTIMATES						
Income disclosed as Administered Income	12 733	169	(12 564)	169	13 949	(13 780)

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

Note 28 'Explanatory statement' provides details of any significant variations between estimates and actual results for 2010 and between the actual results for 2009 and 2010.

Notes to the Financial Statements

For the year ended 30 June 2010

1. AUSTRALIAN ACCOUNTING STANDARDS

General

The Office of the Auditor General's (the Office) financial statements for the year ended 30 June 2010 have been prepared in accordance with Australian Accounting Standards. The term 'Australian Accounting Standards' refers to Standards and Interpretations issued by the Australian Accounting Standard Board (AASB).

The Office has adopted any applicable, new and revised Australian Accounting Standards from their operative dates.

Early adoption of standards

The Office cannot early adopt an Australian Accounting Standard unless specifically permitted by TI 1101 *Application of Australian Accounting Standards and Other Pronouncements*. No Australian Accounting Standards that have been issued or amended but not operative have been early adopted by the Office for the annual reporting period ended 30 June 2010.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) General statement

The financial statements constitute general purpose financial statements that have been prepared in accordance with Australian Accounting Standards, the Framework, Statements of Accounting Concepts and other authoritative pronouncements of the AASB as applied by the Treasurer's instructions. Several of these are modified by the Treasurer's instructions to vary application, disclosure, format and wording.

The *Financial Management Act* and the Treasurer's instructions are legislative provisions governing the preparation of financial statements and take precedence over Australian Accounting Standards, the Framework, Statements of Accounting Concepts and other authoritative pronouncements of the AASB.

Where modification is required and has had a material or significant financial effect upon the reported results, details of that modification and the resulting financial effect are disclosed in the notes to the financial statements

(b) Basis of preparation

The financial statements have been prepared on the accrual basis of accounting using the historical cost convention.

The accounting policies adopted in the preparation of the financial statements have been consistently applied throughout all periods presented unless otherwise stated.

The financial statements are presented in Australian dollars and all values are rounded to the nearest thousand dollars (\$'000).

The key assumptions made concerning the future, and other key sources of estimation uncertainty at the end of the reporting period that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are disclosed at note 4 'Key sources of estimation uncertainty'.

(c) Reporting entity

The reporting entity comprises the Office of the Auditor General.

Mission

The Office's mission is to serve the public interest by providing Parliament with independent and impartial information regarding public sector accountability and performance.

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

Services

The Office provides the following service:

- Performance Auditing

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

Notes to the Financial Statements

For the year ended 30 June 2010

(d) Contributed equity

AASB Interpretation 1038 *Contributions by Owners Made to Wholly-Owned Public Sector Entities* requires transfers in the nature of equity contributions, other than as a result of a restructure of administrative arrangements, to be designated by the Government (the owner) as contributions by owners (at the time of, or prior to transfer) before such transfers can be recognised as equity contributions. Capital appropriations and the transfer of net assets from government have been designated as contributions by owners by TI 955 *Contributions by Owners made to Wholly-Owned Public Sector Entities* and have been credited directly to Contributed equity.

The transfer of net assets to/from other agencies, other than as a result of a restructure of administrative arrangements, are designated as contributions by owners where the transfers are non-discretionary and non-reciprocal.

(e) Income

Revenue recognition

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

Sale of goods

Revenue is recognised from the sale of goods and disposal of other assets when the significant risks and rewards of ownership transfer to the purchaser and can be measured reliably.

Provision of services

Revenue is recognised on delivery of the service to the client or by reference to the stage of completion of the transaction.

Service appropriations

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

Net appropriation determination

The Treasurer may make a determination providing for prescribed receipts to be retained for services under the control of the Office. In accordance with the determination made during 2009-10 the Office retained \$14.6 million in 2010 (\$73 000 in 2009) from the following:

- Assurance audit fees
- Government vehicle scheme
- Other Office revenue.

In 2009-10 the determination was amended to include audit fees. Previously audit fees were paid into the Consolidated Account. Under the net appropriation determination these fees are retained by the Office and the amount of parliamentary appropriation reduced accordingly. Refer to notes at the Statement of Changes in Equity, note 2(c), 2(d) and note 37.

Grants, donations, gifts and other non-reciprocal contributions

Revenue is recognised at fair value when the Office obtains control over the assets comprising the contributions, usually when cash is received.

Other non-reciprocal contributions that are not contributions by owners are recognised at their fair value. Contributions of services are only recognised when a fair value can be reliably determined and the services would be purchased if not donated.

Gains

Gains may be realised or unrealised and are usually recognised on a net basis. These include gains arising on the disposal of non-current assets.

Notes to the Financial Statements

For the year ended 30 June 2010

(f) Property, plant and equipment

Capitalisation/expensing of assets

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

Initial recognition and measurement

All items of property, plant and equipment are initially recognised at cost.

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

Subsequent measurement

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

Depreciation

All non-current assets having a limited useful life are systematically depreciated over their estimated useful lives in a manner that reflects the consumption of their future economic benefits.

Estimated useful lives for each class of depreciable asset are:

- Plant and equipment 10 years
- Office equipment 10 years
- Computer equipment 3 years

(g) Intangible assets

Capitalisation/expensing of assets

Acquisitions of intangible assets costing \$5 000 or more and internally generated intangible assets costing \$50 000 or more are capitalised. The cost of utilising the assets is expensed (amortised) over their useful life. Costs incurred below these thresholds are immediately expensed directly to the Statement of Comprehensive Income.

All acquired and internally developed intangible assets are initially recognised at cost. For assets acquired at no cost or for nominal cost the cost is their fair value at the date of acquisition.

The cost model is applied for subsequent measurement requiring the asset to be carried at cost less any accumulated amortisation and accumulated impairment losses.

Amortisation for intangible assets with finite useful lives is calculated for the period of the expected benefit (estimated useful life) on the straight line basis using rates which are reviewed annually. All intangible assets controlled by the Office have a finite useful life and zero residual value.

The expected useful lives for each class of intangible asset are:

- Software^(a) 3 years

(a) Software that is not integral to the operation of any related hardware

Computer software

Software that is an integral part of the related hardware is treated as property, plant and equipment. Software that is not an integral part of the related hardware is treated as an intangible asset. Software costing less than \$5 000 is expensed in the year of acquisition.

Website costs

Website costs are charged as expenses when they are incurred unless they relate to the acquisition or development of an asset when they may be capitalised and amortised. Generally, costs in relation to feasibility studies during the planning phase of a website, and ongoing costs of maintenance during the operating phase are expensed. Costs incurred in building or enhancing a website, to the extent that they represent probable future economic benefits that can be reliably measured, are capitalised.

Notes to the Financial Statements

For the year ended 30 June 2010

(h) Impairment of assets

Property, plant and equipment, and intangible assets are tested for any indication of impairment at the end of each reporting period. Where there is an indication of impairment, the recoverable amount is estimated. Where the recoverable amount is less than the carrying amount, the asset is considered impaired and is written down to the recoverable amount and an impairment loss is recognised. As the Office is a not-for-profit entity, unless an asset has been identified as a surplus asset, the recoverable amount is the higher of an asset's fair value less costs to sell and depreciated replacement cost.

The risk of impairment is generally limited to circumstances where an asset's depreciation is materially understated, where the replacement cost is falling or where there is a significant change in useful life. Each relevant class of assets is reviewed annually to verify that the accumulated depreciation/amortisation reflects the level of consumption or expiration of asset's future economic benefits and to evaluate any impairment risk from falling replacement costs.

Intangible assets with an indefinite useful life and intangible assets not yet available for use are tested for impairment at the end of each reporting period irrespective of whether there is any indication of impairment.

The recoverable amount of assets identified as surplus assets is the higher of fair value less costs to sell and the present value of future cash flows expected to be derived from the asset. Surplus assets at cost are tested for indications of impairment at the end of each reporting period.

(i) Leases

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

(j) Financial instruments

In addition to cash, the Office has two categories of financial instrument:

- Loans and receivables
- Financial liabilities measured at amortised cost.

Financial instruments have been disaggregated into the following classes:

- Financial Assets
 - Cash and cash equivalents
 - Restricted cash and cash equivalents
 - Receivables
 - Amounts receivable for services
- Financial Liabilities
 - Payables

Initial recognition and measurement of financial instruments is at fair value which normally equates to the transaction cost or the face value. Subsequent measurement is at amortised cost using the effective interest method.

The fair value of short-term receivables and payables is the transaction cost or the face value because there is no interest rate applicable and subsequent measurement is not required as the effect of discounting is not material.

(k) Cash and cash equivalents

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

Notes to the Financial Statements

For the year ended 30 June 2010

(l) Accrued salaries

Accrued salaries (refer to note 21 'Payables') represent the amount due to staff but unpaid at the end of the financial year, as the pay date for the last pay period for that financial year does not coincide with the end of the financial year. Accrued salaries are settled within a fortnight of the financial year end. The Office considers the carrying amount of accrued salaries to be equivalent to its net fair value.

