

1. Executive Management Group expanded

Our Executive Management Group (EMG) has now increased by 1, to 8 members (see Attachment 1), after we received the Public Sector Commissioner's approval to establish the *Assistant Auditor General (AAG) – Forensic Audit* as a Senior Executive Service (SES) Class 2 position. Our Forensic Audit team was originally established in March 2020 under the management of Glyn Lewis, who we were very grateful to have on a 12-month placement from the Australian Federal Police.

After a recent external recruitment process, in January 2022 we appointed Mr Carl Huxtable, a former insolvency partner with Hall Chadwick, as our first substantive *AAG – Forensic Audit*. Carl has already spent the previous 12 months working as a Director within the Forensic Audit team and brings an incredibly valuable skillset to the Office.

Over the last 12 months we have also filled the roles of *AAG – Financial Audit* (Grant Robinson, former Big-4 partner and non-executive board member and chair across various sectors), and *Executive Director Corporate Services* (Michael Cooper, our former Chief Information Officer, ex-private IT delivery firms including service for WA and Victorian government entities) following the respective retirements of the long-serving and highly-regarded Don Cunninghame and Sadie Godfrey.

Completing the recent movement within our EMG is Wian Oosthuizen, who has recently rotated in to the *AAG-Technical and Audit Support* position, which we use as a 2-year Executive development opportunity for our Financial Audit Senior Directors. Wian joined us from the South African Audit Office in early 2021, following a 12-month delay in his arrival due to COVID border restrictions.

2. 2021-22 reporting target adjusted

After a record output of 33 reports to Parliament across the 2020-21 reporting year, EMG agreed to revise our reporting target for 2021-22 down to 28. As flagged in our most recent [Annual Report](#), this reduced reporting target will allow us to continue delivering considered opinions and quality reports while allocating key audit staff to assist with several critical strategic projects. Foremost among these is the implementation of a new financial audit methodology and whole-of-office audit tool (see Item 5 below for further detail). The lower target also reflects an anticipated lower number of section 82 opinions in this Parliament, which has eventuated.

Thus far we have tabled 12 reports since 1 July 2021, including our Forensic Audit team's [first report](#) outlining its establishment phase. We have also continued our focus on auditing the State's COVID-19 response.¹ Between now and 30 June we have a large number of reports scheduled for tabling that cover a wide range of topics including School Psychology Services, Staff Rostering in Corrective Services, the Public Trustee's Management of Client Assets and Deceased Estates, and Long-Stay Patients in Public Hospitals. As a follow-on from our August 2021 audit of the [SafeWA app](#), we will also soon report on the findings from our audit of WA Health's PHOCUS system, which accesses data from SafeWA, G2G and Smart Rider databases for contact tracing purposes. Related to this, we are making enquiries of the

¹ See, [SafeWA – Application Audit](#), 2 August 2021, [Roll-out of State COVID-19 Stimulus Initiatives: July 2020 – March 2021](#), 20 October 2021; [Local Government COVID-19 Financial Hardship Support](#), 15 October 2021; [WA's COVID-19 Vaccine Roll-out](#), 18 November 2021.

Department of the Premier and Cabinet around the information integrity and governance of the ServiceWA portal, to inform a decision on whether we also audit that new application.

Attachment 2 lists our audits completed, and those scheduled for tabling across the 2021-22 reporting year. However, there are a number of factors that put our achievement of 28 reports for the current financial year at risk. These include skills shortages in both entities and the OAG, a greater number of audit qualifications and unresolved audit findings in the State sector financial audit program, and diversion from core business by many agencies on COVID-19 compliance matters. On these points, I have written to agency heads (see Item 8 below).

3. Committee input on forward audit program welcomed

Attachment 3 lists the audit topics EMG is likely to prioritise for commencement across the 2022-23 and 2023-24 reporting years. I welcome the Committee's comment on our forward audit program, as it helps the Office meet its aim of selecting a program that is balanced in its coverage, reflects how and where the State is spending taxpayer's money, and contains topics that matter to the Parliament.

EMG will hold one of its biannual topic selection meetings in the first week of March so any input from the Committee on the topics listed, or any other important matters of public administration, would be timely for informing these deliberations. It is important to note that the audit program is subject to change at my discretion as new risks or priorities emerge across the State and local government sectors.

