

Western Australian Auditor General's Report



Financial and Performance Information in Annual Reports



Report 17: July 2016

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WESTERN AUSTRALIAN AUDITOR GENERAL'S REPORT

**Financial and Performance Information in
Annual Reports**

Report 17
July 2016



**THE PRESIDENT
LEGISLATIVE COUNCIL**

**THE SPEAKER
LEGISLATIVE ASSEMBLY**

FINANCIAL AND PERFORMANCE INFORMATION IN ANNUAL REPORTS

This report has been prepared for submission to Parliament under the provisions of section 25 of the *Auditor General Act 2006*.

Across government benchmarking audits build on the annual financial audits of all agencies. We conduct these audits at a sample of agencies using more detailed testing than is required for the annual financial audits.

This audit assessed selected aspects of financial and performance reporting in the 2014-15 annual reports of 50 agencies and found errors and omissions at 18 agencies.

I encourage all agencies to take note of the findings in this report when they finalise their annual reports for this year, and in the future.

I wish to acknowledge the cooperation of the staff at the agencies included in this audit.

A handwritten signature in black ink, appearing to read 'C. Murphy'.

COLIN MURPHY
AUDITOR GENERAL
21 July 2016

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Financial and Performance information in Annual Reports

Background

Agency annual reports are an important means of informing Parliament and the community about the performance of the public sector. They play a key role in public sector transparency and accountability, and therefore the quality and accuracy of information should be a high priority.

Agencies are required to prepare, submit and publish annual reports in accordance with relevant legislation and government policies. Annual reporting requirements are specified in the *Public Sector Management Act 1994*, *Financial Management Act 2006 (FMA)*, Treasurer's Instructions (TI) and other government policy statements.

What we did

The focus of this audit was to assess whether agency information relating to the financial statements, key performance indicators (KPIs) and financial estimates is reported accurately and consistently throughout the annual report.

We assessed the 2014-15 annual reports at 50 agencies using the following lines of inquiry:

1. Have agencies reported the audited version of their financial statements and KPIs in their annual reports on their website and have they provided that annual report for reporting on Parliament's website?
2. Have agencies included any declarations, comments or information in their annual report that are inconsistent with the audited financial statements and key performance indicators?
3. Have relevant agencies reported financial estimates in their annual report in accordance with section 40 of the Financial Management Act and the Treasurer's Instructions? (This criterion applied to 10 of the 50 agencies.)

We conducted this across government benchmarking audit (AGBA) under section 18 of the *Auditor General Act 2006* and in accordance with Australian Auditing and Assurance Standards. AGBAs assess and benchmark agencies against common business practices to identify good practices and control weaknesses so that agencies, including those not audited, can compare their own performance.

Conclusion

The 2014-15 annual reports of 18 of the 50 agencies we audited did not make all mandatory disclosures or contained errors, about half of which were serious. These agencies either failed to include the audited version of the financial statements and KPIs, or did not include the coming year's ministerially approved financial estimates. In contrast, the agencies overwhelmingly satisfied our other line of enquiry by not including any declarations, comments or information in their annual report that were inconsistent with the audited financial statements and KPIs.

Failure to include reliable information in an annual report undermines transparency and could mislead readers about an agency's performance.

What did we find?

We had no findings at 32 of the 50 agencies. Table 1 is a summary of our findings against our three lines of inquiry.

Line of inquiry	No error	Minor error*	Serious error
Have agencies reported the audited version of their financial statements and KPIs in their annual reports on their website and have they provided that annual report for reporting on Parliament’s website?	41	3	6
Have agencies included any declarations, comments or information in their annual report that is inconsistent with the audited financial statements and key performance indicators	48	2	0
Have relevant agencies reported financial estimates in their annual report in accordance with Section 40 of the Financial Management Act and the Treasurer’s Instructions? <i>Note – this line of inquiry is applicable to only 10 of the 50 agencies</i>	2	4	4

Table 1: Agency ratings against our criteria

* Errors or inconsistencies that we consider unlikely to mislead users of the annual report.

Appendix 1 shows our assessment of each agency.

Several agencies published financial statements and key performance indicators that differed from those audited

Agencies are required to publish the audited financial statements and KPIs together with the auditor’s opinion in their annual report. This is a key requirement because it ensures that readers of the annual report can have confidence in the accuracy of the information.

At nine agencies (18%), the financial statements or KPIs included in the annual report were different from those we audited. The differences ranged from relatively minor and not likely to mislead readers, to those more likely to mislead or confuse readers in their assessment of agency performance.