The accrued salaries suspense account (refer to note 15 'Restricted cash and cash equivalents') consists of amounts paid annually into a suspense account over a period of 10 financial years to largely meet the additional cash outflow in each eleventh year when 27 pay days occur instead of the normal 26. No interest is received on this account.

(m) Amounts receivable for services (holding account)

The Office receives funding on an accrual basis that recognises the full annual cash and non-cash cost of services. The appropriations are paid partly in cash and partly as an asset (holding account receivable) that is accessible on the emergence of the cash funding requirement to cover leave entitlements and asset replacement.

(n) Receivables

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

(o) Payables

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

(p) Provisions

Provisions are liabilities of uncertain timing or amount and are recognised where there is a present legal or constructive obligation as a result of a past event and when the outflow of resources embodying economic benefits is probable and a reliable estimate can be made of the amount of the obligation. Provisions are reviewed at the end of each reporting period.

Provisions – employee benefits

Annual leave and long service leave

The liability for annual and long service leave expected to be settled within 12 months after the reporting period is recognised and measured at the undiscounted amounts expected to be paid when the liabilities are settled. Annual and long service leave expected to be settled more than 12 months after the reporting period is measured at the present value of amounts expected to be paid when the liabilities are settled. Leave liabilities are in respect of services provided by employees up to the end of the reporting period.

When assessing expected future payments consideration is given to expected future wage and salary levels including non-salary components such as employer superannuation contributions. In addition, the long service leave liability also considers the experience of employee departures and periods of service.

The expected future payments are discounted using market yields at the end of the reporting period on national government bonds with terms to maturity that match, as closely as possible, the, estimated future cash outflows.

A liability for long service leave is recognised after an employee has completed two years of service. An actuarial assessment of long service leave undertaken by PricewaterhouseCoopers Actuaries at 31 December 2009 determined that the liability measured using the short-hand method was not materially different from the liability measured using the present value of expected future payments. The Office has elected to use the short-hand method.

All annual leave and unconditional long service leave provisions are classified as current liabilities as the Office does not have an unconditional right to defer settlement of the liability for at least 12 months after the reporting period.

Notes to the Financial Statements

For the year ended 30 June 2010

Purchased leave

The provision for purchased leave relates to Public Service employees who have entered into an agreement to self-fund up to an additional 10 weeks leave per calendar year. The provision recognises the value of salary set aside for employees and is measured at the nominal amounts expected to be paid when the liabilities are settled. This liability is measured on the same basis as annual leave.

Superannuation

The Government Employees Superannuation Board (GESB) in accordance with legislative requirements administers public sector superannuation arrangements in Western Australia.

Employees may contribute to the Pension Scheme, a defined benefit pension scheme now closed to new members or the Gold State Superannuation Scheme (GSS), a defined benefit lump sum scheme also closed to new members.

The Office has no liabilities under the Pension Scheme or the GSS. The liabilities for the unfunded Pension Scheme and the unfunded GSS transfer benefits due to members who transferred from the Pension Scheme, are assumed by the Treasurer. All other GSS obligations are funded by concurrent contributions made by the Office to the GESB. The concurrently funded part of the GSS is a defined contribution scheme as these contributions extinguish all liabilities in respect of the concurrently funded GSS obligations.

Employees commencing employment prior to 16 April 2007 who were not members of either the Pension Scheme or the GSS became non-contributory members of the West State Superannuation Scheme (WSS). Employees commencing employment on or after 16 April 2007 became members of the GESB Super Scheme (GESBS). Both of these schemes are accumulation schemes. The Office makes concurrent contributions to GESB on behalf of employees in compliance with the *Commonwealth Government's Superannuation Guarantee (Administration) Act 1992*. These contributions extinguish the liability for superannuation charges in respect of the WSS and GESBS.

The GESB makes all benefit payments in respect of the Pension Scheme and GSS, and is recouped from the Treasurer for the employer's share.

Provisions – other

Employment on-costs

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

(q) Superannuation expense

The superannuation expense in the Statement of Comprehensive Income comprises of employer contributions paid to the GSS (concurrent contributions), the WSS and the GESBS. Note that the employer contribution paid to GESB in respect of the GSS are paid back into the Consolidated Account by the GESB.

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

(r) Resources received free of charge or for nominal cost

Resources received free of charge or for nominal cost that can be reliably measured are recognised as income and as assets or expenses as appropriate, at fair value.

Where assets or services are received from another State Government agency, these are separately disclosed under Income from State Government in the Statement of Comprehensive Income.

(s) Comparative figures

Comparative figures are, where appropriate, reclassified to be comparable with the figures presented in the current financial year.

Notes to the Financial Statements

For the year ended 30 June 2010

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

The Office makes key estimates and assumptions concerning the future. These estimates and assumptions are based on historical experience and various other factors that have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities within the next financial year.

Long service leave

In calculating the Office's long service leave provision, several estimations and assumptions have been made. These include expected future salary rates, salary inflation, discount rates, employee retention rates and expected future payments. Any changes in these estimations and assumptions may impact on the carrying amount of the long service leave provision.

5. DISCLOSURE OF CHANGES IN ACCOUNTING POLICY AND ESTIMATES

Initial application of an Australian Accounting Standard

The Office has applied the following Australian Accounting Standards effective for annual reporting periods beginning on or after 1 July 2009 that impacted on the Office.

- AASB 101 *Presentation of Financial Statements* (September 2007). This Standard has been revised and introduces a number of terminology changes as well as changes to the structure of the Statement of Changes in Equity and the Statement of Comprehensive Income. It is now a requirement that owner changes in equity be presented separately from non-owner changes in equity. There is no financial impact resulting from the application of this revised Standard.
- AASB 2007-10 *Further Amendments to Australian Accounting Standards arising from AASB 101*. This Standard changes the term 'general purpose financial report' to 'general purpose financial statements', where appropriate in Australian Accounting Standards and the Framework to better align with IFRS terminology. There is no financial impact resulting from the application of this Standard.
- AASB 2009-2 *Amendments to Australian Accounting Standards – Improving Disclosures about Financial Instruments AASB 4, AASB 7, AASB 1023 & AASB 1038*. This Standard amends AASB 7 requires enhanced disclosures about fair value measurements and liquidity risk with respect to financial instruments. There is no financial impact resulting from the application of this Standard.

Future impact of Australian Accounting Standards not yet operative

The Office cannot early adopt an Australian Accounting Standard unless specifically permitted by TI 1101 *Application of Australian Accounting Standards and Other Pronouncements*. Consequently, the Office has not applied early any of the following Australian Accounting Standards that have been issued that may impact the Office. Where applicable, the Office plans to apply these Australian Accounting Standards from their application date.

	Operative for reporting periods beginning on/after
AASB 2009-11 <i>Amendments to Australian Accounting Standards arising from AASB 9 [AASB 1, 3, 4, 5, 7, 101, 102, 108, 112, 118, 121, 127, 128, 131, 132, 136, 139, 1023 & 1038 and Interpretations 10 & 12]</i> .	1 January 2013
The amendment to AASB 7 requires modification to the disclosure of categories of financial assets. The Office does not expect any financial impact when the Standard is first applied. The disclosure of categories of financial assets in the notes will change.	

Notes to the Financial Statements

For the year ended 30 June 2010

CONTENTS

	2010 \$000	2009 \$000
6. EMPLOYEE BENEFITS EXPENSE		
Wages and salaries ^(a)	8 353	7 584
Superannuation – defined contribution plans ^(b)	826	776
Annual leave ^(c)	766	593
Long service leave ^(c)	309	210
	10 254	9 163

(a) Includes the value of the fringe benefit to the employee plus the fringe benefits tax component.

(b) Defined contribution plans include West State, Gold State and GESB Super Scheme (contributions paid).

(c) Includes a superannuation contribution component.

Employment on-costs such as workers' compensation insurance are included at note 10 'Other expenses'.

The employment on-costs liability is included at note 22 'Provisions'.

7. SUPPLIES AND SERVICES

Contracted audit work	5 422	5 633
Other services and contracts	495	456
Repairs and maintenance	299	168
Administration	207	183
Other staffing costs	170	197
Travel and accommodation	169	113
Lease expenses	147	142
Consumables	144	130
Communications	75	72
Other	35	2
Advertising	4	18
	7 167	7 114

	2010 \$000	2009 \$000
8. DEPRECIATION AND AMORTISATION EXPENSE		
Depreciation		
Office and computer equipment	148	100
Plant and equipment	39	30
Total depreciation	187	130
Amortisation		
Intangible assets	224	193
Total amortisation	224	193
Total depreciation and amortisation	411	323

9. ACCOMMODATION EXPENSES

Office rent	885	877
Office parking	134	127
Monthly outgoings	212	206
	1 231	1 210

10. OTHER EXPENSES

Employment on-costs ^(a)	17	1
Audit fee ^(b)	14	21
	31	22

(a) Includes workers' compensation insurance and other employment on-costs. The on-costs liability associated with the recognition of annual and long service leave liability is included at note 22 'Provisions'. Superannuation contributions accrued as part of the provision for leave are employee benefits and are not included in employment on-costs.