4. Forensic Audit unit moving from establishment to operational phase

As noted under Item 2, we have recently tabled a report providing Parliament and the public with information about the objectives, functions and work of the newly established Forensic Audit business unit.²

We are building a multidisciplinary team from a wide-range of relevant professions including financial auditing, data analytics, insolvency, police investigation, forensic accounting, anti-money laundering and counter-terrorism financing.

The report summarises the work the team has done so far in establishing a quality framework for forensic auditing, embedding the necessary technological expertise, and developing an approach for targeting and testing our forensic audit activities. The report also includes broad references to the some of the forensic audit work the team is undertaking, and outlines how the team conducted a series of data analytic procedures and data matching exercises to support the performance audit team with its [Public Building Maintenance](#) audit.

I would be happy to elaborate on the specific tools, techniques and current activities of the Forensic Audit unit in closed session with the Committee, given the importance of maintaining confidentiality around certain operational aspects of the team's work.

² [Forensic Audit Report – Establishment Phase](#), 8 December 2021.

5. OAG's Budget 2022-23 – submission lodged

[REDACTED]

We have reviewed our full cost of all fees and charges as per *Treasurer's Instruction 810* and in accordance with the Department of Treasury's instructions to agencies for preparing the annual budget. I did not seek a funding increase for my performance or forensic audit programs, which are appropriation funded.

[REDACTED]

Factors [REDACTED] which I am happy to expand upon before the Committee, include:

- Increasing complexity of audits due to unprecedented qualifications and unresolved audit findings
- Additional certification work for Commonwealth-funded programs (for which the Auditor General must now be the auditor)
- Introduction of new accounting and auditing standards (e.g. ASA 315 [Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and its Environment](#)). The introduction of this standard will add significant complexity especially around our information systems auditing requirements, and require additional capacity within this part of the OAG
- Price inflation from the contract audit firms that currently undertake 17 per cent of our State sector and 74 per cent of our local government audits (by fees). We are seeing firms whose contracts are due for renewal proposing price increases of between 6 and 25 per cent. This is mostly a reflection of the current very tight market for skills.

[REDACTED]

The new audit tool will be a unified platform that supports various types of financial and non-financial audits across all audit business units. It will enable simplified manual entry and automation of repeated laborious audit tasks and offer a more secure and seamless portal through which audit teams can manage and review audit documentation and working papers.

The new financial audit methodology will help teams ensure full consistency of approach and compliance with Australian auditing and assurance standards across audits of varying sizes and complexities.

I will provide further detail of the OAG's 2022-23 Budget Submission in an upcoming letter to the Joint Standing Committee on Audit (Joint Audit Committee).

³ From \$26.62m in 2020-21, continuing into 2022-23 and onwards.

6. Submission to Salaries and Allowances Tribunal (SAT) Special Division and Prescribed Office Holders Inquiry

[REDACTED]

- [REDACTED]
- [REDACTED]

[REDACTED]

- [REDACTED]
- [REDACTED]
- [REDACTED]

[REDACTED]

7. Positive findings from ACAG peer review of OAG's Office Governance and Audit Practice Management processes

As part of their commitment to ongoing improvement and accountability, member offices of the Australasian Council of Auditors General (ACAG), including the OAG, commit to regular self-assessments and peer reviews. We have recently engaged former Tasmanian Auditor General, [Mike Blake AM](#), to conduct a peer review of our Office Governance and Audit Practice Management processes. Mr Blake has held senior positions and governance roles in other public audit offices in WA and Northern Territory and was a former Big-4 audit partner who has served on Australian and international accounting standards boards.

The Office Governance review looks at six areas relating to an audit office's corporate functions: corporate relationships; governance; resource management; information management; information systems management; and work environment.

The Audit Practice Management review looks at six elements from relevant standards issued by the Accounting Professional and Ethical Standards Board. These standards look to provide guidance on how a system of quality control can be designed to provide reasonable assurance that audit systems and processes are appropriate.