Specifically we noted the following differences between what we audited and what the agency reported.

Financial Statements:

- Explanations given for variations between budget and actual amounts, and between actual and prior year actual amounts were changed and contained errors. The Commissioner for Equal Opportunity’s explanation reported purchases of non-current assets as receipts from services, while at the Western Australian Meat Industry Authority, several explanations for variances contained errors in amount and percentage.
- The remuneration of several senior officers at Department of Corrective Services was incorrectly reported, with some remuneration over-stated and some under-stated. The Department also disclosed incorrect total Current Asset and Non-Current Asset figures for 2014 in their Statement of Financial Position.
- The Department for Child Protection and Family Support failed to disclose the ageing analysis of its financial assets, which is an indication of the extent of exposure to credit

risk. The Western Australian Museum included incorrect figures in their disclosure of sensitivity to interest rate fluctuations.

- Other miscellaneous errors and omissions of moderate significance at most of the nine agencies.

Key Performance Indicators:

- Department of Agriculture and Food inserted case studies into the audited KPIs in their annual report and did not indicate to readers that the case studies were unaudited.
- Department of Lands reported the audited KPIs in its annual report, but they were not disclosed with the audit opinion. Instead, the KPIs were disclosed elsewhere in the annual report with other unaudited information. The annual report did not make clear to the reader which information was audited and which was unaudited.
- The Commissioner for Equal Opportunity disclosed incorrect figures for two KPIs.
- The Western Australian Sports Centre Trust omitted some prior year audited KPI data for one KPI. We rated this as a minor shortcoming.

Agency explanations of how these errors occurred were:

- Agency staff made incorrect changes after the audit opinion was issued.
- Errors during the annual report formatting process.
- They inadvertently included a prior version of the unaudited financial statements or KPIs in the annual report.

The failure to publish the audited financial statements and KPIs in the annual report is a concern. Our audits often result in significant amendments to the financial statements and consequently, including a different version in the annual report could see readers misled about the performance and financial position of that agency.

Financial and performance information was consistently reported throughout the annual reports

It is important that audited and unaudited annual report content provide a consistent message to users of the report. For example, readers could be misled if the annual report contained comments by the chief executive officer about the agency's financial performance that were inconsistent with information contained in the audited financial statements. We review the unaudited content of annual reports as part of our annual financial audits and where necessary inform management of any findings.

We noted only two minor inconsistencies between the audited financial statements and KPIs and other comments and unaudited information contained in the annual reports.

Some agencies have not reported their budget estimates to Parliament

Approximately 60¹ agencies are required by section 40 of the Financial Management Act and Treasurer's Instruction 953 Publication and Presentation of Estimates to publish ministerially approved estimates of their financial operations in their annual reports.

¹ The number of relevant agencies varies slightly from year to year as and when agencies are abolished or created.

This TI requires those statutory authorities that do not receive funding as separate divisions, or as part of a separate division, of the Consolidated Account Expenditure Estimates or prepare a statement of corporate intent, to publish their ministerially approved annual estimates for the financial year in the annual report of the preceding financial year.

The aim is to enhance financial management and reporting by ensuring that the operations of such agencies are considered along with budget-funded agencies as part of the annual budget process. Inclusion in the annual reports enables timely scrutiny of the estimates by the Parliament and public.

Ten agencies in our sample were required to table their ministerially approved 2015-16 estimates in their 2014-15 annual reports. However, only two of the 10 agencies met this requirement. Shortcomings included:

- *estimates not published or approved by the Minister* – The Aboriginal Affairs Planning Authority.
- *estimates published but not approved by the Minister* – Legal Aid Commission and Western Australian Greyhound Racing Association.
- *incomplete or incorrect estimates published* – Local Health Authorities Analytical Committee published its 2014-15 estimates instead of the required 2015-16 estimates. The Health and Disability Services Complaints Office published incomplete information.
- *estimates approved but not published* – Law Reform Commission, Western Australian Health Promotion Foundation and WorkCover Western Australia Authority.

Recommendations

1. All agencies should ensure:
 - a. the audited version of the financial statements and KPIs is published in their annual report.
 - b. unaudited information in the annual report is consistent with the audited financial statements and KPIs.
2. Agencies subject to section 40 of the Financial Management Act should ensure their coming year estimates are approved by their Minister and included in their annual report.