(b) See also note 31 'Remuneration of auditor'.

Notes to the Financial Statements

For the year ended 30 June 2010

CONTENTS

	2010 \$000	2009 \$000
11. USER CHARGES AND FEES		
Audit fees	14 562	0
	<u>14 562</u>	<u>0</u>

12. OTHER REVENUE

Contributions for the use of motor vehicles	26	22
Miscellaneous	0	51
	<u>26</u>	<u>73</u>

13. NET GAIN ON DISPOSAL OF NON-CURRENT ASSETS

Costs of disposal of non-current assets

Plant and equipment	0	0
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Proceeds from disposal of non-current assets

Plant and equipment	33	0
Net gain	<u>33</u>	<u>0</u>

	2010 \$000	2009 \$000
14. INCOME FROM STATE GOVERNMENT		
Appropriation received during the year:		
Service appropriation ^(a)	4 793	17 907
Resources received free of charge ^(b)		
Determined on the basis of the following estimates provided by agencies:		
State Solicitor's Office	20	10
	<u>20</u>	<u>10</u>
	<u>4 813</u>	<u>17 917</u>

(a) Service appropriations are accrual amounts reflecting the net cost of services delivered. The appropriation revenue comprises a cash component and a receivable (asset). The receivable (holding account) comprises the depreciation expense for the year and any agreed increase in leave liability during the year.

(b) Where assets or services have been received free of charge or for nominal cost, the Office recognises revenue equivalent to the fair value of the assets and/or the fair value of those services that can be reliably measured and which would have been purchased if they were not donated, and those fair values shall be recognised as assets or expenses, as applicable. Where the contributions of assets or services are in the nature of contributions by owners, the Office makes an adjustment direct to equity.

15. RESTRICTED CASH AND CASH EQUIVALENTS

Non-current

Accrued salaries suspense account ^(a)	175	132
	<u>175</u>	<u>132</u>

(a) Amount held in the suspense account is only to be used for the purpose of meeting the 27th pay in a financial year that occurs every 11 years.

Notes to the Financial Statements

For the year ended 30 June 2010

CONTENTS

	2010 \$000	2009 \$000
16. RECEIVABLES		
Current		
Accrued revenue	5 063	0
GST receivable	210	233
Receivables	4	78
	5 277	311
Prepayments	168	167
Total current	5 445	478

17. AMOUNTS RECEIVABLE FOR SERVICES

Current ^(a)	200	293
Non-current	914	714
	1 114	1 007

Represents the non-cash component of service appropriations. It is restricted in that it can only be used for asset replacement or payment of leave liability.

(a) Following review this has been reclassified between current and non-current.

	2010 \$000	2009 \$000
18. PROPERTY, PLANT AND EQUIPMENT		
Plant and equipment		
At cost	301	301
Accumulated depreciation	(196)	(157)
	105	144
Office and computer equipment		
At cost	1 187	1 155
Accumulated depreciation	(772)	(739)
	415	416
	520	560

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

	Office and computer equipment \$000	Plant and equipment \$000	Total \$000
2010			
Carrying amount at start of year	416	144	560
Additions	139	0	139
Disposals	8	0	8
Depreciation	(148)	(39)	(187)
Carrying amount at end of year	415	105	520
2009			
Carrying amount at start of year	117	174	291
Additions	399	0	399
Disposals	0	0	0
Depreciation	(100)	(30)	(130)
Carrying amount at end of year	416	144	560

Notes to the Financial Statements

For the year ended 30 June 2010

	2010 \$000	2009 \$000
19. INTANGIBLE ASSETS		
Computer software		
At cost	758	717
Accumulated amortisation	(488)	(264)
	<u>270</u>	<u>453</u>
Reconciliations:		
Computer software		
Carrying amount at start of year	453	465
Additions	41	181
Disposals	0	0
Amortisation expense	(224)	(193)
Carrying amount at end of year	<u>270</u>	<u>453</u>

20. IMPAIRMENT OF ASSETS

There were no indications of impairment to property, plant and equipment, and intangible assets at 30 June 2010.

The Office held no goodwill or intangible assets with an indefinite useful life during the reporting period, and at the end of the reporting period there were no intangible assets not yet available for use.

All surplus assets at 30 June 2010 have either been classified as assets held for sale or written-off.

	2010 \$000	2009 \$000
21. PAYABLES		
Current		
Accrued expenses	524	217
Accrued salaries	153	100
Work in progress contractors payments	55	335
Total current	<u>732</u>	<u>652</u>

Notes to the Financial Statements

For the year ended 30 June 2010

	2010 \$000	2009 \$000
22. PROVISIONS		
Current		
Employee benefits provision		
Annual leave ^(a)	840	751
Long service leave ^(b)	655	873
Purchased leave ^(c)	17	17
	<u>1 512</u>	<u>1 641</u>
Other provisions		
Employment on-costs ^(d)	173	185
	<u>1 685</u>	<u>1 826</u>
Non current		
Employee benefits provision		
Long service leave ^(b)	698	170
Other provisions		
Employment on-costs ^(d)	88	19
	<u>786</u>	<u>189</u>

(a) Annual leave liabilities have been classified as current as there is no unconditional right to defer settlement for at least 12 months after the reporting period. Assessments indicate that actual settlement of the liabilities will occur as follows:

Within 12 months of the end of the reporting period	840	751
More than 12 months after the reporting period	0	0
	<u>840</u>	<u>751</u>

	2010 \$000	2009 \$000
(b) Long service leave liabilities have been classified as current where there is no unconditional right to defer settlement for at least 12 months after the reporting period. Assessments indicate that actual settlement of the liabilities will occur as follows:		
Within 12 months of the end of the reporting period	425	436
More than 12 months after the reporting period	928	607
	<u>1 353</u>	<u>1 043</u>
(c) Purchased leave liabilities have been classified as current as there is no unconditional right to defer settlement for at least 12 months after the reporting period. Assessments indicate that actual settlement of the liabilities will occur as follows:		
Within 12 months of the end of the reporting period	17	17
More than 12 months after the reporting period	0	0
	<u>17</u>	<u>17</u>
(d) The settlement of annual and long service leave liabilities gives rise to the payment of employment on-costs including workers' compensation insurance. The provision is the present value of expected future payments. The associated expense, apart from the unwinding of the discount (finance cost), is disclosed in note 10 'Other expenses'.		

Movements in other provisions

Movements in each class of provisions during the financial year, other than employee benefits, are set out below.

Employment on-cost provision		
Carrying amount at start of year	204	162
Additional provisions recognised	57	42
Carrying amount at end of year	<u>261</u>	<u>204</u>

Notes to the Financial Statements

For the year ended 30 June 2010

	2010 \$000	2009 \$000
23. EQUITY		
Equity represents the residual interest in the net assets of the Office. The government holds the equity interest in the Office on behalf of the community.		
Contributed equity		
Balance at start of period	882	737
Contributions by owners		
Capital appropriation	255	145
Other contributions by owners		
Transfer of net assets from administered	4 765	0
	<u>5 020</u>	<u>145</u>
Balance at end of period	<u>5 902</u>	<u>882</u>
Accumulated surplus		
Balance at start of year	440	282
Result for the period	340	158
Balance at end of year	<u>780</u>	<u>440</u>
Total equity	<u>6 682</u>	<u>1 322</u>

	2010 \$000	2009 \$000
24. NOTES TO THE STATEMENT OF CASH FLOWS		
Reconciliation of cash		
Cash at the end of the financial year as shown in the Statement of Cash Flows is reconciled to the related items in the Statement of Financial Position as follows:		
Cash and cash equivalents	2 361	1 359
Restricted cash and cash equivalents	175	132
	<u>2 536</u>	<u>1 491</u>
Reconciliation of net cost of services to net cash flows provided by/(used in) operating activities		
Net cost of services	(4 473)	(17 759)
Non-cash items:		
Depreciation and amortisation expense	411	323
Resources received free of charge	20	10
(Increase)/decrease in assets:		
Current receivables	(247)	226
Increase/(decrease) in liabilities:		
Current payables	19	(348)
Current provisions	(141)	197
Non-current provisions	597	(37)
Change in GST in receivables/payables	(20)	(62)
Net cash provided by/(used in) operating activities	<u>(3 834)</u>	<u>(17 450)</u>

Notes to the Financial Statements

For the year ended 30 June 2010

	2010 \$000	2009 \$000
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25. RESOURCES PROVIDED FREE OF CHARGE

During the year audit services were provided free of charge to a number of departments, statutory authorities and request audits:

Dwellingup Cemetery	3	2
South Caroling Cemetery	3	1
Agricultural Practices Board of WA	2	0
Chowerup Cemetery	1	1
Landcare Trust	0	3
	9	7

26. COMMITMENTS

Non cancellable operating lease commitments

Commitments for minimum lease payments are payable as follows:

Within 1 year	1 126	1 155
Later than 1 year and not later than 5 years	1 300	2 341
	2 426	3 496

Other expenditure commitments

Private sector contracts in relation to audit services contracted for at the end of the reporting period but not recognised as liabilities, are payable as follows:

Within 1 year	4 103	3 996
Later than 1 year and not later than 5 years	7 901	5 274
	12 004	9 270

These commitments are all inclusive of GST.