While the final report has not yet been issued, the draft findings were extremely pleasing with Mr Blake assigning the same or higher ratings than we assigned ourselves across most of the

50 components of the self-assessment. Overall, Mr Blake has noted an organisation undergoing significant change with many recent, but enthusiastic, appointments and a strong level of congruence with the OAG's strategic direction. Mr Blake recognised the willingness of the senior team to take on new challenges but cautioned of a sense of perhaps needing a period of pause so that changes can be embedded and supported. I would concur!

I believe this self-assessment and external review process, and the work we have done preparing for it, will assist with the Joint Audit Committee's upcoming statutory and performance reviews, which I welcome as the basis for further accountability and continuous improvement.

8. Current reflections on the State government sector – fatigued and diverted

I have outlined my observations of key audit issues in the State sector in the "Overview" sections of the OAG's [2020-21 Annual Report](#), and our November 2021 [Audit Results Report](#) on the financial audits of State government entities.

In short, when entities take on additional functions or responsibilities over shortened timeframes, focus on the strong foundations in financial management and governance that are essential for supporting long-term confidence and capability in our public institutions can inadvertently slip. This increases the risk that other critical areas of public administration, including audit responsibilities, may not receive the level of focus or priority they would usually warrant.

Our recent audits in the State sector, and my more recent observations (some based on written and verbal CEO feedback), show that this risk is materialising as entities deal with providing the usual wide range of public services while reconfiguring operating arrangements around COVID-19 requirements.

Of great concern in the 2020-21 financial audit cycle for State government entities was the record number of entities receiving qualified opinions (17) and separate qualification matters (31). Several entities were qualified on multiple matters.⁴ There has similarly been a notable increase over the last 2 years in the number of audit findings unresolved from prior years – an increase from 20% reported unresolved in 2019 to 28% in 2021. What this demonstrates to me is a sector that is fatigued (evidenced in part by increases in leave liability entitlements) and diverted from core business functions.

The number and significance of audit findings and qualifications will undoubtedly add a layer of complexity to the upcoming financial audit season as entities seek to correct the control weaknesses we have identified. Therefore, it is imperative that entities have all documentation and key personnel on hand at the agreed timeframes for this year's audit.

I have recently written (Attachment 4) to the accountable authorities of State government entities acknowledging the challenging operating environment, but nonetheless reminding them of their responsibilities around audit readiness. I have advised them that if planned audit timeframes are not able to be met, we may need to delay further work on those audits until the following February or March, which will increase audit costs and delay delivery of their audit opinion. This is because our audit priority needs to shift in the October-December quarter to the

⁴ Department of Local Government, Sport and Cultural Industries qualified on **5** matters; Department of Primary Industries and Regional Development (**4**); Department of Communities (**3**); Quadriplegic Centre (**3**).

local government and tertiary education sector financial audit cycles. I have further advised that our overarching focus will be on clearance of material balances in the entities most relevant for the Annual Report on State Finances (the largest 40+ entities, comprising 95% of the assets and revenue of government). This prioritisation is crucial to meet the statutory timeframe for signing off on the whole-of government accounts in late September, a process essential to providing confidence to buyers and holders of government bonds (i.e. our State's lenders) that ours remains a well-governed jurisdiction.

9. Current reflections on the local government sector – building capacity and dealing with regulatory complexity

With our 4-year transition period complete, we have now assumed audit responsibility for all 148 WA local government entities. For the 2020-21 financial year audit cycle, we were able to complete 84 local government audits by the 31 December statutory deadline.

The reasons for these delays are varied. In some instances, delays have been attributable to the unbroken financial audit cycle OAG staff and our contract firms now find ourselves in due to the extended time we spent in several State sector entities during the June-September quarter working through increasingly complex reporting and audit issues. This delayed some of our teams from engaging fully with some local governments within our usual scheduled timeframes.