Agency responses

Agencies in our sample generally accepted our findings and confirmed that they have either amended related annual reporting practices, or will improve them. Where relevant, agencies have advised that they have tabled, or will table errata to their 2014-15 annual reports.

Appendix 1: Detailed findings

Agency	Have agencies reported the audited version of their financial statements and KPIs in their annual reports on their website and have they provided that annual report for reporting on Parliament's website?	Have agencies included any declarations, comments or information in their annual report that are inconsistent with the audited financial statements and key performance indicators?	Where applicable, have agencies complied with Section 40 of the FMA and TI 953 by having their estimates approved by the Minister and included in their preceding financial year annual report?
Botanic Gardens and Parks Authority			N/A
Building and Construction Industry Training Board			
Commissioner for Equal Opportunity			N/A
Corruption and Crime Commission			N/A
Department for Child Protection and Family Support			N/A
Department of Agriculture and Food			N/A
Department of Corrective Services			N/A
Department of Education			N/A
Department of Finance			N/A
Department of Fire and Emergency Services			N/A
Department of Fisheries			N/A
Department of Lands			N/A
Department of Parks and Wildlife			N/A
Department of Racing, Gaming and Liquor			N/A
Department of State Development			N/A
Department of the Premier and Cabinet			N/A
Department of Water			N/A
Forest Products Commission			N/A
Gold Corporation			N/A
Health and Disability Services Complaints Office			
Housing Authority			N/A
Insurance Commission of Western Australia			N/A
Kimberley Ports Authority			N/A
Law Reform Commission of Western Australia			
Legal Aid Commission of Western Australia *			
Local Health Authorities Analytical Committee			

* The Commission advised that their estimates could not be submitted for the approval of the Attorney General in the timeframe required by the Treasurer's Instructions, mainly because of delays in ratifying the new National Partnership Agreement on Legal Assistance Services. They advised that the Agreement was only ratified in late August. The Commission's annual report was tabled on 14 October 2015.

Mental Health Commission			N/A
Metropolitan Redevelopment Authority			N/A
Mid West Ports Authority			N/A
Office of the Director of Public Prosecutions			N/A
Office of the Environmental Protection Authority			N/A
Office of the Inspector of Custodial Services			N/A
Parliamentary Inspector of the Corruption and Crime Commission			N/A
Perth Theatre Trust			N/A
Pilbara Development Commission			N/A
Public Transport Authority of Western Australia			N/A
Racing and Wagering Western Australia			N/A
Rottneest Island Authority			
School Curriculum and Standards Authority			N/A
Small Business Development Corporation			N/A
The Aboriginal Affairs Planning Authority			
The Library Board of Western Australia			N/A
The Western Australian Museum			N/A
Water Corporation			N/A
Western Australian Greyhound Racing Association			
Western Australian Health Promotion Foundation			
Western Australian Meat Industry Authority			N/A
Western Australian Sports Centre Trust			N/A
Western Australian Tourism Commission			N/A
WorkCover Western Australia Authority			

Table 1: Agency ratings against our criteria

Basis of our rating	Colour
No errors	
Errors or omissions that are unlikely to mislead a reader	
Major errors or omissions that could mislead a reader	
TI 953 – Partial non-compliance	
TI 953 – Significant non-compliance	

Auditor General's Reports

Report No.	Reports 2016	Date Tabled
16	Grant Administration	7 July 2016
15	Management of Feedback from Public Trustee Represented Persons	30 June 2016
14	Management of Marine Parks and Reserves	30 June 2016
13	Maintaining the State Road Network – Follow-on Audit	29 June 2016
12	Regulation of Builders and Building Surveyors	22 June 2016
11	Information Systems Audit Report	22 June 2016
10	Opinions on Ministerial Notification	8 June 2016
9	Payment of Construction Subcontractors – Perth Children's Hospital	8 June 2016
8	Delivering Services Online	25 May 2016
7	Fitting and Maintaining Safety Devices in Public Housing – Follow-up	11 May 2016
6	Audit of Payroll and other Expenditure using Data Analytic Procedures	10 May 2016
5	Audit Results Report – Annual 2015 Financial Audits – Universities and state training providers – Other audits completed since 1 November 2015; and Opinion on Ministerial Notification	10 May 2016
4	Land Asset Sales Program	6 April 2016
3	Management of Government Concessions	16 March 2016
2	Consumable Stock Management in Hospitals	24 February 2016
1	Supplementary report Health Department's Procurement and Management of its Centralised Computing Services Contract	8 June 2016 17 February 2016

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