27. EVENTS OCCURRING AFTER THE END OF THE REPORTING PERIOD

The were no events occurring after the end of the reporting period.

28. EXPLANATORY STATEMENT

Significant variations between estimates and actual results for income and expense as presented in the financial statement titled 'Summary of Consolidated Account Appropriations and Income Estimates' are shown below: Significant variations are considered to be those greater than 10 per cent or \$250 000.

Total appropriations provided to deliver services

Significant variances between estimate and actual for 2010

	2010 Estimate \$000	2010 Actual \$000	Variance \$000
Total appropriations provided to deliver services for the year	16 764	4 276	(12 488)
Total income	20	14 621	14 601

The decline in appropriation is due to the Office moving to net appropriation funding. This resulted in the Office retaining audit fees charged to agencies as reflected in the total income line above, with a corresponding decrease in appropriations.

Significant variances between actual results for 2009 and 2010

	2010 \$000	2009 \$000	Variance \$000
Total appropriations provided to deliver services for the year	4 276	17 406	(13 130)
Total income	14 621	73	14 548

The decline in appropriation is due to the Office moving to net appropriation funding. This resulted in the Office retaining audit fees charged to agencies as reflected in the total income line above, with a corresponding decrease in appropriations.

Notes to the Financial Statements

For the year ended 30 June 2010

Service expenditure

Significant variances between estimate and actual for 2010

	2010 Estimate \$000	2010 Actual \$000	Variance \$000
Total cost of services	17 079	19 094	2 015
Net cost of services	17 059	4 473	(12 586)

The increase in the total cost of services was as a result of increased employee benefit costs associated with the whole-of-government redundancy program, the recognition of greater long service leave liabilities and additional audit fees to private sector audit contractors. Net cost of services declined as a result of the move to net appropriation.

Significant variances between actual results for 2009 and 2010

	2010 \$000	2009 \$000	Variance \$000
Total cost of services	19 094	17 832	1 262
Net cost of services	4 473	17 759	(13 286)

The increase in the total cost of services was as a result of increased employee benefit costs associated with the whole-of-government redundancy program and the recognition of greater long service leave liabilities. Net cost of services declined as a result of the move to net appropriation.

Capital contribution

Significant variances between estimate and actual for 2010

No significant variance in Capital contribution.

Significant variances between actual results for 2009 and 2010

	2010 \$000	2009 \$000	Variance \$000
Capital contribution	255	145	110

Capital funding increased in line with the Office's information technology upgrade program.

Administered income

Significant variance between estimate and actual for 2010 and actuals for 2009 and 2010

	2010 Estimate \$000	2010 Actual \$000	Variance \$000
Administered income	12 733	169	(12 564)

In 2009-10 the Office became subject to a net appropriation determination. As a result audit fees that had previously been disclosed as administered items are now retained by the Office and reported in the controlled statements.

Significant variances between actual results for 2009 and 2010

	2010 \$000	2009 \$000	Variance \$000
Administered income	169	13 949	(13 780)

In 2009-10 the Office became subject to a net appropriation determination. As a result audit fees that had previously been disclosed as administered items are now retained by the Office and reported in the controlled statements.

Notes to the Financial Statements

For the year ended 30 June 2010

29. FINANCIAL INSTRUMENTS

(a) Financial risk management objectives and policies

Financial instruments held by the Office are cash and cash equivalents, restricted cash and cash equivalents, receivables, and payables. The Office has limited exposure to financial risks. The Office's overall risk management program focuses on managing the risks identified below.

Credit risk

Credit risk arises when there is the possibility of the Office's receivables defaulting on their contractual obligations resulting in financial loss to the Office.

The maximum exposure to credit risk at the end of the reporting period in relation to each class of recognised financial assets is the gross carrying amount of those assets inclusive of any provisions for impairment as shown in the table at note 29(c) 'Financial instruments disclosures' and note 16 'Receivables'.

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

Liquidity risk

Liquidity risk arises when the Office is unable to meet its financial obligations as they fall due.

The Office is exposed to liquidity risk through its trading in the normal course of business.

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

Market risk

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

Notes to the Financial Statements

For the year ended 30 June 2010

CONTENTS

	2010 \$000	2009 \$000
(b) Categories of financial instruments		
In addition to cash, the carrying amounts of each of the following categories of financial assets and financial liabilities at the end of the reporting period are as follows:		
Financial assets		
Cash and cash equivalents	2 361	1 359
Restricted cash and cash equivalents	175	132
Loans and receivables ^(a)	6 348	1 085
	<u>8 884</u>	<u>2 576</u>
Financial liabilities		
Financial liabilities measured at amortised cost	732	652
	<u>732</u>	<u>652</u>

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

(c) Financial instrument disclosures

Credit risk and interest rate exposures

The following table discloses the Office's maximum exposure to the credit risk and interest rate exposures of financial assets. The Office's maximum exposure to credit risk at the end of the reporting period is the carrying amount of financial assets as shown below. The table is based on information provided to senior management of the Office.

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

The Office does not hold any financial assets that had to have their terms renegotiated that would have otherwise resulted in them being past due or impaired.

	Carrying amount \$000	Non-interest bearing \$000
Interest rate exposures of financial assets^(a)		
Financial assets		
2010		
Cash and cash equivalents	2 361	2 361
Restricted cash and cash equivalents	175	175
Receivables ^(b)	5 234	5 234
Amounts receivable for services	1 114	1 114
	<u>8 884</u>	<u>8 884</u>
2009		
Cash and cash equivalents	1 359	1 359
Restricted cash and cash equivalents	132	132
Receivables ^(b)	78	78
Amounts receivable for services	1 007	1 007
	<u>2 576</u>	<u>2 576</u>

(a) The Office has not included an ageing analysis as it has no financial assets past due.

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

	Carrying amount \$0000	Non-interest bearing \$000	Maturity date up to 3 months \$000
Interest rate exposures and maturity analysis of financial liabilities			
2010			
Financial liabilities			
Financial liabilities measured at amortised cost	732	732	732
	<u>732</u>	<u>732</u>	<u>732</u>
2009			
Financial liabilities			
Financial liabilities measured at amortised cost	652	652	652
	<u>652</u>	<u>652</u>	<u>652</u>

Notes to the Financial Statements

For the year ended 30 June 2010

Interest rate sensitivity

The Office has no financial assets or liabilities subject to interest rate movements.

Fair values

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

	2010 \$000	2009 \$000
30. REMUNERATION OF SENIOR OFFICERS		
The number of senior officers whose total fees, salaries, superannuation, non-monetary benefits and other benefits for the financial year fall within the following bands are:		
\$130 001 – 140 000	2	3
\$140 001 – 150 000	3	2
\$190 001 – 200 000	0	1
\$200 001 – 210 000	1	0
\$300 001 – 310 000	0	1
\$330 001 – 340 000	1	0
Total remuneration of senior officers	1 237	1 187

The total remuneration includes the superannuation expense incurred by the Office in respect of senior officers.

31. REMUNERATION OF AUDITOR

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

Auditing the accounts, financial statements and performance indicators	32	21
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32. RELATED BODIES

The Office did not have any related bodies during the financial year.

33. AFFILIATED BODIES

The Office did not have any affiliated bodies during the financial year.

34. SPECIAL PURPOSE ACCOUNTS

The Office did not have any special purpose accounts at the balance sheet date.

Notes to the Financial Statements

For the year ended 30 June 2010

	2010 \$000	2009 \$000
35. SUPPLEMENTARY FINANCIAL INFORMATION		
(a) Write-offs		
During the financial year, \$1 304 (2009: \$5 860) was written-off the Office's asset register under the authority of:		
The accountable authority	1	6
The Minister	0	0
Executive Council	0	0
Losses through theft, defaults and other causes		
Losses of public moneys, and public and other property through theft or default	0	0
Amount recovered	0	0
Gifts of public property		
Gifts of public property provided by the Office	0	0

36. DISCLOSURE OF ADMINISTERED INCOME AND EXPENSES

COST OF SERVICES

Expenses

Receipts paid into Consolidated Account ^(a)	169	13 725
Net assets transferred to controlled	4 765	0
Total administered expenses	4 934	13 725

Income

Fees for audit services (a)	169	13 949
Total administered income	169	13 949

(a) During 2009-10 the Office's net appropriation determination was amended. Refer also to Statement of Changes in Equity and note 2 'Summary of significant accounting policies', sections (c), (d) and (e).