However, while undoubtedly improving, a significant number of local governments are still in the process of uplifting to a consistent standard of audit readiness in their financial reporting. The quality of financial records and availability of staff in a number of local government entities particularly affected our teams' ability to finalise audits sooner. In addition, some entities whose financial audits were ready to be finalised in December requested to have their exit meeting postponed to February 2022, while others sought extensions from the Department of Local Government, Sport and Cultural Industries (DLGSC). We are engaging with many entities by way of post-audit debriefs to identify process improvements. We are also liaising quite regularly with DLGSC, the Minister for Local Government, and sector bodies (e.g. WALGA and Local Government Professionals WA) around potential financial reporting reforms as part of the upcoming review of the *Local Government Act 1995*. Ideally, we may end up with a framework of simplified reporting obligations for local governments tailored to the size and complexity of their financial responsibilities.

10. Access to information

As outlined in the OAG's last 2 annual reports⁵ and previous reports to Parliament⁶, access to information in a full and timely way is essential for efficient and effective discharge of our statutory audit functions, and upholding accountability of public officers. While most public officers have a sound understanding of their obligations, there have been occasions where significant delays in providing information have impeded audit delivery. In some cases, we have seen a refusal to provide information⁷, or provision only after issuance of a notice to provide under section 34 of the *Auditor General Act 2006* (in recent times, this option has been used on

⁵ [Annual Report 2020-21](#), 16 September 2021, p. 11; [Annual Report 2019-20](#), 24 September 2020, p. 11.

⁶ See, for example, [Disclaimer of Opinion on Ministerial Notification – Bushfire Centre of Excellence](#), 23 June 2021, p.6.

⁷ *ibid.*

a small number of occasions for work undertaken by our financial and forensic audit teams regarding state and local government audit issues).

This is a matter that will continue to be monitored. Generally, I seek to avoid a heavy-handed approach—which is much more adversarial and time-consuming—and prefer to rely instead on my Office quietly reminding officers of the importance of fulfilling their public accountability obligations, and my statutory power to obtain all relevant information. However, I recognise that in the current environment where there is distraction from core business and a fatigued sector, it may be necessary to more frequently communicate a little more sharply than has been the custom in the past.

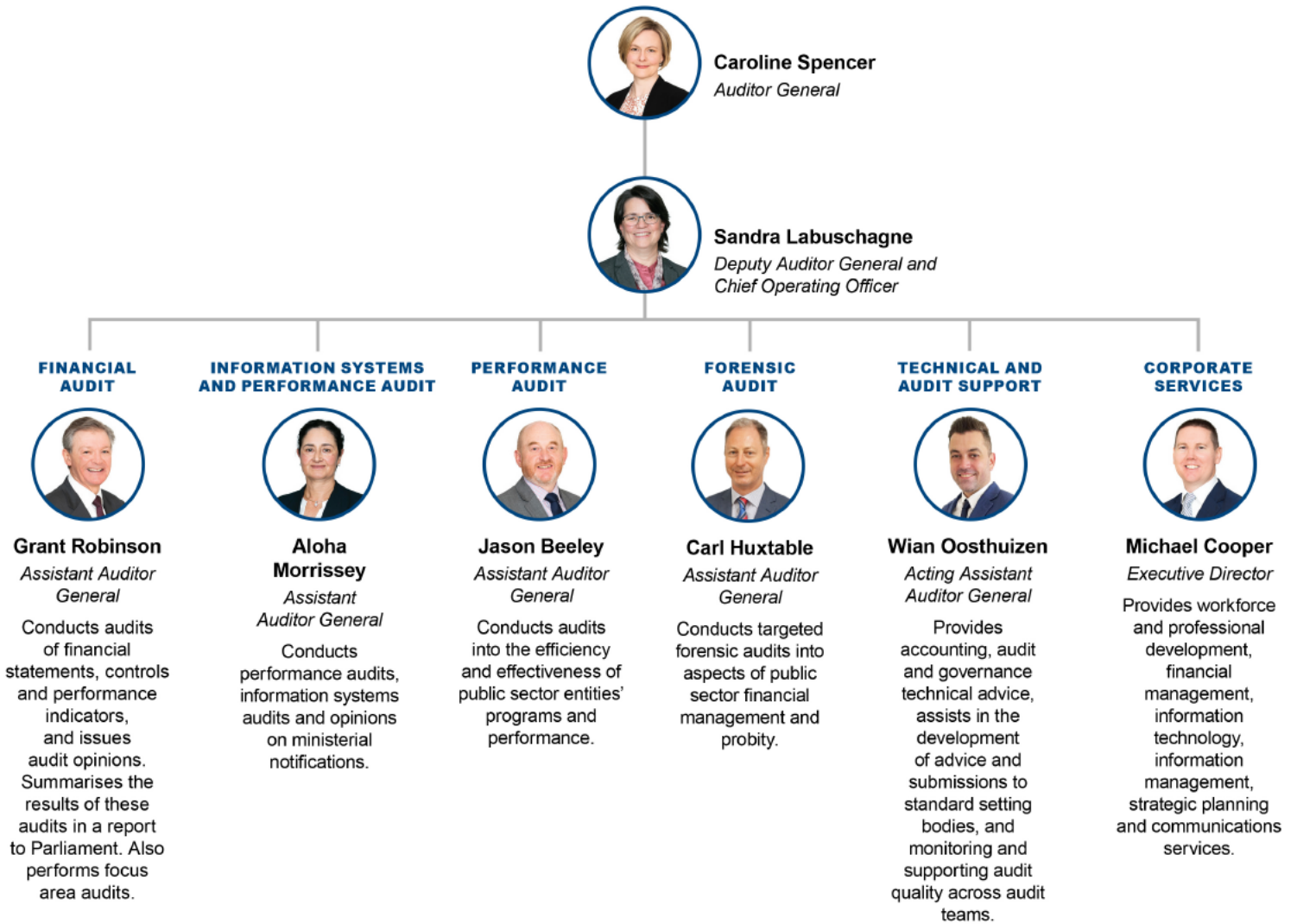
11. Other audit issues – the emergence of climate risk reporting