	2010 \$000	2009 \$000
37. ADMINISTERED ASSETS AND LIABILITIES		
Current assets ^(a)		
Cash and cash equivalents	0	85
Receivables and accrued fees	0	4 741
Total administered current assets	0	4 826
Current liabilities ^(a)		
GST payable	0	61
Total administered current liabilities	0	61

(a) During 2009-10 the Office's net appropriation determination was amended. As a result there are no administered transactions for the current year. Refer also to Statement of Changes in Equity and note 2 'Summary of significant accounting policies', sections (c), (d) and (e).

Certification of Performance Indicators

For the year ended 30 June 2010

[CONTENTS](#)

I hereby certify that the performance indicators are based on proper records, are relevant and appropriate for assisting users to assess the Office of the Auditor General's performance, and fairly represent the performance of the Office for the financial year ended 30 June 2010.



COLIN MURPHY
ACCOUNTABLE AUTHORITY
29 July 2010

Independent Auditor's Opinion

Performance Indicators for the year ended 30 June 2010

**INDEPENDENT AUDIT REPORT
TO THE PARLIAMENT OF WESTERN AUSTRALIA**

**OFFICE OF THE AUDITOR GENERAL
PERFORMANCE INDICATORS FOR THE YEAR ENDED 30 JUNE 2010**

SCOPE

I have audited the key effectiveness and efficiency key performance indicators of the Office of the Auditor General for the year ended 30 June 2010 under the provisions of the Financial Management Act 2006 and Auditor General Act 2006.

The Accountable Authority is responsible for developing and maintaining proper records and systems for preparing and presenting key performance indicators. I have conducted an audit of the key performance indicators in order to express an opinion on them to the Parliament as required by the Act.

My audit was performed in accordance with section 40 of the Auditor General Act 2006 to form an opinion based on a reasonable level of assurance. The audit procedures included examining, on a test basis, evidence supporting the amounts and other disclosures the key performance indicators, and assessing the relevance and appropriateness of the key performance indicators in assisting users to assess the key performance of the Office of the Auditor General. These procedures have been undertaken to form an opinion as to whether, in all material respects, the key performance indicators are relevant and appropriate having regard to their purpose and fairly represent the indicated performance.

The audit opinion expressed below has been formed on the above basis.

AUDIT OPINION

In my opinion, the key effectiveness and efficiency key performance indicators of the Office of the Auditor General are relevant and appropriate for assisting users to assess the Office's performance and fairly represent the indicated performance for the year ended 30 June 2010.


BENTLEYS
Chartered Accountants


CHRIS WATTS
Director

DATED at PERTH this 29th day of July 2010



Bentleys
Thinking ahead

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Performance Indicators

KEY PERFORMANCE INDICATORS

The Office of the Auditor General exists to serve the public interest by providing Parliament with independent and impartial information regarding public sector accountability and performance. This Office reports directly to Parliament and ultimately the people of Western Australia.

Our desired outcome, 'an informed Parliament on public sector accountability and performance', is linked to the government goal Financial and Economic Responsibility – *Responsibly managing the state's finances through the efficient and effective delivery of services, encouraging economic activity and reducing regulatory burdens on the private sector.*

The Key Performance Indicators presented below are new for 2009-10. They were first presented in the 2008-09 Annual Report for information purposes only, and published in the 2009-10 Budget Papers. The new indicators have been introduced as they contain less potential for bias than the previous indicators 'cost per matter of significance' and 'cost per major/other audit'.

KEY EFFECTIVENESS PERFORMANCE INDICATORS

The key effectiveness performance indicator is:

The extent that the Office of the Auditor General is effective in informing Parliament about public sector accountability and performance, measured by the number of tabled reports compared to target and the following categories of matters about which Parliament has been informed.

- Service delivery – reports tabled
- Economic development – reports tabled
- Social and environment – reports tabled
- Governance – reports tabled

Table 16 shows our actual result for the preceding two years, and our performance against the 2009-10 target. A key element of this key performance indicator is the establishment of a three-year target for each category of report. As this indicator is new for 2009-10 performance against the three-year target will not be evident until 2011-12.

Report Type	2007-08 Actual	2008-09 Actual	2009-10 Actual	2009-10 Target	Target over 3 years
Service delivery	3	2	3	4	12
Economic development	1	4	2	3	9
Social and environment	5	3	1	3	11
Governance	7	8	14	8	22
Year Total	16	17	20	18	54

Table 16

Our topic selection aims to provide Parliament with advice and assurance across all four categories of public sector activity. Our targets are one factor in our selection of topics. Other factors include the significance of identified issues and whether the matters were referred to us by Parliament. For this reason, our category targets may not always be met in any one year (as was the case in 2009-10) but we expect will be met against our three-year target.

KEY EFFICIENCY PERFORMANCE INDICATORS

The key efficiency performance indicators measure the overall efficiency in delivering the Office's service 'Performance Auditing'.

Our key efficiency performance indicators are:

- Total audit cost per million dollars of gross government expenditure
- Attest (annual assurance) audit cost per million dollars of gross government expenditure
- Performance examination cost per million dollars of gross government expenditure.

Efficiency Indicator	2008-09 Actual	2009-10 Actual	Target 2009-10
Total audit cost per \$m of gross government expenditure	\$579	\$519	\$563
Attest (annual assurance) audit cost per \$m of gross government expenditure	\$434	\$389	\$422
Performance examination cost per \$m of gross government expenditure	\$145	\$130	\$141

Table 17

The gross government expenditure value incorporates total public sector expenditure together with expenditure by universities, superannuation boards and other entities whose expenditure is not reported within government expenditure in the annual Budget Statements.

The audit costs used to calculate the key efficiency indicators are extracted from the Office's Financial Management Information System. The proportion of total cost assigned to attest and performance audits is based on recorded direct hours charged to audits and an activity based allocation of Office overhead. The estimated actual total public sector expenditure from the Budget Statements is used rather than actual total public sector expenditure as the actual results are not available at the time these key performance indicators are produced. The estimated actual is considered a reasonable estimate of total public sector expenditure.

The additional expenditure information to form gross government expenditure is sourced from the annual reports of the universities (who report on a calendar year) or direct from the relevant agency. The increase in government expenditure in 2009-10 was not matched by increased expenditure of the Office. This resulted in lower total audit costs per million dollars of gross government expenditure.

Other Disclosures

Other financial disclosures

Pricing policies

The Office's fee model invoices agencies only for financial audits, although our fees incorporate a loading to recover one-third of our compliance and controls audit work.

The fees are based on the hours required to do each financial audit. Where a contractor conducts the audit on the Office's behalf, the Office's fees are based on the contractor's fees.

The model also assumes:

- full recovery of identified overheads with these costs being spread over all financial audit engagements
- annual adjustment for inflation and cost pressures arising from salary increases and other expenses.

Capital works

During 2009-10 the Office continued with its ongoing asset replacement program. We completed the upgrade of our servers (\$110 000) providing significantly greater capacity, while using less space and energy. During the year we also introduced a new audit methodology software package (\$130 000), which is expected to be fully implemented in early 2010-11.

As part of the Office's commitment to meeting community and stakeholder expectations we completed significant upgrades to both our intranet and internet portals (\$30 000), providing easier access for both staff and the community to reports and information about the Office.

Employees

Employee disclosures are outlined in the 'Managing Our Office' section from page 26 to 31.

Other governance disclosures

Senior officers

At the date of reporting, other than normal contracts of employment of service, no senior officers, or firms of which senior officers are members, or entities in which senior officers have any substantial interests, had any interests in existing or proposed contracts with the Office and senior officers.

Other employment

Under Schedule 1, Clause 3 of the AG Act, the Auditor General must not, except so far as authorised by law or by resolutions of both Houses of Parliament, hold certain offices, places or positions referred to in the *Constitution Acts Amendment Act 1899*. The Schedule also prohibits the Auditor General from engaging in any paid employment outside the duties of the Office of the Auditor General.

At no time while acting as the Auditor General or since my appointment to that office have I engaged in any paid employment outside the duties of my office. I am also a member of the State Records Commission, as authorised by the State Records Act 2000, section 58n (a).

Other Legal Requirements

Statement of Compliance with *Disability Services Act 1993*

The Office of the Auditor General is committed to ensuring that people with disabilities have the same access to our services, information and facilities by implementing the strategies and initiatives identified in the Office's Disability Access and Inclusion Plan (DAIP) through the six desired outcomes:

- Outcome 1:** People with disabilities have the same opportunities as other people to access our services and events.
- Outcome 2:** People with disabilities have the same opportunities as other people to access our offices.
- Outcome 3:** People with disabilities receive information from us in a format that will enable them to access the information as readily as other people.
- Outcome 4:** People with disabilities receive the same level and quality of service from our employees as other people receive.
- Outcome 5:** People with disabilities have the same opportunities as other people to make complaints to us.
- Outcome 6:** People with disabilities have the same opportunities as other people to participate in any public consultation we may carry out.

The following strategies were progressed by the Office in 2009-10:

- incorporated the objectives of the DAIP into our strategic business planning, budgeting processes, procedures and policies
- ensured that our signage is clear and easy to read and that our Office is accessible and meet the legislative and access standards for accessibility
- continued to ensure that, when requested, specialist support is made available at meetings with the client

- provided alternative formats for reports on our new website, such as large print options
- improved employee awareness of disability and access issues by promoting through induction programs and publishing the DAIP on the intranet
- continued to provide the services of a speech therapist to assist employees with their English pronunciation skills.

Statement of Compliance with *Electoral Act 1907* section 175ZE (Advertising)

In accordance with section 175ZE of the *Electoral Act 1907*, this Office is required to report on expenditure incurred during the financial year in relation to advertising.

Expenditure during 2009-10 related to advertising for job vacancies; the conduct of agency and parliamentary surveys; the Office's contribution to the macro benchmarking survey of the Australasian Council of Auditors-General (ACAG); and focus group research for performance audits. The details are as follows:

Advertising agencies	
Adcorp Marketing Communications	\$4 411
Big Red Sky Ltd	\$704
Market research organisations	
Orima Research Pty Ltd	\$50 224
Total Expenditure	\$55 339

Statement of Compliance with the *State Records Act 2000*, Section 61 and State Records Commission Standards, Standard 2, Principle 6

The Office of the Auditor General has a five-year Recordkeeping Plan that was approved by the State Records Commissioner in October 2008. The Commission stated that the amended plan “demonstrates progress towards better practice recordkeeping and compliance with the minimum requirements of SRC Standards 2: Recordkeeping Plans and SRC Standards 6: Outsourcing”.

The Plan will be reviewed again in five years’ time and a report of the review is to be submitted to the State Records Office by 10 October 2013.

This year we purchased and utilised a generic online training tool specifically to address the broader topic of Records Awareness Training. This self paced innovative learning tool has also been completed by all staff. An important element of this training tool is the facility to provide reports that will identify knowledge gaps, allowing us to concentrate training in specific areas.

An updated version of TRIM (the Office’s electronic documents and records management system) was introduced to the Office in 2009. All staff were required to complete an online TRIM training course designed to address our specific needs. Training in the usage of TRIM is also included as part of our induction process and available to individual staff when required.

We have recently acquired software to monitor usage, which will be used for reporting to Corporate Executive in order to assess staff use of TRIM and awareness of records management practices.

Statement of Compliance with the *Public Sector Management Act 1994* Section 31(1)

In the administration of the Office of the Auditor General, I have complied with the Public Sector Standards in Human Resource Management, the Western Australian Public Sector Code of Ethics and our Code of Conduct.

I have put in place procedures designed to ensure such compliance and conducted appropriate internal assessments to satisfy myself that the above statement is correct.

The applications made for breach of standards review and the corresponding outcomes for the reporting period are:

Number lodged:	nil
Number of breaches found, including details of multiple breaches per application:	nil
Number still under review:	nil

OPSSC Good Governance Principles

The Office of the Auditor General is committed to good governance and adheres to the Office of the Public Sector Standards Commissioner’s (OPSSC) Good Governance Guide.

The OPSSC Good Governance Guide outlines nine key governance principles. The following outlines the mechanisms we have in place to address these principles.

1. Government and public sector relationship

The *Auditor General Act 2006* clearly outlines the relationship between the Auditor General and the government and processes exist to ensure clear communication and interaction between this Office and parliamentary representatives.

2 Management and oversight.

Our strategic plan clearly defines our goals and key objectives. The plan is developed to articulate our operational outcomes and outlines key initiatives, accountability and responsibilities to provide direction and measures to achieve in pursuit of our goals.

3 Organisational structure

Accountability for deliverables is the responsibility of the Corporate Executive which comprises leaders from the five key operational and governance divisions.

The relationship between these business units is clearly defined, yet flexibility exists to enable the Office to respond to structural change. (Refer to page 10 for the organisational and activities chart).

4 Operations

Operational plans are well documented and published on our intranet to provide all staff with information relating to specific work programs and progress towards initiatives designed to achieve organisational goals.

The operational plan is reported to Corporate Executive quarterly and this provides the opportunity to review and confirm our initiatives are achieving the desired outcome.

5 Ethics and integrity

Ethical behaviour and integrity are core values that underpin our work and high standards are required of all employees.

We manage this through a structured process of staff awareness, annual declaration of compliance by all staff and ongoing accountability and ethics training.

6 People

Workforce planning is a high priority for this Office and this includes strategies for retention and attraction as well as development of staff with the intent to build leadership capabilities to ensure personal growth of individuals and development of skills to benefit our organisation.

7 Finance

Our Office values accountability and efficiency and ensures financial processes are consistent with applicable accounting standards.

Formal structures exist to monitor financial performance against internal budgets, WA Government budget statements and key strategic goals of the Office including monthly reporting to Corporate Executive on all aspects of performance.

8 Communication

Internal policies exist to provide direction on communication processes to ensure information is disseminated efficiently and effectively. Clear guidelines are maintained in relation to external communication with Parliament and the media particularly in regards the tabling of our reports to Parliament.

9. Risk Management

We have developed a Risk Management Practice Framework which outlines the policies and processes in regards management of risk. Preventative measures are in place for key risk categories and a Business Continuity Plan exists and is monitored for currency and relevance on a regular basis.

The Risk Management Committee reports regularly to the Corporate Executive, including identified risks and their status. Risk management is included in the induction process of all new staff and reinforced to all staff through Office forums.

Government Policy Requirements

Occupational safety and health and injury management

The Office of the Auditor General is committed to providing and maintaining a safe and healthy work environment for all employees and visitors to our Office and acknowledges its responsibilities under the *Occupational Safety and Health Act 1984* and the *Workers' Compensation and Injury Management Act 1981*. Policies and procedures on Occupational Safety and Health (OSH) and Injury Management are available to all employees on the intranet.

In 2009-10 no injuries or fatalities were recorded.

Consultation

The Office supports a consultative environment whereby managers, employees, safety and health representatives and other stakeholders work together to identify and resolve any OSH issues in the workplace. Our employees are encouraged to be proactive in identifying potential hazards as well as suggesting improvements to OSH practices and procedures.

All new employees receive an induction which clearly defines their obligations and responsibilities under the OSH and injury management policies. This is also discussed at the Office forums.

During 2009-10, the Office engaged the services of an Employee Assistance Program, provided an annual flu shot and a healthy heart check program and provided an ergonomic assessment for employees on request.

Injury management

The Office has established an Injury Management policy which outlines the steps to be taken to assist a worker to return to work following a work related injury or illness. Its focus is on a safe and early return to meaningful work in accordance with the *Workers' Compensation and Injury Management Act 1981*. This policy is made available to our employees on the Office intranet.

Self evaluation

We currently have an Office Consultative Committee and an active Risk Management Committee, through which our employees' can report any concerns of a safety and health perspective. We will undertake an external accredited assessment of occupational safety and health systems in 2010-2011.

The following table details our 2009-10 key performance indicators against the following targets:

Workers' compensation key performance indicators/targets		
Indicators	2009-10 Targets	2009-10 Results
Number of fatalities	0	0
Lost time injury/diseases (LTI/D) incident rate	0	0
Lost time injury severity rate	0 or 10% reduction on previous year	0
Percentage of injured workers returned to work within 28 weeks	100%	100%
Percentage of managers trained in occupational safety, health and injury management responsibilities	greater than or equal to 50%	8%

Table 18

We are aware of the importance of adequately training all staff in OSH and injury management and throughout this year we have provided training and information sessions to all staff through our professional development program. However, the percentage of our managers trained in OSH and injury management is well below our 2009-10 target. Opportunities to provide training specifically to management staff will be included in our 2010-11 Professional Development Program.