Both within the Office, and through my interactions with the Australian Accounting Standards Board (AASB)⁸ and the Department of Treasury, we are maintaining a watching brief around the emergence of climate-related financial reporting. While such disclosures are voluntary and mostly restricted to listed entities at this time, we are aware that it could become a reporting (and auditing) matter for public sector entities in future years.⁹ The logistics of any public sector auditing in the area of climate-related disclosures remain largely unknown at this time but are likely to be onerous at least in their initial implementation period in terms of capacity and capability of entities and auditors. Therefore, I will continue to ensure the OAG remains engaged in any relevant developments in this area so we are as well prepared as possible should this scenario of additional auditing responsibility eventuate.

⁸ See, for example, '[Media release on Climate Change Proposed Standards Framework issued by AASB](#)', 23 November 2021.

⁹ Notable in this respect was the WA Government's [recent confirmation](#) that it has listed improving environment, social and governance outcomes as one of its ongoing primary objectives.

OAG Organisational Chart / Reporting Structure



ATTACHMENT 2 – LIST OF OAG AUDIT REPORTS FOR 2021-22

Audit Topic	Status
Opinion on Ministerial Notification – FPC Arbitration Outcome	Tabled 29/07/2021
SafeWA – Application Audit	Tabled 02/08/2021
Staff Exit Controls	Tabled 05/08/2021
Public Building Maintenance	Tabled 24/08/2021
Local Government COVID-19 Financial Hardship Support	Tabled 15/10/2021
Roll-out of State COVID-19 Stimulus Initiatives: July 2020 – March 2021	Tabled 20/10/2021
Water Corporation: Management of Water Pipes – Follow-Up	Tabled 17/11/2021
WA's COVID-19 Vaccine Roll-out	Tabled 18/11/2021
Cyber Security in Local Government	Tabled 24/11/2021
Audit Results Report – Annual 2020-21 Financial Audits of State Government Entities	Tabled 24/11/2021
Forensic Audit Report – Establishment Phase	Tabled 08/12/2021
Viable Cycling in the Perth Area	Tabled 09/12/2021
Staff Rostering in Corrective Services	Q1 2022
(Public Trustee) Administration of Trusts and Deceased Estates	Q1 2022
PHOCUS (WA Health) – Application Audit	Q1 2022
Audit Results Report – Annual 2020-21 Financial Audits of State Government Entities – Volume 2 (COVID-19 impacts)	Q1 2022
Payments to Subcontractors Working on Government Construction Projects	Q1 2022
Information Systems Audit – General Computer Controls (State)	Q2 2022
Information Systems Audit – General Computer Controls (Local)	Q2 2022
Audit Results Report – Annual 2020-21 Financial Audits of Local Government Entities	Q2 2022
Audit Results Report – Annual 2021 Financial Audits Universities and TAFEs	Q2 2022
Major Projects: Transparency Report 2022	Q2 2022
Management of School Psychology Services	Q2 2022
Emergency Services Levy – Calculation and Distribution	Q2 2022
Government Land Asset Sales and Transfers	Q2 2022
Regulating Commercial Fishing	Q2 2022
Long Stay Patients in Public Hospitals	Q2 2022
Related Party Disclosures and Conflicts of Interest – Better Practice Guidance	Q2 2022