Audit Clients

at 30 June 2010

CONTENTS

Audits under *Financial Management Act*

Departments

Administration of the Legislative Assembly
 Administration of the Legislative Council
 Commissioner for Equal Opportunity
 *Department for Child Protection
 *Department for Communities
 *Department of Agriculture and Food
 *Department of the Attorney General
 *Department of Commerce
 *Department of Corrective Services
 *Department of Culture and the Arts
 *Department of Education
 Department of Education Services
 *Department of Environment and Conservation
 *Department of Fisheries
 *Department of Health
 Department of Housing
 *Department of Indigenous Affairs
 Department of Local Government
 *Department of Mines and Petroleum
 Department of Parliamentary Services
 *Department of Planning
 *Department of Racing, Gaming and Liquor
 Department of Regional Development and Lands
 Department of Sport and Recreation
 *Department of State Development
 *Department of Training and Workforce Development
 *Department of Transport

*Department of the Premier and Cabinet
 Department of the Registrar, Western Australian Industrial Relations Commission
 *Department of Treasury and Finance
 Department of Water
 Governor's Establishment
 Mental Health Commission
 Office of Energy
 Office of the Commissioner for Children and Young People
 Office of the Director of Public Prosecutions
 Office of the Information Commissioner
 Office of the Inspector of Custodial Services
 Office of the Public Sector Standards Commissioner
 Parliamentary Commissioner for Administrative Investigations
 *Public Sector Commission
 *Western Australian Police Service
 Western Australian Electoral Commission

Statutory authorities

Agricultural Practices Board of Western Australia
 Agricultural Produce Commission
 Animal Resources Authority
 Armadale Redevelopment Authority
 Botanic Gardens and Parks Authority
 Building and Construction Industry Training Board
 Bunbury Water Board
 Busselton Water Board
 *Central Institute of Technology
 *Challenger Institute of Technology
 Chemistry Centre (WA)

Coal Industry Superannuation Board
 *Commissioner of Main Roads
 Construction Industry Long Service Leave Payments Board
 Corruption and Crime Commission
 Country High School Hostels Authority
 Country Housing Authority
 Curriculum Council
 *Curtin University of Technology
 C Y O'Connor College of TAFE
 *Disability Services Commission
 Durack Institute of Technology
 East Perth Redevelopment Authority
 Economic Regulation Authority
 *Edith Cowan University
 *Fire and Emergency Services Authority of Western Australia
 Fire and Emergency Services Superannuation Board
 *Forest Products Commission
 Gaming and Wagering Commission of Western Australia
 Gascoyne Development Commission
 *Gold Corporation
 Goldfields-Esperance Development Commission
 *Government Employees Superannuation Board
 Great Southern Development Commission
 Great Southern Institute of Technology
 Heritage Council of Western Australia
 *Housing Authority
 *Insurance Commission of Western Australia
 Keep Australia Beautiful Council (WA)
 Kimberley Development Commission

Kimberley TAFE
 Landcare Trust
 Law Reform Commission of Western Australia
 Legal Aid Commission of Western Australia
 Legal Contribution Trust
 Legal Costs Committee
 Local Health Authorities Analytical Committee
 *Lotteries Commission
 Metropolitan Cemeteries Board
 Midland Redevelopment Authority
 Mid West Development Commission
 Minerals and Energy Research Institute of Western Australia
 *Murdoch University
 Office of Environmental Protection Authority
 Office of Health Review
 Parliamentary Inspector of the Corruption and Crime Commission
 Peel Development Commission
 Perth Market Authority
 Perth Theatre Trust
 Pilbara Development Commission
 Pilbara TAFE
 *Polytechnic West
 Potato Marketing Corporation of Western Australia
 Professional Combat Sports Commission
 Professional Standards Council
 *Public Transport Authority of Western Australia
 *Public Trustee

Quadriplegic Centre Board
 *Racing and Wagering Western Australia
 Racing Penalties Appeal Tribunal of Western Australia
 Real Estate and Business Agents Supervisory Board
 *Rottneest Island Authority
 Rural Business Development Corporation
 Screen West (Inc.)
 Settlement Agents Supervisory Board
 Small Business Development Corporation
 South West Development Commission
 South West Regional College of TAFE
 State Government Insurance Corporation
 State Supply Commission
 Subiaco Redevelopment Authority
 Swan Bells Foundation Inc
 Swan River Trust
 The Aboriginal Affairs Planning Authority
 The Agriculture Protection Board of Western Australia
 The Anzac Day Trust
 The Board of the Art Gallery of Western Australia
 The Burswood Park Board
 The Coal Miners' Welfare Board of Western Australia
 The Library Board of Western Australia
 *The Minister for Health in his capacity as the Deemed Board of Metropolitan Public Hospitals
 The National Trust of Australia (WA)
 The Queen Elizabeth II Medical Centre Trust
 *The University of Western Australia

The Western Australian Museum
 Trustees of the Public Education Endowment
 *WA Country Health Service
 West Coast Institute of Training
 Western Australian Alcohol and Drug Authority
 Western Australian Building Management Authority
 Western Australian Coastal Shipping Commission
 Western Australian Energy Disputes Arbitrator
 Western Australian Greyhound Racing Association
 Western Australian Health Promotion Foundation
 Western Australian Institute of Sport
 *Western Australian Land Information Authority
 Western Australian Meat Industry Authority
 Western Australian Planning Commission
 Western Australian Sports Centre Trust
 *Western Australian Tourism Commission
 *Western Australian Treasury Corporation
 Wheatbelt Development Commission
 WorkCover Western Australia Authority
 Zoological Gardens Authority

Subsidiaries

ECU Resources for Learning Ltd
 GESB Wealth Management Pty Ltd
 Homeswest Loan Scheme Trust
 Innovative Chiropractic Learning Pty Ltd
 Intergrain Pty Ltd
 Keystart Bonds Limited
 *Keystart Housing Scheme Trust

Keystart Loans Limited
 Keystart Support (Subsidiary) Pty Ltd (Dormant)
 Keystart Support Pty Ltd (Dormant)
 Keystart Support Trust
 MS Biotechnology Pty Ltd (Dormant)
 Murdoch Investments Company Pty Ltd
 MurdochLink Pty Ltd
 Murdoch Retirement Services Ltd
 Murdoch University Foundation
 Murdoch University Veterinary Centre Trust
 Murdoch Ventures Pty Ltd
 The University Club of Western Australia Pty Ltd
 The University Company Pty Ltd (Dormant)
 UWA Business School Executive Program Ltd
 WA Mint Pty Ltd (Dormant)
 Wind Energy Corporation Pty Ltd (Dormant)

Request audits

Government House Foundation of Western Australia (Inc)
 Medical Board of Western Australia
 SB Investment Trust
 Sir Charles Gairdner Foundation Trust
 Sir Charles Gairdner Research Foundation Inc
 South West Cogeneration Joint Venture
 Tertiary Institutions Service Centre (Inc)
 The Director of Legal Aid and Others in Trust

Audits under other legislation

Cemeteries

Albany Cemetery Board
 Bunbury Cemetery Board
 Chowerup Cemetery Board
 Dwellingup Cemetery Board
 Geraldton Cemetery Board
 Kalgoorlie-Boulder Cemetery Board
 South Caroling Cemetery Board

Port authorities

Albany Port Authority
 Broome Port Authority
 Bunbury Port Authority
 Dampier Port Authority
 Esperance Port Authority
 *Fremantle Port Authority
 Geraldton Port Authority
 Port Hedland Port Authority

Other legislation

*Annual Report on State Finances
 *Horizon Power
 Independent Market Operator
 *Synergy
 *Verve Energy
 *Water Corporation
 *Western Australian Land Authority
 *Western Power – Networks

* Major audit clients

How We Choose Our Performance Audit Topics

CONTENTS

Our Office conducts year-round environmental scans to identify potential topics for our performance and compliance audits. We also receive suggested report topics from Members of Parliament, the public sector and from the community. Twice a year, around March and October we roll-up all the potential topic ideas for selection of priority projects. Around April each year we establish the forward program for the year and send the program to the Public Accounts Committee and Estimates and Financial Operations Committee for comment.

Topics for performance and compliance audits are carefully and strategically selected against a range of criteria, including risk, materiality and resourcing implications. We also need to provide Parliament with assurance across the broad spectrum of public sector operations. Particular regard is given to requests from Parliament.

Our topic criteria are:

Economic materiality (as well as financial): is there substantial public money or resources involved?

Impact (social, environmental): is there strong community interest in the topic? Is there potential for the report to have a positive impact on the community? What will be the overall estimated audit impact?

Risk: if there were performance problems, what would be the overall risk to the community? (Indicators might be that problems have already been identified in the media; there are proxy indicators of problems such as high staff turnover; or program has changed significantly or undergone sudden expansion). Does the program address a significant area of agency's legislative mandate or the agency's activities?

Coverage: what has been the coverage of the topic? Is it the 'right' time to do a review in this area?

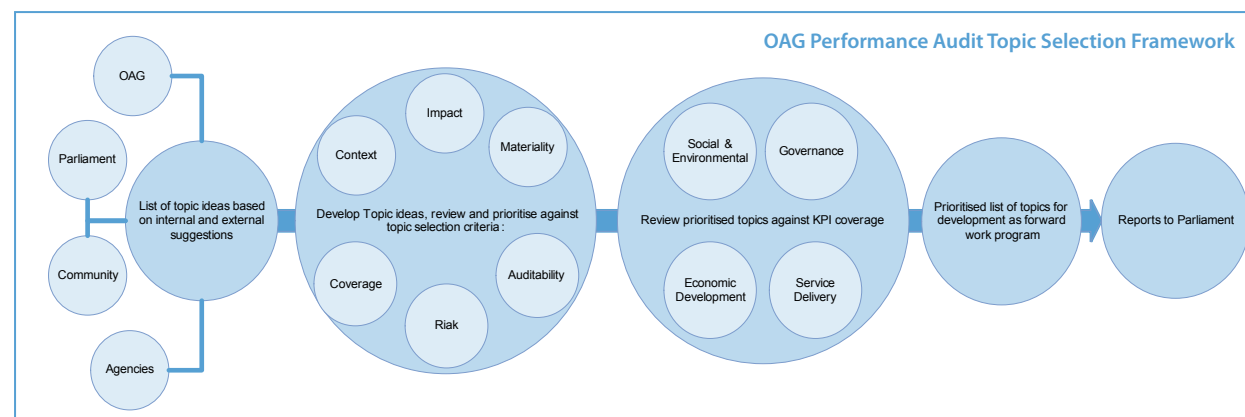
What is the program visibility (political sensitivity, national importance)?

Context: Is there possibility for sector-wide efficiency, effectiveness or accountability improvement? How does the topic and agency selection fit into our previous coverage of the public sector?

Auditability/Efficiency: Can it be audited with a level of resources that match the impact and materiality of the topic or will it take disproportionate resources for limited benefit? Is the area amenable to audit – does information exist and do analytical tools exist? Can a past methodology be used or will the methodology be reusable?

Requests from Members of Parliament for audit

We continue to receive requests from Members of Parliament and parliamentary committees to undertake performance audits into various matters. In 2009-10, the Office received 13 such requests (two more than in 2008-09) and we tabled reports on three performance audits requested by members or committees and have one other underway. The identification of potential report topics is vital to the work of this Office and is greatly assisted by ongoing advice and information provided by Members of Parliament.



Glossary

CONTENTS

Accountability is traditionally established when Parliament confers responsibility on public sector agencies to account through a Minister of the Crown for all that is done in the exercise of their authority, the manner in which it is done and the ends sought to be achieved.

Accrual Accounting provides information on revenues earned and expenditure incurred in an accounting period irrespective of when actual cash transactions occur (ie when money is received or paid). It also involves accounting for the portion of assets consumed and liabilities incurred during the period and provides a summary of the net worth of the entity at the end of the accounting period.

Agency means a department, a sub-department or a statutory authority.

Annual Report on State Finances is a report prepared in accordance with the *Government Financial Responsibility Act 2000* that provides the State's public sector financial results for the budget year and outlines material differences between these results and the financial projections contained in the State Budget for that budget year.

Assurance Audit is 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. Previously referred to as Attest Audit.

Audit includes to examine, investigate, inspect and review.

Auditor General's Report is the vehicle used to report to Parliament the results of audits and examinations conducted under sections 12 to 20 of the *Auditor General Act 2006*.

Australian Equivalents to International Financial Reporting Standards (AIFRS) are Accounting Standards issued by the Australian Accounting Standards Board (AASB) that are equivalent to Accounting Standards issued by the International Accounting Standards Board (IASB).

Compliance Audits focus on financial administration and management issues with the objective of identifying opportunities for improving agencies' operational performance, accountability, use of resources and compliance with legislation.

Corporatised Entities operate under enabling legislation in a similar manner to companies under the *Corporations Act 2001*.

Department means a body established or deemed to have been established under the *Public Sector Management Act 1994*.

Direct Reporting is an examination resulting in a written report being prepared where the party responsible for the matter examined has not been significantly involved in initiating or preparing the report.

Effectiveness Indicators are key performance indicators that provide information on the extent to which agency level government desired outcomes have been achieved, or contributed to, through the delivery of services.

Efficiency Indicators are key performance indicators that generally relate services to the level of resource inputs required to deliver them.

Entrance Interviews are formal meetings with senior management conducted during the audit planning phase to provide the opportunity to canvass with management issues of importance and to explore the proposed audit emphasis and areas of coverage.

Exit Interviews are formal meetings with senior management at the penultimate stage of audits and examinations to confirm understandings and to explain audit findings and conclusions.

Financial Statements are a presentation of financial information including explanatory notes derived from accounting records to communicate for a period of time an entity's financial performance and cash flows, and at a point of time its financial position.

Follow-up Audit Performance Audits are routinely followed up two to three years after tabling to review what has been done. A **Follow-on Audit** is a more extensive follow-up audit where a topic still has significant importance and relevance.

Key Performance Indicator (KPI) is information about critical or material aspects of service performance or outcome achievement.

Key Performance Indicator Audit is work performed to enable an opinion to be expressed about whether or not the indicators are relevant and appropriate having regard to their purpose and fairly represent indicated performance.

Management Letter is a letter to senior management that conveys the significant audit findings and result of an audit.

Materiality is the magnitude of an omission or misstatement of accounting or performance information that, in the light of context or circumstances, makes it probable that the judgment of a reasonable person relying on the information would have been changed or influenced.

Matters of Significance (MoS) are the 'key messages' in Auditor General's reports. 'Key messages' are defined as the issues a general Parliamentary reader would take away from the report after the detail of specific findings and recommendations has receded into the background.

Outcomes are the effect, impact, result of or consequence for the community, environment or target clients of government services.

Performance Auditing encompasses the range of audit and review activities from annual attest audit work on financial statements and key performance indicators through to the preparation of direct reports on performance audits.

Performance Audits (PA) is work performed in examining the accountability, efficiency and effectiveness of public sector agencies or specific areas within an agency or across a number of government agencies.

Qualified Audit Opinion is expressed when the audit identified that the financial statements or key performance indicators are likely to be misleading to users, controls were inadequate, there was material conflict between applicable financial reporting frameworks or an unavoidable limitation on audit work.

Service means the supply of an activity or good to a user external to the entity providing the service. Services comprise programs and outputs.

Significance is the relative importance in the circumstances, in relation to audit objectives, of an item, event or information, or problem the auditor identifies.

Statutory Authority means a person or body specified in Schedule 1 of the *Financial Management Act 2006*. These agencies are established by Parliament under legislation for specified purposes.

Sub-department means an entity in respect of which a declaration under section 56(2) of the *Financial Management Act 2006* has effect.

Treasurer's Instructions are prescribed requirements at a minimum level with respect to financial administration that have the force of law and must be observed by public sector agencies under the *Financial Management Act 2006*.

Unqualified Audit Opinion is expressed when the audit concludes that in all material respects the financial statements and key performance indicators are presented fairly in accordance with the enabling legislation of the agency, Australian Accounting Standards and the Treasurer's instructions.

Working Papers are documents that record the auditor's planning, audit procedures performed, the auditor's findings and the conclusions drawn from the audit evidence obtained.

Office Directory at 12 August 2010

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Auditor General's Office

Colin Murphy	9222 7501
Auditor General	
Peta Mullane	9222 7502
Executive Officer	
Glen Clarke	9222 7543
Deputy Auditor General	
Molly Elympos	9222 7506
Executive Assistant	

Assurance Service

Don Cunninghame	9222 7526
Assistant Auditor General	
Peter Sparkes	9222 3906
Director	
Vince Turco	9222 7515
Director	
Patrick Arulsingham	9222 3944
Director	

Compliance and Information Systems Audit

Colin Campbell	9222 3937
Assistant Auditor General	
Peter Bouhlas	9222 7522
Director, Information Systems	
Alan Charlton	9222 7523
Director, Compliance Audit	

Performance Review

Jason Beeley	9222 7579
Assistant Auditor General	
Linda Barker	9222 3902
Director	
Sue Paterson	9222 3920
A/Director	
Sue Robinson	9222 7540
A/Director	

Standards and Quality

David Gilchrist	9222 7573
Assistant Auditor General	
Barry Rowe	9222 7503
Director Standards	
Ian Goldsmith	9222 7559
Director Standards and Quality	
Heath Flanagan	9222 7591
Principal Adviser, Performance Indicator Standards	
Michelle Bunn	9222 7571
Principal Policy Officer	
Mandy Murray	9222 7564
Manager, Professional Development	

Strategy, Policy and Corporate Services

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Assistant Auditor General	
Thelma Fermo	9222 7504
Executive Assistant	
David Parrick	9222 7590
Manager, Financial and Administrative Resources	
Vince Partridge	9222 7508
Manager, Information Resources	
Rachel Edwards	9222 7558
Manager, Communications	
Paula Skittlethorpe	9222 7572
Manager, Human Resource	

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