**ATTACHMENT 3 – LIST OF OAG PLANNED OR POTENTIAL AUDITS
2023-24 – 2024-25**

Audit Topic	Status
Regulating Resource Project Compliance with Environmental Conditions	Planned (Q3 2022)
Information Systems Audit – Protecting Critical Public Assets (Water)	Planned (Q4 2022)
Forensic Audit Results Report 2022	Planned (Q4 2022)
Major Capital Projects – Transparency Report 2023	Planned
Local Government Infrastructure (Developer) Contributions	Planned
Probity in Planning	Potential
Management and Governance of City of Perth Parking Funds	Potential
Implementing Child Safe Principles in Schools	Potential
Department of Education’s Oversight of Public Schools	Planned
Support for Students with a Disability	Potential
Management of Disengaged Students	Potential
ICT in Education	Potential
Government Advertising	Potential
Grants Administration (including Election Commitments)	Potential
Emergency Department Management Reporting	Potential
Transparency Report: WA Health Clinical and Operational Data	Potential
Child and Adolescent Mental Health Services	Potential
Management of Medical Equipment (Follow-Up)	Potential
Management of Public Hospital Elective Surgery Waitlists	Potential
Managing Contracted Delivery of Aboriginal Health Services	Potential
Management and Oversight of State Agreement Acts	Planned (Q1 2023)
Market-Led Proposals	Potential
Major Asset Maintenance and Sustainment	Potential
Road Safety Governance and Strategy Delivery	Potential
Managing Leasing of State-Owned Commercial and Industrial Areas	Potential
Collection of Mining Royalties	Potential
Environmental Offsets	Potential
Management of Coastal Erosion	Potential
Liquor License Monitoring	Potential

**ATTACHMENT 4 – AUDITOR GENERAL’S LETTER TO ACCOUNTABLE
AUTHORITIES**

[See following page](#)



Our Ref: 8708/03

7th Floor, Albert Facey House
469 Wellington Street, Perth

Attention: WA State Sector Accountable Authorities

Mail to: Perth BC
PO Box 8489
PERTH WA 6849

Tel: 08 6557 7500
Email: info@audit.wa.gov.au

Dear Directors General and Chief Executive Officers

CURRENT OPERATING ENVIRONMENT, AUDIT RESULTS AND POTENTIAL IMPACT ON YOUR 2022 AUDIT

Early signs indicate that COVID-19 policy responses will again form a dominant part of the public sector operating environment in 2022. Notwithstanding the challenges this presents for you as accountable authorities, I thought it timely to reiterate before the commencement of your 2022 audit the importance of maintaining a proportionate focus on the core business of service delivery to our community, supported by essential maintenance and, where relevant, improvement of robust control frameworks.

We are all acutely aware that the public sector has had to respond to changing policy and community expectations since early 2020, with entities taking on additional functions and responsibilities over shortened timeframes. These additional activities have absorbed a significant amount of your time, consumed limited senior resources within many of your entities, and left our sector fatigued.

The last 2 years have indeed been an incredibly challenging period for all in our community.

Audit results across the State sector

However, as I noted in a November 2021 report to Parliament¹, when entities take on additional functions or responsibilities over shortened timeframes, focus on the strong foundations in financial management and governance that are essential for supporting long-term confidence and capability in our public institutions can inadvertently slip, increasing the risk that other critical areas of public administration, including audit responsibilities, may not receive the level of focus or priority they would usually warrant.

Our recent audits in the State sector, and my more recent observations (including direct CEO feedback), show that this risk is materialising.

Of great concern from the 2020-21 audit cycle was the number of entities with serious deficiencies requiring a qualified opinion on financial statements, controls or key performance indicators: increasing from 7 entities in the previous year to 17 in 2021, with 31 separate qualification matters. This was the highest number of qualified audit opinions ever reported by my Office. Too many qualifications related to significant deficiencies in payroll and procurement controls, and information system security. A notable increase in unresolved findings from prior years' audits is also cause for serious concern across the sector. These factors will be appropriately reflected in the 2022 fees for relevant entities.

¹ OAG, [Audit Results Report – Annual 2020-21 Financial Audits of State Government Entities](#), 24 November 2021, see Auditor General's Overview.

Implications for the sector and service delivery for our community

Our audit results highlight to me that government entities do not have unlimited capacity and capability, and consequently there is now an unacceptably high number of critical IT and financial governance weaknesses in our sector. Some of these control weaknesses will impair core service delivery and, if there is not a greater shift in focus back to core business and efforts devoted to fixing foundational issues, I am concerned there are some genuine risks looming in the public sector's ability to continue serving our community at the levels they expect and deserve. Urgent and resource intensive priorities for too many entities include major uplift of payroll and payment controls, and rectification of information security weaknesses. Addressing these issues will require close senior executive and CEO involvement and oversight.

An effective control environment promotes integrity by helping prevent and detect fraud, reduce errors, and minimise service disruption. This is critical to maintaining quality in service delivery and administration, which underpins public trust in our institutions and confidence in government. Good governance, including auditing, are not optional participation events, but rather are fundamental duties of accountable public officers, regardless of operating challenges.

Implications for financial audit timing – and the limitations of our audit flexibility

I recognise that, compounding the additional demands in recent times, some entities are currently experiencing labour shortages, and there is acute concern among CEOs around the uncertainty and further disruption from anticipated staff absences due to COVID-19 quarantine and isolation policy settings.

These factors combined present possible implications for timeliness in your financial reporting and auditing. Given the higher number of matters resulting in qualifications in 2021, the sector as a whole is dealing with issues of increasing complexity in the upcoming financial (and information systems) audit cycle. This impacts on the workload in many of the State's 170 entities, and my auditors.

Furthermore, depending on policy settings around COVID-19 contact isolation, your staff and mine may also be required to conduct audit activities in different and disrupted working conditions. My teams and I will adopt a business as usual approach and do all we can to help affected entities work through these issues, including working remotely wherever necessary, with the aim of not impairing audit quality or efficiency.

However, our capacity to offer support is finite, and it is very much contingent upon entities having all necessary audit documentation and key personnel on hand. If planned audit timeframes are not able to be met, we may need to delay further work on those audits until the following February or March, which will increase audit costs and delay delivery of an audit opinion. This is because our audit priority needs to shift in the October-December quarter to the local government and tertiary education financial audit cycles. Such delays would also impair your (and your Minister's) ability to discharge accountabilities to the Parliament, something that should be a priority to avoid.

In any event, regardless of individual entity audit progress, our overarching focus will be on clearance of material balances in the entities most relevant for the Annual Report on State Finances (the largest 40+ entities, comprising 95% assets and revenue of government). This prioritisation is crucial to meet the statutory timeframe for signing off on the whole-of-government accounts in late September, a process essential to providing confidence to buyers and holders of government bonds (i.e. our State's lenders) that ours remains a well-governed jurisdiction.

Even with an expected heightened number of COVID-19 cases in the community, the reality is that with our now very high levels of vaccination and a milder variant, we are no longer in the position we were facing in March 2020. If we can acknowledge and apply a proportionate risk-based and consequential approach to core business activities and advice to Government, we can play a collective role in calming heightened angst where it exists in our sector and the broader community.

I look forward to working with you throughout this year's audit cycle, and my team and I are always available should you need to discuss any matters of audit and public administration relevant to your entity.

I would be grateful if you could share this letter with your Chief Finance Officer and, where applicable, Audit Committee Chair, and other relevant officers in your entity.

Yours faithfully



Caroline Spencer
Auditor General for Western Australia
3 February 2022